



## **Consolidated Financial Statements**

**Period Ending 31 December 2005**

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**CONSOLIDATED BALANCE SHEET**

<b>ASSETS</b> (in thousands of Euros)	<b>Notes</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
Goodwill	3	358	358
Intangible assets	2	1 057	823
Tangible assets	4	928	884
Equity method investment	5	378	-
Other non-current financial assets	6	187	154
Long-term Tax liabilities	7	75	-
<b>Total non-current financial assets</b>		<b>2 983</b>	<b>2 219</b>
Inventory and Work in progress	8	127	171
Account receivables	9	5 626	4 313
Short term Tax liabilities	10	249	501
Other receivables	10	465	432
Prepaid expenses	10	807	437
Cash and cash equivalents	11	3 270	4 278
<b>Total current assets</b>		<b>10 545</b>	<b>10 132</b>
<b>TOTAL ASSETS</b>		<b>13 528</b>	<b>12 351</b>
<b>LIABILITIES</b>	<b>Notes</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
Capital	14	6 922	6 828
Premiums		15 185	15 118
Retained earnings		- 16 648	- 15 139
Cumulative translation account		27	- 69
Net income (loss)		- 1 636	- 2 204
<b>Total shareholders' equity</b>		<b>3 850</b>	<b>4 535</b>
	<i>Group</i>	<i>3 852</i>	<i>4 534</i>
	<i>Minority interests</i>	<i>- 1</i>	<i>- 1</i>
Other non-current liabilities	13	88	18
Non-current provisions	12	689	59
Long-term deferred income		350	222
<b>Total non-current liabilities</b>		<b>1 127</b>	<b>299</b>
Account payable		1 624	1 304
Tax liabilities		494	775
Employee-related liabilities		2 033	1 740
Short term Tax liabilities		48	37
Short-term deferred income		4 309	3 629
Other current liabilities		43	33
<b>Total current liabilities</b>		<b>8 551</b>	<b>7 518</b>
<b>TOTAL LIABILITIES</b>		<b>13 528</b>	<b>12 351</b>



**CONSOLIDATED INCOME STATEMENT**

<i>(in thousands of Euros)</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
<b>Net sales</b>	16	<b>22 917</b>	<b>22 641</b>
Cost of sales		- 1 964	- 2 218
<i>% of sales figure</i>		-8.6%	-9.8%
R&D expenses	17	- 3 139	- 3 893
<i>% of sales figure</i>		-13.7%	-17.2%
Selling expenses		- 11 085	- 10 149
<i>% of sales figure</i>		-48.4%	-44.8%
Marketing expenses		- 3 692	- 3 976
<i>% of sales figure</i>		-16.1%	-17.6%
General and Administrative expenses		- 3 689	- 4 022
<i>% of sales figure</i>		-16.1%	-17.8%
<b>Current operating income</b>		<b>- 651</b>	<b>- 1 618</b>
<i>% of sales figure</i>		-2.8%	-7.1%
Other operational income and expenses	18	- 1 084	- 574
<i>% of sales figure</i>		-4.7%	-2.5%
<b>OPERATING INCOME</b>		<b>- 1 735</b>	<b>- 2 192</b>
Financial income from cash and cash equivalents		64	75
Financial expenses		- 10	- 13
<b>Net financial cost</b>		<b>54</b>	<b>62</b>
Income tax	21	68	- 75
Share of income from equity method investment		- 23	
<b>NET INCOME (LOSS)</b>		<b>- 1 636</b>	<b>- 2 205</b>
Earnings per share in Euros:	22	- 0.49	- 0.67
Diluted earnings per share in Euros	22	- 0.49	- 0.67



**STATEMENT OF CONSOLIDATED CASH FLOW**

<i>(in thousands of euros)</i>	<b>2005</b>	<b>2004</b>
<b>Net consolidated income (loss)</b>	<b>- 1 636</b>	<b>- 2 205</b>
Share of income from equity method investment	23	
Depreciation and amortization	958	646
Expenses related to stock-based awards	42	
Other calculated costs and incomes		167
Capital gains and capital losses	81	
<b>Self-financing capacity after cost of financial indebtedness</b>	<b>- 532</b>	<b>- 1 392</b>
Interest paid	- 6	- 13
Interest received	60	75
Income tax , including differed taxes	- 68	75
<b>Self-financing capacity after financial expenses and taxes</b>	<b>- 546</b>	<b>- 1 255</b>
Income tax paid	53	- 18
Increase in account receivable and other receivables	-1 045	179
Increase in inventory	50	36
Reduction in account payable and other current liabilities	683	1 048
<b>Variance in working capital</b>	<b>- 259</b>	<b>1 245</b>
<b>NET CASH FLOW GENERATED BY OPERATING ACTIVITIES</b>	<b>- 805</b>	<b>- 8</b>
Acquisition of intangible assets	- 505	- 537
Acquisition of tangible assets	- 448	- 496
Disposal of tangible and intangible assets	16	
Increase, reduction in long-term investments	- 38	
Investment in affiliate enterprise	- 401	212
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>- 1 376</b>	<b>- 821</b>
Increase in capital	161	42
(Increases) Decrease in shareholder's equity	616	12
Other variances	24	
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>801</b>	<b>54</b>
<b>NET CASH FLOW</b>	<b>- 1 379</b>	<b>- 775</b>
Impact of foreign exchange variances	372	- 138
Cash at the beginning of the period	4 278	5 191
Cash at the end of the period	3 270	4 278



**CHANGES IN SHAREHOLDERS' EQUITY**

<i>(in thousands of Euros)</i>	Capital & share premium	Translation adjustment	Net income and retained earnings	Group shareholders' equity	Minority interests	Consolidated shareholders' equity
<b>On January 1, 2004</b>	<b>21 906</b>		<b>- 15 103</b>	<b>6 803</b>	<b>- 1</b>	<b>6 802</b>
Capital increase	42			42		42
Changes in translation adjustment		- 69		- 69		- 69
Changes in treasury shares			- 12	- 12		- 12
Other			- 25	- 25		- 25
2004 Net income			- 2 204	- 2 204		- 2 204
<b>Balance on December 31, 2004</b>	<b>21 948</b>	<b>- 69</b>	<b>- 17 344</b>	<b>4 535</b>	<b>- 1</b>	<b>4 534</b>
Changes in translation adjustment		96		96		96
Changes treasury Shares			624	624		624
Capital increase	161			161		161
Share subscription options			42	42		42
Other			30	30		30
2005 Net income			- 1 636	- 1 636		- 1 636
<b>Balance on December 31, 2005</b>	<b>22 109</b>	<b>27</b>	<b>- 18 284</b>	<b>3 852</b>	<b>- 1</b>	<b>3 851</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Accounting Principles

The Esker group's consolidated accounting reports were ordered by the Board of Directors and submitted to the Supervisory Board for approval on 28 March 2005.

#### ■ Significant Accounting Policies

In accordance with Regulation no. 1606/2002, which was adopted by the European Parliament and the Council of Europe on 19 July 2002, the Esker group's consolidated financial statements for FY 2005 were prepared in compliance with the IFRS (International Financial Reporting Standards) published by the IASB (International Accounting Standards Board) on 31 December 2005. The regulation adopting these standards appeared in the Official Journal of the European Union on the date the accounts were closed. The financial information from 2004 used for comparison was established using these same IFRS and in compliance with the IFRS 1 standard which relates to the first adoption of IFRS standards.

The effects of the transition to IFRS standards are described in **Note 29** of this document.

The Group's consolidated accounts were established in compliance with French accounting principles and rules until 31 December 2004. Therefore, Esker has applied the special rules of the first application, which were defined by the IFRS 1 standard. Generally, the IFRS standards in effect as of 31 December 2005 have been applied retrospectively, as if Esker has always used them.

