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## *Reference Document*

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### CERTIFICATE OF THE FRENCH MARKET AUTHORITY

This document is a translation, prepared for information purposes only, of the original French-language document which, in application of regulation no. 98-01, was registered by the French market authority (AMF) on 20 July 2004 under the number R.04-150. This document may not be used for a financial transaction if it is not accompanied by an information note authorized by the AMF. This reference document has been established by the issuer and is legally binding for the signatories. The registration of this document, made after examination of the pertinence and coherence of the information given on the Company's situation, does not imply endorsement or approval of the accounting and financial elements presented herein.



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## 1. REFERENCE DOCUMENT AND AUDIT RESPONSIBILITY

### 1.1. RESPONSIBLE FOR THE REFERENCE DOCUMENT

Christian Desmoulins – Chairman of the Managing Board

### 1.2. CHAIRMAN'S REFERENCE DOCUMENT STATEMENT

To our knowledge, the data in this Reference Document conforms to reality. It includes all of the information necessary for investors to base their judgment on the holdings, activity, financial situation, earnings and outlook for the Company. Nothing that could alter its scope has been omitted.

**Christian Desmoulins**  
Chairman of the Managing Board

### 1.3. IN CHARGE OF INFORMATION

Christian Desmoulins – Chairman of the Managing Board

ACTIELEC TECHNOLOGIES  
25, Chemin de Pouvoirville  
BP 74215  
31432 Toulouse CEDEX 04  
Tel.: (33) (0) 5 61 17 61 61 - Fax: (33) (0) 5 61 55 42 31

#### **Provisional schedule for 2004 reporting:**

- Quarterly publications
  - 1<sup>st</sup> quarter 2004 Sales: 7 May 2004
  - 2<sup>nd</sup> quarter 2004 Sales: week 32 - 2004
  - 3<sup>rd</sup> quarter 2004 Sales: week 46 - 2004
  - 4<sup>th</sup> quarter 2004 Sales: week 6 - 2005
- Interim financial statements
  - Consolidated interim financial statements at 30 June 2004: 29 September 2004
  - Analyst meeting to present interim financial statements: 29 September 2004
- Consolidated financial statements
  - Full-year consolidated statements: week 13 - 2005
  - Analyst meeting to present full-year financial statements: week 13 - 2005

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#### **1.4. RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS:**

##### A -Auditors

- KPMG AUDIT,  
9, avenue Parmentier  
BP 2398  
31086 Toulouse Cedex 2  
represented by Philippe Saint Pierre  
Date of first appointment: 26 May 2000.  
Mandate expires following the General Meeting to approve the financial statements for the year ending 31 December 2005.
- Eric Blache,  
14, rue Clapeyron  
75008 Paris  
Date of first appointment: 30 April 2001.  
Mandate expires following the General Meeting to approve the financial statements for the year ending 31 December 2005.

##### B - Deputies

- Christian Liberos,  
9, avenue Parmentier  
31200 Toulouse  
Date of first appointment: 26 May 2000.  
Mandate expires following the General Meeting to approve the financial statements for the year ending 31 December 2005.
- Jean Fonta,  
25, rue de la Libération  
92500 Rueil  
Date of first appointment: 24 April 2001.  
Mandate expires following the General Meeting to approve the financial statements for the year ending 31 December 2005.

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**1.5. AUDITORS' STATEMENT**

**Actielec Technologies S.A.**

**(a French public limited company governed by  
an Executive Board and a Non-Executive Board)**

Registered headquarters:

25, chemin de Pouvoirville – BP 4215 – 31432 Toulouse cedex 04 – France

Share capital: € 12,864,906

**Opinion of the Statutory Auditors  
on the company's annual report  
for the trading year that ended on December 31, 2003.**

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KPMG

Eric Blache

KPMG Audit

14, rue Clapeyron

9, avenue Parmentier  
B.P. 2398  
31086 Toulouse Cedex 02  
France

75008 Paris  
France

**Actielec Technologies S.A. (a French public limited company governed by an Executive Board and a Non-Executive Board)**

Registered headquarters: 25, chemin de Pouvoirville – BP 4215 – 31432 Toulouse cedex 04 – France  
Share capital: € 12,864,906

**Opinion of the Statutory Auditors on the company's annual report for the trading year that ended on December 31, 2003.**

As Statutory Auditors of Actielec Technologies and in line with France's COB regulation no. 98-01, we have proceeded to check the information regarding the financial position and the accounts provided in the company's annual report in accordance with the professional standards applicable in France.

This annual report was drawn up under the responsibility of Mr. Christian Desmoulins, who is the Chairman of the company's Executive Board. It is our duty to issue an opinion on the accuracy of the information that it contains with regard to the company's financial position and accounts.

In accordance with the professional standards applicable in France, our investigations focused on assessing the accuracy of the information regarding the company's financial position and accounts, and checking their concordance with the accounts themselves, the subject-matter of another report. We also sifted through the rest of the information featuring in the annual report in order to detect any significant incoherence with the information about the company's financial position and accounts, and highlight any manifestly wrong information that we might find based on our general knowledge of the company acquired as part of our duties. This document does not contain isolated forecasts resulting from a structured calculation process.

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KPMG

Eric Blache

**Actielec Technologies S.A.**

*Opinion of the Statutory Auditors on the annual report for the trading year  
that ended on December 31, 2003*

The yearly and consolidated accounts for the trading year that ended on December 31, 2001 were drawn up by the company's Executive Board and audited by us in accordance with the professional standards applicable in France, whereupon we certified them without any reservations or comments.

The annual and consolidated accounts for the trading year that ended on December 31, 2002 were drawn up by the company's Executive Board and audited by us in accordance with the professional standards applicable in France, whereupon we certified them without reservations but with one comment about the change of accounting methods linked to the company's first use of the CRC 2000-06 rules on liabilities dated December 7, 2000 which had no consequences on the profit and loss accounts and the initial shareholder equity.

The annual and consolidated accounts for the trading year that ended on December 31, 2003 were drawn up by the company's Executive Board and audited by us in accordance with the professional standards applicable in France, whereupon we certified them without any reservations or comments.

Based on the above-mentioned activities, we have no comments to make concerning the accuracy of the information relating to the company's financial position and accounts featuring in its annual report.

Toulouse and Paris, July 19, 2004

The Statutory Auditors

KPMG Audit  
*A unit of KPMG S.A.*

Eric Blache

Philippe Saint-Pierre  
Partner

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***Ancillary information:***

This annual report contains:

- the Statutory Auditors' general report and report on the company's consolidated accounts for the trading year that ended on December 31, 2003, including justification for the assessments made on pages 89 and 126 respectively in accordance with the provisions paragraphs 1 and 2 of article L.225-235 of France's *Code de commerce* [commercial laws];
- the report of the Statutory Auditors, drawn up in accordance with the provisions of the last paragraph of article L.225-235 of France's *Code de commerce*, on the report of the Chairman of Actielec Technologies S.A., describing the internal audit procedures implemented in connection with the drafting and processing of the company's financial and accounting information.

## 2. GENERAL INFORMATION ON THE COMPANY AND SHARE CAPITAL

### 2.1. GENERAL INFORMATION ON THE COMPANY

#### 2.1.1. Registered Company name

ACTIELEC TECHNOLOGIES

#### 2.1.2. Headquarters

25, Chemin de Pouvoirville – BP 74215 – 31432 Toulouse CEDEX 04

#### 2.1.3. Legal form

*Société Anonyme* (French limited company) governed by a Managing Board and a Supervisory Board

#### 2.1.4. RCS and APE numbers

RCS: Toulouse 542 080 791

Business identification (APE) code: 741 J

#### 2.1.5. Duration (article 5 of Company bylaws)

The duration of the Company was initially set at 50 years as from the date of its founding on 27 September 1907. This was then extended by the Extraordinary General Meeting of Shareholders of 18 December 1956, for a duration of 99 years as from 27 September 1957, except in the event of earlier dissolution or extension decided by an Extraordinary General Meeting of Shareholders.

#### 2.1.6. Purpose of the Company (article 3 of Company bylaws)

The Company's purpose in France and all other countries involves:

- Carrying out research, design, production and after-sales maintenance of mechanical, hydraulic, electrical and electronic systems;
- Conducting all operations of whatever nature relating directly or indirectly to this purpose and liable to facilitate development, production or sales;
- Granting concessions or franchising of all the Company's brands, patents, products or services and more generally managing the Company's interest in all companies already created or created in the future, which are related directly or indirectly to the Company's purpose or to all similar or related purposes, and this by all means available, notably via creation of new companies, asset transfers, mergers, alliances or joint ventures;
- Managing its securities portfolio as well as all securities or real-estate operations and related provisions of services;

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- Providing services, notably those relating to legal, financial, accounting, administrative, organizational and managerial, communication and marketing matters, and generally concerning all financial, commercial, industrial, securities or real-estate operations related directly or indirectly to the above purpose or to all similar or related activity.

#### **2.1.7. Consultation of corporate documents**

The bylaws, accounts & reports, minutes of Shareholders' Meetings and other corporate documents may be consulted at the Company's headquarters located at 25, Chemin de Pouvoirville – BP 74215 - 31432 TOULOUSE CEDEX 04 or on its website (<http://www.actielec.com>).

#### **2.1.8. Financial year (article 38 of Company bylaws)**

The Company's financial year begins on 1 January and finishes on 31 December each year.

#### **2.1.9. Appropriation of profit (article 40 of Company bylaws)**

The net profit or loss for the financial year comprises the proceeds of the financial year, minus the Company's overheads and other expenses including depreciation, amortization and provisions.

A sum equal to at least one-twentieth of this net profit (less losses carried over from previous years if applicable), is deducted and allocated to a reserve known as the "legal reserve". This deduction ceases to be mandatory when the reserve reaches a total sum equivalent to one-tenth of the Company's registered share capital.

Distributable profit comprises net profit for the financial year, minus losses carried over from previous years and sums to be allocated to reserves in compliance with the law or with Company bylaws, plus retained earnings from previous years.

The General Meeting of Shareholders may also decide to distribute sums levied from the reserves at its disposal. In this case, the Shareholders' decision must make specific mention of the items of reserves from which the sums will be levied.

Except in the event of a reduction in capital, no distribution may be made to Shareholders when shareholders' equity is already lower, or would become lower following such a distribution, than the minimum amount of capital plus reserves required to permit a distribution, as stipulated in the *Code de Commerce* (French Commercial Code) or the Company's bylaws.

Following approval of the accounts and effective recognition of sums for distribution, the General Meeting decides the portion to be distributed to Shareholders in the form of dividends.

However, in the event that a balance sheet certified by an Auditor and drawn up during the course of, or at the end of, the financial year shows that the Company has made a profit since the end of the previous financial year after making due allocations to depreciation, amortization and provisions and, where applicable, after deducting losses carried over from previous years as well as sums to be allocated to reserves in compliance with the law or with Company bylaws, then in this case, interim dividends may be distributed before the accounts for the financial year are approved.

These interim dividends may not exceed the amount of profit defined in the previous paragraph according to the terms and conditions set by the *Code de Commerce*. The Managing Board is responsible for deciding to appropriate the interim dividend and for setting the amount and date of the appropriation.

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Any dividend distributed in violation of the rules stipulated above is deemed to be a false dividend.

After the accounts are approved by the General Meeting, any losses are recorded in a special account so as to be offset against profits in future financial years until such losses are exhausted.

The terms under which dividends are paid are set by the General Meeting or, if not, by the Managing Board.

However, dividends must be paid no later than nine months after financial year-end, except in the event that a legally authorized extension to this deadline is obtained.

Dividends may not be reclaimed from Shareholders except in the event that the distribution was made in violation of the law and that the Company establishes that the beneficiaries were aware of the irregular nature of the distribution at the time of the distribution, or could not have been unaware of it in view of the circumstances.

In the event that action is undertaken to reclaim a dividend, such action is subject to a statutory limitation period of ten years following payment of the dividend.

Dividends not claimed by shareholders within a period of five years following their payment are deemed to be null and void.

#### **2.1.10. General Meetings (summary of articles 29 and subsequent articles of Company bylaws)**

General Meetings are convened according to the conditions, forms and deadlines stipulated by law.

The right to take part in Meetings or to be represented by a proxy at Meetings is conditional on holders of registered shares being recorded on the share register at least five days before the Meeting, or on holders of bearer shares presenting a certificate (*attestation d'immobilisation*) stating that their share have been deposited with a bank, financial institution or financial intermediary authorized as depository for the shares concerned at least five days before the Meeting.

General Meetings comprise all owners of shares. The person representing a Shareholder must be either a shareholder himself, or the spouse of the Shareholder concerned.

Ordinary and Extraordinary General Meetings that fulfill their respective regulatory requirements as regards the conditions of quorum and majority, are deemed to exercise the powers accorded to them by the Law.

