



# REFERENCE DOCUMENT 2005



This document was filed with the financial market authorities on 18 May 2006 in accordance with articles 212.3 of their general regulations. It can be used in support of a financial transaction if it is completed by an operations memorandum approved by the financial market authorities



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## NOTICE

**Management reports, consolidated financial statements of the Group and auditors reports on the years ending 31 December 2003 and 2004.**

The following information is included by reference in the present reference document:

- the Group's consolidated accounts, the auditors' report on the consolidated financial statements for the year ending 31 December 2003 and the auditors' reports on the corporate financial statements for the year ending 31 December 2003, as presented in the "Financial situation and results" section of the reference document submitted to the financial markets authorities on 6 May 2004 under number D. 04-0670.
- the Group's consolidated accounts, the auditors' report on the consolidated financial statements for the year ending 31 December 2004 and the auditors' reports on the corporate financial statements for the year ending 31 December 2004, as presented in the "Financial situation and results" section of the reference document submitted to the financial markets authorities on 12 May 2005 under number D.05-0689.

Information contained in these two reference documents other than the information listed above has when appropriate been replaced and/or updated with information contained in the present reference document.

# 1 SYSTRAN BUSINESS INFORMATION

## 1.1 GENERAL PRESENTATION OF SYSTRAN S.A.

SYSTRAN is the world leader in machine translation technologies enjoying significant competitive advantages, thanks to over thirty years experience in its market.

SYSTRAN has conducted an intensive R&D policy that has enabled it to develop its software publishing business as an offshoot of its historical business as a language service provider to European and American organisations.

SYSTRAN is continuing its efforts by maintaining a high level of R&D and every year adds new pairs of languages to its offering, which is the largest on the market.

### 1.1.1 SYSTRAN's assets

SYSTRAN's main assets are its capital of linguistic resources, the quality and reliability of its translation engines, the portability and openness of its products and the considerable installed customer base.

**SYSTRAN has immense intangible capital constituted by the vast number of language combinations, rules and specialist terminological dictionaries available.**

#### List of language pairs developed by SYSTRAN:

SYSTRAN's assets include over 40 language pairs and numerous specialised subject dictionaries, which are the result of 30 years of research and development co-financed by public administrations and international corporations.

SYSTRAN has launched a major programme to develop 16 new language pairs with the prospect of release 6.

	Language pairs available and marketed	Language pairs available but not marketed	Language pairs being developed
<b>Western Europe</b>			
English <> French	✓		
English <> Spanish	✓		
English <> German	✓		
English <> Dutch	✓		
English <> Italian	✓		
English <> Portuguese	✓		
English <> Greek	✓		
English <> Danish		✓	
English <> Finnish		✓	
English <> Swedish	✓		
English <> Norwegian		✓	
English <> Polish		✓	✓
English <> Hungarian		✓	
English <> Czech		✓	
Albanian > English		✓	
Serbo-Croat >English		✓	
French <> Spanish	✓		

French <> German	✓		
French <> Dutch	✓		
French <> Greek	✓		
French <> Italian	✓		
French <> Portuguese	✓		
French <> Polish		✓	✓
Hungarian > French		✓	
Spanish <> German		✓	✓
Spanish <> Italian		✓	✓
Spanish <> Portuguese		✓	✓
German <> Italian		✓	✓
German <> Portuguese		✓	✓
Italian <> Portuguese		✓	✓
<b>Asia</b>			
English <> Simplified Chinese	✓		✓
English <> Traditional Chinese	✓		✓
English <> Japanese	✓		
English <> Korean	✓		
French <> Chinese		✓	
French <> Japanese		✓	
Japanese <> Korean		✓	
Japanese <> Chinese		✓	
<b>Eastern Europe</b>			
English <> Russian	✓		
<b>Middle East</b>			
French <> Arabic			✓
English <> Arabic	✓		✓
English > Farsi		✓	✓
English > Urdu		✓	✓

**List of specialised dictionaries developed by SYSTRAN:**

Aeronautics	Shipping
Business	Mathematics
Farming and food industry	Mechanics
Automobile	Medicine
Chemistry	Metallurgy
Defence	Photography
Law	Nuclear physics
Economics	Politics
Electronics	Earth Sciences
Information Technology	Life Sciences

Source: SYSTRAN S.A.

## **SYSTRAN is recognised for the quality of its software.**

Since its inception, SYSTRAN has been a service provider to public agencies whose principal objective is the quality of the translations:

- European Commission
- US Defense Department

Since the beginning, various translation systems have been positioned in the general market as tools for comprehension, easy to use and with no claim as to the quality of the translations. The price of the SYSTRAN software also reflects its distinct positioning in relation to its competitors.

SYSTRAN has also developed powerful linguistic customisation tools, thanks to its IntuitiveCoding technology, enabling users to build linguistic resources to produce translations that are as accurate as possible.

## **The technology choices implemented by SYSTRAN address principles of consistency and transparency that allow rapid development of new language pairs, easy integration with market standards, and complete portability of products, from the Pocket PC to large server systems.**

All language pairs use the same translation engine, making it possible to optimise system use and administration. Since SYSTRAN has not grown by acquiring various technologies, it has developed all language pairs using its own methodology, hence its integrated, uniform and easy-to-manage solution.

Its modular architecture allows the creation of a new language combination within a very short time. Indeed, over the past two last years, SYSTRAN has dedicated most of its Research and Development efforts to rationalising the development cycle and customising its technology in order to be able to offer professional solutions within deadlines tailored to its customers' new constraints.

SYSTRAN software comprises very advanced linguistic processing modules that enable it to be integrated into office automation suites like Microsoft Office, as well as into real-time computer processes such as document research and analysis, or updating and multilingual processing of databases.

## **One of SYSTRAN's major assets is the size of its installed base.**

SYSTRAN is the system used by the European Commission and institutions, the NAIC, US intelligence agencies, the US Air Force and numerous public service agencies in Europe and the United States, all of which benefit from perpetual use licences in exchange for recurring financing<sup>1</sup>.

SYSTRAN innovated in 1998 by launching the first Internet translation service in partnership with AltaVista. Since then, SYSTRAN has been supporting virtually all Internet *Portals* that have incorporated machine translation, as well as thousands of Web sites with permanent links to "Powered by SYSTRAN" sites. SYSTRAN technology has proven its worth in environments as demanding in terms of traffic as the AltaVista, Yahoo!, Apple, Google and Lycos search engines.

List of the main Portals using SYSTRAN translation engines:

- Yahoo
- Google
- Voila
- Wanadoo
- Free
- Lycos

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<sup>1</sup> Including linguistic and information technology developments

SYSTRAN is also widely used by corporate customers in both Europe and the United States.

List of major corporate customers using SYSTRAN software:

- Bentley
- Bombardier
- Chemical Abstracts
- Cisco
- Computer Associates
- DaimlerChrysler
- EADS - Airbus
- Ford
- France Telecom
- Mercedes - Benz
- NEC (Japan)
- O.E.C.D.
- Philip Morris
- Saint-Gobain
- Sony
- Symantec
- SWIFT
- Toyota
- Verizon

### *1.1.2 Background of SYSTRAN, from services to administrations, to software publishing*

#### **THE ORIGIN OF SYSTRAN: 1968 - 1996: DEVELOPMENT OF TRANSLATION SYSTEMS FOR THE AMERICAN AND EUROPEAN GOVERNMENTS**

The idea of describing natural languages by mathematical techniques became reality after the Second World War. In the '50s, research on machine translation started with literal translation, generally known by the term word-for-word translation, without the use of linguistic rules.

In 1968, Dr. Toma created a company in La Jolla (California, United States) with software called SYSTRAN, the acronym for SYStem TRANslation. Shortly afterwards, the company was chosen to develop the Russian-to-English system for the US Air Force. The first system developed by SYSTRAN was tested in early 1969 at Wright-Patterson Air Base in Dayton (Ohio, United States), and since 1970 the system has been supplying translations for the Foreign Technology Division of the US Air Force. In 1996, SYSTRAN thus signed a contract with the US National Air Intelligence Center to develop several Eastern Europe language pairs. During the conflict in Yugoslavia, SYSTRAN developed the first Serbo-Croat-to-English system for the US government.

SYSTRAN'S patented technology was also used by NASA for the US-Soviet Apollo-Soyuz project in 1974-1975. This historic event laid the groundwork for implementation of an initial English-to-French prototype for the European Commission. Shortly afterwards, SYSTRAN was chosen by the Commission to provide translation systems for all European language pairs. Currently, the Commission and numerous European institutions are using 17 SYSTRAN translation systems.



## ***GROWTH OF SYSTRAN: FROM MAINFRAMES TO PERSONAL COMPUTERS (PC) AND BUSINESS APPLICATIONS***

In 1992, SYSTRAN began migrating its technology for use on personal computers and public or private networks.

Thus in 1997 SYSTRAN launched SYSTRAN PROfessional for Windows in a standalone release for PCs and a Client/Server release. Since 1997, the Company has marketed six new software packages intended for home and corporate use.

In 1997, SYSTRAN signed a licence agreement with SEIKO Instruments, Inc. to support dictionaries for SEIKO's pocket translators. Pursuing this integration strategy, SYSTRAN provided its technology in late 1998 to the first online game publisher, ELECTRONIC ARTS, for its game "Ultima online: The Second Age".

In 2001, SYSTRAN developed a translation solution for the SONY Web-based games platform.

In 2004, SYSTRAN signed an OEM agreement with Brother the manufacturer of multi-function devices, which incorporated the SYSTRAN WebTranslator software into its product range.

In 2005, SYSTRAN launched its first automatic translator for PDAs: SYSTRAN Mobile.

## ***THE OPENING OF ARCHITECTURE TO MEET BUSINESS NEEDS AND ADDRESS INTERNET-RELATED RESTRICTIONS***

In early 1998, SYSTRAN made the Internet community aware of the usefulness and capabilities of machine translation by providing its technology for the AltaVista translation service: Babelfish.

By late 2002, SYSTRAN was used on most major Internet Portals: Yahoo !, Google, Altavista, Lycos, Wanadoo, Voila, Free, etc.

## ***INTEGRATION IN COMPANY INFORMATION SYSTEMS***

In 2002, SYSTRAN continued to provide the main Internet portals and corporate customers with its solutions.

SYSTRAN is now working to implement integrated solutions for corporate information systems, aimed mainly at the corporate customer market:

- Intranet self-service translator (Saint-Gobain, OECD, Toyota, Dassault, etc.);
- Multilingual knowledge base consultation (Ford, Cisco, SWIFT);
- Multilingual catalogue publication (Manutan);
- Technological and business intelligence concerning foreign sources (Chemicals Abstracts, Symantec, Verizon).

### ***1.1.3 Legal organisation of the group***

#### **LEGAL BACKGROUND**

**1986:** GACHOT SA, a French company, the principal activity of which is industrial valves and fittings and fluids control, acquires both US companies, STS (ex WTC) and LATSEC, who are the developers and sole owners of the SYSTRAN technology, and also acquires 76% of the capital of the German company SYSTRAN INSTITUT GmbH.

The period from 1986 to 1988 is devoted to developing the system and SYSTRAN'S linguistic assets.

**1989:** In order to ensure efficient development, it is decided to give the Machine Translation activity an autonomous operational and legal structure. GACHOT S.A. transfers a portion of the assets from its "Translation" division to SYSTRAN S.A. This contribution is offset by the issuance of SYSTRAN S.A. shares to GACHOT S.A., which then holds 99.9% of the capital of SYSTRAN S.A.

**1992 (Feb):** SYSTRAN S.A. is listed on the OTC Market of the Paris Stock Exchange.

**1994 (Nov):** GACHOT S.A. transfers to its shareholders the shares of SYSTRAN S.A. that it holds. From this point on, the two companies no longer have any direct legal affiliation.

**1995 (Aug):** 1995 (August): For reasons of rationalisation and to reduce administrative costs, LATSEC takes over STS. The new entity resulting from the merger takes the company name SYSTRAN SOFTWARE Inc. (SSI).

**1998:** SYSTRAN S.A. becomes affiliated with the Luxembourg corporation TELINDUS Luxembourg S.A. and its managers, in a new corporation called SYSTRAN Luxembourg S.A., which works primarily with European government entities and especially the European Commission.

In December 1998, TELINDUS sells its shares in SYSTRAN Luxembourg S.A., i.e. 30% of the capital stock, and SYSTRAN S.A. reduces its interest in its Luxembourg subsidiary company to 78.4%.

**2000 (March):** SYSTRAN S.A. repurchases the minority shareholders' stake in SYSTRAN Luxembourg S.A. .

#### **Legal organisation chart of the group (on 31 December 2005)**

<b>Company</b>	<b>Holding (%)</b>	<b>Acquisition date</b>	<b>Staff</b>	<b>Capital</b>	<b>Business</b>
SYSTRAN S.A. (France)	Parent company	-	34	EUR 15.10 M	1. Software publishing and marketing 2. Professional services (European Companies and Government entities)
SYSTRAN USA (United States)	100%	03/1986	0	USD 0.05 M	Holding company. Holds 100% of SYSTRAN Software Inc.
SYSTRAN SOFTWARE Inc. (United States)	100%(*)	01/1986	23	USD 4.07 M	1. Software marketing 2. Professional services (US companies and administrations)
SYSTRAN Luxembourg S.A. (Luxembourg)	100%	1998	0	LUF 5.0 M	Development contracts with European government entities.

(\*) Indirect stake held by SYSTRAN USA

An information table on the subsidiary companies and financial investments is presented at the end of Chapter 3.7

#### **Links between subsidiaries**

There are few economic flows between the companies of the SYSTRAN group. SYSTRAN S.A. has carried out subcontracting work on behalf of SYSTRAN Software Inc. in contracts with Cisco and the US government.

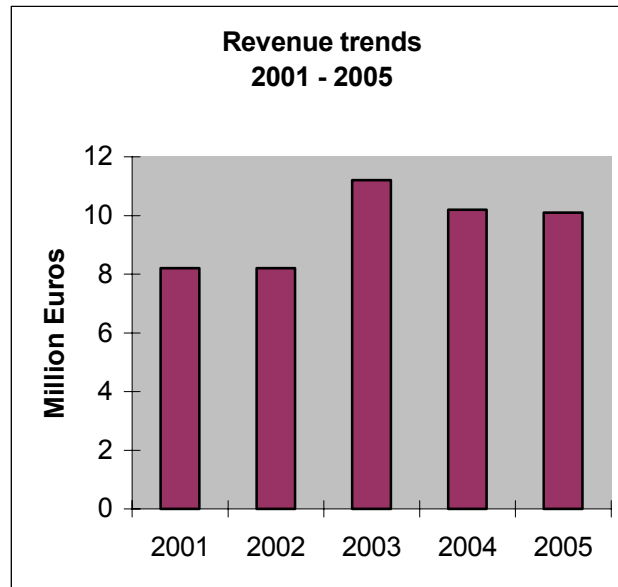
SYSTRAN S.A. invoices SYSTRAN Inc. for royalties on the licences sold by SYSTRAN Inc.

SYSTRAN S.A. also grants cash advances to its subsidiaries to accelerate their commercial growth.

## 1.2 SYSTRAN GROUP KEY FIGURES

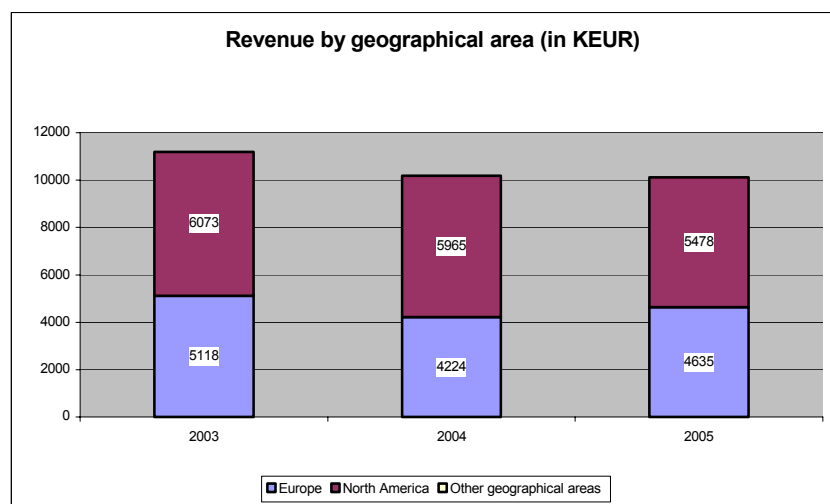
### Revenue

	2005	2004	2003	2002	2001
MEUR	10.1	10.2	11.2	8.2	8.2



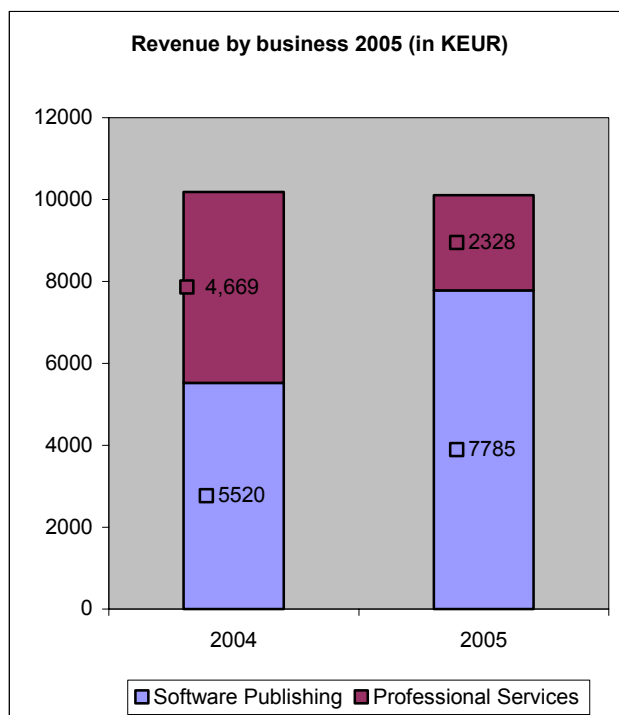
### Revenue by geographical area

Thousands of euros	2005	2004	2003
Europe	4,635	4,224	5,118
North America	5,478	5,965	6,073
Other geographical areas	-	-	-
<b>Total</b>	<b>10,113</b>	<b>10,189</b>	<b>11,191</b>



## Revenue by business

In thousands of Euros	2005	2004
Software Publishing	7,785	5,507
Professional Services	2,328	4,682
<b>Consolidated revenue</b>	<b>10,113</b>	<b>10,189</b>



## Income Statement

In thousands of Euros	2005	2004
Current operating income	3,238	2,942
Operating income	3,352	2,758
Pre-tax income	4,195	2,713
Net income from consolidated companies	3,061	2,679
Net income, group share	3,061	2,679
Shareholders' equity, group share	22,122	18,442
Financial indebtedness	236	263
Cash	10,909	7,995

## Earnings per share

Earnings per share	2005	2004
<b>Basic earnings per share:</b>		
Number of shares used for calculation	9,848,095	9,833,695
Net profit per share (in €)	0.31	0.27
<b>Fully diluted earnings per share:</b>		
Number of shares used for calculation	9,973,321	9,975,417
Net profit per share (in €)	0.31	0.27

The notes to the consolidated financial statements of 31 December 2005 (see paragraph 3.2 note 6.4) give exact details of the method used to calculate net earnings per share.

## 1.3 WORLD TRANSLATION MARKET

### 1.3.1 The Globalisation Market

The world market for Globalisation services includes different businesses:

- Internationalisation services that include all services relating to the internationalisation of software, Web services and content;
- localisation services that include all services relating to the translation of Web sites and interfaces;
- human translation;
- interpreting services: these mainly consist of services providing simultaneous or consecutive translation of speeches, conferences, etc.
- globalisation software comprising all automatic translation software and translation support software.

Market growth in these different segments is shown in the following table.

BUSD	2005	%	2007 (p)	%
Internationalisation	74.8	1.1%	91.1	1.0%
Software localisation	933.6	13.8%	1,144.2	12.8%
Web site localisation	1,119.6	16.6%	2,026.3	22.7%
Human translation	4,190.5	61.9%	5,133.1	57.4%
Interpreting services	377.4	5.6%	430.6	4.8%
Globalisation software	70.3	1.0%	119.4	1.3%
<b>World translation market</b>	<b>6,766.2</b>		<b>8,944.7</b>	

Source: IDC.

This clearly shows that most growth is due to the growth in localisation and translation services, which is mainly due to the strong increase in the volume of content published by companies.

These increased translation and localisation volumes cause capacity problems, however, that can only be solved through greater use of machine translation software.

### 1.3.2 Machine translation

Machine translation is found in two main families of applications: those intended to help in understanding content in a foreign language, and those intended to publish content in a foreign language.

## **Understanding**

This market is dominated by the free translation services available on Internet, which translate more than 30 million pages daily. These services, which have been adopted by all the Internet portals and search engines, daily enable millions of Internet users to access pages that would otherwise be incomprehensible.

Faced with this need, companies are deciding to provide their employees with identical services they can access directly via their Intranet, by customising the software to take account of the business context as it translates.

## **Publication**

Today, machine translation goes to the heart of information systems. Internal and external corporate communications are strongly influenced by globalisation and increased recourse to electronic media (e-mail, Intranets, extranets, and Web sites).

International companies feel linguistic barriers even more strongly as trade borders disappear.

To meet this need, SYSTRAN offers integrated translation solutions and linguistic customisation, integration and training services.

Demand is, moreover, no longer limited only to translation departments but also extends to IT, marketing and communications departments, which seek to enable their users to make inquiries in real-time without incurring human translation costs. This change in mentality encourages us to expect very strong sales growth in this market segment.

## **Machine translation and human translation**

Human translation poses three major problems that limit its use and the growth of its market:

- Time: a human translator translates an average of 2.000 words per day.
- Cost: cost averages EUR 40 per translated page.
- Capacity: the volumes of information available electronically are beyond the capabilities of human translators.

In view of these constraints, machine translation is a technology we cannot do without in addressing this new demand. It firstly offers human translators considerable productivity gains, and secondly means that documents that otherwise could not have been translated can now be translated.

## **New applications**

With the growth of Internet and search engines, new applications are emerging. In particular, the first generation of large engines based on statistical technologies will be replaced by second-generation search engines that can handle multilingual document databases. It is with this in mind that Google has begun research and development work on automatic processing of languages in general, and automatic translation in particular.

## **Technology**

Machine translation is translation by computer from one natural language into another. The grammatical structure of each language is analysed using precise rules to transfer the source language (text to be translated) to the target language (translated text). In view of the complexity of natural languages, the development of translation software is a very complex process that requires a continuous effort:

- Each language has its own structure - this is the asymmetry of languages;
- There are numerous grammatical combinations and stylistic variations for each language, and the number of combinations increases as sentences become more complex;
- Translation software cannot understand the meaning of a sentence. It has to use information already integrated into the software.

In order to develop a translation system, bilingual linguistic resources must be built and analysed, the grammatical, syntactic and semantic rules of the source language and target language must be described, and algorithms created. This requires a high level of expertise in computational linguistics.

Given the volume of development costs, translation systems have long been reserved for major administrations or governments. The METEO system (translation system for English-French and French-English weather reports), developed in Canada in 1977, illustrated the utility of a limited-scope application in which translation was very effective. In 1993, the number of words translated via computer by large-scale users was estimated at 380 million per year. This included the European Union, which alone translated 30 million words in thirteen language combinations, using SYSTRAN. These figures more than doubled in 1998, to over 70 million words.

Extremely high investments are required to develop a translation system, but SYSTRAN possesses considerable competitive advantages since it offers the widest range of language pairs currently available.

### 1.3.3 Competitors

The machine translation market is characterised by strong barriers to entry, given the investments required and the development time needed to implement this software.

The risk of newcomers entering the market is therefore relatively low, and the probability of strategic alliances being formed is high.

Because of the barriers to entry, SYSTRAN's competitive environment changes little, although the Language Weaver company, which was created in the US in 2002 and financed by the In-Q-Tel investment fund, has entered the market and the Microsoft and Google companies have begun research programmes to develop machine translation software.

Apart from these newcomers, the longstanding market players remain unchanged:

- In spring 2001, IBM launched a server-based translation solution, "WebSphere Translation Server" offering 11 language pairs.
- Logomedia, a subsidiary of Language Engineering Corp., is seeking to develop its business in the North American market, with limited success.
- In early 2001, SDL International, a British human translation company listed on the London Stock Exchange (code: SDL) took over the "Transcend" translation activity of Transparent Language, a US-based company.
- The German company "Sail Labs," founded in 2001 to take over the assets of Lernout & Hauspie, went bankrupt in February 2002, then merged with two other Swiss companies to form Comprendium.
- The Russian company Prompt sells mass-market translation software for Windows in France through the French company Softissimo (Reverso software).

Within this context, SYSTRAN has four major advantages, namely:

- Its offering of 40 language pairs, the widest on the market, which enables it to develop new language pairs more quickly,
- The uniformity and adaptability of its technology, making it possible to optimise use and produce a diverse range of solutions, from a Pocket PC to a large server system.

- The quality and robustness of its systems, capable of dealing with high service demands for translation on Internet portals.
- The richness and scope of its linguistic databases, accumulated over a period of 30 years.
- Its long experience in linguistic customisation to meet customer needs.

#### 1.4 SYSTRAN'S ACTIVITY

Currently considered as being the premier global provider of translation solutions (Source IDC, 2004), SYSTRAN offers its customers a full range of software and services.

On the basis of its "historical" business of providing services to European and American government entities, since 1997 SYSTRAN has developed a software publishing business for the home and professional market which today accounts for over 77 % of its revenue.

Thus in 2005, the Software publishing business accounted for MEUR 7.8, up 41.4% in relation to 2004, with the following break-down:

- Desktop Products generating MEUR 3.1, stable compared to 2004;
- Client-Server products generating MEUR 3.8 versus MEUR 1.8, i.e. a growth rate of 111.1%;
- E-Services generating MEUR 0.6 versus MEUR 0.5, stable in relation to 2004%;
- OEM generating MEUR 0.3 whereas these sales were negligible in 2004.

#### TABLE OF SYSTRAN PRODUCTS AND SERVICES

<b>Software Publishing</b>	
Desktop products	SYSTRAN PDF Translator SYSTRAN WebTranslator SYSTRAN Personal SYSTRAN Office Translator SYSTRAN Standard SYSTRAN Premium
Client-Server products	SYSTRAN Enterprise SYSTRAN WebServer
e Services	SYSTRANLinks SYSTRANet SYSTRANBox
<b>Professional Services</b>	
	Linguistic customisation Integration Training Development of new language pairs

Source: SYSTRAN S.A.



### 1.4.1 Software Publishing

SYSTRAN publishes a full range of software for personal (Desktop) and Client-Server use, and operates e-Services for both companies and the general public. In addition, SYSTRAN continues to supply its translation technology as part of OEM agreements.

#### **1/ DESKTOP PRODUCTS**

SYSTRAN offers a range of six Desktop software packages: SYSTRAN PDF Translator, SYSTRAN WebTranslator, SYSTRAN Personal, SYSTRAN Office Translator, SYSTRAN Professional Standard and SYSTRAN Professional Premium, which meet the needs of the general public, companies and translation industry professionals.

This software is easily integrated into office systems applications by means of a Microsoft Office plug-in suite. The Desktop products incorporate linguistic customisation tools, in particular tools enabling users to create and import dictionaries.

This product range is marketed via a network of consumer and business retailers and resellers. SYSTRAN also markets its software in online sales via three specialist distributors: Digital River in the US and Europe, T1 in Great Britain and Téléchargement.fr in France.

#### **Sales of products by distribution channel**

<b>In MEUR</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Direct sales and retailers	1.5	1.6	1.6	1.7	1.8
Online sales	1.0	1.0	1.2	1.3	1.3
<b>Total</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>3.0</b>	<b>3.1</b>

#### **2/ CLIENT-SERVER PRODUCTS**

SYSTRAN offers its corporate customers two Client-Server products: SYSTRAN Enterprise and SYSTRAN WebServer, which companies can install on their Intranet or on their user workstations.

The roll-out of this software often involves customisation and integration services. However, SYSTRAN is developing tools for creating and managing linguistic resources for its Client-Server products to enable companies to do this work themselves.

SYSTRAN is developing direct sales and implementing a network of resellers, VAR (Value Added Resellers) and advocates (software editors, integrators, and consulting firms). However, the emerging nature of this market means that SYSTRAN must favour direct sales.

#### **3/ E-SERVICES**

SYSTRAN has developed a full range of on-line services to meet the needs of its customers who do not wish to host the software themselves.

This range of e-Services includes the SYSTRANBox, SYSTRANLinks and SYSTRANet services, for which SYSTRAN offers basic versions designed for home and small business users, as well as "Corporate" versions.

- **SYSTRANBox**

SYSTRANBox is used to translate text and Web pages. The service is available on the Internet and is customised to meet individual customer needs.

SYSTRAN supplies SYSTRANBox to numerous well-known Portals such as Wanadoo, Voila, Terra, Lycos and Free, giving it a high profile on the Internet.

- **SYSTRANLinks**

With the aim of expanding the adoption of SYSTRAN by the Internet community and establishing a large base of regular users, SYSTRAN has developed a Website translation service.

- **SYSTRANet**

As for SYSTRANLinks, SYSTRAN will limit access to free translation functionalities on the Intranet to promote a fee-charging SYSTRANet service that is currently being developed.

SYSTRANet is a translation service intended for users who seek Internet access to a customised service without, however, installing the SYSTRAN software.

