



Extending the Reach of Information

Reference Document

2003 Financial Period



This document was filed with the Autorité des Marchés Financiers (AMF) on **June 18, 2004**, pursuant to Regulation n° 95-01. It can be used in support of a financial transaction if it is accompanied by a transaction note certified by the Commission des Opérations de Bourse. This document was prepared by the issuer and its signatories are responsible for its contents.

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NOTES

NOTES

CHAPTER 1: DOCUMENT AUTHORITY AND DECLARATIONS

1.1. Document authority

Jean-Michel Bérard - Chairman of the Executive Board

1.2. Declaration of document authority

To the best of my knowledge, the data contained in this document is correct.

It contains all the information necessary for investors to serve as the basis in forming their opinion concerning the assets and liabilities, business, financial situation, earnings, and outlook of the Company. There is no omission that could affect the understanding of this document.

Lyon, June 17, 2004

Jean-Michel Bérard

Chairman of the Executive Board

1.3. External auditors

- **Statutory auditors:**

Deloitte Touche Tohmatsu S.A. - Audit

Represented by Dominique Valette

185, Avenue Charles de Gaulle - 92200 Neuilly-sur-Seine - FRANCE

Date of appointment: June 19, 2000

Term expires at conclusion of Annual Shareholders' Meeting convened to approve the financial statements for the period ending December 31, 2005

Yves Fournand

55, Avenue Galline - 69100 Villeurbanne - FRANCE

Date of appointment: May 30, 1997

Term expires at conclusion of Annual Shareholders' Meeting convened to approve the financial statements for the period ending December 31, 2008

- **Alternate auditors:**

BEAS S.A.R.L.

7/9, Villa Houssaye -92200 Neuilly-sur-Seine - FRANCE

Date of appointment: June 19, 2000

Term expires at conclusion of Annual Shareholders' Meeting convened to approve the financial statements for the period ending December 31, 2005

Jacques Taffignon

Parc d'affaires Crecy-Telebase

18, Avenue du Général de Gaulle - 69370 St. Didier au Mont d'Or - FRANCE

Date of appointment: May 30, 1997

Term expires at conclusion of Annual Shareholders' Meeting convened to approve the financial statements for the period ending December 31, 2008

1.4. Auditors' statement

As auditors of Esker S.A. and pursuant to COB Regulation 95-01, we audited the financial and accounting information contained in this document on the basis of the professional standards applicable in France.

This document was prepared under the responsibility of the Chairman of the Executive Board. It is our duty to express an opinion based on the fair presentation of the information contained herein concerning the financial situation and financial statements.

The work we performed, in accordance with professional standards applicable in France, consisted of assessing the true and fair nature of the information pertaining to the financial position and the financial accounts, and ensuring its consistency with the accompanying financial statements. It has also consisted of reviewing all other information contained in this document, with the aim of identifying any significant inconsistencies that may exist vis-à-vis the information relating to the financial situation and statements, and of reporting any clearly erroneous information that we might have identified on the basis of our general knowledge of the Company gained in the course of our assignment, it being added that this document does not include isolated forecast data.

The parent company and consolidated financial statements for the periods ending December 31, 2001, 2002 and 2003 prepared by the Executive Board on the basis of French generally accepted accounting principles, have been audited by us in accordance with professional standards applicable in France and have been certified without qualification or comment.

On the basis of this review, we do not have any observations regarding the fairness of the financial situation and statements presented herein.

Villeurbanne, June 17, 2004

Yves Fournand

Deloitte Touche Tohmatsu
Dominique Valette

Further information:

This Reference Document includes:

- The auditors' report on the consolidated financial statements and the auditors' general report, both at December 31, 2003, including respectively on pages 48 and 96 the explanation of the assessments prepared pursuant to the terms of Article L. 225-235 of the Commercial Code.
- The auditors' report ([page 103](#)) prepared pursuant to the final paragraph of Article L. 225-235 of the Commercial Code, on the report of the Chairman of the Supervisory Board concerning internal audit procedures relating to the compilation and treatment of accounting and financial information.

1.5. Authority for financial information

Emmanuel Olivier - Chief Financial Officer
10, Rue des Emeraudes - 69006 Lyon - FRANCE
Tel.: +33 (0)4 72 83 46 46

CHAPTER 2: GENERAL INFORMATION ON THE COMPANY AND ITS CAPITAL

2.1. General information about the Company

2.1.1. Company name

Esker

2.1.2. Registered office

10, rue des Emeraudes
Immeuble "GEO CHAVEZ"
69006 Lyon - FRANCE

2.1.3. Legal form

Esker is a Société Anonyme incorporated under French law with an Executive Board and a Supervisory Board, governed by the provisions of the French Commercial Code.

2.1.4. Duration

Fifty years from the date of its registration with the Lyon Trade Register (February 7, 1985), except in the event of an extension or early liquidation as provided by law.

2.1.5. Corporate purpose

Under Article 2 of its Articles of Incorporation, the purpose of the Company is as follows:

"The design, development and operation of information technology products and, more generally, all industrial, commercial and financial, securities and real estate transactions directly or indirectly related to the corporate purpose, or any similar or related activities;

The participation, by any means, in all companies created or to be created, which may be related to the corporate purpose, notably through the creation of new companies, providers, limited partnerships, subscription to or purchase of shares or ownership interests, mergers, alliances or joint ventures, or hired businesses."

The Combined Shareholders' Meeting of June 23, 2004 will propose a change to the corporate purpose allowing the following transactions to be added:

- mail services for third parties including printing, envelope stuffing, and franking,
- fax, SMS, and e-mail transmission services for third parties,
- more generally, any processing (sending, receiving, archiving) of documents or data for third parties, regardless of their format or means of transmission,

The resolution that will be put to the Combined Shareholders' Meeting of June 23, 2004 reads as follows:

"RESOLUTION EIGHT (Amendment to corporate purpose) – The Shareholders' Meeting, after having heard the report of the Executive Board, decides to amend the corporate purpose, which will henceforth be drafted as follows:

The Company has the following corporate purpose:

- the design, development, and operation of information technology products,
- mail services for third parties including printing, envelope stuffing, and postage metering,
- fax, SMS, and e-mail transmission services for third parties,
- more generally, any processing (sending, receiving, archiving) of documents or data for third parties, regardless of their format or means of transmission,

The Company may in addition

- carry out any industrial, commercial, or financial transactions, pertaining to personal property or real property, which may be directly or indirectly related to its corporate purpose and to any similar or related purposes;
- and participate, by any means, in all companies created or to be created, which may be related to the corporate purpose, notably through the creation of new companies, the contribution of assets, limited partnerships, subscription to or purchase of shares or ownership interests, mergers, alliances or joint ventures, economic interest groupings, or lease management."

2.1.6. RCS number and APE code

LYON B 331 518 498 - APE Code: 722 Z

2.1.7. Consultation of legal documents

At the Company's registered office.

2.1.8. Fiscal year

The Company's fiscal year begins on January 1st and ends on December 31st of each calendar year.

2.1.9. Allocation and distribution of income

(Article 26 of the Articles of Incorporation)

From the profits of the period, less prior period losses when applicable, are first deducted:

- Upwards of five percent, to fund the legal reserve. This deduction ceases to be mandatory when this amount corresponds to ten percent of the value of authorized capital. When the legal reserve falls below ten percent, for whatever reason, it again becomes mandatory, and any amounts appropriated in reserve, as required by law.
- The balance, increased by retained earnings, constitutes the distributable profit, which may be allocated to shareholders as a dividend, appropriated to all reserves, or retained earnings, as deemed appropriate in a Shareholders' Meeting.

The Shareholders' Meeting may in addition, result in a decision to distribute amounts from reserves at its disposal. In such a case, the decision must expressly indicate the accounts from which the deductions are to be made.

The Annual Shareholders' Meeting, by ratifying the financial statements of the period, may give each shareholder the option of receiving a payment in cash or in stock dividends, for all or part of the dividends to be distributed.

2.1.10. Shareholders' meetings

(Articles 20 to 22 of the Articles of Incorporation)

Shareholders' meetings are called and proceedings are conducted in the manner prescribed by law.

Meetings are held at the registered office or any other location specified in the meeting notice.

Meetings are open to all shareholders, regardless of the number of shares they hold, subject to legal provisions.

Each shareholder has as many votes as the number of shares that s/he holds or represents, with no restriction other than those set by law. Double voting rights are not provided for in the Articles of Incorporation.

2.1.11. Special provisions in the Articles of Incorporation

Disclosure of information concerning holders of bearer shares (Article 11 of the Articles of Incorporation)

According to the provisions of Article L. 228-2 of the Commercial Code, the Company may request at any time that the clearing organization disclose information regarding the identity of shareholders and the number of shares they hold, as well as other information authorized under current legislation.

Share ownership thresholds (Article 13 of the Articles of Incorporation)

In addition to the legal obligation to inform the Company and the Conseil des Marchés Financiers of the holding of certain fractions of the capital, any individual or legal entity, acting individually or jointly, which acquires a percentage of the capital or voting rights equal to 3%, or increases or decreases its holdings in the capital or voting rights by more than 3%, must inform the Company of the total number of shares it holds, within 15 days of this change, by registered letter with acknowledgement of receipt.

Failure to notify the company within 15 days will result in the loss of voting rights for a period of two years following the required date of this notification, when a request is formulated and placed on the record in the minutes of the Meeting by one or more shareholders with a share of the capital or voting rights equal to 3%.

2.1.12. Shares bought back by the Company

The Company made use of the authorization provided by the Combined Shareholders' Meetings of June 26, 2002 and June 25, 2003, and in accordance with Prospectus n° 02-897 approved by the COB on July 25, 2002 and Prospectus n° 03-721 approved by the COB on July 30, 2003.

During the 2003 financial period, a total of 4,150 shares were directly acquired. Following the closing at December 31, 2002, the market-making account with Fideuram Wargny returned 50% of the shares it held at the date the agreement closed (pursuant to the agreement), equivalent to 4,150 shares. Esker S.A. acquired the balance of the shares held by this market maker, a total of 4,150 shares with a par value of €2.50, and thus a total amount of €10,375. The shares purchased and relinquished were recognized as fixed assets (without a precise appropriation).

The number of treasury shares directly held by the Company at 12/31/2003 was 135,314 for an average unit cost price of €12.98, the portfolio having a book value of €1,756,227. The market value at 12/31/2003 was €408,648.

The Company also purchased and sold Esker shares within the framework of:

- a market-making agreement dated July 1, 1998 concluded with Fideuram Wargny.
- a liquidity agreement concluded with Crédit Lyonnais Securities Europe - Small Caps, dated March 1, 2002.

During 2003, the following indirect transactions were conducted:

- Acquisitions: 10,342 shares at an average price of €2.80.
- Sales: 30,327 shares at an average price of €2.41.

A total of 725 treasury shares were held indirectly by the Company at December 31, 2003.

The Company therefore held, on a direct or indirect basis, a total of **136,039** Esker shares at December 31, 2003, equivalent to 3.98% of the capital stock at this date.

In addition, the Company did not cancel any shares during the period under review.

Since December 31, 2003, the Company has not directly acquired or sold any treasury shares.

At May 31, 2004, the Company held directly a total of 135,314 treasury shares, for an average cost price per share of €12.98. The market value of the portfolio as of this date was €401,883 (share price on 05/31/2004 = €2.97).

The movements carried out through financial intermediaries between July 1, 2003, the implementation date of the new share repurchase program, and May 31, 2004, were as follows:

- Purchases: 19,345 Esker shares at an average price of €3.06.
- Sales: 14,045 Esker shares at an average price of €3.17.

A total of 7,727 treasury shares were held directly by the Company at May 31, 2004.

The Company held, directly or indirectly, a total of **143,041** Esker shares on 05/31/2004, equivalent to 4.19% of the share capital as of this date.

Summary of monthly purchases and sales of Esker shares (2003–2004)

Month	PURCHASES			SALES		
	Number	Average purchase price	Total	Number	Average sale price	Total
Jan-03	895	€2.45	€2,191.36	2,645	€2.51	€6,648.64
Feb-03	1,703	€2.32	€3,953.67	1,942	€2.42	€4,690.64
Mar-03	6,054	€2.37	€14,349.00	10,943	€2.61	€28,585.31
Apr-03	397	€2.67	€1,058.43	2,082	€2.71	€5,641.36
May-03	1,453	€3.03	€4,402.10	2,534	€2.91	€7,379.54
Jun-03	1,829	€3.61	€6,600.74	2,168	€3.70	€8,031.90
Jul-03	823	€3.10	€2,554.77	530	€3.22	€1,707.47
Aug-03	141	€3.03	€427.66	0	-	-
Sep-03	0	-	-	736	€3.11	€2,289.72
Oct-03	41	€2.96	€121.52	0	-	-
Nov-03	315	€2.89	€911.44	1,278	€3.10	€3,957.28
Dec-03	841	€3.25	€2,735.00	1,319	€3.20	€4,221.68
Jan-04	2,572	€3.06	€7,876.95	1,110	€3.23	€3,588.17
Feb-04	6,044	€3.09	€18,652.36	5,147	€3.20	€16,486.73
Mar-04	2,499	€3.08	€7,693.59	2,131	€3.29	€7,011.47
Apr-04	4,366	€3.01	€13,133.01	794	€2.99	€2,373.46
May-04	1,703	€2.93	€4,996.37	1,000	€2.94	€2,939.42
TOTAL	31,676	€2.89	€91,657.97	36,359	€2.90	€105,552.79

A proposal was made at the Combined Shareholders' Meeting of June 23, 2004 to renew the Company share buyback program and to authorize the Executive Board to buy back Company shares pursuant to Article L. 225-209 of the Commercial Code.

In accordance with the proposed resolutions of the Combined Shareholders' Meeting of June 23, 2004, these purchases could be used to:

- Stabilize the Company share prices on the stock markets where it is listed through systematic intervention to counter market trends (up to approximately 60%),
- Facilitate the Company's financial transactions and growth, with the shares acquired possibly being, in part or in whole, sold, retained, loaned, transferred or exchanged (up to approximately 20%),
- Allocate the shares acquired to group employees (up to approximately 10%),
- Retain said shares or transfer them in any way and, in particular, through the exchange of securities (up to approximately 8%),
- Cancel said shares up to a maximum of 10% of the share capital over a 24-month period (up to approximately 2%).

The purchase, sale, transfer or exchange of these shares may be carried out through any means and, in particular, through the possible use of derivatives.

The maximum purchase price is **€20** per share, and the minimum sale price is **€0.50**. The maximum number of shares able to be acquired is limited to 10% of the authorized capital stock.

This authorization is granted until the Annual Shareholders' Meeting convened to approve the financial statements for the period ending December 31, 2004.

The Meeting shall thus grant the Executive Board full authority, with the power to delegate this authority, to place market orders, conclude all types of agreements, and complete all the formalities and filings with the relevant authorities.

The Executive Board shall inform the Annual Shareholders' Meeting of the transactions carried out under this authorization.

The prospectus relating to this share buyback program will be submitted to the COB shortly for approval. The program will be implemented upon receipt of certification. The approved prospectus shall be sent to all shareholders upon request.

The maximum portion of the capital for which the Shareholders' Meeting authorized the repurchase, after implementation of the program agreed by the Executive Board on June 25, 2003, is 10% of the existing capital, thus a total of 341,416 shares (based on 3,414,161 shares making up the capital stock as of the date of writing of this document).

Given the number of shares already held (on a direct or indirect basis) on May 31, 2004 (**143,041**, thus **4.19%** of the capital), **198,375** shares may be purchased (thus 5.81% of the capital).

Therefore, the maximum amount that Esker would be in a position to pay, assuming purchases at the maximum price, would be **€3,967,500**, (the unit purchase price will be set by the combined meeting of shareholders on June 25, 2003 - assumption of a maximum purchase price of €20). However, on the basis of the average market price for May 2004, which was €2.94, this amount could total **€583,233**.

In the case of a change in capital, the authorization would apply to 10% of the new capital.

Esker S.A. undertakes to remain, at all times, within the limit of 10% of its capital stock (on a direct or indirect basis), in compliance with the provisions of the Commercial Code (Articles L. 225-209 and subsequent).

It also undertakes, in compliance with the provisions applicable to companies listed on the Nouveau Marché of the Paris stock exchange, to maintain a minimum float of 20%.

2.2. General description of the capital stock

2.2.1. Capital stock

The Company's capital on December 31, 2003 was €6,828,322, corresponding to 3,414,161 shares with a par value of €2, fully paid up and all of the same class.

2.2.2. Potential capital stock: Share subscription options

In accordance with the authorization granted by the Extraordinary Shareholders' Meeting referred to in the following summary table, the Board of Directors, and subsequently the Executive Board, granted certain personnel members of the Esker Group options to subscribe for shares. It should be noted that one option granted gives the right to subscribe for one Esker S.A. share.

The special report drawn up by the Executive Board in accordance with Article L. 225-184 of the Commercial Code, and presented to the Combined Shareholders' Meeting on June 26, 2003, describes all operations connected with options to purchase and subscribe for shares. More detailed information related to options to subscribe to shares is provided in the abovementioned report, included in this document (see §4.5 in Chapter 4).

Potential capital stock: Share subscription options

Plan no.	SM	Implementation		Expiry date of plan	Number of options that can be allotted	Number of subscribed options	Number of exercisable options	Theoretical balance of options that can be allotted	Balance of options that can be allotted	Notes
		BOD / EB	Date							
2	19 Jul 1996	BOD	29 Jul 1996	28 Jul 2001	155,000	95,770	44,980	14,250	0	(1)
5	19 Mar 1999	BOD	9 Apr 1999	9 Apr 2004	100,000	12,581	78,831	8,588	8,588	
6	30 Aug 1999	EB	31 Aug 1999	30 Aug 2004	200,000	0	179,567	20,433	20,433	
7	5 Jan 2000	EB	10 Jan 2000	4 Feb 2000	170,000	0	7,980	162,020	0	(2)
8	10 Oct 2000	EB	13 Oct 2000	12 Oct 2005	200,000	0	180,529	19,471	19,471	
8A	10 Oct 2000	-	-	12 Oct 2005	198,677	2,475	48,568	147,634	0	(3)
9	26 Jun 2002	EB	26 Jun 2002	25 Aug 2005	160,000	0	55,644	104,356	104,356	(4)
TOTALS					1,183,677	110,826	596,099	476,752	152,848	

(1) Allotment deadline for Plan No. 2: July 28, 2001. There are no remaining options that can be allotted as of 12/31/2003.

(2) Plan No. 7 corresponds to the New Business Creators' Share of Subscription Warrants (BSPCE) allocated to employees of the French parent company in January 2001. Options made available again through the departure of some employees or the start of repricing operations for other employees cannot be reallocated pursuant to the applicable legal requirements (allotment waiting period).

(3) Options held by employees of VSI, Inc. 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 (198,677 Esker S.A. options for 5,056,572 VSI options) in accordance with the acquisition agreement. The terms and conditions for the exercise of stock options remain the same as those in the initial plan (variable duration, exercise price between €0.29 and €23.45). At December 31, 2003, VSI, Inc. employees still employed by Esker, Inc. held 45,568 stock options.

(4) Allotment deadline for Plan No. 9: August 25, 2005, the Executive Board only being empowered to allocate options for a period of 38 months pursuant to the New Economic Regulations (NRE) Law of May 15, 2001.

2.2.3. Other securities conferring a right to acquire shares

Subscription warrants were granted to certain members of the Supervisory Board by the Combined Shareholders' Meeting on June 18, 2001:

- 20,000 subscription warrants to Mr. Kléber Beauvillain, conferring entitlement to 20,000 new shares with a par value of €2,
- 20,000 subscription warrants to Ms. Marie Claude Bernal conferring entitlement to 20,000 new shares with a par value of €2.

These subscription warrants were issued at a price of €0.01 and became exercisable on June 19, 2002, in accordance with a timetable included in the subscription warrant agreement. They must be exercised within a maximum of five years from the date on which they were issued, i.e. by June 18, 2006 at the latest.

No warrants had been exercised as of May 31, 2004.

The issuance of these options includes, in favor of the holders thereof, the express renunciation of shareholders' rights to subscribe to shares issued by the exercise of the said subscription warrants.

These warrants must be exercised within a minimum of 5 years from the date on which they were issued.

The amount due to the Company for each share issued through the exercise of the stock options, after taking into account the issue price of the said options, shall be equal to the closing rate of one Esker share on the Nouveau Marché of the Paris stock exchange on the trading day preceding the date of the Executive Board's decision to issue the said subscription warrants.

It should be noted that a proposal will be put to the Combined Shareholders' Meeting of June 23, 2004 to issue 200,000 subscription warrants to the members of the Supervisory Board and senior management. The aim of this transaction is to link the beneficiaries of the allocations to the Company's sustainability over the long term, with the aim of encouraging growth. In the context of this transaction, Esker S.A. sought the opinion of experts in order to validate the legal form of the transaction and the valuation models for the warrants. The transaction will be carried out in line with the conclusions of these experts.

2.2.4. Information relating to the possible dilution of the Company's capital

Nature of potentially diluting instruments	Issue date	Exercise price	Identity of holders of these instruments	Period of exercise		Possible dilution resulting from the exercise of these instruments
				By holder	Number of shares to which these instruments give entitlement	
Subscription warrants	18-Jun-2001	€0.01	Members of the Supervisory Board	18-Jun-2006	40,000	40,000
BSPCEs	10-Jan-2000	€40.06	Employees of Esker S.A.	10-Jan-2006	7,980	7,980
Share subscription option	9-Apr-1999	€20.98	Employees of Esker S.A. and of Group companies	9-Apr-2004	1,500	1,500
	18-Jun-1999	€19.10	Employees of Esker S.A. and of Group companies	18-Jun-2004	2,006	2,006
	31-Aug-1999	€25.62	Employees of Esker S.A. and of Group companies	31-Aug-2004	22,600	22,600
	16-Jun-2000	€30.00	Employees of Esker S.A. and of Group companies	16-Jun-2005	500	500
	10-Oct-2000	(1)	Employees of Esker S.A. and of Group companies	(1)	48,568	48,568
	13-Oct-2000	€17.93	Employees of Esker S.A. and of Group companies	13-Oct-2005	800	800
	13-Oct-2000	€12.56	Employees of Esker S.A. and of Group companies	13-Oct-2005	56,300	56,300
	25-Jan-2001	€7.77	Employees of Esker S.A. and of Group companies	25-Jan-2006	163,017	163,017
	17-Apr-2001	€5.02	Employees of Esker S.A. and of Group companies	17-Apr-2006	111,310	111,310
	16-Jul-2001	€7.77	Employees of Esker S.A. and of Group companies	16-Jul-2006	25,424	25,424
	12-Sep-2001	€4.33	Employees of Esker S.A. and of Group companies	12-Sep-2006	10,000	10,000
	28-Dec-2001	€5.16	Employees of Esker S.A. and of Group companies	28-Dec-2006	45,376	45,376
	1-Jul-2002	€3.14	Employees of Esker S.A. and of Group companies	1-Jul-2007	15,474	15,474
	3-Jan-2003	€2.51	Employees of Esker S.A. and of Group companies	2-Jan-2008	39,592	39,592
	1-Jul-2003	€3.74	Employees of Esker S.A. and of Group companies	30-Jun-2008	45,652	45,652
			Total share subscription option		588,119	588,119
Convertible bonds	-	-	-	-	-	-
Bonds redeemable in shares	-	-	-	-	-	-
Total possible Dilution					636,099	636,099

(1) 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 (198,677 Esker S.A options for 5,056,572 VSI options) in accordance with the acquisition agreement. The terms and conditions for the exercise of stock options remain the same as those in the initial plan (variable duration, exercise price between €0.29 and €23.45). At December 31, 2003, VSI, Inc. employees still employed by Esker, Inc. held 45,568 stock options.

2.2.5. Unissued authorized capital

Included in this category:

- share subscription options (see [§ 2.2.2.](#)),
- subscription warrants (see [§ 2.2.3.](#)).

2.2.6. Stock option plans

In accordance with the authorization granted by the Extraordinary Shareholders' Meeting referred to in the following summary table, the Board of Directors, and subsequently the Executive Board, granted certain personnel members of the Esker Group options to subscribe for shares.

The special report drawn up by the Executive Board in accordance with Article L. 225-184 of the Commercial Code, and presented to the Combined Shareholders' Meeting on June 23, 2004, describes all operations connected with options to purchase and subscribe for shares. More detailed information related to stock option plans is provided in the abovementioned report, included in this document ([see §4.5 in Chapter 4](#)).

Stock option plan

Plan no.	SM	Implementation		Expiry date	Number of options that can be allotted	Number of subscribed options	Number of exercisable options	Theoretical balance of options that can be allotted	Balance of options that can be allotted	Notes
		BOD / EB	Date							
3	18 Apr 1997	BOD	21 Apr 1997	20 Apr 2002	63,750	34,517	12,196	17,037	0	(1)
4	9 Apr 1998	BOD	30 Apr 1998	-	85,354	1,824	77,156	6,374	6,374	
TOTALS					149,104	36,341	89,352	23,411	6,374	

(1) Allotment deadline for Plan No. 3: April 20, 2002. There are no remaining options that can be allotted at December 31, 2003

2.2.7. Changes in capital stock since January 1, 1990

DATE	TYPE OF TRANSACTION	AMOUNTS OF CHANGES IN CAPITAL STOCK (FRF/EUROS)		SUCCESSIVE CAPITAL STOCK AMOUNTS FRF/EUROS	TOTAL NUMBER OF SHARES	NOMINAL SHARE VALUE
		NOMINAL VALUE	PREMIUM			
1-Jan-1990				411,000 F	1,096	375 FRF
22-Dec-1995	Issue for cash of 148 new shares at a price of FRF 36,000 per share	55,500 F	5,272,500 F	466,500 F	1,244	375 FRF
2-Apr-1996	Capitalization of the share premium and increase in the nominal share value	5,131,500 F	-	5,598,000 F	1,244	4,500 FRF
	250-for-one stock split	-	-	5,598,000 F	311,000	18 FRF
27-Jan-1997	Exercise of 2,500 share subscription options at FRF 18.40 per share	45,000 F	1,000 F	5,643,000 F	313,500	18 FRF
23-May-1997	Exercise of 6,750 share subscription options at FRF 18.40 per share	121,500 F	2,700 F	5,764,500 F	320,250	18 FRF
30-May-1997	Capitalization of reserves and increase in the nominal share value	11,849,250 F	-	17,613,750 F	320,250	55 FRF
	5-for-one stock split	-	-	17,613,750 F	1,601,250	11 FRF
2-Jul-1997	Issue of shares for cash within the framework of the IPO on the Nouveau Marché of the Paris Stock Exchange	4,347,970 F	54,151,990 F	21,961,720 F	1,996,520	11 FRF

Changes in capital stock since January 1, 1990 (continued)

1997	Exercise of 10,000 share subscription options at FRF 3.68 per share	110,000 F	-73,200 F	22,071,720 F	2,006,520	11 FRF
17-Jul-1998	Capital increase of 336,000 shares reserved for Mr. Russell Teubner (1)	3,696,000 F	59,737,440 F	25,767,720 F	2,342,520	11 FRF
1998	Exercise of share subscription options	500,159 F	835,771 F	26,267,879 F	2,387,989	11 FRF
19-Mar-1999	Capital increase following the acquisition of Alcom (1)	659,989 F	8,104,762 F	26,927,868 F	2,447,988	11 FRF
31-Aug-1999	Capital increase following the acquisition of Persoft (1)	7,245,337 F	84,048,350 F	34,173,205 F	3,106,655	11 FRF
1999	Exercise of share subscription options	300,036 F	900,516 F	34,473,241 F	3,133,931	11 FRF
10-Oct-2000	Capital increase following the acquisition of V.S.I. (1)	2,663,639 F	38,445,568 F	37,136,880 F	3,376,080	11 FRF
2000	Exercise of share subscription options	266,376 F	1,517,061 F	37,403,256 F	3,400,296	11 FRF
2001	Conversion of the capital stock into Euros (through the capitalization of reserves)	€1,098,502	-	€6,800,592	3,400,296	€2
2001	Exercise of share subscription options	€27,730	€31,733	€6,828,322	3,414,161	€2
2002	No capital related transactions			€6,828,322	3,414,161	€2
2003	No capital related transactions			€6,828,322	3,414,161	€2

2.2.8. Breakdown of capital and voting rights

• **Changes in the breakdown of capital:**
(Since the end of 1995)

- In December 1995: Two private investors became shareholders:

- Galiléo S.A. (Groupe Worms et Cie)
- Thompson Clive Investments Plc. and Thompson Clive International Ltd.

each receiving 148 shares, with a par value of FRF 375 (i.e. 185,000 current shares after the stock-splits), through the:

- sale of 148 shares by four existing shareholders,
- and a reserved capital increase through the issue of 148 new shares.

This sale and the new issue were carried out at a price of FRF 36,000 per share (i.e. FRF 28.80 after the stock splits).

- In January 1997, Esker S.A. acquired from two shareholders (individuals) 12,750 shares with a par value of FRF 18 (i.e. 63,750 shares after the stock-splits), at FRF 144 per share (i.e. FRF 28.80 after the stock-splits), in order to implement stock option plans in favor of management of certain subsidiaries.

- In 2000, the company purchased 24,925 of its own shares as follows:

- * May 2000: 5,000 shares (average price: €39.75)
- * December 2000: 19,925 shares (average price: €9.39).

- In the 2001 financial period, the company directly acquired 24,233 Esker shares for a total of €118,048 (i.e. an average price per share of €4.87). The total number of treasury shares directly held by the Company at 12/31/2001 was thus 127,514 for an average unit cost price of €13.63. The Company also bought and sold Esker shares within the framework of a market making agreement concluded with Fideuram Wargny on July 1, 1998. The number of treasury shares indirectly held by the Company at 12/31/2001 was 2,413. The Company therefore held, on a direct or indirect basis, a total of 136,039 Esker shares at December 31, 2003, thus equivalent to 3.98% of the capital stock at this date.

- The Company did not directly acquire any Esker shares during the 2002 period. The number of treasury shares held directly by the company at December 31, 2002 remained at 127,514 for an average unit cost price of €13.63. The Company did, however, buy and sell Esker shares within the framework of a market making agreement concluded with Fideuram Wargny on July 1, 1998, and a liquidity agreement concluded with Crédit Lyonnais Securities, on March 1, 2002. The number of treasury shares held indirectly by the Company at 12/31/2002 was 15,080.

