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Esmertec AG, Dübendorf
Report of the Statutory Auditors
to the General Meeting
Financial Statements 2004



KPMG Klynveld Peat Marwick Goerdeler SA
Zurich, March 2, 2005
Ref. Mu, 10

Report of the Statutory Auditors to the General Meeting of Shareholders of

Esmertec AG, Dübendorf

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Esmertec AG for the year ended December 31, 2004.

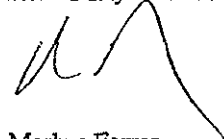
These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

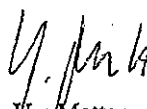
In our opinion, the accounting records and financial statements and the proposal to set off accumulated losses against share premium comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA



Markus Forrer
Auditor in Charge



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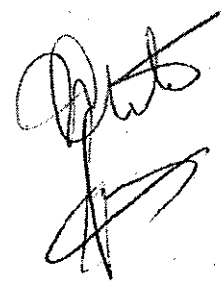
Zurich, March 2, 2005

Enclosure:

- Financial statements (balance sheet, income statement and notes)
- Proposal to set off accumulated losses against share premium

Esmertec AG, Dübendorf

Balance Sheet as of	December 31, 2004	December 31, 2003
	CHF	CHF
ASSETS		
Current assets		
Cash and cash equivalents	21,351,467	16,019,817
Trade accounts receivable due from		
- third parties	29,849,209	15,335,513
- subsidiaries	354,578	0
Other receivables	646,200	2,442,995
Inventories	814,423	455,748
Accrued income and prepaid expenses	3,464,086	558,723
Total current assets	56,479,963	34,812,796
Non-current assets		
Financial assets		
- Investments	9,719,099	167,210
- Value adjustment on investments	-167,209	-167,209
- Loan to subsidiaries	3,033,955	3,436,646
- Value adjustment on loans to subsidiaries	-2,510,200	-2,958,000
- Loan to related party	262,517	0
- Security deposits and other financial assets	1,399,412	376,841
Furniture and equipment	591,777	705,815
Intangible assets	8,445,165	4,907,636
Total non-current assets	20,774,516	6,468,939
Total assets	77,254,479	41,281,735



Balance Sheet as of	December 31, 2004	December 31, 2003
	CHF	CHF
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Trade accounts payable due to		
- third parties	859,921	533,165
- subsidiaries	125,938	0
Interest bearing loans and borrowings	7,028,282	3,025,729
Other current liabilities	277,104	34,207
Deferred revenue	2,050,667	1,671,458
Accrued expenses	8,652,167	3,382,108
<i>Total current liabilities</i>	<u>18,994,079</u>	<u>8,646,667</u>
Interest bearing loans and borrowings		
- third parties	23,966,470	244,752
- shareholders	10,100,000	0
Deferred revenue	0	200,650
Provisions	0	50,000
<i>Total non-current liabilities</i>	<u>34,066,470</u>	<u>495,402</u>
Total liabilities	<u>53,060,549</u>	<u>9,142,069</u>
Shareholders' equity		
Share capital	1,073,498	937,398
Legal reserves (share premium)	536,749	468,699
Other reserves (share premium)	30,969,689	59,651,682
Accumulated losses		
- Accumulated losses brought forward	0	-22,112,204
- Net loss for the period	-8,386,006	-6,805,909
Total shareholders' equity	<u>24,193,930</u>	<u>32,139,666</u>
Total liabilities and shareholders' equity	<u>77,254,479</u>	<u>41,281,735</u>