The free service is available from SYSTRAN at [www.systranet.com](http://www.systranet.com) and currently has 500.000 regular, registered users. It offers functionalities such as the translation of files while maintaining formatting, the use of specialised dictionaries (information technology, law, mechanics, medicine, etc.) and the application of user-created dictionaries.

#### **4/OEM**

SYSTRAN has standardised its software and Application Programming Interface (API) and it can be integrated into all computer applications. SYSTRAN is developing OEM agreements with software publishers, integrators and computer manufacturers (SEIKO, Electronic Arts, OneRealm, SONY, etc.)

New contracts have been signed in this market segment, notably with Brother and Hexaglot.

#### *1.4.2 Professional Services*

From the start, SYSTRAN has provided services to American and European government entities seeking solutions for processing, extracting and translating large volumes of multilingual data.

The development of communications – particularly via the Internet – and increasing globalisation have given rise to a similar need for large companies that also want to benefit from these services.

Along with this conventional business providing services to administrations, SYSTRAN has developed a range of Professional services that meet the translation solution roll-out needs of large companies.

- **Services to companies: Corporate offerings**

The roll-out of a professional translation solution requires installation and integration services that are currently provided by SYSTRAN, but which in the long term should be provided by value-added reseller partners (VAR).

To address the quality problems of machine translation solutions, it is necessary to "customise" the system by providing it with information about the style of the documents to be translated and the specific terminology to be used.

Until now, the work required to adapt translations to a specific field was carried out entirely by SYSTRAN on behalf of its customers.

The range of new extraction, coding and updating tools available with SYSTRAN software now enables customers to perform some of these tasks.

If more substantial customisation work is required, SYSTRAN handles the analysis, creation and integration of specific terminology for its customers.

- **Services to government and administrations**

SYSTRAN maintains and upgrades systems used by government and administrations.

SYSTRAN is developing new language pairs for the US government and the European Commission.

## 1.5 DESCRIPTION OF SYSTRAN'S ORGANISATION

### 1.5.1 Human resources

#### **ORGANISATION CHART OF THE SYSTRAN GROUP**

The SYSTRAN Group is composed of three companies, SYSTRAN S.A. being the parent company heading up the group's functional, technical and operational management.

#### **Organisation chart of the SYSTRAN Group**

<b>Dimitris Sabatakakis</b>
Chief Executive Officer

#### **GROUP MANAGEMENT COMMITTEE**

CEO of SYSTRAN Software Inc.	Denis Gachot
Deputy CEO	Guillaume Naigeon
R&D Manager	Jean Senellart

Mr. Dimitris Sabatakakis is Chief Executive Officer of SYSTRAN Luxembourg S.A. and Chairman of the Board of Directors of SYSTRAN Software Inc. .

#### **WORKFORCE**

Most of the Group's current personnel is made up of computational linguists.

### **Changes in the Group's average headcount (2003-2005)**

<b>Profile</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Board of Directors	3	3	3
Computer experts (engineers)	14	15	19
Computational linguists (*)	36	32	21
Sales and marketing	7	7	9
Administrative	6	5	5
<b>Total</b>	<b>66</b>	<b>62</b>	<b>57</b>
<i>of which time-limited work contracts and apprenticeship contracts</i>	3	3	3
Average salary (thousands of Euros)	47	51	72

(\*) a large number of linguists, particularly in the United States, are employed on permanent contracts which may be terminated by the employer, notably upon completion of the projects to which they are assigned.

### **Changes in SYSTRAN S.A.'s average headcount (2005)**

	<b>Permanent</b>	<b>Fixed term</b>	<b>Other</b>	<b>Total</b>
Headcount at the start of the fiscal year	24	0	1	25
New hirings	11	1	5	17
Terminations	6	0	2	8
<b>Headcount at the end of the fiscal year</b>	<b>29</b>	<b>1</b>	<b>4</b>	<b>34</b>

### **ORGANISATION OF WORKING TIME**

Working time differs for each company in the group and complies with the applicable laws in the country where it operates.

Since 1 January 2002, SYSTRAN S.A. has implemented measures to reduce working hours pursuant to the Aubry 35-hour week laws, by directly applying the National Work Time Agreement signed on 22 June 1999 within the SYNTEC Federation.

### **CURRICULUM OF THE EXECUTIVE BOARD OF SYSTRAN S.A.**

**Dimitris Sabatakakis, Chairman and CEO.** Born in 1962 in Athens, Greece. A graduate of Strasbourg University in Economic Sciences, he began his career in finance, then in industry. Joined by investors, he took over and managed the recovery of the Gachot company, which was sold to the KEYSTONE/TYCO Group in 1995. Mr. Sabatakakis has managed SYSTRAN since February 1997.

**Denis Gachot, CEO of SYSTRAN Software Inc.** Born in 1951, Mr. Gachot graduated from the Ecole Fédérale Polytechnique de Zurich and began his career in industry. Since 1986, he has been managing SYSTRAN'S US subsidiary.

**Guillaume Naigeon, Deputy CEO.** Born in 1972, Mr. Naigeon is a graduate of IEP (Institute of Political Studies) in Grenoble, has a DESS (postgraduate diploma) in Finance from the University of Paris – Dauphine and began his career in banking, before serving as CEO of Aurora from 1999 to 2001.

**Jean Senellart, R&D Manager.** Born in 1972. Mr. Senellart graduated from the Ecole Polytechnique and holds a PhD in Computational Linguistics from the University of Paris VII – LADL. He began his career as a researcher and taught at the Ecole Polytechnique and University of Marne la Vallée.

### 1.5.2 Customers

Since its inception, SYSTRAN has been a service provider for public agencies. From the very beginning, American intelligence agencies, military organisations and the European Commission have financed and used SYSTRAN products.

The proportion represented by the 10 largest customers in the consolidated sales figure decreased in 2005, compared to 2004, as did the proportion represented by the 5 largest customers:

<b>Rank</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Customer n°1	18.6%	14.8%	17.0%	10.9%	24.5%
Customer n°2	11.9%	14.8%	13.5%	8.2 %	11.8%
Customer n°3	9.7%	12.2%	8.7%	7.5%	9.1%
Customer n°4	4.4%	9.9%	8.0%	7.0%	6.7%
Customer n°5	3.3%	9.2%	7.1%	5.7%	4.1%
<b>Subtotal of the top 5</b>	<b>47.9%</b>	<b>60.9%</b>	<b>54.3%</b>	<b>39.3%</b>	<b>56.2%</b>
Customer n°6	3.3%	3.9%	2.7%	3.2%	1.5%
Customer n°7	3.0%	3.2%	2.4%	2.6%	1.5%
Customer n°8	2.3%	1.5%	2.4%	2.2%	1.5%
Customer n°9	2.2%	1.2%	1.6%	1.1%	1.4%
Customer n°10	1.9%	1.1%	1.4%	1.0%	1.2%
<b>Total of the top 10</b>	<b>60.6%</b>	<b>71.9%</b>	<b>64.8%</b>	<b>49.5%</b>	<b>63.3%</b>

Payment terms vary by customer type:

<b>Customer</b>	<b>Invoicing method</b>	<b>Payment terms</b>
Corporate	Licences: annual or lifetime fee Services: invoiced according to work progress or upon completion, depending on the contract	Licences: payment on order in proportions set by contract Services: 60 to 90 days
Distributors	Invoiced upon delivery of goods	60 days. Payment at 30 days for online sales
Services to administrations	Invoiced based on contractual schedules (every 3 or 6 months depending on the contract)	Europe: 60 days United States: 90 to 120 days

Development contracts are invoiced as expenditures are incurred. When these are carried out with several partners, SYSTRAN, as project coordinator and integrator, posts all revenue, with the proportion allocated to the partners accounted for as an expense in the "Purchases and other external expenses" account.

### 1.5.3 Suppliers

The Company uses several subcontractors to provide the following in fulfilling its contracts:

- Supply of technical documentation or specialist dictionaries, particularly for US government contracts
- Post-editing in localisation contracts
- Software packaging

However, subcontracting remains limited compared to revenue; the largest subcontractor represents less than 2% of the group's consolidated revenue. The remaining suppliers correspond to consulting fees.

#### 1.5.4 Premises

SYSTRAN owns no buildings or land. The premises rented by the group's two entities belong to private companies connected neither legally nor financially with SYSTRAN and/or its management.

#### List of premises occupied by SYSTRAN in 2005

Company	Address	Floor space	Annual rent
SYSTRAN SA	La Grande Arche, 1, parvis de La Défense - 92044 Paris La Défense - France	700 m2	0.218 MEUR
SYSTRAN SOFTWARE Inc.	9333 Genesee Avenue – San Diego - California – United States	600 m2	0.286 MUSD

SYSTRAN S.A. has signed a statutory lease (3-6-9) for its premises in Paris La Défense. The rents are linked to the construction cost index.

The lease entered into by SYSTRAN Software Inc. for its premises in San Diego has been renewed in advance. It expires in October 2011. The rents are contractually indexed to a 3.0% increase up until 11/11/11.

These leases do not impose any particular restriction on SYSTRAN.

#### 1.6 INVESTMENT POLICY

SYSTRAN's investment policy consists of constant investment in research and development. These research and development expenses, which mainly consist of salaries, are fully accounted for as expenses during the current fiscal year.

In MEUR	2005	2004	2003	2002
<b>R&amp;D EXPENDITURE</b>				
Self-financed R&D expenditure	1.4	0.8	0.5	0.9
Co-funded R&D expenditure	0.1	1.4	1.9	0.9
Total	1.5	2.2	2.4	1.8

One of SYSTRAN'S major advantages is its linguistic assets, which allow the quick development of new language pairs and new specialised dictionaries.

SYSTRAN has begun to develop new language combinations which will be available in 2006 and 2007.

In 2005, SYSTRAN opened up a new area of research to complete the Research & Development programme which previously concerned three areas: new generation translation engines, the development of linguistic customisation tools, and the development of new language pairs. SYSTRAN is allocating considerable investment to development and evaluation of statistics modules, which are gradually being integrated into the traditional translation engines in addition to the linguistic rules.

## **SELF-FINANCED RESEARCH AND DEVELOPMENT**

Self-financed Research and Development expenditure totalled 1.4 million euros in 2005, i.e. 13.9% of consolidated revenue (compared to 0.8 million euros in 2004). This expenditure consists primarily of staffing expenses and external expenses. The considerable increase is due to the absence of new co-financed contracts, and the re-allocation of teams to in-house research and development projects.

These expenses are posted as expenses for the fiscal year in which they are incurred and, accordingly, are not subject to any capitalisation into balance-sheet assets.

## **CO-FINANCED DEVELOPMENT**

In the United States, SYSTRAN Software Inc. signed new contracts with the US government agencies to continue developing translation systems for Farsi and Urdu into English, and also to improve the Asian language translation software.

In addition, SYSTRAN joined a consortium as part of the GALE project, which aims to develop integrated “*multilingual scan-to-speech*” tools. In the context of this project, SYSTRAN is collaborating with renowned research centres in the statistics field, and is exploring new approaches complementary to the traditional linguistic approach.

In Europe SYSTRAN did not participate in any development projects with the European Commission (IST, eContent, INCO-MED programmes ) but continued to participate in projects financed by French government agencies. The co-funded share of these development contracts totalled 0.1 million euros in 2005 (compared to 1.4 million euros in 2004). This activity has slumped considerably and SYSTRAN did not obtain any new funding in 2005.

When SYSTRAN coordinates a project it posts the total budget as revenue; when it is a partner, only its share is recognised.

### **Development contracts with the French government**

<b>Project</b>	<b>Subject</b>	<b>Budget (millions of euros)</b>	<b>Dates</b>
<b>Outilex</b> Ministry of Research	Development of semantic modules	0.30	Start: October 2002 End: October 2005
<b>Normalangue</b> Ministry of Education		0.02	Start: January 2003 End: January 2005
<b>Evalda – Cesta</b> Ministry of Education		less than 0.01	Start: January 2003 End: January 2005
<b>Noms propres (proper names)</b> Ministry of Industry		0.87	Start: September 2003 End: September 2005

Research and development expenses are processed in compliance with standard IAS 38.

## 1.7 ANALYSIS OF SYSTRAN RISK FACTORS

### Technology risks

SYSTRAN's success will partly depend on its ability to market machine translation solutions, and in particular software adapted to the needs of companies, to meet the increasingly specific requirements of its present and future customers within strict time and budget constraints, to develop and adapt to progress in technology, new IT standards, the market environment and new offerings from its competitors.

However, the technology marketed by SYSTRAN has proven its quality since it was developed for government entities concerned with translation quality, such as the European Commission or the U.S. Department of Defense. The SYSTRAN technology has also demonstrated its ability to operate in an environment as demanding as the Internet. This technology migrated successfully from mainframes to personal computers and then to the Internet.

The Company does not believe it is in a situation in which it depends on holders of patents or licences, supply, commercial or financial contracts, new manufacturing procedures and suppliers, or the public authorities to any large extent.

### Competition risks

The machine translation market is a market in a start-up stage. Competitors such as IBM or other software makers represent serious competition for SYSTRAN, especially as IBM has an overall commercial offering that includes speech technologies as well as translation.

The market is, however, protected by major barriers to entry. In order to develop a machine translation system, linguistic resources, grammatical, semantic and syntactic analysers must be built and algorithms created. This therefore requires a high level of expertise in linguistics and information technology.

In addition, the acquisition of know-how in this technological field takes time:

- IBM, which only entered this market in 2001, offers only a few language pairs developed 20 years earlier;
- Lernout & Hauspie ("L&H"), which has now disappeared, chose to approach this market through business acquisitions (including Globalink and NeocorTech).

However we will note that in 2005 Google launched an ambitious research programme to develop machine translation software using statistics-based methods. The use of these new methods represents the greatest competition risk.

For its part, SYSTRAN has gained valuable and incomparable experience in providing turn-key technologies for major public administrations (the European Commission, US Department of Defense), major companies (Ford, SONY) and for sites and portals with high traffic volumes (Google, Altavista).

### Legal risk

Generally speaking, computer programs are not patentable inventions. The Group retains all copyrights pertaining to its technology and products. To date, the Group has not been engaged in any lawsuit pertaining to intellectual property rights.

Moreover, SYSTRAN has established a systematic policy to protect its brands worldwide.

There is no lawsuit or arbitration in the recent past liable to have or that has had a significant impact on the Group's financial situation, business or income.

### Industrial and environmental risk

SYSTRAN produces intangible goods involving a production process that poses no industrial or environmental risk.



## **Securities risks**

SYSTRAN does not have a portfolio or shares in companies apart from those in its subsidiaries, and is therefore not open to any risk with regard to securities.

SYSTRAN currently holds 62,555 SYSTRAN shares amounting to 228 thousand euros at the rate on 31 December 2005. These were acquired on the Market under the share repurchase programme authorised by the Extraordinary General Stockholders Meeting of 3 May 2000, and subsequently renewed by the General Stockholders Meeting of 9 November 2001, by the General Stockholders Meeting of 27 June 2003, by the General Stockholders Meeting of 25 June 2004 and by the General Stockholders Meeting of 24 June 2005.

Consequently, the securities-related risk is negligible given the risks of fluctuations in treasury share prices.

## **Customer risks**

SYSTRAN'S principal customers are major corporate customers (administrations and large companies), for which there is no bad debt to date. Their proportion of total revenue, i.e. 50%, played a defensive role in SYSTRAN's business during a period when it was proving difficult to acquire new customers in a difficult economic environment.

Overall, SYSTRAN has a very low level of bad debt due to the large proportion of large corporations and administrations. For all other customers, SYSTRAN applies a policy of payment with order, to avoid this type of risk.

## **Supplier risks**

There is no supplier related risk due to the small proportion of subcontractor involvement in revenue. The SYSTRAN group calls upon external service providers only exceptionally and in a marginal way.

## **Key person risks**

The future success of SYSTRAN will depend on retaining its commercial and technical staff. The group specifically depends on its engineers specialised in developing the linguistic resources and engines. Until now, SYSTRAN has succeeded in attracting staff skilled in its traditional business as well as in its new activities through an ambitious and motivating development plan benefiting its employees. In the long term, all employees will receive stock options.

## **Risk of recruitment difficulties**

The growth of the group, especially with respect to corporate customers, is based in part on its capacity to attract, train, retain and motivate employees as well as technical and marketing teams. More specifically, SYSTRAN must be able to recruit computational linguists. Until 1999, openings for computational linguists were limited. Since 1999, the competition has increased in the field of language engineering. Numerous companies have started up and foreign companies are recruiting large numbers of employees. All these factors could slow the group's recruitment programme over the next three years.

However, SYSTRAN's listing on the Nouveau Marché of the Paris Stock Exchange associated with the implementation of a stock option plan, as well as the company's growing reputation, are key factors in the recruiting process. Similarly, the financial difficulties of numerous start-up businesses and some of SYSTRAN's competitors are enhancing its recruitment prospects.

## **Risk of decline in sales prices**

SYSTRAN will experience pressure on prices, specifically in its Software Publishing activity and particularly in its entry-level products. However the group earns a large part of its revenue by providing Corporate solutions and added-value services that are less subject to competitive pricing pressure insofar as SYSTRAN is currently one of the few participants in this sector.

## Liquidity risk

The Company faces no liquidity risk given its available cash flow and low level of debt. The Company's net cash on 31 December 2005 totalled 10.7 million euros.

During the fiscal year, cash flow increased by 2.9 million euros, while financial debt remained stable at 0.2 million euros.

Types of securities issued or loans raised	Fixed rate or variable rate	Overall amount of lines (in thousands of euros)	Terms	Existence or absence of hedges
Repayable COFACE advance	0 %	140	Between 1 and 4 years	No
Loans and financial liabilities	Fixed rate	21		No
Financing leases	Fixed rate	75	Between 1 and 3 years	No
<b>Total</b>		<b>236</b>		

## Rate risks

SYSTRAN'S financial debt is at a fixed rate. The Company is therefore not subject to the risk of interest rate fluctuations on its existing debt.

SYSTRAN's financial debt totals KEUR 236 and is insignificant, as the company has no net debt.

## Exchange rate risks

SYSTRAN'S foreign subsidiary companies invoice their services in local currencies and incur costs that are also expressed in local currencies. The Company therefore does not consider itself exposed to exchange rate risk and has not applied any hedging instrument.

The parent company also does not assume the exchange rate risk related to intercompany transactions. Exchange rate risks related to intercompany flows are also not hedged because of their low amounts (outside the Euro zone).

## Extraordinary events and litigation

To the best knowledge of the Company, there are to date no exceptional facts or litigation that might have or have had in the recent past a significant impact on the activity, results, financial situation or assets of SYSTRAN S.A. or its subsidiary companies.

## Provisioning and impairment methods with respect to risks and litigation

SYSTRAN establishes provisions and impairment for amounts needed to cover likely risks and expenses of events that have occurred or are pending and that are clearly specified as to their purpose, but for which the occurrence, expiration or amount are uncertain.

SYSTRAN has set up internal methods aimed at ensuring that the risks are assessed as fully and accurately as possible. These mainly concern customer risks that are reviewed every week at management meetings and are subject to provisions at their exact known value, i.e. at the full value of the receivable.

## Insurance

Risks covered	Premiums (in thousands of euros)	Coverage
<b>SYSTRAN S.A.</b>	<b>13.7</b>	
- company vehicles	4.2	Fully comprehensive insurance
- management liability	4.2	MEUR 2 (at Group level)
- retirement / supplementary health insurance	Managerial staff: 1.5% on brackets A and B (retirement) and 4.35% on A (supplementary health) Non managerial staff: 0.65% on bracket A and 1.0% on bracket B	SYNTEC provision for additional health insurance
- employee business travel	0.2	Coverage for medical expenses, hospital stays and repatriation
- premises and business liability insurance	5.1	Physical injury (MEUR 4.5 per claim); material/immaterial damage (MEUR 0.8 per claim); other (MEUR 0.1 to 0.4 per claim and per year)
<b>SYSTRAN Software Inc.</b>	<b>21.2</b>	
- provident scheme / supplementary health insurance		100% of standard ceiling rate
- employee business travel		Coverage for medical expenses, hospital stays and repatriation
- 401K pensions plan		MUSD 0.4
- employer liability		MUSD 1
- premises and business liability insurance		Physical injury (MUSD 1), material damage (MUSD 0.3), overall damage (MUSD 2)
- professional civil liability insurance		MUSD 2
- company vehicles		Fully comprehensive insurance

## Financial commitments

Contractual obligations	Total 2004	Total 2005	Payments due per period	
			< 1 year	From 1 to 5 years
<i>(amounts in thousands of euros)</i>				
Long-term liabilities (*)	263	236	120	116
Direct rental agreements	856	1 555	455	895
Binding purchase agreements	0	0	0	0
Other long-term obligations	0	0	0	0
<b>Total</b>	<b>1 119</b>	<b>1 791</b>	<b>575</b>	<b>1 011</b>

(\*) including direct financing leases

Other commercial commitments	Total 2004	Total 2005	Commitments per period	
			< 1 year	From 1 to 5 years
<i>(amounts in thousands of euros)</i>				
Lines of credit	0	0	0	0
Letters of credit	0	0	0	0
Guarantees	318	318	249	69
Buyback obligations		0	0	0
Other commercial commitments		0	0	0
<b>Total</b>	<b>318</b>	<b>318</b>	<b>249</b>	<b>69</b>

Details of the 318,000 Euros of guarantees granted by SYSTRAN are provided in note 6.1 of the consolidated financial statements.

This presentation has not omitted the existence of a large off balance-sheet liability and complies with applicable accounting standards.

## 2 2005 ACTIVITY REPORT

In 2005 SYSTRAN continued to refocus on its software publishing business, an activity that now represents 77% of its business. The company continued to improve its operating margin which is in excess of 30 %.

### 2.1 MARKET TRENDS

The most important trend of the year was the growth in sales of solutions to businesses, which become increasingly aware of the need to manage multilingual information. This requirement was increasingly taken into account by companies, resulting in business growth which more than doubled.

As in 2004, the demand for Web site translation solutions, e-Services and online sales, remained steady and even increased, underlining e-Services market growth.

The high volume of business with the US government remained steady owing to the demand for new language pairs related to the international situation: Arabic, Farsi and Urdu.

### 2.2 2005 CONSOLIDATED FINANCIAL STATEMENTS

#### 2005 consolidated income

<b>Consolidated figures in MEUR</b>	<b>2005</b>	<b>2004</b>	<b>Change 2005 / 2004</b>
Revenue	10.11	10.19	-0.7 %
Current operating income	3.24	2.94	+ 10.2 %
<i>Operating margin</i>	<i>32.0 %</i>	<i>28.9 %</i>	<i>+ 10.7 %</i>
Net income Group share	3.06	2.68	+ 14.2 %
<i>Net margin</i>	<i>30.3%</i>	<i>26.3%</i>	<i>+ 15.2 %</i>

However the revenue stability concealed a major change in the proportion of licence sales compared to service sales. Whereas Professional Services represented 46 % of revenue in 2004, in 2005 they only represented 25%.

This business trend improved the Group's margin, with current operating income totalling 3.24 million euros compared to 2.94 million euros in 2004. The operating margin continued to increase, standing at 32.0% compared to 28.9 % in 2004.

The financial revenue absorbed most of the tax burden, since the group no longer had any carry-forward of losses.

Net income was up 14.18% compared to the previous year despite a 1.1 million euro tax burden.

## Consolidated balance sheet as of 31 December 2005

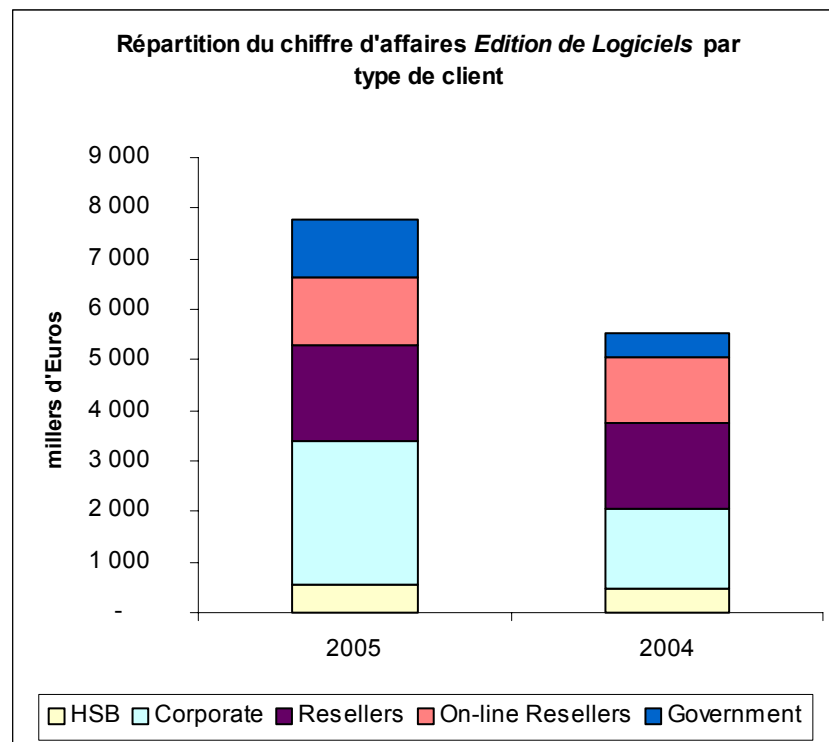
Shareholders' equity totalled 22.1 million euros compared to 18.4 million euros on 31 December 2004, and the Group has practically no debt despite significant investments.

Net cash as of 31 December 2005 totalled approximately 10.7 million euros compared to approximately 8.0 million euros a year earlier.

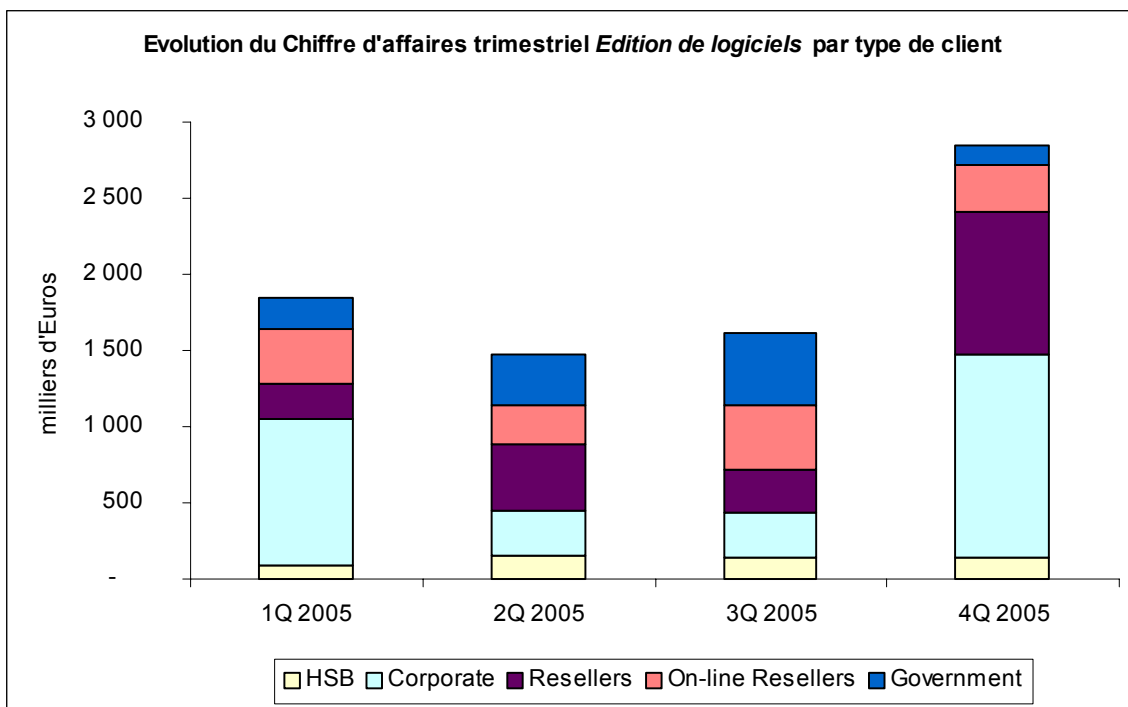
## 2.3 GROUP BUSINESS DURING THE FISCAL YEAR

The Group's consolidated revenue totalled 10.1 million euros, a very slight drop compared to 2004. It was divided between 7.8 million euros for the Software Publishing business, and 2.3 million for the Professional Services business.