The Company therefore held, on a direct or indirect basis, a total of 136,039 Esker shares at December 31, 2003, thus equivalent to 3.98% of the capital stock at this date.

- The transactions relating to Esker shares during the 2003 financial period are detailed in § 2.1.12 "Shares bought back by the Company" of this reference document. The Company held, directly or indirectly, a total of 136,039 Esker shares at 12/31/2003, i.e. 3.98% of the capital stock as of this date.

As the shares purchased on a direct basis in 2000 and 2001 are not currently destined for a specific purpose (allotment of shares to employees within the framework of stock option plans and/or share price stabilization), they have been recorded under the securities in the financial statements of Esker S.A., in accordance with the applicable accounting rules. In addition, the Company did not cancel any shares during this period.

- As of December 31, 2003 and May 31, 2004, the breakdown of capital and voting rights was as follows:

Shareholders	Status	At 12/31/2003			At 05/31/2004			Notes
		Number of shares	% of capital	% of voting rights	Number of shares	% of capital	% of voting rights	
Jean-Michel Bérard	Reg. / Bear.	316,370	9.27%	9.65%	316,370	9.27%	9.67%	
Thomas Wolfe	Reg.	270,895	7.93%	8.26%	270,895	7.93%	8.28%	
Russell Teubner	Reg.	221,000	6.47%	6.74%	133,000	3.90%	4.07%	
Subtotal Management Team		808,265	23.67%	24.66%	720,265	21.10%	22.02%	
David Droman	Reg.	180,647	5.29%	5.51%	157,647	4.62%	4.82%	
Benoît Borrits	Reg. / Bear.	165,071	4.83%	5.04%	164,221	4.81%	5.02%	
Galileo SA	Reg.	25,051	0.73%	0.76%	25,051	0.73%	0.77%	
Robert Droman	Reg.	17,860	0.52%	0.54%	12,360	0.36%	0.38%	
Odyssée	Bear.	136,849	4.01%	4.17%	136,849	4.01%	4.18%	
Esker SA	Reg.	136,039	3.98%		143,041	4.19%		
Other registered	Reg.	53,124	1.56%	1.62%	36,294	1.06%	1.11%	
Public	Bear.	1,891,255	55.39%	57.69%	2,018,433	59.12%	61.70%	
Total		3,414,161	100.00%	100.00%	3,414,161	100.00%	100.00%	

Reg.: Registered shares

Bear.: Bearer shares

(1) Russell Teubner: 233,000 shares changed from "registered" to "bearer" status in April 2003. He held 133,000 bearer shares as of 05/31/2004.

So far as the Company is aware, there are no other shareholders that directly, indirectly or jointly hold 3% or more of the capital or voting rights.

2.2.9. Shareholders' agreements / Pledging of Esker shares

- Share pledges: None.
- Shareholders' agreement: The existing pacts were dissolved as a result of the IPO.

2.2.10. Lock-up agreements for management shareholders

- Following the public listing of the Company's shares on the Nouveau Marché, Mr. Benoît Borrits and Mr. Jean-Michel Bérard undertook to retain 80 % of their holding of shares for three years (i.e. until July 2, 2000).

- Mr. Russell Teubner had also undertaken to retain 80 % of his shares until this same date.

These commitments lapsed on July 2, 2000.

2.2.11. Other lock-up agreements

Some shareholders had undertaken to retain possession of 100% of their Esker shares for a period of nine months following the listing of the Company on the Nouveau Marché, as a token of their support for the project.
These commitments lapsed on April 2, 1998

The following shareholders were involved:

- Anne-Marie Borrits
- Didier Rabier
- Pierre Rabier
- Nicole Rabier
- Galileo S.A.
- Thompson Clive Investments (UK)
- Thompson Clive International (Jersey)

2.3. Dividends (last 5 financial periods)

No dividends have been distributed during the last 5 financial periods (see "Five-year financial summary" in Note 1 of the Management Report – §4.3. of Chapter 4).

The Company plans to pay dividends once its level of profitability returns to acceptable levels.

2.4. Share performance

The Company's shares have been listed on the Nouveau Marché of the Paris Stock Exchange since July 2, 1997, the date of Esker's IPO (ISIN Code: FR0000035818).

During the past 24 months, the monthly breakdown of the Company's price, trading volume and market capitalization was as follows:

Month	Price (€) *			Trading volume *		Market capitalization	
	+ High	+ Low	End of month	No. of shares traded	Capital (€ millions)	Number of shares (Capital)	Capitalization (€ millions)
May-02	€4.48	€3.66	€3.99	47,593	0.20	3,414,161	13.62
Jun-02	€3.99	€2.27	€2.85	112,671	0.34	3,414,161	9.73
Jul-02	€2.88	€2.16	€2.60	65,390	0.17	3,414,161	8.88
Aug-02	€2.85	€2.01	€2.85	34,459	0.08	3,414,161	9.73
Sep-02	€2.85	€1.60	€1.61	81,989	0.18	3,414,161	5.50
Oct-02	€2.24	€1.52	€2.24	26,668	0.05	3,414,161	7.65
Nov-02	€2.60	€2.05	€2.41	39,603	0.09	3,414,161	8.23
Dec-02	€3.09	€2.30	€2.60	107,891	0.28	3,414,161	8.88
Jan-03	€4.48	€1.52	€2.60	18,938	0.05	3,414,161	8.88
Feb-03	€2.64	€2.23	€2.25	14,439	0.03	3,414,161	7.68
Mar-03	€2.95	€1.84	€2.80	60,060	0.16	3,414,161	9.56
Apr-03	€2.90	€2.50	€2.70	53,417	0.14	3,414,161	9.22
May-03	€3.45	€2.70	€3.15	161,620	0.44	3,414,161	10.75
Jun-03	€3.87	€3.01	€3.55	55,088	0.20	3,414,161	12.12
Jul-03	€3.79	€2.75	€3.08	23,588	0.07	3,414,162	10.52
Aug-03	€3.15	€2.75	€2.89	45,034	0.13	3,414,163	9.87
Sep-03	€3.30	€2.82	€3.00	43,988	0.13	3,414,164	10.24
Oct-03	€3.05	€2.76	€2.81	69,039	0.20	3,414,165	9.59
Nov-03	€3.21	€2.79	€2.90	56,541	0.17	3,414,166	9.90
Dec-03	€9.60	€2.82	€3.02	107,684	0.26	3,414,167	10.31
Jan-04	€3.35	€2.77	€2.80	73,001	0.22	3,414,168	9.56
Feb-04	€3.40	€2.71	€3.30	203,266	0.65	3,414,169	11.27
Mar-04	€3.89	€3.00	€3.19	69,683	0.24	3,414,170	10.89
Apr-04	€3.19	€2.81	€2.88	81,971	0.24	3,414,171	9.83
May-04	€3.05	€2.77	€2.97	31,046	0.09	3,414,161	10.14

* Source: Euronext Paris (www.bourse-de-paris.fr)

CHAPTER 3: GENERAL INFORMATION CONCERNING THE COMPANY'S BUSINESS, ITS RECENT DEVELOPMENTS AND OUTLOOK

The terms followed by an asterisk are included in a Glossary (§ 3.7 of chapter 3 of this document).

3.1. Business of the Company

Esker is a company that designs and produces software applications*. Esker offers solutions that enable the host-based applications of organizations to communicate more rapidly with their employees, customers, suppliers, and partners.

Esker develops and markets three principal product families:

- **"DeliveryWare" applications**, which automate and dematerialize all company processes closely connected with paper handling (invoicing, collection, purchasing, reporting). DeliveryWare applications capture documents from computer systems and diffuse them automatically in all electronic formats used in the professional sector. The delivery capabilities provided include notably e-mail (e.g. with PDF, HTML or text attachments, secured or not, etc.), Web content, fax, short messages for mobile phones, hybrid mail*, remote printing, etc.
- **"Fax Server" applications**, which provide automated delivery and reception of faxed documents. Fax server applications capture documents from the host-based applications of organizations and user workstations and send them automatically to their final destinations in the form of a fax. Fax server applications also automatically receive faxes sent to the organization and forward them directly to the user's workstation via email.
- **"Host Access" applications**, which enable users with PC platforms to communicate with host computers. The Host Access applications developed by Esker may include modules for terminal emulation*, peripheral sharing (printers, hard disks...) and access to databases. Host Access products use several different technologies, which can be divided into two main groups: traditional products (PC-to-Host) and new products taking advantage of Internet technologies (Web-to-Host).

3.1.1. Historical overview of the Company

Esker was founded in 1985 by two computer engineers with the aim of designing and marketing communications software applications for companies. The Company's development can be divided into several phases:

- **Start-up phase (1985–1988)**

The founders created Esker with limited means after completing their studies. Because the cost of entry in the software development sector was relatively high, Esker devoted this period to an activity generating immediate income: systems integration services

While pursuing this activity, the Company developed the basis of its current software products. This initial period enabled the managers to develop experience in the open systems* market. For the 1988 financial period, the Company recorded sales of €0.25 million.

- **Transition (1989–1991)**

In March 1989, Esker marketed its first Host Access* software products, notably the Tun product which provided the basis for the Company's development over the following years. Management decided to position the Company as a developer of software products and opened up its capital to outside investors.

The first contracts were signed with European distributors. During this period, Esker progressively abandoned the service activity, with the exception of services related to software sales. In July 1991, Esker established a United States subsidiary in San Francisco. For the 1991 financial period, the Company recorded sales of €0.9 million.

- ***Development phase (1992–1998)***

This phase was marked by endeavors to position the Esker products in the global marketplace. While marketing its applications essentially through a network of distributors and resellers, Esker created subsidiaries and made acquisitions in major industrialized countries, moving closer to its clientele and increasing its sales:

1992	• Creation of a branch in Germany
1994	• Creation of a subsidiary in the United Kingdom
	• Transformation of the German branch into a subsidiary
1995	• Creation of Italian and Spanish subsidiaries
1997	• Creation of a subsidiary in Singapore
	• Creation of a subsidiary in Australia and acquisition of the business of its Australian distributor, Unitract Pty. Ltd.
	• Closure of the Singapore subsidiary and transfer of its business to the Australian subsidiary.

In December 1995, Esker opened up its capital to two investment companies: Galiléo and Thompson-Clive (a firm based in the UK). The funds raised by the company contributed notably to strengthening the San Francisco subsidiary, which became the company's marketing division.

On July 2, 1997, Esker listed its shares on the Nouveau Marché of the Paris stock exchange. Raising €5.6 million, this operation strengthened the Company's equity capital by €7.9 million through the issuance of new shares (after deduction of listing costs).

- ***External growth phase (1998–2000)***

With a view to strengthening its North American market presence and diversifying its product portfolio, Esker made four acquisitions in the US.

1998	• Acquisition of Teubner & Associates in the U.S. (Stillwater, Oklahoma).
	• Merger of this company with the San Francisco subsidiary to form Esker, Inc.
1999	• Acquisition of Alcom in the US. Merger of this company with Esker, Inc.
	• Acquisition of Persoft in the US (Madison, Wisconsin)
	• Merger of this company with Esker, Inc.
2000	• Acquisition of the California-based company VSI, expert in fax servers under UNIX* environments
2001	• Merger of VSI with Esker, Inc.

In June 1998, Esker acquired Teubner & Associates, a US company based in Stillwater, Oklahoma. This acquisition provided Esker complementary technology in the Web-to-Host* area (e-business for host-based applications), a diversification into the fax server market and a client base of large North American accounts.

In April 1999, Esker acquired Alcom, based in Mountain View, California. The acquisition of this company was made possible through the issue of 59,999 new Esker shares. This acquisition completed Esker's range of fax servers by providing an entry level and medium-range product and provided access to an international network of resellers in the facsimile business. In 1998 Alcom had recorded sales of US\$1.8 million and an operating loss of US\$0.100 million.

In September 1999, Esker acquired Persoft, a US company based in Madison, Wisconsin. The terms of payment of the acquisition were the issue of 658,667 new Esker shares and a cash payment of US\$4.4 million. To Esker, Persoft contributed a complementary technology in the field of Web-to-Host, a critical mass on the PC-to-Host and Web-to-Host markets, and access to large North American distributors. In 1998 Persoft reported sales of US\$16.8 million and net income of US\$1.89 million.

In October 2000, Esker acquired the US company VSI based in Lake Forest, California. VSI completes Esker's line of fax servers under UNIX*. Payment of this acquisition took the form of an issue of 242,149 new Esker shares and a cash payment of US\$235,000. In 1999, VSI's revenue was US\$7.2 million, with net income of US\$0.6 million (this does not take into account bonuses paid to the company's principal administrator through assimilation with a distribution of dividends).

The portion of sales generated by Esker in the US increased from 15% in 1998 to 54% in 2003.

- ***Repositioning phase (2000–2003)***

In view of the inexorable decline of its Host Access product line (down 35% in 2000), Esker decided to renew its offer and reposition itself on a product range more in line with the needs of companies after the year 2000. This repositioning was carried out by capitalizing on the Company's expertise in the fax server and host access sectors.

This strategic review led to the launch of the Esker DeliveryWare Platform product at the start of 2001 (under the name Pulse). At the same time, Esker significantly reduced its operating expenses while adapting its entire human organization to ensure the success of the new product.

At the end of 2003, the Esker DeliveryWare product had been sold to more than 500 companies worldwide and represented 15% of the Group's sales.



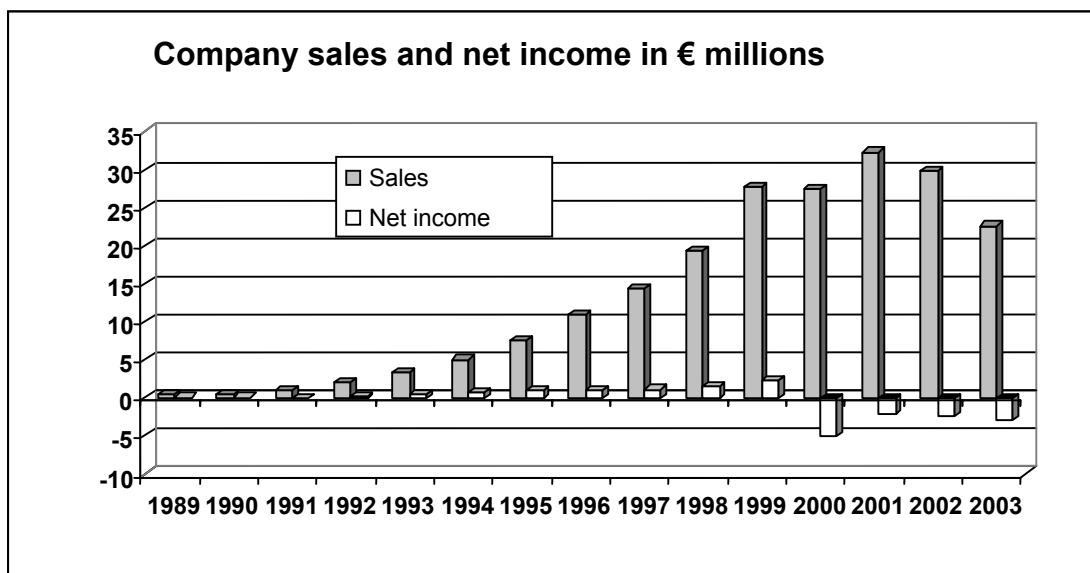
Sales and net income of the Company from 1989 to 2003 (€'000)

Between 1989 and 2003, Esker's sales increased from €0.33 million to €22.6 million.

Over the entire period, Esker had 11 financial periods of consistently strong performance, from 1989 to 1999.

For the reasons explained in the management report contained in this document ([§4.1 "Presentation of consolidated financial statements and subsidiary overview"](#)), performance in financial periods since 2000 has been lackluster.

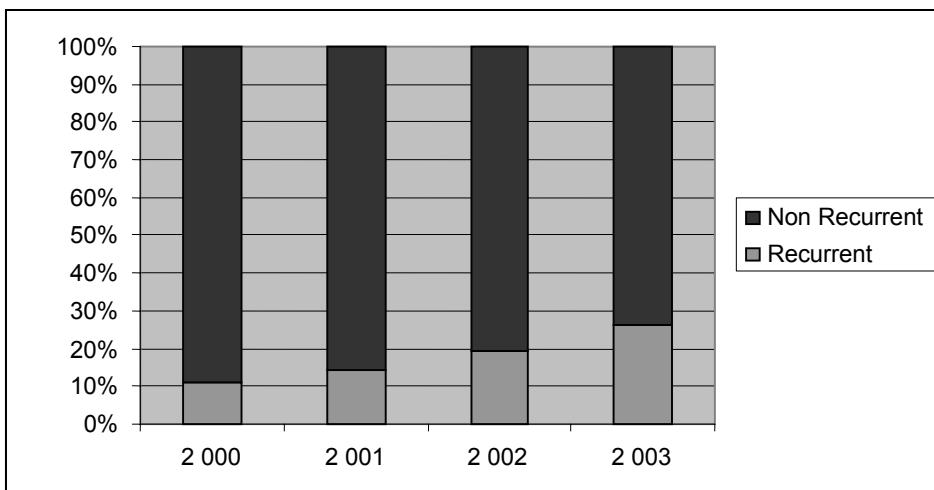
In 2003, 26.9% of sales were linked to the marketing of upgrade contracts for the software sold by Esker. These contracts are sold upon initial acquisition of the software and may be renewed from year to year, and are therefore a recurring part of sales. In 2002, sales from product upgrade contracts represented 19.5% of Esker's consolidated revenue.





Proportion of recurring sales from 2000 to 2003 (%)

Sales considered as recurring are those tied to product upgrade contracts that are sold with software licenses. Such contracts allow the subscriber to benefit from all new versions of the software for free and provide unlimited access to technical support. Generally, Host Access products are sold without a maintenance contract, contrary to Fax Server and DeliveryWare products. The percentage of recurring sales has been rising steadily thanks to stronger sales of Fax Server and DeliveryWare lines since 2000. In 2003, these represented 26.4% of the Company's total sales.



Key financial indicators (€'000)

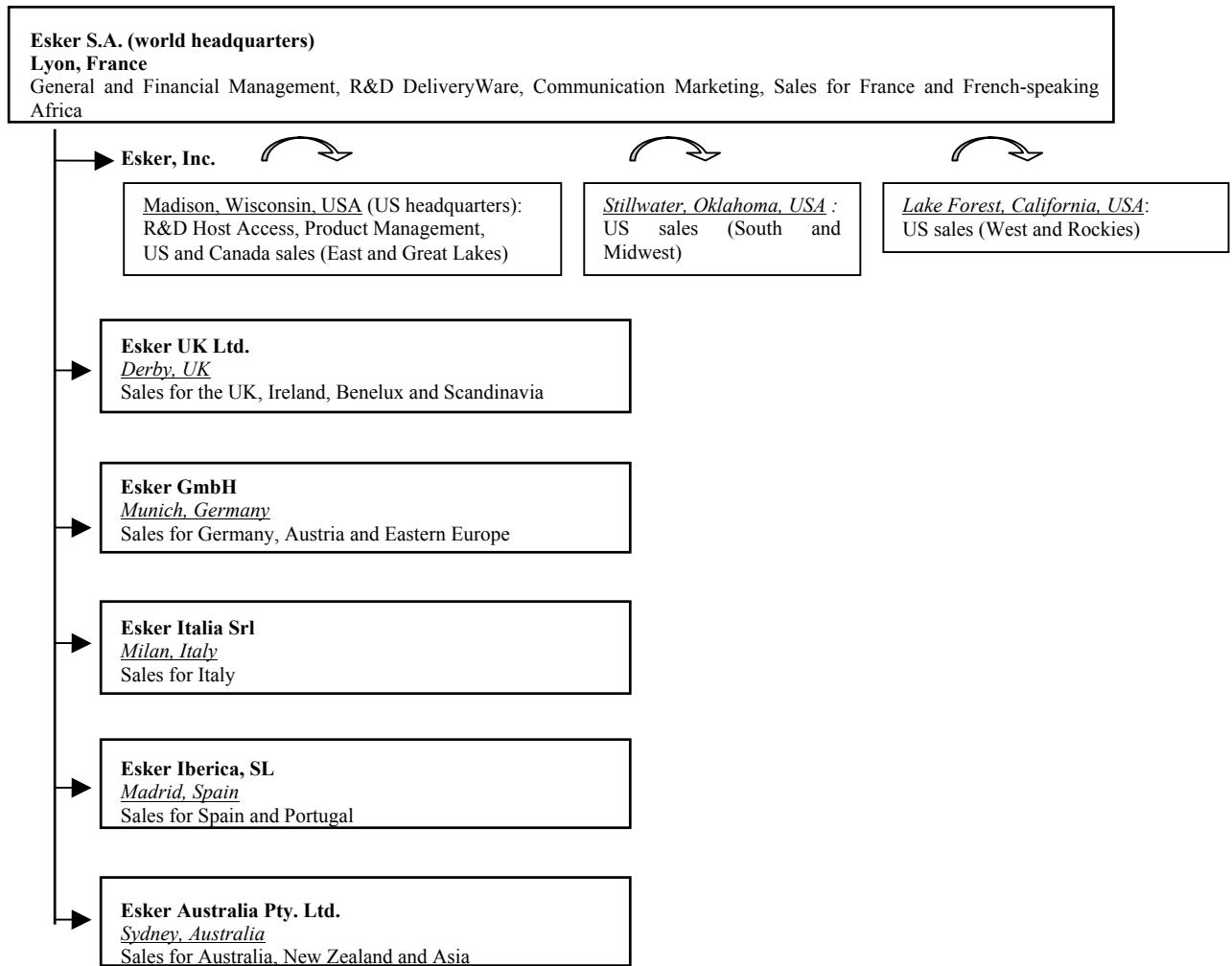
INCOME STATEMENT					
	2003		2002		
	€'000	in % of sales	€'000	in % of sales	
Sales	22,582	100.00%	29,823	100.00%	
Operating profit (loss)	(2,544)	-11.26%	(267)	-0.90%	
Net income (loss) before taxes and exceptional items	(2,344)	-10.38%	63	0.28%	
Net income (loss)	(3,058)	-13.54%	(2,411)	-10.68%	

BALANCE SHEET				
	2003		2002	
	€'000	% of balance	€'000	% of balance
Balance sheet total	13,938	100.00%	17,692	100.00%
Fixed assets	1,837	13.18%	2,453	13.87%
Current assets	11,743	84.25%	14,788	83.59%
<i>including cash</i>	5,621	40.33%	8,603	48.63%
Accrued income	359	2.58%	450	2.54%
Shareholders' equity	6,998	50.21%	10,467	59.16%
Prov. risks & charges	67	0.48%	55	0.31%
Long-term debt	9	0.06%	5	0.03%
Trade payables & misc.	3,279	23.53%	3,811	21.54%
Deferred income	3,585	25.72%	3,354	18.96%

More detailed information relating to the Esker Group's financial data can be found in [Chapter 4](#) of this Reference Document.

3.1.2. Organization of the Esker Group

- Legal structure of the Esker Group at December 31, 2003



All the subsidiaries are wholly owned and fully controlled (with the exception of the Spanish subsidiary held at 99.80%) by Esker S.A.

- Business relations between the Esker Group companies

Business relations between the Esker group companies are summarized in Note 2 to the Management Report "List of routine agreements concluded under normal circumstances during 2003," drawn up by the Supervisory Board (see Note 2 to the Management Report, §4.3 of Chapter 4).

Expenses and income resulting from invoicing between the Group's companies are omitted from the consolidated financial statements. They therefore have no impact on the Group's financial statements.

3.1.3. Presentation of the Company's activity

Esker is a company that designs and produces software applications for companies. Esker software applications are sold in the form of products (software packages), i.e., in the form of a user license usually consisting of a CD-ROM and user manual. All Esker products are sold without complementary third party products, with the exception of the fax server and DeliveryWare products, which include document format conversion modules and which are frequently sold by Esker jointly with an intelligent fax board.

Software products represent 62% of Esker sales, with the balance corresponding to services (re-invoicing of transport, training and installation assistance, etc.), or the sale of maintenance and product upgrade contracts, and finally hardware (fax boards) related to these products. In this respect, Esker defines itself as a software company and not a service company or computer product distributor.

3.1.4. Product descriptions

The company has three major product groups:

- "DeliveryWare" applications - Esker DeliveryWare Platform (formerly Pulse),
- "Fax Server" applications - Esker Fax (formerly Faxgate), VSI-Fax, VSI-Fax for Notes),
- "Host Access**" applications - Tun, SmarTerm, Persona, and A-Net.

DeliveryWare solutions

○ Needs covered by this type of product

In their constant search for enhanced productivity, companies have integrated management software applications over the last 20 years. The aim was to automate administrative processes such as accounting, order-taking, production runs, and even human resource management. However, whenever these processes need to communicate with the outside world (customers, suppliers, public sector) or with other departments within the company, automation suddenly grinds to a halt and is generally replaced by a printed document (invoice, reminder, purchase order, etc.). This same piece of paper entails numerous manual operations such as printing, folding, stamping, faxing, archiving, photocopying, distributing to internal departments and even making a telephone call. This large number of manual tasks is also the source of frequent errors.

Esker considers that only a part of the productivity gains related to automated management processes have been obtained through the implementation of computerized management applications (ERP, CRM, etc.).

The aim of the "DeliveryWare" application developed by Esker is to completely automate management processes by taking over all tasks connected with document delivery inside or outside companies. The "DeliveryWare" application replaces traditional printers and sends management documents by using modern delivery channels that have been made accessible by the Internet (e-mail, Web publishing, mail on demand, SMS, electronic archiving, automatic faxing, etc.).

This automation of processes closely linked to paper results in a significant reduction in a company's need for working capital, a considerable improvement in the productivity of administrative departments, fewer errors, reduced costs (paper, ink, postage, telephone) as well as improved customer service (reaction capability, customization).

Esker believes that its customers recoup their investment in the DeliveryWare application within an average period of six months through savings made on consumables and time.

Moreover, companies have gradually put in a certain number of one-off solutions to partially support the manual tasks related to document processing. This includes equipment such as folder-inserters, photocopiers, printers, postage machines, fax machines, filing cabinets, staplers, carbon paper, etc., which clutter the offices of companies and which often represent costly, cumbersome, and relatively high-maintenance investments.

Esker believes that the DeliveryWare application can eliminate all or part of these systems while at the same time simplifying the technical infrastructure of companies and freeing computer and technical teams from the many maintenance tasks involved.

- **The Esker DeliveryWare product offer**

To respond to the need of companies for automatic management document delivery, on February 1, 2001, Esker launched its new product, Pulse. This product was renamed "Esker DeliveryWare Platform" during 2002 to give it a uniquely descriptive name which would be easy to find on the Web using a search engine.

➤ **Presentation of the product**

"Esker DeliveryWare Platform" is the first automated solution for company processes closely connected with document delivery (invoicing, reminders, sales management).

Esker DeliveryWare Platform currently operates on Windows 2000, XP or 2003 operating systems. It will soon also be adapted to the Linux and Unix platforms.

Based on Esker expertise in connectivity to information systems, Esker DeliveryWare Platform performs the following operations:

- Captures documents produced by company applications (ERP, CRM, IBM mainframes),
- Extracts all or part of the information they contain, enriches content and presentation if necessary and then defines the most appropriate media or medias in relation to predefined management rules which vary according to document content,
- Sends documents as well as products produced in this way by means of multiple messaging sources (e-mail, fax, SMS, mail on demand*, etc.).

➤ **Capture of documents - Connectivity to company applications**

Esker DeliveryWare Platform features three mechanisms for connecting to applications and capturing the information to be transmitted:

- It can act as a printer network and capture printer flows in order to convert them into electronic documents, which will then be automatically dispatched.
- It uses dedicated, certified connectors in order to integrate with specific systems, in particular SAP integrated management software.
- It is capable of processing files sent to it by numerous transfer protocols (FTP, shared folders, e-mail, fax images, etc.).

➤ **Document processing - Analysis, routing and presentation**

Once the documents have been captured, the information they contain is partially or totally extracted. In the simplest case, it may just be a fax number, e-mail address or postal address, which will then be used to send the electronic document to its final destination(s).

In the most complex case, it can be all the information contained in the document (address, list of items, date, customer number, etc.), which can itself be enriched by searching a directory or database.

Esker DeliveryWare Platform then defines the delivery rules to be applied to the document. For example, if an e-mail address is present, it will be used to send the document; otherwise, the fax number will be used. If neither is present, the document will be printed.

It will then be formatted and converted in order to adapt it to the electronic medias selected. In the case of e-mail, the document format will be changed to PDF or HTML. In the case of a fax, a black and white TIFF image will be created. Finally, in the case of an SMS for a mobile phone, only one specific piece of information will be used to create a text message of fewer than 160 characters.

➤ Document delivery - The channels covered by Esker DeliveryWare Platform

Currently, the following document delivery medias are available through the Esker DeliveryWare Platform product:

- **"Mail on demand,"** which enables e-mail to be sent via the Internet to a processing center that turns it into a paper letter in real time. This media allows delivery and dematerialization of management-type documents (invoices, contracts, reminders) without altering the recipient's habits.
- **Automatic or on-demand faxing:** For transmitting management-type documents (purchase orders, delivery slips) in fax format without preprinting.
- **Electronic mail** (e-mail), secured or not, for sending copies of management documents to other internal departments. In the scope of the Law of July 2003, this medium also enables the full dematerialization of invoicing (electronic invoices).
- **Web content**
- **Messages for mobile phones** via SMS: able to access more than 300 million mobile phones in Europe, in order to forward alerts or notifications.
- **Electronic archiving** for saving copies of documents sent.
- **XML:** standard global format for data presentation in a B-to-B environment allowing inter-company exchange of management information either directly or via a market place.
- Local or remote **printing** where the existence of a paper document is essential.
- Any other electronic media can be integrated and used by Esker DeliveryWare Platform through a line of commands or the writing of a specific program.

Fax servers

○ **Needs covered by this type of product**

At the end of the 1980s, the fax had become a key means of communicating, as much with the outside world as within a company between subsidiaries and distant offices. Since then, the volume of pages transmitted by fax by companies has not ceased to increase.