#### **2.1.11. Double voting rights (article 10 of Company bylaws)**

In all Ordinary and Extraordinary General Meetings, voting rights are proportional to the portion of Share Capital represented by each share, subject to limits imposed by law.

However, double voting rights compared to those granted to other shares are attributed to the following shares in proportion to the portion of Registered Share Capital they represent:

- to all fully paid-up shares registered in the name of the same Shareholder for at least four years without interruption;

- 
- to registered shares issued free to a Shareholder as part of a capital increase involving the capitalization of reserves, profits or issue premiums, on the basis of existing shares already entitled to double voting rights;

Note that double voting rights cease to apply when registered shares are converted to bearer shares or ownership is transferred.

Nevertheless, note that rights acquired under the time-related conditions stipulated above are not affected in the following cases:

- Any transfers of shares effected via inheritance, the liquidation of a communal settlement between spouses or a donation between living persons, to the benefit of a spouse or relatives with inheritance rights,
- Any transfers of shares effected via merger, demerger or universal transmission of assets by a legal-person status Shareholder to another Company:
  - that he or she controls directly or indirectly with over 50% of the share capital and/or voting right,
  - that directly or indirectly controls over 50% of the shareholding company's share capital and/or voting rights.

#### **2.1.12. Approval clause**

None

#### **2.1.13. Form of shares – Account holding – Declaration thresholds (article 7 of Company bylaws)**

Fully paid-up shares may be registered or bearer shares, depending on the Shareholder's wishes.

They carry the right to be registered in their owner's account under the terms and conditions of the prevailing legal and regulatory texts.

At the Shareholder's request, a document certifying that the shares have been registered in the Shareholder's account will be delivered to the Shareholder by the issuing Company or the authorized intermediary.

The Company has the right at any moment to request that the organization responsible for securities clearing supply it with the information provided for by law and which pertains to the identification of holders of securities granting immediate or future access to the right to vote at Shareholders' Meetings.

The Company also has the right under the terms stipulated in the *Code de Commerce* to request the identity of owners of securities when it considers that certain holders of securities whose identity has been revealed to the Company are holding such securities on behalf of third parties.

The Company may request that any legal person owning over 2.5% of the share capital or voting rights inform it of the identity of persons owning over one third of the said legal person's share capital or holding over one third of the rights to vote at the legal person's General Meetings.

## 2.2. INFORMATION ON SHARE CAPITAL

ACTIELEC TECHNOLOGIES' shares are listed on the Euronext Paris Second Marché and have been admitted to the Euronext NextEconomy segment.

### 2.2.1. Share capital

Share capital amounts to €12,864,906, divided into 17,153,208 fully paid-up shares each with a par value of €0.75 and of the same category. There have been no changes in share capital between the previous capital increase on 20 December 2000 and the date this document was signed.

### 2.2.2. Changes in share capital

Date	Operation	Par value	Premium	Successive capital increases	Cumulative number of shares
1993		FF50	FF113,645,832	FF142,727,000	2 854 540
June 1994	Capital reduction by reduction of shares' par value form FF50 to FF10	FF10	(FF113,645,832)	FF28,545,400	2 854 540
July 1994	Capital increase by issue of shares with warrants	FF10	FF129,917,897	FF92,772,550	9 277 255
January 1995	Capital increase by exercise of warrants	FF10	FF6,696	FF92,775,340	9 277 534
August 1997	Capital increase by exercise of warrants	FF10	FF2,400	FF92,776,340	9 277 634
26/06/1998	Capital reduction by reduction of shares' par value form FF10 to FF4	FF4	(FF129,926,993)	FF37,110,536	9 277 634
25/02/1999	Issue of share purchase warrants to Electropar France	FF4	FF1	FF37,110,536	9 277 634
26/05/2000	Capital reduction due to a loss by reduction of shares' par value	FF0.5	-	FF4,638,817	9 277 634
26/05/2000	Capital increase by transfer of Actielec shares	FF0.5	FF31,737,488	FF77,341,042	154 682 084
26/05/2000	Reverse stock split and capital reduction	FF5	-	FF77,341,040	15 464 208
26/05/2000	Share capital converted into euros	€ 0,75	-	FF11,601,156	15 464 208
26/10/2000	Recognition of exercise of stock options by Group employees (5th tranche)	€ 0,75	€ 327 168,00	€ 11 792 856,00	15 723 808
20/12/2000	Capital increase by issue of shares	€ 0,75	€ 9 148 160,00	€ 12 864 906,00	17 153 208

### 2.2.3. Authorized share capital not yet issued

The Combined Ordinary and Extraordinary General Meeting of 9 May 2003 authorized the Managing Board to increase the share capital for the benefit of those employees (and managerial staff) belonging to a *plan d'épargne d'entreprise* (5-year company savings plan) or to a *plan partenarial d'épargne salariale* (10-year company savings plan).

The maximum nominal amount was set at 3% of the amount of the share capital and the validity of the authorization was set at 5 years from the date of the Combined Ordinary and Extraordinary General Meeting.

### 2.2.4. Stock options

In 2003, the company adopted a stock option plan for its officers, in respect of their directorships.

This stock option plan was approved by the ninth resolution of the Combined Ordinary and Extraordinary General Meeting of 9 May 2003. It was subsequently granted by the Managing Board during its meeting on 1 September 2003.

The scope of the plan is as follows:

I - Options granted by the company	
Type	Subscription of new shares and/or purchase of existing shares
Number	240,000
First possible exercise date	37,865
Expiration	31 August 2008
Exercise price	1.92
Sole beneficiary	Christian Desmoulins - Chairman of the Managing Board
II - Options exercised in 2003	
Options exercised in 2003	None

This is the only stock option plan currently in place at the Company and its subsidiaries.

### 2.2.5. Other securities providing direct or indirect access to the share capital

None

### 2.2.6. Company purchases of its own stock in order to regulate the share price

The Ordinary and Extraordinary General Meeting of 30 April 2004 approved a program of share buybacks by the Company.

The main characteristics of the plan are as follows:

- Purposes:
  - Regulate the share price by systematic intervention to counterbalance trends;
  - Intervene through purchases and sales of shares according to market situations.

Shares acquired in this respect may be retained, resold or transferred by all available means.

- Maximum percentage of share capital concerned: 0.5% of the Company's share capital, or 85,766 shares.
- Maximum purchase price: €6.00.
- Minimum sale price: €1.5.
- Maximum amount payable by the Company: €514,596 based on the maximum purchase price.
- Timetable for the operation: 18 months from the date of authorization by the Combined Ordinary and Extraordinary General Meeting, i.e. until 29 October 2005.

## 2.2.7. Ownership of share capital and voting rights

To the best of the Company's knowledge, ownership of share capital on 31 March 2004 was as follows:

	Number of shares	% of share capital	Number of voting rights	% of voting rights
<b>LP/PC*</b>				
LP2C (1)	6,496,498	37.87%	12,744,593	46.62%
Scipia (2)	493,930	2.88%	984,606	3.60%
Orbieu (1)	859,224	5.01%	1,716,886	6.28%
La Voix (1)	859,224	5.01%	1,716,886	6.28%
Private individuals	126,948	0.74%	253,896	0.93%
<b>Subtotal</b>	<b>8,835,824</b>	<b>51.51%</b>	<b>17,416,867</b>	<b>63.71%</b>
<b>Other shareholders' pact members</b>				
Salvepar (3)	2,769,617	16.15%	2,769,617	10.13%
Sidmia Int. (4)	1,146,985	6.69%	1,873,882	6.85%
Private individuals (4)	213	0.00%	426	0.00%
<b>Subtotal</b>	<b>3,916,815</b>	<b>22.83%</b>	<b>4,643,925</b>	<b>16.99%</b>
<b>Total for shareholders' pact members</b>	<b>12,752,639</b>	<b>74.35%</b>	<b>22,060,792</b>	<b>80.69%</b>
SGPFEC (5)	934,491	5.45%	1,772,877	6.48%
<b>Free float</b>	<b>3,402,682</b>	<b>19.84%</b>	<b>3,504,864</b>	<b>12.82%</b>
Treasury stock	63,396	0.37%	0	0.00%
<b>TOTAL</b>	<b>17,153,208</b>	<b>100.00%</b>	<b>27,338,533</b>	<b>100.00%</b>

\* Louis Pech/Pierre Calmels

(1) All of LP2C's share capital is indirectly owned on a 50/50 basis by the Pech and Calmels families, via the Orbieu and La Voix *Sociétés Civiles* (French private partnerships), which are themselves wholly-owned by the Pech and Calmels families, respectively.

(2) Scipia, a *Société Civile de Portefeuille à Capital Variable* (French open-ended portfolio private partnership), is wholly-owned by the Pech and Calmels families.

(3) A *Société Anonyme de gestion de portefeuille* (French limited portfolio management company) belonging to the Société Générale group.

(4) Sidmia International, wholly-owned by Mr. G. Thrum, and Mr G. Thrum himself.

(5) Family-owned portfolio management company.

As far as the Company is aware, no other Shareholders own more than 2.5% of the share capital or voting rights, whether directly, indirectly or in concert.

### 2.2.8. Changes in the ownership of share capital

Since the last Reference Document was published under the number R.02-237 on 26 September 2002, the AMF (France's financial-market regulator) has announced three declaration thresholds have been crossed on the following dates:

- 5 June 2003: following a change in the total number of voting rights, Salvepar let its proportion of the Company's voting rights fall through the 10% threshold,
- 6 April 2004: following the redistribution of shares held by the Pech and Calmels families from Scipia to La Voix and Orbieu, the following declaration thresholds were crossed:
  - ✓ Scipia fell below the 5% threshold in terms of both share capital and voting rights,
  - ✓ La Voix rose above the 5% threshold in terms of both share capital and voting rights,
  - ✓ Orbieu rose above the 5% threshold in terms of both share capital and voting rights.
- 4 June 2004: following a change in the total number of voting rights, Salvepar let its proportion of the Company's voting rights rise above the 10% threshold.

### 2.2.9. Shareholders' pacts

- A shareholders' pact was signed on 13 July 2000 between Louis Pech and Pierre Calmels on the one hand and Salvepar on the other. The pact covers 10,985,993 shares (8,640,993 for Mssrs. Pech and Calmels, and 2,345,000 for Salvepar).  
The pact notably provides for a reciprocal pre-emptive clause, a post on the board, a joint withdrawal clause and a commitment by Salvepar to retain its shares in ACTIELEC TECHNOLOGIES for a period of 6 years. The pact was declared to the CMF (France's then financial-market regulator) on 25 July 2000 and was published in a note on 3 August 2000.
- A shareholders' pact was signed on 8 November 2000 between Louis Pech and Pierre Calmels on the one hand and the Günther Thrum family on the other. The pact covers 9,377,171 shares (8,638,061 for Mssrs. Pech and Calmels, and 739,110 for the Thrum family).

The parties declared they were acting in concert with regard to ACTIELEC TECHNOLOGIES, primarily in making provision for:

- A concert commitment prior to all Board meetings and all General Shareholders' Meetings,
- A commitment to maintain the distribution of seats on the Board,
- A commitment to maintain shareholdings, so that the parties hold a minimum percentage of the Company's voting rights,
- A concert commitment prior to any divestment by any signatory of all or some of his securities (including bearer shares),
- A reciprocal right of pre-emption between the two groups of shareholders. This right of pre-emption is subordinated to Salvepar's total or partial exercise of its right of pre-emption granted by the protocol signed on 13 July 2000.
- In the event of a public offering to which one of the parties (the demanding party) wishes to tender his shares, all the parties pledge to consult each other in order to make joint decisions liable to facilitate the realization of the demanding party's plans without calling into question the foundations of the pact regarding the retention of control over ACTIELEC TECHNOLOGIES and the furtherance of its industrial strategy.
- If, for any reason whatsoever, ACTIELEC TECHNOLOGIES' shares cease to be listed on a regulated market, and if the shareholders of the "Pech and Calmels" group plan to divest

all or some of their ACTIELEC TECHNOLOGIES shares such that the planned divestment is liable to make them lose control (40% of voting rights) of ACTIELEC TECHNOLOGIES, they are bound to offer shareholders in the Thrum group the option of divesting all their ACTIELEC TECHNOLOGIES shares under the same price and settlement terms as those obtained from the buyer.

This shareholders' pact was declared to the CMF on 17 November 2000.

- These two pacts concern a total of 11,725,103 shares (68.36% of share capital) and 21,033,256 voting rights (76.94% of total voting rights).