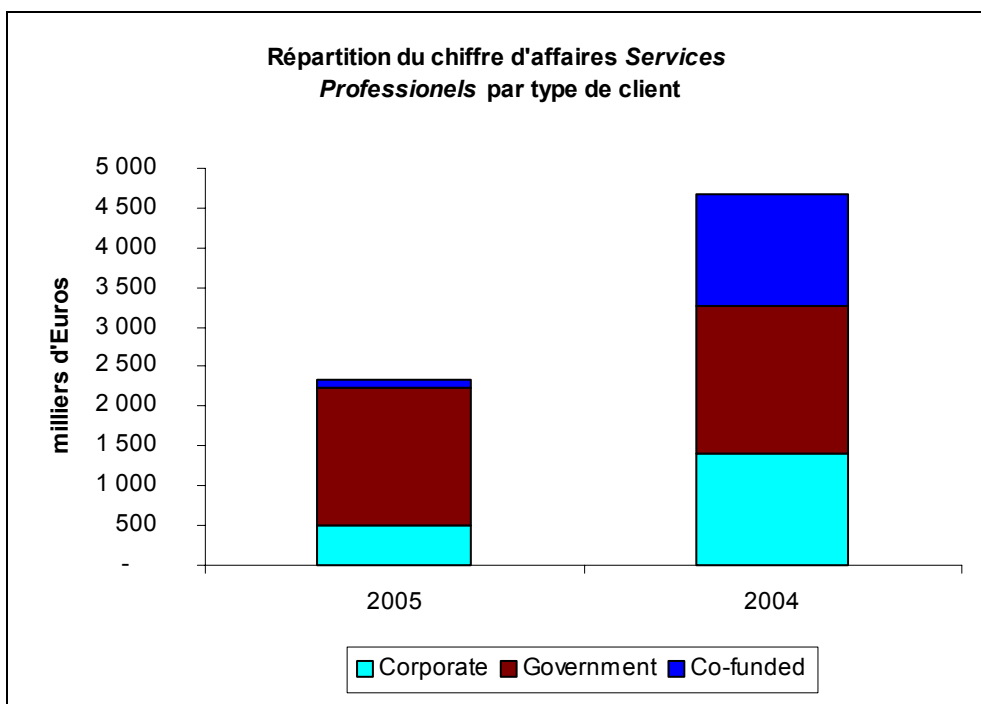
### 2.3.1 - Software Publishing



The Software Publishing business enjoyed strong growth compared to fiscal year 2004 , and represented 77% of total revenue, compared to 54% in 2004. During the fiscal year, SYSTRAN benefited from the launch of release 5.0 of its server products and orders from new Corporate segment customers.



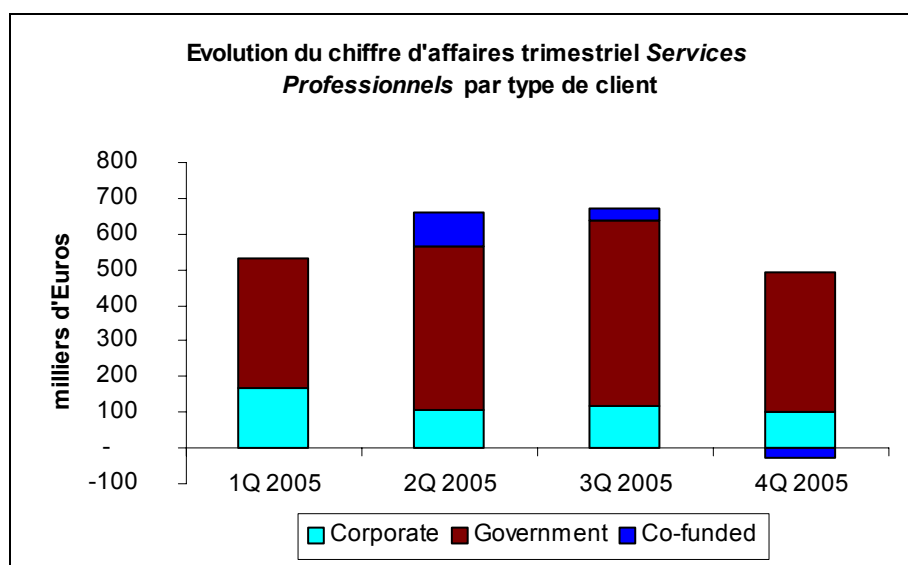
### **2.3.2 - Professional Services**



Professional Services business was 50.3% down on fiscal year 2004, and only represented 23% of total revenue, compared to 46% in 2004.

Apart from the Administrations segment which remained stable, Professional Services sales were down in the **Corporate & Administrations** and **Co-funded** segments.

SYSTRAN Software Inc. (USA) continued to receive orders from the US government for development of new language pairs. The SYSTRAN S.A. company (France) did not enter into any new co-financed contracts with the European Union.



### **2.3.3 - Analysis by products and solutions**

In thousands of euros	2005	As % of total	2004	As % of total	2005/2004 change
<b>Software Publishing</b>					
Desktop Products	3 152	31.2%	3 117	30.6%	+ 1.1%
Client-Server solutions	3 761	37.2%	1 857	18.2%	+ 111.1%
e-Services	551	5.4%	513	5.0%	+ 7.41%
OEM	321	3.2%	20	0.2%	+ 1 505%
<b>Total Software Publishing</b>	<b>7 785</b>	<b>77.0%</b>	<b>5 507</b>	<b>54.0%</b>	<b>+ 41.4%</b>
<b>Professional Services</b>					
Corporate	492	4.9%	1 402	13.8%	-64.9%
Administrations	1 736	17.1%	1 871	18.4%	-7.2%
Co-funded	100	1.0%	1 409	13.8%	-92.9%
<b>Total Professional Services</b>	<b>2 328</b>	<b>23.0%</b>	<b>4 682</b>	<b>46.0%</b>	<b>-50.3%</b>
<b>Consolidated revenue</b>	<b>10 113</b>	<b>100%</b>	<b>10 189</b>	<b>100%</b>	<b>-0.8%</b>

Sales of *Desktop* products were stable, but OEM sales grew thanks to several integration contracts for Desktop products.

The conclusion of a republishing contract with the Nuance company (ex Scansoft) made it possible to start distributing SYSTRAN products in several European countries where they had not been available, and in particular to strengthen presence in the German and British consumer retail networks.

Sales of Client-Server products grew strongly thanks to efforts focused on the Corporate segment, resulting in the creation of direct sales teams and a marketing team.

e-Services sales grew 7.4% despite the delayed launch of the SYSTRANet fee-charging service.



### 2.3.4- Revenue by customer

<b>Consolidated and audited data (in thousands of euros)</b>	<b>2005</b>	<b>As % of total</b>	<b>2004</b>	<b>As % of total</b>	<b>Change 2005/2004</b>
<b>Software Publishing</b>	<b>7 785</b>	<b>77.0%</b>	<b>5 507</b>	<b>54.0%</b>	<b>+41.3%</b>
Home & Small Business (HSB)	536	5.4%	470	4.6%	+13.8%
Corporate & Administrations	4 018	39.7%	2 032	19.9%	+97.7%
Resellers	1 885	18.6%	1 726	16.9%	+9.2%
Online Sales	1 346	13.3%	1 279	12.6%	+5.2%
<b>Professional Services</b>	<b>2 328</b>	<b>23.0%</b>	<b>4 682</b>	<b>46.0%</b>	<b>-50.3%</b>
Corporate & Administrations	2 228	22.0%	3 273	32.1%	-31.9%
Co-funded	100	1.0%	1 409	13.8%	-92.9%
<b>Consolidated revenue</b>	<b>10 113</b>	<b>100.0%</b>	<b>10 189</b>	<b>100.0%</b>	<b>-0.8%</b>

### **2.3.5- 2005 income was marked by an improvement in the operating margin**

Despite the drop in revenue, the current operating income was up 10.2% at 3.24 million euros compared to 2.94 million euros in 2004. The operating margin continued to increase, standing at 32.0% compared to 28.9 % in 2004.

## **2.4 PROSPECTS**

### **Software Publishing**

In 2006, the Group will continue its efforts to develop its Software Publishing business by:

- marketing a new 6.0 release of Desktop products;
- reinforcing the commercial teams to develop licence sales on the Corporate segment.
- developing new fee-charging e-Services and continuing with its strategy of migrating users of free services to fee-charging services.

Annual licences contractually purchased but not posted by 31 December 2005 totalled approximately 2.6 million euros.

### **Professional Services**

On 31 December 2005, the US federal government order book totalled 1.7 million US Dollars.

On 31 December 2005, orders for Professional Services purchased but not executed totalled 1.7 million euros.

### 3 FINANCIAL SITUATION - RESULTS

#### 3.1 CONSOLIDATED FINANCIAL STATEMENTS

##### CONSOLIDATED INCOME STATEMENT AS OF 31 DECEMBER 2005

<i>(in thousands of Euros)</i>	<i>Notes</i>	<b>2005</b> (12 months)	<b>2004</b> (12 months)
<b>Revenue</b>	4.1	<b>10,113</b>	<b>10,189</b>
Other revenue		0	0
<b>Business revenue</b>		<b>10,113</b>	<b>10,189</b>
Purchases and other external expenses	4.2	(2,687)	(3,507)
Taxes and duties		(104)	(81)
Personnel expenses	4.3	(4,100)	(3,366)
Net impairment and amortisation		(84)	(203)
Other operating expenses and revenue		100	(90)
<b>Current operating income</b>		<b>3,238</b>	<b>2,942</b>
Other operating expenses and revenue	4.4	114	(184)
<b>Operating income</b>		<b>3,352</b>	<b>2,758</b>
Cash revenue		291	(69)
Gross cost of financial indebtedness		(8)	(2)
<b>Net cost of financial indebtedness</b>		<b>283</b>	<b>(71)</b>
Other financial expenses and revenue	4.5	560	26
<b>Pre-tax income</b>		<b>4,195</b>	<b>2,713</b>
Income taxes	4.6	(1,134)	(34)
<b>Total consolidated net income</b>		<b>3,061</b>	<b>2,679</b>
Minority interests		0	0
<b>Net income (group share)</b>		<b>3,061</b>	<b>2,679</b>

<b>SYSTRAN net income per share</b>		<b>2005</b> (12 months)	<b>2004</b> (12 months)
Based on the average number of shares:			
- number of shares		9,848,095	9,833,695
- <b>in Euros per share</b>		<b>0.31</b>	<b>0.27</b>

##### CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

#### ASSETS

<i>(in thousands of euros)</i>	<i>Notes</i>	<b>31.12.2005</b>	<b>31.12.2004</b>
Goodwill		0	0
Intangible fixed assets	5.1	16,646	16,616
Tangible fixed assets	5.2	538	439
Financial investments	5.3	101	96
<b>Total noncurrent assets</b>		<b>17,285</b>	<b>17,151</b>
Inventory		0	0
Trade and other accounts receivable	5.4	3,670	2,278
Tax payable debit		759	316
Other receivables and accruals		546	447
Cash	5.5	10,909	7,995
<b>Total current assets</b>		<b>15,884</b>	<b>11,036</b>
<b>Total assets</b>		<b>33,169</b>	<b>28,187</b>

## LIABILITIES

<i>(in thousands of euros)</i>	<i>Notes</i>	<b>31.12.2005</b>	<b>31.12.2004</b>
Capital	5.6	15,109	15,087
Premium accounts		5,382	5,380
Consolidated reserves		(1,401)	(4,189)
Income for the fiscal year		3,061	2,679
Conversion adjustments		(29)	(535)
<b>Shareholders' equity (group share)</b>		<b>22,122</b>	<b>18,422</b>
Provisions	5.7	6	4
Interest bearing borrowing	5.8	116	225
Deferred tax credit	5.9	5,511	5,522
<b>Total noncurrent liabilities</b>		<b>5,633</b>	<b>5,751</b>
Provisions	5.7	273	454
Borrowing – share at < one year	5.8	120	38
Trade accounts payable and related accounts		1,212	1,748
Tax payable credit		825	75
Other payables and accruals	5.10	2,984	1,699
<b>Total current liabilities</b>		<b>5,414</b>	<b>4,014</b>
<b>Total liabilities</b>		<b>33,169</b>	<b>28,187</b>

## CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2005

	<b>2005</b>	<b>2004</b>
<b>Total consolidated net income</b>	<b>3 061</b>	<b>2 679</b>
Impairment and amortisation net of subsidies	275	410
Provision reversal	-299	-168
Variation of deferred taxes	-11	-166
Stock options	168	168
Income re-evaluations	-163	129
Net income from fixed asset transfers	0	11
Transfer capital gains and losses	0	11
Taxes on transfer capital gains and losses	0	0
Share in the income of companies consolidated by the equity method	0	0
Others	0	0
<b>Gross margin from self-financing</b>	<b>3 031</b>	<b>3 063</b>
Current assets linked to the activity	-682	-1 329
Inventory variations	0	2
Change in accounts receivable	742	1 492
Change in other receivables	-438	-102
Change in accounts payable	-2 827	-2 236
Change in other payables	1 841	-485
<b>Change in working capital requirement linked to the activity</b>	<b>-682</b>	<b>-1 329</b>
<b>NET OPERATING CASH FLOW</b>	<b>2 349</b>	<b>1 734</b>
Acquisitions of tangible and intangible fixed assets	-270	-496
Transfers of tangible and intangible fixed assets	0	0
Increase in permanent financial investments	8	-3
Reductions in permanent financial investments	53	1
Change in investments	0	0
Change in payables and receivables on fixed assets	0	0
Effect of changes in consolidation scope	0	0

	2005	2004
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-208</b>	<b>-498</b>
Dividends paid to parent company shareholders	0	0
Dividends paid to minorities of integrated companies	0	0
increase in capital or contributions	24	0
Increase in other equity	0	0
Decrease in other equity	0	0
Increase in financial liabilities	40	136
Decrease in financial liabilities	-134	-110
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-71</b>	<b>26</b>
<b>CHANGE IN NET CASH POSITION</b>	<b>2 070</b>	<b>1 262</b>
Opening cash position	7 995	7 189
<b>Closing cash position</b>	<b>10 909</b>	<b>7 995</b>
Effect of exchange rate changes	681	-327
Effect of cash re-evaluations	163	-129

## 3.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2005

### 1- General presentation

SYSTRAN was founded in 1968. It develops and markets machine translation products. It is the market leader and offers millions of users a wide range of software and services in this field.

On the strength of 30 years' experience in machine translation technologies developed for the US Ministry of Defense and the European Commission, SYSTRAN also counts some of the largest multinational corporations among its customers. SYSTRAN is also the leading translation provider on Internet.

The SYSTRAN group generates half its revenue outside Europe, in particular in North America.

The parent company, SYSTRAN SA, is a French corporation [*société anonyme*], whose registered office is located at Grande Arche – Paroi Nord, Paris La Défense (France). The company is listed on Eurolist Compartiment C of Euronext Paris (ISIN code: FR0004109197, Reuters: SYTN.LN; Bloomberg: SYST NM). SYSTRAN is a member of the NextEconomy segment of Euronext.

### 2- Transition to IFRS

In application of the European regulation 1606/2002 dated 19 July 2002, the financial statements of the SYSTRAN Group for the year ending 31 December 2005 have been drawn up in conformity with the IFRS applicable from 31 December 2005 as adopted in the European Union. The first financial statements published according to the IFRS norms are those for the fiscal year 2005 presented with a comparative fiscal year for 2004 drawn up using the same norms. In order to publish comparative information, the SYSTRAN Group has prepared an opening balance sheet on 1 January 2004, the date on which the impacts of the transition were recorded in stockholders' equity. The next step, described in the present appended note, consists in publishing tables of the changes in consolidated stockholders' equity between 1 January 2004 and 31 December 2004. These tables are accompanied by explanatory notes describing the impact of the IFRS transition.

## Conciliation for the year 2004

<i>(in thousands of euros)</i>	01/01/2004	Sh. equ. change	04 income	31/12/2004
<b>Stockholders equity under French standards</b>	<b>21,479</b>	<b>-216</b>	<b>2,682</b>	<b>23,945</b>
Deferred taxes on intangible assets	- 5,689		166	- 5,523
Stock options		168	-168	-
<b>Stockholders' Equity in IFRS</b>	<b>15,790</b>	<b>-48</b>	<b>2,680</b>	<b>18,422</b>

### 2.1- Comments on adjustments made in the context of the transition to IFRS

**Deferred taxes on intangible assets.** Unlike French norms (CRC 99-02), the IAS 12 norm requires a deferred tax to be posted on intangible assets, even if they cannot be transferred separately from the acquired company. Since the SYSTRAN Group has chosen not to restate the groupings of companies prior to 1 January 2004, the deferred tax was recorded as counterpart to the opening stockholders' equity in IFRS. The Finance Law for 2005 modified the corporate tax rate from 34.33% to 33.33% for fiscal years opened as from 1 January 2006. Since the due date of the deferred tax is probably greater than one year, the corresponding change in tax rate has been posted, in income for the fiscal year 2004.

**Stock options.** SYSTRAN applies IFRS 2 to the stock option allocation plans granted after 7 November 2002. The relevant stock options have been valued by means of the Black & Scholes model. The relevant allocations and corresponding valuations are as follows:

	No. of options	Exercise price	Unit value
- allocation on 13 March 2003	100.000	1.21 €	1.03 €
- allocation on 23 December 2003	110.000	4.61 €	3.65 €

The corresponding expense is amortised over the corresponding rights acquisition period, i.e. 3 years as from allocation. Detailed information about stock options is supplied in note 5.6.

### 2.2- Other comments about the transition to IFRS

**Goodwill.** The goodwill represents the language-pair dictionaries and utilities corresponding to the databases integrated into the marketed software, as well as the corresponding know-how, recorded in the balance sheet of 31 December 2003 according to French norms. This goodwill is legally protected by copyright and by confidentiality clauses in the employment contracts. It therefore corresponds to the definition of an intangible asset given by norm IAS 38. Its duration cannot be determined and so it is not amortised.

**Development expenses.** Self-funded development expenses are treated as fixed assets provided they fulfil all the criteria stated by the IAS 38 standard (technical feasibility, future economic benefits, sufficient technical and financial capacities and intention to complete the project, reliable cost evaluation). No development project fulfilled all the required criteria on the IFRS transition dates; 31 December 2004 and 31 December 2005.

**Financial instruments.** The SYSTRAN Group adopted the IAS 32 & IAS 39 norms concerning financial instruments as from 1 January 2004. In the absence of indebtedness and use of derivative financial instruments, these norms apply essentially to investment securities. These assets were already valued at the market value on 1 January 2004. Consequently the new financial instrument norms did not have a direct impact on stockholders' equity upon application of IFRS on 1 January 2004.

**Presentation of provisions on the balance sheet and income statement.** The provisions presented in the income statement and the provisions shown in the balance sheet liabilities represent provisions in the sense of the IAS 37 norm, i.e. the equivalent of provisions for contingencies and expenses in French norms.

The provisions for impairment of trade accounts receivable are reclassified as “other operating expenses and revenue” in the income statement and are maintained as a deduction from the corresponding assets in the balance sheet.

**Impairment test on fixed assets.** An impairment test was conducted on 1 January 2004 in conformity with the IAS 36 norm. The method employed for this test is very similar to the test the Group already performed according to French standards, and did not reveal any impairment to post or reverse.

### 3- Accounting policies

#### **3.1- Principles for establishing consolidated financial statements**

These financial statements are the first annual financial statements for the Group to be prepared and published according to the IFRS (International Financial Reporting Standards), as adopted in the European Union. The Group applied the IFRS 1 norm, “First time Adoption of International Financial Reporting Standards” to prepare these financial statements.

The financial statements were drawn up according to the principle of historic costs, with the exception of financial assets held for transactional purposes, which were evaluated at their fair market value at closing.

No event subsequent to closing made it necessary to adjust the fiscal year’s financial statements or to provide specific information in the notes.

#### **3.2- Consolidation scope**

Consolidated financial statements include the financial statements of SYSTRAN S.A. and of its subsidiary companies.

Name	Registered office	Cons. method	% of control	% of interest
SYSTRAN S.A. SIREN: 334 343 993	La Grande Arche, 1 parvis de La Défense 92 044 Paris- La Défense, France	OI	Parent company	Parent company
SYSTRAN USA(*)	9333 Genesee Avenue, San Diego CA 92121, USA	OI	100%	100%
Systran Software Inc (SSI)	9333 Genesee Avenue, San Diego CA 92121, USA	OI	100%	100%
SYSTRAN Luxembourg	7, rue Pierre d’Aspelt L-1142 Luxembourg	OI	100%	100%

(\*) Holding company controlling 100% of SSI

OI: Overall integration

No change in scope or in interest percentage occurred during the period.

#### **3.3 Exchange rates used**

The only currency used other than the Euro is the US Dollar.

USD rate expressed in EUR	31 December 2005	31 December 2004
Opening rate of the fiscal year	0.7342	0.7918
Average rate on income statement	0.8046	0.8041
Closing rate	0.8478	0.7342

### **3.4 – Consolidation methods**

All the companies are consolidated by the overall integration method based on the financial statements of 31 December 2005 and restated, if necessary, consistently with the Group's accounting policies.

#### **Translation of foreign subsidiaries accounts**

The balance-sheet items are converted to euros at the exchange rate in force at the close of the fiscal year. The income statement items are converted based on the average exchange rate for the fiscal year. The conversion adjustments resulting from fluctuations in the exchange rate on the balance sheet and income states are posted under "Conversion adjustments" in stockholders' equity.

Exchange rate variances corresponding to cash items that, in substance, form an integral part of SYSTRAN'S net investment in its foreign subsidiaries, are also posted under "Conversion adjustments".

#### **Goodwill**

Corporate groupings are posted using the acquisition method, in accordance with the principles stated by IFRS 3 – *Business combinations*. Any identifiable assets and liabilities pertaining to the acquired business are posted with their exact value.

The difference existing between the acquisition cost and the exact value of assets and liabilities on the acquisition date is posted in the consolidated balance sheet assets under the heading "Goodwill". This amount is not amortised but undergoes an annual impairment test.

### **3.5- Posting and presentation methods**

#### **Revenue**

Revenue is recognised as follows:

- licensing revenue is recognised after the physical or electronic delivery of the documents, or based on statements sent by the distributors. For temporary licences, revenue is posted *prorata temporis* over the licence period granted;
- linguistic services are posted according to the completion method;
- advertising revenue from the portals is posed on the basis of detailed reports sent by the latter;
- Development contracts are posted according to the completion of the expenditure incurred. If they are performed with partners, SYSTRAN, as project coordinator and carrier, posts the entire payment under "Revenue." The share corresponding to the partners is posted under "Purchases and other external expenses".

#### **Completion method income on service contracts**

Income from linguistic service contracts is calculated according to the completion method, in accordance with IAS 18 and IAS 11.

If the projection shows a loss, a provision for the loss upon completion is established on a reasonable basis, according to the most probable estimate of forecast results, including, if necessary, rights to complementary income or claims.

### Foreign currency transactions

Foreign currency transactions performed by the consolidated companies are converted into their functional currency using the exchange rates applying on the date of the transactions.

Receivables and payables expressed in foreign currencies are converted at the exchange rates applying for these currencies on the closing date. Latent exchange rate gains and losses resulting from this conversion are recorded as income, under the "other financial expenses and revenue" item.

### Operating income and current operating income

In IFRS the operating income and current operating income are defined in accordance with the Recommendation of the National Accountancy Council R.2004-02, published on 27 October 2004.

Other operating expenses and revenue presented in the current operating income represent the operating income and expense items considered as non recurrent in relation to routine management of the company.

### Earnings per share

The basic earning per share is calculated on the basis of the average weighted number of shares in circulation during the fiscal year, after deduction of SYSTRAN treasury shares registered as a reduction of stockholders' equity.

The net earning per share after dilution is calculated by adjusting the net income Group share and the number of shares in circulation by the dilutive effect of exercising option plans open on the closing date. The options-related dilution is determined using the share repurchase method, in this case the theoretical number of shares repurchased at market price (average price over the year) on the basis of the funds collected when exercising the dilutive options. For this purpose:

- the dilutive options must be "in the currency", with regard to the average stock exchange price of the SYSTRAN S.A share for the closed fiscal year;
- adjustment of the number of actions ("dilutive effect") is equal to the difference between the number of potential shares to subscribe for thanks to exercising the dilutive options, and the number of actions that can be acquired on the market using the income from this subscription, on the basis of the average stock exchange price for the fiscal year;
- for the above calculations, the paid in cash exercise price for the subscription options is incremented by the value per share of the services that remain to be rendered by the employee or manager beneficiaries.

### Research and development expenses

Co-funded research and development costs are posted under operating expenses according to work progress, and the financed portion is posted as revenue.

Self-financed research costs are posted as operating expenses when incurred. Self-funded development expenses are treated as fixed assets provided they fulfil all the criteria stated by the IAS 38 standard (technical feasibility, future economic benefits, sufficient technical and financial capacities and intention to complete the project, reliable cost evaluation).

### Concessions, patents and licences

Concessions, patents and licences mainly include software licences acquired by the Group. This software is amortised on a straight-line basis over appropriate periods of utility for each acquisition, not exceeding 5 years.



## Goodwill

Goodwill derives primarily from the partial contribution of assets in 1989 by Gachot S.A., SYSTRAN S.A.'s parent company at the time. It is posted to the balance-sheet at contribution value. Moreover, for the repurchase from minority shareholders of SYSTRAN Luxembourg in 2000, the Group posted as "goodwill" a portion of the paid price, i.e. 1.6 million Euros, allocated to the subsidiary's linguistic assets.

Constituent components include:

- customers, whose evaluation was based on the projected profitability of the contracts,
- linguistic assets i.e. the linguistic programs, language-pair dictionaries and utilities corresponding to the databases integrated into the marketed software, as well as the corresponding know-how.

The portion of the business relating to customers was amortised over 8 years (multiple of 8 of projected income applied at the time to evaluate customers' contribution).

The residual part of the goodwill (linguistic assets) is not amortised, but may be subject to impairment in the event of a permanent decline in its going concern value.

## Tangible fixed assets

Principal impairment periods:

Computer equipment	3 years
Other equipment and furniture	5 to 10 years
Fixtures and fittings	5 to 10 years

## Leasing contracts

Direct financing leases are subject to a restatement in the consolidated financial statements to place them in a situation where the company would have acquired the assets concerned directly and financed them by loan. Impairment is calculated using the straight-line method, according to the expected lifespan provided for in the initial leasing contract.

Payments for simple rentals are posted as expenses on a straight-line basis for the duration of the contract.

## Impairment of "Group" long-term assets

In conformity with IAS 36 – *Impairment of assets*, the Group evaluates the recoverability of its long-term assets using the following process:

- amortisable tangible and intangible assets undergo an impairment test if an impairment index exists for these fixed assets;
- non amortisable intangible assets and goodwill undergo an impairment test whenever an impairment text is identified, at least once a year.

The impairment test consists in comparing the net book value to the highest of the following two values: selling price net of ex-plant costs or going concern value. The going concern value is determined by discounting the future cash flows that will be generated by continuous use of the assets tested during the period of usefulness, and their possible transfer upon termination of this period. Discounting is performed at a rate corresponding to the average weighted cost of the Group's capital.

Depending on the circumstances, the tests are performed either individually on the assets, or at the level of cash flow generating units to which these assets are attached. The goodwill is attached to the cash flow generating units depending on how the Group Management monitors performance of activities and assesses acquisition synergies.

Any impairment of a cash flow generating unit's assets is assigned as a priority to the relevant goodwill.

## Inventory

Inventory primarily consists of packaging and user manuals for the marketed software.

The gross value includes the purchase price and related accessory costs (freight and various direct costs). It is calculated using the First In First Out (FIFO) method.

Impairment is established when their net realisable value is lower than their book value .

## Deferred taxes

The Group defers taxes for all temporary differences between the tax and book values of the assets and liabilities in the consolidated balance sheet. Deferred tax debits on the temporal differences or on the tax losses carried forward and available tax credits are only posted when they are certain to be used.

## Financial assets for transactional purposes

Financial assets held by the Group for transactional purposes are securities acquired as part of short-term cash flow management. They are valued at their market value at each closure. The corresponding latent or realised gains and losses are posted in the income statement for the current period, in the "cash revenue" item.

## Cash

Cash is presented in the cash flow table. It consists of the bank account balances, the actual cash amounts, fixed term deposits for less than three months and financial assets held for transaction purposes where the risk of change in value is negligible apart from a possible exchange rate impact.

## Stock options

The Group posts the benefit granted to beneficiaries of stock options in the framework of plans issued after 7 November 2002, in conformity with IFRS2.

The fair value of the services rendered by employees in exchange for stock options constitutes an expense which is recorded according to the services rendered and at the time they are rendered, and in compensation the shareholders' equity is increased. The cost is distributed over the period of rights acquisition, i.e. in general a period of three years. The total amount of the expense to be recorded is evaluated by reference to the fair value of the options granted. This value is determined on the grant date using the Black & Scholes model, adjusted in accordance with the restrictions applied to transferability of the options.

## Retirement obligations

The amounts of the Group's obligations concerning pensions, supplementary retirement payments and retirement allowances are covered by provisions estimated on the basis of actuarial evaluations. These obligations are calculated using the projected credit unit method, as defined in standard IAS 19.

## Provisions (excluding pensions)

These are intended to cover obligations to third parties likely to result from events that have occurred or that are pending, which are clearly specified as to their object, but for which the occurrence, deadline or amount are uncertain.

The provisions are accounted for insofar as it is possible to reasonably draw up a reliable evaluation of their amount. In the event this loss or liability is not probable and cannot be evaluated reasonably but remains possible, the Group records a possible liability in the notes.

## Noncurrent liabilities

Conditional advances are advances granted by the Government to facilitate development of a project. Their repayment is subject to a number of elements defined by contract (success, break-even point, etc.). The result of such an advance, depending on what was defined by contract, can be:

- repayment of the advances granted, if the project is successful;
- abandoning of the advances, if the project fails.

## Sector information

Sector information is organised on the basis of the geographical sectors monitored by the Group's management to analyse and monitor operational performance. These geographical zones are Europe, North America and the rest of the World. On this basis the notes give the figures for revenue, current operating income, assets, liabilities, investments, amortisations and any long-term asset impairment as well as the main items of expenditure without cash compensation, for each geographical sector.

"Secondary" sector information is also presented in the notes for each business sector. These business sectors are licences (software) and professional services (maintenance and support, linguistic services). On this basis the notes give the figures for revenue, assets and investments during the period for each business sector.

Sector information concerning revenue is presented in note 4.1. Other sector information is presented in note 6.3.