With the development of the PC, word processing tools, and local networks, users wanted to be able to avoid printing documents before being able to fax them and to send faxes directly from their workstations. The concept of the fax server was born. Software products today (such as Esker Fax, formerly Faxgate) enable users to send faxes without interrupting their work, by standing in line at the fax machine or other actions related to manual faxing. With a fax server, the facsimile is sent directly via a word processing program simply by using the program's "Print" command. Hence, gains in internal productivity are very significant for the companies.

Fax server applications can be classified in two major categories (production and messaging), whose functions, benefits, users and technologies clearly differ.

➤ **The production fax server:**

Fax documents are particularly effective for transmitting information from information systems outside the company (purchase orders, delivery slips, estimates, contracts, reminders, etc.). Thus, the fax presents undeniable advantages over other means of communications, the major ones being:

- Instantaneous transmission;
- Universal application of the media (able to be used in virtually all situations internationally);
- Confirmation of document delivery (transmission receipt);
- Faithful presentation of the documents transmitted (page formatting is in no way modified by fax transmission);
- Integrity of the document contents through a proprietary network (the telecommunications network) and not through Internet;
- Integrity of the document content because a fax is not easily modified;
- Less expensive than mail.

All these advantages continue to apply today and represent important factors for selecting fax to transmit critical company documents and information.

Many companies request fax server solutions providing a direct connection to the company's main information system (ERP, IBM major systems, CRM applications, etc.) to improve the response time of the company vis-à-vis customers and reduce total expenses.

➤ **The fax server integrated in messaging applications:**

With the growing use of internal messaging systems (Lotus Notes, Microsoft Exchange, Novell Groupwise), there is an increasing demand to move away from multiple messaging sources (faxes, email) to a single messaging tool. Users want to be able to send faxes as email, directly from their messaging application. In the same way, users want to be able to receive and read faxes through their messaging applications. This function provides enhanced user-friendly features and improved personnel productivity.

○ **The Esker Fax Server product line**

The Esker Fax Server product line includes two major product families: Esker Fax and VSI-Fax

➤ **Esker Fax**

Esker Fax is a versatile fax server (production and messaging) that works on a Microsoft NT/2000/2003 or XP server. Esker Fax is sold mainly to large companies.

- Messaging system integration

Esker Fax is compatible with the main electronic messaging systems currently used by companies, such as Microsoft Exchange, IBM Lotus Notes (Esker Fax for Notes) or SMTP (Internet Messaging). Moreover, Esker Fax is directly accessible using the main office automation tools such as Microsoft Word, Microsoft Excel and in general terms, any tool that can print directly from a workstation.

At present, and following the withdrawal in December 2000 of Lotus' fax server application, Esker Fax for Notes is the only fax solution in the world which offers a user and administrator interface fully integrated in IBM Lotus Notes. Moreover, Esker Fax for Notes is one of two products recommended by IBM Lotus as replacements for its own fax server.

- Information system integration

In a production environment, Esker Fax provides several specific connection solutions (SAP, LPD, LPR, APPC, RJE, etc.) for most existing company information systems. The Esker Fax product is certified by SAP.

In the absence of a specific connector for a given environment or application, Esker Fax behaves as a printer, using a recognition technology (GDR) specially developed by Esker. This technology enables routing information such as the fax number or recipient to be recognized and extracted directly on the document to be transmitted.

- Advanced functions

Esker Fax was specially designed to manage large volumes of faxes, integrating numerous optimized functionalities and load balancing functions. Esker Fax supports intelligent multi-channel fax boards (Brooktrout and EICON) enabling it to manage up to 120 lines per server. Esker considers Esker Fax to be one of the best products in its class for managing large volumes of faxes.

Esker Fax features functions that allow the fax server to be administrated via the very latest Microsoft interface (MMC or Microsoft Management Console) and to produce a full report of fax transmissions and receipts, which indicates the real use of the server and, hence, enables the cost of fax transmissions to be managed better.

➤ **VSI-Fax**

This fax server product was developed and marketed by VSI based in California. Following Esker's buyout of VSI in October 2000, VSI-Fax was integrated with the Esker product line of fax servers.

VSI-Fax is a production fax server operating under UNIX* and Linux* and offering approximately the same features as the Esker Fax product for these environments. VSI-Fax is very frequently integrated in vertical applications (i.e. dedicated to a specific division or economic sector). The majority of VSI-Fax product customers are companies creating management software for small- and medium-sized firms.

Host Access* servers

- **Needs covered by this type of product**

- **Terminal emulation:**

Most management applications (accounting, inventory management, business management, etc.) developed in the 1970s and 1980s are centralized on servers. They run on multistation computers (IBM, UNIX*, HP, SUN) and communicate with passive terminals* (keyboard + screen), which enable dialog with users.

With the massive influx PCs into the office environment in the early 90s, companies progressively began replacing passive terminals with PCs running Windows operating systems. In order to keep using the older applications on these new workstations, businesses found it necessary to install applications that imitated the older passive terminals. Such applications are called "terminal emulators" and constitute the primary function of the Host Access product line.

Passive terminals are generally designed by server manufacturers: IBM, HP, Digital, Wyse, etc. With more than 20 terminal emulations available, Esker considers that it has the most complete line in this market segment today, which enables it to meet the needs of virtually any configuration.

Accustomed to the graphic interfaces of workstations (Windows in particular), users wish to "update" the look of their older applications. This operation is called "revamping". Host Access products also provide a graphic interface for alphanumeric applications. With this technology, the older management applications are able to be integrated in new working environments. This enables companies to use these applications for a longer period and in this way protect their investment.

- **Resource sharing:**

In addition to providing workstation access to host-based applications, Host Access products also permit:

- File Exchange with host systems (FTP client and host protocol);
- Sharing of disks or portions of disks with host systems (NFS client and host protocol)
- Use of the host system printers (LPR protocol)
- Host system access to workstation printers (LPD protocol)
- Inclusion of workstation hard disks in scheduled host server backups (TAR)
- Remote execution of commands on the host system (RSH/RExec)

- **Host Access technologies**

- **PC-to-Host**

Originally, the above functions were developed using "PC-to-Host" technology. This means that the applications for accessing the main server (terminal emulation, resource sharing, database access) are developed using the language of the PC (C or C++) and that they must be installed on the PC's hard drive in order to work.

However, this traditional technology has the following disadvantages:

- Only PC-type workstations may be equipped;
- The software must be installed on all of the company's PCs, which can be long and tedious work, particularly if the workstations are not all at one location.

- **Web-to-Host**

To resolve these two problems, Esker decided to develop a Web version of its software. This software is no longer developed exclusively with the language of PC for Windows, but also with the assistance of Java, able to be executed on any type of workstation (PC, Macintosh, Linux, Network Computer, etc.). Moreover, it is no longer necessary to install the application manually on all the workstations; instead it can be copied once on the company's internal Web server, so that all users can access it immediately using their Internet browser (such as Internet Explorer).

In this context, the product features a resource management tool based on the LDAP* standard, which enables configuration of user access rights to resources and applications for each user or user group. As such, this module offers each user a work environment that is restricted and adapted to his/her needs.

Esker believes that many companies will opt to converge their workstations to a single Web interface (Intranet). This technology represents a perfect response to this demand.

➤ "Thin client" technology developed by Citrix and Microsoft

At the same time that the Web (Intranet) became more and more indispensable in companies, another technology, "thin client," was developed by the US-based company Citrix. This technology consists in adapting Windows NT servers (starting with the 3.51 version) so they can be exploited by several users simultaneously. These users may be equipped with PC, specific terminals (less-expensive) terminals or even a Web browser to access all the functions of the NT server. This technology was integrated by Microsoft in its company servers (NT/2000). The main advantage drawn from this technology is that software no longer needs to be installed on each workstation.

Esker has adapted its software access to host systems to this thin client technology.

○ **Host Access products**

Since the acquisition of Persoft (1999), Esker proposes two product lines offering access to host systems:

- Tun Plus (PC-to-Host, Web-to-Host and thin client) which is the original company product, enjoying a true leadership in the SCO Unix (Caldera), Linux and IBM AIX environments.
- SmarTerm (PC-to-Host) and Persona (Web-to-Host), which were developed by Persoft and enjoy true leadership in American administrations and the health service and industrial sectors.

➤ **Tun Plus**

The Tun Plus product line is marketed mainly for the servers SCO Unix, Linux, IBM AIX, HP-UX, IBM 390 and IBM AS/400. Traditional clients of this line are large accounts equipped with IBM systems and software editors offering management solutions running on UNIX* or Linux*.

The attractiveness of this product line is its flexibility and ability to integrate global solutions developed by integrators, value added retailers, other software companies, etc.

➤ **SmarTerm**

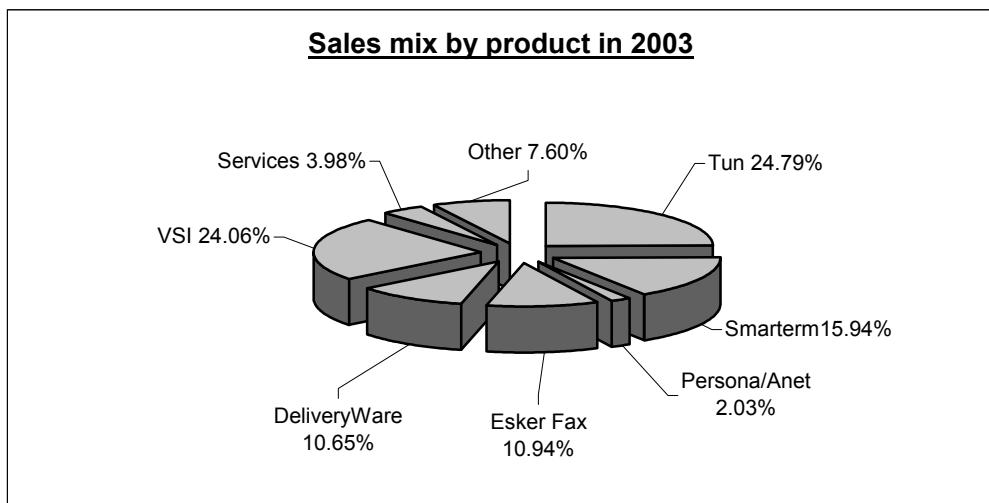
SmarTerm products are marketed primarily for Digital (VAX Open VMS), Data General and IBM servers. Users of this product line include companies and administrations of all size equipped with these servers. Compared to Tun Plus, the advantages of this product line are its ability to provide solutions adapted to large accounts and, in particular, its integration with VT environments.

3.1.5. Analysis of sales

• ***Sales mix by product***

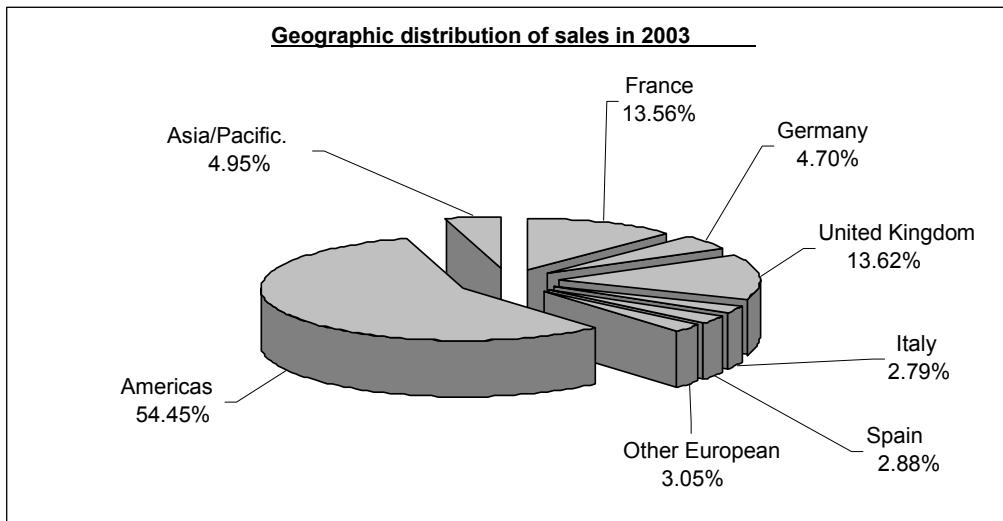
Analysis of sales among the various product lines:

Product lines	2003						2002					
	Licenses	Updates	Material	Services	Other	Total	Licenses	Updates	Material	Services	Other	Total
Host Access	7,832	1,786	-	33	-	9,651	13,276	1,887	-	7	-	15,170
Fax	4,249	3,635	1,290	304	-	9,479	6,331	3,555	1,563	177	-	11,626
Esker Deliveryware platform	1,894	536	429	561	-	3,421	1,883	376	371	292	-	2,922
Other	-	-	-	-	31	31	-	-	-	75	30	105
TOTAL	13,975	5,957	1,720	898	31	22,582	21,490	5,818	1,934	552	30	29,823



- **Geographic areas 2003**

Geographic areas	% of sales	
	2003	2002
France	13.53%	12.09%
Germany	4.70%	4.95%
United Kingdom	13.59%	13.88%
Italy	2.79%	2.44%
Spain	2.87%	2.62%
Other Europe	3.05%	2.70%
Americas	54.35%	56.82%
Asia/Pacific	5.12%	4.50%
	100.00%	100.00%



Esker generates 86% of its sales outside of France. The United States alone represents slightly more than half the global market for professional software. The US is also the market of reference in which the major players operate and the principal alliances are formed and broken. In 2003, approximately 54% of Esker's sales were generated on the American continent, giving Esker a balanced commercial base between America and Europe.

3.1.6. The Company's markets

Given the diverse technologies with which Esker works, the Company finds it appropriate to provide information on the following markets:

- DeliveryWare solutions
- Fax Server solutions
- Host Access solutions

• *The market for DeliveryWare solutions*

The market for DeliveryWare solutions represents an emerging market for which few technology research firms have carried out studies. Electronic document delivery is still largely based on non-integrated processes that accommodate only a single channel (for example, fax or traditional printing). Nevertheless, certain indicators from various market studies carried out enable us to roughly outline this market.

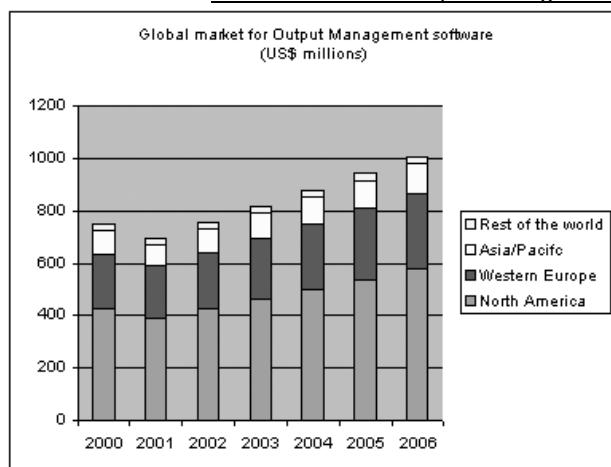
The market analyst Gartner uses the acronym DOM (Document Output Management) to designate the electronic document server market. According to Gartner, this market represented approximately US\$560 million in 2000, with an average annual growth rate of some 35% for the years to come (i.e., US\$2.5 billion in 2005).

What's more, the Gartner Group estimates that DOM servers will be as widely spread as network printers by 2004.

In 2001, Esker made its debut in Gartner's Magic Quadrant for the DOM market under the heading "Visionaries".

Market analyst IDC uses the term "Output Management Software" to identify the document server market. According to IDC, this market represented approximately US\$817 million in 2003 and is expected to have an annual growth rate of 7.7% until 2006.

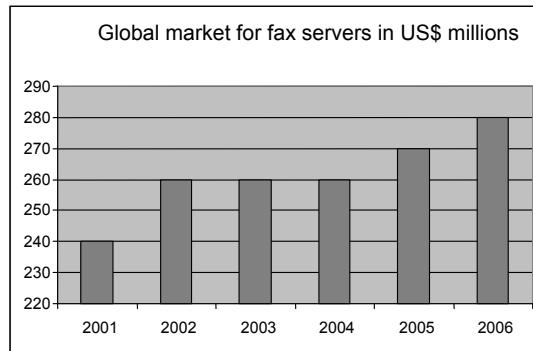
Global market for Output Management Software (Source: IDC, June 2002)



• *The fax server market*

According to a recent market study by Peter Davidson (former IDC consultant), this market should continue to grow until 2006.

The global market for fax servers (Source: Peter Davidson, 2003)



However, these global figures disguise an imbalance that exists among the different types of fax servers. According to the same study, while production fax servers (see above) represented only 44% of global sales in 2001, forecasts for 2006 put that figure at 66%. The apparent stability of the fax market therefore hides two opposite tendencies: the decline in messaging fax servers and significant growth in production fax servers at a rate of 7% until 2006.

The market's preference for production faxes would suggest that fax servers are being used as e-business tools, serving to circulate documents and information from the company's computer systems to outside the company. In this context, fax servers running on Linux appear to be well positioned to respond to this type of need.

Peter Davidson stresses another growth opportunity for fax editors in the form of incoming fax processing, something overshadowed until now by focus on outbound flow.

In conclusion, this study reveals the sector's real potential for the different players, whose positions correspond to market developments. Esker considers itself to be well positioned on this market.

• The Host Access market

The Company has drawn upon the study by the research firm IDC published in September 2003. The total market of Host Access applications in 2002 including PC-to-Host and Web-to-Host, applications is estimated by this study at US\$1.044 billion (based on the end-user sale price and not on sales by software companies to distributors). It should nevertheless be noted that approximately 50% of this market is dominated by hardware manufacturers (IBM) which market their own emulation solutions for their installed hardware base, and benefit from virtually captive markets. Esker believes that the actual size of the global market for Host Access truly accessible by independent editors is limited to about 50% of the figures furnished by IDC.

IDC forecasts an average growth rate for these markets of 1.4% annually until 2007. The main factors on which IDC bases this forecast are the following:

- an average annual decline in PC-to-Host products of 11%
- an average annual decline in Web-to-Host products of 14.9%

For its part, Esker believes that:

- A significant portion of the growth forecasted by IDC will be in favor of hardware manufacturers like IBM, notably in the Web-to-Host area;
- The adoption of Web-to-Host technologies, even if the underlying factors behind this trend remain, will be slowed by the absence of sufficient motivation by companies to carry out the migration;

In total, Esker has noted an average annual decline in the Host Access markets of some 10 to 20%. These forecasts would be significantly improved if Web-to-Host technologies are adopted more quickly than expected.

3.1.7. Competition

• Competition on the market for multi-channel servers for electronic documents

To date, with the exception of StreamServe, the Company knows of no other market player with a connectivity solution that is as extensive and diversified as those offered by Esker DeliveryWare.

In its magic quadrant, the Gardner Group identifies the following companies as leaders on the DOM (Document Output Management) market, not far behind DeliveryWare.

Companies	2003 sales (1)	2002 sales (1)	Products or product families
HP/Dazel	N/A	N/A	Document Router, Document Output Server
Streamserve	€30 million (estimated) £32.3 million	€30 million (estimated) £39.4 million (6/31/02)	Business Communication Platform
Macro4			Columbus D, Columbus R

(1) Sales mentioned are those of the company and not those of the product line.

- ***Competition on the fax server market***

The fax server market is a very fragmented market. With the exception of the world leader Captaris, with a market share of 24.3%, no other player holds more than 8% of this market. Esker finds the following competitors very significant:

Companies	2003 sales (1)	2002 sales (1)	Products or product families
Captaris	US\$95.1 million	US\$94.6 million	RightFax
TopCall Omtoll	€28.2 million US\$13.8 million	€30.1 million US\$14.5 million	Vienna, Communication One Fax Sr.

(1) Sales mentioned are those of the company and not those of the product line.

According to the ranking established in February 2001 by IDC, Esker is the third largest global actor on the fax market, behind Captaris and Topcall.

Esker considers that one of the differentiating elements of Esker Fax is its character as a production fax and hence its ability to connect to any computer environment, including IBM S/390 compatible Mainframes*, UNIX* systems, Windows, and any TCP/IP equipped server. Another of the product's strong points, in the Company's view, is its ability to respond to a heavy volume of fax receipts and transmissions.

The acquisition of VSI in October 2000 provided Esker with extensive expertise and a significant installed base in the segment of production fax servers running on UNIX* and Linux*.

Having focused efforts on developing a coherent and effective range of production fax servers able to process data flows regardless of their volume and origin, Esker believes that it is among the companies best positioned in the fax server market today to take advantage of the trends forecasted by market analysts.

- ***Competition on the Host Access market***

The major competitors identified by Esker are:

Companies	Products or product families
IBM	Websphere
Attachmate (estimated sales: US\$150–200 million)	Irma 3270, 5250, Extra!, e-Vantage
NetManage (sales: US\$50.7 million)	View/Now, Rumba, Salvo
WRQ (estimated sales: US\$80 million)	Reflexion
Century Software (estimated sales: US\$5–10 million)	Term, Tiny Term
J. River (estimated sales: US\$5–10 million)	ICE.TEN, ICE.TCP

Sales mentioned are those of the company and not those of the product line. Most of the companies mentioned above are not listed on stock exchanges and consequently do not publish their figures. The only exception is NetManage, which is listed on NASDAQ. Consequently, most of the figures mentioned above represent estimates.

According to figures published in September 2000 by IDC, Esker is number five worldwide in the Host Access market, behind IBM, Attachmate, NetManage and WRQ.

Esker considers that it has leadership positions in certain platforms, notably SCO Unix with Tun Plus. The company also believes that the integration in a single product, Tun Plus, of more than 20 different emulations compatible with PC-to-Host, Web-to-Host and Windows multi-user configurations represents a decisive factor for its success in this market. Tun Plus today represents one of the most open Host Access solutions available on the market, whether in terms of technology, emulation or environments supported. Furthermore, Esker considers its product SmarTerm as predominant for Digital and Data General servers, including in the health and administrative sectors in the United States.

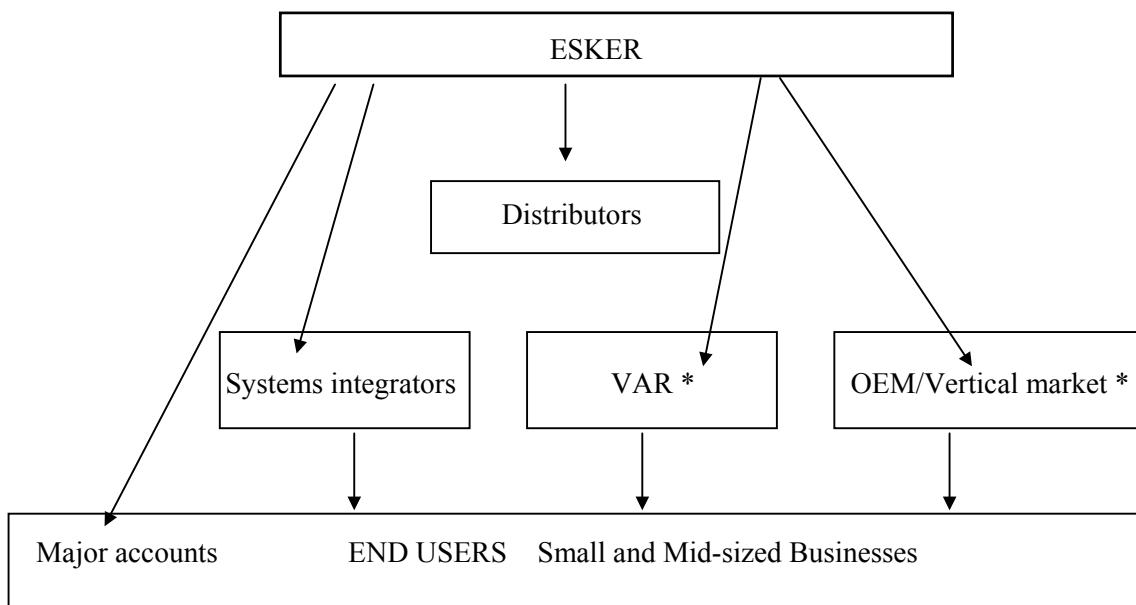
With regard to the "revamping" of applications, Esker believes it has original technology that allows Windows-type graphic interfaces to be adopted, without additional programming, to traditional alphanumerical* applications. The Company sees a major advantage for companies in that they can prolong the life of their applications without major investments in development.

In conclusion, Esker believes it has a comprehensive line of Host Access products which can effectively cover virtually all user needs in this area, from traditional PC-to-Host needs to intranet-type architectures and even the extension of information systems of the company in the form of extranet or Internet sites. The wealth of these functionalities, the diversity of the environments supported, and the global positioning acquired today by the Company leads Esker to believe that it is well positioned to significantly benefit from the development of the Host Access market.

3.1.8. Sales strategy and organization

The clientele for Esker products and solutions is broad: from the little firm with 50 employees to the major public or private account. To cover this market, Esker has favored the development of distribution while also maintaining a significant direct sales force. The following players are involved in the distribution of Esker products and solutions:

- Distributors of software products: These distributors purchase, store, and sell software products. Their clientele consists of resellers and, occasionally, final customers. They are distinguished from each other by the level of technical and sale support they provide, their sales conditions, storage and logistics capacities.
- Vertical software designers and OEMs who integrate one or more Esker technologies in their global solutions.
- Value added resellers. Their vocation is to provide global solutions (frequently equipment + software) for companies through the integration of different components. Their added value is primarily at the level of the global service they provide to the customers.
- Systems integrators. These companies work primarily on the basis of information technology projects invoiced according to a flat fee. The projects frequently integrate a variety of software products.
- The Esker direct sales force targeting all large companies, frequently in relation to a distributor or specialized retailer.



Representation of the Esker distribution process in the 2003 financial period

Esker has developed a systematic policy of creating subsidiaries in the major industrialized countries. The subsidiaries are generally structured as follows:

- *Country Manager*: Responsible for overall subsidiary management and directs all sales-related activities.
- *Operational Marketing Manager*: In cooperation with the Country Manager, defines and coordinates marketing actions to be carried out in his region to develop business opportunities.
- *Sales Engineer*: Serves as the Esker contact with the final client and coordinates his or her activity with the distribution function where applicable.
- *Indirect Sales Representative*: Responsible for the coordination of the distribution network (retailers, software companies and distributors).
- *Technical Consultant*: Assists the Sales Engineer with the marketing operation and oversees after-sales services (audit, installation, configuration).
- *After-sales technical support personnel*: Responsible for providing full-time telephone support for Esker distributors, retailers, and final clients.
- *Administrators* (accounting, sales administration).

This structure optimizes the Company's distribution network thanks to an on-site commercial presence for distributors and retailers, as well as end users, strengthened by local service provided in the languages of the different markets.

3.1.9. Clientele

Esker's main clients are its distributors and the large accounts to which the Company sells directly.

- The primary distributors and retailers of Esker are (in alphabetical order):

DISTRIBUTORS/RETAILERS	SUBSIDIARIES
Ingram Micro	USA
Frame	France
Open PSI	UK
Tech Data	USA
Avnet	Germany
Logix	France
Strhold Sistemi	Italy
Afina	Spain
Sphinx Computer	Germany
Civica Services	UK
Dupaco	Benelux
Telecon	Spain
Ccmx	France
EMJ Data Systems	USA
Computacenter	UK
Proceed Solutions	UK
Internet Software	UK
Arsys	Benelux
Software Solutions	UK
Netopolis	Spain
Avnet Computer Marketing	USA
Syntegra	UK
Cegi	France
Softcat plc	UK
DCS Automotive	UK
C2 Intelligent Communication	Australia
MPA New Zealand	Australia
Cegi Sante	France
Schwarz Rohloff	Germany

The profiles of these distributors and retailers vary. Total sales figures for these companies in 2003 range from US\$15 million to more than US\$300 million.

The contributions of the largest distributors and retailers to Esker's total sales are as follows:

- The largest distributor represents 5.27 % of total Group sales.
- The five largest distributors represent 19.33 % of total Group sales.
- The ten largest distributors represent 25.24 % of total Group sales.

On the major European markets (United Kingdom, Germany, France), Esker applications are distributed by some of the largest value-added distributors of UNIX* applications. The largest distributor represents 5% of total Group sales.

To enable fast delivery to its clientele, Esker ensures that distributors benefit from a permanent stock of one week's inventory to respond to the most common orders. In this type of sales environment, the notion of 'order book' is of particularly limited significance. This characteristic is offset by level of repeat business.

- Esker's primary end clients are (in alphabetical order):

CLIENTS	SUBSIDIARIES
Merkur Group	USA
Home Depot	USA
Genesis Health Ventures	USA
CDW Computer Centers	USA
WR Grace	USA
Misys Healthcare Systems	USA
Spawar Syscen Charleston	USA
TNT Express	UK
DTR Business Systems	USA
Medical Manager	USA
Blue Cross Blue Shield	USA
Syneex Information Technology	USA
Software Spectrum Garland	USA
Spectrum Systems	USA
Solofi	France
Gedas	UK
Insight Direct	USA
Norwest Financial	USA
Micron	USA

No Esker deal with an end client generated sales of more than 3% of the total in 2003.

- Average payment time:

The average payment time for customers in 2003 was 70 days on a group level compared to 67 days in 2002. The adoption in 2002 of an efficient reminder procedure in the different subsidiaries allowed them to maintain a satisfactory average payment time (82 days in 2001).

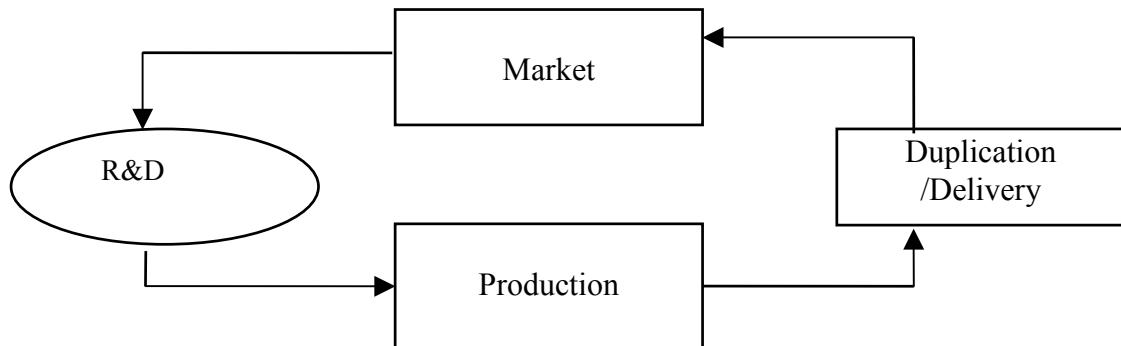
- Currencies:

The main currencies used by the Group's clients to pay their debts are the following :

- US dollar (US subsidiary)
- Euro (European subsidiaries)
- Pound Sterling (UK subsidiary)
- Australian dollar (Australian subsidiary)

3.1.10. Production

Software production may be broken down into three main activities:



Research and Development

Research and Development decisions are made on the basis of the needs expressed by users and of technology monitoring activities. Customer needs are overseen by a team of Product Managers (one per product line). Product Managers are also in charge of managing development planning, as well as the commercial launch of products.