## 2.2.10. Shares of the Company or of its subsidiaries held as collateral

Registered shareholder	Beneficiary	Date pledged	Pledge expires	Pledged in respect of	Number of shareholder's shares pledged	% of company's capital pledged
LP2C	Crédit Agricole	02/10/1998	05/10/2004	Loan repayment	130,000	0.76%
LP2C	SBCIC	12/11/2002	25/11/2005	Loan repayment	200,000	1.17%
LP2C	SDR Tofinso	25/03/2003	25/06/2010	Loan repayment	41,958	0.24%
Orbieu	Société Générale	19/10/2000	05/10/2005	Loan repayment	70,000	0.41%
Orbieu	Société Générale	22/07/2002	05/10/2005	Loan repayment	41,000	0.24%
Orbieu	Banque Courtois	13/11/2001	13/11/04	Promissory note repayment	64,350	0.38%
Orbieu	Cyril Finance	09/02/2004	25/07/2004	Overdraft repayment	673,312	3.93%
La Voix	Société Générale	19/10/2000	05/10/2005	Loan repayment	70,000	0.41%
La Voix	Société Générale	22/07/2002	05/10/2005	Loan repayment	41,000	0.24%
La Voix	Banque Courtois	13/11/2001	13/11/04	Promissory note repayment	64,350	0.38%
La Voix	Cyril Finance	09/02/2004	25/07/2004	Overdraft repayment	673,312	3.93%
Scipia	SDR Tofinso	22/05/2000	25/07/2005	Loan repayment	298,200	1.74%
<b>TOTAL OVERALL</b>					<b>2,367,482</b>	<b>13.80%</b>

To the best of the Company's knowledge, 2,367,482 shares, representing 13.80% of the Company's share capital, are held as collateral for the benefit of financial institutions.

## 2.3. MARKET FOR THE COMPANY'S SHARES

### Share price and trading volumes from 1 January 2002 to 30 April 2004

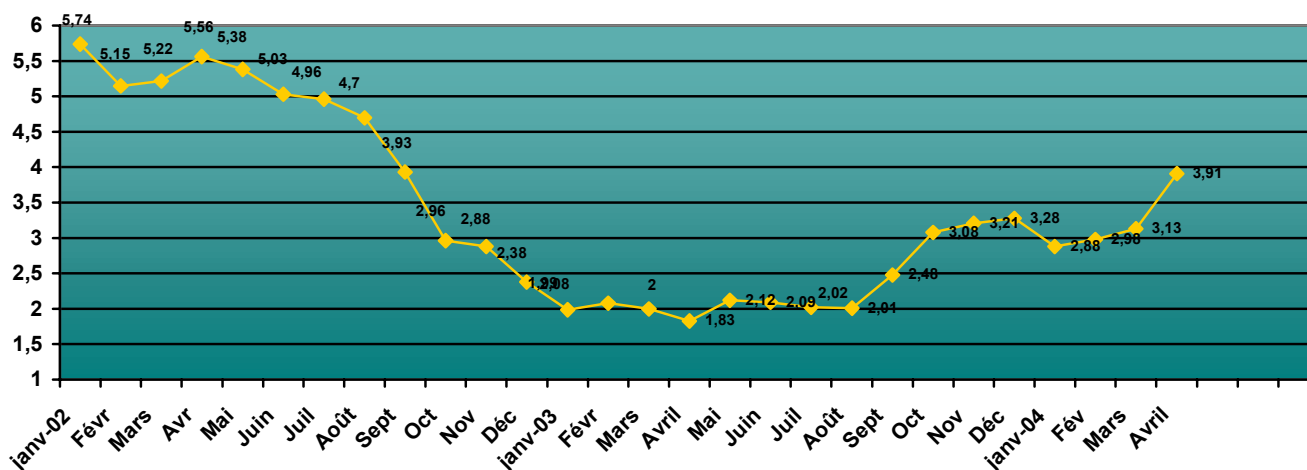
2002	Jan-02	Feb-02	Mar-02	Apr-02	May-02	June-02	July-02	Aug-02	Sept-02	Oct-02	Nov-02	Dec-02
Highest price (euros)	6.29	5.49	5.49	5.80	5.80	5.35	5.05	4.92	4.40	3.15	3.01	2.95
Lowest price (euros)	5.14	4.27	4.80	5.09	4.80	4.59	4.41	4.11	2.90	2.50	2.50	1.76
Average closing price (euros)	5.74	5.15	5.22	5.56	5.38	5.03	4.96	4.70	3.93	2.96	2.88	2.38
No. of shares traded	36,279	23,703	34,518	31,107	21,997	10,579	6,021	4,319	25,463	20,230	23,660	40,520

2003	Jan-03	Feb-03	Mar-03	Apr-03	May-03	June-03	July-03	Aug-03	Sept-03	Oct-03	Nov-03	Dec-03
Highest price (euros)	2.12	2.30	2.05	2.00	2.45	2.20	2.14	2.06	3.10	3.50	3.45	3.47
Lowest price (euros)	1.72	1.80	1.62	1.67	1.76	2.00	1.92	1.92	2.02	2.31	3.00	3.15
Average closing price (euros)	1.99	2.08	2.00	1.83	2.12	2.09	2.02	2.01	2.48	3.08	3.21	3.28
No. of shares traded	23,611	6,932	3,317	17,677	31,494	22,391	25,640	11,860	38,954	60,686	38,893	25,970

2004	Jan-04	Feb-04	Mar-04	Apr-04	May-04	June-04
Highest price (euros)	3.33	3.18	3.57	4.19	4.16	4.10
Lowest price (euros)	2.65	2.76	2.88	3.53	3.27	3.36
Average closing price (euros)	2.88	2.98	3.13	3.91	3.60	3.63
No. of shares traded	104,550	75,565	108,937	102,674	258,167	65,392

Source: Euronext Paris

### Share price movements (average monthly price in euros)



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## 2.4. DIVIDENDS PER SHARE PAID IN RESPECT OF THE LAST FIVE FINANCIAL YEARS

Financial year	Net dividend per share €	Tax credit per share €	Total revenue per share €	Total dividend payout €
1999	0.00	0.00	0.00	0.00
2000	0.00	0.00	0.00	0.00
2001	0.06	0.03	0.09	1,029,192.00
2002	0.00	0.00	0.00	0.00
2003	0.00	0.00	0.00	0.00

Up until 2006, priority has been assigned to furthering the Group's expansion, notably in the fields of electronic diagnosis and emergent digital tachograph technology.

Starting in 2007, ACTIELEC TECHNOLOGIES plans to pay out 20% of its net profit.

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### 3. INFORMATION ON ACTIELEC TECHNOLOGIES' BUSINESS

#### 3.1. HISTORY

**ACTIELEC TECHNOLOGIES was created out of the merger between Mors and Actielec on 26 May 2000.**



The origin of Mors dates back to 22 January 1898, when Louis and Emile Mors founded a company under the name Société Anonyme d'Électricité et Automobiles Mors. Following the demerger of the two constituent businesses, Mors Electricité and Mors Automobile, in 1907 and the subsequent sale of the Automobiles business to André Citroën in 1919, the company changed its name to **Société Mors**.

Société Mors, a specialist in business-to-business electronics, was listed on the Paris stock market in 1948 and subsequently became an auto parts supplier.

Mors designed and manufactured electrical equipment functioning in difficult environments and which were more often than not tailored to individual client needs.



**The origin of the Actielec Group** dates from 1986 and the acquisition by Société Anonyme Actia (a company set up specially for the purpose) of the Special Products Department of Bendix Electronics S.A. (which belonged to the US group Allied Signal at the time). Bendix Electronics S.A. was itself created out of Renix S.A., a joint venture set up by Renault and Bendix in the early 1980s in order to develop in-vehicle electronics in France.

Actia S.A.'s initial shareholders comprised physical persons from the Midi-Pyrénées Region in France - including Louis Pech and Pierre Calmels, the current Chairman and Vice-Chairman of ACTIELEC TECHNOLOGIES S.A.'s Supervisory Board, and who directly and indirectly hold a majority position – the Chabrierie Group.

In order to drive growth, Actia S.A. took equity stakes (most of which were majority stakes) in regional companies like Alcyon Production Systems S.A. (Electronic Production) and Sodielec S.A. (Telecom). By 1991, the bulk of the future ACTIELEC Group was in place, at which time it was employing 315 staff, posting consolidated sales of €26.8m and cash-flow of €1.2m.

Following a period of very rapid growth by Actia S.A. and its subsidiaries, a legal restructuring exercise was undertaken in 1992, which transferred the role of financial holding company to a specially-created vehicle, Actielec S.A., and which allowed the group's industrial entities to retain their growth momentum in the sectors – primarily in the electronics industry - in which their expertise lay:

- Actia S.A., the company heading up the Electronic Equipment division, managed by Mr. Guy Peltier;
- Sodielec S.A., the company heading up the Telecom division, managed by Mr. Alain Laporte;

- Alcyon Production System S.A., the company heading up the Electronic Production division, managed by Mr. Jean Gavazzi.

The Actielec group continued to expand its business, notably through several acquisitions:

- Through Actia: company creations and/or acquisitions of Video Bus and Atal in 1992, Acvibus and I+ME Actia in 1993, Actia Inc in 1994, Aton Systemes in 1996, Actia do Brasil in 1997, Actia Italia in May 2000, Advanced Technology Inc (A.T.I. renamed Actia Corp.) in the US in June 2000, a specialist in special-vehicle instrument panels (\$7.5 million in sales in 1999), and Berenisce SAS, bought from Thomson CSF, also in June 2000. Following its creation in 1989, the Meiga subsidiary acquired Autotech in 1997 and Technofrance in 1998.
- Through Alcyon: acquisition of Cipi in 1997
- Through Sodielec: acquisition of Dateno in 1994



Following the merger between Mors and Actielec, the Group was renamed ACTIELEC TECHNOLOGIES, and the assets merged into the group from Mors were reorganized:

- The facility located in Puy-Sainte-Réparate was restructured and subsidiarized within the Group's Telecom division, Sodielec. In July 2001, the new structure MORS TECHNOLOGIES was transferred to Sodielec via a capital increase;
- Mors' Oceanography business was retained, subsidiarized and restructured.

ACTIELEC TECHNOLOGIES was transferred to the *Comptant* (Cash) section of the Paris Stock Exchange's Second Marché on 6 July 2000 and undertook a €10.2m capital increase in December 2000.

In line with its policy of acquiring know-how and ensuring geographic proximity with existing and potential customers, ACTIELEC TECHNOLOGIES acquired Ebim, a business-to-business electronics specialist based at Manosque in France in March 2001. Ebim's activities provided a good fit with those of Sodielec, especially in the fields of digital hertzian transmission networks and radio and television broadcasting equipment.

From the same perspective, the Group set up a Polish subsidiary, named Actia Poltik, in July 2001, with the aim of developing a line of products for vehicle instrument panels. The Polish subsidiary is 70%-owned by the group's Actia subsidiary, while production is handled by the Polish minority shareholder, Mera Poltik.

2002 and 2003 saw the Group continue its policy of expanding internationally and adapting the structure of its business. To this end, Actia S.A. and Alcyon Production System were merged to create a more cohesive entity, two new subsidiaries were set up in fast-expanding markets (Actia India Private Limited in India and Actia Shangaï in China), the OCEANOGRAPHY division was divested on 2 May 2002 in an operation that yielded a €1.4m capital gain for the group, and lastly, following its acquisition of Muller Bem's assets on 1 January 2003, Berenisce merged with Meiga to create Actia Muller Services.