IFRS 1, however, explicitly provides for a limited number of exceptions to this retrospective application of IFRS standards. These include mandatory exceptions such as keeping estimates made under the previous accounting method in IFRS (i.e. there is no "recalculation benefit"), and optional exemptions under which Esker has retained the option not to reprocess the following items retrospectively:

- Acquisitions and mergers prior to 1 January 2004 (IFRS 3 standard),
- Post Retirement commitments and other employee benefits (IAS 19 standard) thus leading to recognition through shareholder equity of all actuarial variances accumulated as of 1 January 2004,
- Translation of foreign company accounts following the IAS 21 standard. This results in cancellation of conversion variances accumulated as of 1 January 2004 (without impact on the total amount of shareholder equity),
- Shareholders' equity instruments granted prior to 7 November 2002 and those instruments to which the rights had been acquired in full by 1 January 2005.

In addition, Esker applied in advance the IAS 32 and IAS 39 standards to financial instruments to be reported from 1 January 2004.

#### ■ Consolidation Policies

The companies in which the Group exercises exclusive control are consolidated by global integration. Exclusive control means the direct or indirect power to steer the financial and operational policies of a company in order to derive benefit from its activities.

The companies in which the Group exercises considerable influence are consolidated under the equity method. These companies are referred to as "affiliates" in the consolidated financial statements.

Reciprocal charges, incomes, debts and credits are completely eliminated for globally integrated companies.

#### ■ Translation of Foreign Currency Transactions and Accounts

The Group's foreign subsidiaries operate in the local currency that is in effect.

For the purposes of the balance sheet, the accounts of foreign subsidiaries that do not use the Euro as their operating currency are converted into Euros at the rate at closure of the period. For income reporting and consolidated cash flow accounting, the average exchange rate for the period is used. The conversion differences are entered into a component separate from capital.



Transactions that companies perform in currencies other than their operating currency are converted at the exchange rate in effect at the time of the transaction or the foreign currency hedge rate in place, whichever is appropriate.

Monetary assets and liabilities expressed in foreign currencies are converted at the closing rate or the hedge rate that may be applied to them. Non-monetary assets and liabilities expressed in foreign currencies are generally converted using the exchange rate on the date of the transaction. Those assessed at fair value or to which a hedge may be applied may constitute exceptions.

The exchange differences resulting from converting foreign currency transactions are entered into the income statement under the heading "Other Incomes and Operational Costs." This is not the case, however, for those related to loans, which substantially constitute an integral part of net investment in a foreign subsidiary. These are entered as conversion reserves (and included with consolidated shareholder equity).

#### ■ Use of Estimates

Compiling financial statements in accordance with the conceptual framework of the IFRS standards requires that estimates be made and hypotheses formulated, which affect the amounts reported in the statements themselves.

The primary elements affected by the use of estimates and hypotheses are the long-term asset amortization terms, differed taxes and provisions.

These estimates are based on the best data available to management on the date the accounts were closed. A divergent evolution of the estimates and hypotheses selected could have an impact on the amounts reported in the financial statements.

#### ■ Mergers and Acquisitions

All the identifiable elements of acquired assets and acquired or potential liabilities are entered at their fair value as of the date that control was transferred to the Group (i.e. the acquisition date), regardless of whether or not any minority interest was taken into account

The cost of a corporate amalgamation is equal to the acquisition price, plus the costs directly attributable to the acquisition. Any surplus from the cost of acquisition over the net fair value of the acquired asset, liability and potential liabilities entered is entered for the asset under goodwill on acquisition.

Goodwill is not amortized but is put to a depreciation test at least once a year.

#### ■ Impairment loss on Goodwill, intangible and Fixed Assets with indefinite lives

In accordance with IAS 36 standard on asset depreciation, the value of goodwill and intangible and fixed assets with indefinite lives should be tested for impairment at least once a year as well as each time there is an indication that an asset may be impaired.

This test, that aims at taking into account any elements which could have had an impact on the recoverable amount of the assets, is carried out at each year end.

For the purposes of this test, the asset values are gathered by the Cash-Generating Unit (CGU) or the reporting unit. The CGU corresponds to the profit centers around which the Group organizes its business and analyzes its income when performing its internal reporting. These profit centers generally correspond to the legal entities.

When the CGU's recoverable value is lower than its net accounting value, a value loss is entered in the income statement under the heading "Other Operational Expenses and Incomes."

The CGU's recoverable value is the higher of the market value less sales costs and the going concern value. The going concern value is determined based on updated projections of future operational cash flow for 5 years and an end value assessed on the basis of an infinite capitalization of cash flows.

#### ■ Impairment Loss on Tangible and Intangible Assets with definite lives

When new events or situations indicate that the book value of certain tangible or intangible assets is not likely to be recoverable, this value is compared with its recoverable value, estimated based on the going concern value (calculated as the updated sum of estimated cash flows expected from use and possible divestiture of the assets) since their net fair value cannot be estimated reliably.



If the recoverable value is less than the net book value for these assets, the book value is reduced to the recoverable value (defined as the higher of the net fair value or the going concern value) by entering an asset value loss under "Other Operating Expenses and Incomes."

The asset's new value is depreciated projecting the new residual life of the asset.

### ■ Intangible Assets

In accordance with the IAS 38 standard, research costs are charged to expense and development costs are capitalized once the company can demonstrate the following:

- Its intent, as well as technical and financial capacity to successfully complete the development project,
- That it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise,
- That the costs of the intangible asset can be measured reliably.

The development costs invested by the Esker group essentially concern applications development and are tracked individually. They are evaluated based on direct wage costs plus social costs.

We divide development into two types:

- **Development intended for product maintenance:** Adaptation to new operating systems, corrective maintenance, etc. This type of development is not capitalized since it is geared towards ensuring sales of the product in question.
- **Development intended to create new products or introduce new functionalities to existing products.** The criteria for capitalizing these expenditures under IAS 38 are assessed by the marketing and R&D teams when the investments are initiated.

Costs for projects that are still in progress are entered as current intangible assets and are not amortized. These projects are however tracked and can result in depreciation, where appropriate.

The Group has not used the option under IAS 23 which permits it to incorporate financial costs incurred during the development period as capital expenses.

These development expenditures will be amortized over 5 years. Software acquired is amortized over 1 to 5 years.

### ■ Tangible Assets

The gross value of tangible assets is their historical acquisition price. Amortizations are calculated using the linear method for the following estimated periods of utility:

- General installations: 5 - 8 years
- Transport equipment: 3 - 5 years
- Office and computer equipment: 2.5 - 8 years
- Furniture: 5 years

The residual values are generally considered to be zero.

Properties leased financially are locked in when these contracts bring about transfer to the Group of almost all of the risks and benefits inherent to owning them.

Lease contracts for which the risks and benefits are not transferred to the Group are classed as simple leases. Payments for simple leases are entered as line expenses for the duration of the contract.

### ■ Inventory and Work in Progress

Inventory is assessed at its acquisition price or the net turn-over value, whichever is lower. These include:

- Consumables (CD-ROMs and packaging),
- Intelligent fax boards,
- Marketing material (brochures, etc.).



### ■ Treasury Shares

The cost of treasury shares acquired or held by the parent company or by one of the other members of the consolidated group is deducted from equity. Fluctuations in fair value over the course of the period that they are held are not recognized. Gain from disposal of these shares directly increases equity and does not impact net income of the period.

### ■ Cash and Cash Equivalents

This category covers liquid assets in banks, cash funds and investment securities. The latter are primarily short-term securities and treasury mutual funds.

Stocks held for transaction purposes are assessed at their fair value and latent profits and losses are entered under product income or finance charges.

### ■ Other Non-Current Financial Assets

Other non-current financial assets include deposits and indemnity bonds evaluated at amortized cost.

### ■ Provisions

In accordance with IAS 37, the provisions entered are constituted depending on case-by-case assessments of the corresponding expenses and risks. A provision is created each time the Group's executive bodies gain knowledge of a legal or implicit obligation resulting from a past event, which could result in a probable outflow of resources without the expectation of at least the equivalent return. Provisions are broken down among current liabilities and non-current liabilities depending on the anticipated term of the risk. Provisions having an expiration date of greater than one year are updated if the impact is significant.