In Lyon, France, a team of 25 computer engineers develop and maintain the Esker Fax and DeliveryWare applications. The Host Access and the VSI_FAX servers are maintained by a team of 15 computer engineers in the Madison, Wisconsin and Lake Forest, California offices.

The team of product managers is based in the Madison, Wisconsin offices.

Esker uses the main market servers: Sun Sparc, IBM AS/400, RS/6000, Mainframe* MVS, DEC OSF/1, SCO Unix*, HP-9000, among others.

In 2003, R&D costs represented €4.7 million, or 21% of consolidated sales.

- ***Production***

Two teams, one in Lyon, the other in Madison, totaling 25 people are in charge of this stage, which consists of the following operations:

- Quality control of newly developed products,
- The development of installation procedures,
- The development of user manuals and online technical support,
- Localization (adaptation and translation).

A significant portion of Esker's products is today available simultaneously in five different languages: English, French, German, Spanish and Italian.

- ***Duplication and delivery***

Esker manages two duplication centers, one in Lyon for European sales, the other in Madison, Wisconsin for sales in the Americas. These centers are responsible for filling orders of the different customers and assuring the assembly of different components including:

- User manuals,
- CD-ROM,
- Product box,
- License number,
- User License Agreement

The Company generally fills orders within 24 hours.

3.1.11. Suppliers

The cost of components for production (fax boards, CD-ROM, user manuals, etc.) has always represented less than 10% of company's sales. This percentage has tended to decline in the past due to the replacement of diskettes by CD-ROM and greater economies of scale. However, fax server activity has tended to increase this ratio, as customers demand that the software company provide an intelligent fax board.

3.1.12. Human resources

- ***Esker's management team***

The Esker management team has been progressively developed around one of the founders, Jean-Michel Bérard. At the date of submission of this document, it was composed of 7 individuals:

- **Jean-Michel Bérard**, 42, Worldwide CEO and Chairman of the Executive Board. In 1984, he received a computer engineering degree from the renowned National Institute of Applied Sciences (INSA) in Lyon. Co-founder of Esker, he was initially responsible for product strategy. In this capacity, he set up a development program that allowed the company to respond rapidly to developments in technology. He continues in this path, representing Esker vis-à-vis the European technological community, computer analysts and the professional press. At one time the leader of Esker's Research and Development team, he currently serves as Chairman of the Executive Board and thus is responsible for the general management of the Company and the supervision of its teams in France and abroad. In 2000, Jean-Michel Bérard was awarded the Grand Prix de l'Entrepreneur (Entrepreneur of the Year award) for France and the Rhône-Alpes region.

- **Emmanuel Olivier**, 36, Chief Financial Officer, US CEO. In 1991, he earned an MBA from the Nice—Sophia Antipolis Ecole Supérieure de Commerce and also received certification as a CPA in the US. He then worked as audit manager for Ernst & Young for seven years, including two years in Philadelphia (USA). Emmanuel Olivier is currently CFO, supervising and coordinating the activities of the Group's financial services, and the activities of its subsidiaries. He is also responsible for financial communication for Esker.
- **Jean-Jacques Bérard**, 38, Executive Vice President - Research and Development and invited Member of the Executive Board. In 1988, he received an engineering degree from the National Institute of Applied Sciences (INSA) in Lyon. Before joining Esker, he was director of the R&D team at Andersen Consulting in Lyon. He came to Esker in 1995, where he occupied the position of Project Coordinator for the SQL team, then became R&D Director in November 1997. In June of 1998, he was appointed as Executive Vice President for Research & Development. His missions are to implement product strategy and supervise product planning and development in France and the US.
- **Lynn Weatherby**, 51, Vice President - Product Planning and Management and invited Member of the Executive Board. She earned a doctorate from the University of Wisconsin at Madison in 1986. From 1984 to 1996, she was a product manager in medical instrumentation, more particularly in the fields of neurology, otolaryngology, sleep disorders and epilepsy studies. Lynn Weatherby joined Persoft, Inc. (now Esker) in 1997 as Product Manager in charge of the medical care sector. In 1998, she was appointed as Vice President for Product Planning and Management.
- **Mitch Baxter**, 42, Executive Vice President - Business Development and invited Member of the Executive Board. He obtained a B.S. in Electrical Engineering from the University of California at Irvine. He began his career in communications at Rockwell & Collins, where he coordinated several design, analysis and development projects concerning satellite and laser communications systems. He then became marketing and strategic planning manager at ARINC, Inc., an international telecommunications firm (US\$300 million in sales) before joining VSI in 1997, where he served as President and Chief Operating Officer. Mitch Baxter's missions are to diversify the Company's activities and to strengthen VSI's line of fax servers, while focusing on maintaining key accounts and on developing strategic partnerships. Mitch Baxter is an active board member of SO/CAL/TEN, a network of top technology executives in Southern California.
- **Linda Winger**, 40, Vice President - Research and Development (US) and Vice President - Professional Services. She holds an M.S. in Computer Science from the University of Wisconsin and joined Persoft, Inc. (now Esker, Inc.) in 1986 as a computer engineer. Director of R&D in the US since 2001, in 2003 she assumed the additional role of Vice President - Professional Services, focusing on implementing professional services dedicated to the Esker DeliveryWare and Esker Fax Server solutions.
- **Mike J. Wenzel**, 38, Vice President - Sales (Americas). He holds both a B.A. and an MBA and joined Persoft, Inc. (now Esker, Inc.) in 1996 as US sales manager. With 15 years' experience in sales and sales team management, he now holds the position of Vice President for Sales in the Americas. He leads the American sales force in implementing Esker's commercial strategy on the North and South American continents.

- **Esker personnel**

Average workforce in 2003 and 2002

	R&D		Sales		Marketing		Administ.		Shipping		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
France	40	40	16	18	8	9	23	19	2	2	89	87
Germany	0	8	8	1	2	1	1	1	0	0	10	11
United Kingdom	0	15	13	3	3	2	2	2	0	0	20	18
Italy	0	4	5	1	1	1	0	0	0	0	5	6
Spain	0	4	3		1	1	1	1	0	0	5	5
Asia / Australia	0	6	7	1	1	2	2	2	0	0	9	10
USA	25	31	61	62	17	19	15	24	4	4	122	140
Total	65	70	113	116	31	35	44	49	6	6	259	276

Notes concerning the calculation of the workforce:

- R&D staff include production and international technical support,
- Sales staff include consultants and local technical support,
- Method used for calculating the average workforce for the year: average of average monthly workforce for each department.

Average workforce between 2003 and 2002: The average workforce fell between 2003 and 2002 (a decrease of 17 persons). This was mainly due to the restructuring of the R&D, marketing and administrative departments of the American subsidiary (a decrease of 18 employees). For the other subsidiaries, the average workforce did not change significantly.

Refer to Note 18 of the consolidated financial statements (Chapter 4 of this reference document) for the breakdown of employees by qualification.

Turnover

	2003	2002
Turnover	26%	25%

Average age

	2003	2002
USA	40	38
Europe	33	32
Esker	36	35

Training:

The 2003 training plan was essentially composed of classes allowing employees to expand the knowledge needed to continue successfully occupying their positions (SAP, Exchange, Lotus Notes, financial techniques, Word). Classes in the English language, which is the working language at Esker, are always in demand. Some classes complementary to job tasks (marketing, basic computer programming) were arranged. Moreover, Esker has 4 internal instructors, who define and organize product training, on the issuance of each new version, for all our sales personnel, as well as more technical training designed for the different technical support teams or consultants responsible for installation and client instruction.

Training expenses

€'000	2003	2002
Training expenses	51.46	123.1

• *Compensation policy*

Esker sales staff benefits from a variable compensation based on results in accordance with the current practice in the different countries. This variable portion can amount to 40% of their total remuneration.

A profit-sharing plan has been put in place for French staff (see [§5.4 of Chapter 5](#) of this Reference Document). A 401(k) funded pension plan was created in the US to enhance the performance bonuses. Similar measures have been implemented in the major subsidiaries.

Various stock option and warrant plans (see [§2.2.2](#) and [§2.2.4](#)) have been implemented to motivate company management and employees. They are allotted on the basis of the seniority of employees and their advancement in the company.

• *Other human resources information*

More detailed information relating to the Company's human resources organization can be found in the Management Report contained in this document ([§4.3, ¶1.7 of Chapter 4](#)).

3.2. Risk factors for the Company

3.2.1. Technology risks

- **Releasing new applications or versions**

Esker plans to release new applications and versions on the market. It is not possible to guarantee that the new technologies deployed in these applications will be successful. They may even contain bugs that are not detected before they go to market despite all the internal checks.

Similarly, a successful technological development is no guarantee of market acceptance of the applications. This may adversely impact the achievement of sales forecasts.

- **Getting technical information from other parts of the information technology industry**

In developing its software computer programs, the Company may require technical information (source licenses, protocol specifications...) that are not in the public domain and that are the property of the computer hardware or software designer. In this case, it would be necessary to get access to these sources of information, which often requires the permission of the owner. In the past, Esker has succeeded in getting the information necessary for its development. There is, however, no guarantee that the Company will be able to get this information in the future on acceptable terms and conditions.

- **Changes to market data**

The information technology market undergoes constant change. Esker is not in a position to guarantee that at any given moment a major IT player will not significantly alter the current situation.

In particular, Esker has based a significant part of its growth on the success of electronic document distribution markets (DeliveryWare). Commercial success will only be achieved if these markets continue to grow in line with the Company's forecasts as indicated in paragraph 3.1.6. The entrance of a major software player into one of these markets could adversely affect Esker's business plans.

- **Risk of software bugs**

Most software applications on the market contain bugs that may adversely impact their performance, or even result in damage to third parties. Even though Esker has taken measures to ensure quality control, the Company cannot rule out this possibility. It is not possible to declare that disappointed customers will not take action against the Company. In order to minimize the risk of errors, Esker has put in place a quality control team, comprising a total of twenty people who are responsible for testing and validating the applications before they go to market. This independent team, made up of development engineers, uses the same types of hardware and software as customers.

Although user licenses are generally provided without any warranty and with the user responsible for all risks, Esker wanted to cover the risk of damages arising from the use of Esker products by third parties. Esker has taken out general liability insurance to cover product risks up to €381,000 in Europe and US\$2,000,000 in the US.

- **Possible need to integrate OEM components in the Company's product offering**

Esker's Tun products only use components developed by Esker or in the public domain.

Products made by Teubner & Associates (Esker Fax) and VSI (VSI-Fax, VSI-Fax for Notes) as well as the Esker DeliveryWare product contain external components purchased from OEMs. However, the purchase of these components has only a limited impact on its margins and Esker's strategy is not to increase the use of these components.

3.2.2. Financial and commercial risks

- *Seasonal fluctuation in sales*

Historically, Esker has always booked a significant share of its sales in the last quarter of the year, and particularly, in December. A variation or delay in expected sales during this period could thus have a significant and unforeseen impact on the annual commercial performance.

In the same way, quarterly sales are heavily weighted towards the last days of the quarter. An internal or external event that might disrupt this period is thus likely to have a significant impact on the performance of the Company.

- *Cost structure*

Like all software companies, Esker's cost structure consists primarily of fixed costs (personnel expenses, premises, amortization of investments...). It is this structure that, through positive leveraging, led to the high level of profitability historically recorded by Esker up to 1999. In the less favorable environment since 2000, this same leveraging effect has had a negative impact on profitability.

- *Delayed Growth in Acquired Companies*

Esker's future growth is based in part on a strategy of mergers and acquisition. Although Esker carried out an in-depth study of each Company acquired and its development plans, it is still possible for an acquisition to have a negative impact on the Company in terms of both growth and profitability if actual growth is not in line with the initial plan.

- *New market entrants*

Certain potential competitors have access to much larger financial and human resources than those available to Esker. As a result, these companies are able to devote more resources to the development, marketing and sale of their products and respond more quickly to new or emerging technologies as well as changing customer requirements. It cannot be guaranteed that pressures arising from this competition will not adversely affect the Company's business, operating results or financial situation.

- *Price declines*

Past trends have demonstrated that software prices tend to decline. This risk is inherent in the software business. Esker has, however, always sought to maintain its prices by continually adding new functionality to its products. Esker will pursue this strategy in the future, though it is not possible to guarantee that this will always be the case. The Company's main competition is currently from North America. A fall in the US dollar vis-à-vis European currencies could provide an additional competitive advantage to these companies. Such an advantage could result in downward pressures on the prices charged by the Company in the market. However, in light of the growth objectives of the Company's US business, exposure to this risk should decline.

- *Software piracy*

Software is marketed in the form of user licenses. The illicit copying or piracy of software constitutes copyright infringement and an operating loss for all software companies. Even though the market has implemented stricter standards in recent years in the main industrialized countries, there is no indication that this situation will not further deteriorate in the future. However, the Company individualizes every license by providing a serial number and activation key. In addition, the Company is able to identify every license holder through its web-based registration system. The Company believes that these measures limit the piracy of its own products.

- *Customer risks*

Like with all commercial companies, Esker is exposed to collection risks on customer receivables. Esker has nonetheless taken out standard type coverage from SFAC and Coface for the bulk of its customers. It should be noted that Coface or SFAC may at any moment withdraw their coverage for a given client, and that the risk is never fully covered. The marketing approach of the Company, in large part through indirect sales, results in invoicing being concentrated on a small number of accounts (cf. § 3.1.9). As a result, the ending of a relationship between the Company and any one of its distributors or the insolvency of one of them could adversely affect Esker's sales and earnings. The Company is not aware of any significant existing risk with regard to its relationships with its current distributors or their solvency.

- *Market risks (interest rates, exchange rates, share price):*

Please refer to § 1.9 of the Management Report (Chapter 4) included in this document.

3.2.3. Legal risks

- **Protection and enforcement of intellectual property rights**

Trademarks used by Esker are filed in the US, Europe and Asia and in major industrialized countries. Under current French and U.S. law, computer programs developed up to now by Esker do not qualify for patent protection. The protection of the Company is thus largely based on:

- Its know-how, and,
- Respect for copyrights and licenses relating to its software. However, effective copyright protection is not guaranteed in every country. Legal action may prove to be necessary and have an impact on the performance of the Company.

The Company has never been the target of litigation or undertaken proceedings with regard to the infringement of copyrights, trademarks, trade secret or other intellectual property rights, based on the possible infringement of third party rights.

- **Tax risks**

The Company may be subject to an audit in France and abroad in accordance with labor and tax regulations. Esker S. A. was subject to a tax audit, for the period from 01/01/2000 to 12/31/2001, which was completed in September 2003 and did not result in any adjustment. No other noteworthy audit is currently in progress in any other country.

- **Litigation**

The Company may be involved in various legal actions both in France and abroad.

Litigation in progress on 12/31/2003 is described in Section 3.6 of this document.

To the best of the Company's knowledge, there are no other cases of litigation, arbitration proceedings or extraordinary items that are likely to have, or have had in the recent past, a material impact on the financial situation, performance, business and net assets of the Company or its subsidiaries.

3.2.4. Industrial and environmental risks

- **Security**

The Research and Development activity is located at Esker's headquarters and is protected by security measures customarily used in the profession. In particular, the Company systematically makes two backup copies weekly of the source code to its software, which are stored at two different geographic sites. The same practices are used at the other R&D center in Madison.

- **Insurance**

Esker has insurance coverage for the following risks at its various sites:

- Professional liability insurance,
- Business interruption,
- Damage to property

The following is the main coverage:

- **Industrial multi-risk in France:**
 - Fire, explosion, sundry risks: €122,000
 - Climatic incidents, natural catastrophes: €122,000
 - Theft and vandalism: €15,000
 - Loss of records, glass breakage: cost of replacement
 - Water damage: €15,000
 - Riots, sabotage and vandalism: €122,000
 - Electrical damage: €8,000
- **All computer risks (France):** The coverage insures property, the computer material being insured for up to €649,000 for its balance sheet and leasing value. The coverage is extended to physical damage resulting from transporting or handling in France or the occasional use in bordering countries. Related damage such as data retrieval and additional operating costs are insured for up to €47,000 and €118,000 respectively.
- **Business interruption resulting from an accident.** The period of compensation is limited to 12 months and covers the gross margin of Esker France. The contractual limit for compensation is €1,524,000.

- General public liability: For financial losses incurred resulting from physical, material and immaterial damage caused to third parties before and after delivery of products or receipt of work:
 - o *Physical, material and immaterial damage combined*: €8,757,000
 - Including:- For material and immaterial damage combined: €2,117,000
 - And for non-consequential immaterial damage only: €381,000

This particularly covers damage to property in care or damage attributable to the failure of products or work, a design or delivery error for Europe and Australia.

The American subsidiary also took out insurance covering damage related to the use of Esker products by third parties for the sum of US\$2,000,000 per year.

- Employer's liability: Cover of £10 million was taken out in the United Kingdom.

There is, however, no guarantee that losses suffered by the company would be fully covered.

- ***Industrial and environmental risks***

The company's activity is unlikely to result in industrial and environmental related risks that could impact on the company's net assets or performance.

3.2.5. Other risks

- ***Dependence on key personnel***

The Company is dependent on the continued services of its senior management and its research and development and sales teams, and their departure could have a material adverse impact on the performance of the Group. Most of the personnel in question are not bound by non-competition clauses. Esker considers that the implementation of stock option plans for key personnel should lead to stability in the company's management.

- ***Potential volatility of the company's share price***

The market price of the shares of high-tech companies like Esker is particularly volatile and subject to fluctuations which may be unrelated to the financial performance of the companies themselves. Several factors can have a significant impact on the share price, notably: fluctuations in financial results, the behavior of shareholders, announcements of new products or product improvements by the Company or its competitors, and market conditions.

- ***Dividends***

It is not usual for a company the main aim of which is targeting high growth levels to engage in an aggressive dividend distribution policy. However, Esker plans to pay dividends when profitability returns to acceptable levels.

- ***Dilution***

In light of Esker's business, the company does not exclude the possibility of new equity increases. Such transactions may result in the dilution of existing shareholders.

3.3. Investment strategy

The group's investments are largely self-financed with the exception of vehicles that are sometimes leased.

3.3.1. Main current investments

The Company's investments are largely comprised of expenses related to the continued development of existing applications (cf. Section 3.1.10. "Description of Production" - Research and Development) and marketing efforts (cf. Chapter 4 of this document – Management Report - § 1.4 "Group's Business" and 2.2. "Company's Research and Development Activities").

The Company acquired an integrated Management Software Package, SAP, in 2002. The acquisition plan was reviewed during the first half of 2002. It became operational on January 1, 2003. The year 2003 was spent stabilizing the system and starting the rollout to European subsidiaries (United Kingdom and Italy). The cost of the project will be depreciated on a straight-line basis over five years from the date it became operational. All costs generated by the acquisition of hardware, and licenses, as well as training days, had no impact on performance during the 2002 period. The SAP package will subsequently be deployed in Spain, Germany and Australia during the 2004 and 2005 financial periods.

In 2003, the Company replaced its Customer Relations Management (CRM) application. The Siebel software package then in use, was replaced by a rented solution from Salesforce.com. The Company took the decision as a result of the prohibitive level of investment that would have been required in 2003 to migrate the Siebel solution to the latest version. The cost of upgrading hardware and software as well as of services (consulting, training) related to the migration seemed to the management team to be too high. Other than the fact that the change to Salesforce.com is not an investment (rental solution), the Company estimates that it has reduced by half the annual cost of ownership of its CRM application. The migration from one application to another took less than 4 months. As a result, the Company had to take the Siebel application out of service. This asset write-off had a negative impact of €161,000 on the performance during the 2003 financial period (Net Book Value).

3.3.2. Future investments

The Company's future investments will largely be focused on making the DeliveryWare application available in the form of services accessible on-demand or as a rented solution. This change will require the acquisition of powerful servers, numerous fax cards and various printing and envelope stuffing systems. Although not precisely calculated, this project should generate investments of around €100,000 per annum over the next three years.

3.4. Recent developments

In the first quarter of 2004, Esker's sales declined by 6.4%, a positive impact of 2% at constant exchange rates, to €5.53 million compared to €5.92 million in 2003. The DeliveryWare product line grew strongly by 110% (at constant exchange rates). The Host Access line declined by 5% and the Fax Server line declined by 17%.

Growth in the North American Zone (up 12%) compensated for a fall in sales in European countries (down 10%) that have not yet benefited from the global recovery.

3.5. Strategy and outlook

Following the successful release of the DeliveryWare solution, Esker's strategy is now to grow this product line in a profitable manner so that it can as quickly as possible represent the bulk of its sales. This growth must take place while keeping the Fax Server and Host Access product ranges as high as possible.

The strategy to achieve these targets is focused on the following factors:

3.5.1. Cutting cost of sales (in % terms)

The Company considers that the cost of sales is too high in percentage terms (around 55% of sales) and particularly with regard to the DeliveryWare solution. While this situation is acceptable during a product's release phase, this percentage must, however, be significantly reduced. In order to meet this target, the Company would like to develop the following two areas:

- The development of an indirect distribution network (resellers and OEM) that will lead to both an improvement in sales productivity and an increase in the Company's market presence.
- An expansion of sales efforts to the installed base and no longer only to new customers.

3.5.2. Increasing the recurring portion of sales

The Company feels that too much of its sales come from the sale of licenses leaving it sensitive to changes in the world economy. As a result, the Company would like to grow the recurring portion of its Sales by prioritizing the following activities:

- Improved follow-up and renewal of maintenance contracts
- Availability of its Fax Server and DeliveryWare product offering as a rental and/or hosted solution
- Development of service activities related to its Fax Server and DeliveryWare business

3.5.3. Protect sales from traditional product ranges

Even though they are not very dynamic, the Fax and Host Access markets represent a significant installed customer base (around 70,000) that must be satisfied with the regular release of new product versions. Moreover, these markets still offer interesting opportunities and the possibility of taking market share from competitors.

3.5.4. Maintaining the Company's technological position

The Company should continue its high level of R&D, particularly in the Fax Server and DeliveryWare markets.

3.5.5. Market outlook and competitive positioning

The analysis of the market and competition has already been carried out in sections 3.1.6 and 3.1.7.

3.5.6. Projected financial reporting schedule

The next announcements will be as follows:

- Sales for the 1st half of 2004: 1st half of July 2004
- Half-yearly results: 09/26/2004
- Sales for the 3rd quarter of 2004: 1st half of October 2004
- Sales for the 4th quarter of 2004: 1st half of January 2005
- 2004 annual results: March 2005 (estimate)

3.6. Exceptional items and litigation

The Company has taken steps to liquidate its subsidiary in Singapore. Within the context of this liquidation, a creditor was awarded damages of SG\$82,638, equivalent to €49,384. On the basis of information provided by its attorney in Singapore, a provision of €38,000 was recorded for this risk in the company's accounts on 12/31/2001. No significant development took place during the 2003 period.

A case is ongoing with a former Esker distributor, the parent company of which declared bankruptcy in April 2002. This distributor has claimed for a total of €860,000 in damages for the wrongful termination of the distribution contract. For this suit, the evidence submitted to the court contradicts this claim. A debt depreciation provision was recorded at 100% while waiting for the outcome of the liquidation proceedings. The total receivables held by Esker for this distributor amount to €421,000.

A second suit is in progress with a financial institution regarding the early termination of a hardware leasing agreement as a result of the renewal of the computer material. This suit is currently being mediated. A provision of €18,000 was recorded in the accounts to cover the risk of outstanding payment relating to the compensation for termination.

To the best of the Company's knowledge, there are no other cases of litigation, arbitration proceedings or extraordinary items that are likely to have, or have had in the recent past, a material impact on the financial situation, performance, business and net assets of the Company or its subsidiaries.

3.7. Glossary

Alphanumeric applications	Application running in character mode only, without a graphic interface, typical in legacy computer systems.
Mail on demand	Mail initiated by electronic file transmission via the Internet to the local Postal Service (e.g. La Poste, in France) and then printed, placed in an envelope, automatically metered and received by its recipient as a traditional letter (ultimately registered).
Terminal emulation	Software that allows a workstation to imitate the behavior of a terminal in a keyboard + screen type manner. A software emulation terminal thus enables the activation of one computer's applications from another computer.
Host access	Describes a category of software applications enabling PCs to communicate with a central host (IBM Mainframe* or AS/400, Unix* hosts, etc.), to share peripherals or access related databases.
HTML	A document format, primarily used on the Internet.
Intranet	A network using internet technologies (HTTP servers, messaging, etc.) within a company.
Java	A programming language invented by SUN designed to develop applications that function on different platforms and operating systems.
LDAP	Acronym for "Lightweight Directory Access Protocol". A recent Internet protocol allowing electronic directories located on a central host to be accessed and updated. Such directories generally contain information such as the names and references (email address) of company employees. In addition, all the organization's IT resources (hosts, printers, fax, etc.) can be referenced there.
Linux	A freeware operating system designed in the 1980s by a student: Linus Torvalds. Closely related to the Unix* operating system, Linux has become very popular because it is robust and free of charge.
Software application	A package of programs, processes and rules necessary so that a computer system can process data in response to specific user needs.
Mainframe	A large computer (frequently made by IBM) with significant calculation and backup capacity and able to serve many users.
Web Browser	An application used to search for and browse information and execute applets on Internet hosts.
Original Equipment Manufacturer (OEM)	Supplier of computer products including components produced by other suppliers.
PC-to-Host	Set of technologies enabling a PC to communicate with host computers.
PDF	Portable format for displaying documents (Portable Document Format) developed by Adobe.
Software package	Software package gives the right to use a software application usually comprising a CD-ROM and a user manual.
Fax server	Software or hardware designed to receive or transmit facsimile documents (or faxes).
Workstation	Single multitasking computer. In this document, PCs are considered to be workstations.
TCP/IP	A communications protocol used between different machines (micro, mini or PC) regardless of the software environment (DOS, Windows, Netware, Unix*). This protocol is the internet standard.
UNIX	An operating system developed in the '70s and able to be deployed on various different hardware platforms. The first open system, it was adopted by virtually all computer manufacturers in the area of departmental hosts and has become an industry standard.
VAR	A computer company (Value Added Retailer) offering solutions that package various components.
Vertical market	A software publisher targeting a very specific business segment or class of users (for example: pharmaceutical software, legal firm management, etc.)
Web-to-Host	Set of technologies enabling communication between an intranet system and host computers. In this context, the intranet system consists of an HTTP host and workstations equipped with a Web browser.

CHAPTER 4: FINANCIAL DATA

4.1 Consolidated financial statements

AUDITORS' REPORT **Consolidated Financial Statements**

Esker

Public Limited Company (Société Anonyme incorporated under French law)

Immeuble "GEO CHAVEZ"
10, rue des Emeraudes
69006 Lyon - FRANCE

AUDITORS' REPORT **Consolidated Financial Statements**

Period ended December 31, 2003

In accordance with the terms of our appointment by your shareholders' meeting, we have audited the consolidated financial statements of Esker S.A. for the period ended December 31, 2003 as included with this report.

These consolidated financial statements are the responsibility of the Company's Executive Board. Based on our audit, it is our duty to express our opinion on these statements.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have undertaken our audit in accordance with professional standards applicable in France. These standards require the use of due diligences to ensure a reasonable guarantee that the consolidated financial statements are free of material misstatement. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated accounts. It also includes assessing the accounting principles used and the significant estimates made in establishing the accounts and evaluating their overall presentation. We consider that our audits provide a reasonable basis on which to express the opinion below.

With regard to French accounting standards and principles, we certify that the consolidated financial statements present fairly, in all material aspects, the assets, financial situation, and results of the entire group of companies included in the consolidation.

II. JUSTIFICATION OF THE ASSESSMENT

Pursuant to the provisions of Article L. 225-235 of the Commercial Code pertaining to the justification of our assessment, introduced by the Law on Financial Security of August 1, 2003 applicable for the first time to this period, we wish to draw your attention to the following items:

The net book value of the consolidated goodwill was the subject of audit as described in the Notes. We appraised the soundness of the methodology that was applied, examined the documents prepared in this context, appraised the consistency of the data given, while in particular comparing the projections to the results for the 2003 period, and reviewed the company's calculations. On this basis we went on to appraise whether or not the estimates were reasonable.

The appraisals that were made from part of our general approach to the audit of the consolidated financial statements taken as a whole, and therefore contributed to the formation of our unqualified opinion, expressed in the first part of this report.

III. SPECIFIC AUDITING

We have also reviewed the information concerning the group provided in the management report, in accordance with generally accepted professional standards in France. We have no particular observations to make as to its sincerity and consistency with the consolidated financial statements.