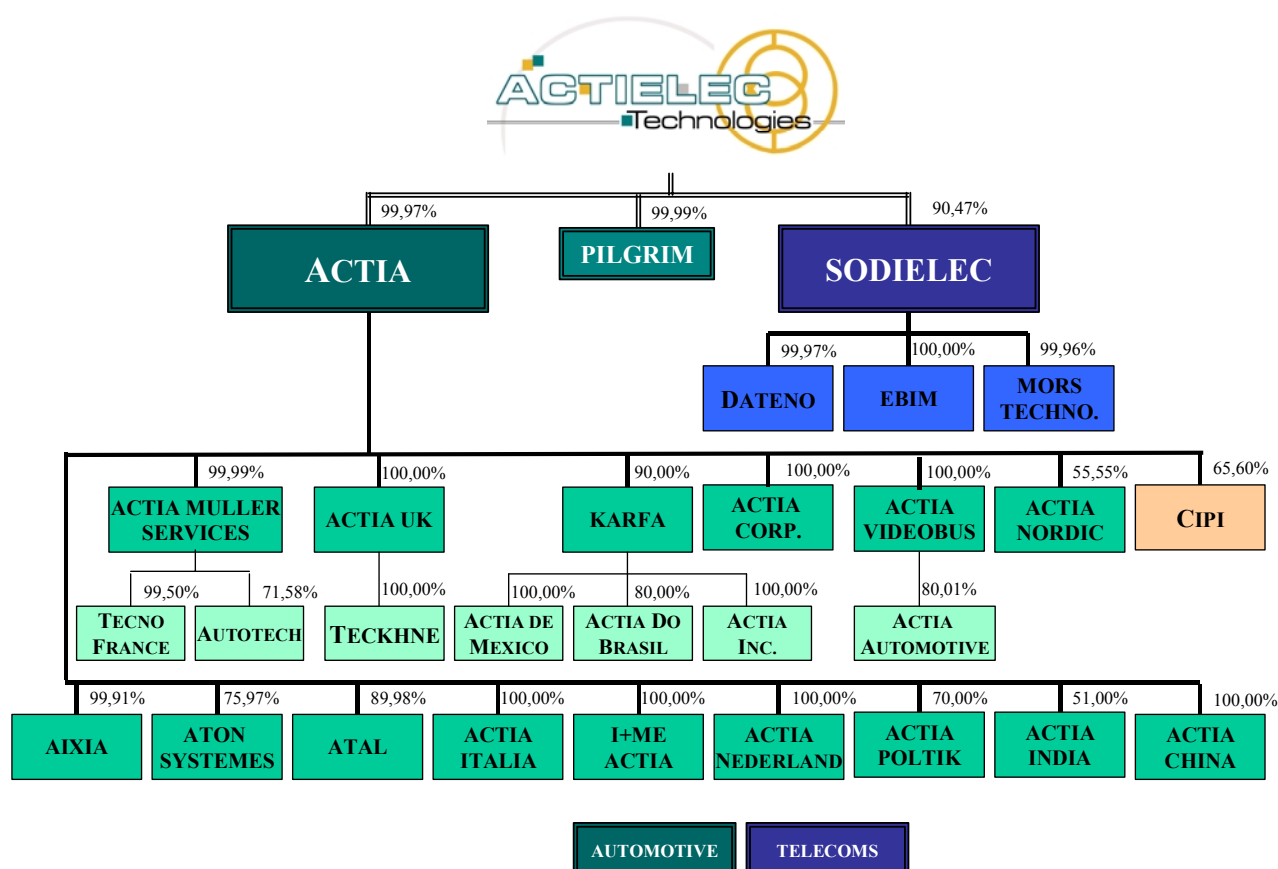
In early 2004, the Group acquired a majority interest in a Swedish subsidiary, Nira Components A.B., based in Göteborg and Stockholm (see Early fiscal 2004 highlights, page 138), and which subsequently became Actia Nordic. Sweden is widely known for its two major commercial truck manufacturers.

### 3.2. OVERVIEW OF KEY CONSOLIDATED FINANCIAL INDICATORS

<i>(thousands of euros)</i>	2003	2002	2001
Sales	198,580	176,096	183,617
Other operating revenue	8,196	8,434	9,444
Operating profit	10,263	511	10,407
Pre-tax underlying profit	5,908	<4,580>	6,330
Consolidated profit after goodwill amortization	1,997	<3,471>	3,920
Net profit after goodwill amortization	1,941	<3,370>	3,693

### 3.3. ORGANIZATIONAL CHART

Shown below is the organizational chart as of 30 April 2004:



N.B.: percentages refer to ownership of both capital and voting rights.

### 3.4. ACTIVITIES

ACTIELEC TECHNOLOGIES' industrial activities in 2004 are organized in two Divisions:

- the AUTOMOTIVE Division,
- the TELECOM Division,

as respectively described below.

#### 3.4.1. AUTOMOTIVE Division: Actia S.A. and subsidiaries

The AUTOMOTIVE Division is positioned principally in three markets:

- electronic diagnostics and vehicle testing,
- onboard electronics,
- industrial electronics and sub-contracting.

##### 3.4.1.1 *Electronic diagnostics & vehicle testing*

###### ■ Products

First and foremost, the AUTOMOTIVE Division designs, develops, manufactures, distributes and provides maintenance for electronic diagnostics systems for cars and trucks. These are used by manufacturers' design departments and on assembly lines, as well as across dealer and authorized repairer networks, and are dedicated to their particular make.

At the same time, the ending of the 'exemption rule' is leading to the marketing of a new "multi-make" product, for distribution to dealers, authorized repairers and independent garages, which will permit electronic diagnosis on different makes of European vehicles.

These systems comprise:

- a test unit, consisting of a ruggedized PC with man/machine interfaces (screens, keyboards),
- a card for communication between the vehicle and the test unit, where applicable using the new wireless technologies,
- software using model- or case-based reasoning and a database, making it possible to determine the origin of a breakdown and guide repairs.



*Diag 2000 (mobile workstation)*



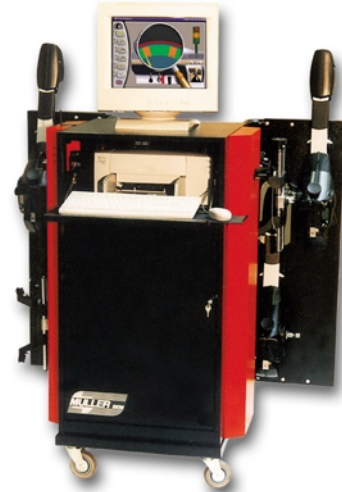
*Diag 3G (portable terminal)*

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In addition, the AUTOMOTIVE Division develops, produces and distributes vehicle testing equipment such as brake testers, suspension testers, wheel balancers, vehicle geometry checking equipment and exhaust gas analysers.



*Brake tester*



*Geometry*

#### ■ Market

The diagnostics market is in continual growth, as a result of both the increasing use of onboard electronic equipment in vehicles, and the support manufacturers are giving their dealer networks in a desire for increasingly complete quality of service.

These manufacturers periodically renew their diagnostic tools, in order to adapt to new technologies. Calls for tenders culminate in the selection of a supplier who will obtain a long-term exclusive contract, not only for the hardware, but also for ongoing updates to the associated software, for a period that may be as long as seven years.

Two economic flows can be distinguished during this period: during the first two years, the installation of the 'hardware' into garages; and the periodic 'software' updates, which will continue throughout the life of the equipment. It may be estimated that these two flows are very close in terms of cumulative sales.

#### ■ Customers

In the case of diagnostic equipment dedicated to one manufacturer, the contracting party is their central purchasing department, which itself introduces the product into their network.

The AUTOMOTIVE Division currently supplies fourteen major manufacturers, including PSA, Mercedes, Fiat, Renault Truck, Mitsubishi, to name but the largest.

In the case of multi-make diagnostic equipment, the Division's network of subsidiaries has to handle sales activity: each garage has to be visited, the handover personalized and maintenance followed up on an individual unit basis.

#### ■ Competitors

Only those independent of manufacturers can be analysed.

The total number is very limited, and for most of these the automotive electronic diagnostics business is only a complement — to an industrial electronic diagnostics business (Teradyne in the USA); to a wider service to garage-owners (SPX in the USA); or even to a primary role as an automotive electronic components manufacturer (Siemens and Bosch in Germany).

—

The sole French competitor Sagem sold its automotive business to Johnson Control Inc. (USA) in 2001; in 2000, Hewlett Packard in the USA decided to abandon this business, enabling us to take over the Fiat customer base worldwide.

The principal entry barrier lies in the significant cost of developing a new diagnostics system, which can be as high as €2.5m. Spreading R&D across several manufacturers makes it possible to maintain product quality and performance at lower cost.

### 3.4.1.2 Onboard electronics

#### ■ Products

The AUTOMOTIVE Division is positioned as front-line supplier for two systems designed and produced for industrial and military vehicles (trucks, coaches, trains, special vehicles), and hence produced in small numbers (at most, a few tens of thousands of units per year), namely:

- the cab (particularly the dashboard),
- the chassis (particularly multiplexing).

These systems are intended in the first instance for drivers, displaying the information from their vehicle in the most appropriate form. Four accessories are vital in controlling this market:

- ✓ multiplexing,
- ✓ the embedded PC,
- ✓ the secure electronic tachograph,
- ✓ special indicators requested by the customer.

On the other hand, plastics technology, GPS, GSM and the various switches etc. are available from multiple sources worldwide, and can be incorporated into a complete system, in this way retaining control of it.

With effect from 5 August 2004 and within a maximum implementation delay of 12 months, the new European regulations are requiring the secure digital tachograph to be fitted as original equipment on trucks over 3.5 t and public passenger transport, and as a mandatory retrofit for any faulty paper disk tachograph beyond repair on the same vehicles.

During this transitional period, the graphical tachograph will remain in use until such time as each member state of the European Union has taken the necessary measures for the operation (providing smart cards for drivers) and checking of secure digital tachographs.

This is going to make the secure digital tachograph a separately marketable product, to those manufacturers who have not outsourced their dashboard manufacture, and to service fleet operators; in this context, the market will be able to be reckoned in hundreds of thousands of units per year, and the AUTOMOTIVE Division will capture a significant percentage of this. Marketing of these products in the 25 European Union countries will begin in 2005.



*Digital Tachograph*



*Dashboard*

In addition, certain of our systems are intended for passenger entertainment (sound and image distribution) or comfort (air-conditioning).

The know-how developed by the AUTOMOTIVE Division to solve the problems posed by the harsh environments specified in the military domain, and its familiarity with the financial constraints of the automotive sector have enabled it to be favorably positioned for these products.



*Sound & Video system*

Lastly, electronic equipment intended for the chassis (in particular, multiplexing) make it possible to significantly reduce the bulk of wiring in industrial and military vehicles.

#### ■ Market

Each product addresses a precise market, the geographic boundaries of which are tending to constantly expand.

Cab electronics are aimed at industrial and military vehicles in the developed countries, where drivers are looking for improved driving safety and convenience. Main growth areas are principally Europe, the US and Southeast Asia.

Sound and image distribution has taken off rather more in Spain and Mexico, where land-based transport has the edge over air transport, and also bearing in mind the economic role of tourism.

Multiplexing, initially dedicated to buses and coaches, is spreading across the whole range of road vehicles.

The Division benefits from a definite technological advantage in these two families of products, and is relatively protected vis-à-vis the large components manufacturers, who are less attracted by the small size of the runs to be produced.

#### ■ Customers

Customers are most often vehicle builders. They establish the specifications for them, and may require different specialist suppliers to group together if that will reinforce their international

positioning. The significant relative weight of the Division comes primarily from its control of four out of the eight key elements making up the complete system.

In the case of the secure digital tachograph, retrofitting is going to play an important role via authorized workshops.

Purchasers of sound and image distribution systems are most often fleet operators, some of which exceed 5,000 units: this requires a strong sales position in the country and the assurance of speedy, seamless after-sales service.

#### ■ Competitors

Most are of smaller size than the Group and do not have the international presence that is becoming a key asset.

There are two exceptions: for the secure electronic tachograph, Siemens through its VDO subsidiary; and for sound and image distribution, Bosch through its Blaupunkt subsidiary; but these are more centered on Europe, whilst our own principal customers are based in the Americas.

### 3.4.1.3 Industrial electronics and sub-contracting

#### ■ Products

Alongside a certain number of equipment lines that are mature, and therefore do not require specific expenditure on marketing, efforts are being concentrated on lifetime extension for complex electronic systems.

This new activity arises directly out of the know-how developed for the operational maintenance of our own products, from total familiarity with the system to be kept operating for several more years to come, through the in-depth and constantly-updated study of the obsolescence of its electronic components and the resulting sourcing recommendations, and through the redesign of sub-assemblies if new components have to be incorporated, ultimately right up to the repair of faulty units.



*Lifetime extension*

#### ▪ Market

This new and essentially non-manufacturing activity is relevant to any complex electronic system (control cabinets, robots, energy management control) whenever keeping it operational will cost only a fraction of the value of replacing it with a more modern equivalent.

To address this market, it is necessary to convince owners of the real savings to be made, whilst moreover avoiding any interruption to the production or control line concerned.

The value of the French market as estimated by ACTIELEC TECHNOLOGIES is from €50m to €100m p.a. (€200m to €300m for the European Union), the AUTOMOTIVE Division being able to capture 10–20 % of what is a very fragmented market — i.e. a significant share.

#### ▪ Customers

Principally large industrial concerns who have invested in processes with a long lifetime (up to 30 years and more).

#### ▪ Competitors

There are few of them, and above all, they do not have available all the required know-how, unlike the Division's accumulated experience in this field.

#### ▪ Partners

Their complementary natures have led the AUTOMOTIVE Division to join forces with EADS Test & Services in order to approach this market within the framework of an economic interest group.

### **3.4.2. TELECOM Division: Sodielec S.A. and subsidiaries**

The TELECOM Division is positioned principally in three markets:

- Microwave Networks,
- Ground Stations,
- Broadcast (terrestrial audio/video broadcasting and reception).

#### **3.4.2.1 *Microwave Networks***

##### ▪ Products

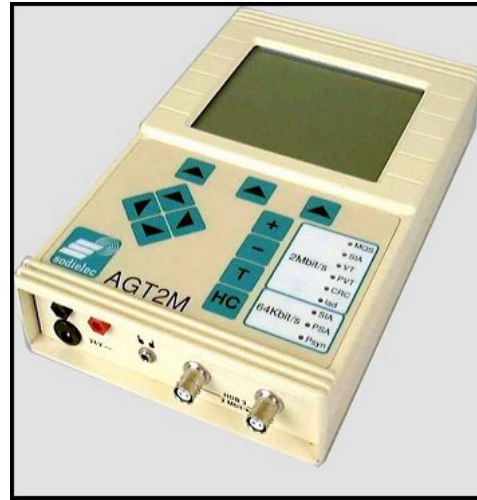
These are principally small- to medium-capacity microwave relay networks, complemented by equipment used in their operation such as network analysers, multiplexers, codecs, satellite receivers, etc.