#### 4- Notes to the consolidated income statement

##### 4.1- Breakdown of revenue

By geographical asset installation zone (in thousands of euros)	2005	2004
Europe	4,635	4 224
North America	5,478	5 965
Other geographical areas	-	-
<b>Revenue</b>	<b>10,113</b>	<b>10 189</b>

Geographical customer location zone (in thousands of euros)	2005	2004
Europe	4,354	4,034
North America	5,427	6,103
Other geographical areas	333	53
<b>Revenue</b>	<b>10,113</b>	<b>10,189</b>

By revenue type (in thousands of euros)	2005	2004
Licences	7,785	5 520
Services	2,328	4 669
<b>Revenue</b>	<b>10,113</b>	<b>10 189</b>

Revenue from ordinary business (in thousands of euros)	2005	2004
Sale of property		
Leases (Licences)	7 785	5 520
Professional Services	2 328	4 669
<b>Revenue sub-total</b>	<b>10,113</b>	<b>10 189</b>
Interest revenue	0	0
Dividends received	0	0
<b>Revenue from ordinary business</b>	<b>10,113</b>	<b>10 189</b>

##### 4.2- Consumed purchases and external expenses

(in thousands of euros)	2005	2004
Co-contracting	0	885
Leases of land & buildings	588	573
Fees	1,258	935
Marketing, advertising	142	298
Other purchases	697	816
<b>Purchases and other external expenses</b>	<b>2,685</b>	<b>3 507</b>

##### Expenses concerning direct rental contracts recorded in the fiscal year

(in thousands of euros)	2005	2004
Minimum payments recorded	588	573
Conditional rentals recorded	-	-
Sub-rental income recorded	-	-

There is no contract providing for conditional rentals.

### Obligations concerning non-cancellable direct rental contracts

(in thousands of euros)	2005	2004
- Less than 1 year	455	447
- From 1 to 5 years	895	409
- More than 5 years	205	
<b>Minimum payments</b>	<b>1,555</b>	<b>856</b>
Total future minimum sub-rentals income receivable upon closure (non-cancellable contracts)	-	-

The lease entered into by SYSTRAN S.A. at La Défense is a 3-6-9 lease contract. The rentals are linked to the building cost index.

The lease entered into by SYSTRAN Software Inc. for its premises in San Diego has been renewed in advance. It now expires in October 2011. The rentals increase contractually by 3.61 % per annum until 31/10/06, and then by 3% per annum from 01/11/06.

These leases do not impose any particular restriction on SYSTRAN concerning payment of dividends, indebtedness or execution of new leases.

### 4.3- Personnel expenses

(in thousands of euros)	2005	2004
Wages and benefits	3,067	2,654
Stock options expenses (see 5.6)	168	168
Social contributions	865	544
<b>Personnel expenses</b>	<b>4,100</b>	<b>3,366</b>

The group's average headcount dropped from 62 to 57 people between 2004 and 2005, as shown in the following table:

Profile	2005	2004
Board of Directors	3	3
Computer engineers	19	15
Computational linguists	21	32
Sales and marketing	9	7
Administrative	5	5
<b>Total headcount</b>	<b>57</b>	<b>62</b>

The remuneration paid to the Group's Executive Committee are collectively as follows:

(in thousands of euros)	2005	2004
Short-term benefits	518	372
Post-employment benefits	0	0
Other long-term benefits	0	0
Stock options expenses (see 5.6)	168	168
Employment contract termination allowance	0	
<b>Management personnel expenses</b>	<b>686</b>	<b>540</b>

#### **4.4- Other operating expenses and revenue**

<b>(in thousands of euros)</b>	<b>2005</b>	<b>2004</b>
Income from fixed asset transfers		-11
Non-recurring provision movements	116	-39
Other non-recurring expenses and revenue	-2	-134
<b>Other operating expenses and revenue</b>	<b>114</b>	<b>-184</b>

#### **4.5- Other financial expenses and revenue**

<b>(in thousands of euros)</b>	<b>2005</b>	<b>2004</b>
Exchange difference on financial items	519	26
Other	41	0
<b>Other financial expenses and revenue</b>	<b>560</b>	<b>26</b>

#### **4.6- Income taxes**

The income tax burden breaks down as follows:

<b>(in thousands of euros)</b>	<b>2005</b>	<b>2004</b>
Current tax expense (income)	(1,246)	(199)
Adjustment of current taxes from previous fiscal years	101	
Deferred tax expense (income)	11	166
<b>Group tax income (expense) (*)</b>	<b>(1,134)</b>	<b>(33)</b>

(\*) total current and deferred tax on shareholders' equity items, recorded on 31 December 2004 and 31 December 2005: none

At closure of the 2005 fiscal year, there is no longer an used tax loss carry-forward.

The differences between the actual corporate income tax posted and the theoretical tax obtained by applying the French tax rate are as follows:

<b>(in thousands of euros)</b>	<b>2005</b>	<b>2004</b>
Pre-tax income	4,195	2 713
Theoretical tax expense at the parent company's rate	(1,419)	(931)
<i>Tax rate</i>	<i>33.83%</i>	<i>34.33%</i>
Effect on the theoretical tax:		
- of using tax losses from previous fiscal years	116	891
- of adjusting tax from previous fiscal years	101	
- of the research tax credit for the fiscal year	235	
- other (including variance in the tax rates and changes in tax rates)	(167)	7
<b>Total</b>	<b>(1,134)</b>	<b>-33</b>
Tax at the normal rate	(1,134)	(33)
Tax at the reduced rate	0	0
<b>Tax revenue (expense) in the income statement</b>	<b>(1,134)</b>	<b>(33)</b>

#### **4.7- Research & development expenditure**

Self-financed research expenses totalled MEUR 1.4 in 2005, compared to MEUR 1.5 in 2004. They consist essentially of personnel expenses and external charges resulting from occasional recourse to external sub-contractors.

No development project fulfilled all the criteria required by the IAS 38 standard on opening and closing dates of the fiscal year 2004 and 2005 to be capitalised in the balance sheet.

## 5- Notes to the consolidated balance sheet

### 5.1- Intangible fixed assets

2005 (in thousands of euros)	01/01/2005	Increase	Reduction	Conversion adjustments	31/12/2005
<b>Research &amp; development expenses</b>					
<b>Concessions, patents and licences</b>					
- Gross value	10,366	67		409	10 842
- Amortisations	-10,319	-44		-402	-10 765
<b>- Net value</b>	<b>47</b>	<b>23</b>	<b>0</b>	<b>7</b>	<b>77</b>
<b>Goodwill</b>					
- Customers	45,994				45 994
- Amortisations	-45,994				-45 994
- Dictionaries and know-how	16,569				16 569
- Provisions for impairment					
<b>- Net value</b>	<b>16,569</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16 569</b>
<b>Intangible fixed assets</b>	<b>16,616</b>	<b>23</b>	<b>0</b>	<b>7</b>	<b>16 646</b>

2004 (in thousands of euros)	01/01/2004	Increase	Reduction	Conversion adjustments	31/12/2004
<b>Research &amp; development expenses</b>					
<b>Concessions, patents and licences</b>					
- Gross value	10,494	80		-208	10 366
- Amortisations	-10,454	-68		203	-10 319
<b>- Net value</b>	<b>40</b>	<b>12</b>	<b>0</b>	<b>-5</b>	<b>47</b>
<b>Goodwill</b>					
- Customers	45,994				45 994
- Amortisations	-45,994				-45 994
- Dictionaries and know-how	16,569				16 569
- Provisions for impairment					
<b>- Net value</b>	<b>16,569</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>16 569</b>
<b>Intangible fixed assets</b>	<b>16,609</b>	<b>12</b>	<b>0</b>	<b>-5</b>	<b>16 616</b>

- (1) The concessions, patents and licences values primarily consist of software licenses of language pairs acquired by the group. Their gross value as of 31 December 2004 and 31 December 2005 consisted of the following items:
- 7.6 million euros of software acquired by Gachot S.A. and contributed to SYSTRAN S.A. in July 1989, fully amortised today.
  - 2.8 million euros in software capitalised by SYSTRAN Software Inc., revalued during the repurchase of the company by Gachot S.A. in 1985 and completely amortised;
  - 0.1 million euros in software acquired and not yet completely amortised.
- (2) The net value of the goodwill on 31 December 2004 and 31 December 2005 totalled 16.6 million euros, corresponding to:
- the valuation of the language-pair dictionaries, related utilities and know-how contributed in 1989 to SYSTRAN S.A. by Gachot S.A., its parent company at the time, for 15 million euros;
  - the purchase in 2000 of the SYSTRAN Luxembourg shares held by minority shareholders, for 1.6 million euros.

The methodology adopted to assess the useful value of these linguistic assets consists in preparing restated net cash flow projections based on the following principal assumptions:

- Medium-term plans devised by Management over a 5-year horizon (2006-2010).
- Restating of the projected flows resulting from these plans at a rate representative of the Group's weighted average cost of capital ("WACC").

- Calculation of terminal value by infinite capitalisation of the last flow on the explicit forecast horizon at the rate representing the difference between the WACC and the long-term growth rate deemed appropriate for the business. This value is then restated using the Group's WACC.

The company value thus obtained on 31 December 2004 and 31 December 2005 is higher than the shareholders' equity on the same date. However, the Group is still in the development phase and projections are therefore characterised by a level of uncertainty which will require regular review to ensure that the assumptions adopted in the last quarter of 2005 are still valid in light of the real situation. The most important assumptions are stated below.

- Growth in EBITDA on the adopted forecast horizon is tending towards a normative rate of between 18 and 35% of revenue.
- The adopted discount rate is set at 13% to account for the Group's intrinsic risk premium.
- The long-term forecast growth rate is 1.5% based on a conservative estimate of growth expected in the relevant geographical areas (Europe and USA).

### **5.2- Tangible fixed assets**

<b>2005 (in thousands of euros)</b>	<b>01/01/2005</b>	<b>Increase</b>	<b>Reduction</b>	<b>Conversion adjustments</b>	<b>31/12/2005</b>
<b>Fixtures and fittings</b>					
- Gross value	228				228
- Amortisation	-15	-23			-38
<b>- Net value</b>	<b>213</b>	<b>-23</b>	<b>0</b>	<b>0</b>	<b>190</b>
<b>Facilities, hardware and tools (*)</b>					
- Gross value	411	95		69	575
- Amortisation	-335	-70		-54	-459
<b>- Net value</b>	<b>76</b>	<b>25</b>	<b>0</b>	<b>15</b>	<b>116</b>
<b>Other fixed assets</b>					
- Gross value	373	108		3	484
- Amortisation	-223	-27		-2	-252
<b>- Net value</b>	<b>150</b>	<b>81</b>	<b>0</b>	<b>1</b>	<b>232</b>
<b>Tangible fixed assets</b>	<b>439</b>	<b>83</b>	<b>0</b>	<b>16</b>	<b>538</b>

*(\*) including fixed assets acquired via financing leases*

<b>2004 (in thousands of euros)</b>	<b>01/01/2004</b>	<b>Increase</b>	<b>Reduction</b>	<b>Conversion adjustments</b>	<b>31/12/2004</b>
<b>Fixtures and fittings</b>					
- Gross value	142	227	-142		227
- Amortisation	-96	-60	142		-14
<b>- Net value</b>	<b>46</b>	<b>167</b>	<b>0</b>	<b>0</b>	<b>213</b>
<b>Facilities, hardware and tools</b>					
- Gross value	393	53	-2	-33	411
- Amortisation	-340	-25	2	27	-336
<b>- Net value</b>	<b>53</b>	<b>28</b>	<b>0</b>	<b>-6</b>	<b>75</b>
<b>Other fixed assets</b>					
- Gross value	365	135	-126	-1	373
- Amortisation	-309	-29	116		-222
<b>- Net value</b>	<b>56</b>	<b>106</b>	<b>-10</b>	<b>-1</b>	<b>151</b>
<b>Tangible fixed assets</b>	<b>155</b>	<b>301</b>	<b>-10</b>	<b>-7</b>	<b>439</b>



### **5.3- Financial investments**

<i>(in thousands of euros)</i>	01/01/2005	Increase	Reduction	Conversion adjustments	31/12/2005
<b>Deposits and guarantees</b>					
- Gross value	100	2	0	4	106
- Amortisation	-4			-1	-5
<b>- Net value</b>	<b>96</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>101</b>
<b>Financial investments</b>	<b>96</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>101</b>

The deposits and guarantees are payments made to the landlords of premises occupied by the Group. They are not restated in view of the possible termination dates.

### **5.4- Trade and other accounts receivable**

<b>Trade and other accounts receivable (in thousands of euros)</b>	<b>Year 2005</b>	<b>Of which less than one year</b>	<b>Year 2004</b>
Trade accounts receivable	3,842	3,842	2 553
Provisions for impairment of trade accounts receivable	-172	-172	-275
Tax receivables	759	759	316
Other receivables from the government	244	244	192
Sundry debtors	90	90	110
Provisions for impairment of sundry debtors		0	
Prepaid expenses	212	212	145
<b>Trade and other account receivables</b>	<b>4,975</b>	<b>4,975</b>	<b>3 041</b>

### **5.5- Cash flow and cash flow equivalents**

<b>Cash flow and cash flow equivalents (in thousands of euros)</b>	<b>2005</b>	<b>2004</b>
Financial assets for transactions	3,095	3 272
Cash	7,814	4 723
<b>Cash flow and cash flow equivalents</b>	<b>10,909</b>	<b>7 995</b>

Transaction assets consist of monetary or account UCITS blocked for at least 3 months and are evaluated at their market value on 31 December 2005. These instruments are perfectly liquid and do not represent any particular risk for the capital apart from a possible variation in the investment's foreign currency exchange rate. The variations in fair market value during the period are posted as a compensation of the period's income under the "cash revenue" item.

### **5.6- Capital and reserves**

The capital of the SYSTRAN S.A. company is 15,108.623 euros. The number of ordinary shares issued is 9,910,650. The capital is fully paid in. There is only one category of shares. Fully paid in and duly registered shares that have been held by the same shareholder for at least four years benefit from double voting rights.

Number of shares in circulation (i.e. excluding treasury shares):

<i>(in thousands of euros)</i>	<b>2005</b>	<b>2004</b>
Opening number of shares for the fiscal year	9,833,695	9,833,695
Treasury shares	-	-
increases in capital	-	-
Free shares allocated	-	-
Stock options exercised	14,400	-
Closing number of shares for the fiscal year	9,848,095	9,833,695

The Group held 62,555 treasury shares on 31 December 2004 and 31 December 2005.

### Number of shares authorised:

The authorisations given by the Shareholders' Extraordinary General Meeting on 25 June 2004, not used at closure of the fiscal year were as follows:

- option to increase the capital to a maximum amount of 15 million euros delegated to the Board of Directors and;
- option to allocate a maximum number of stock options to personnel representing 20 % of shares issued, delegated to the Board of Directors.

The corresponding number of authorised and non issued shares is 11,818,605.

### Stock options

Status of the stock options awarded to the Group's employees							Total
Date of the General Shareholders Meeting	06.03.2000		09.11.2001				
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03	
Total number of shares that can be subscribed or bought	970,000	101,000	85,600	80,000	100,000	100,000	1,436,600
Of which, shares that can be subscribed or bought by members of the Executive Committee	500,000	-	28,000	-	100,000	100,000	728,000
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07	
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11	
Strike price (in Euros)	7.6	4.6	1.64	1.94	1.21	4.61	
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1st, 2nd and 3rd anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfilment of certain performance targets.						
Number of shares subscribed as of 31/12/2005	-	-	14,400	-	-	-	
Closing number of exercisable options for the fiscal year	970,000	-	85,600	-	-	-	1,055,600
<i>of which, options in the money</i>	-	-	85,600	-	-	-	85,600
<b>Movements during the period</b>							
expired options	-	-	-	-	-	-	-
cancelled options	-	-	-	-	-	-	-
exercised options	-	-	14,400	-	-	-	14,400

## **5.7- Provisions**

<i>(in thousands of euros)</i>	2005	2004
Noncurrent provisions	6	4
Current provisions	273	454
<b>Provisions</b>	<b>279</b>	<b>458</b>

Noncurrent provisions consist of the provision for retirement obligations. The Group's retirement obligations were entirely provisioned at closure of the fiscal year, in conformity with IAS 19. Given the average age and seniority of the workforce, the obligations amount as of 31 December 2005 is insignificant. The provision amounts to 5,900euros.

The pensions obligations concern only the retirement allowance that will be payable to the Group's French employees when they retire, in application of the Syntec collective agreement. The principal assumptions adopted on 31 December 2004 and 31 December 2005 are as follows:

- capitalisation rate: 6%
- annual wage increase rate: 3.5%
- annual attendance rate: 96%
- mortality table: TV 88-90

The details of the current provisions are as follows:

<i>(in thousands of euros)</i>	31/12/2004	Allocations	Use	Reversals (*)	Conversion adjustments	31/12/2005
Provisions for litigation	353	110	0	-218		245
Provisions for obligations in relation to customers	101		-80		7	28
Others	0		0		0	0
<b>Current provisions</b>	<b>454</b>	<b>110</b>	<b>-80</b>	<b>-218</b>	<b>7</b>	<b>273</b>

(\*) reversals of unused provisions

Provisions established for obligations with respect to customers cover costs of warranties, product returns, penalties, and losses on current contracts.

## **5.8- Financial liabilities**

<i>(in thousands of euros)</i>	Gross amount 31/12/2004	Gross amount 31/12/2005	At less than one year	1 to 5 years
Repayable COFACE advances	167	140	62	78
Loans and financial liabilities	21	21	21	
Financing leases	75	75	37	38
<b>Financial liabilities</b>	<b>263</b>	<b>236</b>	<b>120</b>	<b>116</b>

The financing lease liabilities correspond mainly to leased computer equipment. Since the relevant amounts are not significant, the reconciliation of the total minimum amount of future rentals and their restated value as posted in the balance sheets is not provided.

The borrowing contracts do not contain any particular payment default clause.

None of the liabilities has a due date greater than 5 years.

### **5.9- Deferred tax credit**

<b>(in thousands of euros)</b>	<b>Intangible</b>	<b>Revaluation Fin. Instr.</b>	<b>Other</b>	<b>Total</b>
<b>2004 opening</b>	<b>5,688</b>			<b>5,688</b>
Posted in income statement	-166			-166
Posted in shareholders' equity				
Exchange rate fluctuations				
<b>On 31/12/2004</b>	<b>5,522</b>			<b>5,522</b>
Posted in income statement			-11	-11
Posted in shareholders' equity				
Exchange rate fluctuations				
<b>On 31/12/2005</b>	<b>5,522</b>	<b>0</b>	<b>-11</b>	<b>5,511</b>

### **Other regularisation payables and accruals**

<b>Other payables and accruals (in thousands of euros)</b>	<b>Gross amount 31/12/2004</b>	<b>Gross amount 31/12/2005</b>	<b>At less than one year</b>
Other tax and welfare debts	381	1,064	1,064
Other liabilities			
Deferred revenue	1 318	1 920	1 920
<b>Current liabilities (excluding provisions)</b>	<b>1,699</b>	<b>2,984</b>	<b>2,984</b>

## 6- Miscellaneous

### 6.1- Off-balance sheet obligations

On 31 December 2005, the SYSTRAN Group's obligations were as follows:

Date	Expiry	Creditor	Subject	Amounts in thousands of euros
24.10.02	Jul-05	The European Commission	MUSA contract	69
20.01.98		Banque Générale du Luxembourg	Overdraft facility	248
12.02.04	Jun-05	Spanish Patent and Trademark Office	Spanish Patent and Trademark Office contract	1

### 6.2- Financial instruments

The group does not use financial instruments to reduce its exposure to the fluctuation of rates including exchange rates.

### 6.3- Sector information

Current operating income (in thousands of euros)		Europe	North America	Unallocated / eliminated	Consolidated
31/12/2005 (12 months)		1,969	1,340	-71	3,238
31/12/2004 (12 months)		1,625	1,316		2,942

Sector investments (in thousands of euros)		Europe	North America	Unallocated / eliminated	Consolidated
31/12/2005 (12 months)		162	108		270
31/12/2004 (12 months)		402	94		496

Sector assets (in thousands of euros)		Europe	North America	Unallocated / eliminated	Consolidated
31/12/2005 (12 months)		12,359	6,708	14,101	33,168
31/12/2004 (12 months)		8,566	5,127	14,494	28 187

Sector liabilities (in thousands of euros)		Europe	North America	Unallocated / eliminated	Consolidated
31/12/2005 (12 months)		4,511	3,327	3,209	11,047
31/12/2004 (12 months)		3,562	2,590	3,613	9,764

Unallocated / eliminated items correspond to the Group's intangible assets (sector assets), associated deferred taxes (sector liabilities) and inter-sector eliminated items.

#### **6.4- Net earnings per share**

The net earnings per share are calculated on the basis of the weighted average number of shares outstanding during the fiscal year, as determined in note 5.6. This figure is given taking into account the effect of the complete exercising of stock options defined in note 5.6.

<b>Earnings per share</b>	<b>2005</b>	<b>2004</b>
<b>Basic earnings per share:</b>		
Number of shares used for calculation	9,848,095	9,833,695
Net profit per share (in €)	0.31	0.27
<b>Fully diluted earnings per share:</b>		
Number of shares used for calculation	9,973,321	9,975,417
Net profit per share (in €)	0.31	0.27

The fully diluted earnings per share are determined as follows:

<b>Calculation of the fully diluted earnings per share</b>	<b>2005</b>	<b>2004</b>
<b>Average number of shares outstanding</b>	<b>9,848,095</b>	<b>9,833,695</b>
Number of options issued	1,451,000	1,451,000
Number of options not in the money	- 1,185,400	- 1,171,000
Number of options in the money	265,600	280,000
Number of shares to buy back with the income from dilutive options	- 140,374	- 138,278
<b>Number of diluted shares</b>	<b>9,973,321</b>	<b>9,975,417</b>
<i>average SYSTRAN share price</i>	3.70	3.93
Net consolidated earnings (in thousands of euros)	3,060	2,679
<b>Fully diluted earnings per share (in euros)</b>	<b>0.31</b>	<b>0.27</b>

The Company did not distribute dividends in the fiscal years 2004 and 2005.

### **3.3 REMINDER OF SYSTRAN FINANCIAL STATEMENTS DRAWN UP IN 2003 AND 2004 IN CONFORMITY WITH FRENCH ACCOUNTING PRACTICE**

The Group's consolidated financial statements published on 31 December 2004 were drawn up according to French accounting principles, i.e. since 1 January 1999 in conformity with the accounting rules and methods for consolidated accounts approved by the order of 22 June 1999, implementing homologation of regulation 99-02 of the French Accounting Regulation Committee.

The fiscal years 2004 and 2003 are presented respectively in the reference documents D. 05-689 and D.04-0670 submitted to the financial markets authorities on 12 May 2005 and 6 May 2004.

### **3.4 AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2005**

In accordance with the mission entrusted to us by your general shareholders meeting, we have undertaken an audit of the consolidated financial statements of SYSTRAN for the fiscal year ending 31 December 2005, as attached to this report.

The consolidated financial statements were prepared by the board of directors. Our role is to express an opinion on these financial statements, based on our audit. For the first time these financial statements were prepared in conformity with IFRS standards as adopted in the European Union. To allow comparison they comprise the data for the fiscal year 2004, processed according to the same rules.

#### **1. OPINION ON THE ANNUAL FINANCIAL STATEMENTS**

We have performed our audit in accordance with professional standards applicable in France. These standards require the taking of measures to allow us reasonable assurance that the financial statements contain no significant anomalies. An audit consists in examining, by sampling, evidence supporting the data contained in these financial statements. It also consists in assessing the accounting policies used and significant estimates made in preparing the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

We certify that the consolidated financial statements for the fiscal year give a true and fair view of the financial position, the assets and liabilities, and income of the persons and entities comprising the consolidated group in accordance with the IFRS standards as adopted in the European Union.

Without calling into question the opinion expressed above, we draw your attention to note 5.1 of the appendix relative to intangible fixed assets, which provides all useful details on the methodology and assumptions used in valuing the linguistic assets (dictionaries and know-how).

#### **2. JUSTIFICATION OF THE ASSESSMENT**

Pursuant to article L.823-9 of the Commercial Code relating to justification of our assessment, we bring the following points to your attention:

As mentioned in the first part of this report:

- The value of the linguistic assets (dictionaries and know-how) has been examined by the company as described in note 5.1. of the appendix.

We have assessed the validity of the methodology used, examined the documentation prepared within this framework as appropriate, and assessed the consistency of the data used, particularly by comparing the forecasts for fiscal year 2005 with actual results.

The assessment we give is in keeping with our approach used to audit the overall consolidated financial statements and therefore helped us to form our unqualified opinion, which is expressed in the first part of this report.

### **3. SPECIFIC VERIFICATIONS AND INFORMATION**

We have also carried out the procedures required by law on the information given in the report of the Board of Directors. We have no comment to make as to the fair presentation of this information nor its consistency with the consolidated financial statements.

Paris La Défense and Paris, 20 April 2006

The statutory auditors

Salustro Reydel  
*Member of the KPMG International*

Grant Thornton  
*French Member of Grant Thornton  
International*

Claire GRAVEREAU  
*Associate*

Victor AMSELEM  
*Associate*

### **3.5 THE AUDITORS/AUDITORS' REPORTS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDING 31 DECEMBER 2004 AND 31 DECEMBER 2003**

The auditors' report on the consolidated financial statements for the years ending 31 December 2004 and 31 December 2003, are presented respectively in the reference documents D. 05-06889 and D. 04-0670 submitted to the financial markets authorities on 12 May 2005.



### 3.6 CORPORATE FINANCIAL STATEMENTS

#### CORPORATE INCOME STATEMENT FOR FISCAL YEAR 2005

<i>(in thousands of euros)</i>	<i>Notes</i>	<b>2005</b> <b>(12 months)</b>	<b>2004</b> <b>(12 months)</b>	<b>2003</b> <b>(12 months)</b>
<b>Revenue</b>	3.1	6,549	5,774	6,188
Other income		10	10	10
<b>Operating revenue</b>		<b>6,559</b>	<b>5,784</b>	<b>6,198</b>
Purchases and other external expenses	3.2	- 1,840	- 2,205	-2,813
Taxes, duties and similar payments		- 103	- 79	-50
Personnel expenses	3.3	- 2,455	- 1,523	-1,868
<b>Gross operating income</b>		<b>2,161</b>	<b>1,977</b>	<b>1,467</b>
Net amortisation and operating provisions		- 17	- 194	43
<b>Operating income</b>		<b>2,144</b>	<b>1,783</b>	<b>1,510</b>
Net financial provisions		1,660	-113	123
Other financial expenses and revenue		1,057	57	-6
<b>Financial income</b>	3.4	<b>2,717</b>	<b>- 56</b>	<b>117</b>
<b>Current income</b>		<b>4,861</b>	<b>1,727</b>	<b>1,627</b>
Net extraordinary provisions		116	-38	936
Other extraordinary expenses and revenue		-2	- 139	-64
<b>Extraordinary income and expenditure</b>	3.5	<b>114</b>	<b>- 177</b>	<b>872</b>
Income taxes		- 762	- 86	-4
<b>Net income</b>		<b>4,213</b>	<b>1,464</b>	<b>2,495</b>

#### BALANCE SHEET AS OF 31 DECEMBER 2005

##### ASSETS

<i>(in thousands of euros)</i>	<i>Notes</i>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
Intangible fixed assets	4.1	15,033	14,988	14,998
Tangible fixed assets	4.2	306	284	73
Financial investments	4.3	3,528	2,047	2,319
<b>Total fixed assets</b>		<b>18,867</b>	<b>17,319</b>	<b>17,390</b>
Inventory			74	2
Trade and other accounts receivable	4.4	5,554	3,872	4,183
Cash and investment securities		5,904	3,878	2,902
Prepaid expenses		136	87	37
Conversion adjustment for assets		9	10	74
<b>Total current assets</b>		<b>11,603</b>	<b>7,921</b>	<b>7,198</b>
<b>Total assets</b>		<b>30,470</b>	<b>25,240</b>	<b>24,588</b>

## LIABILITIES

<i>(in thousands of euros)</i>	<i>Notes</i>	<b>31.12.2005</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
Capital		15,109	15,087	15,087
Premium accounts		5,382	5,380	5,380
Statutory reserve		185	122	122
Carried forward		1,210	- 191	-2,686
Income for the fiscal year		4,213	1,464	2,495
<b>Shareholders equity</b>	<b>4.5</b>	<b>26,099</b>	<b>21,862</b>	<b>20,398</b>
Provisions for contingencies and expenses	4.6	304	410	406
Financial liabilities (excluding bank overdrafts)	4.7	217	168	192
Suppliers and other operating debts	4.8	3,405	2,396	3,004
Deferred revenue		431	388	561
Conversion adjustment for liabilities		14	16	27
<b>Total external liabilities</b>		<b>4,371</b>	<b>3,378</b>	<b>4,190</b>
<b>Total liabilities</b>		<b>30,470</b>	<b>25,240</b>	<b>24,588</b>

### 3.7 NOTES ON THE CORPORATE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2005

#### 1- *Important events during the fiscal year*

The improvement in the financial situation of the American subsidiary, SYSTRAN USA, enabled this company to pay a dividend of 800,000 US dollars to SYSTRAN S.A. at the end of 2005. In parallel a reversal of the impairment recorded previously on the equity securities was reversed for an amount of 1.5 million euros, at closing of the year.

#### 2- *Accounting policies*

The corporate financial statements were prepared in accordance with the accounting principles of conservatism, historic costs, going-concern, independence of accounting periods, consistency of methods, according to the commercial law assessment methods.