Villeurbanne, June 4, 2004

Statutory Auditors

Yves Fournand

Deloitte Touche Tohmatsu
Dominique Valette

Consolidated balance sheet

	Note	31-dec-03 €'000	31-dec-02 €'000	31-dec-01 €'000
Net intangible assets	(3)	828	1,045	2,457
Net tangible assets	(4)	888	1,346	1,152
Long-term investments	(5)	121	62	60
Fixed assets		1,837	2,453	3,669
Inventory and work in progress	(6)	208	306	308
Trade notes and accounts receivable	(7)	5,042	4,975	6,669
Other receivables	(8)	873	904	1,192
Deferred taxes receivable	(24)			308
Cash and cash equivalents	(9)	5,621	8,603	8,214
Current assets		11,743	14,788	16,691
Suspense accounts	(10)	359	450	496
TOTAL ASSETS		13,938	17,692	20,856
Capital	(12)	6,828	6,828	6,828
Premiums		15,078	15,078	15,078
Consolidated reserves				1,634
Retained earnings carried over		-12,150	-9,748	-9,224
Translation adjustment		300	719	1,205
Net income Group share		-3,058	-2,410	-2,194
Group shareholders' equity	(11)	6,999	10,467	13,327
Minority interests		0	0	1
Reserves for risks and charges	(13)	67	55	177
Conditional advances				
Long-term debt	(14)	9	5	8
Downpayments from customers				2
Trade payables and related accounts		1,069	1,429	1,650
Taxes and social security		2,134	2,349	2,594
Other debts		76	33	105
Deferred taxes payable				
Trade payables and miscellaneous provisions	(16)	3,279	3,811	4,351
Suspense accounts	(17)	3,585	3,354	2,992
TOTAL LIABILITIES		13,938	17,692	20,856

Consolidated income statement

	Note	2003 €'000	2002 €'000	2001 €'000
Product sales		15,679	23,545	27,294
Product updates and professional services		6,903	6,278	5,020
Other income				219
Sales & other income		22,582	29,823	32,533
Sales costs		-2,293	-2,554	-2,919
Research and development expenses		-4,711	-5,693	-6,797
Selling expenses		-9,926	-11,461	-11,794
Marketing expenses		-3,696	-5,565	-6,577
General and admin. Expenses		-4,500	-4,817	-5,704
Operating profit (loss)		-2,544	-267	-1,258
Financial profit	(20)	200	331	292
PRETAX INCOME BEFORE EXCEPTIONAL ITEMS		-2,344	63	-966
Exceptional items	(21)	-350	-829	-772
Corporate income tax	(22)	-34	-522	-182
INCOME OF CONSOLIDATED COMPANIES BEFORE AMORTIZATION OF GOODWILL		-2,728	-1,288	-1,920
Amortization of Goodwill	(3)	-330	-1,122	-274
Minority interests				0
TOTAL CONSOLIDATED NET INCOME		-3,058	-2,411	-2,194
Earnings per share (in Euros)		-0.92	-0.72	-0.65
Net earnings per share (in Euros)		-0.92	-0.72	-0.65

Statement of consolidated cash flow

	Note	2003 €'000	2002 €'000	2001 €'000
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES				
Gross self-financing margin		-2,013	-417	-594
Net result, Group share		-3,058	-2,411	-2,194
Amortization expenses for property and goodwill		1,067	1,705	1,611
Other restatements for social security		-22		
Deferred taxes			289	-11
Change in working capital requirements		11	-2,155	-1,865
Stocks		-98	-2	28
Trade receivables and suspense accounts		-94	-2,156	-988
<i>Exchange effects on trade receivables</i>	(d)	535	671	
Increase in trade payables		-354	-301	905
<i>Exchange effects on trade payables</i>	(d)	685	969	
NET CASH FLOW PROVIDED BY OPERATIONS		-2,024	1,738	1,271
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of tangible and intangible fixed assets		626	1,052	703
Changes in goodwill	(c)			0
Other variations				-3
Net change in treasury stock		-2		-22
Net change in other long-term investments		59		-12
NET CASH FLOWS FROM INVESTMENT ACTIVITIES		682	1,052	666
NET CASH FLOWS FROM FINANCING ACTIVITIES				
Increases in capital				55
Other changes in shareholders' equity				0
Treasury stock		-21		-118
Increase in long-term debt and other medium and long-term liabilities	(a)			0
FLUX NET DE TRESORERIE LIE AUX OPERATIONS		-21	0	-63
FINANCING ACTIVITIES				
NET CASH FLOW		-2,727	686	542
Cash at the beginning of the period		8,435	7,956	7,342
Change in the period		-2,727	686	542
Impact of foreign exchange fluctuations		-289	-207	72
CASH AT THE END OF THE PERIOD	(b)	5,419	8,435	7,956

Cash items correspond to assets and liabilities with maximum maturities of three months as of the closing date of the period under review.

(a) All financial debt has been considered negative cash, as corresponding to periodic overdrafts and an advance on conditions payable at less than one year, or €8,600.

(b) Cash holdings for the last three financial periods have been restated for treasury stock, which is presented separately under cash flows from investing activities.

(c) In view of the considerable fluctuation in US dollar and GBP exchange rates during the period, and the impact of these fluctuations on items of working capital need, we have indicated the amount of currency fluctuations on these items.

Notes to the Consolidated Financial Statements

Note 1: Significant accounting policies

• **Significant accounting policies**

The consolidated financial statements have been prepared in accordance with French accounting principles and the provisions of Regulation 99-02 of the Comité de la Réglementation Comptable concerning consolidated financial statements, approved on June 22, 1999.

• **Consolidation policies**

The consolidated financial statements have been presented according to the principle of full consolidation, as each company included in the scope of consolidation is a wholly owned subsidiary of the parent company Esker S.A.

All significant transactions between consolidated companies as well as internal results not recognized, included under fixed assets and inventories of the consolidated companies, are eliminated.

• **Sales**

Sales are recognized as income according to the completed sales basis, i.e. on the date of the product's delivery. Esker sells upgrade contracts associated with the products. These contracts grant the right to receive all main versions of software packages that may be published during the period covered by the contract. Sales related to this category of service are amortized on a straight-line basis over the lifespan of the contract. Other services are recognized as income after the products are installed and become operational.

• **Intangible assets**

• **Goodwill on acquisition**

Upon acquisition of controlling interests of a new company, the identifiable assets and liabilities of the acquired subsidiary are recorded in the consolidated balance sheet for their value as re-estimated on this date.

The residual value between the acquisition cost of the shares and the share in the re-estimated net assets is recorded under "Goodwill" and amortized over a period of 10 years, which is deemed reasonable and prudent, in light of the Group's business.

Esker carries out a regular review of goodwill on acquisition, at least once a year or every six months in the case of significant events, with a view to determining if an extraordinary depreciation is required with reference to its market value. The determination of this market value is based, on the one hand, on the perennial nature of products valorized through goodwill on acquisition and, on the other hand, on an examination of future discounted cash flows. Since 2002, in accordance with COB positions, this review has concerned the total book value of goodwill on acquisition, including the portion initially deducted from consolidated shareholders' capital, deducted from paid-in capital.

• **Business goodwill**

In accordance with its economic nature, business goodwill acquired by the Australian subsidiary was depreciated over a ten-year period, as explained in Note 3 of this document, in relation to intangible assets. This business goodwill was fully depreciated in 2001.

• **Other intangible assets**

Other intangible assets consist primarily of trademarks and software recorded in the balance sheet at acquisition cost.

Software is depreciated on a straight-line basis over 1 to 5 years.

The company depreciates its trademarks for a period of 10 years. Stocktaking is carried out periodically with a view to determining the unused trademarks that should be scrapped.

Technology acquisitions are recorded as intangible assets and are depreciated over five years.
R&D costs are not recorded under fixed assets.

- **Tangible assets**

Tangible assets are recorded in the balance sheet at the Group's acquisition cost.

Depreciations are recorded on a straight-line or accelerated basis applied over the following estimated periods of use:

- General installation	Straight-line/5-8 years
- Transport equipment	Straight-line/3-8 years
- Office and computer equipment	Straight line or Accelerated/2.5-8 years
- Furniture	Straight-line/5-8 years

Most acquisitions of equipment and software are recorded under fixed assets of the Group. The parent company has only marginal recourse to lease financing. Past and current finance leases have not been restated in consolidation, as this item is not material.

- **Long-term investments**

The gross value of non-consolidated equity interests includes the acquisition cost of these shareholdings. When the market value is less than the gross value, a provision for charges is recorded.

The market value is calculated on the basis of the net worth of the investment at the end of each period, if need be weighted to take into account the sales and earnings prospects.

- **Inventory and work in progress**

This item includes:

- consumables (CD-ROMs and packaging),
- intelligent fax boards,
- marketing material (brochures, etc.).

They are recorded at acquisition cost.

Provisions are recorded when the sale value is less than the acquisition cost.

- **Trade notes and accounts receivable**

Trade notes and accounts receivable are recorded at face value. They are depreciated on an individual basis according to the age of the debt and the assessment of the risk incurred by the group.

- **Marketable investment securities**

The gross value of this item consists of the acquisition cost excluding charges. When the fair value is less than the gross value, a reserve is recorded for the difference.

- **Treasury stock**

Treasury shares destined specifically for share price stabilization or employee stock purchase plans are recorded under short-term investment securities.

Treasury shares not destined for these two purposes are deducted from consolidated shareholders' equity at their acquisition cost. Capital gains or losses on these shares are not included under consolidated income.

- **Deferred tax**

Deferred tax is calculated for all timing differences between the tax base and the book income. Deferred tax debits relating to timing differences and losses brought forward are only recorded to the extent that their recoverability does not depend on future results, or if it is likely that the company concerned may be able to recover those in future financial periods. Deferred tax debits and credits are netted in the balance sheet.

- **Translation of foreign currency items**

Assets and liabilities of foreign subsidiaries are converted at the year-end exchange rate and income statement items at the average exchange rate. Translation differences resulting from exchange rate variations are recorded under consolidated shareholders' equity.

Payables and receivables stated in foreign currency are converted on the basis of the exchange rate in force on December 31. Starting January 1, 1999, the Group records unrealized foreign exchange gains and losses on payables and receivables stated in foreign currency under income. This applies with the exception of unrealized foreign exchange gains and losses on long-term payables and receivables. Long-term payables and receivables are regarded as an integral part of investment in a company and as such, the resulting exchange rate variations are recorded under consolidated shareholders' equity.

- **Calculation of earnings per share:**

- **Earnings per share:**

Earnings per share are calculated on the basis of net income for the consolidated entity and the average number of shares of the consolidating entity outstanding for the period under review.

- **Fully diluted earnings per share:**

Fully diluted earnings per share are calculated on the basis of: net income of the consolidated entity, the forecasted yield on the Group cash assets on the basis of the average annual rate recorded, the amount of funds which could be raised on the basis of the total number of shares available for issuance shares, the average number of shares of the consolidating company taking into account the impact of potentially diluted securities (stock option plans destined exclusively for employees).

In the two cases treasury shares deducted from shareholders' capital were not taken into account to determine the average number of shares used for this calculation.

Note 2: Consolidation scope

Company	Head office	% Control			% interest			Consolidation method
		2003	2002	2001	2003	2002	2001	
Esker S.A. France	Lyon	Consolidating Company						
Esker GmbH Germany	Essen	100%	100%	100%	100%	100%	100%	FCM
Esker Ltd. United Kingdom	Derbyshire	100%	100%	100%	100%	100%	100%	FCM
Esker Srl Italy	Milan	100%	100%	100%	100%	100%	100%	FCM
Esker Iberica Sl Spain	Madrid	99.80%	99.80%	99.80%	99.80%	99.80%	99.80%	FCM
Esker, Inc. (U.S.A.)	Madison	100%	100%	100%	100%	100%	100%	FCM
Interdoc, Oy Finland	Espoo		100%	100%		100%	100%	FCM
VSI, Inc (U.S.A.)	Lake Forest			100%			100%	FCM
Esker Australia Pty. Ltd. Australia	Sydney	100%	100%	100%	100%	100%	100%	FCM

FCM: Full consolidation method

One subsidiary, Esker Asia Pte Ltd, located in Singapore and wholly owned by Esker S.A., has not been included in the scope of consolidation since 1997. This company has ceased activity since December 1997. A provision was recorded by Esker S.A. to cover all risks related to the liquidation of this subsidiary.

- **Changes in the scope of consolidation**

The Esker Group did not make any acquisitions during the 2003 period. In October 2000, Esker acquired VSI, Inc. (situated in Lake Forest, California, USA). For this acquisition, Esker applied the special accounting method provided under regulation 99-02 concerning the new consolidation standards (pooling of interests). This company merged with Esker, Inc. on January 1, 2002.

The Interdoc Oy company has been inactive for more than one year and has not been included in the scope of consolidation on December 12, 2003 because it was dissolved in August 2003.

Note 3: Intangible assets

	Gross	2003 Depreciation & provisions	Net	2002 Net	2001 Net
Goodwill on acquisition	2,730	2,373	358	689	1,811
Formation expenses			-	0	2
Trademarks (a)	231	179	52	81	199
Business goodwill (b)	281	281	-	-	-
Software (c)	1,368	949	419	276	445
Total in €'000	4,611	3,782	828	1,045	2,457

(a) The trademarks include the trademarks and logos exploited by Esker and filed with the INPI (the French national Institute for industrial property) for the regions of France, EU, U.S.A., Canada and Asia. They are amortized over 10 years since January 1, 2002.

(b) On 1/8/97, Esker Australia was incorporated. This latter entity acquired the business assets of our distributor Unitract for AUD 450,000. In 2001 Esker considered that the value in balance sheet of these assets was no longer in line with their economic value. It was therefore decided to completely depreciate this business goodwill.

(c) Software acquisitions concern primarily user licenses. They are depreciated over a period of 1 to 5 years.

- **Goodwill on acquisition:**

In accordance with COB positions and the accounting standards in force, Esker carries out a regular review of goodwill on acquisition. This review concerns the total book value of goodwill on acquisition including the portion initially deducted from consolidated shareholders' capital deducted from paid-in capital. To implement this review, Esker takes account, on the one hand, of the perennial nature of the acquired products valorized through goodwill on acquisition, and, on the other hand, of discounted cash flows; where products have been abandoned, their share in goodwill in acquisition is depreciated by 100%.

On December 31, 2003, before review and depreciation: goodwill on acquisitions in the balance sheet breaks down as follows:

	Goodwill on acquisitions in Balance Sheet			Goodwill on acquisitions deducted from Shareholders' equity			Goodwill on acquisition Total			% on Balance Sheet
	Gross	Allow.	Net	Gross	Allow.	Net	Gross	Allow.	Net	
Repurchase of minority interests										
Esker Inc	126	-114	12				126	-126	-	100%
Teubner & Associates	1,669	-1,240	429	9,107	-6,766	2,341	10,776	-8,006	2,770	15%
Alcom	80	-80	-	1,236	-1,236	-	1,316	-1,316	-	6%
Persoft	858	-608	250	11,394	-8,074	3,320	12,252	-8,682	3,570	7%
Total in €'000	2,733	-2,042	691	21,737	-16,076	5,661	24,470	-18,130	6,340	11.2%

It is noted that in 1998, goodwill generated by the acquisition of Teubner & Associates was deducted from paid-in capital following the capital increase resulting from this operation for €9.1 million.

Similarly, in 1999, according to generally accepted accounting principles in France and the terms of the prospectus (Note d'opération) issued within the framework of the Persoft operation, Esker exercised the option of allocating to paid-in capital the goodwill resulting from the acquisitions of the companies, Alcom and Persoft. This decision was based primarily on the method of financing of these acquisitions (issuance of new Esker shares). All goodwill on acquisition is amortized over a period of 10 years.

A depreciation test carried out in 2002 gave rise to an exceptional amortization of €849,000 for goodwill on acquisition of Persoft, Alcom, and Teubner.

On December 31, 2002 the following extraordinary depreciations were carried out (on the share of goodwill on acquisition in the balance sheet):

€'000	Method	Extraordinary depreciations	Net	NAV after extraordinary depreciations 2002
			Accounting Value on Dec. 31	
Persoft	Discounted Cash flow	215	215	0
Teubner	Discounted Cash flow	0	358	358
Total		215	573	358

The depreciation test on the Persoft goodwill concerns discounted cash flow for the Smarterm and Persona products. These products form part of Esker's Host Access product line, for which the market is declining. As a prudent measure, Esker has decided to depreciate the net book value of the corresponding goodwill by 100%.

On the other hand, the depreciation test carried out on the Teubner goodwill concerns products issuing from Esker's Fax and DeliveryWare products, on which the company is basing its future growth prospects.

After review and carrying out the extraordinary depreciations the balance sheet shows the following figures:

		2003		2002		2001	
	Gross	Depreciation & provisions	Net	Net	Net		Recalculated annual Allowance
Buyout of minority interests							
Esker, Inc.	126	126	-	12	24	-	-
Teubner & Associates	1,668	1,309	358	429	1,070	69	
Alcom					56		
Persoft	858	858	-	249	661	-	
Total in €'000	2,651	2,294	358	689	1,811	69	

In the absence of deduction of goodwill by acquisition from shareholders' equity, the total allocation would have been €4,648,000 including an extraordinary allocation of €6,437,000.

Note 4: Tangible assets

	Gross	2003 Depreciation & provisions	Net	2002 Net	2001 Net
Fixtures and improvements	228	105	123	93	68
Transport equipment	303	137	166	152	49
Office and computer equipment	2,917	2,429	488	566	704
Furniture	599	544	55	82	143
Other	233	178	56	453	188
Total in €'000	4,280	3,392	888	1,346	1,152

Other assets in 2002 are made up of €342,000 for current assets recorded on the acquisition of an ERP which became operational in 2003.

Note 5: Long-term investments

	Gross	2003 Depreciation & provisions	Net	2002 Net	2001 Net
Other equity interests (a)	68	68	-	-	-
Other (b)	121		121	62	60
Total in €'000	189	68	121	62	60

(a) Other equity interests concern, primarily, a stake of 14.5% in the company Screener S.A.R.L., in official receivership since 1998, and the subsidiary Esker Asia, no longer included in the scope of consolidation (cf. section 2).

These assets have been fully provisioned for since December 31, 1997.

(b) This item primarily concerns deposits and guarantees.

Note 6: Inventory and work in progress

	Gross	2003 Reserves	Net	2002 Net	2001 Net
CD-ROMs, packaging, marketing, brochures...	131	16	115	168	142
Goods held for resale	93		93	138	165
Total in €'000	224	16	208	306	308

The inventory of goods held for resale corresponds to intelligent fax boards sold with certain of our fax servers.

Note 7: Trade notes and accounts receivable

	2003			2002	2001
	Gross	Reserves	Net	Net	Net
Clients in €'000	5,261	219	5,042	4,975	6,669

The amount of outstanding trade receivables that exceed one year is not significant.

Note 8: Other receivables

	2003			2002	2001
	Gross	Reserves	Net	Net	Net
Personnel	2		2	6	46
Tax receivables	772		772	867	1,040
Other receivables	112	13	99	31	105
Total in €'000	886	13	873	904	1,192

Claims on government are made up of €341,000 in VAT receivables, with the remainder being corporate tax receivables, with expiries of between 1 and 3 years.

	< 1 year	1-5 years	> 5 years
Personnel	2		
Tax receivables	349	423	
Other receivables	99		
Total in €'000	450	423	-

Note 9: Cash and cash equivalents - short-term investment securities & long-term debt

	2003			2002	2001
	Gross	Reserves	Net	Net	Net
Investment securities (b)	3,556		3,556	5,842	5,607
Cash at bank and on hand	1,871		1,871	2,667	2,356
Sub-total cash, investment securities	5,427	0	5,427	8,508	7,963
Short-term credits & bank interest (c)	-9		-9	-5	-8
Sub-total long-term debt	-9		-9	-5	-8
Sub-total cash flows other than own shares	5,419	0	5,419	8,503	7,955
Treasury stock (a)	810		616	194	95
Net funds in €'000	6,237	616	5,613	8,598	8,206

(a) Treasury stock: Treasury stock destined specifically for share price stabilization or employee stock option plans. A provision was recorded which was determined by comparing the book value with the average stock price for the last month of the financial period.
 (b) Short-term investment securities consist primarily of Negotiable Certificates of Deposit and money market funds.
 (c) These are temporary overdrafts.

On December 31, 2003, the closing value of these mutual funds was closed to the balance sheet value.
 Changes in the 2003 financial period break down as follows:

	Number	Value in €'000
On January 1, 2003	61,118	812
Exercise of options	500	
On December 31, 2003	60,618	810
Unrealized capital loss		616

Note 10: Suspense accounts

	2003	2002	2001
Charges to be carried forward	-	-	10
Deferred charges	359	450	486
Total in €'000	359	450	496

The prepaid expenses primarily concern marketing costs, other payroll expenses and rental costs mainly in the United States and France.

Note 11: Group shareholders' equity

	Capital & share premium	Reserves linked to capital	Exchange adjustments	Treasury shares	Other reserves	Total
On Dec. 31 2001	21,906	150	1,205		-9,933	13,328
Capital increase						
<i>Nominal</i>						
<i>Paid-in capital</i>						
Goodwill allocated to paid-in capital						
Changes in translation adjustment			-486			-486
Changes in cross-shareholding						
Other changes in reserves				36		36
Profit for the period (group share)					-2,410	-2,410
On Dec. 31 2002	21,906	150	719		-12,307	10,467
Capital increase						
<i>Nominal</i>						
<i>Paid-in capital</i>						
Goodwill allocated to paid-in capital						
Changes in translation adjustment			-419			-419
Changes in cross-shareholding				-21		-21
Other changes in reserves				30		30
Profit for the period (group share)					-3,059	-3,059
On Dec. 31 2003	21,906	150	300	-21	-15,336	6,999

Note 12: Authorized capital

	2003	2002	2001
AUTHORIZED CAPITAL (€'000)	6,828	6,828	6,828

On December 31, 2003, the capital of the parent company consisted of 3,414,161 shares conferring simple voting rights of a nominal value of €2 per share, i.e. an authorized capital of €6,828,000.

During the 2001 financial period, the following capital transactions were carried out, corresponding to a capital increase of €1,126,000.

- Capital increase resulting from the conversion of capital into euros by withdrawal from reserves: €1,098,000.

- Capital increase pursuant to the exercise of stock options: €28,000: Issue of 13,865 shares with a nominal value of €2.

Note 13: Reserves for risks and charges

	2003	2002	2001
Reserves for risks on Esker Asia	38	38	38
Reserves for foreign exchange losses			
Lawsuit contingency provisions	5	5	30
Other reserves for risks	24	12	109
Total in €'000	67	55	177

	Provision at the beginning of the financial year	Increase, charge for the year	Amounts used during the current year	Amounts unspent carried forward for the current year	Provision at the end of the financial year
Provision for risks on Esker Asia	38				38
Lawsuit contingency provisions	5				5
Other provisions for risks (a)	12	18		6	24
Total in €'000	55	18	-	6	67

(a): charge of €18,000 for early cancellation of contract with supplier

Note 14: Analysis of long-term debt

All financial debts consist of temporary overdrafts and therefore of less than 1 year, and must be included under cash flow

Note 15: Analysis of trade payables

The portion of trade payables exceeding one year has not been significant.

Note 16: Deferred income

	2003	2002	2001
Deferred income (a)	3,585	3,354	2,992
Total in €'000	3,585	3,354	2,992

(a): This relates primarily to product upgrade contracts marketed by the company in 2003 and for 2004 (cf. Note 1: Sales).

Note 17: Analysis of sales by region and sector

The Esker Group participates in the Host Access and IID markets (cf. Chapter 3). These two markets concern the same sector of activity, the development of software products, around which the company is organized. For this reason, the presentation of detailed information by sector of activities has been limited to the breakdown of sales by product line.

The presentation of information by region is based on the analysis of operating activity provided by the company's internal reporting. Each region represents a profit center to which only costs related directly to this region are allocated (example: marketing cost, sales costs, etc.).

Corporate expenses concern expenses relating to the entire Group and not managed directly by the profit centers (example: R&D expenses, strategic marketing, corporate financing, etc.).

European entities representing less than 4% of sales have been grouped together.

	France	United Kingdom & Benelux	Germany	Other European countries	Australia	USA	Corporate Expenses	Esker Total
in €'000								
Sales	3 055	3 756	1 060	1 278	1 114	12 276		22 540
% of total sales	14%	17%	5%	6%	5%	54%		100%
including:								
<i>Host access</i>	1,996	1,921	903	768	274	3,789		9,651
<i>I.I.D</i>	1,059	1,836	157	510	840	8,487		12,889
Other income	23		3	16				42
Operating charges	-2,317	-2,384	-1,397	-1,201	-1,184	-9,607	-7,036	-25,126
Operating profit (loss)	760	1,373	-334	93	-70	2,670	-7,036	-2,544
Net fixed assets (except goodwill & Immo. Fin)	212	122	141	143	116	313	310	1,357

Note 18: Personnel

The number of personnel at the close of the last three financial periods was as follows:

	2003	2002	2001
Management and supervisory staff	73	66	64
Employees	16	21	21
FRENCH COMPANIES	89	87	85
Management and supervisory staff	17	19	22
Employees	147	174	181
FOREIGN COMPANIES	164	193	203
Management and supervisory staff	90	85	86
Employees	163	195	202
TOTAL GROUP	253	280	288

The payroll in 2003 represented 12,689,000 Euros

Note 19: Depreciations and provisions (excluding goodwill and exceptional expenses)

	2003	2002	2001
Depreciation allowances for fixed assets	736	857	1,088
Depreciation allowances for current assets	91	331	122
Total in €'000	827	1,188	1,210

Note 20: Financial profit

	2003	2002	2001
FINANCIAL INCOME	1 606	1 005	658
Other interest and similar proceeds			
Net proceeds from the sale of securities	136	211	316
Reserves written back to income and internal transfers	515	121	119
Currency gains	955	94	142
Unrealized foreign exchange gains		579	81
FINANCIAL CHARGES	-1,406	-675	-366
Allowances for amortization and provisions			
Interest and similar charges	-9	-13	-28
Currency losses	-1,397	-662	-338
Total in €'000	200	331	292

Unrealized exchange gains are made up of passive exchange gains on short-term payables and receivables recorded under income.

Note 21: Exceptional items

	2003	2002	2001
On management operations	-384	-501	-341
From capital transactions	34	-165	-278
Extraordinary appropriations/reinstatements		-163	-153
Total in €'000	-350	-829	-772

The exceptional items for management operations in 2003 include €151,000 to cover redundancy payments and related costs, resulting from the reorganization carried out in the group's subsidiaries in France and the United States and €177,000 of compensation paid for premature termination of employment contracts. The exceptional items for capital transactions correspond to €34,000 for reversal of provision for treasury shares recorded under short-term investment securities following a rise in the share price.

Note 22: Corporate income tax

- Analysis of the tax on profit*

	2003	2002	2001
Current tax expense	-34	-233	-278
Deferred tax expense/income		-289	96
Total in €'000	-34	-522	-182

In light of the income of the companies in the Group, no deferred income was recorded in relation to the subsidiaries' losses brought forward. In the same way provision was made in full for deferred tax assets relating to timing differences.

- Monitoring of deferred taxes*

	On Dec. 31 2001	Changes in the period	On Dec. 31 2003
Deferred taxes on timing differences	407	-143	264
Loss carryforwards (USA)	2,356		2,356
Deferred taxes on consolidation entries and various	-14	-52	-66
Provision	-2,750	196	-2,554
Total deferred taxes in balance sheet	0	0	0

- **Analysis of the tax expense**

The profit tax expense may be analyzed as follows:

in €'000	2003
Pretax income	-3 024
Amortization of goodwill	330
Income before tax	-2,694
Tax rate of the parent company	34.33%
Theoretical tax credit	-925
Impact of:	
- Different tax rates of foreign countries	43
- Flat-rate taxes France & subsidiaries	21
- Deferred taxes not assigned to the charges for the period	699
Restatements on consolidation & other	195
Group tax expense	34

Note 23: Off-balance sheet commitments

- **Pension liabilities**

The calculated pension liabilities have not been recorded given their insignificant nature, which is explained by the staff age and seniority.

- **Management of foreign exchange risks:**

On 31 December, 2003 the company committed itself to a term sale of 154,000 GBP intended to cover payables on our subsidiary Esker Ltd in the United Kingdom. The operation ended in February 2004 and resulted in a gain of 1,500 €.

It should be noted that the present annex does not omit any significant off-balance sheet commitments according to the standards in force.

4.2 Condensed Parent Company Financial Statements

Notes

The information presented as follows includes only the key financial data of the balance sheet and income statement. The complete annual financial statements can be obtained from the company's headquarters.

The balance sheet and income statement of Esker S.A. are drawn up in accordance with French legal and statutory provisions and according to generally accepted accounting principles applied continuously from one financial year to the next.

In the parent company financial statements, equity interests of foreign subsidiaries are recorded in the balance sheet under assets at acquisition cost. In most cases corresponding to start-ups, the acquisition cost corresponds to the capital stock of the subsidiary.

At the end of the year, the market value of the equity interests of subsidiaries corresponds to an estimated value assessed according to the market and their usefulness for the company.

BALANCE SHEET

ASSETS	31-Dec-2003 €'000	31-Dec-2002 €'000	31-Dec-2001 €'000
Intangible assets	387	492	302
Tangible assets	405	354	221
Long-term investments	17,504	28,044	26,836
FIXED ASSETS	18,297	28,890	27,359
Inventory and work in progress	98	241	180
Advances to suppliers	4		
Trade notes and accounts receivable	5,425	8,296	7,912
Other receivables	1,800	2,081	2,007
Cash and cash equivalents	2,031	4,477	5,025
CURRENT ASSETS	9,358	15,095	15,124
Suspense accounts	585	868	574
TOTAL ASSETS	28,240	44,853	43,058

LIABILITIES	31-Dec-2003 €'000	31-Dec-2002 €'000	31-Dec-2001 €'000
Capital stock	6,828	6,828	6,828
Additional paid-in capital	36,814	36,814	36,814
Other reserves	1,259	1,259	1,259
Retained earnings	-9,940	-9,384	-9,224
Net income (loss) for the period	-12,868	-556	-161
Regulated reserves	83	84	104
SHAREHOLDERS' EQUITY	22,177	35,046	35,622
RESERVES FOR RISKS & CHARGES	456	558	404
PAYABLES	4	8	12
Tax & employee-related liabilities	1,044	1,020	946
Other payables	755	602	650
TOTAL PAYABLES	4,860	8,139	6,194
Suspense accounts	743	1,102	826
TOTAL LIABILITIES	28,240	44,853	43,058

INCOME STATEMENT

INCOME STATEMENT	2003 €'000	2002 €'000	2001 €'000
Sales	7,628	9,901	9,867
Other operating income	2,273	2,486	2,158
OPERATING INCOME	9,901	12,387	12,026
PURCHASES AND OTHER EXTERNAL EXPENSES	2,878	4,411	5,066
GROSS MARGIN	7,023	7,975	6,960
Taxes	216	224	283
Personnel expenses	5,392	4,872	4,638
Depreciation, amortization, and provisions	851	751	604
Other expenses	2,271	2,788	2,533
TOTAL OPERATING EXPENSES	11,608	13,046	8,058
OPERATING PROFIT (LOSS)	-1,707	-659	-1,098
NET FINANCIAL INCOME (LOSS)	-10,559	554	1,410
NET INCOME (LOSS) BEFORE TAXES AND EXCEPTIONAL ITEMS	-12,266	-105	312
EXCEPTIONAL ITEMS	-587	-435	-389
Corporate income tax	15	15	84
NET INCOME (LOSS)	-12,868	-556	-161

Net income appropriation of the period

in €'000	2003 Financial Period (2)	2001 Financial Period (1)
Income (loss) for the period	-12,868.16	-555.59
Allocation to the legal reserve	n/a	n/a
Special long-term capital gains reserve	n/a	n/a
Dividends	n/a	n/a
Retained earnings	-12,868.16	-555.59
Total appropriation	-12,868.16	-555.59

(1) Pursuant to the approval of the Combined Shareholders' Meeting of June 23, 2004

(2) Pursuant to the decision of the Combined Shareholders' Meeting of June 25, 2003

4.3 Management Report for the period ending December 31, 2003

Dear Shareholders,

We have called this Annual Shareholders' Meeting to report to you on the activity of our company and the operational results for the period ending December 31, 2003. These results are submitted as the period's annual financial statements for your approval.