### ■ Retirement Commitments

In compliance with current French law, the Group satisfies its obligations to finance the retirements of employees in France by paying salary-based contributions to agencies that manage retirement programs. There are no other commitments linked to these contributions.

French law also requires that, where appropriate, a one-time indemnity be paid at the time the employee retires. Considering the average age and seniority of the personnel, the retirement indemnities are not significant in nature and are not entered.

Most of the subsidiaries have opted to pay contributions. Retirement commitments are not significant.

### ■ Deferred Taxes

In accordance with IAS 12, deferred taxes corresponding to the temporary differences between the tax bases and receivables from consolidated assets and liabilities are recorded using the variable reporting method. Deferred tax assets are acknowledged when it appears likely that they will be realized on a date that can be reasonably determined.

Decreases in future taxes stemming from the use of tax losses carried forward (including amounts that can be reported without restriction) are only acknowledged when it is likely they will be recovered.

Differed tax assets and liabilities are not updated and are compensated within the same tax entity: company, tax group. Differed tax on elements related to shareholder's equity are entered under shareholder's equity.

Research tax credits are entered under the heading "Taxes" in the income statement.

### ■ Share-Based payment

When granting options, the Group assesses the fair value of the instruments on the date they are granted. The Group uses the Black & Scholes mathematical model to value them. Value changes after the date the shares are granted have no effect on this assessment. The fair value is entered as a line item in the income statement (under current operational results) for the period during which the rights are acquired in exchange for reserves.

All equity-settled share-based payments granted after 7 November 2002, that are not yet vested as of 1 January 2005 shall be accounted for using the provisions of IFRS 2 (charged as expense).



## ■ Revenue recognition

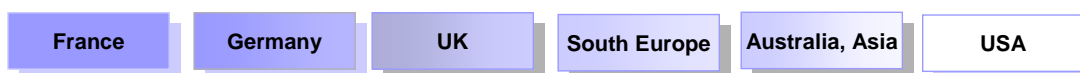
For recording sales, Esker adheres to the American SOP 97-2 standard. This American standard complies with IAS 18 and addresses issues in Esker's industry more directly. The sales figure is recorded when ownership of the products is transferred. It is entered net of any rebates or discounts afforded the customers.

## ■ Segment reporting

### *Primary segment: Geographical segment*

The Esker group is organized into business units that commercialize products in France and on foreign markets. It is at these units that the main sales and marketing investments are made. Hence, it is the profitability and risk tracking of these business units which are estimated and evaluated in the company's internal reporting. All the direct costs and sales for which a center is responsible are attached to it. These units cover each of the different geographical areas corresponding to the markets in which they operate. This is why Esker chose geography as primary segment for its segment information.

The breakdown is as follows:



There is no inter-sector external billing. Each sector invoices only within its own geographical area.

### *Secondary segment: Business segment*

Once the profitability of the business units is estimated, their sales are then analyzed by product line and profitability by product line is studied at the group level. Hence, business lines are the secondary segment of segment information.

The breakdown is as follows:

- Host Access servers
- Fax products
- Delivery Ware products

## ■ Standards and Interpretations Published but Not Yet in Effect

As of the date that these financial statements were approved, the following standards and interpretations had been published but were not yet in effect:

- IFRS 7 – Financial Instruments – Information to be provided (applicable in 2007)
- IFRIC 4 – Determining if an Agreement Contains a Lease Contract (applicable in 2006)
- IFRIC 8 – Scope of Application for IFRS 2 (applicable in 2007)
- Limited Revision of IAS 19 - Employee Benefits - Actuarial Losses and Gains, Group System and Information to be Provided (applicable in 2006)
- Limited Revision of IAS 39 – Financial Instruments: Accounting and assessment – The Fair Value Option (applicable in 2006)



**NOTE 1 Scope of Consolidation**

Company	Head office	2005		2004		Consolidation method <sup>(1)</sup>
		Control	Interest	Control	Interest	
<b>ESKER S.A.</b>	Lyon, France	<b>Consolidating Company</b>				
<b>ESKER GmbH</b>	Essen, Germany	100,00%	100,00%	100,00%	100,00%	FCM.
<b>ESKER Ltd</b>	Derbyshire, UK	100,00%	100,00%	100,00%	100,00%	FCM
<b>ESKER Srl</b>	Milan, Italy	100,00%	100,00%	100,00%	100,00%	FCM.
<b>ESKER Iberica SI</b>	Madrid, Spain	99,80%	99,80%	99,80%	99,80%	FCM.
<b>ESKER Inc</b>	Madison, United States	100,00%	100,00%	100,00%	100,00%	FCM.
<b>ESKER Australia Pty Ltd</b>	Sydney, Australia	100,00%	100,00%	100,00%	100,00%	FCM.
<b>Esker Software Asia Pacific Pte Ltd</b>	Singapore	49,00%	49,00%	N/A	N/A	EQUITY METHOD

(1) : FCM : Full consolidation method G.I. / E.M. : Equity method

Esker Software Asia Pacific entered into the fold in September 2005. The company was established jointly with the Lippo Group in which Esker holds a minority participation share of 49%. This company is consolidated following the equity method.



**NOTE 2 Segment reporting****■ Primary segment : geographical segment**

<b>As of 31 December 2005 in thousands of Euros</b>	France	Germany	United Kingdom	Southern Europe	Asia / Australia	U.S.	Eliminations	Other	<b>TOTAL GROUP</b>
External Sales	3 661	1 275	2 992	1 395	1 242	12 353			<b>22 917</b>
Intra-Group Sales	7 026	3		1		1 415	- 8 445		
Segment results outside of group	994	-413	898	94	- 263	3 246			<b>4 556</b>
Unallocated corporate expenses								- 5 207	<b>- 5 207</b>
<b>Current operating income</b>	<b>994</b>	<b>- 413</b>	<b>898</b>	<b>94</b>	<b>- 263</b>	<b>3 246</b>		<b>- 5 207</b>	<b>- 651</b>
Other operational costs and incomes	74					- 1 158			<b>- 1 084</b>
<b>Operating income</b>	<b>1 068</b>	<b>- 413</b>	<b>898</b>	<b>94</b>	<b>- 263</b>	<b>2 088</b>		<b>- 5 207</b>	<b>- 1 735</b>
Financial profit								54	<b>54</b>
Result for equity method companies					- 23				<b>- 23</b>
Taxes								68	<b>68</b>
<b>NET INCOME (LOSS)</b>									<b>- 1 636</b>

<b>As of 31 December 2004 in thousands of Euros</b>	France	Germany	United Kingdom	Southern Europe	Asia / Australia	U.S.	Eliminations	Other	<b>TOTAL GROUP</b>
External Sales	2 961	1 598	3 273	1 279	1 352	12 178			<b>22 641</b>
Intra-Group Sales	4 851	1				476	- 5 328		
Segment results outside of group	1 009	- 499	1 132	102	- 22	3 128			<b>4 851</b>
Unallocated corporate expenses								- 6 468	<b>- 6 468</b>
<b>Current operating income</b>	<b>1 009</b>	<b>- 499</b>	<b>1 132</b>	<b>102</b>	<b>- 22</b>	<b>3 128</b>		<b>- 6 468</b>	<b>- 1 618</b>
Other operational costs and incomes	- 96	- 170				- 308			<b>- 574</b>
<b>Operating income</b>	<b>913</b>	<b>- 669</b>	<b>1 132</b>	<b>102</b>	<b>- 22</b>	<b>2 820</b>		<b>- 6 468</b>	<b>- 2 192</b>
Financial profit								62	<b>62</b>
Result for equity method companies									
Taxes								- 75	<b>- 75</b>
<b>NET INCOME (LOSS)</b>									<b>- 2 205</b>