#### Revenue

Revenue is recognised as follows:

- Licence revenue is posted upon the physical or electronic delivery of the documents or based on detailed reports sent by the distributors. For temporary licences, revenue is posted *pro rata temporis* over the licence period granted;
- Linguistic services are invoiced as expenses are incurred;
- advertising revenue from the portals is posted on the basis of detailed reports sent by the latter;
- development contracts are invoiced as expenses are incurred. If they are performed with partners, SYSTRAN, as project coordinator and carrier, posts the entire payment under "Revenue." The share corresponding to the partners is posted under "Purchases and other external expenses".

### **Income recognition**

Income from linguistic service contracts is calculated according to the completion method. If the projection shows a loss, a provision for the loss upon completion is established on a reasonable basis, according to the most probable estimate of forecast results, including, if necessary, rights to complementary income or claims.

### **Foreign currency transactions**

Foreign currency transactions performed by the consolidated companies are converted into their functional currency using the exchange rates applying on the date of the transactions.

### **Extraordinary income and expenditure**

The definition of extraordinary income and expenditure under the French General Accounting Chart of Accounts is applied. This includes items for which fulfilment is not related to the company's current operations.

### **Research and development expenses**

Co-funded research and development expenses are posted under operating expenses according to work progress, and the financed share is posted as revenue; Self-financed research and development costs are posted as operating expenses when incurred.

### **Concessions, patents and licences**

Concessions, patents and licences include primarily software licences acquired by the company. This software is amortised on a straight-line basis over periods appropriate to each acquisition, not exceeding 5 years.

Created software, intended for internal or commercial use, is posted under operating expenses.

### **Goodwill**

Goodwill comes primarily from the contribution in kind of assets carried out by Gachot in 1989, SYSTRAN's parent company at the time. It is posted to the balance sheet at contribution value.

Constituent components include:

- customers, whose evaluation was based on the projected profitability of the contracts,
- Language pair dictionaries and utilities corresponding to the databases integrated into the marketed software, as well as the corresponding know-how.

The portion of the business relating to customers was amortised over 8 years (multiple of 8 of projected income applied at the time to evaluate customers' contribution).

The balance of the business by nature cannot be amortised, but may be subject to impairment in case of a permanent decline in its use value.

### **Equity securities**

Equity securities are shown in the balance sheet at acquisition cost. In the event of a permanent decline in their useful value, provisions for impairment are applied.

Useful value is calculated according to the financial criteria most appropriate to each company's individual situation. The criteria generally selected are the proportion of restated shareholders' equity and prospects for profitability and development.

### **Trade accounts receivable**

Trade accounts receivable are shown in the balance sheet at historic cost. Provisions are constituted on the basis of an evaluation of the risk of not recovering the receivables. These provisions are based on an individual or statistics-based appreciation of this risk.

### **Investment securities**

The investment securities are posted at their acquisition cost. When necessary a provision is made, calculated for each line of securities of the same type, in order to align their value with the average market price over the last month, or with their probable negotiation value for unlisted securities.

### **Conditional advances**

Conditional advances are advances granted by the Government to facilitate development of a project. Their repayment is subject to a number of elements defined by contract (success, break-even point, etc.). The result of such an advance, depending on what was defined by contract, can be:

- repayment of the advances granted, if the project is successful;
- abandoning of the advances, if the project fails.

### **Provisions for contingencies and expenses**

These are intended to cover the risks and expenses likely to result from events that have occurred or that are pending, which are clearly specified as to their object, but for which the occurrence, deadline or amount are uncertain.

### **Retirement obligations**

At the time of their retirement, certain Company employees must receive a retirement allowance. The corresponding obligations are valued according to the projected credit unit method and are calculated based on the career-end salary. These obligations, subject to provisions under operating expenses, are posted under "Provisions for contingencies and expenses."

### 3- Notes to the income statement

#### 3.1– Breakdown of revenue

<i>(in thousands of euros)</i>	<b>2005</b>	<b>2004</b>
Licences	5,429	2,318
Professional Services	1,120	3,456
<b>Revenue</b>	<b>6,549</b>	<b>5,774</b>

#### 3.2 Purchases and other external expenses

<i>(in thousands of euros)</i>	<b>2005</b>	<b>2004</b>
Purchases & change in inventory	37	31
Co-contracting	-	885
Sub-contracting	-	32
Leases of land & buildings	296	293
Equipment leases – Leasing contracts	93	64
Fees	1,063	589
Copyrights	20	(4)
Advertising	83	106
Business travel	105	119
Telecommunications	47	54
Others	96	36
<b>Purchases and other external expenses</b>	<b>1,840</b>	<b>2,205</b>

#### 3.3- Personnel expenses

<i>(in thousands of euros)</i>	<b>2005</b>	<b>2004</b>
Wages and benefits	1,689	1,080
Social contributions	766	443
<b>Personnel expenses</b>	<b>2,455</b>	<b>1,523</b>

The company's average headcount changed from 24 to 29 people between 2004 and 2005. The remuneration the company allocated to its Directors totalled 418,000 euros.

#### 3.4– Financial income

<i>(in thousands of euros)</i>	<b>2005</b>	<b>2004</b>
Net provisions for exchange rate risks	-	47
Reversal of impairment of equity securities and investment securities	1,660	(160)
<b>Net financial provisions</b>	<b>1,660</b>	<b>(113)</b>
Dividend received from SYSTRAN USA	679	-
Income from sales of VMP and others	22	24
Remuneration of US dollar bank accounts	42	
Exchange rate fluctuations	314	33
<b>Other financial expenses and revenue</b>	<b>1,057</b>	<b>57</b>
<b>Financial income</b>	<b>2,717</b>	<b>(56)</b>

Reversals of financial impairments include:

- partial reversal of the impairment recorded on equity securities in the SYSTRAN USA subsidiary, in view of the improvement in the company's situation and recent prospects, for € 1.5 M;
- reversal of the impairment posted on the investment securities drafted in US dollars, totalling 129,000 euros, and on the Company's equity shares, totalling 31,000 euros in view of their favourable price trend.

### **3.5- Extraordinary income**

In 2005 the extraordinary income principally comprises net reversals of provisions for litigation for an amount of 116,000 euros.

The extraordinary income and expenditure for the fiscal year 2004 consisted mainly of provisions for litigation, amounting to 86,000 euros net, and costs relating to moving the SYSTRAN SA head office to La Défense, amounting to 97,000 euros.

### **3.6- Research and development expenses**

Research and development expenses amounted to 1,229,000 euros during the fiscal year 2005. They were entirely posted as expenses in that fiscal year.

#### 4.- Notes to the balance sheet

##### 4.1- Intangible fixed assets

<i>(in thousands of euros)</i>	01/01/2005	Incr.	Reduc.	31/12/2005
<b>Research &amp; development expenses (1)</b>				
<b>Concessions, patents and licences</b>				
- Gross value (2)	7,724	63		7,787
- Impairment	(7,722)	(18)		(7,740)
<b>- Net value</b>	<b>2</b>	<b>45</b>	<b>0</b>	<b>47</b>
<b>Goodwill</b>				
- Customers	45,994			45,994
- Impairment	(45,994)			(45,994)
- Dictionaries and know-how (3)	14,986			14,986
- Provisions for impairment				
<b>- Net value</b>	<b>14,986</b>	<b>0</b>	<b>0</b>	<b>14,986</b>
<b>Intangible fixed assets</b>	<b>14,988</b>	<b>45</b>	<b>0</b>	<b>15,033</b>

- (1) Until 31 December 1998, a portion of research and development expenses was posted to the balance sheet and amortised over three years. As of 1 January 1999, research and development expenses remain as expenses in the fiscal year they are incurred.
- (2) The "Concessions, patents and licences" item is essentially comprised of software licenses for language pairs acquired by Gachot S.A. and contributed to SYSTRAN in July 1989. This software is completely amortised.
- (3) The net value of the business as of 31 December 2004 totalled 15,000,000 Euros, corresponding to the assessment of the language pair dictionaries, related utilities and know-how contributed to SYSTRAN in 1989 by Gachot, its parent company at the time.

The methodology adopted to assess the useful value of these linguistic assets consists in preparing restated net cash flow projections based on the following principal assumptions:

- medium-term plans prepared by Management over a 5-year horizon (2006-2010);
- restatement of the forecast flows resulting from these plans at a rate representative of the company's weighted average cost of capital ("WACC");
- calculation of terminal value by infinite capitalisation of the last flow on the explicit forecast horizon at the rate representing the difference between the WACC and the long-term growth rate deemed appropriate for the business. This value is then restated using the company's WACC.

The company value thus obtained on 31 December 2005 is higher than the corporate shareholders' equity on the same date. However, the Group is still in the development phase and projections are therefore characterised by a level of uncertainty and so will require regular review to ensure that the assumptions adopted in 2003 are still valid in light of the real situation. The main assumptions are set out below:

- The cash flow forecasts used are based particularly on the company's current order book. The growth in EBITDA on the adopted forecast horizon is tending towards a normative rate of between 18 and 35% of revenue;
- The adopted discount rate is set at 13% to account for the company's intrinsic risk premium;

The long-term forecast growth rate is 1.5% based on a conservative estimate of expected growth.

#### **4.2- Tangible fixed assets**

<i>(in thousands of euros)</i>	01/01/2005	Incr.	Reduc.	31/12/2005
<b>Fixtures and fittings</b>				
- Gross value	228			228
- Impairment	(15)	(23)		(38)
<b>- Net value</b>	<b>213</b>	<b>(23)</b>	<b>0</b>	<b>190</b>
<b>Facilities, hardware and tools</b>				
- Gross value				
- Impairment				
<b>- Net value</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other fixed assets</b>				
- Gross value	166	66		232
- Impairment	(95)	(21)		(116)
<b>- Net value</b>	<b>71</b>	<b>45</b>	<b>0</b>	<b>116</b>
<b>Tangible fixed assets</b>	<b>284</b>	<b>22</b>	<b>0</b>	<b>306</b>

#### **4.3- Financial investments**

<i>(in thousands of euros)</i>	Gross 31/12/2005	Impairment provisions	Net 31/12/2005	Net 31/12/04
<b>Investments (shares)</b>				
SYSTRAN USA (100%)	5,153	(1,935)	3,218	1,718
SYSTRAN Lux (100%)	1,950	(1,950)	-	-
<b>SUBTOTAL</b>	<b>7,103</b>	<b>(3,885)</b>	<b>3,218</b>	<b>1,718</b>
<b>Related accounts receivable</b>				
SYSTRAN Software Inc.	6	-	6	59
<b>SUBTOTAL</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>59</b>
Treasury shares	228	-	228	197
Deposits and guarantees	76	-	76	73
<b>SUBTOTAL</b>	<b>304</b>	<b>-</b>	<b>304</b>	<b>270</b>
<b>Financial investments</b>	<b>7,413</b>	<b>(3,885)</b>	<b>3,528</b>	<b>2,047</b>

The gross values of the American companies' securities (the holding company SYSTRAN USA and its subsidiary SYSTRAN Software Inc) originate from Gachot's contribution to SYSTRAN in 1989. A reversal of the impairment of SYSTRAN USA's shares was posted in 2005 to take account of the improvement in this company's situation and prospects, which owns 100% of SYSTRAN Software Inc.'s shares.

SYSTRAN Luxembourg was "put to sleep" in 2003. Consequently, the shares are fully impaired on the basis of the subsidiary's net situation as of 31 December 2005. The provision balance to cover the subsidiary's negative net situation totalled 64,000 Euros.



Finally, the company holds 62,555 of its own shares totalling 228,000 Euros, acquired on the market as part of the share repurchase programme authorised by the Extraordinary General Shareholders Meeting of 3 May 2000. Given the share price trends at the close of the fiscal year (3.78 euros per share), the impairment of the shares previously posted at 31,000 euros was fully reversed at the end of 2005.

#### **4.4- Trade and other accounts receivable**

<i>(in thousands of euros)</i>	<b>31/12/2005</b>	<b>31/12/2004</b>
Trade accounts receivable	5,120	3,560
Provisions for impairment of trade accounts receivable	(163)	(218)
Other accounts receivable	597	530
<b>Trade and other accounts receivable</b>	<b>5,554</b>	<b>3,872</b>

All of these accounts receivable have a due dates of less than one year at the end of the fiscal year.

#### **4.5 Shareholders' equity**

The company's capital stock totalled 15,108,623 euros, consisting of 9,910,650 shares, after an increase in capital of 23,616 euros brought about by exercising 14,400 stock options in 2005. Shareholders' equity breaks down as indicated in the table below:

<i>(in thousands of euros)</i>	<b>Capital</b>	<b>Premiums and reserves</b>	<b>Carried forward</b>	<b>Income for the fiscal year</b>	<b>Total shareholders equity</b>
Situation as of 31 December 2004	15,087	5,502	(191)	1,464	21,862
Increase in capital	22	2			24
Allocation of income for 2004		63	1,401	(1,464)	0
2005 income		-		4,213	4,213
<b>SITUATION AS OF 31 DECEMBER 2005</b>	<b>15,109</b>	<b>5,567</b>	<b>1,210</b>	<b>4,213</b>	<b>26,099</b>

#### **4.6- Provisions for contingencies and expenses**

<i>(in thousands of euros)</i>	<b>31/12/2004</b>	<b>Incr.</b>	<b>Reduc. (*)</b>	<b>31/12/2005</b>
Provisions for litigation	314	110	(218)	206
Provision for product returns	28	-		28
SYSTRAN Luxembourg provision	64	-	-	64
Provision for foreign exchange loss	-	-	-	-
Provision for retirement obligations	4	2		6
<b>PROVISIONS FOR CONTINGENCIES AND EXPENSES</b>	<b>410</b>	<b>112</b>	<b>(218)</b>	<b>304</b>

(\*) including reversals of unused provisions: 218

#### **4.7- Financial liabilities (excluding bank overdrafts)**

<i>(in thousands of euros)</i>	<b>Gross amount as of 31/12/04</b>	<b>Gross amount as of 31/12/2005</b>	<b>At 1 year</b>	<b>1 to 5 years</b>
Repayable COFACE advances	167	140	62	78
Loans and financial liabilities	1	77	77	
<b>Financial liabilities (excluding bank overdrafts)</b>	<b>168</b>	<b>217</b>	<b>139</b>	<b>78</b>

#### **4.8 - Suppliers and other operating debts**

<i>(in thousands of euros)</i>	<b>Gross amount as of 31/12/04</b>	<b>Gross amount as of 31/12/2005</b>	<b>Under 1 year</b>
Supplier debts	1,582	1,161	1,161
Tax and welfare debts	401	1,772	1,772
Other liabilities	413	472	472
<b>Suppliers and other operating debts</b>	<b>2,396</b>	<b>3,405</b>	<b>3,405</b>

#### **4.9 – Deferred revenue**

Deferred revenue results from applying accounting rules on revenue as described in paragraph 2. On 31 December 2005, their breakdown was as follows (in thousands of Euros):

Licences:	309
Professional Services:	<u>122</u>
Total:	431

#### **5. Miscellaneous**

##### **5.1 Off balance sheet obligations**

###### Guarantees

As of 31 December 2005, guarantees given to third parties by SYSTRAN S.A. relating to its own business were as follows:

<b>Date</b>	<b>Expiry</b>	<b>Creditor</b>	<b>Subject</b>	<b>Amount in thousands of euros</b>
24.10.02	Jul-05	The European Commission	MUSA contract	69
11.02.04		Spanish Patent and Trademark Office	Licence	1

Lastly, the situation as of 31 December 2005 regarding SYSTRAN S.A.'s commitments to third parties on behalf of its Luxembourg subsidiary company was as follows:

<b>Date</b>	<b>Expiry</b>	<b>Creditor</b>	<b>Subject</b>	<b>Amount in thousands of euros</b>
20.01.98		Banque Générale du Luxembourg	Overdraft facility	248

###### Retirement obligations

Given the low average age of Company's personnel, retirement obligations total 5.9 Euros. They are fully provided for.

## Financial leasing commitments

(in thousands of euros)	2005
<b>Historical cost</b>	<b>162</b>
<b>Impairment</b>	
- Total for previous fiscal years	57
- Current fiscal year	35
Total	92
<b>Net value</b>	<b>70</b>
<b>Paid leases</b>	
- Total for previous fiscal years	63
- Current fiscal year	40
Total	<b>103</b>
<b>Leases to be paid</b>	
- Maximum of one year	36
- One year to five years	38
- Over five years	
Total	<b>74</b>

## 5.2- Financial instruments

The company does not use financial instruments to reduce its exposure to rate risks.

## 5.3- Stock option plan

Status of the stock options awarded to the Group's employees							Total
Date of the General Shareholders Meeting	<b>06.03.2000</b>		<b>09.11.2001</b>				
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03	
Total number of shares that can be subscribed or bought	970,000	101,000	85,600	80,000	100,000	100,000	1,436,600
Of which, shares that can be subscribed or bought by members of the Executive Committee	500,000	-	28,000	-	100,000	100,000	728,000
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07	
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11	
Strike price (in euros)	7.6	4.6	1.64	1.94	1.21	4.61	
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1st, 2nd and 3rd anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfilment of certain performance targets.						
Number of shares subscribed as of 31/12/ 2005	-	-	14,400	-	-	-	

If all options were exercised, the result would be maximum potential dilution of 14.7%.

#### **5.4- Items concerning related parties**

Related companies are those likely to be fully consolidated into the same scope of consolidation. Consequently, all SYSTRAN S.A. subsidiaries are related companies.

<b>(in thousands of euros)</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
Investments:		
- Gross value	7,103	7,103
- Provisions	(3,885)	(5,385)
- Net value	<b>3,218</b>	<b>1,718</b>
Related accounts receivable:		
- Gross value	6	59
- Provisions		
- Net value	<b>6</b>	<b>59</b>
Trade accounts receivable and related accounts	2,189	1,817
Trade accounts payable and related accounts	197	197
Borrowing	74	
Financial revenue	679	-
Revenue from related business	1,915	1,567
Services	-	-
Purchase of goods	-	-

#### **5.5 - Table of subsidiaries and interests**

<b>Detailed information on each subsidiary company and investment (in thousands of euros)</b>	<b>Capital</b>	<b>Other shareholders' equity</b>	<b>Share of capital held in %</b>	<b>Gross value of shares held</b>	<b>Net value of shares held</b>	<b>Loans and advances granted</b>	<b>Guarantees and backing given</b>	<b>Pre-tax rev. of fin. yr. ended 31/12/05</b>	<b>Income in the fiscal year ending 31.12.05</b>	<b>Dividends paid</b>	<b>Comments</b>
<b>1. Subsidiary companies (held share &gt; 50%)</b>											
SYSTRAN USA (*)	2,202	(103)	100%	5,153	3,218	-	-	-	673	-	Holding company controlling 100% of Systran Software Inc.
SYSTRAN Luxembourg S.A.	124	(201)	100%	1,950	-	-	248	-	(12)	-	
<b>2. Other investments (held share between 10% and 50%)</b>											
None	-	-	-	-	-	-	-	-	-	-	

(\*) Figures expressed in euros. 1USD= 0.8478 euro. Exchange rate as of 31 December 2005

### 3.8 COMPANY INCOME DURING THE LAST FIVE FINANCIAL YEARS (IN EUROS)

TYPE OF INCOME ITEM	2005	2004	2003	2002	2001
<b>Capital at year-end</b>					
a) Capital stock	15,108,623	15,086,735	15,086,735	15,086,735	15,086,735
b) Number of shares					
- ordinary	9,910,650	9,896,250	9,896,250	9,896,250	9,896,250
- preferred					
c) Maximum number of shares to be issued					
- by conversion of bonds					
-by subscription right					
<b>Transactions and Income</b>					
a) Revenue net of taxes	6,549,356	5,774,084	6,187,813	3,640,654	2,898,142
b) Income before taxes, profit-sharing, amortisation and provisions	3,215,679	1,894,898	1,397,900	(761,150)	(1,129,949)
c) Income taxes	(762,393)	(85,750)	3,811	(206,801)	(449,753)
d) Employee profit-sharing					
e) Amortisation and provisions	1,759,723	486,790	397,147	3,608,398	58,960
f) Net income	4,213,010	1,464,283	2,495,037	(4,162,747)	(739,156)
g) Earnings distributed					
<b>Earnings per share</b>					
a) Income after taxes and profit-sharing, and before amortisation and provisions	0.25	0.20	0.29	(0.06)	(0.07)
b) Income after taxes, profit-sharing, amortisation and provisions	0.43	0.15	0.25	(0.42)	(0.07)
c) Allotted dividend				-	-
<b>Personnel</b>					
a) Average number of employees	29	25	26	33	42
b) Total wages	1,689,000	1,079,927	1,316,608	1,273,899	1,511,455
c) Amounts paid as social benefits (Social Security, etc)	766,000	442,797	551,709	453,975	579,377

### **3.9 AUDITORS' GENERAL REPORT**

#### **FISCAL YEAR ENDING 31 DECEMBER 2005**

In accordance with our appointment as auditors by your shareholders' general meeting, we present our report concerning the financial year ended 31 December 2005 on:

- the audit of SYSTRAN's annual financial statements, as attached to this report;
- justification of our assessment;
- the specific verifications and information required by law.

The annual financial statements have been prepared by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

#### **1. OPINION ON THE ANNUAL FINANCIAL STATEMENTS**

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we take measures to obtain reasonable assurance that the annual financial statements are free of material misstatements. An audit consists in examining, by sampling, evidence supporting the data contained in these financial statements. It also consists in assessing the accounting policies used and significant estimates made in preparing the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

We certify that the annual financial statements give a true and fair view of the financial position and the assets and liabilities of the Company and the results of its operations for the year then ended, in accordance with French accounting rules and principles.

Without calling into question the opinion expressed above, we draw your attention to the following point presented in note 4.1 of the appendix relative to intangible fixed assets, which provides all useful details on the methodology and assumptions used in valuing the linguistic assets (dictionaries and know-how).

#### **2. JUSTIFICATION OF THE ASSESSMENT**

Pursuant to article L.823-9 of the Commercial Code relating to justification of our assessment, we bring the following points to your attention:

- As mentioned in the first part of this report, the company has assessed the value of the linguistic assets (dictionaries and know-how) as described in note 4.1 of the appendix. We have assessed the validity of the methodology used, examined the documentation prepared within this framework as appropriate, and assessed the consistency of the data used, particularly by comparing the forecasts for fiscal year 2005 with actual results.
- On the basis of the elements available to us, we ensured that the value selected for the equity securities was based on the restated net situation and the prospects for the relevant subsidiaries, as is pointed out in note 2 of the appendix "Accounting policies".

The assessments we give are in keeping with our approach used to audit the overall annual financial statements and therefore helped us to form our unqualified opinion, which is expressed in the first part of this report.

### 3. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the procedures required by law, in accordance with professional practices applicable in France.

We have no comment to make as to the fair presentation of the information given in the Board of Directors management report and in the documents sent to shareholders on the financial situation and annual financial statements, nor as to its consistency with the consolidated financial statements.

Pursuant to the law, we have checked that the various items of information relating to the identity of the holders of the capital (or voting rights) has been provided to you in the management report.

Paris La Défense and Paris, 20 April 2006

The statutory auditors

Salustro Reydel  
*Member of the KPMG International*

Grant Thornton  
*French Member of Grant Thornton  
International*

Claire GRAVEREAU  
*Associate*

Victor AMSELEM  
*Associate*

### **3.10 THE AUDITORS/AUDITORS' SPECIAL REPORT ON REGULATORY AGREEMENTS**

#### **FISCAL YEAR ENDING 31 DECEMBER 2005**

In our capacity as auditors of your company, we report to you on the regulatory agreements.

It is not our role to seek out such agreements, but to inform you, on the basis of the information we have received, of the main characteristics and terms of those notified to us, without us having to give our opinion as to their use or validity. According to the terms of article 92 of the decree of 23 March 1967, it is for you to judge the use related to the entering into of these transactions with a view to their approval.

We carried out our work according to the professional standards applicable in France. These standards require the taking of measures aimed at checking that the information provided to us is consistent with the basic documents from which it is derived.

#### **TRANSACTIONS AUTHORISED IN THE COURSE OF THE FISCAL YEAR**

We have not been informed of any agreement concluded during the fiscal year, coming into the scope of article 225-38 of the Commercial Code.

#### **AGREEMENTS APPROVED IN THE COURSE OF PREVIOUS FISCAL YEARS WHICH CONTINUED INTO THE PRESENT FISCAL YEAR**

In addition, pursuant to the decree of 23 March 1967, we were informed that the following agreement, approved in a previous fiscal year, continued into the last fiscal year.

- Personal guarantee given within the limit of euros 152.449.02 by the Mr Dimitris SABATAKAKIS in guarantee of the refunding of all the amounts due by SYSTRAN SA it to Natexis Banques Populaires.

•  
The relevant director is Mr. Dimitris SABATAKAKIS (Chairman of the Board of Directors of Systran SA).

Paris La Défense and Paris, 20 April 2006

The statutory auditors

Salustro Reydel  
*Member of the KPMG International*

Grant Thornton  
*French Member of Grant Thornton International*

Claire GRAVEREAU  
*Associate*

Victor AMSELEM  
*Associate*

### **3.11 SALUSTRO REYDELAUDITORS' REPORT ON THE CORPORATE FINANCIAL STATEMENTS FOR THE YEARS ENDING 31 DECEMBER 2004 AND 31 DECEMBER 2003**

The general auditors' reports on the corporate financial statements and the special auditors' reports on the regulatory agreements for the years ending 31 December 2004 and 31 December 2003, are presented respectively in the reference documents D. 05-689 and D. 04-0670 submitted to the financial markets authorities on 12 May 2005 and 6 May 2004.



## 4 CORPORATE GOVERNANCE

### 4.1 ADMINISTRATIVE AND MANAGEMENT BODIES

#### 4.1.1 Board of Directors

Mr Norbert Von Kunitzki passed away during the fiscal year.

The assignments of Messrs Jean Gachot and Jean Ginisty were renewed by the General Meeting of 24 June 2005.

Mr Guillaume Naigeon was appointed a director by the General Meeting of 24 June 2005.

#### a) Composition of the Board of Directors

Person	Assignment	Appointed	Duration
Dimitris SABATAKAKIS <b>SYSTRAN SA</b> La Grande Arche 1 Parvis de La Défense 92 044 Paris La Défense Cedex	Chairman & CEO (*)	MGM of 27/06/03	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2008
Jean GACHOT	Director	AGM of 24/06/05	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2010
Jean GINISTY	Director	AGM of 24/06/05	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2010
Denis GACHOT <b>SYSTRAN Software Inc.</b> 9333 Genesee Avenue Suite PL1 San Diego, CA 92121 USA	Director	AGM of 30/03/01	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/06
Norbert VON KUNITZKI Passed away on 25 November 2005	Director	AGM of 30/03/01	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/06
Guillaume Naigeon <b>SYSTRAN SA</b> La Grande Arche 1 Parvis de La Défense 92 044 Paris La Défense Cedex	Director	AGM of 24/06/05	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2010
Patrick SELLIER	Director	AGM of 27/06/03	6 fiscal years, until the AGM ruling on the fiscal year ending 31/12/2008

*(\*)Appointed by the Board of Directors on 28 July 2003*

Other positions of Mr. Dimitris SABATAKAKIS:

Chairman of the Board of Directors of VALFINANCE S.A.

Chairman of the Board of Directors of TECHNIQUES NUCLEAIRES S.A.

Director of SCHEFFER S.A.

Other positions of Mr. Jean GACHOT:

Director of VALFINANCE S.A.

Director of TECHNIQUES NUCLEAIRES S.A.

Other positions of Mr. Jean GINISTY: None

Other positions of Mr. Denis GACHOT:

Chief Executive Officer of INPROD Corp. (USA)

Other positions of Mr. Norbert von KUNITZKI:

Chairman of the Board of Directors of SYSTRAN Luxembourg S.A., ACCENTIS S.A. (Belgium), BLAGDEN S.A. (Belgium), LBF S.A. (Luxembourg ), ARCOLD S.A. (Luxembourg), GESTOM S.A. (Luxembourg), EUROSIGNCARD S.A. (Luxembourg).

Vice-Chairman of the Board of Directors of TELINFO NV (Belgium), TELINDUS S.A. (Luxembourg), EUTAG SA & Co (Luxembourg).

Director of SIDMAR NV (Belgium), MOBISTAR S.A. (Belgium), E & Y CONSULTING S.A. (Belgium), CPI S.A. (Luxembourg), TELINDUS S.A. (France), TELINDUS S.A. (Spain), TELINDUS S.A. (Switzerland), TELINDUS GmbH (Germany), TELINDUS BV (Netherlands), TELINDUS Ltd (United Kingdom).

Other positions of Mr. Patrick SELLIER: None

Other positions of Mr Guillaume NAIGEON: Director of COLBERT PARTICIPATIONS INDUSTRIELLES IMMOBILIERES ET FINANCIERES

Mr Dimitris Sabatakakis and Mr Denis Gachot are respectively the son-in-law and son of Mr Jean Gachot.

No loan or guarantee is granted or constituted in favour of the Directors by the Company or any company in its group.

There is no conflict of interest between the duties of the members of the Board of Directors with regard to SYSTRAN and their private interests.

As far as the Company is aware, over the last five years:

- no member of the Board of Directors has been convicted for fraud;
- no member of the Board of Directors has been associated with a bankruptcy, receivership or liquidation, apart from the liquidation of the Aurora company in 2002, which was a 100% subsidiary of SYSTRAN SA;
- no member of the Board of Directors has been incriminated or been the subject of disciplinary action by regulatory or statutory authorities;
- no member of the Board of Directors has ever been prevented by a court from taking up a position as member of a board of directors, management committee or supervisory board of an issuer, or from participating in the management or supervision of an issuer;
- no arrangement or agreement has been made with the main shareholders, customers, suppliers or others by virtue of which a member of the Board of Directors would have been selected as a member of a board of directors, management committee or supervisory board or as a member of the executive management.