We also submit the following items to your vote:

- authorization to trade in the company's shares when deemed necessary,
- authorization and powers to be granted to the Executive Board to issue standalone subscription warrants,
- a reserved capital increase in favor of the company employee savings plan (Plan d'Epargne Entreprise) in compliance with the provisions of Article L. 225-129 VII of the Commercial Code,

In their report, the auditors provide you with all information concerning the fair presentation of the accounts presented to you.

In turn, we will provide you with any details and additional information which you may deem useful.

Included with this report, in accordance with Article L. 233-15 of the Commercial Code, is a five-year financial summary of the company.

Summarized as follows is various information as legally required.

POWERS OF THE ORDINARY GENERAL MEETING

1. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SUBSIDIARY OVERVIEW

1.1. GROUP STRUCTURE

On 31 December, 2003 the Group structure was as follows:

Companies	Country	% Control
Esker SA	France	Parent Company
Esker GmbH	Germany	100.00%
Esker Ltd	UK	100.00%
Esker Srl	Italy	100.00%
Esker Iberica Sl	Spain	99.80%
Esker Inc.	USA	100.00%
Esker Australia Pty Ltd	Australia	100.00%

1.2. CONSOLIDATED SALES

Consolidated sales **by activity** break down as follows:

ACTIVITY	2003	2002
	€'000	€'000
Product sales	15,679	23,545
Product upgrades and services	6,903	6,278
Total sales	22,582	29,823

Consolidated sales by **region** break down as follows:

COUNTRY/ REGION	2003 €'000	2002 €'000	Variation Change
			%
France	3,077 €	3,562 €	-14%
Other European countries	6,114 €	7,990 €	-23%
USA / Canada / Latin America	12,276 €	16,933 €	-28%
Australia / Asia	1,114 €	1,338 €	-17%
Total sales	22,582 €	29,823 €	-24%

The 2003 financial period was characterized by an 8% decline in consolidated book sales as follows:

- USA / Canada: - 28%
- Europe: - 20%
- Asia / Pacific: - 17%

Nevertheless, when taking into account exchange rate effects (constant exchange rate), consolidated sales declined considerably less (- 15%):

- USA / Canada: -13%
- Europe: -18%
- Asia / Pacific: -13%

Sales per product line (in €'000)

Product Lines	2003		2002		2001	
	Amount €'000	% sales	Amount €'000	% sales	Amount €'000	% sales
Host Access	9,651	43%	15,274	51%	19,041	59%
I.I.D.	12,931	57%	14,549	49%	13,273	41%
Total sales	22,582	100%	29,823	100%	32,314	100%

In 2003:

- Host Access product sales declined again (by 19.8% between 200s and 2001). This product line now accounts for only a little more than half of the group sales (51%),
- I.I.D. (Intelligent Information Delivery) products integrating fax servers registered a 9.6% increase in sales. This product line now accounts for 49% of group sales.

1.3. CONSOLIDATED RESULTS

The key figures for this period are summarized below:

€'000	2003	2002	2001
Sales	22,582	29,823	32,314
Gross margin rate	89.9%	91.4%	91.0%
Pretax income before extraordinary income	-2344	63	-966
Net income	-3,058	-2,411	-2,194
Self-financing	-2,013	-417	-594

1.4. REVIEW OF GROUP OPERATIONS

The year 2003 was characterized by particularly flat 2nd and 3rd quarters in the Group's markets, for all product lines and regions. These difficulties can be ascribed to international events occurring at the time which persuaded many companies to defer all investments while waiting for a clearer picture of economic prospects. The enterprise software sector was particularly badly hit during this period. In spite of this unfavorable environment, sales generated by the DeliveryWare product progressed by 16% to reach €3,400,000. This growth even reached 48% in the USA (80% at constant exchange rates). Sales generated by IID products (electronic document servers and fax servers) rose to €12,900,000, thus surpassing Host Access product sales: €9,700,000 in 2003 compared to €15,100,00 in 2002, i.e. a fall of 36% (or 30% at constant exchange rates). Among IID products, Esker DeliveryWare Platform confirmed its success with companies.

Two new versions of Esker DeliveryWare Platform were launched in 2003. Version 3 launched at the end of December 2002 integrates as OEM a report generator tool, Crystal Report. Version 3.5 launched in November 2003 integrates a document archiving function as well as a new connector certified by SAP®.

Fax servers remain strategic products for Esker as the principal entry point for the development of multi-channel DeliveryWare installations. Sales of fax servers rose by 10% on the European market between 2002 and 2003.

The active search for partners continued during the period in order to optimize the marketing of Esker DeliveryWare Platform.

In terms of accounting, the period was marked by a fall in Esker's net income before tax and exceptional items compared to the previous period, from +€63,000 to -€2,344,000.

Although the cost-reduction measures put in place in 2002 and 2003 made it possible to absorb about half the fall in sales, the operating income still showed a loss of €2,500,000.

The company continued to reduce costs at all levels in all departments in response to the fall in sales.

The Marketing department showed a more significant drop as a result of restructuring: 16% of sales compared to 19% in 2002.

On December 31, 2003, consolidated shareholders' capital totaled €7,000,000. Long-term debt is zero, and positive cash flow is €5,400,000.

The Group's exceptional items (-€350,000 in 2003) mainly comprise:

- €151,000 for redundancy payments and costs related to restructuring of the American subsidiary and the parent company,
- €177,000 of compensation paid for premature cancellation of an employment contracts.

The group's net income deteriorated, falling from -€2,411,000 to -€3,058,000, impacted by the extraordinary goodwill amortization €330,000.

1.5. SUBSIDIARIES

The performance of subsidiaries in 2003 may be summarized as follows:

- **Esker GmbH (Germany):**

Sales of the German subsidiary fell again in 2003, by 25% from €1,424,000 to €1,067,000. As the level of sales was insufficient to absorb fixed costs, the subsidiary posted losses this year of €-654,000. These losses are due to the lack of DeliveryWare product sales while the Host Access line sales fell by 32% over the same period of time.

- **Esker Ltd (UK):**

The U.K. subsidiary's sales decreased compared with the previous period (€3,172,000 compared to €4,788,000 in 2002, i.e. -22%). Also, the subsidiary's profitability fell compared to 2002. The increase in sales of the Fax and DeliveryWare lines (+30%) was not sufficient to make up for the decline in the Host Access (-46%) line. As a result, net income was €9,000 compared with €338,000 in 2002.

- **Esker Srl (Italy):**

Sales declined slightly compared with the year 2002 from €646,000 in 2003 to €747,000 in 2002 (-13%). The IID product line increased by 20% while the Host Access line fell 25%. Operating income was negative as sales of the IID product line were insufficient to offset the loss of sales in volume terms of the Host Access product line. As a result, net income was €-230,000 compared with €-177,000 in 2002. The parent company, Esker SA augmented the subsidiary's shareholder capital by writing off a debt of €560,000.

- **Esker Iberica S.I. (Spain):**

The subsidiary's sales declined by 10%, from €714,000 in 2002 to €640,000 in 2003, showing a fall on the two product lines, Host Access and IID. Since the Spanish subsidiary had not yet developed direct sales, its profit margins on the IID product line were weak. Consequently, its profitability suffered, with a net income of €-254,000 compared to €-169,000 in 2002.

- **Esker Australia Pty Ltd (Australia):**

Sales fell by 17% compared with the 2002 period, the decline mainly in Host Access sales. The IID product line is more or less stable (slight fall of 3%) against a fall of 31% for the Host Access line. The trading margin remained stable in 2002 (65% compared to 63% in 2002) as a result of a fall in purchases of hardware. In fact the hardware sales element in IID sales fell from 18% to 8%. The subsidiary's losses were substantially lower. Net income was €-317,000 compared with €-395,000 in 2002.

- **Esker Inc (USA):**

In 2003, Esker Inc sales were down 29% at €12,948,000. However, the decrease was limited to 15% at constant exchange rates. This drop in sales can be explained by a 42% fall in Host Access line sales (32% at constant exchange rates). Net income for 2003 showed a loss of €-324,000.

1.6. GROUP TRENDS AND OUTLOOK

Esker is pursuing its investment strategy for the DeliveryWare product line with financing provided by its more mature Host Access and Fax Server solutions. In 2004, Esker will continue to affirm its leadership in electronic document delivery integrated with SAP® environments. This effort will take the form of technical enhancements in the integration of the DeliveryWare platform with SAP®, further marketing investments aimed at positioning Esker as the solution of choice among SAP users, and the strengthening of various business partnerships and relationships initiated in 2003.

At the same time, Esker plans to launch a new service in 2004 intended to accelerate the development of DeliveryWare solutions by facilitating the implementation of the full technical capabilities of this platform. Esker will thus be able to offer a total solution without equal on the market meeting all the needs of its clients with respect to the creation and distribution of business documents.

1.7. SOCIAL ACCOUNTING

In accordance with Article 148-2 of the Implementing Decree of March 23, 1967 (amended by Decree 2002-221 of February 20, 2002), we are required to present the following social accounting for the year 2003:

1.7.1. General information

The Esker population is young (average age: 31), mainly comprised of managers (77%) with more men than women (65% men, 35% women), and includes one disabled person (classified Cotorep B by the French Technical Commission for Vocational Guidance and Professional Relocation).

During 2003, Esker S.A. employed a total of 110 employees:

- Permanent contracts: 105
- Fixed-term contracts: 5

At December 31, 2003, there were a total of 94 persons on the payroll:

- Management: 73 / Non-management: 21
- Men: 63 / Women: 31

The average number of personnel in 2003 (92 employees) increased by 3% compared to 2002 (82 employees). The labor market is favorable for the recruitment of skilled professionals. Recruitment took place on a regular basis throughout the year in France. There were fewer departures in 2003 (staff turnover rate of 15%) than in 2002 (17%).

The company did not pay any overtime in 2002, nor did it have to call on any external manpower. It had to part with four employees by settlement agreement.

1.7.2. Organization of working time

- An agreement on a reduction in working hours was signed by the company and a staff representative on February 21, 2002, with effect from April 1, 2000. This agreement was signed within the framework of a law relating to a negotiated reduction in working hours, known as the Aubry II law on the 35-hour working week, dated January 19, 2000. This agreement is renewed annually by tacit agreement. Through this agreement, the time actually worked was gradually reduced, over the course of the year, from an average of 39 hours per week to 35 hours. Working time is now organized as follows: each employee completes 1,600 hours of actual work per year. Each week comprises 38 hours of actual working time spread over five days, with an additional 17 days off per year. These days off must be taken regularly on a monthly basis throughout the year.

- Part-time: 11 people worked part-time during 2003 (with a total number of hours per week varying from 82.33 to 131.73),
- Parental leave: two people were on 100% parental leave during 2003,
- Absenteeism: the company did not suffer from a high rate of absenteeism in 2003, apart from a few cases of absence through illness.

1.7.3. Changes in salary

The total payroll (fixed + variable components) increased significantly between 2002 and 2003, progressing by 12%. This overall increase in the payroll exceeds the average wage increase, which was in the region of 2.5% for 2003. During the same period, the average workforce increased by 3%, a rate half as high as that of the previous year. This 9 percentage point variance between the change in the total payroll and that of the workforce is explained by the following investments made by Esker in the area of human resources in 2003:

- the creation of new jobs in France (Software development, Internal applications, Quality staff in R&D, Product marketing),
- and the replacement of individuals having left the company with more highly skilled, and therefore more highly paid, personnel.

Accordingly, between 2002 and 2003, the average wage increased by more than 8%, reaching the gross yearly amount of €39,500.

Year	2002	2003
Payroll in €	3,250,853	3,644,311
% Change in payroll		+12%
Average workforce	89	92
% Change in average workforce		+3%
Average annual salary in €	36,526	39,612
% Change in average annual salary		+8%

1.7.4. Comparative position of men and women

- Data analysis in relation to recruitment: Recruitments in 2003 did not alter the overall non-management/management (1/4, 3/4) or men/women (2/3, 1/3) distribution. It is worth noting that the trend observed last year (an increase in the number of non-management women over the period and a decrease in the number of non-management men between 2001 and 2002) has been corrected through an increase in the number of new male employees, both management and non-management.
- In relation to training: The men and women involved in a training program had their qualifications approved by their manager and received training according to the current training scheme and budget.
- In relation to career advancement: Certain employees benefited from advancement in 2003 (the new marketing manager was promoted from business development; the new human resources assistant previously served as a receptionist) as well as the acquisition of greater responsibilities within departments (an international support engineer is now a technical consultant; another engineer previously responsible for support in France is now responsible for international support).
- Esker makes no distinction between men and women in terms of qualifications, classification, internal promotion, working conditions, or compensation.

1.7.5. Employment and integration of disabled workers

In terms of recruitment and working conditions, Esker makes no distinction in its treatment of disabled and able-bodied employees. The company employs one disabled person (classified Cotorep B by the French Technical Commission for Vocational Guidance and Professional Relocation). This employee was on parental leave during the 2003 period.

1.7.6. Prevention and training initiatives

During 2003, certain employees received first aid training in line with normal practice. As far as in-service training is concerned, the training program for 2003 consisted mainly of courses designed to enable employees to enhance their knowledge in areas essential to the performance of their functions (SAP, Exchange, Lotus Notes, financial techniques, Word). We continue to receive requests for language courses (English). Additional training was received by certain employees in marketing and in the rudiments of software development.

1.7.7. Health and safety

A Health, Safety and Working Conditions Committee (CHSCT) was set up in November 2002 and three Esker S.A employees (2 non-management, 1 management), were nominated by staff representatives to serve on the committee for a period of two years. The committee's role is to contribute to employees' health and safety and the improvement of working conditions through accident prevention and communication initiatives.

1.7.8. Company benefit scheme

During 2003, the company paid the amount of €14,577.24 to the workers' council as its contribution to the company benefit plan (0.40% of the 2003 payroll). The company also paid the workers' council the amount of €7,288.62 for its own operating budget (0.20% of the 2003 payroll).

1.7.9. Community enterprises of the company

Our company has close links with certain educational establishments such as INSA in Lyon (Recruitment exhibition); Sup de Co Grenoble (involvement of our Human Resources Director on the admissions board). Various departments within the company (marketing, sales administration, research and development) regularly host trainees from a variety of schools (Ecole Centrale de Lyon, CPE, INSA, etc.) within the framework of their work placement.

Esker also maintains close links with regional bodies such as:

- ADIRA (Association for the Development of IT in the Rhône-Alpes Region): We provide support for this association, which promotes IT in our region, and we are actively involved in certain studies carried out by ADIRA (changes in job characteristics),
- APEC (Executive Employment Association): Contribution of our Human Resources Director to recruitment methods.

1.8. CONSEQUENCES OF THE COMPANY'S ACTIVITY FOR THE ENVIRONMENT

In accordance with Article 148-3 of the Implementing Decree of March 23, 1967 (amended by Decree 2002-221 of February 20, 2002), we are required to present the impact of the company's activity on the environment for the 2003 period. There is no information to be provided by our Company as our activity is not of a type that generates harmful consequences for the environment.

1.9. MARKET RISKS (INTEREST RATES, FOREIGN EXCHANGE, SHARE PRICE)

- Interest rate and liquidity risks:

As the Esker Group has no indebtedness, with cash flow at December 31, 2003 significantly exceeding short-term debt, the company is not susceptible to interest rate or liquidity risks.

- Risk related to the Esker share price:

With the exception of treasury shares, the company's net cash is systematically invested in guaranteed capital financial products. In consideration of the level of provisions already booked for treasury shares, a variation of plus or minus 10% in the value of the share will not have a material impact on the income statement.

- Foreign exchange risk:

Twenty-seven percent of the company's consolidated sales are invoiced 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.).

At December 31, 2003, Esker's exposure to foreign exchange risk was as follows:

	USD	GBP	AUD
ASSETS	2,209,192	1,018,051	965,999
LIABILITIES	2,313,764	658,142	
POSITION BEFORE HEDGING	- 104,572	359,909	965,999
OFF-BALANCE SHEET POSITIONS	None	None	None
NET POSITION AFTER HEDGING	- 104,572	205,909	965,999

The procedure for hedging foreign exchange risks takes account of:

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

Receivables and debts in GBP are regularly hedged. The unhedged amount at December 31, 2003 corresponds mainly to billings from the month of December.

In consideration of the relatively low amount of USD exposure and the uncertainty as to the development of this currency, Esker decided not to hedge this exposure.

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.

1.10. TRANSITION TO IFRS

As is the case for all European listed companies, Esker will be applying the European regulation concerning international accounting standards, specifically IFRS 1, the option for first-time adoption of standards, and will prepare financial data for publication using this standard from January 1, 2005.

As comparisons must be drawn with respect to the 2004 financial statements, the opening balance sheet at January 1, 2004 will be the point of departure for the application of IFRS. The impacts of the change in accounting methods will be recognized in the shareholders' equity as of this date.

Esker initiated its IFRS transition project in October 2003. A working group was created and a calendar was established in order to ensure that accounting staff would be able to prepare the opening balance sheet and the 2004 financial statements using both the previous French standard and the IFRS. With respect to the already published standards, the Group performed a preliminary analysis and was able to identify the main divergences related to the transition to IFRS, as well as the impact on the information systems.

In consideration of the ground remaining to be covered by this project, and the body of standards published as of this writing, this analysis cannot be deemed exhaustive.

The main divergences with French accounting principles currently in application are as follows:

- Recognition of internal development costs: In accordance with IAS 38, development costs meeting certain criteria (in particular, their definition, likelihood of the flow of future economic benefits to the company, possibility of reliably measuring the cost of the asset) are to be recognized as intangible assets and the carrying amount of these assets is reduced to reflect the consumption of their future economic benefits, amortized as an expense over their estimated useful lives. In its financial statements prepared according to French standards, all research and development cost are recognized as expenses. The application of IAS 38 in the opening balance sheet may give rise to the recognition of an asset net of cumulative amortization as of that date, offset by a reduction in the amount of shareholders' equity.
- Share-based payment: The consequence of the application of IFRS 2, issued by the IASB in February 2004 but not yet endorsed by the European Commission, will be a change in the method used to recognize share-based payments (share subscription options, purchase options, and generally any issuance of shares, or rights to shares, in return for

services and goods) granted after November 7, 2002. The adoption of this standard will not have any impact on the Group's shareholders' equity since incurred personnel expenses are offset by capital increases.

- In accordance with the option provided by IFRS 1, Esker intends to keep its original accounting and therefore not restate business combinations that occurred before January 1, 2004.
- The application of these standards will have an impact on the presentation of financial information. The Group is currently investigating this issue and will provide the required information in the notes to its 2004 financial statements.

1.11. SIGNIFICANT EVENTS AFTER YEAR END

No significant events have occurred between the year-end and the writing of this report.

2. PRESENTATION OF THE CORPORATE FINANCIAL STATEMENTS OF ESKER S.A.

The financial statements presented below are based on the same methods of valuation as those used for the prior financial period. The accounting methods have not been modified.

2.1 SITUATION AND ACTIVITY OF THE COMPANY IN THE PERIOD

2.1.1 BALANCE SHEET

The situation of the company at year-end is summarized in the following table in comparison with the prior two financial periods:

ASSETS	12/31/2003 (€'000)	12/31/2002 (€'000)	12/31/2001 (€'000)
Intangible assets	387	492	302
Tangible assets	405	354	221
Long-term investments	17,504	28,044	26,836
FIXED ASSETS	18,297	28,890	27,359
Inventory and work in progress	98	241	180
Advances to suppliers	4		
Trade notes and accounts receivable	5,425	8,296	7,912
Other receivables	1,800	2,081	2,007
Cash and cash equivalents	2,031	4,477	5,025
CURRENT ASSETS	9,358	15,095	15,124
Suspense accounts	585	868	574
TOTAL ASSETS	28,240	44,853	43,058

LIABILITIES	12/31/2003 (€'000)	12/31/2002 (€'000)	12/31/2001 (€'000)
Capital stock	6,828	6,828	6,828
Additional paid-in capital	36,814	36,814	36,814
Other reserves	1,259	1,259	1,259
Retained earnings	(9,940)	(9,384)	(9,224)
Net loss for the period	(12,868)	(556)	(161)
Regulated reserves	83	84	104
SHAREHOLDERS' EQUITY	22,177	35,046	35,622
RESERVES FOR RISKS & CHARGES	456	558	404
LONG-TERM DEBT	4	8	12
Trade notes and accounts payable	3,061	6,517	4,598
Tax & employee-related liabilities	1,044	1,020	946
Other payables	755	602	650
TOTAL PAYABLES	4,860	8,139	6,194
Suspense accounts	,	1,102	826
TOTAL LIABILITIES	28,240	44,853	43,058

CHANGES IN SHAREHOLDERS' EQUITY

Changes in the shareholders' equity of the parent company have been as follows:

(€'000)	2003
SHAREHOLDERS' EQUITY AT THE BEGINNING OF THE PERIOD	35,046
NET LOSS FOR THE PERIOD	(12,868)
CHANGES IN REGULATED RESERVES	(1)
SHAREHOLDERS' EQUITY AT THE END OF THE PERIOD	22,177

2.1.2 INCOME STATEMENT

Key items of the income statement, compared with the prior two financial periods, are summarized below.

INCOME STATEMENT	2003 (€'000)	2002 (€'000)	2001 (€'000)
Sales	7,628	9,901	9,867
Other operating income	2,273	2,486	2,158
OPERATING INCOME	9,901	12,387	12,026
PURCHASES AND OTHER EXTERNAL EXPENSES	2,878	4,411	5,066
GROSS MARGIN	7,023	7,975	6,960
Taxes	216	224	283
Personnel expenses	5,392	4,872	4,638
Depreciation, amortization, and provisions	851	751	604
Other expenses	2,271	2,788	2,533
TOTAL OPERATING EXPENSES	11,608	13,046	8,058
OPERATING PROFIT (LOSS)	(1,707)	(659)	(1,098)
NET FINANCIAL INCOME (LOSS)	(10,559)	554	1,410
NET INCOME (LOSS) BEFORE TAXES AND EXCEPTIONAL ITEMS	(12,266)	(105)	312
NET EXCEPTIONAL ITEMS	(587)	(435)	(389)
Corporate income tax	15	15	84
NET INCOME (LOSS)	(12,868)	(556)	(161)

Sales for the period under review totaled €7,628 million compared to €9,901 million for the prior period, representing a significant decrease of 22.96%.

Sales break down as follows:

€'000	Product sales	Services	Total
France	2,770	260	3,031
Abroad	3,094	1,503	4,597
TOTAL	5,864	1,764	7,628

The gross margin also was down 11.98% to €7.023 million compared to €7.975 million in 2002. This decrease is mainly due to the drop in sales, as fixed costs and production costs were optimized.

Personnel expenses, including payroll charges, rose by 10.67% and now represent 70% of sales. This increase is justified by creation of new jobs and the replacement of individuals having left the company in 2003 with more highly skilled, and therefore more highly paid, personnel (see §4.7.3).

Allowances for depreciations and provisions totaled €0.851 million compared to €0.751 million in 2002. This rise is justified by an increase in depreciation expense related to the installation of the SAP system.

As a result of the above-mentioned factors, operating losses deepened from €0.659 million to €1.707 million.

The net financial result for 2003 was a loss of €10.599 million compared to net financial income of €0.554 in 2002. Investment income improved by 40.60% mainly as a result of the payment of a dividend by our UK subsidiary in the amount of €1.042 million. Net finance costs increased from €1.326 million to €13.203 million. This rise is mainly attributable to provisions established for:

- interests in our US subsidiary (an increase of €10.854 million),
- receivables related to our interests in our Australian, German, and Spanish subsidiaries (an increase of €1.196 million).

All the abovementioned factors brought about a widening of the net loss before taxes and exceptional items, which amounted to €12.266 million for 2003 as compared to a loss of €0.105 million in 2002.

The negative impact of net exceptional items increased slightly, from €0.435 million in 2002 to €0.587 million in 2003.

Exceptional expenses, which amounted to €0.849 million, notably include:

- debt forgiveness on behalf of our Italian subsidiary amounting to €0.560 million (required for the recapitalization of this entity),
- severance payments made to employees as a result of restructuring measures (€87 thousand),
- the loss related to the closing of the market-making account with Wargny (€67 thousand),
- the net carrying value of assets sold or eliminated (€57 thousand),
- depreciation charges in excess of normal depreciation (€34 thousand),
- the balance of the advance granted to Interdoc, a subsidiary of Esker, Inc., following its liquidation (€33 thousand).

Exceptional income, which amounted to €0.262 million, notably includes:

- reversals of provisions for impairment of treasury shares following the improvement in the market price of the Esker share (€65 thousand),
- reversal of a provision for impairment of the market-making account with Wargny following the closing of this account (€65 thousand),
- capital gains on disposals of fixed assets (€50 thousand),
- reversal of a provision for impairment of the advance granted to Interdoc (€33 thousand),
- reversal of a provision for depreciation charges in excess of normal depreciation (€35 thousand).

The tax on income for the period constitutes an expense of €15 thousand, corresponding to the Annual Basic Rate Tax for 2001, which is considered as an expense since it may not be charged to corporate tax (financial period in deficit).

On the basis of total income and expenses, the period under review recorded a net loss after tax of €12,868 million compared to a net loss of €0.556 million for the 2002 financial period.

2.2 RESEARCH AND DEVELOPMENT

R&D expenditure was maintained, although at a reduced level (down 17%): the costs involved totaled €4.7 million (compared to €5.7 million in 2002). R&D costs nevertheless represented 21% of consolidated sales for 2003 (compared to 19% in 2002).

R&D costs are recorded under operating expenses.

2.3 ALLOTMENT OF OPTIONS FOR THE SUBSCRIPTION AND PURCHASE OF SHARES

In accordance with Article L. 225-184 of the Commercial Code, the Executive Board drew up a special report on share subscription options and purchase options issued and exercised during the 2003 financial period, as well as the balance of options still to be exercised at December 31, 2003.

The table below provides a summary of all stock options and purchase options issued by the company during the 2003 financial period:

Allotment date	Purchase options		Share subscription options		Number		Duration	Exercise price (in €)
	Original grant	Balance at 12/31/2003	Original grant	Balance at 12/31/2003	Original grant	Balance at 12/31/2003		
3 Jan 2003	0	0	41,591	39,591	41,591	39,591	5 years	2.51
1 Jul 2003	0	0	45,652	45,652	45,652	45,652	5 years	3.74
Total	0	0	87,243	85,243	87,243	85,243		

The difference between the number of options originally granted and the balance at December 31, 2003 corresponds to the options granted to company personnel no longer employed by the Esker Group at December 31, 2003.

2.4 ANALYSIS OF CAPITAL STOCK

In accordance with the provisions of the French law No. 85-705 of July 12, 1985, the record of attendance, for both this meeting and the meeting which approved the financial statements of the prior year, were filed with the committee of the meeting, it being specified that these documents, presenting the authorized capital stock, enable you to note the change from one period to another.

At December 31, 2003, the record of registered shareholders with Crédit Lyonnais indicated as follows:

- Shareholdings exceeding two-thirds of the authorized capital: None
- Shareholdings exceeding half of the authorized capital: None
- Shareholdings exceeding one-third of the authorized capital: None
- Shareholdings exceeding one-fifth of the authorized capital: None
- Shareholdings exceeding one-tenth of the authorized capital: None
- Shareholdings exceeding one-twentieth of the authorized capital: See table below

Shareholders	At 12/31/2003			At 12/31/2002		
	Number of shares	% of capital	% of voting rights	Number of shares	% of capital	% of voting rights
Jean-Michel Bérard	301,820	8.84%	9.21%	301,820	8.84%	9.22%
Thomas Wolfe	270,895	7.93%	8.26%	279,095	8.17%	8.53%
Russell Teubner	221,000	6.47%	6.74%	233,000	6.82%	7.12%
David Droman	180,647	5.29%	5.51%	195,147	5.72%	5.96%
Total	974,362	28.54%	29.72%	1,009,062	29.56%	30.84%

(1) Russell Teubner: 233,000 shares changed in status from registered to bearer form in April 2003 (balance at December 31, 2003 still in the possession of this shareholder = 221,000 shares).

At December 31, 2003, the Company had 136,039 treasury shares, including:

- * 77,856 non-transferable shares
- * 58,183 held indirectly through liquidity or market making agreements.

These treasury shares represented 3.98% of the Company's capital stock at December 31, 2003.

At December 31, 2003, the capital stock of the Company was €6,828,322, equivalent to 3,414,161 shares with a par value of €2.

2.5 CORPORATE APPOINTMENTS HELD BY ESKER S.A. MANAGEMENT PERSONNEL

In accordance with Article L. 225-102-1, Item3 of the Commercial Code, we present the following list of corporate appointments or responsibilities undertaken by Esker S.A. management personnel during the period under review.