Against a background of international competition, the TELECOM Division has targeted a certain number of niches defined by frequency/capacity combination, and is working on cost optimization for the ensuing products.

Under this heading can also be grouped the software programs and components needed for the management and security of power (EDF, RTE) and transport (SNCF, Alstom) networks.



*Microwave relay*



*Network analyser*

#### ■ Market

The increase in communications-related demand presents the TELECOM Division with some major growth opportunities related to the ease of implementation of the microwave relay stations and the quality of service offered.

Principally established within mainland France, the TELECOM Division has undertaken a deployment effort across Europe, signing co-operation contracts with installers and companies that are well established within their markets.

#### ■ Customers

Principally large accounts (France Telecom, TDF, EDF, etc.), government departments (Ministry of the Interior, *DGA* (Ministry of Defense), etc.), large firms (Alcatel, Thales, etc.), these latter distributing our products for export as part of complete systems.

#### ■ Competitors

Numerous suppliers of microwave networks exist, very often larger than the TELECOM Division (Hughes, Harris, etc. in the USA, European and Israeli companies). The Division's strengths lie in the choice of a certain number of very precise niches, and constant improvement of both the product, and the cost of the relevant equipment.

### 3.4.2.2 *Ground Stations*

#### ■ Products

Employing technologies developed in the field of power amplifiers and signal processing, the TELECOM Division has established a place for itself in satellite telecommunication ground stations, designing easily-transportable complete systems intended for the armed forces when deployed abroad, in response to needs expressed by the *Délégation Générale à l'Armement (DGA)*. The Division also offers related products (amplifiers, codecs) to various system suppliers in those markets where it is not able to offer the complete service.



*Ground station*



*Amplifier*

- **Market**

Starting from the *DGA* contract won in early 2001, the TELECOM Division is now targeting civilian as well as military markets in France and Europe, where major needs have been highlighted. The total value of this requirement cannot be established, but the share that the Division is able to gain is of the order of €25m p.a.

- **Customers**

Principally the armed forces (whose requirements are classified), together with large civilian or para-governmental concerns.

They need to be canvassed by relying primarily on the successes already achieved in France. Germany and the United Kingdom are the two principal potential prospects.

- **Competitors**

The firms involved are the same as those for the Networks market, along with Alcatel and Thales. The TELECOM Division's advantage lies principally in the speed with which it can respond to individual customer's needs, and in the showcase *DGA* contract.

### **3.4.2.3 Broadcast**

- **Products**

Under this generic title is grouped all the equipment allowing transmission, reception and re-transmission of signals intended for audio and video, digital as well as analog, together with the related equipment necessary for proper information transfer quality.

Also under this heading comes the aeronautical equipment intended for processing and distributing information to passengers.



*DAB receiver*

- **Market**

Audio and video broadcasting's move over to digital is opening a new sector in which the TELECOM Division has achieved definite successes.

However, analog transmission is going to be around for many more years yet, and the market for the maintenance of the old networks remains very significant.

A dual-mode (analog + digital) product has been produced and patented. It is useful during this transitional phase.

- **Customers**

In the broadcast sector, the principal targets are companies controlled by the government and private broadcasters (TDF, Towercast, etc.). Only low- and medium-power equipment falls within the scope of the TELECOM Division, which needs to establish a strong presence in this sector.

In aeronautics (in-flight entertainment), the airline companies dictate their choice of supplier to the builders, and indeed even retrofit equipment into their planes in their own maintenance workshops.

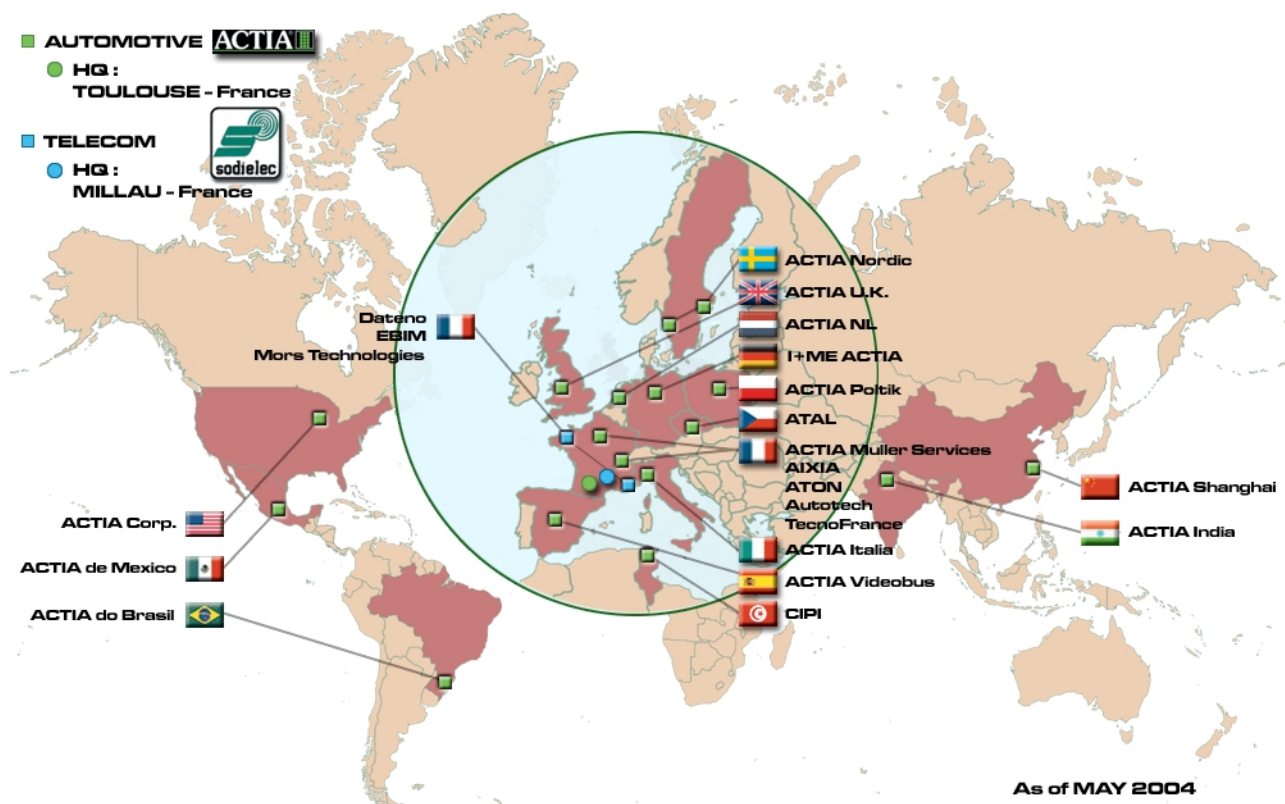
- **Competitors**

These are principally the Americans, whose internal market has already absorbed R&D costs and who are now looking to establish bridgeheads in Europe through the acquisition of established companies.

It is vital for the TELECOM Division to remain a popular supplier with the government-controlled companies, who recommend transmission standards, giving a certain temporal advantage compared to the large foreign groups.

In the aeronautical field, the Division's policy is to negotiate agreements with a few foreign components manufacturers, mainly American, which goes some way towards ensuring the worldwide technical support that needs to be offered.

### 3.4.3. The Company's operations worldwide



### 3.4.4. Key Figures

#### 3.4.4.1 Sales

The sales from each division and consolidated group sales came to:

Sales per division (€m)	31/12/2003	31/12/2002	31/12/2001
AUTOMOTIVE	150.8	135.4	116.7
TELECOM	47.8	39.4	41.4
PRODUCTION	-	-	50.6
OCEANOGRAPHY	-	1.3	7.0
Consolidated sales (€m)	198.6	176.1	183.6

### 3.4.4.2 Personnel

Staff at the different branches and Company total:

Number of employees per division	31/12/2003	31/12/2002	31/12/2001
AUTOMOTIVE	1,495	1,346	801
TELECOM	371	363	349
PRODUCTION	-	-	562
OCEANOGRAPHY	-	-	42
HEADQUARTERS	7	6	6
<b>TOTAL GROUP</b>	<b>1,873</b>	<b>1,715</b>	<b>1,760</b>
(o/w % France)	(55%)	(54%)	(53%)

The breakdown as of 31 December 2003:

	Executives	Mid-level technical staff	Factory workers/ employees	TOTAL
AUTOMOTIVE	378	607	510	1,495
TELECOM	160	114	97	371
HEADQUARTERS	6	-	1	7
<b>TOTAL GROUP</b>	<b>544</b>	<b>721</b>	<b>608</b>	<b>1,873</b>

### 3.4.4.3 Main Clients

The Company's main clients ranked as follows at the end of 2003:

Rank	Name	Sales €m	% Conso. Sales	Branch
1	Min. of Defense	14,7	7,4	TELECOM
2	PSA	13,3	6,7	AUTOMOTIVE
3	Fiat	7,4	3,7	AUTOMOTIVE
4	BMW	6,9	3,4	AUTOMOTIVE
5	TDF	4,1	2,0	TELECOM
6	Oshkosh	3,9	2,0	AUTOMOTIVE
7	Schneider	3,8	1,9	AUTOMOTIVE
8	Irizar	3,7	1,9	AUTOMOTIVE
9	Mercedes	3,5	1,7	AUTOMOTIVE
10	Transbus	3,4	1,7	AUTOMOTIVE
11	Blue Bird	3,3	1,7	AUTOMOTIVE
12	Alcatel	3,3	1,6	TELECOM

These top twelve clients totaled €71.1m, i.e. 35.8% of consolidated sales.

The Company usually observes that around 70% of the next year's budget is made up of customers from the current year, thus ensuring good industrial visibility.

### **3.5. INVESTMENTS**

#### **3.5.1. General policy**

Group investment policy is focused on accompanying its main customers in the markets in which they operate.

The Group develops products in response to the specific needs of major vehicle manufacturers and therefore needs to be located nearby vehicle makers' own R&D operations in order to facilitate information exchanges and the development process in general. As a result, the Group has established operations in 14 countries, most of which are within the European Union and some in the Americas and Asia (see Group operations worldwide on page 35).

Two strategies have been employed to set up operations in the various countries, namely creating subsidiaries staffed with Actia personnel, or buying small structures offering similarities in terms of business lines or client base.

#### **3.5.2. Production investments**

Production is focused on two sites so as to reap the make optimal use of their specially built facilities, retain control over our technology and respect the automotive industry's quality requirements:

- ✓ The first plant is based in France and specializes in prototypes, pre-production runs, small production runs, and after-sales service,
- ✓ The second in Tunisia specializes in medium and long-production runs.

As regards foreign subsidiaries, production is focused on assembly sites in several countries (the US, Mexico, Brazil, Spain, etc.) and a network of subcontractors that together enable the Group to maintain quality control.

#### **3.5.3. Research & Development**

The Group has always recognized that Research & Development is a key factor of success and has long spent over 20% of its sales on R&D, thereby maintaining its technological lead over competitors.

After peaking at €33.5m in 2002, ACTIELEC TECHNOLOGIES' total R&D expenditure dipped to €30.2m in 2003, which as a result of sales growth reduced the R&D/Sales ratio to 15.2% from 19.0% in 2002.

The Group is aiming to trim the R&D/Sales ratio to 14.5% in 2004. In view of the prospective expansion in business, this should ensure the overall sum devoted to R&D – an essential creative investment for the Group's future prospects and valuation – continues to grow.

The number of onboard transistors in new vehicles and the size of software programs are also increasing significantly, while certain car functions such as braking are also spread over several electronic cards. These developments make the software technology used for electronic diagnosis increasingly complex.

In view of these challenges, ACTIELEC TECHNOLOGIES has decided to set up a jointly-owned laboratory with the CNRS, France's national scientific research centre, with the goal of establishing a technological lead over its competitors in this field.

All in all, 423 staff were devoted to R&D as of 31 December 2003, or the equivalent of 22.6% of the Group's total headcount. This ratio has risen slightly over the last few years (22.0% as of 31 December 2001), primarily as a result of the Actia and Alcyon merger in June 2002 and the Group's decision to refocus on its own business lines at the expense of its sub-contracted electronic production for third parties.

Lastly, in order to allocate resources efficiently, it is even more important for the Group to monitor and expand its knowledge of the world market.

### **3.6. RISK ANALYSIS**

In addition to the other information contained in this reference document, shareholders and potential purchasers of shares should take care to consider the following factors in their assessment of the Company and its commercial activities.