Esmertec AG, Dübendorf

Income Statement	01.01.2004 - 31.12.2004 (12 months)	01.04.2003 - 31.12.2003 (9 months)
	CHF	CHF
License revenue	23,405,249	14,259,519
Service revenue	5,183,137	5,469,158
Bad debt expense	-3,854	0
Total revenue	28,584,532	19,728,677
Cost of license revenue	-5,308,883	-4,515,808
Cost of service revenue	-5,401,083	-3,140,502
Total cost of revenue	-10,709,966	-7,656,310
Gross profit	17,874,566	12,072,367
Research and development	-6,116,947	-4,927,043
Sales and marketing	-10,484,165	-6,719,881
General and administrative	-4,924,401	-3,186,208
Amortization of intangible assets	-1,481,462	-806,991
Other income and expenses, net	566,723	-8,407
Loss from operations before interest and taxes	-4,565,686	-3,576,163
Financial income	1,162,566	1,064,333
Financial expenses	-5,237,207	-4,562,712
Decrease of value adjustment on loans to subsidiaries	447,800	412,000
Loss before taxes	-8,192,527	-6,662,542
Income and withholding taxes	-193,479	-143,367
Net loss for the period	-8,386,006	-6,805,909

Notes to the Financial Statements as of	December 31, 2004	December 31, 2003
	CHF	CHF
1 Unrecognized lease obligations		
Company cars	35,834	82,323
IT equipment	913,612	0
	<u>949,446</u>	<u>82,323</u>
2 Fire insurance value of furniture and equipment		
- Fire insurance value of fixed assets (Switzerland)	200,000	200,000
- Insurance value for material damage of machinery, plant and equipment (excluding computer equipment), at replacement cost (UK)	1,100,000	1,100,000
	<u>1,300,000</u>	<u>1,300,000</u>
3 Details of significant investments		
<i>Company, domicile purpose</i>	<i>Percentage held %</i>	<i>Share capital</i>
Esmertec Inc., San Jose, CA, USA *	100	USD 100,000
Esmertec K.K., Yokohama, Japan *	100	JPY 10,000,000
eValley Inc., Tokyo **	51	JPY 94,630,000

* = Sales and support organization

** = Engineering services

Esmertec K.K. was newly established in 2004.
eValley Inc. was acquired in 2004.

Notes to the Financial Statements as of	December 31, 2004	December 31, 2003
	CHF	CHF
4 Pension fund liabilities		
Amounts due to pension funds	13,394	31,229
5 Interest bearing loans and borrowings		
- to third parties	23,750,000	0
- to shareholders	10,100,000	0
	33,850,000	0

Esmertec issued convertible notes of CHF 23.1 million on September 30, 2004, CHF 750,000 on October 8, 2004 and CHF 10 million on October 19, 2004. The convertible notes have a maturity of four years and pay an interest rate of 4.25% per annum on the face value of the notes. The convertible notes entitle the holders to convert the notes into shares at a 10% discount to the IPO issue price per share. The conversion right is exercisable six months after the IPO issue date or within a six-month period in the event of a change in control. To the extent the notes will not have been converted by the maturity date, September 30, 2008, Esmertec is required to redeem them at the principal amount plus a premium of 18.5%.

6 Unissued authorized and conditional share capital

- Unissued authorized share capital	10,506	13,132
- Unissued conditional share capital	250,577	267,926
Total unissued authorized and conditional share capital	261,083	281,058

Movements of unissued authorized and unissued conditional share capital are explained in detail in note 8.

Notes to the Financial Statements as of December 31, 2004

7 Share capital

With an authenticated certificate dated March 4, 2004 the Board of Directors confirms that a total of 26,263 shares with a nominal value of CHF 0.10 each had been exercised out of the authorized share capital, resulting in a total emission price of CHF 2,626.30. As recorded in the register of commerce on December 31, 2004, the share capital amounts to CHF 940,924 consisting of 9,400,238 fully paid shares with a nominal value of CHF 0.10 each.

As described in note 8, the share capital was further increased by CHF 129,530.80 on December 20, 2004. This capital increase was recorded in the register of commerce on January 18, 2005. Furthermore, the company received payment for issued options out of the ESOP program. The nominal value of these payments amounts to CHF 3,943.20. This capital increase will also be recorded in the register of commerce in 2005. Legally the issuer of these two capital increases are shareholder's as per December 31, 2004 and therefore these transactions are already recorded in the equity of the company.