<b>As of 31 December 2005 In thousands of Euros</b>	France	Germany	United Kingdom	Southern Europe	Asia / Australia	U.S.	Eliminations	All segments	<b>TOTAL GROUP</b>
Acquisitions of fixed assets	589	23	19	9	37	277			<b>953</b>
Amortization, and provisions	252	30	28	51	47	801		105	<b>1 314</b>
Tangible and intangible assets	461	37	40	68	66	518		1 154	<b>2 343</b>
<b>Segment assets</b>	<b>2 690</b>	<b>431</b>	<b>1 440</b>	<b>814</b>	<b>849</b>	<b>4 963</b>			<b>11 185</b>
<b>Segment liabilities</b>	<b>2 650</b>	<b>509</b>	<b>1 880</b>	<b>554</b>	<b>102</b>	<b>3 981</b>			<b>9 677</b>

<b>As of 31 December 2004 In thousands of Euros</b>	France	Germany	United Kingdom	Southern Europe	Asia / Australia	U.S.	Eliminations	All segments	<b>TOTAL GROUP</b>
Acquisitions of fixed assets	572	6	7	47	25	380			<b>1 037</b>
Amortization, and provisions	262	20	3	27	24	232		32	<b>600</b>
Tangible and intangible assets	583	46	38	95	50	442		811	<b>2 065</b>
<b>Segment assets</b>	<b>2 064</b>	<b>850</b>	<b>1 754</b>	<b>699</b>	<b>650</b>	<b>4 267</b>			<b>10 286</b>
<b>Segment liabilities</b>	<b>2 153</b>	<b>834</b>	<b>887</b>	<b>506</b>	<b>502</b>	<b>2 935</b>			<b>7 817</b>



	France	Germany	United Kingdom	Southern Europe	Asia / Australia	U.S.	TOTAL
Staff on 31/12/2005	99	9	17	10	11	81	227
Staff on 31/12/2004	83	11	14	11	9	113	241

### ■ Secondary segment : business segment

In thousands of Euros	As of 31 December 2005					As of 31 December 2004				
	Host Accesses	Fax Server	Delivery Ware	All segments	GROUP TOTAL	Host Accesses	Fax Server	Delivery Ware	All segments	GROUP TOTAL
Sales	6 580	8 261	8 076		22 917	8 500	8 265	5 849	28	22 642
Segment assets net book value		179	975	12 374	13 528			453	11 898	12 351
Acquisitions of fixed assets			447	506	953			453	584	1 037

Because of Eskers geographic organization, the majority of assets cannot be clearly allocated to a product line. Only R&D costs and deployment of the "On Demand" activity have been attributed to the "DeliveryWare" activity.

### NOTE 3 Intangible assets

in thousands of Euros	31/12/2005			31/12/2004
	Gross value	Amortizations	Net Value	Net Value
Software	825	601	224	326
Development expenses	932	136	796	453
Other	111	73	37	45
<b>TOTAL INTANGIBLE ASSETS</b>	<b>1 868</b>	<b>810</b>	<b>1 057</b>	<b>823</b>

Development expenses correspond to:

- On one hand, development expenses initiated in 2005 to develop "DeliveryWare 4". These expenses have been locked in accordance with IAS 38 and will be amortized starting on the date it is commercialized (i.e. in April 2006).
- On the other hand, development expenditures for the "On Demand" activity. These are mainly wage costs.

Development costs are amortized over 5 years.



## ■ Variances

On 31/12/2005 <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Software	1 244	53	- 571	99	825
Development costs	485	447			932
Other	230	5	- 127	7	115
<b>TOTAL GROSS VALUES</b>	<b>1 959</b>	<b>505</b>	<b>- 698</b>	<b>106</b>	<b>1 873</b>

On 31/12/2004 <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Software	1 368	50	- 112	- 63	1 243
Development expenses		485			485
Other	245	2		- 17	230
<b>TOTAL GROSS VALUES</b>	<b>1 613</b>	<b>537</b>	<b>- 112</b>	<b>- 79</b>	<b>1 959</b>

## ■ Amortization

On 31/12/2005 <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Software	918	122	- 525	84	600
Development expenses	32	104			136
Other	188	10	- 127	10	80
<b>TOTAL AMORTIZATIONS</b>	<b>1 138</b>	<b>236</b>	<b>- 652</b>	<b>94</b>	<b>816</b>

On 31/12/2004 <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Software	949	146	- 121	- 56	918
Development expenses		32			32
Other	195	9		- 16	188
<b>TOTAL AMORTIZATIONS</b>	<b>1 144</b>	<b>187</b>	<b>- 121</b>	<b>- 72</b>	<b>1 138</b>

## ■ Goodwill

The goodwill value has undergone a depreciation test as part of the annual account closing using the method described in the accounting principles. This test did not result in depreciation either in 2005 or in 2004.

<i>In thousands of Euros</i>	Goodwill
Gross value on 01/01/2004	358
Depreciation for period	
Net Value on 31/12/2004	358
Depreciation for period	
<b>Net Value on 31/12/2005</b>	<b>358</b>



**Note 4 Tangible assets**

<i>In thousands of Euros</i>	31/12/2005			31/12/2004
	Gross Value	Amortizations	Net Value	Net Value
Office and computer equipment:	1 872	1 273	599	501
Fixtures and improvements	299	155	144	132
Transport equipment	291	217	75	128
Furniture	322	211	111	123
<b>TOTAL TANGIBLE ASSETS</b>	<b>2 783</b>	<b>1 855</b>	<b>928</b>	<b>884</b>

**■ Variances**

<b>On 31/12/2005</b> <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Office and computer equipment	2 055	377	- 735	175	1 872
Fixtures and improvements	297	52	- 72	21	299
Transport equipment	313		- 22		291
Furniture	399	18	- 129	34	322
<b>TOTAL GROSS VALUES</b>	<b>3 064</b>	<b>448</b>	<b>- 958</b>	<b>230</b>	<b>2 783</b>

<b>On 31/12/2004</b> <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Office and computer equipment	2 890	359	- 1 038	- 156	2 055
Fixtures and improvements	461	16	- 157	- 24	297
Transport equipment	303	26	- 15		313
Furniture	626	100	- 294	- 33	399
<b>TOTAL GROSS VALUES</b>	<b>4 280</b>	<b>501</b>	<b>- 1 504</b>	<b>- 213</b>	<b>3 064</b>

**■ Amortization**

<b>On 31/12/2005</b> <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Office and computer equipment	1 554	294	- 705	130	1 273
Fixtures and improvements	168	40	- 58	5	155
Transport equipment	185	54	- 22		217
Furniture	275	37	- 130	29	211
<b>TOTAL AMORTIZATIONS</b>	<b>2 181</b>	<b>424</b>	<b>- 915</b>	<b>164</b>	<b>1 855</b>

<b>On 31/12/2004</b> <i>In thousands of Euros</i>	Opening	Increases	Abatements	Differenc e	Closing
Office and computer equipment	2 429	300	- 1 109	- 66	1 554
Fixtures and improvements	283	49	- 169	4	167
Transport equipment	137	56	- 8		185
Furniture	544	53	- 308	- 14	276
<b>TOTAL AMORTIZATIONS</b>	<b>3 393</b>	<b>458</b>	<b>- 1 594</b>	<b>- 77</b>	<b>2 181</b>



## NOTE 5 Other non-current assets

Other non-current assets consist of deposits and security bonds paid.

## NOTE 6 Tax liabilities – Long term

This consists of research tax credit.

## NOTE 7 Equity method investments

<i>In thousands of Euros</i>	<b>31/12/05</b>
Cost of acquiring equity method investment	401
Share of income after acquisition	- 23
<b>EQUITY METHOD INVESTMENTS</b>	<b>378</b>

Esker Software Asia Pacific (ESAP) joined the fold in September 2005. The company was established jointly with the Lippo Group, in which Esker holds a 49% minority participation share.