Gross remuneration of the Board of Directors: attendance fees have been allocated to the Board of Directors for the fiscal year ended on 31 December 2005, totalling 21,000 euros. At the General Shareholders' Meeting of 23 June 2006 it shall be proposed to allocate attendance fees to the members of the Board of Directors, for the fiscal year ending 31 December 2006 totalling 21,000 euros.

In 2005 the Board of Directors had three independent directors: Mr von KUNITZKI (deceased during the fiscal year), Mr Jean GINISTY and Mr Patrick SELLIER. However, in view of the limited number of Directors, the Company has not yet set up specialised committees such as an audit committee or compensation committee.

Moreover, none of the directors are elected by the employees and no censor has been appointed.

The co-option of all Directors is subject to ratification by the General Shareholders Meeting.

#### **b) Operation of the Board of Directors**

The Board of Directors met twice during fiscal year 2005, on 11 February 2005 and 27 July 2005.

In view of the limited number of Directors, the company has not yet set up specialised committees such as an audit committee or salaries committee, or drawn up rules of procedure or a procedure for assessing the work of the Board of Directors.

#### *4.1.2 Executive Management*

The Group's Executive Management is composed of Mr. Dimitris SABATAKAKIS, Chairman and C.E.O. of SYSTRAN S.A. and the Group, Mr. Denis GACHOT, Chief Executive Officer of SYSTRAN Software Inc., and Mr. Guillaume NAIGEON, Deputy Chief Executive Officer.

Director	Remuneration and benefits in kind posted in 2005
Dimitris SABATAKAKIS	€ 154,964
Denis GACHOT (*)	€ 120,997
Guillaume NAIGEON	€ 132,544

(\*) *i.e. 150,009 USD*

The curriculum vitae of the members of Executive Management, as well as information concerning their management experience is supplied in section 1.5.1.

During the fiscal year, the directors did not benefit from:

- any specific post-employment benefits,
- any allowance relating to termination of their employment contract.

No new stock options were granted to Executive Management during the fiscal year. Similarly, the Executive Management did not exercise any option during this period.

Only directors who are members of Executive Management receive remuneration.

All directors receive attendance fees, the total amount of which was 21,000 euros for the fiscal year 2005 for the entire Board of Directors.

Directors who are not members of Executive Management do not receive any other remuneration, and do not benefit from the stock options plans.

## **4.2 Chairman's report on internal control**

### **1. Summary of the purposes of internal control in the Company**

The internal control procedures in force in the Company have the following aims:

- - Firstly, to ensure that management activities or operations and staff behaviour are in keeping with the guidelines set for Company business by the administrative bodies, laws and applicable regulations, and by the values, standards and internal regulations of the Company;
- - Secondly, to ensure that the accounting, financial and management data provided to administrative bodies truly reflects the Company's business and situation.

One of the aims of the internal control system is to prevent and control risks resulting from the Company's business and exposure to error and fraud, in particular in accounting and finance. Like any control system, it cannot, however, provide absolute guarantees that these risks are totally eliminated.

### **2. Description of the internal control's general organisation**

Organisation of internal control in the SYSTRAN Group is characterised by the active involvement of Executive Management in the process but also by a limited number of parties, given the size of the Group.

#### **2.1 – Persons or structures involved in control activities**

##### *2.1.1 Executive Management*

Given the size of the Group, internal control is largely based on Executive Management involvement:

- Dimitris SABATAKAKIS and Guillaume NAIGEON for all business,
- Denis GACHOT for North-American business.

These three executive managers also have extensive experience in the Group (9, 5 and 20 years, respectively).

Executive Management involvement particularly relates to:

- authorising investment spending,
- signing new contracts,
- monitoring the profitability of the Group's business units.

The Board of Directors has not set any limits on the authority of executive management other than those provided for by law or the regulations.

### 2.1.2 Delegations and authorisations

The Group does not necessarily have the resources required in every field for this purpose, in terms of skills. Similarly, the Group does not have an internal audit department.

This is also why the decision-making process is largely centralised in Executive Management.

Signature delegation (delegation of signing authority and power of attorney for banking matters) is restricted to the Directors of each company.

### 2.1.3 Board of Directors

#### Members

The Board of Directors comprises 7 directors (6 at present due to the death of Mr VON KUNITZKI), three of whom are independent directors.

#### Organisation of meetings

On average, the Board of Directors meets 3 times a year. On average, each meeting is attended by three members.

#### Internal regulations, specialised committees and work evaluation

The Company has not set up specialised committees such as an audit committee or salaries committee, nor drawn up rules of procedure or a procedure for assessing the work of the Board of Directors.

Moreover, none of the directors are elected by the employees and no censor has been appointed.

#### Role

Among its prerogatives, the Board of Directors is responsible for:

- setting remuneration for the Directors and profit sharing for Executive Management;
- allocating stock options to the Group's directors and employees.

## **2.2 – Company references and internal regulations**

The Group has not yet laid down its procedures in a handbook. However, procedures on "*what to do*" exist for critical procedures:

- Purchase ordering and checking procedure;
- Procedure for drafting and reviewing contracts entered into with customers;
- Employee expense reimbursement procedure.

Similarly, the Group has laid down certain rules concerning "*what not to do*". Thus, the Group does not use financial instruments for managing foreign exchange or interest rate risk, as it feels it lacks the resources required in-house to monitor them effectively.

### **2.3 - Organisation of financial and accounting data preparation**

The main participants in internal control as regards financial and accounting data are:

- Dimitris SABATAKAKIS, Chairman of the Board of Directors and CEO of SYSTRAN S.A., is responsible for the reference document;
- Guillaume NAIGEON, the Deputy CEO and a director of SYSTRAN S.A.

Their prerogatives include:

- supervising the preparation of internal reporting, individual financial statements and consolidated financial statements;
- relations with the Company's statutory auditors.

### **3. Information on existing procedures**

#### **3.1 – Main existing procedures**

The main existing procedures concern:

- purchase ordering and checking;
- drafting and reviewing contracts with customers;
- reimbursing employee expenses.

Each of these three procedures is documented in a written memorandum.

The purchase ordering and checking procedure involves 3 internal controls: prior authorisation of the expenditure from Executive Management; checking of invoices against purchase orders issued and goods received; and authorisation to pay (or "approved for payment") stamped on the invoice by Executive Management.

The procedure for drafting and reviewing contracts involves 2 internal controls: the use of standard contracts ratified by specialist advisers, when preparing any new customer contract; and prior review and signing of all sizeable customer contracts by a Director.

The procedure for reimbursing employee expenses involves 3 internal controls: the use of a reimbursement schedule; the checking of expense bills; and approval of payment by a member of Executive Management.

Given that these procedures are highly centralised, there is no internal procedure for testing control procedures.

#### **3.2 - Procedures for preparing accounting data**

The SYSTRAN Group pays particular attention to preparing its accounting data.

Firstly, each Group unit prepares a monthly activity report, including a full income statement, for Executive Management.

Secondly, the Group has set up an appropriate consolidation procedure to ensure the reliability of the financial data produced:

- It has defined an accounting plan and schedule shared by all Group units,
- All Group units use the same consolidation form,
- management of the consolidation process using TOSCANE consolidation software,
- the data is consolidated quarterly,

- each Group unit's financial statements and the consolidated accounts are reviewed quarterly by an accountant outside the company,
- the financial statements are audited by the statutory auditors prior to any publication.

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Dimitris SABATAKAKIS  
Chairman and CEO

### 4.3 Auditors' report on internal control

#### FISCAL YEAR ENDING 31 DECEMBER 2005

In our capacity as auditors of SYSTRAN S.A. and pursuant to the last sub-paragraph of article L 225-235 of the Commercial Code, we hereby present our report on the report drawn up by the Chairman of the Board of Directors of your company in accordance with article L 225-37 of the Commercial Code pertaining to the fiscal year ended 31 December 2005.

Under the responsibility of the Board of Directors, it is incumbent on management to lay down and implement adequate and efficient internal control procedures. It is incumbent on the Chairman to include in his report, in particular, the conditions for preparing and organising the work of the Board of Directors and the internal control procedures set up within the company.

It is our role to pass on our observations about the information given in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial data.

We have carried out our work according to professional practice applicable in France. This practice requires taking measures to assess the sincerity of the information given in the Chairman's report concerning the internal control procedures relating to the preparation and processing of accounting and financial data. In particular, these measures involve:

- checking the aims and the overall organisation of internal control and the internal control procedures relating to the preparation and processing of accounting and financial data, as presented in the Chairman's report;
- checking the work underlying the information thus given in the report.

On the basis of our work, we have no comment to make as to the information given concerning the company's internal control procedures relating to the preparation and processing of accounting and financial data, as contained in the Chairman of the Board of Director's report, drawn up pursuant to the last sub-paragraph of article L 225-37 of the Commercial Code.

Paris La Défense and Paris, 20 April 2006

The statutory auditors

Salustro Reydel  
*Member of the KPMG International*

Grant Thornton  
*French Member of Grant Thornton  
International*

Claire GRAVEREAU  
*Associate*

Victor AMSELEM  
*Associate*



#### 4.4 THE AUDITORSEMPLOYEE PROFIT-SHARING PLAN

##### **Stock options**

The Ordinary and Extraordinary General Shareholders' Meetings of 6 March 2000, 9 November 2001 and 25 June 2004 authorised the Board of Directors to implement a stock option plan ("Stock Options") up to the current limit of 20% of the Company's capital, with this threshold being evaluated on the dates the stock options are granted by the Board of Directors. The Board of Directors meetings of 6 March 2000, 1 February 2001, 9 November 2001, 4 February 2002, 13 March 2003 and 23 December 2003 used this authorisation as follows:

Status of the stock options awarded to the Group's employees							Total
Date of the General Shareholders Meeting	06.03.2000		09.11.2001				1,436,600
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03	
Total number of shares that can be subscribed or bought	970,000	101,000	85,600	80,000	100,000	100,000	
Of which, shares that can be subscribed or bought by members of the Executive Committee	500,000	-	28,000	-	100,000	100,000	
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07	
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11	
Strike price (in euros)	7.6	4.6	1.64	1.94	1.21	4.61	
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1st, 2nd and 3rd anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfilment of certain performance targets.						
Number of shares subscribed as of 31/12/ 2005	-	-	14,400	-	-	-	
Closing number of exercisable options for the fiscal year	970,000		85,600				
<i>of which, options in the money</i>			85,600				
<b>Movements during the period</b>							
expired options							
cancelled options							
exercised options			14,400				
						14,400	

##### **Allocation of free shares reserved for employees and directors**

No allocation of free shares reserved for employees and directors has been effected.

##### **Profit sharing plans**

None

##### **Shares held by employees**

None

#### 4.5 TABLE OF STATUTORY AUDITORS' FEES

STATUTORY AUDITORS' FEES	SALUSTRO REYDEL NETWORK		Grant Thornton	
	Amount in thousands of euros	%	Amount in thousands of euros	%
	2005		2005	
<b>AUDIT</b>				
Auditing (Certification and Examination of the individual and consolidated financial statements)	24		24	
Auditing of the US subsidiary SSI by KPMG	6			
Auditing of the US subsidiary SSI by AMYOT-EXCO Grant Thornton			9	
<b>Subtotal</b>	<b>34</b>		<b>33</b>	
<b>OTHER SERVICES</b>				
Legal, Tax, Welfare				
Information technology				
IFRS	2		2	
Internal audit				
Other				
<b>Subtotal</b>	<b>2</b>		<b>2</b>	
<b>TOTAL</b>	<b>36</b>		<b>35</b>	

## 5 GENERAL INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

### 5.1 INFORMATION ABOUT THE COMPANY

#### 5.1.1 Company name

The corporate name is SYSTRAN S.A.

#### 5.1.2 Date of incorporation

The company SOISY TRADUCTION, *Société à responsabilité limitée* [French limited liability company], was incorporated on 4 December 1985, and subsequently, on 30 December 1988, adopted the structure of *société limitée*, and the corporate name “SYSTRAN S.A.”

#### 5.1.3 Registered office

La Grande Arche,  
1 Parvis de La Défense  
92044 PARIS LA DEFENSE Cedex

#### 5.1.4 Lifetime

The lifetime of the Company is 99 years, to expire on 3 December 2084.

#### 5.1.5 Legal form

“*Société Anonyme*,” which is a French public limited liability company governed by the law of 24 July 1966 on commercial corporations and its application decree.

#### 5.1.6 Fiscal year

Each fiscal year has a duration of a year, beginning 1 January and ending 31 December.

#### 5.1.7 Object/Purpose (Article 2 of the by-laws)

The Company’s purpose, directly or indirectly, in France and abroad, is the following:

- Development, use, promotion and sale of computer-based machine translation systems (software and hardware), for all natural language pairs.
- All activities corresponding to dictionaries and terminology data banks and all multilingual natural language processing applications.
- Management, acquisition, and commercial activities in the field of the language industries.

#### 5.1.8 Trade and Corporate Registry

334 343 993 Trade and Company Register NANTERRE

#### 5.1.9 Activity code

Activity code: 722 A - software developer

#### *5.1.10 Allocation and distribution of earnings (Article 27 of the by-laws)*

From each fiscal year's earnings, less any previous losses, five percent is first applied to the legal reserve fund; this deduction ceases being mandatory when the aforementioned fund reaches one-tenth of the capital stock; it resumes when, for any reason whatsoever, the statutory reserve falls below this fraction.

Any balance, increased if necessary by unallocated earnings, constitutes distributable earnings.

The Ordinary General Shareholders Meeting, at the proposal of the Board of Directors, may resolve on the allocation of all or part of these distributable earnings to the unallocated earnings fund or to the allocation of all reserve accounts, established or to be established, extraordinary, general or special reserve accounts, specifically pursuant to the tax provisions. The General Shareholders Meeting rules on the allocation or use of these funds. It may also entrust such allocation or use to the Board of Directors.

From the balance, if any, the required amount is applied to be used for all shares at an interest rate of five percent per year of their par value, paid-in and not amortised, as first dividend, without possibility, if the earnings for a fiscal year fail to allow complete payment of this first dividend, for the shareholders to claim it from the earnings of subsequent fiscal years.

The surplus may be disposed of by the General Shareholders Meeting, which is responsible for its allocation. To this end, it may allocate all or part of this sum to general or special reserves accounts, carry it forward, or distribute it to shareholders.

Any losses, after the approval of the financial statements by the General Shareholders Meeting, are posted to the balance sheet in a separate account.

The General Shareholders Meeting may resolve to distribute the amounts posted to reserve for which it has responsibility; in this case the decision expressly applies to postings of reserves for which provisions have been applied.

Apart from the case of capital reduction, no distribution may be made to shareholders when net assets are or would become lower than the amount of the capital increased by the reserves that the law does not allow to be distributed.

The General Shareholders Meeting may offer shareholders, for all or part of the dividend to be paid, an option between payment of the dividend in cash or in shares issued by the Company, under the conditions set or allowed by the legal or regulatory provisions.

#### *5.1.11 Payment of dividends and advances on dividends (Article 28 of the by-laws)*

When a balance sheet prepared during the course of or at the end of a fiscal year and certified by the statutory auditors shows that the Company has earned a profit since the end of the previous fiscal year, after deducting any necessary amortisations and provisions, and after deducting any previous losses and amounts to be applied to reserves, pursuant to the law and pursuant to the by-laws, it may make advances on dividends before approving the financial statements for the fiscal year.

The amount of these advances may not exceed the total earnings defined above.

They are distributed under the terms and according to the methods set by regulation.

Shareholders may be given, for all or part of the dividend advances distributed, an option between payment in cash or in shares.

#### *5.1.12 General Shareholders Meetings (Article 23 of the by-laws)*

1°/ The shareholders' joint resolutions are made during General Shareholders Meetings classified as ordinary or extraordinary. An Ordinary General Shareholders Meeting is one that is required to take all decisions that do not change the by-laws.

It is held at least once a year, within six months of the end of the fiscal year just completed.

An Extraordinary General Shareholders Meeting is the only one authorised to change the by-laws in all their provisions, and to rule on the conversion of the Company to any other legal form, whether civil or commercial. It may not, however, increase the shareholders' commitments, subject to transactions resulting from a properly applied share consolidation.

General Shareholders Meetings are called either by the Board of Directors or, failing this, by the statutory auditors or a legal representative, according to the conditions stipulated by the law and regulations.

2°/ Any shareholder has the right, upon proving his identity, to take part in the meetings and to attend them personally, by returning an absentee ballot or by appointing a proxy in accordance with the applicable legal and regulatory provisions, provided that:

- registered shareholders be personally registered in the Company records;
- bearer shareholders file, at the location mentioned in the notice of convocation, a certificate issued by a qualified intermediary, noting the locking of their shares in their account until the date of the shareholders' meeting.

These formalities must be completed at least five (5) days before the meeting is held.

The Board of Directors may reduce the above period by a general measure benefiting all shareholders.

3°/ For any proxy sent to the Company by a shareholder, without agent's indication, the Chairman issues a vote in favour of adopting draft resolutions submitted or approved by the Board of Directors, and a vote against adopting all other draft resolutions.

4°/ [refer to the paragraph on double voting rights, see paragraph 5.1.15]

5°/ An attendance sheet is maintained at each meeting.

This attendance sheet, duly signed by the attending shareholders and proxies, is certified as accurate by the Meeting officers.

The Meeting is chaired by the Chairman of the Board of Directors, and failing this by a Director appointed to replace him.

The duties of the ballot-counters are filled by two shareholders, present and accepting, representing both on their own behalf and as proxies, the largest number of shares. These officers will appoint a Secretary, who cannot be a shareholder.

#### *5.1.13 Quorum and majority (Article 24 of the by-laws)*

1°/ The Ordinary General Shareholders Meeting will be in valid session upon its first convocation only if the attending or represented shareholders hold at least one-quarter of the shares with voting rights. On the second convocation, no quorum is necessary.

It rules by a majority of votes cast by attending or represented shareholders. The Company itself cannot validly vote with its own shares, whether subscribed or acquired. Such shares are not counted in calculating the quorum.

2°/ The Extraordinary General Shareholders Meeting can resolve validly only if the attending or represented shareholders constitute at least one-third of voting shares on first convocation, and one-quarter on second convocation.

It rules by a majority of two-thirds of votes cast by attending or represented shareholders.

Notwithstanding the above provisions, a General Shareholders Meeting that approves a capital increase through the capitalisation of reserves, earnings or premiums can rule under conditions of quorum and a majority of an Ordinary General Shareholders Meeting.

A General Shareholders Meeting called to rule on the conversion of the Company does so under the majority conditions provided for in article L.225-245 of the Commercial Code which differ according to the new form to be resolved upon.

3°/ In the event of a postal ballot, this will be in paper form in accordance with the regulatory requirements.

In calculating quorum, account is taken only of the forms received by the Company before the holding of the General Shareholders Meeting, within the timeframes set by regulatory provision.

Forms giving no vote direction or expressing an abstention are considered negative.

#### *5.1.14 Exceeding of thresholds (Article 13 of the by-laws, as amended by the sixteenth resolution of the Mixed General Shareholders Meeting of 3 May 2000)*

Any party, operating alone or jointly, who comes to hold or ceases to hold, in any way, a percentage of shares equal to or greater than 3% of the capital stock and/or voting rights is required to inform the Company on the holding of each fraction of 3% of the capital and/or voting rights, up to 5%, within fifteen days of exceeding this threshold, by registered letter with request for acknowledgment of receipt addressed to its registered office, specifying the total number of shares or instruments giving access to the capital as well as the numbers of voting rights held, alone, indirectly or jointly.

In the event of a violation of this reporting obligation, one or more shareholders holding a portion of the capital or voting rights equal to at least three percent (3%) may request that the shares exceeding the portion that should have been declared be deprived of voting rights for any shareholders meeting that might be held within a two-year period following the date of regularisation of the notification. The request will be countersigned in the minutes of the General Shareholders Meeting. Under the same conditions, the voting rights corresponding to these shares that were not regularly declared may not be delegated by the violating shareholder.

To the reporting obligation below is added the obligation to report any surpassing of thresholds as provided for by law.

#### *5.1.15 Voting rights (Article 23 of the by-laws as amended by the eighteenth resolution of the Mixed General Shareholders Meeting of 3 May 2000)*

In addition to the voting right corresponding to the shares, a voting right double the one granted to the shares with regard to the proportion of the Company's capital they represent is granted to all fully paid-in and duly registered shares, once they have been held at least 4 years by the same shareholder, pursuant to article L.225-123 of the Commercial Code. The voting right belongs to the usufructuary in Ordinary General Shareholders Meetings, and to the remainderman in Extraordinary General Shareholders Meetings.

In the event of a capital increase by capitalisation of reserves, earnings or premiums, a double voting right is granted, upon their issuance, to registered shares granted gratis to a shareholder in proportion to the number of old shares benefiting from this right.

Any registered share converted to bearer (anonymous) form or transferred to ownership loses the double voting right. Nevertheless, transfer as a consequence of succession, liquidation of community property between spouses, or donation between living spouses to the benefit of a spouse or relative of inheritable relationship, does not cause the right to be lost and does not interrupt the deadlines provided for in article L.225-123 of the Commercial Code.

A merger by the Company has no effect on the double voting right, which may be exercised within the acquiring Company, if its by-laws so provide.

#### *5.1.16 Purchases by the Company of its own shares*

##### **a) Programme authorised by the General Shareholders Meeting of 24 June 2005**

The Company, whose shares are listed for trading on the Nouveau Marché of Euronext Paris, submitted a programme for the repurchase of its own shares for approval at the General Shareholders Meeting of 24 June 2005.

The aims of this programme are, in decreasing order of priority:

- managing the market making in the secondary market or the liquidity of the Company's share by means of an investment service provider, through a liquidity agreement that complies with the ethic charter recognised by the financial markets authorities;
- SYSTRAN buying shares to hold and subsequently tender in exchange or payment, in any external growth transactions;
- remitting shares during the exercise of rights attached to securities entitling the holder, through redemption, conversion, exchange, presentation of a warrant or in any other way, to acquire Company shares;
- distributing shares to employees of the company and group subsidiaries according to the conditions stipulated by the law, pursuant to articles L 225-177 and thereafter of the Commercial Code, or through a company savings plan;
- purchasing Company shares in order to cancel them, up to a maximum of 10% of the Company's capital stock, within the framework of the authorisation to decrease the capital stock as stated in the ninth resolution of the meeting of 24 June 2005, in its extraordinary part.

A share repurchase programme prospectus complying with the provisions of articles 241-1 to 241-8 of the general regulations of the financial markets authorities is available from the Company.

## b) New programme subject to approval at the General Shareholders Meeting of 23 June 2006

The Company, whose shares are listed for trading on the Nouveau Marché of Euronext Paris, seeks to implement a programme to repurchase its own shares, subject to approval at the General Shareholders Meeting of 23 June 2006.

The aims of this programme are, in decreasing order of priority:

- managing the market making in the secondary market or the liquidity of the Company's share by means of an investment service provider, through a liquidity agreement that complies with the ethic charter recognised by the financial markets authorities;
- SYSTRAN buying shares to hold and subsequently tender in exchange or payment, in any external growth transactions;
- remitting shares during the exercise of rights attached to securities entitling the holder, through redemption, conversion, exchange, presentation of a warrant or in any other way, to acquire Company shares;
- distributing shares to employees of the company and group subsidiaries according to the conditions stipulated by the law, pursuant to articles L 225-177 and thereafter of the Commercial Code, or through a company savings plan;
- purchasing Company shares in order to cancel them, up to a maximum of 10% of the Company's capital stock, within the framework of the authorisation to decrease the capital stock as stated in the twelfth resolution of the present meeting, in its extraordinary part.
- These shares may be acquired, sold, transferred or exchanged, by any means, on the market or privately, including through the use of any financial derivative instrument negotiated on a regulated or private market. These means also include block acquisitions without limit to size.

A share repurchase programme prospectus will be filed with the financial markets authorities.

## c) Assessment of previous programmes

Please be advised that the previous share repurchase programmes, approved by the General Shareholders Meetings of 3 May 2000, 9 November 2001, 27 June 2003, and 25 June 2004 enabled the Company to complete the transactions described below:

Type of transaction	Period	Number of shares purchased	Average purchase price (in euros)	Number of shares sold	Average price of sale (in euros)
Price stabilisation	03.05.00 to 31.12.00	25,981	3.94	360	4.10
<b>Balance at the end of the fiscal year</b>	<b>On 31.12.00</b>	<b>25,621</b> (0.26% of capital)	<b>3.94</b>	-	-
Price stabilisation	01.01.01 to 30.09.01	36,934	3.45	-	-
<b>Balance</b>	<b>On 30.09.01</b>	<b>62,555</b> (0.63% of capital)	<b>3.65</b>	-	-

Upon completion of its first repurchase programme authorised by the General Shareholders Meeting of 3 May 2000, the Company held 62,555 of its own shares.

The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 9 November 2001.

The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 27 June 2003.



The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 25 June 2004.

The Company did not acquire any shares as part of the repurchase programme authorised by the General Shareholders Meeting of 24 June 2005.

The Company did not proceed with any cancellation of shares over the course of the past twenty-four months.

The new programme will supersede the programme implemented by the General Shareholders Meeting of 24 June 2005.

On 31 March 2005, the Company was holding 62,555 of its own shares totalling 228 euros, representing 0.63% of the capital.

#### *5.1.17 Access to the Company's documents*

By-laws, minutes and other corporate legal documents can be accessed at the Company's registered offices.

## 5.2 INFORMATION ABOUT THE CAPITAL STOCK

### 5.2.1 Capital stock

The capital stock is EUR 15,108,623, divided into 9,910,650 shares of the same category. The capital is fully paid in.

### 5.2.2 History of the capital

Date	Type of transaction	Change in capital	Change in the issuance and/or contribution premium	No. shares before	No. shares after	Par value	Capital stock
Jan-86	Starting capital of S.A.R.L. SOISY TRADUCTION	FRF 50,000			500	FRF 100	FRF 50,000
Dec-88 (EGM of 30.12.88)	Capital increase by offset with receivables due and payable and conversion to SYSTRAN S.A.	FRF 550,000	FRF 110,000	500	6,000	FRF 100	FRF 600,000
Jun-89 (EGM of 30.06.89)	Reduction in face value	0	0	6,000	12,000	FRF 50	FRF 600,000
Jun-89 (ditto)	Capital increase by partial contribution of assets	FRF 300,000,000	FRF 145,844,423	12,000	6,012,000	FRF 50	FRF 300,600,000
Aug-90 (EGM of 26.10.89)	Capital increase by offset with receivables due and payable	FRF 1,700,000	FRF 544,000	6,012,000	6,046,000	FRF 50	FRF 302,300,000
Jun-91 (MGM of 28.06.91)	Capital increase by transfer of the contribution premium	FRF 100,766,650	FRF -100,766,650	6,046,000	8,061,333	FRF 50	FRF 403,066,650
(ditto)	and by offset with receivables due and payable	FRF 46,933,350	0	8,061,333	9,000,000	FRF 50	FRF 450,000,000
Mar-00 (MGM of 6.03.00)	Allocation to the premium of a portion of losses carried forward from previous years	0	FRF -45,731,773	9,000,000	9,000,000	FRF 50	FRF 450,000,000
(ditto)	and capital decrease by reduction in the par value of each share (*)	FRF -360,000,000	0	9,000,000	9,000,000	FRF 10	FRF 90,000,000
May-00 (MGM of 3.05.00)	Increase in reserved capital by offset from receivables, and conversion to euros	FRF 1,350,000	0	9,000,000	9,135,000		EUR 13,926,217
Sep-00 (MGM of 3.05.00)	Capital increase applied during the IPO on the Nouveau Marché of the Paris Stock Exchange.	EUR 1,160,518	FRF 26,842,461	9,135,000	9,896,250		EUR 15,086,735
Nov-05	Capital increase by exercising of options	EUR 21,888	EUR 1,728	9,896,250	9,910,650		EUR 15,108,623

(\*) The Extraordinary General Shareholders Meeting of 6 March 2000 approved a write-off of the previous losses of SYSTRAN S.A., by allocation of losses carried forward of FRF 488,300,000 at year-end 1999 at the rate of FRF 45,700,000 on the issuance premium, as well a capital reduction of FRF 360,000,000 by decreasing the par value of the shares from FRF 50 to FRF 10 . After this transaction, the Company's capital stock totalled FRF 90,000,000, consisting of 9,000,000 shares of FRF 10, as shown in the following table:

In millions of FRF	Capital	Premium accounts	Carried forward	Income for the fiscal year	Total shareholders equity
Situation as of 31.12.99	450	45.73	-488.31	97.71	105.13
Allocation of premiums to losses carried forward		-45.73	45.73		-
Capital reduction	-360		360		-
Situation after the Extraordinary General Shareholders Meeting of 6 March 2000	90	-	-82.58	97.71	105.13

On 28 November 2005 the Company's capital was increased by exercising options giving rise to the creation of 14,400 new shares in the Company that were fully paid-in, in conformity with the stipulations of the stock options plan. The capital increase of 21,888 euros was therefore definitively performed on this date, and the difference between the subscription price of the new shares and their face value constitutes an issuance premium that was posted in the balance sheet liabilities.

The Board of Directors meeting of 14 February 2006 noted the increase in capital stock by 21,888 euros, through creating 14,400 new shares of 1.52 euros each, entirely paid-in.