#### **3.6.1. Interest rate and currency risk**

This point is covered in the Management Report (see page 54) and the notes to the consolidated financial statements (see page 127).

##### **3.6.1.1 Currency risk**

Currencies other than the euro used by the Group essentially concern the business of non-euro zone subsidiaries. As of 31 December 2003, the Group's position for its significant foreign subsidiaries was as follows:

<b>Companies' contributions to the consolidated financial statements</b> (local currencies, thousands)	<b>US dollar (USD)</b>	<b>Mexican peso (MXN)</b>	<b>Brazilian real (BRL)</b>
Assets	9,318	47,709	6,131
Liabilities and shareholders' equity	6,382	19,086	1,334
Net position before risk management	2,936	28,623	4,797
Off balance sheet position	0	0	0
Net position after risk management	2,936	28,623	4,797
Official exchange rate	1.2630	14.1838	3.6263
Overall net position in € thousands	2,325	2,018	1,323
<b>Impact of a €0.01 change in € thousands</b>	<b>23</b>	<b>20</b>	<b>13</b>

The Group has no currency hedging arrangements for this specific risk.

### 3.6.1.2 Interest rate risk

The breakdown of the Group's debt as of 31 December 2003 was as follows:

<i>Borrowings and other financial liabilities in € thousands</i>	<b>Gross amount as of 31/12/03</b>	<b>Fixed rate</b>	<b>Floating rate</b>	<b>Hedging / amount</b>
Conditional advances	648			None
Convertible bond	1,499	1,499		None
Bank borrowings and other financial liabilities	31,027	12,664	18,363	15,200
Lease financing	2,082	2,082		None
Other borrowings and financial liabilities	1,117			None
Bank facilities and overdrafts	29,951		29,951	None
<b>Total</b>	<b>66,324</b>	<b>16,245</b>	<b>48,314</b>	

The large majority of borrowings use the EURIBOR 3-month rate as a variable rate benchmark index.

Sensitivity to movements in the benchmark rate is carefully managed by the Finance Department:

- ✓ Net position of variable rate bank and financial debt due in less than a year: €34,874m
- ✓ Sensitivity to a 1% increase in the benchmark rate: €483,000

### 3.6.1.3 Liquidity risk

Bank borrowings due in less than one year amounted to €40.791m as of 31 December 2003, as shown below:

<b>Terms of borrowings (€ thousands)</b>	<b>Gross amount as of 31/12/03</b>	<b>Fixed-rate or floating</b>	<b>&lt; 1 year</b>	<b>&gt; 1 year, &lt; 5 years</b>	<b>&gt; 5 years</b>
Conditional advances	648	-	396	252	
Convertible bond	1,499	Fixed		1,499	
Bank borrowings and other financial liabilities	31,027	59% floating	8,791	20,214	2,022
Lease financing	2,082	Fixed	536	729	817
Other borrowings and financial liabilities	1,117	-	1,117		
Bank facilities and overdrafts	29,951	Floating	29,951		
<b>Total</b>	<b>66,324</b>		<b>40,791</b>	<b>22,694</b>	<b>2,839</b>

Certain bank loans, totaling €7.2m as at 31 December 2003, are coupled with early redemption clauses and/or covenants relating to compliance with certain financial ratios, for example.

For the three main loans, the main conditions the Group must comply with are as follows:

- For the first two, representing the sum of €3.2m, a clause enables the loans to be called in if ACTIELEC TECHNOLOGIES S.A.'s shareholders' equity becomes less than half its registered share capital.

- 
- For the third, representing the sum of €2m, three financial ratios must be respected by the AUTOMOTIVE Division:
    - ✓ Consolidated net debt/shareholders' equity (gearing):  
Below 1.15 in 2003, below 1.10 in 2004, below 1 as from 2005.
    - ✓ Consolidated net debt/Consolidated EBITDA (earnings before interest, tax, depreciation and amortization):  
Below 7 in 2003, below 6 in 2004, below 4 in 2005 and below 3 as from 2006.
    - ✓ Consolidated free cash flow/Consolidated debt:  
Above 1.1.

All of the clauses relating to the sum of €7.2m were respected as of 31 December 2003.

#### **3.6.1.4 Equity risk**

Equity risk is confined to treasury shares, given that all the other investment securities recorded in the consolidated balance sheet arise from the overnight placement of cash surpluses in money-market *SICAVs* (mutual funds) that do not harbor any risk.

Treasury shares (which are detailed in the notes to the parent company financial statements) are booked at their entry cost, i.e. a weighted average price of €7.00. A provision is systematically set aside according to the share price at fiscal year-end. In view of the year-end closing price of €3.21 and the market for the shares since financial year-end, the sensitivity of profits to a 10% decline in the share price is minute.

### **3.6.2. Legal risk**

#### **3.6.2.1 Confidentiality**

As part of its activities, all documents entrusted to the ACTIELEC TECHNOLOGIES Group by clients and/or all documents and information exchanged between ACTIELEC TECHNOLOGIES (or one of its subsidiaries) and third parties, irrespective of the media or method of transmission, are systematically subject to confidentiality agreements between the parties and are held securely in safes.

#### **3.6.2.2 Operating assets not owned by ACTIELEC TECHNOLOGIES**

ACTIELEC TECHNOLOGIES' operations require the use of offices and commercial and industrial premises that are rented according to traditional commercial lease contracts:

- ✓ From SCIs (private partnerships) owned by Group Companies, managers, shareholders and/or Group personnel;
- ✓ From third parties bearing no relation to the Company's administrative body.

Rental charges are always billed to Group companies in accordance with usual market conditions.

### **3.6.2.3 Dependence on intellectual property rights, patents and brands**

As regards industrial property, patents are systematically filed in France and abroad for all inventions or research results that have a significant impact on the Group's expertise.

In addition, all R&D contracts, notably in the software area, include a specific industrial property clause designed to protect the Group's industrial property rights relating to its expertise. The same procedure is followed for the Group's brands (products, services, trading name) and those of all Group Companies.

To date, the Company has never been the object of any legal dispute concerning copyrights, trademarks, commercial secrets or other industrial property rights founded on the supposed infringement of the rights of third parties.

### **3.6.2.4 Political, economic, legal and fiscal risks related to the ownership of foreign subsidiaries**

The ACTIELEC TECHNOLOGIES Group has 14 foreign subsidiaries. Although each one of these subsidiaries is strategically important for the Group in terms of the sale or production of its products, no one subsidiary is big enough to endanger the rest of the Group.

### **3.6.2.5 Off balance sheet commitments**

This point is covered in the notes to the consolidated financial statements.

### **3.6.3. Tax risk**

Group entities are regularly inspected by the tax authorities of the countries in which they are based. Recent inspections have not entailed any major demand for back-taxes, whether for ACTIELEC TECHNOLOGIES S.A. or its French and foreign subsidiaries.

<b>Company</b>	<b>Inspected</b>
Mors Technologies	underway
Actia Poltik	underway
Actia de Mexico	2004
Actia I+ME	2003
ACTIELEC TECHNOLOGIES	2003
Ebim	2002
Alcyon P.S. (merged with Actia)	2002
Meiga (now Actia Muller Services)	2000
Dateno	1999
Sodielec	1998

### **3.6.4. Labor risk**

Apart from normal employer-employee relations, notably in France, ACTIELEC TECHNOLOGIES is not aware of any exceptional event or dispute having exerted or being liable to exert a significant influence on the Group, bearing in mind that the rare matters in progress are fully provisioned.

Note that during the mergers of the French subsidiaries Actia and Alcyon Production System in June 2002, and Meiga and Berenisse in October 2003, the utmost was done to safeguard employment by systematically proposing alternative posts within the Group. These restructuring measures were drawn up in close collaboration with the various personnel representative bodies and consequently ensured that the Group negotiated the decisive stages in these transactions without any conflict.

### **3.6.5. Industrial and environmental risks**

#### **3.6.5.6 Environmental risks**

The ACTIELEC TECHNOLOGIES Group is not considered to belong to a polluting industry and does not have any particular waste products to process.

Certain components used in product manufacturing use heavy metals (copper, lead, etc.) that can be recycled by specialized companies where they are considered to represent waste for the Group (see Management Report – page 70).

#### **3.6.5.7 Security**

Some Group Companies have computer networks that have no direct connection to the outside world and are consequently protected against viruses and attempted intrusions.

As regards the largest Group entities, the central processing unit (AS400) and the integrated enterprise management system (Movex) are hosted by a service provider recognized in the banking world. This partnership enables us to enjoy the same security requirements demanded by the banking industry. A private network provides the connection between the service provider and ourselves.

The local IT network handling office functions and project development is overseen on a facilities management basis by the same provider.

Work stations are equipped with periodically updated anti-virus software. Internet access is controlled via user ID and secured with firewalls.

#### **3.6.5.8 Insurance**

The Group has two major types of insurance:

- Corporate officers' insurance, which covers the risks run by Company officers, for the sum of €7.7m per risk,
- Civil liability and operating-loss insurance policies, which are taken out by each Group Company. The sum insured depends on numerous conditions that vary between the different Companies and which notably include sales revenue, technical facilities and the degree of danger entailed by the activity, etc.

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In the event of operating loss, AUTOMOTIVE division subsidiaries Actia S.A. and Actia Muller Services S.A. have taken out insurance cover for maximum sums of €28m and €8m, respectively (amount limited to 50% at Actia S.A. in the event of fire). Annual premiums amount to €62,000 and €27,000, respectively. Foreign subsidiaries are not concerned by this type of insurance. In the TELECOM division, maximum overall cover amounts to €23m and the annual premium stands at €25,000.

From a general standpoint, each Group entity satisfies the legal obligations that apply according to its geographic location and the Group deems the level of cover to be sufficient for the risks entailed.

### **3.6.6. Technological risks**

The group is equipped with technological intelligence to monitor technological advances and participate in specialized conferences, not only to gain recognition for the position of ACTIELEC TECHNOLOGIES, but also to anticipate the market's demands.

However, as ACTIELEC TECHNOLOGIES operates in a field where technology evolves rapidly, a momentary lag between its product offering and demand cannot be ruled out.

### **3.6.7. Other risk factors**

#### **3.6.7.1 Competition risks**

Risks stemming from competition are broken down branch by branch:

- For the AUTOMOTIVE branch:
  - In the Diagnostics division, there is a limited number of competitors (see page 27), and R&D creates a high entry barrier. The risk resides more in program length (5 to 7 years) and thus the difficulty of winning new vehicle manufacturers.
  - Sector consolidation in the truck sector is both a risk (loss of a major portion of its outlets) and an opportunity (possibility of increasing the number of outlets if the group can position itself with the new leaders who are restructuring the sector). Entry barriers in this sector are high.
  - There was outsourcing risk stemming from an unstable industrial strategy at a major client, who could suddenly change its programs. This activity is no longer developed, however, since the merger of Actia and Alcyon Production System. Production is now limited to manufacturing for the Company and a few external clients seeking a particularly high level of quality.
- For the TELECOM branch: This business depends on orders from major contractors (French Ministry of Defense and TDF in particular).

#### **3.6.7.2 Dependence on certain customers**

As indicated in the table presented in paragraph 3.4.4.3. (page 34), the Company enjoys a large and diversified clientele. The top 12 clients represent just 30% of full-year sales. Except for the top two (Ministry of Defense and PSA) which represent respectively 7.4% and 6.7% of consolidated sales, no customer exceeds more than 4% of consolidated sales.

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### **3.6.7.3 *Supplier risks***

As is typical in the electronics sector, we are dependent on components purchases.

The appointment in April 2004 of a central purchasing director is intended to reduce the cost of components purchasing, but also to prevent straining a very sensitive market (volume, supply delivery delays, costs, etc.).

In the AUTOMOTIVE division, Actia S.A. is the biggest purchasing centre, representing 39% of this division's purchases. Its main suppliers represent less than 4% of purchases and less than 2% of this division's sales.

In the TELECOM division, the two biggest suppliers represent respectively 19.6% and 6.5% of division purchases and 8.8% and 2.9% of sales.

### **3.6.7.4 *Dependence on key employees***

We take this issue very seriously. At present, our situation is perfectly within the norm.

## **3.7. EXCEPTIONAL EVENTS AND LITIGATION**

To our knowledge, there is no litigation, arbitration or exceptional event which could have or did have in the recent past a substantial impact on the financial situation, earnings, business or holdings of the Parent Company or Group, such that no legal provisions have been set aside.

Provisions for risks and expenses are listed in the notes to the consolidated financial statements (see paragraph 4.3.3.15 – page 123) and in the additional notes to the consolidated financial statements (see paragraph 4.3.5.2 – page 129).