The following provides a summary of the main financial information about ESAP:

<i>In thousands of Euros</i>	<b>31/12/05</b>	<i>in k€</i>	<b>31/12/05</b>
Total assets	423		
Total liabilities	14	Sales	8
Shareholders' equity	409		
<b>Group share of shareholders' equity</b>	<b>200</b>	Net income (loss) for the period	- 47
Goodwill	178		
Goodwill depreciation	-		
<b>EQUITY METHOD INVESTMENTS</b>	<b>378</b>	<b>GROUP'S SHARE OF THE INCOME</b>	<b>- 23</b>



**NOTE 8 Inventory and Work in Progress**

Merchandise inventory corresponds to intelligent fax boards sold with certain of our fax servers.

<i>In thousands of Euros</i>	2005			2004
	Gross	Depreciation	Net	Net
CD-ROMs, packaging, marketing brochures	103	- 2	101	97
Merchandise	26		26	74
<b>TOTAL INVENTORY</b>	<b>129</b>	<b>- 2</b>	<b>127</b>	<b>171</b>

**NOTE 9 Customers and Accounts Receivable**

There is no credit risk concentration from accounts receivable due to the large number of customers and their international distribution.

The fair value for customer accounts receivable is close to the book value.

<i>In thousands of Euros</i>	31/12/05	31/12/04
Customer accounts receivable - Gross	5 855	4 466
Depreciation	- 230	- 153
<b>NET ACCOUNTS RECEIVABLE</b>	<b>5 625</b>	<b>4 313</b>

**NOTE 10 Other Current Assets**

The corporate income tax claim at less than one year primarily includes a carry back of 198k Euros payable as of 1 January 2006. Other tax receivables are mostly from the VAT.

<i>In thousands of Euros</i>	Net value on 31 Dec 2005	Net value on 31 Dec 2004
Corporate income tax claim at less than one year	249	501
Other tax claims	365	352
Advance charges	807	437
Other receivables	100	80
<b>TOTAL OTHER CURRENT ASSETS</b>	<b>1 521</b>	<b>1 370</b>

**NOTE 11 Cash and Cash Equivalents**

<i>In thousands of Euros</i>	Net value on 31 Dec 2005	Net Value on 31 Dec 2004
Investment securities	1 775	2 757
Cash and cash equivalents	1 495	1 521
<b>NET CASH TOTAL</b>	<b>3 270</b>	<b>4 278</b>



**NOTE 12 Provisions**

<i>In thousands of Euros</i>	1/01/05	Increase, allowance for the fiscal year	Amounts used during the fiscal year	Amounts unspent carried forward for the fiscal year	Other variations	31/12/05
<b>Risk provisions</b>	59	613		- 18	35	689
<i>Portion at less than one year</i>						
<i>Portion at over one year</i>	59					689

**NOTE 13 Other Non-current Liabilities**

These consist of up to 24k Euros in conditional advances from Anvar and 64k Euros in tax and social debts for the Italian subsidiary.

**NOTE 14 Authorized Capital**

On 31 December 2005, the authorized capital consisted of 3,461,201 shares with a nominal value of 2.00 Euros each. All shares issued are paid in full. Considering the fact that treasury stock carries no voting rights, there were 3,430,218 voting rights attached to the capital on 31 December 2005.

Change in authorized capital in 2004 and 2005 was as shown below:

<i>In thousands of Euros</i>	31/12/2005	31/12/2004
Authorized capital at the beginning	6 828	6 828
Stock options exercised	74	
Stock warrants exercised	20	
<b>AUTHORIZED CAPITAL AT THE END OF THE PERIOD</b>	<b>6 922</b>	<b>6 828</b>

<i>In number of shares</i>	31/12/2005	31/12/2004
Balance at opening	3 414 161	3 414 161
Stock options exercised	37 040	
Stock warrants exercised	10 000	0
<b>BALANCE AT CLOSING</b>	<b>3 461 201</b>	<b>3 414 161</b>

In December 2005, Esker saw an increase in capital from the free allotment of stock warrants. 3.277 million Euros were raised. This increase in capital is not entered into the reports for 2005 since the funds were received in January 2006.

**NOTE 15 Treasury Stock**

Esker held 30,983 shares of treasury stock on 31 December 2005 (i.e. 0.9% of the capital) versus 139,888 shares (or 4.1%) on 31 December 2004.



**NOTE 16 Net sales**

<i>In thousands of Euros</i>	<b>31/12/05</b>	<b>31/12/04</b>
Software sales	12 006	12 938
Fax card sales	1 347	1 704
Product update and maintenance contracts	6 821	6 552
Services	2 743	1 447
<b>NET SALES</b>	<b>22 917</b>	<b>22 641</b>

**NOTE 17 R&D Expenses**

<i>In thousands of Euros</i>	<b>31/12/05</b>	<b>31/12/04</b>
R&D costs for the period	-3 482	- 4 346
Capitalized development costs	447	485
Amortization of capitalized development costs	- 105	- 32
<b>R&amp;D COSTS NOT CAPITALIZED</b>	<b>- 3 139</b>	<b>- 3 893</b>

**NOTE 18 Other Operational Income and Expenses**

<i>In thousands of Euros</i>	<b>31/12/05</b>	<b>31/12/04</b>
USA restructuring costs	- 449	- 223
Corporate, legal litigation and other charges	- 709	- 255
Exchange gains (losses)	74	- 96
<b>OTHER OPERATIONAL INCOME AND EXPENSES</b>	<b>- 1 084</b>	<b>- 574</b>

**NOTE 19 Employee-related Expenses**

<i>In thousands of Euros</i>	<b>31/12/05</b>	<b>31/12/04</b>
Employee compensation	11 891	12 320
Social security expenses	3 169	3 122
Fees tied to payments in shares	42	
<b>EMPLOYEE-RELATED EXPENSES</b>	<b>15 103</b>	<b>15 442</b>

**NOTE 20 Depreciation and Amortization**

<i>In thousands of Euros</i>	<b>31/12/05</b>	<b>31/12/04</b>
Fixes assets amortization	661	646



**NOTE 21 Income tax****■ Analysis of income tax**

<i>In thousands of Euros</i>	31/12/05	31/12/04
Current tax income/expense	68	- 75
Deferred tax expense/income	0	0
<b>INCOME TAX EXPENSE/</b>	<b>68</b>	<b>- 75</b>

**■ Deferred Taxes**

<i>In thousands of Euros</i>	31/12/04	Variation	31/12/05
Deferred taxes on timing differences	320	- 268	52
Tax on loss carried forward	6 818	- 1 288	5 530
Taxes on consolidation entries and misc.	- 51	- 93	- 144
Depreciation	- 7 087	1 649	- 5 438
<b>TOTAL DEFERRED TAXES IN BALANCE SHEET</b>	<b>0</b>	<b>0</b>	<b>0</b>

Reportable deficits on which no deferred tax asset is recognized rose to 5.530 million Euros at the close of the fiscal year. This mainly concerns the French, American and Australian companies.

**■ Current Tax Rate**

<i>In thousands of Euros</i>	31/12/05	31/12/04
Income of integrated companies	- 1 613	- 2 208
Corporate taxes	- 68	75
<b>Net income before taxes</b>	<b>- 1 681</b>	<b>- 2 133</b>
Corporate tax rate of the parent company	34,33%	34,33%
<b>Theoretical tax credit/burden</b>	<b>- 577</b>	<b>- 732</b>
Impact of:		
• Different tax rates of foreign countries	100	133
• Flat-fee taxes for France & subsidiaries	15	19
• Research tax credit	- 75	
• No recognition of Deferred tax assets (use of Deferred tax assets)	17	661
• Restatements on consolidation and timing differences	453	- 6
<b>ACTUAL INCOME TAX EXPENSE/INCOME</b>	<b>- 68</b>	<b>75</b>
Current tax rate	4%	-3%



## NOTE 22 Earnings per Share

The following shows the figures for the base earning and diluted earning per share for the fiscal years ending 31 December 2005 and 2004.