### 5.2.3 Breakdown of the capital and voting rights

#### On 14 September 2000, after the IPO on the Nouveau Marché

	No. of shares	%	Voting rights (*)	%
Jean Gachot (Director)	1,092,546	11.04%	2,185,092	15.11%
SOPI SA (1)	1,017,429	10.28%	1,132,815	7.83%
Dimitris Sabatakakis (Chairman)	873,467	8.83%	1,693,773	11.71%
Valfinance SA	300,000	3.03%	300,000	2.07%
Denis Gachot (Director)	233,474	2.36%	244,622	1.69%
Scheffer SA	101,403	1.02%	101,403	0.70%
Norbert Von Kunitzki (Director)	90,000	0.91%	90,000	0.62%
Pierre Musman	45,000	0.45%	45,000	0.31%
Members of the Board of Directors and affiliated companies	<b>3,753,319</b>	<b>37.93%</b>	<b>5,792,705</b>	<b>40.06%</b>
SOPREX AG (2)	1,420,719	14.36%	2,841,438	19.65%
<b>Public</b>	<b>4,722,212</b>	<b>47.72%</b>	<b>5,826,200</b>	<b>40.29%</b>
<b>TOTAL</b>	<b>9,896,250</b>	<b>100%</b>	<b>14,460,343</b>	<b>100%</b>

(\*) Double voting rights granted to shares held for more than 4 years by the same shareholder (before the General Shareholders Meeting of 9 November 2001, this period was 5 years)

(1) SOPI, 26bis, avenue de Paris 95230 Soisy sous Montmorency. S.A.R.L (limited company) with registered capital of EUR 550,000. Manager: Mrs. GACHOT. Shareholders: SOPREX AG (76.30%) and Jean GACHOT (23.65%).

(2) SOPREX AG, Malzgasse 18, 4052 Basel (Switzerland). Swiss financial company, wholly owned by DEXIA Banque Privée, with head office in Zurich.

## **Breakdown of the capital as of 31 December 2005**

	<b>No. of shares</b>	<b>%</b>	<b>Voting rights</b>	<b>%</b>
Jean Gachot	1,092,546	11.02%	2,185,092	14.76%
SOPi SA	1,017,429	10.27%	2,034,858	13.74%
Dimitris Sabatakakis	873,467	8.81%	960,975	6.49%
Valfinance SA	354,924	3.58%	654,924	4.42%
Members of the Board of Directors and affiliated companies	<b>3,338,366</b>	<b>33.68%</b>	<b>5,835,849</b>	<b>39.41%</b>
SOPREX AG	1,420,719	14.34%	2,841,438	19.19%
Alto Invest	497,455	5.02%	497,455	3.36%
<b>Public</b>	<b>4,591,555</b>	<b>46.33%</b>	<b>5,630,410</b>	<b>38.04%</b>
Treasury shares (*)	62,555	0.63%		
<b>TOTAL</b>	<b>9,910,650</b>	<b>100%</b>	<b>14,805,152</b>	<b>100%</b>

(\*) the Company has acquired 62,555 of its own shares on the market, within the framework of the share repurchase programme authorised by the Extraordinary General Shareholders Meeting of 3 May 2000 renewed by the Ordinary and Extraordinary General Shareholders Meetings of 9 November 2001, 25 June 2004 and 24 June 2005. As of 31 December 2005, the Group held 62,555 shares of SYSTRAN.

To the Company's knowledge, as of 31 December 2005 no other shareholder held over 5% of the capital..

The Company comprises approximately 2,000 shareholders in the public.

### *5.2.4 Changes in the breakdown of the capital over the last three years*

#### **Changes in the shareholder base over 2 years**

<b>Shareholders concerned</b>	<b>Share purchases</b>	<b>Date</b>	<b>Sales of shares</b>	<b>Date</b>
Norbert Von Kunizki	90,000	03/05/2002		
Pierre Musman	45,000	03/05/2002		
Valfinance SA	44,924	2002		
Valfinance SA	10,000	2003		
Valfinance SA	10,000	2005		
Alto Invest	497,455	2003		

### *5.2.5 Shareholders' agreements*

None

### *5.2.6 Shareholders' commitments*

Since 13 March 2001, the commitment to retain shares, taken by major shareholders on the occasion of the Company's IPO on the Nouveau Marché, has expired. However, these shareholders committed not to sell their shares under the share repurchase programme as described in paragraph 5.1.16. The shareholders did not enter into other commitments.

The number of shares they held on 31 March 2006 is shown in paragraph 5.2.3.

## 5.2.7 Potential capital

### Stock options

The Ordinary and Extraordinary General Shareholders' Meetings of 6 March 2000, 9 November 2001 and 25 June 2004 authorised the Board of Directors to implement a stock option plan ("Stock Options") up to the current limit of 20% of the Company's capital, with this threshold being evaluated on the dates the stock options are granted by the Board of Directors. The Board of Directors meetings of 6 March 2000, 1 February 2001, 9 November 2001, 4 February 2002, 13 March 2003 and 23 December 2003 used this authorisation as follows:

Status of the stock options awarded to the Group's employees							Total
Date of the General Shareholders Meeting	06.03.2000		09.11.2001				1,436,600
Date of the Board of Directors meeting	06.03.00	01.02.01	09.11.01	04.02.02	13.03.03	23.12.03	
Total number of shares that can be subscribed or bought	970,000	101,000	85,600	80,000	100,000	100,000	
Of which, shares that can be subscribed or bought by members of the Executive Committee	500,000	-	28,000	-	100,000	100,000	
Starting point for exercise of the options	06.03.05	01.02.06	09.11.05	04.02.06	13.03.07	23.12.07	
Expiry date	05.03.08	31.01.09	08.11.09	03.02.10	12.03.11	22.12.11	
Strike price (in euros)	7.6	4.6	1.64	1.94	1.21	4.61	
Exercise conditions	Options will be permanently vested to the recipients only in equal thirds at the time of the 1st, 2nd and 3rd anniversaries of their granting by the Board of Directors and provided, for each allocation, that the recipient is still a director or employee of the Company or of its subsidiaries. Moreover, an allocation of 100,000 options granted on 23.12.2003 is vested subject to the fulfilment of certain performance targets.						
Number of shares subscribed as of 31/12/ 2005	-	-	14,400	-	-	-	
Closing number of exercisable options for the fiscal year	970,000		85,600				
<i>of which, options in the money</i>			85,600				
<b>Movements during the period</b>							
expired options							
cancelled options							
exercised options			14,400				
						14,400	

If all the options were exercised, the result would be a maximum potential dilution of 14.7%, representing 1,422,200 shares.

### 5.2.8 Capital authorised but not issued

#### a) Increase in unreserved capital with pre-emptive subscription rights

The General Shareholders Meeting of 25 June 2004 resolved, in its ninth resolution, to renew the authorisation given to the Board of Directors to increase the capital stock by issuance of shares, warrants, bonds and/or any securities giving access immediately or in the long term, at any time or on a fixed date, to the Company's capital, in a maximum par value not to exceed a ceiling of 15,000,000 euros (fifteen million euros), with or without issuance premium, to be subscribed and fully paid-in in cash at the time of subscription, with such new shares to be subject to all the Company's statutory provisions and to be assimilated to the old shares, and to enjoy the same rights as of the first day of the fiscal year in which they were created and issued. Moreover, this authorisation is subject to a ceiling of 300,000,000 euros (three hundred million euros), including the issuance premium.

The General Shareholders Meeting has, furthermore, resolved that this delegation applies *ipso jure* to the earnings of holders of securities giving future access to Company shares, an express waiver by the shareholders of their preferential right of subscription to the shares to which these securities entitle them. In the event of issuance with maintenance of the shareholders' preferential right of subscription, the Board of Directors may grant the shareholders a reduced preferential right.

The General Shareholders Meeting also resolved that if subscriptions did not represent the entirety of a share or security issuance as defined above, the Board of Directors may use one or more of the following authorisations, in the order it decides:

- to limit the security issuance to the value of the subscriptions provided that it totals at least three-quarters of the approved issuance;
- to resolve that any balance of the issuance not subscribed be completely or partially allocated by the Board of Directors.

As a consequence of the authorisation granted above, the General Shareholders Meeting has delegated to the Board of Directors and by delegation, to its Chairman, all powers necessary to undertake, under the terms stipulated in the laws and regulations, one or more increases in the Company's capital stock or other securities issuances, within twenty-six (26) months, on one or more occasions, with use of the aforementioned authorisation being partial or total, setting their terms, confirming completion and undertaking the corresponding amendment of the by-laws. Specifically, the General Shareholders Meeting resolved that the Board of Directors will have all authority, specifically to resolve on the number of securities to be issued, the issue price, as well as the total premium that may be required at the time of issuance.

The General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have all powers to enforce this authorisation, under the terms set by the law, for the purposes of offsetting the expenses related to the capital increases with the value of the corresponding premiums and to deduct from this amount the required sums allocated to bringing the statutory reserve up to one-tenth of the capital stock after each increase.

More generally, the General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have full power to approve all agreements, particularly in order to achieve the aims of the intended issuance, take all measures and carry out all due formalities for the issuance and financial servicing of these shares through this authorisation, as well as the exercise of the rights corresponding thereto, confirming the capital increase made through use of this authorisation, and amending the by-laws accordingly.

The General Shareholders Meeting has noted that the Board of Directors will give an account of the use made of this authorisation to the next General Shareholders Meeting.

This capital increase authorisation has rendered ineffective all previous delegations of the same type, and in particular, that granted in the seventh resolution of the Ordinary and Extraordinary General Shareholders Meeting of 31 May 2002.

To date, this authorisation has not been used by the Board of Directors.

*b) Increase in unreserved capital without pre-emptive subscription rights*

The General Shareholders Meeting of 25 June 2004 resolved, in its tenth resolution, to authorise the Board of Directors to increase the capital stock through issuance of shares, warrants, bonds and/or any securities giving access immediately or in the long term, at any time or on a fixed date, to the Company's capital, in a maximum par value not to exceed 15,000,000 euros (fifteen million euros), with or without issuance premium, to be subscribed and fully paid-in in cash at the time of subscription, with such new shares to be subject to all the Company's statutory provisions and to be assimilated to the old shares, and to enjoy the same rights as of the first day of the fiscal year in which they were created and issued. Moreover, this authorisation is subject to a ceiling of 300,000,000 euros (three hundred million euros), including the issuance premium. These amounts will also be charged to the values of the shares issued directly or indirectly, by virtue of the ninth resolution of the meeting of 25 June 2004.

The General Shareholders Meeting resolved to cancel the preferential right of subscription to the shares to be issued, on the understanding that the Board of Directors may grant priority to the shareholders for subscribing all or part of the issuance for the period and under the terms that it will set. This subscription priority will not give rise to the creation of negotiable rights but may, if the Board of Directors deems appropriate, be exercised on both a reducible and irreducible basis, noting that following the priority period the unsubscribed securities will be up for public placement.

The General Shareholders Meeting has resolved that this delegation applies *ipso jure* to the earnings of holders of securities giving future access to Company shares, an express waiver by the shareholders of their preferential right of subscription to the shares to which these securities entitle them.

The General Shareholders Meeting resolved that the sum allocated or to be allocated to the Company for each of the shares issued as part of the aforementioned delegation, will be at least equal to the average opening prices of the Company's shares noted on 10 consecutive trading days chosen from the 20 trading days prior to the start of issuance of the aforementioned securities.

The General Shareholders Meeting further resolved that if subscriptions did not represent the entirety of a share or security issuance as defined above, the Board of Directors may use one or more of the following authorisations, in the order it decides:

- to limit the security issuance to the value of the subscriptions provided that it totals at least three-quarters of the approved issuance;
- to resolve that any balance of the issuance not subscribed be completely or partially allocated by the Board of Directors.

As a consequence of the authorisation granted above, the General Shareholders Meeting has delegated to the Board of Directors and by delegation, to its Chairman, all powers necessary to undertake, under the terms stipulated in the laws and regulations, one or more increases in the Company's capital stock or other securities issuances, within twenty-six (26) months, on one or more occasions, with use of the aforementioned authorisation being partial or total, setting their terms, confirming completion and undertaking the corresponding amendment of the by-laws.

Specifically, the General Shareholders Meeting resolved that the Board of Directors will have all authority, specifically to resolve on the number of securities to be issued, the issue price, as well as the total premium that may be required at the time of issuance.

The General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have all powers to enforce this authorisation, under the terms set by the law, for the purposes of offsetting the expenses related to the capital increases with the value of the corresponding premiums and to deduct from this amount the required sums allocated to bringing the statutory reserve up to one-tenth of the capital stock after each increase.

More generally, the General Shareholders Meeting resolved that the Board of Directors and by delegation, its Chairman, will have full power to approve all agreements, particularly in order to achieve the aims of the intended issuance, take all measures and carry out all due formalities for the issuance and financial servicing of these shares through this authorisation, as well as the exercise of the rights corresponding thereto, confirming the capital increase made through use of this authorisation, and amending the by-laws accordingly.

The General Shareholders Meeting has noted that the Board of Directors will give an account of the use made of this authorisation to the next General Shareholders Meeting.

To date, this authorisation has not been used by the Board of Directors.

#### *c) Increase in capital reserved for company employees*

The General Shareholders Meeting of 25 June 2004 also resolved, pursuant to article L. 225-129 VII of the Commercial Code and article L. 443-5 of the Labour Code, not to delegate to the Board of Directors the authority to increase the capital stock, on one or more occasions, by a maximum par value of 300,000 euros through the issuance of new shares to be subscribed in cash. This increase would have been reserved for Company employees and the employees of companies affiliated with it in accordance with applicable legal provisions.

#### *5.2.9 Pledging of shares and guarantees (SYSTRAN S.A. and subsidiaries)*

The Company has neither pledged nor mortgaged any intangible, tangible or financial assets.

On 31 December 2005, the status of guarantees given by the SYSTRAN Group was as follows:

<b>Date</b>	<b>Expiry</b>	<b>Creditor</b>	<b>Subject</b>	<b>Amount (euros)</b>
20.01.98		Banque Générale du Luxembourg	Overdraft facility	248,000
24.10.02	Jul-05	The European Commission	MUSA contract	69,000
12.12.04	Jun-05	Spanish Patent and Trademark Office	Spanish Patent and Trademark Office contract	1,000

SYSTRAN S.A. gave guarantees as part of contracts co-funded by the European Commission. The value of the guarantees corresponds to the value of the advance received at the beginning of the contract.

In addition, SYSTRAN S.A. has provided two guarantees aiming to cover an overdraft facility for its subsidiary, SYSTRAN Luxembourg, and a leasing contract with the company Eurolease Factor.

#### *5.2.10 Dividends and policy of distribution*

The Company has not distributed dividends over the last five fiscal years.

Dividends not claimed within five years after their payment date revert to the French Government.

#### *5.2.11 Changes in the stock price*

The Company was listed on the OTC market of the Paris Stock Exchange on 14 February 1992. The first traded quote was of FRF 16.00 (EUR 2.44). On 11 June 1998, SYSTRAN S.A. shares were transferred to the new OTC of the Paris Stock Exchange. On 14 September 2000, SYSTRAN S.A. was listed on the Nouveau Marché of the Paris Stock Exchange, with a stock price of EUR 6.90.



The SYSTRAN share (ISIN code: **FR0004109197**) is continuously listed. SYSTRAN is a member of the NextEconomy segment of Euronext. Market trends in the share since 1 January 2005 has been as follows:

<b>Date</b>	<b>Opening</b>	<b>High</b>	<b>Low</b>	<b>Latest quote</b>	<b>Average volume</b>	<b>Adjusted closing prices(*)</b>
Dec-05	3.80	3.91	3.56	3.78	4,567	3.78
Nov-05	3.80	4.10	3.51	3.95	3,098	3.95
Oct-05	4.18	4.70	4.03	4.10	7,837	4.10
Sep-05	3.63	4.19	3.61	4.00	11,448	4.00
Aug-05	3.02	3.85	3.02	3.66	8,353	3.66
Jul-05	2.97	3.19	2.93	3.13	2,758	3.13
Jun-05	3.25	3.40	2.91	3.02	5,189	3.02
May-05	3.06	3.20	2.89	3.03	1,181	3.03
Apr-05	3.10	3.61	2.82	3.13	2,255	3.13
Mar-05	3.57	3.72	3.11	3.32	3,554	3.32
Feb-05	3.50	4.20	3.31	3.56	14,052	3.56
Jan-05	2.94	3.64	2.94	3.50	7,732	3.50
Dec-04	3.02	3.30	2.50	3.16	3,737	3.16

(\*) Source: Euronext

## **6 PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT, AND AUDITORS OF THE FINANCIAL STATEMENTS**

### **6.1 PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT**

Dimitris Sabatakakis  
SYSTRAN S.A.  
La Grande Arche, 1 Parvis de La Défense  
92044 PARIS LA DEFENSE Cedex  
tel: 01.47.96.86.86  
fax: 01.46.98.00.59  
e-mail: sabatakakis@systran.fr  
web site: www.systransoft.com

### **6.2 CERTIFICATION BY PERSON RESPONSIBLE FOR THE REFERENCE DOCUMENT**

Mr. Dimitris SABATAKAKIS, Chairman of the Board of Directors  
Address: La Grande Arche, 1 Parvis de La Défense  
92 044 PARIS LA DEFENSE Cedex

"Having taken all reasonable measures for the purpose, I certify that to the best of my knowledge the information in the present reference document corresponds to reality and does not comprise any distorting omissions.

The company has obtained a completion letter from the statutory auditors in which they state they have conducted an audit of information relating to the financial situation and the financial statements given in this reference document and have read the entire document.

The corporate and consolidated financial statements for the fiscal year ending 31 December 2005 have been audited by the statutory auditors in reports indicated on pages 60 and 76 of the present reference document, and these reports contain comments.

The corporate and consolidated financial statements for the fiscal year ending 31 December 2004 have been audited by the statutory auditors in reports indicated on pages 79 and 94 of the present reference document, and these reports contain comments.

The corporate and consolidated financial statements for the fiscal year ending 31 December 2003 presented in reference document D.04-0670 have been audited by the statutory auditors in reports indicated on pages 80 and 96 of the present reference document, and these reports contain comments.

Paris La Défense, 18 May 2006

Dimitris SABATAKAKIS  
Chairman of the Board of Directors

### **6.3 AUDITORS OF THE FINANCIAL STATEMENTS**

#### **Statutory auditors**

SALUSTRO REYDEL, 1 cours Valmy, 92923 Paris La Défense Cedex,  
represented by Ms Claire GRAVEREAU

Statutory auditor of the Company appointed by the General Shareholders Meeting of 6 March 2000 for a term of six fiscal years expiring after the General Shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2005.

GRANT THORNTON, 100 rue de Courcelles, 75017, PARIS,  
represented by Mr. Victor ANSELEM,  
Statutory auditor of the Company appointed by the General Shareholders Meeting of 31 May 2002 for a term of six fiscal years, that is, until the General Shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2006.

#### **Substitute statutory auditors**

Mr. Patrick IWEINS, 13 avenue de l'Opéra, 75001 Paris,  
Substitute statutory auditor of the Company appointed by the General Shareholders Meeting of 6 March 2000 for a term of six fiscal years expiring after the General shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2005.

Mr. Gilles HENGOAT, 100 rue de Courcelles, 75017 PARIS  
Substitute statutory auditor appointed by the General Shareholders Meeting of 31 May 2002 for a term of six fiscal years, that is, until the General Shareholders Meeting ruling on the financial statements for the fiscal year ending 31 December 2006.

#### **6.4 DOCUMENTS AVAILABLE TO THE PUBLIC**

For the duration of validity of the present Reference document, the by-laws auditors reports and financial statements for the last three fiscal years, as well as all the reports, correspondence and other documents, historical financial information concerning SYSTRAN and its subsidiaries from the last three fiscal years, evaluations and declarations drawn up by experts on demand from the issuer and any other document required by law can be consulted at the issuer's registered office.

## **7 DRAFT RESOLUTIONS OF THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' GENERAL MEETING OF 23 JUNE 2006**

Sixteen resolutions were put to the vote in the Mixed General Shareholders Meeting of 23 June 2006.

**The Board proposes, firstly, that seven resolutions be adopted by the Ordinary General Shareholders Meeting:**

### ***First resolution***

The first resolution covers the approval of the Company's consolidated and corporate financial statements for fiscal year 2005, after the reports of the Board of Directors and of the statutory auditors are heard.

### ***Second resolution***

The second resolution covers the allocation of the corporate income for fiscal year 2005 and dividends. The Board proposes to allocate the earnings of SYSTRAN S.A., totalling 4,213,010 euros, in the form of 4,002,360 euros to the carried forward account, and 210,650 Euros to the legal reserve.

The Board of Directors notes that no dividend was distributed during the last three fiscal years.

### ***Third resolution***

In the everyday business of a company, agreements may arise directly or indirectly between the company and another company with which it has directors in common, or even between the company and its executive management, or else with a shareholder who holds more than 10% of its capital. This is the purpose of the third resolution.

### ***Fourth resolution***

The purpose of the fourth resolution is to set the annual amount of attendance fees to be allocated to the members of the Board of Directors.

### ***Fifth resolution***

The fifth resolution takes note of the change of corporate name of the AMYOT EXCO GRANT THORNTON company which is now called GRANT THORNTON;

### ***Sixth resolution***

The sixth resolution concerns the decision not to renew the assignment of Statutory Auditor for the SALUSTRO REYDEL Company which has expired.

### ***Seventh resolution***

The seventh resolution concerns nomination of the KMPG SA Company as Statutory Auditor of the SYSTRAN Company.

### ***Eighth resolution***

The eighth resolution concerns the decision not to renew the assignment of substitute Statutory Auditor for Mr Patrick IWEINS which has expired.

### ***Ninth resolution***

The ninth resolution concerns the nomination of the SCP J.C. ANDRE Company, represented by Mrs Danielle PRUT-FOULATIERE in her capacity as substitute Auditor of the SYSTRAN Company.

### ***Tenth resolution***

In the tenth resolution the General Shareholders' Meeting takes note of the death of Mr Norbert von KUNITZKI, which occurred on 25 November 2005 and decides not to appoint another director to replace him. This resolution is vital with regard to the formalities required to modify the company's entry in the trade and companies register.

### ***Eleventh resolution***

The eleventh resolution authorises the Board of Directors to trade the Company's shares on the Stock Exchange pursuant to articles L. 225-209 of the Commercial Code.

We propose to authorise the Board of Directors to trade the Company's shares on the Stock Exchange pursuant to articles L. 225-209 of the Commercial Code, in order to:

- purchase and sell the Company's shares in order to stabilise prices through securities market trading, or according to market conditions,
- purchase Company shares which may specifically be used, in whole or in part, to be retained, sold, transferred or exchanged in order to encourage financial trading (including the remittance of shares during the exercise of rights attached to securities entitling the holder to Company shares through redemption, conversion, exchange, presentation of a warrant or in any other way), or for Company growth or to allocate them pursuant to article L 255-177 and thereafter of the Commercial Code, or through a company saving plan,
- the purchase of Company shares in order to cancel them, up to a maximum number not to exceed 10% of the capital stock, within the framework of the plan to authorise the capital reduction as mentioned in the eighth resolution of this meeting, in its extraordinary section,

This authorisation would be valid for a period of 18 months from this day, and cancels all previous delegations of the same type, and in particular the one granted in the eighth resolution of the Ordinary and Extraordinary General Shareholders Meeting of 24 June 2005.

**The Board proposes, secondly, that four resolutions be adopted by the Extraordinary General Shareholders Meeting:**

### ***Twelfth resolution***

The twelfth resolution concerns the authorisation to be given to the Board of Directors within the framework of the authorisation for the Company to purchase its own actions, to:

- reduce the capital stock by up to 10% of the capital stock through cancellation of all or part of the acquired shares in one or more stages,
- allocate the difference between the purchase value of the cancelled shares and the book value to premiums and available reserves.

This authorisation would be valid for a period of 24 months from this day, and cancels all previous delegations of the same type, and in particular the one granted in the ninth resolution of the Ordinary and Extraordinary General Shareholders Meeting of 24 June 2005.

### ***Thirteenth and fourteenth resolution***

The thirteenth and fourteenth resolutions concerning the authorisation to be given to the Board of Directors to increase the capital stock through issuance of shares, warrants, bonds and/or any securities giving access immediately or in the long term, at any time or on a fixed date, to the Company's capital, in a maximum par value not to exceed 15,000,000 euros (fifteen million euros), with or without issuance premium, to be subscribed and fully paid-in in cash at the time of subscription, with such new shares to be subject to all the Company's statutory provisions and to be assimilated to the old shares, and to enjoy the

same rights as of the first day of the fiscal year in which they were created and issued. Moreover, this authorisation is subject to a ceiling of 300,000,000 euros (three hundred million euros), including the issuance premium.

The purpose of the thirteenth resolution is to authorise the Board of Directors to increase the capital stock, in the conditions summarised above, with preservation of the preferential subscription right for shareholders to the securities to be issued. In addition the Board may award shareholders a reduced preferential subscription right.

The purpose of the fourteenth resolution is to authorise the Board of Directors to increase the capital stock, in the conditions summarised above, with cancellation of the preferential subscription right for shareholders to the securities to be issued. In addition the Board may award shareholders a priority subscription option on all or part of the issuance for a period and under conditions that it shall determine. This subscription priority would not give rise to the creation of negotiable rights but could, if the Board of Directors deems appropriate, be exercised on both a reducible and irreducible basis, noting that following the priority period the unsubscribed securities would be up for public placement.

These authorisations are intended to allow the Company to successfully complete its development projects by making use of the market in the best conditions.

These authorisations would be valid for a period of 26 months from this day, and would cancel all previous delegations of the same type, and in particular those granted in the ninth and tenth resolution of the Ordinary and Extraordinary General Shareholders Meeting of 25 June 2004.

#### ***Fifteenth resolution***

The fifteenth resolution concerns the powers to be delegated to the Board of Directors to increase the authorized capital in one or more times by a maximum amount of 300,000 euros by issuance of new shares to pay in cash reserved for the employees of the company participating in a company savings plan, in accordance with the provision of article L. 225-129 VI paragraph 1 of the Commercial code and L.443-5 of the Labour code.

This authorisation would be granted for a period of twenty-six (26) months from this day.

The total number of shares that could be subscribed by employees could not exceed three (3) % of the capital stock on the day of the Board of Directors' decision.

The share subscription price for the above-mentioned employees could be neither lower nor higher than 20% of the average quoted opening price of the share during the 20 trading sessions prior to the day of the Board of Directors' decision relating to the capital increase and the corresponding issuance of shares, nor higher than this average.

We point out to you that this draft is presented in order to comply with a legal requirement, but that the Board of Directors feels that it is inappropriate and has decided not to approve the relevant draft resolution, which it submits to your vote.

#### **The Board lastly proposes the adoption of a resolution coming under the Ordinary and Extraordinary General Shareholders Meetings:**

#### ***Sixteenth resolution***

Lastly, the sixteenth resolution is a standard resolution concerning the granting of the powers needed to complete the necessary legal publications and formalities.

## 8 RECENT DEVELOPMENTS AND OUTLOOK

### Revenue of the first quarter of 2006

- Revenue of € 2,020 K: down 15.0% compared to Q1 2005

28 April 2006 – SYSTRAN, the leading machine translation software publisher, today announced its revenue for the first quarter of 2006 (period from 1st January to 31 March 2006).

In thousands of euros	2006	As % of total	2005	As % of total	Change 2006/2005
Software Publishing	1,345	66.6%	1,843	77.6%	- 27.0%
Professional Services	675	33.4%	533	22.4%	+ 26.6%
Consolidated revenue	2,020	100.0%	2,376	100.0%	- 15.0%

#### Business in first quarter 2006

Licence sales amount to € 1,345 K compared to € 1,843 K in the first quarter of 2005 and represent 66.6% of first quarter revenue. This drop is caused by delays in order taking from major accounts and from the distribution network, due to the end of the version 5.0 life cycle, which will be replaced by a new version during the fourth quarter of 2006.

The sales of *Professional Services* are up +26.6% compared to the first quarter of 2005, thanks to new orders from the US government.

During the first quarter of 2006, SYSTRAN entered into numerous partnerships and launched SYSTRAN Mobile, a new translation software for PDAs whose impact on sales is not yet visible.

#### Outlook for 2006

SYSTRAN is concentrating its efforts on finalising the new version 6.0 which will offer many innovative functionalities, as well as new language pairs.

SYSTRAN 6.0 will be available in the fourth quarter of 2006 and will take over from version 5.0 which is coming to the end of its life cycle.

The company anticipates growth in licence sales in 2006 and is continuing its investment in marketing and sales.

## About SYSTRAN

SYSTRAN is the world leader in machine translation technologies and commercialises innovative solutions and products for individual workstations, business applications and online services that facilitate multilingual communication thanks to 40 language pairs and 20 business dictionaries.

With more than 30 years of research and development, SYSTRAN is the reference technology for multinational companies, major Internet players such as Google, Yahoo!, Altavista and Wanadoo, and public bodies such as the US Intelligence Community and the European Commission.

SYSTRAN products and solutions improve quality of multilingual communication and productivity in business contexts as varied as B2E, B2B and B2C relations, by providing instant translations for search engines, content management, customer support, e-commerce and collaborative exchanges between and within companies.

SYSTRAN's head office is in France; it has a subsidiary in San Diego, California (United States).

SYSTRAN (Code ISIN FR0004109197, Bloomberg: SYST NM, Reuters: SYTN.LN) is listed on Eurolist Compartiment C of Euronext Paris and is a member of the Euronext NextEconomy segment.

For more information visit the [www.systransoft.com](http://www.systransoft.com) or [www.systran.fr](http://www.systran.fr) web sites.