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## 4. FINANCIAL REPORT

### 4.1. SUPERVISORY BOARD'S MANAGEMENT REPORT

#### **ACTIELEC TECHNOLOGIES**

Public Limited Company with a capital of €12,864,906

Headquarters: 25, chemin de Pouvoirville

31400 Toulouse

RCS Toulouse: 542080791

### **COMBINED ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETINGS**

**30 APRIL 2004**

#### **SUPERVISORY BOARD'S MANAGEMENT REPORT including the Group management report**

Dear Shareholders,

We have called you here for the General Meeting in accordance with the law and terms of our by-laws, to review the Company's activity over the year ended 31 December 2003, to present the reports from the Supervisory Board and auditors, and to ask you to consider and vote on this year's financial statements, earnings distribution, and the renewal of current conventions.

Invitations to this Meeting were processed as prescribed and the documents required by current legislation were sent to you or made available within the allotted time limit.

This report is intended to present the Company's situation to you.

The parent company and consolidated financial statements for the year ended 31 December 2003 have been presented using the same methods as the previous fiscal year.

#### **4.1.1 ACTIELEC Technologies: Consolidated financial statements**

The Company and its Divisions for which we provide 2003 financial statements are listed in the notes to the management report (see page 80).

##### **4.1.1.1 Consolidated earnings**

Consolidated financial statements show sales of €199m, up 13%, and net attributable profit before amortization of goodwill of €3.495m versus a loss of €1.746m last year.

For FY 2003 consolidated earnings came to: (all figures in euros)

Net sales	198,579,518
Operating income	206,775,714
Operating profit	10,262,512
Income before exceptional items and tax	5,908,253
Consolidated income after acquisition goodwill amortization	1,997,398
Group share of net income after acquisition goodwill amortization	1,941,038
Amortization of acquisition goodwill	1,553,558
EBITDA (see page 47)	15,238,922

##### **4.1.1.1.1 Automotive division**

Net sales	151,228,187
Operating income	155,824,454
Operating profit	5,152,724
Income before exceptional items and tax	2,014,752
Consolidated income after acquisition goodwill amortization	9,497
Group share of net income after acquisition goodwill amortization	168,982
Amortization of acquisition goodwill	827,970
EBITDA (see page 47)	8,652,422

##### **4.1.1.1.2 Telecom division**

Net sales	47,839,139
Operating income	51,407,356
Operating profit	4,998,966
Income before exceptional items and tax	3,509,320
Consolidated income after acquisition goodwill amortization	1,743,636
Group share of net income after acquisition goodwill amortization	1,732,243
Amortization of acquisition goodwill	770,982
EBITDA (see page 47)	6,172,241

#### 4.1.1.1.3 EBITDA

	31/12/2003		
	Automotive Branch	Telecom Branch	Consolidated
Net sales	151,228,187	47,839,139	198,579,518
Operating income	155,824,454	51,407,356	206,775,714
Consolidated group earnings	9,497	1,743,636	1,997,398
(+) Amortisation of acquisition goodwill	827,970	770,982	1,553,558
(+) Income tax	1,737,016	935,879	2,688,140
(+) Deferred income tax	-557,308	99,670	-413,340
(+) Interest and related charges	2,635,373	1,087,688	3,693,567
(-) Other interest and related income	48,866	59,948	108,814
(-) Net gain on asset sales	3,911	0	4,714
(+) Depreciation	4,052,651	1,594,334	5,833,127
<b>EBITDA</b>	<b>8,652,422</b>	<b>6,172,241</b>	<b>15,238,922</b>

#### 4.1.1.2 Analysis by division

##### 4.1.1.2.1 Automotive division

The breakdown of sales between the three business units is as follows:

✓ Diagnostics	€75,368,000
✓ Onboard electronics	€53,047,000
✓ Services	€22,813,000

Total R&D spending came to €19,723,000, which breaks down as:

✓ Cost of studies ordered by clients	€7,603,000
✓ Cost of current studies	€972,000
✓ Investments	€2,827,000
✓ Charges	€8,321,000

##### Diagnostics business unit:

Automotive diagnostics were not affected by the global economic slowdown. On the contrary, a large contract with Mitsubishi was signed in late 2003 for deliveries in the first half of 2004.

After five years of little business with Renault, contacts were renewed in preparation for their upcoming call for bids (2005).

Demand from Peugeot and Citroen evolved toward a more comprehensive offering, including diagnostics for mechanics/garages as well as manufacturing/factory testing and associated software. 2003 saw an end to the production and marketing of old products. The offering was renewed through the development of several new products (Lexia3 line, new external communication interface, new measuring case, etc.). Two new bids were won with PSA (factory inspection tool and new measurement card).

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Factory business was robust over the year due to the Odissee 2, furnished in 2003 to 4 sites. 2003 sales of already-existing products (Mercedes Starbasic and Fiat Smart Examiner, which are being marketed at a slower pace) came in 20% lower than the guidance given at the beginning of the year. Automobile Diagnostics still represents close to 50% of this division's sales.

#### Onboard electronics business unit:

The onboard electronics market was tough given the general economic climate. Sales of commercial trucks dropped substantially in 2003, but the Company's sales remained stable.

The future source of growth in this segment, the secure electronic tachograph, was developed further with a view to obtaining European certification and the opening of the resulting market from 5 August 2004. In 2003, great efforts were made to create a network of authorized service providers necessary for this market to function successfully (maintenance and reparation) and to make the initial prototypes available for vehicle manufacturers.

In dashboards, in 2003 an important contract with Irisbus was signed for Podium, which will be fully ramped up in 2005.

Multiplexing continues to be successful, and this product presents 40% of this business unit's sales. The Instrumentation market is holding up well.

The Company's reorganization led to restructuring in its production zones, especially the build up of medium and large batch production in Tunisia. Efforts were made to reduce costs for raw materials and components purchases, which is how margins were boosted.

#### Services business unit:

The economic climate was not favorable for lifetime extension. However, two big contracts are being worked out with Airbus and Dassault for operating condition maintenance.

Electronics production sales were down compared to 2002.

New clients (Somfy, Schneider Sorhodel and Grenoble) were not able to offset the drop in sales to existing clients.

Nevertheless, in 2003 a major outsourcing contract was signed with Siemens. This contract provides enough work for 150 employees at our Tunisian site, for at least four years. This should result in better order management and optimization of margins.

Our Colomiers site has taken the same approach, but only the arrival of an important contract such as one of those being considered for lifetime extension would accelerate the trend.

#### 4.1.1.2.2 Telecom division

After a very tough year in 2002, especially with the major contractors, 2003 saw a recovery in certain markets, such as the Syance product (radio transmission of data) for the French national railroad (SNCF).

However, the sharp increase in business in this division stems from the acceleration in the consolidation of the phases of the Ministry of Defense contract. Phases TC3 and TC4 were consolidated in April 2003 (initial deadline: April 2004) and TC7 in the fourth quarter of 2003 (initial deadline: April 2006).

As for the digital TV market, although deliveries of a few products have begun, this market is not yet well established.

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Total R&D spending came to €10,443,000 (21.8% of Telecom sales), which breaks down as:

✓ Cost of studies ordered by clients	€938,000
✓ Cost of studies in progress	€1,024,000
✓ Investments	€1,894,000
✓ Charges	€6,587,000

#### **4.1.1.3 Fiscal 2003 highlights**

##### **4.1.1.3.1 Meiga/Berenisce merger**

Berenisce, which owned the assets of Muller Bem, was folded into Meiga on 1 January 2003 (purchased at the Chartres Commercial Court on 23 December 2002). The merged company was rechristened Actia Muller Services, and its administrative headquarters are located in Toulouse. Actia Muller Services has two main sites, one in Champlan (sales & marketing services) and one in Lucé (production and after-sale service). The Group's ownership of the merged company remained at 99.92%.

The goal of the merger was essentially to reinforce the synergies between the two companies to create a structure with industrial and commercial facilities capable of targeting new markets through a comprehensive offering of Diagnostics products.

##### **4.1.1.3.2 New companies**

Actia S.A. created a subsidiary in China in which it holds 1 share representing 100% of the capital. Our total investment came to €83,000.

The purpose of this subsidiary is to provide support for our key clients who operate in China and to penetrate the local market, especially for data/events recorders, which harbors strong potential in this area. In addition, through this subsidiary the Company will be able to organize outsourcing based in China.

Actia Videobus created a Spanish subsidiary, Actia Automotive. It is 80%-owned by Actia Videobus. Our total investment came to €42,000.

This subsidiary was created to distribute Diagnostics products to garages/mechanics and independent networks.

##### **4.1.1.3.3 Operations involving intra-group holdings**

ACTIELEC TECHNOLOGIES sold the 26,989 convertible bonds held in Pilgrim for a firm and definitive price of €100, taking into account its subsidiary's current situation and its majority stake, without converting these bonds into shares.

This transaction had no impact on parent company or consolidated results, as the provisions booked at the time of the merger with Mors and the purchase of the convertible bonds from Electropar (May 2000) covered the total amount.

#### 4.1.1.4 *Advances and setbacks*

##### 4.1.1.4.1 Advances

Measures taken in late 2002/early 2003 at the Automotive division began to bear fruit and affect earnings for FY 2003:

- Purchasing costs were reduced around 10% over the year, reaching up to 12% on certain products;
- Payroll costs were cut by 2% on constant scope. This came about through natural wastage, reorganization of responsibilities to eliminate duplicate posts resulting from the Actia/Alcyon merger in 2002, and a hiring freeze, especially at Actia SA. However, some subsidiaries saw their staff increase - Germany (+7), Italy (+12) or Mexico (+15) – due to growth in their business. And, through acquisitions (Muller Bem: 120 employees, Actia China: 4 employees, Actia Automotive: 4 employees and Actia India: 2 employees), the Company's total staff grew by 149 persons.
- General expenses, especially R&D outsourcing at Actia SA, were trimmed by around 2%.

All of these efforts resulted in an improvement in operating income and income before tax and exceptional items.

##### 4.1.1.4.2 Setbacks

Inventory management remains difficult, as some markets require high supply levels.

The fact that deliveries were concentrated in the fourth quarter (especially for the Telecom division, which generated 40% of its sales in the last quarter) helped confirm the positive results of a real effort at this level.

Inventory went from €43.1m at 31 December 2002 to €45.9m at 31 December 2003. The planned €2m drop over the year was almost achieved at constant scope. Inventory coming from Muller Bem represented about €3.3m at 31 December 2003.

The Company's cash problems, stemming from the high debt and the withdrawal of one of its financial backers, continued to play a role in 2003, which explains in particular the financial result.

In addition, the merger of Meiga and Berenisce (a SAS, *société à actions simplifiées*, limited liability company which had purchased the Muller Bem assets in early 2003) was not able to take place until the end of the year and required the move of production and after-sales service to a new site. Consequently, it was not able to have a positive impact on the year as had been expected. Actia Muller Services, the new entity resulting from this merger, now benefits from the complementary fit of the Electronic Diagnostics and Mechanical Diagnostics divisions. Thanks to this, it has been able to diversify its targets, especially toward mechanics/garages and inspection companies. However, these new markets will not bear fruit until 2004.

#### 4.1.1.4.3 Priorities for 2004

Measures begun in 2003 to achieve productivity gains in the Automotive branch will be continued with the same targets:

- ✓ improving purchasing costs,
- ✓ reducing inventory,
- ✓ tightly controlling payroll costs,
- ✓ systematically seeking ways to save on other external spending and charges,

These measures have been extended to the Telecom divisions.

Reducing group debt through the disposal of assets that are not part of the core business also remains a priority.

In addition, all efforts are being made at Actia Muller Services to ensure a return to profitability, particularly through reducing headcount.

#### 4.1.1.5 Research & Development

R&D is still very important, as it maintains the group's technical capacity at a high level. The table below sums up the trend in total costs (sales, investments and expenses over the period) for R&D:

€m	1999	2000	2001	2002	2003
Automotive	16.28	19.35	23.38	23.93	19.72
Telecomm	3.40	7.97	9.64	9.20	10.44
Oceanography	0.00	0.72	1.32	0.40	-
<b>TOTAL</b>	<b>19.68</b>	<b>28.04</b>	<b>34.34</b>	<b>33.53</b>	<b>30.16</b>
% of sales	18.8	20.9	18.7	19.0	15.2

R&D sold by division comes to:

- ✓ Automotive €7.6m
- ✓ Telecommunication €0.9m
- ✓ **TOTAL** €8.5m

Out of the total R&D cost for the Company (€30.1m), €16.9m directly impact 2003 results. The net flow of R&D investments increased €3.0m.

#### 4.1.1.6 Significant events since the year end

The first sales for Mitsubishi were posted in February 2004 (€5.5m), with the full amount coming in before the end of May.

The secure electronic tachograph obtained its last certificate (interoperability) in January 2004. The certificate automatically initiates the quality assurance approval process, which requires a total of five certificates: two for security, two for functionality and one for interoperability. The actual approval process is an administrative formality and takes four months to complete.

Ramp-up of the Telecom division's contract with the French Ministry of Defense continued apace with the consolidation of the TC7 phase (initial deadline: April 2006).