Earnings	31/12/2005	31/12/2004
Earning for the purpose of basic earning per share in Euros	- 1 636 191	- 2 204 648
Earning for the purpose of basic earning per share in Euros	- 1 636 191	- 2 204 648
Number of shares	31/12/2005	31/12/2004
Weighted average number of ordinary shares for the purpose of basic earnings per share	3 317 911	3 274 273
Subscription options	(*)	(*)
Stock warrants	(*)	(*)
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3 317 911	3 274 273

(\*) When the instruments closed, stock warrants and share subscription options are not diluted by the loss the Group posted and are not used in computing the diluted result.

## NOTE 23 Financial Risk Management Policies and Objectives

### ■ Interest Rates and Liquidity Risks

At the end of 2005, Esker had no financial debt. As of 31 December 2005, Esker SA had available an overdraft line of credit of €50,000 which has not been used.

Esker increased capital up to 3.277 million Euros. This was underwritten in January 2006. This increase in capital combined with improved business activity for the fourth quarter provided Esker with sufficient cash reserves to finance its activities.

Since the company has a positive cash reserve, a drop in interest rates would reduce financial income.

### ■ Foreign Exchange Risk

Twenty-eight percent of the company's consolidated sales are in Euros. Each Esker subsidiary invoices its own clients in the subsidiary's currency. Therefore, foreign exchange risk incurred by Esker principally concerns inter-company billings in USD, GBP or AUD. These involve short-term transactions between Esker France and its subsidiaries (invoicing for products, services, royalties, etc.).

As of 12/31/2005 and 31/12/2004, Esker's exposure to foreign exchange risk was as follows:

As of 31 Dec 2005	USD	GBP	AUD
Assets	1 324 440	524 521	866 586
Liabilities		- 178 610	
<b>Position before hedging</b>	<b>1 324 440</b>	<b>345 911</b>	<b>866 586</b>
Hedging instruments	None	None	None
<b>NET POSITION AFTER HEDGING</b>	<b>1 324 440</b>	<b>345 911</b>	<b>866 586</b>



As of 31 Dec 2005	USD	GBP	AUD
Assets	4 962 419	1 251 322	1 185 994
Liabilities	4 217 037	689 792	6 287
Position before hedging	745 382	561 530	1 179 707
Hedging instruments	None	None	None
<b>NET POSITION AFTER HEDGING</b>	<b>745 382</b>	<b>561 530</b>	<b>1 179 707</b>

The procedure for hedging foreign exchange risks takes the following into account:

- Currency rate developments and the medium-term economic context,
- The existence of a known date of recovery or payment,
- The volatility of the currency.

**US Dollar:** The net position after hedging is essentially comprised of invoicing for the months of November and December.

**Receivables and debts in GBP** are regularly hedged according to the principles described above. The unhedged amount on 31 December 2005 corresponds to invoices in the amount of GBP 154,000 for the end of December.

**As the debt charged in Australian dollars** is gradually being repaid from the surpluses generated by the subsidiary, the company also decided not to hedge its AUD exposure.

## NOTE 24 Related Parties transactions

The only related parties involved are the members of the Board of Directors and the Supervisory Board, as well as the Esker Software Asia Pacific affiliate. Compensation and benefits of all types paid to company officers are detailed in the paragraphs below.

Moreover, the Esker Inc. subsidiary rents its Stillwater offices to Russel Teubner, a member of the Supervisory Board. For fiscal years 2004 and 2005, Esker Inc. paid and entered a charge of 119 thousand Euros and 103 thousand Euros respectively.

The consolidated financial statements include operations the Group performed within the normal framework of its activities with its affiliate Esker Software Asia Pacific. These transactions are at market price and are not significant for 2005. They mainly involve Esker SA's sale of licenses and update contracts to Esker Software Asia Pacific for resale.

### Compensation Paid to Executives

In Euros	2005	2004
Supervisory Board	84 897	85 494
Board of Directors	206 724	193 381
<b>Salaries and other short-term benefits</b>	<b>291 621</b>	<b>278 875</b>
Long-term benefits		
Stock-based payments		
<b>TOTAL</b>	<b>291 621</b>	<b>278 875</b>



## NOTE 25 Share-Based Payments

### ■ Expenses for Share Based Payments

The Group posted a compensation expense for share-based payments. This was 42 thousand Euros in 2005 (none in 2004).

The Group implemented plans to attract employee and executive interest in capital. To do this, it deployed a certain number of tools such as stock warrants and stock subscription options.

Only those plans granted after 7 November 2002 and for which the rights had not been acquired by 1 January 2005 have been restated in accordance with IFRS 2.

### ■ Stock Options Granted to Employees and Executives

The features of the plans are shown below.

Date of Board of Directors Decision	Maturity Date	Expiration Date	Exercise price in Euros	Number of options granted	Number of options in circulation on 31/12/05	Number of options in circulation on 31/12/2004	Number exercisable in 2005	Number exercisable in 2004
16/06/2000	15/06/2005	15/06/2005	27.25	11 200		500		500
*	09/10/2005	09/10/2005	\$3.32	67 758		11 634		11 634
*	09/10/2005	09/10/2005	\$8.21	9 430		9 430		9 430
*	09/10/2005	09/10/2005	\$12.73	3 929		3 929		3 929
*	09/10/2005	09/10/2005	\$15.27	31 433		23 575		23 575
13/10/2000	12/10/2005	12/10/2005	12.56	17 700		800		800
13/10/2000	12/10/2005	12/10/2005	17.93	65 200		56 300		56 300
25/01/2001	24/01/2006	24/01/2006	7.77	201 662	33 904	52 404	33 904	49 129
17/04/2001	16/04/2006	16/04/2006	5.02	180 912	136 768	109 496	136 768	95 809
16/07/2001	15/07/2006	15/07/2006	4.91	33 916	13 212	21 462	13 212	17 438
12/09/2001	11/09/2006	11/09/2006	4.33	10 000		10 000		8 125
28/12/2001	27/12/2006	27/12/2006	5.16	59 408	9 048	18 806	9 048	14 105
01/07/2002	30/06/2007	30/06/2007	3.14	16 674	7 712	8 112	6 748	5 070
03/01/2003	03/01/2008	03/01/2008	2.51	41 592	9 508	33 996	6 537	14 873
01/07/2003	30/06/2008	30/06/2008	3.74	45 652	18 512	35 036	11 570	13 139
02/01/2004	01/01/2009	01/01/2009	3.2	27 746	17 044	22 338	7 457	
30/06/2004	29/06/2009	29/06/2009	2.9	81 444	52 944	81 444	19 854	
04/01/2005	03/01/2010	03/01/2010	3.1	80 529	79 729			
04/07/2005	03/07/2010	03/07/2010	4.89	37 380	34 880			
<b>TOTAL</b>				<b>1 023 565</b>	<b>413 261</b>	<b>499 262</b>	<b>245 098</b>	<b>323 855</b>

\*When VSI, Inc. was acquired on October 10, 2000, the stock option plan then in operation was converted to the Esker S.A. stock option plan in accordance with the acquisition agreement. The conditions for exercising the options remain the same as under the initial plan.



The table below illustrates the number of options in circulation and their average weighted exercise price.