As at December, 31, 2004 the share capital of the Company therefore amounts to CHF 1,073,498 consisting of 10,734,978 fully paid shares with a nominal value of CHF 0.10 each.

8 Increase of share capital

At the general meeting of July 7, 2004 the shareholders approved an increase of the conditional share capital by CHF 7,542.60.

With an authenticated certificate dated July 29, 2004 the Board of Directors confirms that a portion of CHF 45,341.80 of the conditional share capital was canceled.

At the general meeting of August 24, 2004 the shareholders approved an increase of the conditional share capital by CHF 78,924.20.

At the general meeting of September 23, 2004 the shareholders approved an increase of the conditional share capital by CHF 75,000.--.

With an authenticated certificate dated December 20, 2004 the Board of Directors confirms that a total of 1,295,308 shares with a nominal value of CHF 0.10 each had been exercised out of the conditional share capital up to December 9, 2004, resulting in a total emission price of CHF 129,530.80.

Up until December 31, 2004 a total of 39,432 stock options out of the ESOP program were exercised and the issuance price paid.

Notes to the Financial Statements as of	December 31, 2004	December 31, 2003
	CHF	CHF
9 Change of the business year end		
<p>With resolution of April 2, 2004 the Board of Directors decided to change the year end from March 31 to December 31. Accordingly, the income statement for the prior year period comprises 9 months, whereas the comparative figures for the reporting period comprise 12 months.</p>		
10 Change in presentation		
<p>The income statement is shown now in the cost of sales format, where in prior years the presentation was using the total expenditure format. For comparison purposes, the comparative figures have also been adjusted.</p>		
11 Disclosure of personnel expenses	<u>18,706,126</u>	<u>11,775,721</u>
12 Disclosure of depreciation and amortization	<u>1,762,776</u>	<u>1,014,821</u>
13 Disclosure of gains on disposal of non-current assets	<u>568,412</u>	<u>268</u>
14 Disclosure of non-operating income	<u>316</u>	<u>0</u>
15 Disclosure of non-operating expense	<u>2,006</u>	<u>8,675</u>

Notes to the Financial Statements as of December 31, 2004

16 Subsequent events

Persuant to the signing of a binding Memorandum of Understanding on July 2, 2004, Esmertec AG will acquire 100% of the shares of OOV M A/S (OOVM), a company incorporated under Danish law and domiciled in Aarhus. The physical exchange of the shares will take place on April 14, 2005.

The cost of the acquisition will be USD 3,454,866 (including transaction costs of USD 13,866) consisting of cash in the amount of USD 613,866 as well as a variable number of Esmertec shares corresponding to USD 2,841,000, whereby the number of shares to be issued will be based on the IPO's share issue price. The cash portion of the purchase price, USD 600,000, will be paid no later than 14 days after the IPO date. If the proposed IPO will not have been carried out by March 31, 2005, OOV M shareholders will receive the cash amount of USD 600,000 in two equal installments on June 30, 2005 and on September 30, 2005. In such case, the unlisted Esmertec shares shall be delivered no later than April 14, 2005 at a valuation derived from an enterprise valuation of seven times revenue multiple of Esmertec's expected 2005 calendar year revenues as defined in the annual operating plan.

There are no further facts that would require disclosure in accordance with Art. 663b of the Swiss Code of Obligations.

Proposal to set off accumulated losses against share premium	December 31, 2004	December 31, 2003
	CHF	CHF
Accumulated losses brought forward	0	-22,112,204
Net loss for the period	-8,386,006	-6,805,909
Accumulated losses	<u>-8,386,006</u>	<u>-28,918,113</u>

The Board of Directors proposes to the General Meeting
of Shareholders

- to set off against share premium the accumulated losses as of December 31, 2004 (2003) of	-8,386,006	-28,918,113
- to carry forward	0	0
	<u>-8,386,006</u>	<u>-28,918,113</u>