[http://www.systransoft.com/company/investors/financial\\_releases.html](http://www.systransoft.com/company/investors/financial_releases.html)



## 9 TIMETABLE FOR PUBLICATION OF THE FINANCIAL REPORTS

Revenue and income for the 1st half of 2006	4 August 2006
Revenue for the 3rd quarter of 2006	27 October 2006
Revenue and income for fiscal year 2006	14 February 2007
Revenue for the 1st quarter of 2007	27 April 2007

## 10 GLOSSARY OF TERMS USED

**Natural language:** language intended to be spoken by humans, as opposed to a programming language.

**Gisting:** language comprehension aid

**Internet Service Provider:** company providing Internet users with an Internet network connection: e.g. AOL, Club-Internet, CompuServe, Free or Wanadoo.

**Intranet:** internal network using communications protocols and sometimes Internet navigation tools.

**Localisation:** process of translating content (e.g. a Website) and adapting it to the specific cultural preferences of the target language.

**OEM:** Original Equipment Manufacturing: term used in the computer field to designate a product manufactured by a company to be incorporated into a product manufactured by another company that markets the product assembled under its own brand.

**Language pair:** machine translation terminology designating the pair consisting of a source language (to be translated) and a target language (translated). Example: from French into English.

**Portal:** generalist Web site, the purpose of which is to support a panel of current services (directory, research, knowledge base, e-mail, forums, etc) for Internet users who often make the home page the default for their browser, thus constituting an entry to the Web (hence the use of the word "Portal"). AltaVista, AOL, Google, Lycos and Yahoo! are Internet portals.

**"Powered by SYSTRAN"** means that the application is supported by SYSTRAN. It may be operated either by SYSTRAN or by a customer or partner.

## 11 REFERENCE AND CONSISTENCY TABLE

<b>1.</b>	<b>PERSONS RESPONSIBLE</b>	<b>2004 (p)</b>
<b>1.1.</b>	Declare all the persons responsible for the information contained in the reference document, and if applicable, certain parts of the reference document, in which case these parts must be indicated. When the persons responsible are physical persons, including members of the issuer's administrative, managerial or supervisory bodies, indicate their name and position. If they are legal entities, indicate their name and registered office.	<b>2004 (p) 107</b>
<b>1.2.</b>	Supply a declaration by the persons responsible for the reference document certifying that having taken all reasonable measures for the purpose, the information in the present reference document corresponds to reality and does not comprise any distorting omissions, to the best of their knowledge. If necessary, supply a declaration by the persons responsible for certain parts of the reference document certifying that having taken all reasonable measures for the purpose, the information contained in the part of the reference document for which they are responsible corresponds to reality and does not comprise any distorting omissions.	<b>2004 (p) 107</b>
<b>2.</b>	<b>STATUTORY AUDITORS</b>	
<b>2.1.</b>	Give the name and address of the issuer's statutory auditors, for the period covered by the historic financial information (also indicate if they belong to a professional body).	<b>p. 107 and 108</b>
<b>2.2.</b>	If the auditors have resigned, have been eliminated or have not been reappointed during the period covered by the historic financial information, divulge the details of this information if they are important.	<b>N/A</b>
<b>3.</b>	<b>SELECTED FINANCIAL INFORMATION</b>	
<b>3.1.</b>	Present the historic financial information selected for the issuer for each fiscal year in the period covered by this historic financial information and for the whole of any subsequent interim period, in the same currency. The selected historic financial information must contain the key elements summarising the issuer's financial situation.	<b>p. 13 to 15 and p. 32 to 37</b>
<b>3.2.</b>	If financial information has been selected for interim periods, comparative data covering the same period of the previous fiscal year must also be provided. Presentation of the closing balance sheets suffices however to satisfy the requirement for comparable balance sheet information.	<b>N/A</b>
<b>4.</b>	<b>RISK FACTORS</b>	
	In a section entitled "risk factors", highlight the risk factors inherent to the issuer or its business sector.	<b>p. 27 to 31</b>
<b>5.</b>	<b>INFORMATION ABOUT THE ISSUER</b>	
<b>5.1</b>	<b>Company history and changes</b>	
5.1.1	Issuer's corporate name and title	<b>p. 92</b>
5.1.2	Issuer's registration number and location	<b>p. 92</b>
5.1.3	Issuer's date of creation and duration, if it is not undetermined.	<b>p. 92</b>
5.1.4	Registered office and legal form of the issuer, legislation governing its activities, its country of origin, address and telephone number of its registered office (or of its main place of business, if different from its registered office)	<b>p. 92</b>
5.1.5	Important events in the development of the issuer's business	<b>N/A</b>

<b>5.2</b>	<b>Investments</b>	
5.2.1	Main investments (including their amount) made by the issuer during each fiscal year in the period covered by the historic financial information, up to the date of the reference document.	<b>p. 25 to 26.</b>
5.2.2	Main current issuer investments, including geographical locations of these investments (in the national territory and abroad) and their funding method (internal or external)	<b>N/A</b>
5.2.3	Information concerning the main investments the issuer is planning to make in the future, for which the management bodies have already made firm commitments.	<b>N/A</b>
<b>6.</b>	<b>OVERVIEW OF ACTIVITIES</b>	
<b>6.1</b>	<b>Main activities</b>	
6.1.1	Describe the nature of the operations performed by the issuer and its main activities - including key factors and related factors – mentioning the main categories of products sold and/or services provided during each fiscal year in the period covered by the historic financial information.	<b>p. 7 to 10; p. 18 to 21 and p. 32 to 37</b>
6.1.2.	Mention any new important product and/or service launched on the market, and if the development of new products or services has been advertised, indicate the state of progress of this development.	<b>p. 18 to 21 and p. 32 to 37</b>
<b>6.2</b>	<b>Main markets</b>	
	Describe the main markets where the issuer operates, giving a breakdown of the total amount of its revenue for each type of activity and each geographical market, for each fiscal year in the period covered by the historic financial information.	<b>p. 15 to 18</b>
<b>6.3</b>	If the information supplied for points 6.1 and 6.2 was affected by exceptional events, mention these events.	<b>N/A</b>
<b>6.4</b>	If the issuer's business or profitability is significantly influenced by patents or licences, industrial, commercial or financial contracts or new manufacturing procedures, provide summarised information concerning the issuer's degree of dependence on such factors.	<b>N/A</b>
<b>6.5</b>	Indicate the elements justifying any declaration by the issuer concerning its position in relation to competitors.	<b>p. 17</b>
<b>7.</b>	<b>ORGANISATIONAL CHART</b>	
<b>7.1.</b>	If the issuer is part of a group, briefly describe this group and the position the issuer has within it.	<b>p. 11 to 12</b>
<b>7.2.</b>	Draw up the list of the issuer's main subsidiaries, including their name, country of origin or establishment and the capital percentage and, if it is different, the percentage of voting rights the issuer holds.	<b>p. 12 and p. 76</b>
<b>8.</b>	<b>OWNERSHIP OF BUILDINGS, LAND, PLANTS AND EQUIPMENT</b>	
<b>8.1.</b>	Indicate any important existing or planned tangible fixed asset, including rented buildings and land, and any major expense pertaining to such property.	<b>p. 25</b>
<b>8.2.</b>	Describe any environmental issue that may influence the issuer's use of the tangible fixed assets.	<b>N/A</b>

<b>9.</b>	<b>EXAMINATION OF THE FINANCIAL SITUATION AND INCOME</b>	
<b>9.1</b>	<b>Financial situation</b>	<b>p. 38 to 81</b>
	Insofar as this information is not shown elsewhere in the reference document, describe the issuer's financial situation, the changes in this financial situation and the income from activities undertaken during each fiscal year and interim period for which the historic financial information is required. Indicate the causes of the major changes that have taken place from one fiscal year to another in this financial information, insofar as is necessary to understand the issuer's overall business activities.	
<b>9.2.</b>	<b>Operating income</b>	
9.2.1.	Mention the important factors, including unusual or infrequent events or new developments that have had a substantial impact on the issuer's operating income, and indicate the extent to which the issuer has been affected.	<b>p. 32 to 37</b>
9.2.2.	If the financial reports indicate major changes in the net revenue or net income, explain the reasons for these changes.	<b>N/A</b>
9.2.3.	Mention any governmental, economic, budgetary, monetary or political strategy or other factor that has had a substantial influence or could substantially influence the issuer's activities, directly or indirectly.	<b>N/A</b>
<b>10.</b>	<b>CASH FLOW AND CAPITAL</b>	
<b>10.1.</b>	Provide information about the issuer's capital (short-term and long-term).	<b>p. 55 to 57, 73.90 p. 92 to 106</b>
<b>10.2.</b>	Indicate the source and amount of the issuer's cash flow and describe these cash flows.	<b>p. 40</b>
<b>10.3.</b>	Provide information about the issuer's borrowing terms and conditions and financing structure.	<b>p. 29, p. 58, p. 73</b>
<b>10.4.</b>	Provide information about any restriction on use of capital that has had a substantial influence or could substantially influence the issuer's activities, directly or indirectly.	<b>N/A</b>
<b>10.5.</b>	Provide information concerning the expected sources of funding that will be necessary to fulfil the commitments listed in points 5.2.3 and 8.1.	<b>N/A</b>
<b>11.</b>	<b>RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES</b>	
	If these are important, provide a description of the research and development policies implemented by the issuer during each fiscal year in the period covered by the historic financial information, and indicate the cost of the research and development activities financed by the issuer.	<b>p. 25 to 26</b>
<b>12.</b>	<b>INFORMATION ABOUT TRENDS</b>	
<b>12.1.</b>	Indicate the main trends that have affected production, sales and stock levels, costs and sales prices since the end of the last fiscal year to the date of the reference document.	<b>p. 37 and p. 113 to 114</b>
<b>12.2.</b>	Point out any known trend, uncertainty, demand, commitment or event that may reasonably be considered likely to significantly influence the outlook for the issuer, at least for the current fiscal year.	<b>p. 113 to 114</b>
<b>13.</b>	<b>PROFIT FORECASTS OR ESTIMATES</b>	
	If the issuer decides to include a profit forecast or estimate in the reference document, it must contain the information listed in points 13.1 and 13.2:	<b>N/A</b>
<b>13.1.</b>	a statement setting out the main assumptions serving as the basis for the issuer's forecast or estimate. It is necessary to draw a clear distinction between assumptions relating to factors that can influence members of the administrative, managerial or supervisory bodies and assumptions relating to factors that are completely beyond their control. In addition these assumptions must be easy for investors to understand, specific and precise, and must not relate to the general exactness of the estimates underlying the forecast.	<b>N/A</b>

13.2.	a report drawn up by independent auditors or accountants, stipulating that in their opinion the profit forecast or estimate was drawn up correctly on the indicated basis and that the accounting methods used for the purposes of this forecast or estimate are in conformity with the accounting methods applied by the issuer.	N/A
13.3.	The profit forecast or estimate must be drawn up using a basis that is comparable to the historic financial information.	N/A
13.4.	If a profit forecast has been included in a leaflet which is still pending, provide a declaration indicating that this forecast is, or is not, still valid on the date of the reference document, and if necessary explain why it is no longer valid.	N/A
14.	<b>ADMINISTRATIVE, MANAGERIAL, SUPERVISORY AND EXECUTIVE MANAGEMENT BODIES</b>	
14.1	<p>Give the name, professional address and position of the following persons within the issuing company, and indicate the main activities they perform outside this issuing company if these activities are significant in relation to this company:</p> <ul style="list-style-type: none"> <li>a) members of administrative, managerial or supervisory bodies;</li> <li>b) general partners, if it is a partnership limited by shares;</li> <li>c) founders, if the company was founded less than five years ago; and</li> <li>d) any executive officer whose name can be given to prove that the issuing company has at its disposal the appropriate expertise and experience to run its own affairs.</li> </ul> <p>Indicate the nature of any family ties existing between any of these persons.</p> <p>For any person who is a member of an administrative, managerial or supervisory body and for any person concerned by points b) and d) of the first paragraph, provide detailed information about their managerial expertise and experience, as well as the following information:</p> <ul style="list-style-type: none"> <li>a) name of any companies and limited partnerships within which this person has been a member of an administrative, managerial or supervisory body or a general partner, at any time during the last five years (also indicate whether s/he still holds this position). It is not necessary to draw up the list of all the subsidiaries of an issuing company within which the person is also a member of an administrative, managerial or supervisory body;</li> <li>b) any conviction for fraud pronounced in the last five years at least;</li> <li>c) details of any bankruptcy, receivership or liquidation proceedings in which a person concerned by points a) and d) of the first paragraph and who is acting by virtue of any one of the positions listed in points a) and d) has been involved in the last five years at least;</li> <li>d) details of any incrimination and/or disciplinary action taken against such a person by the regulatory or statutory authorities (including the designated professional associations). It should also be indicated this person has ever been prevented by a court from taking up a position as member of a board of directors, management committee or supervisory board of an issuer, or from participating in the management or supervision of an issuer during the last five years at least.</li> </ul> <p>If no information of this kind has to be divulged, a statement to this effect must be provided.</p>	p. 82 to 84

<b>14.2.</b>	<b>Conflicts of interest at the level of administrative, managerial and supervisory bodies and the executive management</b> Potential conflicts of interest between the duties of any one of the persons concerned by point 14.1 with regard to the issuer, and their private interests and/or other duties must be clearly indicated. In the absence of such conflicts of interest, a statement to this effect must be provided.  Indicate any arrangement or agreement made with the main shareholders, customers, suppliers or others by virtue of which any one of the persons concerned by point 14.1 has been selected as a member of a board of directors, management committee or supervisory board or as a member of the executive management.  Give details of any restriction accepted by the persons concerned by point 14.1 with regard to the transfer of their holdings in the issuer's capital stock, after a certain period of time has elapsed.	<b>p. 82 to 84</b>
<b>15.</b>	<b>REMUNERATION AND BENEFITS</b>	
	For the whole of the last fiscal year, indicate for any person concerned by point 14.1, first paragraph, points a) and d):	
<b>15.1</b>	the amount of the remuneration paid (including any conditional or deferred remuneration) and the benefits in kind granted by the issuer and its subsidiaries for services of any kind which this person has provided to them.  This information must be supplied on an individual basis, unless individualised information is not required in the country of origin of the issuer or is published elsewhere by the issuer;	<b>p. 84</b>
<b>15.2.</b>	the total amount of the sums provisioned or recorded in addition by the issuer or its subsidiaries in order to pay pensions, retirement allowances or other benefits.	<b>N/A</b>
<b>16.</b>	<b>FUNCTIONING OF ADMINISTRATIVE AND MANAGERIAL BODIES</b>	
	For the issuer's last fiscal year, and subject to contradictory instructions, provide the following information concerning any person concerned by point 14.1, first paragraph, point a):	
<b>16.1</b>	the expiry date of this person's current assignment, if any, and the period during which s/he has remained in office;	<b>p. 82 to 85</b>
<b>16.2.</b>	information about the service contracts binding members of the administrative, managerial and supervisory bodies to the issuer or to any of its subsidiaries and providing for granting of benefits upon termination of such a contract, or else an appropriate negative declaration;	<b>p. 82 to 85</b>
<b>16.3.</b>	information about the issuer's audit committee and remuneration committee, including the names of members of these committees and a summary of the appointment by virtue of which they hold office.	<b>N/A</b>
<b>16.4.</b>	Also include a statement indicating whether or not the issuer complies with the system of corporate governance in force in its country of origin. If the issuer is not in compliance, the statement must include an explanation.	<b>p. 84</b>
	Report by the Chairman of the Supervisory Board on the internal control procedures. Auditors' report on the report by the Chairman of the Supervisory Board on the internal control procedures.	<b>p. 85 to 88</b>
<b>17.</b>	<b>EMPLOYEES</b>	
<b>17.1.</b>	Indicate either the number of employees at the end of the period covered by the historic financial information, or the average number of employees during each fiscal year in this period, up to the date of the reference document (as well as changes in this number, if they are significant) and, if possible, and if this information is important, the allocation of the employees to each principal type of activity and each site. If the issuer employs a large number of temporary workers, indicate also the average number of these temporary workers during the most recent fiscal year.	<b>p. 22</b>
<b>17.2.</b>	<b>Shares and stock options</b>	

	For each person concerned by point 14.1, first paragraph, a) and d), supply information that is as recent as possible about the shares they hold in the issuer's capital stock and any stock options they hold.	<b>p. 101 to 102</b>
<b>17.3.</b>	Describe any agreement providing for shareholding by employees in the issuer's capital.	<b>N/A</b>
<b>18.</b>	<b>MAIN SHAREHOLDERS</b>	
<b>18.1.</b>	Insofar as this information is known to the issuer, give the name of all persons who are not members of an administrative, managerial or supervisory body who directly or indirectly holds a percentage of the issuer's capital stock or voting rights, who must be notified by virtue of the national legislation applicable to the issuer, as well as the amount of the shares thus held, or if such persons do not exist, provide an appropriate negative statement.	<b>p. 101 to 102</b>
<b>18.2.</b>	Indicate whether the issuer's main shareholders have different voting rights, or supply an appropriate negative statement.	<b>p. 101 to 102</b>
<b>18.3.</b>	Insofar as this information is known to the issuer, indicate whether it is owned or controlled directly or indirectly, and by whom; describe the nature of this control and the measures taken to ensure that it is not exercised in an abusive manner.	<b>N/A</b>
<b>18.4.</b>	Describe any agreement known to the issuer, the implementation of which could subsequently bring about a change in control.	<b>N/A</b>
<b>19.</b>	<b>TRANSACTIONS WITH RELATIVES</b>	<b>N/A</b>
	<p>The detail of transactions with relatives (who for this purpose are those stipulated in the standards adopted in conformity with the regulation(CE) n° 1606/2002) entered into by the issuer during the period covered by the historic financial information up to the date of the reference document, must be divulged, in application of the relevant norm adopted in conformity with the said regulation, if this regulation applies to the issuer.</p> <p>If this is not the case, the following information must be published:</p> <ul style="list-style-type: none"> <li>a) the nature and amount of any operations which - considered in isolation or in their entirety - are important for the issuer. When the transactions with relatives are not entered into according to market conditions, explain why. In the case of ongoing loans, including guarantees of any type, indicate the outstanding amount;</li> <li>b) the amount or percentage for which the transactions with relatives are posted in the issuer's revenue.</li> </ul>	



<b>20.</b>	<b>FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS, FINANCIAL SITUATION AND INCOME</b>	
<b>20.1.</b>	<b>Historic financial information</b>	
	<p>Supply verified historic financial information for the last three fiscal years (or for any shorter period during which the issuer was in business) and the audit report drawn up for each fiscal year. For Community issuers, this financial information must be drawn up in conformity with regulation (CE) n° 1606/2002 or, if this regulation is not applicable, in conformity with the national accounting standards of a Member State. For the issuers from third countries, they must be drawn up in conformity with the international accounting standards adopted in application of the procedure stipulated in article 3 of regulation (CE) n° 1606/2002 or in conformity with the national accounting standards of a third party that are equivalent to these standards. In the absence of any equivalence, the financial information must be presented in the form of restated financial reports.</p> <p>The verified historic financial information for the last two fiscal years must be drawn up and presented in a format compatible with the format that will be adopted in the next annual financial statements the issuer will publish, taking into account the accounting standards, methods and legislation applicable to the said annual financial statements.</p> <p>If the issuer has been operating in its current business sector for at least one year, the verified historic financial information for this period must be drawn up in conformity with the norms applicable to the annual financial statements by virtue of regulation (CE) n° 1606/2002 or, if this is not applicable, in conformity with the national accounting standards of a Member State, if the issuer is a Community issuer. For the issuers from third countries, they must be drawn up in conformity with the international accounting standards adopted in application of the procedure stipulated in article 3 of regulation (CE) n° 1606/2002 or in conformity with the national accounting standards of a third party that are equivalent to these standards. This historic financial information must be verified.</p> <p>If the information is drawn up in conformity with national accounting standards, the verified financial information required for the purposes of the present section must include as a minimum:</p> <ul style="list-style-type: none"> <li>a) the balance sheet;</li> <li>b) the income statement;</li> <li>c) a statement indicating all the changes in shareholders' equity or the changes in shareholders' equity other than those caused by transactions on the capital with the owners and distribution to the owners;</li> <li>d) the financing table;</li> <li>e) the accounting methods and explanatory notes.</li> </ul> <p>The annual historic financial information must be verified by an independent entity or a statement must be incorporated indicating whether, for the purposes of the reference document they give a true reflection, in conformity with the auditing standards applicable in a Member State or with an equivalent standard.</p>	<b>p. 38 to 81</b>
<b>20.2.</b>	<b>Pro forma financial information</b>	
	<p>If the gross values are modified significantly, describe the way in which the transaction could have affected the assets, liabilities and income of the issuer, depending on whether it had taken place at the start of the relevant period or on the indicated date.</p> <p>This requirement will normally be fulfilled by including pro forma financial information.</p> <p>The pro forma financial information must be presented in conformity with appendix II and must include all the data relating to that appendix.</p> <p>It must include a report drawn up by independent auditors or accountants.</p>	<b>N/A</b>

<b>20.3.</b>	<b>Financial statements</b>	
	If the issuer draws up its annual financial statements on an individual and consolidated basis, in the reference document include at least the annual consolidated financial statements.	<b>p. 38 to 40</b>
<b>20.4.</b>	<b>Verification of annual historic financial information.</b>	
20.4.1.	Provide a statement certifying the historic financial information has been verified. If the auditors have refused to draw up an audit report on the historic financial information, or if this audit report contains reserves or notifications that it is impossible to express an opinion, this refusal, these reserves or these notifications must be reproduced in their entirety and accompanied by an explanation.	<b>p. 62 to 64, p. 78 to 81</b>
20.4.2.	Indicate what other information contained in the reference document has been verified by the auditors.	<b>p. 89</b>
20.4.3.	If the financial information appearing in the reference document is not taken from the issuer's verified financial statements, indicate its source and specify that it has not been verified.	<b>N/A</b>
<b>20.5.</b>	<b>Date of the latest financial information</b>	
20.5.1.	The latest fiscal year for which financial information has been verified must be no earlier than: a) at the most 18 months prior to the date of the reference document, if the issuer includes in it the interim financial statements that have been verified; b) at the most 15 months prior to the date of the reference document, if the issuer includes in it the interim financial statements that have not been verified.	<b>N/A</b>
<b>20.6.</b>	<b>Interim and other financial information</b>	
20.6.1.	If the issuer has published quarterly or half-yearly financial information since the date of its latest verified financial statements, this information must be included in the reference document. If this quarterly or half-yearly financial information has been examined or verified, the examination or audit report must also be included. If this is not the case, point this out. If the reference document was drawn up more than nine months after the last verified fiscal year, it must contain interim financial information, which does not have to be verified (in which case this must be indicated), covering at least the first six months of the new fiscal year. Interim financial information must be accompanied by comparative financial statements covering the same period of the previous fiscal year. However, presentation of the closing balance sheets is sufficient to satisfy the requirement for comparable balance sheet information.	<b>N/A</b>
20.6.2.	If the reference document was drawn up more than nine months after the last verified fiscal year, it must contain interim financial information, which does not have to be verified (in which case this must be indicated), covering at least the first six months of the new fiscal year. Interim financial information must be accompanied by comparative financial statements covering the same period of the previous fiscal year. However, presentation of the closing balance sheets is sufficient to satisfy the requirement for comparable balance sheet information.	<b>N/A</b>
<b>20.7.</b>	<b>Dividend distribution policy</b>	
	Describe the issuer's policy with regard to dividend distribution and any applicable restriction in this respect.	<b>p. 93</b>
20.7.1.	For each fiscal year of the period covered by the historic financial information, give the dividend amount per share, possibly corrected to allow comparisons when the number of the issuer's shares has changed.	<b>N/A</b>
<b>20.8.</b>	<b>Legal proceedings and arbitration</b>	
	Indicate for a period covering at least the last twelve months, any governmental, legal or arbitration proceedings (including any proceedings of which the issuer is aware but that have been suspended, or that have been threatened) which may have or may have had a significant impact on the financial situation or profitability of the issuer and/or the group, or provide an appropriate negative statement.	<b>N/A</b>

<b>20.9.</b>	<b>Significant change in the financial or commercial situation</b>	
	Describe any significant change in the group's financial or commercial situation that has occurred since the end of the last fiscal year for which the verified financial statements or interim financial statements have been published, or provide an appropriate negative statement.	<b>N/A</b>
<b>21.</b>	<b>ADDITIONAL INFORMATION</b>	
<b>21.1.</b>	<b>Capital stock</b>	<b>p. 99 to 100</b>
	Provide the following information, dated from the most recent balance sheet included in the historic financial information:	
21.1.1.	the amount of the subscribed capital, and for each share category: a) the number of authorised shares; b) the number of shares issued and fully paid in and the number of shares issued but not fully paid in; c) the face value per share, or the fact that the shares do not have a face value; and d) a reconciliation of the number of shares in circulation on the opening and closing dates of the fiscal year.  If more than 10 % of the capital was paid in by means of assets other than cash during the period covered by the historic financial information, point this out;	<b>p. 99 to 100</b>
21.1.2.	If there are shares not representing the capital, indicate their number and main characteristics;	<b>N/A</b>
21.1.3.	the number, book value and face value of the shares held by the issuer itself or in its name, or by its subsidiaries;	<b>p. 101</b>
21.1.4.	the amount of securities that are convertible, exchangeable or with subscription warrants, with an indication of the terms and conditions for conversion, exchange or subscription;	<b>N/A</b>
21.1.5.	information about the conditions governing any acquisition right and/or obligation attached to the subscribed capital, but not paid in, or about any enterprise aiming to increase the capital;	<b>N/A</b>
21.1.6.	information about the capital of any member of the group that is the subject of an option or a conditional or unconditional agreement providing for it to be an option, and the details of these options, including the identities of the persons to which they relate;	<b>N/A</b>
21.1.7.	a history of the capital stock for the period covered by the historic financial information, highlighting any change that has occurred.	<b>p. 101</b>
<b>21.2.</b>	<b>Incorporating document and by-laws</b>	
21.2.1.	Describe the corporate purpose of the issuer and indicate where it is stated in the incorporating document and by-laws.	<b>p. 92</b>
21.2.2.	Summarise any provision contained in the incorporating document, by-laws, charter or regulation from the issuer concerning members of its administrative, managerial and supervisory bodies.	<b>N/A</b>
21.2.3.	Describe the rights, privileges and restrictions attached to each category of existing shares.	<b>p. 95 and 96</b>
21.2.4.	Describe the actions necessary to modify the rights of shareholders and, if the conditions are stricter than provided for by law, point this out.	<b>p. 95 and 96</b>
21.2.5.	Describe the conditions governing the way in which the annual general shareholders' meetings and extraordinary general shareholders' meetings are convened, including the requirements for admission.	<b>p. 94 and 95</b>
21.2.6.	Briefly describe any provision in the incorporating document, by-laws, charter or regulation from the issuer the effect of which could be to delay, defer or prevent a change in control.	<b>N/A</b>
21.2.7.	Indicate if applicable any provision of the incorporating document, by-laws, charter or regulation setting the threshold above which any holding of shares must be divulged.	<b>p. 95</b>

21.2.8.	Describe the conditions imposed by the incorporating document and the by-laws, charter or regulation, governing modifications of the capital, if these conditions are stricter than provided for by law.	N/A
<b>22.</b>	<b>IMPORTANT CONTRACTS</b>	
	For the two years immediately preceding publication of the reference document, summarise each important contract (other than contracts entered into in the normal business context) to which the issuer or any other member of the Group is a party.  Summarise any other contract (other than contracts entered into in the normal business context) entered into by any member of the Group which contains provisions requiring any member of the Group to fulfil an obligation or commitment that is important for the whole of the Group, on the date of the reference document.	N/A
<b>23.</b>	<b>INFORMATION ORIGINATING FROM THIRD PARTIES, EXPERT STATEMENTS AND DECLARATIONS OF INTEREST</b>	
<b>23.1.</b>	When a statement or a report attributed to a person intervening as an expert is included in the reference document, indicate the name of this person, their business address, qualifications and if appropriate any major interest s/he holds in the issuer. If this statement or report was produced following a request from the issuer, attach a statement specifying that this document has been included as well as the form and context in which it was included, with an indication of the consent of the person who ratified the content of this part of the reference document.	N/A
<b>23.2.</b>	When information originates from a third party, provide an affidavit confirming that this information has been faithfully reproduced and that to the best of the issuer's knowledge and as far as it is able to guarantee in the light of the data published by this third party, no fact has been omitted that would make the reproduced information incorrect or misleading. In addition, identify the source(s) of the information.	N/A
<b>24.</b>	<b>DOCUMENTS AVAILABLE TO THE PUBLIC</b>	
	Provide a statement certifying that during the period of validity of the reference document, the following documents (or copy of these documents) can be consulted if necessary: a) the issuer's incorporating document and by-laws; b) all reports, correspondence and other documents, historic financial information, evaluations and statements drawn by an expert at the issuer's request, a part of which is included or referred to in the reference document; c) all reports, correspondence and other documents, historic financial information, evaluations and statements drawn by an expert at the issuer's request, a part of which is included or referred to in the reference document; d) the issuer's historic financial information, or in the case of a group, the historic financial information relating to the issuer and its subsidiaries for each of the two fiscal years preceding publication of the reference document. Indicate where the above documents can be consulted, on hard copies or by electronic means.	p. 108
<b>25.</b>	<b>INFORMATION ABOUT HOLDINGS</b>	
	Supply information about the enterprises in which the issuer holds a fraction of the capital that may have a significant impact on the appreciation of its assets, its financial situation or its income.	p. 76