In Euros.	2005	2004
Average weighted exercise price	4.33	6.42
<b>Number of options in circulation</b>		<b>2005</b>
Options in circulation at opening		499 262
Options exercised		- 37 040
Options granted		117 909
Options matured		- 79 413
Options cancelled		- 87 457
<b>OPTIONS IN CIRCULATION AT CLOSING</b>		<b>413 261</b>

The following illustrates the main data and presumptions supporting the fair value assessment for the stock options:

Date options granted	Projected volatility	No-risk interest rate	Option life duration	Dividend return	Subscription price	Fair value for option
04/01/2003	25%	3.50%	5 years	0.00%	2.51	0.82
01/07/2003	25%	3.25%	5 years	0.00%	3.74	0.75
02/01/2004	25%	3.00%	5 years	0.00%	3.20	0.87
30/06/2004	25%	3.00%	5 years	0.00%	2.90	0.82
04/01/2005	25%	3.00%	5 years	0.00%	3.10	0.89
04/07/2005	25%	3.00%	5 years	0.00%	4.89	1.95

### ■ Purchase Options

AG date	Implementation date	No. of options attributable	Exercise price	Number of options remaining to be acquired on 31/12/2005	
18/04/1997		63 750			
	13/10/2000		12,56		
	17/04/2001		5,02		8 072
	01/07/2002		3,14		512
09/04/1998		85 534			
	13/10/2000		12.56		
	28/12/2001		5.16		3 400
	01/07/2002		3.14		2500

### ■ Stock Warrants

The characteristics of the stock warrants in circulation in 2004 and 2005 are as follows:

Stock Warrants	2004 Plan	2001 Plan
Date of Board of Directors decision	24/06/2004	18/06/2001
Expiration date	30/06/2009	17/06/2006
Exercise price in Euros	3,88	5,29
Number of stock warrants granted	200 000	40 000
Number of stock warrants in circulation on 31/12/05	200 000	30 000
Number of stock warrants in circulation on 31/12/04	200 000	40 000
Number of potential stocks on 31/12/05	200 000	30 000



## NOTE 26 Post-Closing Events

The increase in capital that Esker launched on 15 December 2005 by granting free stock warrants closed on 28 December 2005.

With a subscription rate of 87.48%, this operation was a clear success and great numbers of Esker shareholders adhered to it. Income from the issue was 3,277,652 €. The new stocks, which are assimilated into existing stocks, will be quoted starting on Thursday, 5 January 2006.

The funds raised by this operation will enable Esker to accelerate development of its "Esker on Demand" offering with the following goals:

- To increase the processing capacity of its existing production centers over the next three years,
- To establish new mailing factories in the United Kingdom and Australia,
- To introduce new functionalities, such as electronic archiving.

## NOTE 27 Commitments

### Guaranties Issued

- Letters of guarantee issued by Esker SA for Esker Srl (Italy) to enter into a vehicle lease agreement for a sum corresponding to the outstanding balance due on 31/12/2005, i.e. 44k Euros (56k Euros on 31/12/2004).
- Letter of guarantee issued by Esker SA for Esker Inc. to lease office space in Madison, for an amount of 1.394 million USD with an expiration of 31/07/2009 (the amount on 31/12/2004 was 1.758 million USD).

### Simple Lease Commitments on 31/12/2005

<i>In thousands of Euros</i>	<b>31/12/2005</b>	<b>31/12/2004</b>
Building leases	3 292	3725
Other leases	435	288
<b>TOTAL LEASE CONTRACT COMMITMENTS</b>	<b>3 727</b>	<b>4 014</b>
<i>Portion for less than one year</i>	<i>1 066</i>	
<i>Portion for over one year</i>	<i>2 660</i>	

There are no lease contracts that expire later than 31/12/2010. The majority of the lease contracts are for business premises. The duration (3 to 10 years), price index clauses and renewals are specific for each country. Other lease contracts are primarily for vehicles and one folding and franking machine in France.

The amount paid for leases in 2005 was 1.107 million Euros, of which 912k Euros for building leases.

## Note 28 Litigation

The Group is currently the defendant in a lawsuit involving a conflict with an American company that claims Esker committed a number of patent violations against it. The American company is seeking 1.0 million dollars in damages (i.e. 0.8 million Euros).

The information traditionally required under IAS 37 is not provided here since doing so could seriously prejudice the company with regard to resolving this case.

Given the current state of the case, the Group is confident in the outcome of this case.



## Note 29 Transitions to IFRS

### Progress of the Project for Transitioning to IFRS and the Options Applied under the First Application of IFRS

The first stage in the transition to IFRS consisted of preparing an opening balance sheet for 1 January 2004. This constituted the starting point for applying IFRS standards. The comparative accounts for 2004 were restated using IFRS standards. At the same time as the figures for the first quarter of 2005 were being released, this resulted in the publication of a special note on the transition enabling us to reconcile the accounts established using French accounting principles with those prepared according to IFRS standards. These transition tables, accompanied by explanatory notes, specifically introduced the impact of the transition to IFRS on the following: the fluctuation in shareholder equity for the consolidated whole between 1 January and 31 December 2004, the FY 2004 financial report and the 31 December 2004 balance sheet.

Esker has retained the following options for handling assets and liabilities retrospectively:

#### ■ Mergers and Acquisitions

Esker has chosen to take advantage of the option under IFRS 1 of not restating mergers and acquisitions that occurred prior to the date of transition to IFRS (i.e. 01/01/2004) as provided in IFRS 3. This means that the goodwill value in the opening balance sheet will be the book value from the previous authoritative accounting literature as of the date of transition, since IAS 36 has no impact. As of that date, goodwill has no longer been amortized and will only be tested for depreciation using company criteria. Examination of these criteria has not resulted in adjustments to the goodwill values for 1/01/2004 and 31/12/2004.

#### ■ Translation Adjustments

The Group has transferred to "consolidated reserves" those translation adjustments relating to the conversion of foreign subsidiary accounts on 01/01/2004. This adjustment has no impact on the whole of the opening shareholder equity for 01/01/2004. Thus, the new IFRS value for translation adjustments was zeroed out on 1 January 2004. The amount transferred to reserves on 01/01/2004 was 300k Euros. If these subsidiaries should eventually be divested, income from the divestiture will not incorporate a return to the translations adjustments prior to 1 January. Rather, it will consist of the translation adjustments from after 1 January 2004.

#### ■ Share-Based Payments

Esker will apply IFRS 2 for all plans granted after November 7, 2002 and for which the rights are not acquired by 01/01/05.

#### ■ Employee Benefits

The Group has decided to adopt the option provided under IFRS 1 to record, as of the transition date, those actuarial variances that are no longer entered against shareholder equity. This impact is negligible, considering the amounts of the pension obligation calculated for the 2004 fiscal year.

#### ■ Assessing Tangible and Intangible Assets at Fair Value

IFRS 1 provides the option of assessing, as of 1 January 2004, certain tangible and intangible assets at their fair value. The Group has not used this option.

#### ■ Financial Instruments

On 1 January 2004 and 31 December 2004, the Group made early use of the IAS 32/39 standard for assessing and accounting for financial instruments. This translated into a reduction in shareholder equity in the treasury shares, regardless of who held them.

For all other IFRS standards, the values entered for assets and liabilities as of 01/01/2004 were restated retrospectively, as if these standards had always been in use.



## Description of IAS/IFRS Adjustments

### ■ Balance Sheet

#### ■ Intangible Assets

Goodwill on acquisition: This standard replaces systematic amortization of goodwill with periodic depreciation tests, such as those Esker already uses. The conversion to IFRS does not entail changing the net book value on the transition date. Starting on 01/01/2004, annual allowances tied to the amortization schedule will no longer be entered into the financial report. The depreciation tests employed are performed using the updated cash flow method. The assumptions used are those in the company's business plan.

Development costs: Under French accounting standards, the Esker Group entered 100% of its development costs as expenses. In accordance with IAS 38, these will now be locked in using the criteria required under the standard. The first application of this standard had no impact on the opening balance sheet inasmuch as the conditions for capitalizing costs previously committed to had not been fulfilled. On the other hand, for 2006 and subsequent fiscal years, this will translate into an increase in intangible assets, which can then be amortized. The impact on income by comparison with the French standards comes from net amounts capitalized and allowances for amortizing costs that were previously locked in.

#### ■ Cash and Cash Equivalents

Under IAS 32/39, all shares held internally must be deducted from shareholder equity. This is unlike French accounting principles that required that shareholder equity intended for stimulating the market and stock option plans be entered as cash. At opening, the first application of IFRS standards will translate into a 196k Euro reduction in shareholder equity and cash reserves in the Esker Group's accounts.

#### ■ Shareholder Equity

As stated previously, under IFRS, shareholder equity will be reduced from the amount of treasury shares. Furthermore, the burden from entering the stock options has, on the other hand, an accounting of shareholder equity.