Name	Appointment or responsibilities within Esker S.A. in 2003	OTHER CORPORATE APPOINTMENTS				
		Company name	Nationality	Appointment/Post	Year of first appointment	Term expires at end of ASM convened to approve financial statements for the period ending
M.C. Bernal	Chairman of the Supervisory Board	Ilog S.A.	French	Director, Chairman of the Audit Committee	2000	12/31/2005
		Esker SA	French	Chairman of the Supervisory Board	2001	12/31/2006
K. Beauvillain	Vice Chairman of the Supervisory Board	Alpha MOS S.A.	French	Director	1998	12/31/2007
		Ares Group S.A	French	Director	1999	12/31/2006
		Galiléo S.A.	French	Director		12/31/2007
		Esker S.A.	French	Vice Chairman of the Supervisory Board	1999	12/31/2004
		Lafayette Fund Int S.A.	French	Director	1997	12/31/2004
		KB Conseils S.A.R.L	French	Company Manager	1997	
		Le Gollot S.A.R.L.	French	Partner		
		Beatware, Inc.	USA	Director		12/31/2005
R. Teubner	Member of the Supervisory Board	Esker S.A.	French	Member of the Supervisory Board	2000	12/31/2005
		Southwest Bancorp, Inc.	USA	Member of the Executive Committee		
		HostBridge Technology	USA	Director		
T. Wolfe	Member of the Supervisory Board	Esker S.A.	French	Member of the Supervisory Board	1999	12/31/2004
J.M. Bérard	Chairman of the Executive Board	Esker S.A.	French	Chairman of the Executive Board	2000	12/31/2004
E. Olivier	Member of the Executive Board	Esker S.A.	French	Member of the Executive Board	2003	12/31/2004

2.6 SALARIES AND BENEFITS IN KIND PAID TO CORPORATE APPOINTEES

In accordance with Article L. 225-102-1, Item1 of the Commercial Code, we present the following table of salaries and benefits in kind paid to Esker S.A. corporate appointees during the period under review.

Corporate appointee	Appointment or responsibilities within Esker S.A.	Remuneration received in 2003	Company paying the remuneration	Nature of remuneration	
				Salary	Directors' fees
Marie-Claude Bernal	Chairman of the Supervisory Board	€28,500	Esker S.A.	€22,500	€6,000
K. Beauvillain	Vice Chairman of the Supervisory Board	€21,000	Esker S.A.	€15,000	€6,000
R. Teubner	Member of the Supervisory Board	€19,000	Esker, Inc.	€15,000	€4,000
T. Wolfe	Member of the Supervisory Board	€21,000	Esker. Inc.	€15,000	€6,000
JM Bérard	Chairman of the Executive Board	€101,569	Esker S.A.	€101,569	
E. Olivier	Member of the Executive Board	€91,391	Esker S.A.	€91,391	
D. Speer	Member of the Executive Board	€109,463	Esker, Inc.	€109,463	
Total		€391,923	,	€369,923	€22,000

2.7 NET INCOME APPROPRIATION PROPOSAL

As can be noted, after deduction of all expenses and allowances for depreciation, the financial statements here presented show a loss of €12,868,157.14.

We propose that this amount be allocated as follows:

	2003 Financial Period (in €)
Net loss for the period	(12,868,165.14)
Allocation to the legal reserve	-
Special long-term capital gains reserve	-
Dividends	-
Retained earnings	(12,868,165.14)
Total appropriation	(12,868,165.14)

2.8 DIVIDENDS DISTRIBUTED IN PRIOR PERIODS

In accordance with the provisions of Article 243 bis of the General Tax Code, we inform you that dividends distributed for the previous three financial periods were as follows: None.

2.9 NON-DEDUCTIBLE EXPENSES

In accordance with the provisions of Article 223 of the General Tax Code, we inform you that the financial statements of the period include expenses not deductible from taxable income under Article 39-4 of this Code, and that these expenses amounted to €8,019. The notional tax corresponding to these expenses is €2,752.

3. SHARE BUYBACK PROGRAM

The Company made use of the authorization granted by the Combined Shareholders' Meetings of June 26, 2002 and June 25, 2003 concerning the possibility to buy and sell shares in Esker S.A.

A total of 4,150 shares were directly acquired during the 2003 financial period. Indeed, following the termination, on 12/31/2002, of the market making agreement signed with Fideuram Wargny, the latter returned 50% of the shares that it held as of the date of the end of the agreement (in accordance with the provisions of the latter), i.e. 4,150 shares. Esker S.A. acquired the balance of the shares held by this market maker, a total of 4,150 shares with a par value of €2.50, and thus a total amount of €10,375. Shares thus repurchased and retained were recorded for accounting purposes as securities (no precise allocation).

A total of **135,314** treasury shares were thus held directly by the company at December 31, 2003, for an average cost price per share of €12.98.

The Company also purchased and sold Esker shares within the framework of:

- A market making agreement concluded with Fideuram Wargny on July 1, 1998,
- A liquidity agreement concluded with Crédit Lyonnais Securities Europe - Small Caps, dated March 1, 2002,

During the 2003 financial period, the following indirect transactions were carried out:

- Acquisitions: 10,342 shares at an average price of €2.80,
- Sales: 30,327 shares at an average price of €2.41.

A total of **725** treasury shares were held indirectly by the Company at December 31, 2003.

The Company thus held, directly or indirectly, a total of **136,039** Esker shares at 12/31/2003 equivalent to **3.98%** of the share capital as of this date.

In addition, the company canceled no shares during the period under review.

Since December 31, 2003, the Company has not directly acquired or sold any treasury shares.

At April 30, 2004, the Company still held directly a total of **135,314** treasury shares, for an average cost price per share of €12.98.

The transactions carried out through financial intermediaries between July 1, 2003, the implementation date of the new share buyback program, and April 30, 2004 were as follows:

- Purchases: 17,642 Esker shares at an average price of €3.07,
- Sales: 13,045 Esker shares at an average price of €3.19.

A total of **7,024** treasury shares were held indirectly by the Company at April 30, 2004.

The company therefore held, on a direct or indirect basis, a total of **142,338** Esker shares at April 30, 2004, equivalent to **4.17%** of the capital stock at the date of this management report.

4. EMPLOYEE STOCK OWNERSHIP

In accordance with the provisions of Article L 225-102 of the French Commercial Code, we hereby inform you that employee stock ownership, under the Esker employee savings plan (Plan d'Epargne Entreprise), administered by Interépargne (Banque Populaire), represented a total of €24,400 at December 31, 2003 or 6,700 Esker shares at a price of €3.05 each.

At December 31, 2003, the Esker employee savings plan included 5,073.37 shares of the Esker FCPE fund with a par value of €5.7379, representing a total amount invested of €29,110.72. This amount corresponds to:

• Esker S.A shares:	8,000 shares with a total value of €24,400,
• Short-term investments in Euros :	€2,077.11
• Deposit & misc. funds:	€1,345.89
• Accounts payable and receivable:	€1,287.72

The proportion of capital represented by shares held by employees of the company and affiliated companies as understood by Article L. 225-180 of the Commercial Code, within the framework of a collective investment scheme (employee savings plan, FCPE fund) at December 31, 2003 was 0.23%.

WITHIN THE JURISDICTION OF THE EXTRAORDINARY GENERAL MEETING

5. AUTHORIZATION TO TRADE IN THE COMPANY'S OWN SHARES

It is proposed that you authorize the Executive Board to repurchase shares of the Company according to Article L. 225-209 of the Commercial Code.

The purpose of this authorization is as follows:

- Adjustment of company share prices on its quotation markets by systematic counter-trend market intervention (for approx. 60%),
- Facilitation of financial operations or acquisitions of the company, with the thus acquired shares being able, in part or their entirety, sold, retained, lent, transferred or exchanged (for approx. 20%),
- Allotment of acquired shares to group employees (for approx. 10%),
- Retention of the said shares or their transfer by any means, and in particular by exchange of treasury shares (for approx. 8%),
- Cancellation of the said shares for a maximum limit of 10% of the share capital over a period of 18 months (for approx. 2%).

The acquisition, sale, transfer or exchange of shares may be carried out by any means, and in particular the eventual use of derivatives.

The maximum purchase price is **€20** per share, and the minimum sale price **€0.50** per share. The maximum number of shares able to be acquired is limited to 10% of the authorized capital.

This authorization is granted until the next Annual Shareholders' Meeting called to approve the financial statements for the period ending 12/31/2004.

Your Meeting will grant to the Executive Board, all powers, with the ability to delegate this authority, to place market orders, conclude all agreements, and carry out all formalities and filings with the appropriate entities.

The Executive Board will inform the Annual Shareholders' Meeting of the transactions carried out in accordance to this authorization.

6. PROPOSAL FOR THE AMENDMENT OF THE CORPORATE PURPOSE

In order to reflect developments in the activity of the company, we propose that you amend Article 2 of the Articles of Incorporation so that it reads as follows:

"ARTICLE 2 - PURPOSE

The Company has the following corporate purpose:

- the design, development, and operation of information technology products,
- mail services for third parties including printing, envelope stuffing, and postage metering,
- fax, SMS, and e-mail transmission services for third parties,
- more generally, any processing (sending, receiving, archiving) of documents or data for third parties, regardless of their format or means of transmission,

The Company may in addition:

- carry out any industrial, commercial, or financial transactions, pertaining to personal property or real property, which may be directly or indirectly related to its corporate purpose and to any similar or related purposes;
- and participate, by any means, in all companies created or to be created, which may be related to the corporate purpose, notably through the creation of new companies, the contribution of assets, limited partnerships, subscription to or purchase of shares or ownership interests, mergers, alliances or joint ventures, economic interest groupings, or lease management."

7. AUTHORIZATION AND PROPOSAL TO HARMONIZE THE ARTICLES OF INCORPORATION WITH THE PROVISIONS OF THE LAW ON FINANCIAL SECURITY N° 2003-706 OF AUGUST 1, 2003 AND OF THE DECREE N° 2002-803 OF MAY 3, 2002

We inform you that certain provisions of the Commercial Code were amended by the Decree n° 2002-803 of May 3, 2002 implementing the New Economic Regulations Law of May 15, 2001 (n° 2001-420) and by the Law on Financial Security of August 1, 2003 (n° 2003-706).

Accordingly, at this Combined Shareholders' Meeting, we propose that you proceed to harmonize Articles 13, 19, 17 (Item 7), and 20 (Item 4) of the company's Articles of Incorporation with the applicable provisions of this decree and this law.

8. AUTHORIZATIONS AND POWERS TO BE GRANTED TO THE MANAGEMENT BOARD TO ISSUE STANDALONE SUBSCRIPTION WARRANTS

In our view it is necessary, in order to guarantee the development and long-term viability of the company, to provide the possibility of investment in the company for individuals fulfilling important functions within the company.

We thus propose that you authorize the Executive Board to proceed, pursuant to the provisions of Article L. 228-95 of the Commercial Code, with the issue, in one or more stages, of a maximum of 200,000 standalone subscription warrants (Bass, for "bons de souscription d'actions autonomes") to one or more named individuals, conferring entitlement to subscribe to a maximum of 200,000 shares in the company with a par value of €2.

The authorization to issue these BSAs shall be granted for a period of one year following this shareholders' meeting and the shares to which the issued BSAs confer subscription rights shall need to be issued no later than five years following the issue of these BSAs.

The issue price of the BSAs shall be determined by applying the Black & Scholes model, the result of which should be a value situated in the range of 5 to 10% of the average price of a company's share on the Nouveau Marché of the Paris stock exchange during a period of ten consecutive trading days chosen among the twenty trading days immediately preceding the issue of the BSAs.

Each BSA confers the right to subscribe to one (1) share in the company.

Shares subscribed in this manner shall need to be fully paid when subscribed, either by means of a cash payment or by offsetting a liquid and due claim on the company.

The exercise price of these shares shall be determined on the basis of a value for the share at least equal to the average price of the company's share on the Nouveau Marché of the Paris stock exchange during a period of ten consecutive trading days chosen among the twenty days immediately preceding the issue of the BSAs, augmented by 33%.

We inform you that the adoption of such an issue of BSAs shall require the waiver by shareholders of their pre-emptive right to subscribe for any shares which may be subscribed upon presentation of these BSAs, for the benefit of the beneficiaries of said BSAs.

With respect to the issue of BSAs, we hereby propose that you remove the shareholders' pre-emptive right to subscribe to shares for the benefit of the following individuals:

- Mr. Kléber Beauvillain, residing at 68, rue Pernety, 75014 Paris	in the amount of 10,000 BSAs
- Ms. Marie-Claude Bernal, residing at 14, square Adanson, 75005 Paris	in the amount of 10,000 BSAs
- Mr. Jean-Jacques Bérard, residing at 8, rue Songieu, 69100 Villeurbanne	in the amount of 50,000 BSAs
- Mr. Nicolas Bragard, residing at 8, rue de la Martinière, 69001 Lyon	in the amount of 13,000 BSAs
- Mr. Eric Bussy, residing at 60, rue de l'Abondance, 69003 Lyon	in the amount of 12,000 BSAs
- Ms. Annick Challancin, residing at 7, rue du Sorbier, n° 41, 38090 Villefontaine	in the amount of 15,000 BSAs
- Mr. Michel Guyenot, residing at 42, avenue Lamartine, 69260 Charbonnières	in the amount of 10,000 BSAs
- Mr. Emmanuel Olivier, residing at 50, Chemin des Vosges, 69270 Fontaines St Martin	in the amount of 40,000 BSAs
- Mr. Eric Thomas, residing at Domaine Le Bois Dieu, 22, allée des Monts d'Or, 69380 Lissieu.	in the amount of 40,000 BSAs

In the event of an issue of BSAs, the Shareholders' Meeting shall authorize the Executive Board to increase the company's authorized capital stock by an amount not to exceed €400,000 representing a maximum of 200,000 shares with a par value of €2, as a result of the exercise of all or a portion of the issued BSAs.

The Annual Shareholders' Meeting, in recognition of the preceding discussion, shall grant the Executive Board full powers, who may delegate these power to its Chairman, to implement this authorization, and in particular to:

- determine the number, the nature, the price, the allocation as well as the data of issue for BSAs, within the limits set forth in this authorization,
- determine the conditions of exercise for the entitlement of holders of BSA to subscribe to shares to be issued, and in particular the number and price of these shares, and the dates on which these rights may be exercised within the limits of this authorization,
- approve the provisions that shall be adopted, with a view to preserving the rights of holders of warrants, in the event that the company shall proceed with new financial operations likely to modify the rights initially granted pursuant to the provisions of Article L. 225-154 of the Commercial Code and Article 171 and subsequent of the Decree n° 67-236 of March 23, 1967 governing business corporations,
- make every effort to provide all necessary information to all parties at the appropriate time,
- place on record, as required by law, the amount of the capital increase(s) and amend the Articles of Incorporation accordingly,
- and, more generally, do all that is necessary, in observance of applicable laws and regulations, to implement this authorization.

9. DEVELOPMENT OF THE COMPANY'S BUSINESS SINCE THE BEGINNING OF THE CURRENT PERIOD

In accordance with the provisions of Article 154 of the Decree n° 67-236 of March 23, 1967 governing business corporations, we hereby inform you that the development of the company's business since the beginning of the current financial period is as follows:

Sales increased in the first quarter of 2004 by 12% in the United States (on a constant exchange rate basis) and decreased in Europe by 11%. The DeliveryWare product line continued to advance during this period in 2004, up 110% as compared to the first quarter of 2003.

Geographical areas	2004	2003	% change	% change (at constant exchange rates)
Europe and the rest of the world	2,150	2,407	-11%	-10%
USA-Canada-Latin America	3,095	3,212	-4%	12%
Asia / Australia	282	295	-5%	-14%
Total 1st quarter sales	5,527	5,914	-7%	2%

10. PROVISIONS OF ARTICLE 155-2 OF THE DECREE OF MARCH 23, 1967 GOVERNING BUSINESS CORPORATIONS

In accordance with the provisions of Article 155-2 of the Decree n° 67-236 of March 23, 1967 governing business corporations, which also includes reference to Article 155-3 of said decree, all other terms and conditions of the issue of BSAs, as well as the indications required by regulatory provisions, notably the definitive amounts and rationales for both the issue price of these BSAs and the subscription price of shares to which they shall confer entitlement, shall be provided in the supplementary report prepared by the Executive Board at such time as it shall make use of the authorization granted by the Extraordinary Shareholders' Meeting.

On the same occasion, the Statutory Auditors shall prepare their supplementary report pursuant to the provisions of Article 155-2 (Item 2) of the Decree n° 67-236 of March 23, 1967 governing business corporations.

11. PROPOSAL FOR A CAPITAL INCREASE RESERVED FOR EMPLOYEES

Pursuant to the provisions of Law n° 2001-152 of February 19, 2001 on Employee Savings Schemes, amending Article L. 225-129 of the Commercial Code and L. 443-5 of the Labor Code, we remind you that, upon proposal of any resolution to increase the company's authorized capital stock as defined under item 1 of paragraph VII of Article L 225-129 of the Commercial Code, the decision on whether or not to carry out a capital increase reserved for employees must also be considered as specified under Article L 443-5 of the Labor Code.

In consideration of the proposal to issue BSAs already submitted for your approval, we hereby also propose that you decide on whether or not to carry out a capital increase reserved for employees.

It shall thus be decided to authorize the Executive Board to proceed with a capital increase, in one or more stages, of an amount not to exceed €136,566, through the issue of 68,283 new shares with a par value of €2. The new shares shall confer to their holders the same right as existing shares. The new shares shall be fully paid up, as required by law.

We therefore propose that you waive your pre-emptive subscription rights to new shares in the company the issue of which shall be reserved for employees enrolled in Esker S.A.'s company mutual fund.

The Executive Board shall be granted all powers required to proceed with this capital increase, in one or more stages, in amounts and at times it shall deem fit, for a period of one year following this Shareholders' Meeting.

We hereby inform you that with respect to shares admitted for trading on a regulated market, the subscription price for ordinary new shares, which shall confer the same rights as existing shares of the same type, as defined under Article L 443-5 of the Labor Code, may neither be higher than the average market price of the company's share on twenty trading days immediately preceding the day of the decision determining the opening date of the subscription period, nor more than 20% lower than this average market price.

Full powers shall be granted to your Executive Board to implement this authorization, and in particular to:

- establish all the terms and conditions for the capital increase to be carried out under this authorization, in accordance with the law and regulatory provisions, notably to determine the subscription price of new shares pursuant to Article L 443-5 of the Labor Code, the opening and closing dates of the subscription period, the dates from which the new shares shall bear dividends, and payment deadlines;
- place on record the definitive achievement of the capital increase and the number of shares effectively subscribed;

- amend the Articles of Incorporation as required, with respect to this capital increase;
- perform, directly or by an appointed representative, all necessary formalities;
- and do all that shall be required.

CONCLUSION

We hereby inform you that none of the terms of members of the Supervisory Board has expired.

We hope that the resolutions proposed will receive your approval, and request that you grant final discharge to the members of your Executive Board in respect of the performance of their duties for the financial period ending December 31, 2003.

The Executive Board

NOTE 1/2 TO THE MANAGEMENT REPORT

FIVE-YEAR FINANCIAL SUMMARY

(Articles 133, 135, and 148 of the Decree of March 23, 1967 governing business corporations)

Description	(amounts in €)	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
<u>1/ CAPITAL AT DECEMBER 31</u>						
a/ Capital stock	5,255,412	5,661,481	6,800,592	6,828,322	6,828,322	
b/ Shares of common stock outstanding	3,133,931	3,376,080	3,400,296	3,414,161	3,414,161	
c/ Shares of non-voting preferred stock outstanding						
d/ Maximum number of future shares to be issued:						
- as convertible bonds						
- as subscription options	351,299	525,937	732,195	560,629	636,099	
<u>2/ INCOME STATEMENTS FOR THE PERIOD</u>						
a/ Net sales	10,931,962	9,421,799	9,867,260	9,900,512	7,627,730	
b/ Income before taxes, employee profit sharing, depreciation, and provisions	1,929,964	(416,317)	1,052,033	(41,834)	(457,840)	
c/ Income taxes	561,586	(496,798)	83,603	15,245	15,245	
d/ Employee profit sharing due for the period	0	0	0	0	0	
e/ Income after taxes, employee profit sharing, depreciation and provisions	1,143,976	(9,223,584)	(160,738)	(555,587)	(12,868,165)	
f/ Distributed net income (distribution proposal for the financial period Y)	0	0	0	0	0	
<u>3/ EARNINGS PER SHARE AND DIVIDENDS</u>						
a/ Earnings per share after taxes and employee profit sharing, but before depreciation and provisions	0.44	0.02	0.30	(0.02)	(0.14)	
b/ Earnings per share after taxes, employee profit sharing, depreciation and provisions	0.37	(2.73)	(0.05)	(0.16)	(3.77)	
c/ Dividends per share (or proposal)	0.00	0.00	0.00	0.00	0.00	
<u>4/ PERSONNEL</u>						
a/ Average workforce during the period	81	88	82	88	92	
b/ Total payroll for the period	3,158,758	3,152,958	3,255,279	3,377,583	3,712,332	
c/ Employee benefit contributions (social security, social benefits, etc.)	1,320,012	1,423,548	1,382,773	1,494,849	1,679,089	

NOTE 2/2 TO THE MANAGEMENT REPORT

A French Société Anonyme with an Executive Board and a Supervisory Board
with capital stock of €6,800,592
Headquarters: 10 rue des Emeraudes
Immeuble "Geo Chavez", 69006 Lyon, FRANCE
Listed on the Lyon Trade Register under number 331 518 498

LIST OF ROUTINE AGREEMENTS CONCLUDED UNDER NORMAL CIRCUMSTANCES DURING 2003 (pursuant to Article 225-87 of the Commercial Code)

This document lists all routine agreements concluded under normal circumstances during 2003 between:

- the Company and a member of the Executive Board or the Supervisory Board,
- the Company and any shareholder, whether natural person or legal entity, holding more than 5% of the voting rights,
- the Company and the legal entity controlling the shareholder holding more than 5% of the voting rights, where the latter is also a legal entity,

as well as any agreements that might indirectly benefit these same parties or concluded with the Company by these parties through an ostensible intermediary.

These agreements are summarized in the following tables:

I. Intra-group invoicing: Esker S.A. to its subsidiaries

- 1- Invoicing of products sent to subsidiaries
- 2- Re-invoicing of marketing costs (Europe and Group)
- 3- Re-invoicing of direct costs (marketing, credit insurance, fees, etc.)
- 4- Re-invoicing of personnel expenses relating to departments working for the subsidiaries
- 5- Invoicing of royalties paid to Esker, Inc. (connected with the sale of the Host Access and Fax Server product lines)

Subsidiaries	Sales of products	Marketing costs	Direct costs	Personnel expenses	Royalties	Financial revenue	Total
Esker Australia	€386,417	€86,215	€14,497	€69,414	-	-	€556,542
Esker UK	€1,541,005	€279,491	€44,875	€233,169	€20,861	-	€2,119,400
Esker Italy	€284,580	€45,184	€10,453	€47,294	-	-	€387,511
Esker Iberica	€409,830	€49,487	€11,850	€44,269	-	-	€515,436
Esker GmbH	€425,234	€81,253	€16,703	€77,883	-	-	€601,073
Esker, Inc.	-	-	€202,443	€168,353	€1,847,500	€56,685	€2,274,980
Total	€3,047,066	€541,630	€300,820	€640,382	€1,868,360	€56,685	€6,454,943

II. Intra-group invoicing: Esker S.A. subsidiaries to the parent company

- 1- Invoicing of commercial fees by Esker Iberica (Spain)
- 2- Re-invoicing of marketing costs by Esker, Inc. (USA) and Esker UK
- 3- Re-invoicing of direct costs by Esker, Inc.
- 4- Invoicing of royalties by Esker, Inc. (connected with the sale of the Host Access and Fax Server product lines)

Subsidiaries	Commercial fees	Marketing costs	Direct costs	Royalties	Total
Esker Australia					-
Esker UK		€13,562			€13,562
Esker Italy					-
Esker Iberica	€813				€813
Esker GmbH					-
Esker, Inc.		€367,872	€172,439	€2,033,029	€2,573,340
Total	€813	€381,434	€172,439	€2,033,029	€2,587,715

III. Directors of the various companies

The persons concerned by these agreements are listed in the table below.

Group companies	Appointee 1	Appointee 2	Appointee 3	Appointee 4
Esker S.A.	J.M. Bérard	E. Olivier	R. Teubner	T. Wolfe
Esker Australia	J.M. Bérard			
Esker UK	J.M. Bérard			
Esker Italy	J.M. Bérard			
Esker Iberica	J.M. Bérard			
Esker GmbH	J.M. Bérard			
Esker, Inc.	J.M. Bérard	R. Teubner	T. Wolfe	M. Baxter

Marie Claude BERNAL
Chairman of the Supervisory Board

4.4 Subsidiaries and equity interests

SUBSIDIARIES AND EQUITY INTERESTS (in €)	Shareholders' equity	Percentage of equity owned	Book value of interest held (gross)	Book value of interest held (net)	Loans and advances granted by the Company	Guarantees and sureties granted by the Company	Net sales for the prior financial period	Income for the prior financial period	Dividends received by the Company during the financial period
A. DETAILED INFORMATION CONCERNING SUBSIDIARIES AND EQUITY INTERESTS									
1. Subsidiaries (more than 50% of capital stock owned)									
Esker, Inc.	480,667	100%	33,390,187	16,047,219	1,574,846	-	12,824,311	(283,996)	-
Esker GmbH	(981,751)	100%	26,334	0	612,626	-	1,066,505	(653,661)	-
Esker Ltd.	483,488	100%	135	135	-	-	3,703,713	9,002	700,000
Esker Srl	12,195	100%	9,995	9,995	-	-	645,698	(230,098)	-
Esker Iberica	(183,618)	99.80%	3,087	0	452,810	-	640,330	(253,778)	-
Esker Australia Pty. Ltd. (1)	(1,548,271)	100%	711,784	462,659	1,261,816	-	1,109,471	(316,983)	-
Esker Asia Pte. Ltd.	(2)	100%	62,656	0	-	-	-	(2)	-
B. INFORMATION RELATING TO OTHER SUBSIDIARIES AND EQUITY INTERESTS									
1. French interests (between 0 and 50% of capital stock owned)									
Screener S.A.R.L.	(3)	14.50%	5,526	0	38,112	-	-	(3)	-

(1) The capital of the Australian subsidiary includes the portion of capital not paid up (€462,660).

(2) The subsidiary Esker Asia Pty. Ltd. has been inactive since December 31, 1997.

(3) The company Screener S.A.R.L. has been in official receivership since June 22, 1998.

4.5 Executive Board Report on stock options

Dear Shareholders,

In accordance with Article L. 225-184 of the Commercial Code, we are writing to give you an account of the operations carried out pursuant to the terms of Articles L. 225-177 to L. 225-186 of the aforementioned laws relating to options for purchase or subscription.

1. OPTIONS ISSUED BY THE COMPANY: GENERAL INFORMATION

1.1. OPTIONS ISSUED DURING THE PERIOD UNDER REVIEW IN COMPLIANCE WITH ARTICLES L. 225-177 TO L. 225-186 OF THE COMMERCIAL CODE

Allotment date	Purchase options		Share subscription options		Number		Duration	Exercise price (in €)
	Original grant	Balance at 12/31/2003	Original grant	Balance at 12/31/2003	Original grant	Balance at 12/31/2003		
3 Jan 2003	0	0	41,592	39,592	41,592	39,592	5 years	2.51
1 Jul 2003	0	0	45,652	45,652	45,652	45,652	5 years	3.74
Total	0	0	87,244	85,244	87,244	85,244		

The difference between the number of options originally granted and the balance at December 31, 2003 corresponds to the options granted to company personnel no longer employed by the Esker Group at December 31, 2003.

1.2. OPTIONS EXERCISED DURING THE PERIOD UNDER REVIEW

No options were exercised during the 2002 period.

1.3. OPTIONS ISSUED BEFORE YEAR-END AND NOT YET EXERCISED

Allotment date	Purchase options	Share subscription options	Number	Duration	Exercise price (in €)
10 Feb 1999	756	0	756	5 years	20.35
9 Apr 1999	800	1,500	2,300	5 years	20.98
18 Jun 1999	0	2,006	2,006	5 years	19.10
31 Aug 1999	0	22,600	22,600	5 years	25.62
15 Nov 1999	0	0	0	5 years	30.00
10 Jan 2000	0	7,980	7,980	5 years	40.06
16 Jun 2000	0	500	500	5 years	27.25
10 Oct 2000	0	48,568	48,568	(1)	(1)
13 Oct 2000	4,500	800	5,300	5 years	12.56
13 Oct 2000	0	56,300	56,300	5 years	17.93
25 Jan 2001	0	163,017	163,017	5 years	7.77
17 Apr 2001	69,072	111,310	180,382	5 years	5.02
16 Jul 2001	0	25,424	25,424	5 years	4.91
12 Sep 2001	0	10,000	10,000	5 years	4.33
28 Dec 2001	10,700	45,376	56,076	5 years	5.16
1 Jul 2002	3,524	15,474	18,998	5 years	3.14
3 Jan 2003	0	39,592	39,592	5 years	2.51
1 Jul 2003	0	45,652	45,652	5 years	3.74
Total	89,352	596,099	685,451		

(1) 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 (198,677 Esker S.A. options for 5,056,572 VSI options) in accordance with the acquisition agreement. The requirements for the exercise of the stock options remain the same as those in the initial plan (variable duration, exercise price between €0.29 and €23.45).- On 12/31/2003, employees from VSI Inc., and still employed by Esker Inc. on this date, held 48,568 stock subscription options.

2. OPTIONS GRANTED TO THE COMPANY'S CORPORATE APPOINTEES DURING THE PERIOD UNDER REVIEW

Listed below are the number, price of shares subscribed to or purchased during the period by the company's corporate appointees by exercising one or more options held within the company, affiliated companies as defined by Article L. 225-180, and controlled companies as defined by Article L. 225-16 of the Commercial Code.

2.1. OPTIONS GRANTED TO THE COMPANY'S CORPORATE APPOINTEES DURING THE PERIOD UNDER REVIEW

Appointee's name	Allotment date	Appointment and responsibilities within the Company	Issuing company	No. of options granted	Options for purchase or subscription	Expiry date	Exercise price
M. Baxter	3 Jan 2003	Member of the Executive Committee	Esker S.A.	23,576	S	2 Jan 2008	€2.51
M. Wenzel	1 Jul 2003	Member of the Executive Committee	Esker S.A.	10,000	S	30 Jun 2008	€3.74
			TOTAL	33,576			

Jean-Michel Bérard, Chairman of the Executive Board, is not the beneficiary of any stock option plan.