#### ■ Non-current liabilities: Income recognized over one year in advance

When IFRS was introduced, payables and receivables at over one year were differentiated. At opening, the portion of income acknowledged over one year in advance will separately come to 148k Euros. This involves contracts for updates and maintenance which the company sells.

### ■ INCOME STATEMENT

#### ■ Current Operating Income

Using the IFRS 2 standard on payments in stocks, Esker entered a charge corresponding to rights acquired for plans granted after 7/11/2002. The value of the options is determined using the Black-Scholes model.

#### ■ Other Operational Costs and Income

This heading covers infrequent and out-of-the-ordinary expenses and income that correspond to a major event occurring during the period and which distorts the clarity and projections of Esker performance. Esker has included restructuring costs under this heading, with the exception of those considered to be potentially recurring. Exchange adjustments associated with the activity are also included under this heading.

#### ■ Other Income Components

The concept of the exceptional no longer exists under IFRS. Elements making up this result have been re-allocated to different components of the operating income depending on what they are.



**Table showing the reconciliation of shareholders' equity under French accounting principles to shareholders' equity under IFRS on 1/1/2004 and 31/12/2004, and reconciliation of the 2004 net income**

<i>In thousands of Euros</i>		01/01/2004	Net Income	Other changes	Translation adjustments	31/12/2004
Shareholders' equity under French principles		6 999	- 2 277	16	- 69	4 670
Treasury stock	IAS 32/39	- 196	4	- 12		- 204
Share-based payments	IFRS2					
Amortization of goodwill	IAS36		69			69
Capitalized development costs	IAS38					
Other						
Total after-tax adjustments		- 196	73	- 12		- 135
<b>SHAREHOLDERS' EQUITY</b>		<b>6 803</b>	<b>- 2 204</b>	<b>4</b>	<b>- 69</b>	<b>4 535</b>



**IFRS INCOME STATEMENT FOR 2004**

<i>In thousands of Euros</i>	<b>2004 in French principles and IFRS presentation</b>	<b>Note</b>	<b>Reclassification</b>	<b>Restatements</b>	<b>2004 in IFRS</b>
<b>Net sales</b>	<b>22 641</b>				<b>22 641</b>
<i>Portion from licenses</i>	14 642				14 642
<i>Portion from contracts</i>	7 999				7 999
Cost of sales	- 2 267	<b>B.</b>	49		- 2 218
<i>% of sales figure</i>	-10.0%				-9.8%
R&D expenses	- 3 893				- 3 893
<i>% of sales figure</i>	-17.2%				-17.2%
Commercial expenses	- 10 446	<b>B.</b>	297		- 10 149
<i>% of sales figure</i>	-46.1%				-44.8%
Marketing expenses	- 3 976				- 3 976
<i>% of sales figure</i>	-17.6%				-17.6%
General and Administrative expenses	- 4 130	<b>A. /B.</b>	108		- 4 022
<i>% of sales figure</i>	-18.2%				-17.8%
Amortization of goodwill	- 69	<b>1.</b>		69	0
<b>Current operating income</b>	<b>- 2 139</b>		<b>454</b>	<b>69</b>	<b>- 1 617</b>
<i>% of sales figure</i>	-9.4%				-7.1%
Other operational income and expenses		<b>B.</b>	- 574		- 574
<i>% of sales figure</i>	0.0%				-2.5%
Exceptional income (*)	- 28	<b>A. / 2.</b>	24	4	0
<b>OPERATING INCOME</b>	<b>- 2 167</b>		<b>- 96</b>	<b>73</b>	<b>- 2 191</b>
Financial income from sash and cash equivalents			75		75
Financial expenses			- 13		- 13
Financial profit (*)	- 34	<b>B.</b>	34		0
<b>Net financial cost</b>			<b>96</b>	<b>0</b>	<b>62</b>
Income tax	- 75				- 75
<b>NET INCOME (LOSS)</b>	<b>- 2 276</b>		<b>0</b>	<b>73</b>	<b>- 2 204</b>
Earnings per share in Euros:	- 0.68				- 0.67
Diluted earnings per share in Euros	- 0.68				- 0.67

(\*) : *Line no longer used in IFRS financial statement*

#### ▪ Reclassifications

(a) This amount includes 24K€ previously classified as exceptional income under French standards, mainly income from long-term asset divestitures.

(b) Under French principles, these recurring costs and income were presented depending on their purpose.

- Administrative expenses: 132K€ mainly from a lawsuit in the United States
- Sales costs: 296 K€, of which 126K€ is from restructuring technical support and sales departments in the United States, and 170K€ from liquidation of a partner in Germany.
- Cost of sales: 49K€ from restructuring and relocating production departments in the United States.
- Exchange gains and losses on current transactions: 96K€

#### ▪ Restatements

(1) IFRS replaces systematic amortization of goodwill with periodic impairment tests. Esker already used these tests under French principles. This has not resulted in an adjustment in the goodwill values for 2004. Only the amortization for the period has been cancelled out.

(2) This involves restating the provision fluctuation for treasury shares classified as cash equivalents under French principles.



**IFRS BALANCE SHEET ON 31/12/2004**

ASSETS (in thousands of Euros)	31/12/2004 French Principles	Notes	Reclassifica tions	IFRS Adjustments	31/12/2004 IFRS
Intangible assets	823				823
Goodwill	289	1.		69	358
Tangible assets	884				884
Other non-current financial assets	141			14	155
Tax liabilities – long term					-
<b>Total non-current financial assets</b>	<b>2 137</b>		<b>0</b>	<b>83</b>	<b>2 220</b>
Inventory and work in progress	171				171
Account receivables	4 313				4 313
Tax assets	0	a.	501		501
Other receivables	877		(501)		376
Prepaid expenses	437				437
Cash and cash equivalents	4 496	2.		(218)	4 278
<b>Total current assets</b>	<b>10 293</b>		<b>0</b>	<b>(218)</b>	<b>10 075</b>
<b>TOTAL ASSETS</b>	<b>12 430</b>		<b>0</b>	<b>(135)</b>	<b>12 295</b>

LIABILITIES	31/12/2004 French Principles	Reclassifica tions	Restatements	31/12/2004 IFRS
Capital	6 828			6 828
Premiums	15 118			15 118
Consolidated retained earnings	- 15 232		93	- 15 139
Cumulative translation adjustment	232	3.	- 300	- 68
Net income (loss)	- 2 277	4.	72	- 2 205
<i>Group shareholders' equity</i>	4 670			4 535
<i>Minority interests</i>	- 1			- 1
<b>Total shareholders' equity</b>	<b>4 669</b>	<b>0</b>	<b>- 135</b>	<b>4 534</b>
Long-term provisions	59			59
Long-term financial debt	47	b.	- 29	18
Long-term deferred income	0	d.	222	222
<b>Total non-current liabilities</b>	<b>106</b>	<b>193</b>	<b>0</b>	<b>299</b>
Account payables and related accounts	1 304			1 304
Tax liabilities due		c.	37	37
Tax debts	812		- 37	775
Social liabilities	1 684			1 684
Other short-term liabilities	4	b.	29	33
Deferred income – short term	3 851	d.	- 222	3 629
<b>Total current liabilities</b>	<b>7 655</b>	<b>- 193</b>	<b>0</b>	<b>7 462</b>
<b>TOTAL LIABILITIES</b>	<b>12 430</b>	<b>0</b>	<b>- 135</b>	<b>12 295</b>

▪ **Restatements**

- (1) This involves the systematic Goodwill amortization.  
(2) Amount of treasury shares deducted from shareholder's equity under IFRS.  
(3) Amount of translation adjustments transferred to retained earnings in opening IFRS balance sheet.  
(4) Impacts on net income: - Goodwill depreciation 68 580 €  
- Cancellation of provision for treasury shares classified as cash equivalents: 3758 €

▪ **Reclassifications**

- (a) Corporate income tax receivable for which the due date is less than one year  
(b) Deposits and bonds paid  
(c) Corporate income tax debt  
(d) Update and maintenance contracts sold by the company for which the term is over one year.