2.2. OPTIONS GRANTED TO THE COMPANY'S CORPORATE APPOINTEES DURING THE PERIOD UNDER REVIEW BY ANY ONE OF THE AFFILIATED COMPANIES AS DEFINED BY ARTICLE L. 225-180

NONE

2.3. OPTIONS GRANTED TO THE COMPANY'S CORPORATE APPOINTEES DURING THE PERIOD UNDER REVIEW BY OTHER COMPANIES IN WHICH IT HAS A CONTROLLING STAKE AS DEFINED BY ARTICLE L. 233-16 OF THE COMMERCIAL CODE

NONE

3. OPTIONS EXERCISED BY THE COMPANY'S CORPORATE APPOINTEES DURING THE PERIOD UNDER REVIEW

Listed below are the number, price of shares subscribed to or purchased during the period by the company's corporate appointees by exercising one or more options held within the company, affiliated companies as defined by Article L. 225-180, and controlled companies as defined by Article L. 225-16 of the Commercial Code.

3.1. OPTIONS GRANTED BY THE COMPANY AND EXERCISED DURING THE PERIOD UNDER REVIEW

NONE

3.2. OPTIONS GRANTED BY AN AFFILIATED COMPANY AS DEFINED UNDER ARTICLE L. 233-16 OF THE COMMERCIAL CODE, AND EXERCISED DURING THE PERIOD UNDER REVIEW

NONE

3.3. OPTIONS GRANTED BY AN AFFILIATED COMPANY AS DEFINED UNDER ARTICLE L. 233-16 OF THE COMMERCIAL CODE, AND EXERCISED DURING THE PERIOD UNDER REVIEW

NONE

4. OPTIONS GRANTED BY THE COMPANY, AND OPTIONS GRANTED BY COMPANIES OR GROUPS AFFILIATED TO THE COMPANY AS DEFINED BY ARTICLE L. 225-180, TO THE TEN NON-MANAGEMENT EMPLOYEES OF THE COMPANY WHO THEREBY RECEIVED THE HIGHEST NUMBER OF OPTIONS DURING THE PERIOD UNDER REVIEW

The table below lists the options granted during the period, by the company or by the companies and groups affiliated with it in accordance with the terms and conditions laid down by Article L. 225-180 of the Commercial Code, to each of the company's ten non-management employees with the highest number of options granted and of shares purchased in this manner.

The company issuing the options is always Esker S.A.

→ ALLOCATION TO ESKER S.A. EMPLOYEES (France)

Employee's name	Allotment date	No. of options granted	Options for purchase or subscription	Expiry date	Exercise price
Eric Bussy	3 Jan 2003	2,016	S	2 Jan 2008	€2.51
Annick Challancin	3 Jan 2003	2,016	S	2 Jan 2008	€2.51
Nicolas Bragard	1 Jul 2003	2,016	S	30 Jun 2008	€3.74
Tanguy Perrot	1 Jul 2003	1,008	S	30 Jun 2008	€3.74
Philippe Gollet	3 Jan 2003	512	S	2 Jan 2008	€2.51
Florent Comba	3 Jan 2003	512	S	2 Jan 2008	€2.51
Hugues Chomel de Varagnes	1 Jul 2003	512	S	30 Jun 2008	€3.74
Delphine Colom	3 Jan 2003	320	S	2 Jan 2008	€2.51
Geneviève Fauconnier	1 Jul 2003	208	S	30 Jun 2008	€3.74
Cristel Guyet	1 Jul 2003	208	S	30 Jun 2008	€3.74
		9,328			

→ ALLOCATION TO GROUP EMPLOYEES (EXCLUDING ESKER S.A.)

Employee's name	Allotment date	No. of options granted	Options for purchase or subscription	Expiry date	Exercise price	Employee's name
Thomas Stoek	Esker GmbH (Germany)	1 Jul 2003	10,000	S	30 Jun 2008	€3.74
Daniel Schafer	Esker, Inc. (USA)	1 Jul 2003	5,000	S	30 Jun 2008	€3.74
Tom Stelten	Esker, Inc. (USA)	1 Jul 2003	3,000	S	30 Jun 2008	€3.74
James Elkington	Esker Australia	3 Jan 2003	2,544	S	2 Jan 2008	€2.51
César Rodriguez	Esker Iberica (Spain)	1 Jul 2003	2,500	S	30 Jun 2008	€3.74
Tracy Donohue	Esker, Inc. (USA)	1 Jul 2003	2,500	S	30 Jun 2008	€3.74
Sean Vickery	Esker UK	3 Jan 2003	2,496	S	2 Jan 2008	€2.51
Eric Maisonnaute	Esker Australia	1 Jul 2003	2,000	S	30 Jun 2008	€3.74
Jason Anderson	Esker, Inc. (USA)	1 Jul 2003	1,500	S	30 Jun 2008	€3.74
Marcy Dahlk	Esker, Inc. (USA)	1 Jul 2003	1,100	S	30 Jun 2008	€3.74
			32,640			

5. OPTIONS GRANTED TO COMPANY EMPLOYEES BY THE COMPANY AND BY AFFILIATED COMPANIES AS DEFINED BY ARTICLE L. 225-180 OF FRENCH COMMERCIAL LAW, AND EXERCISED BY THE TEN NON-MANAGEMENT EMPLOYEES WITH THE HIGHEST NUMBER OF SHARES PURCHASED AND SUBSCRIBED TO IN THIS MANNER

The table below lists the options granted by the company, or by the companies or groups affiliated with it in accordance with the terms and conditions laid down by Article L. 225-180 of the Commercial Code, to each of the company's ten non-management employees with the greatest number of options granted and shares purchased in this way and exercised during the period.

No other options were exercised during 2003.

The Executive Board

4.6 Auditors' general and special reports on the Company's annual financial statements

GENERAL REPORT

AUDITORS' REPORT

Annual Financial Statements

Period ending December 31, 2003

In accordance with the terms of our appointment by your shareholders' meeting, we hereby present our report concerning the period ended December 31, 2003, concerning:

- the audit of the accompanying annual financial statements of Esker S.A.,
- the justification of our assessments,
- specific verifications and information as required by law.

The annual financial statements have been approved by the Executive Board. It is our duty to express an opinion on these financial statements on the basis of our audit.

I. OPINION ON THE FINANCIAL STATEMENTS

We have conducted our audit in accordance with generally accepted auditing standards. These standards call for the implementation of due diligence to obtain reasonable assurance that the annual financial statements do not include any important discrepancies. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual financial statements, prepared according to accounting practices generally accepted in France, present fairly the results of the operations of the period under review as well as the net worth, assets and liabilities of the company at the end of this period.

II. JUSTIFICATION OF THE ASSESSMENT

Pursuant to the provisions of Article L 225-235 of the French Commercial Code pertaining to the justification of our assessment, introduced by the Law on Financial Security of August 1, 2003 applicable for the first time to this period, we wish to draw your attention to the following items:

As indicated in the Notes, the book value of equity interests corresponds to an estimated value assessed according to market factors and the use of these interests to the company.

The net carrying value of fixed assets was reviewed by the company and, among other considerations, the depreciation of the interest in the company's subsidiary Esker, Inc. is based on the value-in-use calculated on the basis of the present value of expected future cash flows. Based on the currently available elements, we have conducted our assessment of the approaches adopted by the company to perform these valuations and we have verified that the assumptions considered were reasonable with regard to company experience, to its legal and economic environment, and to the consistency of these assumptions.

The assessments thus made form part of our audit of the parent company financial statements taken as a whole and have thus contributed to our unqualified opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATIONS AND INFORMATION

In accordance with the standards of our profession, we have also carried out specific verifications provided for by law.

We have no comment to make regarding the sincerity and conformity with the annual financial statements of the information contained in the report of the Executive Board and the documents sent to shareholders concerning the financial situation and annual financial statements.

As required by law, we have assured that the information concerning the identity of the holders of capital and voting rights have been communicated to you in the management report.

Villeurbanne, June 4, 2004

The Auditors

Yves FOURNAND

DELOITTE TOUCHE TOHMATSU

Dominique VALETTE

SPECIAL REPORT OF THE AUDITORS

SPECIAL REPORT OF THE AUDITORS ON REGULATED AGREEMENTS Period ending December 31, 2003

As auditors of your company, we hereby present our report on regulated agreements.

Agreements authorized during the period under review

Pursuant to the provisions of Article L. 225-88 of the Commercial Code, we have been notified of the agreement submitted for prior authorization by your Supervisory Board.

It is not our responsibility to determine whether there were other agreements of this type. Our responsibility is to inform you, on the basis of the information we have received, of the essential characteristics and terms of the agreements notified to us, without giving our opinion as to their justification or utility. It is your responsibility to evaluate and approve these agreements, pursuant to Article 117 of the Decree of March 23, 1967.

We have performed our work in accordance with the professional standards that are applicable in France. These standards require us to use procedures which provide reasonable assurance that the information we were provided is consistent with the source documents from which it was obtained.

→With Esker Italia Srl

Person concerned: Mr. Jean-Michel Bérard

Nature and purpose: Debt forgiveness - Esker Italia Srl

Procedures: Abandonment of a claim on a portion of the assets of Esker Italia Srl in order to allow for its recapitalization.

The total transaction recognized under expenses by Esker S.A. for the period ending December 31, 2003 amounted to €560,485, whereas the prior authorization of the Supervisory Board dated June 24, 2003 was for an amount of €328,585.

Agreements approved during prior periods and which remained in force during the period under review

In addition, in accordance with the decree of March 23, 1967, we were informed that the following agreements, concluded in prior financial periods, remained in force in the period under review.

1. With Esker, Inc.

Nature and purpose: Advance of funds to Esker, Inc.

Procedures: Advance on December 31, 2003 of €1,122,469 (US\$1,417,678).

Subject to interest of 5.05% corresponding to total financial income of €56,684 for the financial period.

2. With Esker Iberica SL

Nature and purpose: Advance of funds to Esker Iberica

Procedures: Advance on December 31, 2003 of €6,882.

As a result of an oversight, this advance remained unpaid during the financial period.

Villeurbanne, June 4, 2004

The Auditors

Yves FOURNAND

DELOITTE TOUCHE TOHMATSU

Dominique VALETTE

4.7 Auditors' fees

Auditors' fees and fees for members of their network paid by the Esker Group in 2003 (€'000)

	Deloitte Touche et Tohmatsu				Cabinet Fournand				Total			
	2003		2002		2003		2002		2003		2002	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1- AUDIT												
- Statutory audit, certification, and examination of the parent company and consolidated financial statements	76,842	92%	76,935	92%	6,900	8%	6,900	8%	83,742	100%	83,835	100%
- Other missions	n/a		n/a		n/a		n/a		n/a		n/a	
2- OTHER SERVICES	n/a		n/a		n/a		n/a		n/a		n/a	

CHAPTER 5: CORPORATE GOVERNANCE

5.1 Report of the Chairman of the Supervisory Board in application of Article L 225-68 of the French Commercial Code (Article 117 of the Law on Financial Security)

Introduction

In accordance with the provisions of Article L. 255-68 of the Commercial Code following on from Article 117 of the Law on Financial Security, the Chairman of the Supervisory Board details in this report the methods used to prepare and organize the work of the Supervisory Board as well as the internal control procedures put in place by the Company. The Chairman entrusted the finance management with the preparatory work and the necessary due diligence, on which it reported back to him.

1 – Operation of the Supervisory Board

1.1 Membership of the Supervisory Board

The Supervisory Board is comprised of four members elected by the Annual Shareholders' Meeting for a period of six years: Kléber Beauvillain, elected in 1999, Russell Teubner and Thomas Wolfe, elected in 2000 and Marie-Claude Bernal, elected in 2001. The four members of Esker's Supervisory Board have the necessary skills, experience and time to properly carry out their responsibilities. Marie-Claude Bernal, Chairwoman of the Supervisory Board, and Kléber Beauvillain, Vice-Chairman, are considered by Esker to be independent, that is to say that they have no significant shareholding, professional or family tie with the Company. Pursuant to the Company's Articles of Incorporation, the Supervisory Board may have between three and eighteen members.

1.2 Responsibilities and operation of the Supervisory Board

The primary responsibility of the Supervisory Board is the constant monitoring of the management of the Company by the Executive Board. It appoints the members of the Executive Board and can, if necessary, dismiss them. It authorizes the agreements covered by Article L. 225-88 of the Commercial Code. It prepares and presents to the Annual Shareholders' Meeting a report on the management of the Executive Board as well as on the financial statements for the period under review.

The Supervisory Board carries out its responsibilities by following up on recent commercial, technological, financial, labor and legal developments in the Company either through documents provided to it or from the management of the company. It assesses and approves the Company's strategic plans, budgets, major resource allocations and investments, and the succession plan for key management. The Supervisory Board also ensures the integrity of all the financial reporting and approves the half-yearly and yearly earnings prior to publication.

The Supervisory Board meets at least once a quarter, either in France, or at the premises of a foreign-based subsidiary. The proceedings of the Supervisory Board are summarized in meeting minutes that are approved at the start of the subsequent meeting and recorded in a special register, kept pursuant to applicable laws. Notifications of meetings of the Supervisory Board are sent out within the time periods prescribed by law, and documentation required for these proceedings is sent to participants in advance.

The Supervisory Board met six times in 2003: four times at the headquarters in Lyon, in January, March, June and September, once at its offices in Madison, Wisconsin, in July, and once at its Lake Forest offices in California, in December. The attendance rate at these meetings was 96% in 2003.

1.3 Supervisory Board committees

In order to better perform its responsibilities, the Supervisory Board approved, on September 9, 2002, the creation of two specialized committees: an audit committee and a compensation committee. The main responsibility of the audit committee is to ensure the integrity of all of the Company's financial statements and the reliability of its internal control procedures. It appoints the two statutory auditors and reviews their fees. The audit committee is comprised of two independent Board members and meets at least twice a year, in March and October, to review the annual and bi-annual financial statements. It met twice in 2003.

The main responsibility of the compensation committee is to review the salaries of the members of the Executive Board, the Company's stock option plans and the general employee compensation policy. The four members of the Board are on the compensation committee. This Committee meets at least once a year. It met once in 2003.

The charters of these two committees were reviewed and approved by the Supervisory Board on September 9, 2002.

1.4 Compensation

The compensation paid to members of the Supervisory Board is comprised of a fixed annual sum of 15,000 euros (22,500 euros for the Chairman) and attendance fees of €1,000 for each Supervisory Board meeting that the member attends. In 2003, the total compensation for the Supervisory Board amounted to 89,500 euros.

1.5 Corporate governance: Implementation of market recommendations

Esker adheres to the corporate governance principles set out in the Bouton report published on September 23, 2002. Even before the publication of this report, Esker had already adopted a large number of the recommendations of the Bouton report, particularly with regard to how the Supervisory Board operated, its membership (half of the members independent), the setting up of specialized committees (audit committee and compensation committee) and the compensation of its members (existence of a variable portion linked to their diligence). Esker undertakes to continue to apply the current and future corporate governance rules.

The Executive Board has full authority to act in the Company's name within the limits of the corporate purpose. The company is administered in accordance with the law and its Articles of Incorporation. The latter require the Executive Board to submit a report at least once a quarter to the Supervisory Board (Articles 15 and 16 of the Articles of Incorporation). There is no delegation of power other than that granted to the Executive Board by the General Shareholders' Meeting.

1.6 Company rules

A company rule laying down the conditions for consulting members of the Supervisory Board through videoconferencing was passed at the Supervisory Board meeting of June 12, 2002. It should be noted that the use of videoconferencing is prohibited for the appointment and dismissal of Executive Board members as well as for the appointment and the setting of the compensation levels of the Chairman and Vice Chairman of the Supervisory Board.

2- Internal control procedures

2.1 Definition of internal controls and report objective

The aims of the internal control procedures in force at Esker are to:

- Firstly, to make sure that management actions and the carrying out of transactions, as well as the behavior of personnel is in line with the direction laid down for the company's activities by corporate bodies, applicable laws and regulations, and by the Company's own values, standards and internal rules;
- Secondly, to make sure that the accounting, financial and management information communicated to the corporate bodies fairly reflects the business and situation of the Company.

One of the aims of the internal controls system is to anticipate and manage the risks resulting from the company's business and the risk of error or fraud, particularly in the accounting and financial fields. Like with any control system, it cannot provide an absolute guarantee that these risks have been completely eliminated.

2.2 Description of the internal control environment

Esker is present in its key markets, namely: France, US, United Kingdom, Germany, Italy, Spain and Australia.

The US subsidiary is organized in the same manner as the French parent company and has the following departments:

- Sales,
- Research & Development,
- Marketing,
- Production,
- Administration

The other Group subsidiaries are sales subsidiaries.

The Group is managed in a centralized or decentralized manner using the control tools put in place by the parent company.

2.2.1 Internal control players

The following players or organizations are responsible for control activities:

- Elements inside the group:
 - Management Committee: It is comprised of the managers of the various corporate departments and is responsible for setting out the Company's strategy, planning it and monitoring its implementation. It meets every quarter with an additional meeting in the final quarter to work on the budget for the following year.
 - The Group's administrative and financial management: it is responsible for preparing the Group's consolidated financial statements, as well as the documentation necessary for financial communications, preparing monthly reporting and management monitoring addressed to the Management Committee and the managers of the subsidiaries, and to coordinate the process of drawing up the budget. It draws up the Group's procedures and accounting schedule. It analyses the management reporting of the US subsidiary.
 - The administrative and financial management in Europe: It is responsible for supervising the accounting of the European and Australian subsidiaries, the centralized management of invoicing and shipments as well as the legal aspects of this region. It prepares the corporate financial statements of Esker S.A.
 - The US administrative and financial management: It is responsible for preparing the financial statements of the US subsidiary operating on 3 sites, supervising invoicing and shipping services as well as the US legal management.
 - The US legal management: It is responsible for all commercial legal issues and for drawing up and reviewing contracts. It works together with the Company's various departments, particularly with product managers and Europe's financial management to draw up the contracts used by the Company.
 - The US controller: It is responsible for analyzing deviations compared to the budget, monitoring cash flows and performing monthly reporting to the parent company.

- Internal audit department in Europe: Part of the European finance department, it carries out selective inspections on the operations of the subsidiaries; it communicates the Group's instructions and directives on accounting and financial matters and monitors their application. It coordinates with the different external consultants.
- Quality and Testing department: It is responsible for inspecting and validating the products before they are placed on the market.
- Information technology management: It is responsible for major information technology investments and applications, and for deploying and maintaining them. It guarantees the proper running of information technology resources and the Group's network infrastructure. It defines the Group's information technology strategy.
- The SAP deployment committee: The financial information of the European companies is currently being integrated into the SAP management software. Personnel in the Group's finance department are working on this project, in contact with the information technology systems management, and takes care of: technical specifications, scheduling, data migration, user training (personnel in the subsidiaries or the local certified public accountants who will input or review transactions in SAP).
- Human Resources management: It is responsible for defining human resource procedures and tools (recruitment, integration plan, annual maintenance), of managing recruitment, of defining the employee-training program and following up career planning.

- Elements outside the group:

The accounting of the sales subsidiaries is prepared or reviewed monthly by an outside certified public accountant. The financial statements are sent monthly to the parent company, which reviews them before including them in the consolidated monthly management reporting.

2.2.2 Control of subsidiaries

Every Esker subsidiary is wholly owned by the parent company. The management committee comprised of French and US members regularly monitors the operations of the subsidiaries.

2.3 Preparing accounting and financial information for the shareholders

The Group's accounting information is largely managed using 2 applications:

- SAP R3 for France, Italy and the United Kingdom,
- Solomon for the US (the parent company can access this information)

The integrated SAP management software is currently being deployed in the European subsidiaries. The 2003 financial statements of the French parent company and the Italian and UK subsidiaries were drawn up using SAP. The deployment is being carried out in Spain in 2004. Thanks to the integrated software, Esker has better visibility of the accounts of its subsidiaries and the parent company can immediately access information.

The other subsidiaries (Germany, Australia) are managed using a local accounting system (Germany) or MYOB (Australia). They will also be integrated into SAP.

The reference accounting schedule used by the subsidiaries is the French accounting schedule. The equivalent in the local accounting schedule is indicated for every account, thus enabling the financial statements to be drawn up using the 2 accounting references.

The reliability of accounting and financial information is ensured by an organization and set of controls.

2.3.1 Organization of the accounting and financial department

The accounting department is organized so as to satisfy both legal requirements and those stemming from the stock market listing.

The financial statements are closed at different levels:

- Local level: The accounts are prepared either internally or by an outside certified public accountant depending on the size of the subsidiary. In any event they are reviewed monthly by a certified public accountant before being sent to the parent company for consolidation. The tax returns and labor declarations are prepared locally.
- Group level: The financial statements of the subsidiaries are reviewed monthly before being consolidated. The Group's finance department ensures that the Group's procedures and reporting deadlines are respected. It draws up the financial statements of the parent company, the consolidated financial statements and all the documentation that is required for financial communications.

2.3.2 Process of preparing accounting and financial information

The Group's finance management prepares the Group's financial information by carrying out certain checks:

- A systematic review of the financial statements of the subsidiaries takes place each month at group level including an analysis of sales, salaries, expenses, investments and customer items.
- Internal audit of the operations of the subsidiaries: monthly review of the financial statements of the subsidiaries or deviations from the budget, enabling the parent company to identify certain items for more in-depth audits. Cash flow and follow-up of customer receivables are subject to regular checks.

The consolidated financial statements are audited once a year by 2 auditors and are reviewed on a half-yearly basis. The audit instructions are sent to the local auditors.

3-Information relating to internal control procedures having a significant impact on the Company's business

Given the Company's business, 3 procedures were identified which could have a significant impact on the performance of the Company:

- Revenue recognition,
- Credit management,
- Financial reporting

3.1 The revenue recognition procedure

Esker bases its judgment on the principles in the SOP 97-2 recommendations relating to the recognition of revenue in the software industry.

- Centralized management of invoicing:

The French parent company invoices and ships the products for its European subsidiaries. Customer orders are received by the subsidiaries, which verify them before sending them to the parent company for processing. The centralized management of invoicing enables the instant analysis of revenue recognition as well as the monitoring of payment terms granted to customers and of credit management.

- Treatment of maintenance contracts:

A specific procedure exists for maintenance contracts where the splitting each month over the life of the contract was automated in the management system. Since invoicing is centralized in Europe, each month every subsidiary receives the amount of the deferred maintenance to be recorded.

Other revenue items (software, service, hardware) are analyzed on a case-by-case basis with regard to revenue recognition:

- Existence of a firm order,
- Delivery made or service provided,
- Price agreed,
- No apparent risk regarding revenue collection

3.2 The credit management procedure

Esker implemented procedures for providing credit so as to:

- Ensure the solvency of its prospects,
- Minimize the risk of default.

The Company took out a credit insurance policy at Group level to deal with:

- Customer insurance and follow up requests,
- Requests for information for one-off sales.

The credit management procedure is decentralized for requests for information (at subsidiary level) and centralized in Europe both for requests for customer cover and for claims.

Parameters for Credit terms were established in the management system so as to be alerted regarding possible credit overruns. The credit insurance contract is managed centrally by the parent company.

3.3 The financial reporting procedure

Monthly reporting is a key element of the internal control system. The main items that are subject to reporting are:

- Sales,
- Income statement,
- Cash flow

Sales and the income statement are compared to the budget and analyzed.

3.3.1. Sales reporting

A sales follow-up is carried out every week per subsidiary and per product line. The sales taking into account the deferred maintenance and the revenue recognition rules are published internally each month, and quarterly in the media. This reporting is for the management of the subsidiaries, the Management Committee and the Supervisory Board.

3.3.2. Income statement reporting

The financial statements of the subsidiaries are consolidated in a common format enabling comparisons and a profitability analysis. The income statements are shown in comparison to the budget for the management of the subsidiaries. Additional information per product line is given to members of the Supervisory Board.

3.3.3. Cash flow reporting

A consolidation of the cash flow position is given to the Supervisory Board every month.

On the other hand, subsidiary management and administrative personnel receive a monthly consolidation of the aged trial balances with specific information on payment problems.

3.3.4. The budgetary process

A common process is employed for all Group subsidiaries. The budget is drawn up during the last quarter and has two versions, the 2nd being published as the final version.
A budgetary revision is carried out mid-year to adjust sales and costs.

2004 Action Plan

The Company should carry out an analysis of the risks to identify the most important procedures that remain to be drawn up. Certain procedures exist at Group level but have not yet been extended to the subsidiaries, but these are, nonetheless, monitored through reporting.

The procedures to be drawn up in 2004 are as follows:

- Identification of risks at a subsidiary level and the most important procedures to be documented and implemented particularly with regard to purchasing and professional fees.
- Documentation and implementation of these procedures.
- Drawing up of the procedure for preparing the consolidated financial statements. This procedure already exists but has not as of yet been documented in writing.

Marie-Claude BERNAL
Chairman of the Supervisory Board

5.2 Auditors' report on the report of the Chairman of the Supervisory Board

SPECIAL AUDITORS' REPORT

drawn up in application of the last paragraph of Article L. 225-235 of the French Commercial Code, on the report of the Chairman of the Supervisory Board of Esker S.A., with regard to the internal control procedures relating to the drawing up and treatment of accounting and financial information

Period ending December 31, 2003

As auditors to Esker S.A. and in application of the provisions of the last paragraph of Article L. 225-235 of the Commercial Code, we hereby present you with our report on the report drawn up by the Chairman of your Supervisory Board pursuant to the provisions of Article L. 225-68 of the Commercial Code for the period ending December 31, 2003.

Under the responsibility of the Supervisory Board, it is the responsibility of the management to define and implement appropriate and effective internal control procedures. It is the responsibility of the Chairman to detail, in his/her report, in particular the preparatory and organizational methods used in the Supervisory Board's work and the internal control procedures implemented within the Company.

It is our responsibility to make you aware of our observations on the information and statements in the Chairman's report concerning the internal control procedures for the preparation and processing of accounting and financial information.

We carried out our tasks in accordance with the professional standards applicable in France. This requires the use of due diligence so as to assess the fair presentation of the information provided in the Chairman's report, relating to the internal control procedures for the preparation and processing of accounting and financial information. This due diligence consists notably of considering the aims and the general organization of internal controls, as well as the internal control procedures relating to the preparation and processing of accounting and financial information presented in the Chairman's report.

On the basis of our work, we have no observations to make on the description of Company's internal control procedures regarding the preparation and processing of accounting and financial information, contained in the report of the Chairman of the Supervisory Board, prepared in application of the provisions of the last paragraph of Article L. 225-68 of the French Commercial Code.

Villeurbanne, June 4, 2004

The Auditors

Yves Fournand

DELOITTE TOUCHE TOHMATSU

Dominique Valette

5.3 Compensation of Directors and Officers

For the financial period ending 12/31/2003:

- The total compensation of the Executive Board was: €302,000.
- Total compensation for the Management Committee was: €974,000, including a variable portion based on the Group's sales performance amounting to €91,000.
- Total compensation for the Supervisory Board was: €89,500 (€22,000 of which was for attendance fees).
- The total compensation for Mr. Jean-Michel Bérard amounted to €102,000. This was exclusively for a fixed salary.

5.4 Employee profit-sharing scheme

5.4.1. Profit-sharing and participation agreements

5.4.1.1. Profit sharing agreement

► A profit-sharing agreement was signed on June 18, 2002.

The chief characteristics of this agreement are as follows:

- Term of the agreement: 3 years from the financial period beginning January 1, 2002,
- Beneficiaries: All employees on the company's payroll in France with three months' seniority in the company during the calculation period,
- Basis of calculation: The Esker group's consolidated operating income,

An amendment dated November 7, 2002 made certain clarifications with regard to the methods for allocating profit-related bonuses and the date of their payment.

► Employees have two options regarding the payment of the sums:

- Receiving a share of the profits,
- Transferring the profits into various investment schemes (company mutual fund).

No profit-sharing income was paid to employees for the 2003 financial period.

► Profit-sharing sums since 1999:

Reference period	Sum (in €000s)	% of wage bill
1999	282.99	8.96%
2000	0.00	0.00%
2001	62.43	1.92%
2002	0.00	0.00%
2003	0.00	0.00%

5.4.1.2. Participation agreement

► A participation agreement was signed on March 10, 1998 effective for the period ending on 12/31/1997. This one-year agreement is tacitly renewed each year unless terminated by either of the contracting parties at least six months prior to the normal expiration date.

► Participation sums since 1999: no payment was made under this agreement between 1998 and 2002.

5.4.2. Policy regarding the allocation of share subscription and purchase options

More detailed information on stock subscription and purchase options granted to members of the Management Committee is provided in the special report drawn up by the Executive Board in accordance with Article L. 225-184 of the Commercial Code, included in this reference document (see §4.5 of Chapter 4).

Esker's policy is to distribute stock options to all Group employees with seniority of six months or more.

33,576 stock options were granted to members of the Management Committee (stock subscription options) during the 2003 financial period.

Mr. Jean-Michel Bérard is not a beneficiary of any stock subscription or purchase option plan.

Timetable of financial reporting and other financial events for the Esker group in 2004

During the first half of 2004, the following reports were published:

01/27/2004: Sales for the 4th quarter of 2003,
03/18/2004: 2003 annual results,
04/21/2004: Sales for the 1st quarter of 2004.

The table below contains the financial information used in this report for 2004:

Sales for the 1st quarter of 2004 (in €'000)

Geographical areas	2004	2003	Variation in %	% Variation (at constant exchange rates)
Europe and the rest of the world	2,150	2,407	-11%	-10%
USA-Canada-Latin America	3,095	3,212	-4%	12%
Asia / Australia	282	295	-5%	-14%
Total 1st Quarter	5,527	5,914	-7%	2%

As indicated in § 3.5.8, the next announcements will be as follows:

- Sales for the 1st half of 2004: 1st half of July 2004
- Half-yearly results: 09/26/2004
- Sales for the 3rd quarter of 2004: 1st half of October 2004
- Sales for the 4th quarter of 2004: 1st half of January 2005
- 2004 annual results: March 2005 (estimate)



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