#### **4.1.1.7 2004 Objectives – Trends and future outlook**

All of our organization, consolidation and expansion efforts are intended to keep our debt under tight control and improve gearing.

##### **4.1.1.7.1 Sales**

2004 target	Automotive	Telecom	TOTAL
Consolidated sales	158	52	210

##### **4.1.1.7.2 Outlook**

###### Diagnostics business unit:

Production and marketing of new products for PSA will take place in 2004.

Our position as a leading supplier for PSA has been confirmed thanks to the two bids we won for this group.

The factory business should pick up in 2004 thanks to the recently won bid.

The commercial launch of Actia Multimarque took place at the October 2003 Equip Auto fair. The product was very warmly received and offers exciting potential (it will be marketed for the first time in 2004).

###### Onboard electronics business unit:

Successful tender offers by the onboard electronics division in 2003 (Telma, Pinguely, Renault, etc.) will bolster sales in 2004.

The new instrumentation products (such as ICU, Cluster) will begin to be manufactured in 2004.

The tachograph project will require an additional investment of €1m for its industrialization and to wrap up the development of the commercial network in order to begin manufacturing probably in the second half of 2004.

###### Services B.U.:

If the Airbus and Dassault contracts are signed, this would be a substantial advance in lifetime extension.

The mass production lines in Tunisia should be operational early in the second half of 2004, after site upgrades and qualification confirmations that will take place in the first half of 2004.

New projects at new clients (remote control home automation systems, public transport ticketing system) bode well for a turnaround in this business in 2004.

For the Telecom business, we have decided to immediately reorganize this branch into Business Units, for which the 2004 outlook is:

###### Ground stations B.U.:

The continuation of the Ministry of Defense contract and its consequences (Naval 2000, Naval Belge, CELAR, CNES) are certain. The competition will organize around stage 2 of the Syracuse III program.

#### Broadcast B.U.:

The launch of digital terrestrial television will not have much of a direct impact on 2004 business. However, the reorganization and service maintenance of the analog TV network should result in a ramp up this year.

#### Networks B.U.:

After two years of slowing investments at our major clients (EDF, SNCF, TDF, FT, etc.), an upswing has clearly begun.

#### Aeronautics B.U.:

This start-up remained an issue due to its recent weak sales, but after 11 September 2001 and the SARS epidemic, airline companies are gearing up for more capex, indicating a recovery on the horizon.

These four business units will allow us to multiply efforts to win markets abroad. The current level of the export business is not able to offset weak domestic demand: in many cases, it could use the Automotive division's international network as a base.

In terms of accounting, we have continued to implement the IAS/IFRS norms. We began applying IAS 19 on pension accounting on 31 December 2003. From 2004, the other IAS/IFRS norms will be applied, affecting primarily:

- ✓ The presentation of financial statements;
- ✓ Sector news;
- ✓ Tangible investments (property, plant and equipment).

#### **4.1.1.8 Off balance sheet commitments and significant liabilities**

##### 4.1.1.8.1 Off balance sheet commitments

As of 31 December 2003, off balance sheet commitments were as follows:

€ thousands	31/12/2002	31/12/2003
<b>Commitments received</b>		
Bank guarantees	225	194
<b>Total off balance sheet commitments given</b>	<b>225</b>	<b>194</b>
<b>Commitments given</b>		
Purchase of warrants issued by Actia		* 1,600
<b>Total off balance sheet commitments given</b>	<b>-</b>	<b>1,600</b>

\* Amount varies depending on the ACTIELEC Technologies share price

Asset-backed guarantees break down as follows:

<i>€ thousands</i>	<b>31/12/2002</b>	<b>31/12/2003</b>
Discounted notes receivable and 'Dailly' sales	18,362	17,576
Pledged equipment	197	172
Pledged research tax credit	171	1,738
Mortgages	1,493	2,463
<b>Total asset-backed guarantees</b>	<b>20,223</b>	<b>21,949</b>

The above information does not include outstanding capital leases. In addition, the presentation does not omit the existence of a significant off balance sheet commitment according to the current accounting regulations.

#### 4.1.1.8.2 Currency risk

In the countries where currency risk is the highest, the Company has billed in euros since 1999 for all of the intra-group exchanges and has limited the length of customer credit in countries with weak currency.

Each unit hedges against currency risk depending on its currency transactions and estimated risk.

#### 4.1.1.8.3 Interest rate risk

We keep a daily watch on interest rates and, depending on the market, use the facilities provided by our banking partners.

41% of our medium and long-term loans are fixed rate and 59% are floating.

Outstanding short-term loans are made using variable rates.

Out of a total of €31.027m in short-term and medium- to long-term financing as of 31 December 2003, the breakdown between fixed and floating rates is as follows:

- ✓ Fixed rate: €12.663m
- ✓ Floating rate: €18.364m of which €7.6m are capped and €7.6m are swapped.

Interest cover thus came to 83% at 31 December 2003.

#### 4.1.1.9 Summary

2003 saw a recovery in group profitability, despite the still very tough economic climate. Protected on some markets (automobile diagnostics), more sensitive on others (onboard electronics, Telecom), the Group was able to continue to make gains in market share.

Streamlining efforts, especially after the Actia/Alcyon Production System merger in 2002 and the Meiga/Berenisce merger in 2003, mobilized a lot of energy but are beginning to bear fruit.

The implementation of new inspection and control systems, production market optimization, and the pooling of resources at the group level will help accelerate the return to profitability.

#### **4.1.2 ACTIELEC Technologies: Parent company financial statements**

The parent company, ACTIELEC TECHNOLOGIES S.A., posted sales of €12.9m, up sharply (134%) thanks to the ramp-up of the Ministry of Defense contract, for which the Company is co-contractor. An increase in charges, especially for outside consultants, resulted in a net profit of €122,000, versus last year's net profit of €1.713m (which included a substantial exceptional profit stemming from the disposal of the Oceanography business).

For FY 2003, the parent company financial statements' key figures were:

Net sales	€12,889,205
Operating income	€12,935,493
Operating profit	<€208,835>
Financial result	€2,784,478
Exceptional result	<€2,438,828>
Net income	€121,570

##### **4.1.2.1 Problems encountered**

The main problems encountered by ACTIELEC TECHNOLOGIES S.A. involved cash management, with group liabilities stemming from 2002, a difficult domestic climate and the withdrawal of a banking partner (Banque Worms).

Changes to the financial communication rules required major information, organization and centralization efforts since the Company is essentially made up of small structures, all orchestrated by the holding company.

In a tough international economy, the Group has not been able to implement its desire to refocus on core businesses under the most satisfactory conditions.

##### **4.1.2.2 Significant events**

The arrival of Christian Desmoulins as Chairman of the Board resulted in the faster implementation of cost cutting measures, refocusing on core businesses and general reorganization.

##### **4.1.2.3 Earnings distribution**

Our company's proposed earning distribution is in accordance with the law and our bylaws.

We propose that the balance of this year's earnings, which came to €121,569.66, be brought forward.

## Balance

Retained earnings	€12,119,544.12
Profit for the year	€121,569.66

## Distribution

Retained earnings will come to	€12,241,113.78
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<b>TOTALS</b>	<b>€12,241,113.78</b>	<b>€12,241,113.78</b>
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### 4.1.2.3.1 Previous dividend distribution:

In accordance with the terms of article 243 bis of the General Tax Code, we outline the distribution of dividends per share paid over the last three years:

Year	Dividend €	Tax credit €	Real revenue €	Total dividend paid €
2000	0.00	0.00	0.00	0
2001	0.06	0.03	0.09	1,029,192
2002	0.00	0.00	0.00	0

### 4.1.2.3.2 Charges that are not tax deductible (CGI 39-4)

We will ask you to approve the full amount of expenses and charges covered under articles 39-4 of the General Tax Code, i.e. €358.21, corresponding to the excess depreciation on company vehicles.

## 4.1.2.4 Capital

### 4.1.2.4.1 Breakdown of company capital:

To our knowledge, company capital breaks down as follows as of 31 December 2003:

	Shares owned		Voting rights	
LP/ PC	8,910,266	51.95%	17,551,309	62.92%
Other Shareholder Pact	3,932,838	22.93%	5,088,605	18.24%
Free float	4,246,708	24.76%	5,252,549	18.83%
Treasury stock	63,396	0.37%	-	0.00%
<b>TOTAL</b>	<b>17,153,208</b>	<b>100.00%</b>	<b>27,892,463</b>	<b>100.00%</b>

Through two shareholder pacts, the directors (LP/PC), one industrial shareholder and one financial shareholder hold 12,843,104 shares (74.87%) and control 22,639,914 voting rights (81.17%). Free float thus comes to 25.13% of the total number of shares including treasury stock.

#### 4.1.2.4.2 Treasury stock:

Since the Actielec/Mors merger, ACTIELEC TECHNOLOGIES has owned 1,400 of its own shares. The company was authorized on three occasions to buy back its shares at the AGMs on 29 December 2000, 30 April 2002 and 9 May 2003, with a view to:

- ✓ Regulating its share price by systematic intervention to counterbalance trends,
- ✓ Intervening through purchases and sales of shares according to market situations.

As of 31 December 2003, 61,996 shares had been purchased.

Between 1 January 2003 and 31 December 2003 the Company acquired 875 shares at an average price of €2, for a total of €1,752.21 excluding trading fees.

The fees came to €228.67 for services, €84 for transactions and €119 for custody account charges.

At year end, the number of shares registered in the Company's name is 63,396 for a purchase value of €443,470 excluding negotiating fees. This number of shares, of a total nominal value of €47,547, represents 0.37% of the company's capital.

#### 4.1.2.4.3 Share performance:

The total number of shares traded in 2003 under the code ISIN FR 0000076655 came to 307,425, i.e. a daily average of 1,205 shares over 255 trading days.

In 2003, the closing prices varied as follows:

- High	€3.50	(13/10/2003)
- Low	€1.62	(18/03/2003)
- Closing	€3.21	(31/12/2003)

#### 4.1.2.5 *Events since the fiscal year ended*

There have been no significant capital events since the end of 2003.

### 4.1.3 Financial results for the past 5 years for ACTIELEC TECHNOLOGIES S.A.

Euros	1999	2000	2001	2002	2003
<b>Capital at year-end</b>					
Share capital	5,657,465	12,864,906	12,864,906	12,864,906	12,864,906
Number of existing ordinary shares	9,277,634	17,153,208	17,153,208	17,153,208	17,153,208
Number of existing preferred shares (without voting rights)	0	0	0	0	0
Maximum number of future shares to be created	0	0	0	0	0
<b>Transactions and Results for the year</b>					
Sales excluding tax	20,564,294	12,729,316	3,770,448	9,585,941	12,889,205
Earnings before tax, amortization, & provisions	371,016	-4,506,062	11,602,345	1,914,298	-2,380,375
Corporate tax	19,056	19,056	0	3,811	15,245
Employee profit-sharing for the year	0	0	0	0	0
Earnings after tax, amortization, & provisions	-3,839,000	-2,493,339	11,558,375	1,713,366	121,570
Payout	0	0	1,029,192	0	0
<b>Earnings per share</b>					
Earnings before tax, amortization & provisions	0.04	-0.26	0.68	0.11	-0.14
Earnings after tax, amortization & provisions	-0.41	-0.15	0.67	0.10	0.01
Dividend attributed for each share (gross)	0.00	0.00	0.06	0.00	0.00
Dividendes attributed for each preferred share (gross)	0.00	0.00	0.00	0.00	0.00
<b>Personnel</b>					
AVERAGE number of employees during the year	243	140	6	6	7
Total wage bill for the year	6,758,170	5,920,010	595,984	716,135	687,909
Total sums paid as benefits for the year (Social Security, company benefits, etc.)	2,947,491	2,836,369	238,617	283,540	282,850

#### 4.1.4 Corporate officers

##### 4.1.4.1 Managing Board and Supervisory Board members

Louis Pech	Chairman of the Supervisory Board
Pierre Calmels	Vice-Chairman of the Supervisory Board
Salvepar S.A. <i>permanent representative Pierre Degeorge</i>	Member of the Supervisory Board
Günther Thrum	Member of the Supervisory Board
François Losi	Member of the Supervisory Board
Alain Costes	Member of the Supervisory Board
Christian Desmoulins	Chairman of the Managing Board
Catherine Mallet	Member of the Managing Board
Marine Candelon-Bonnemaïson	Member of the Managing Board

The Supervisory Board also has an Independent advisor member (*censeur*):

- Bruno Denis

##### 4.1.4.2 Directorships and posts held by company representatives

- **Louis Pech**, Chairman of the Supervisory Board, ACTIELEC TECHNOLOGIES, also has the following directorships in the companies below and the offices hereafter:

- Directorships:

Chairman of the Board of Directors, Actia, S.A. with a capital of €15,443,593. 25 chemin de Pouvoirville 31400 Toulouse, 389 187 360 RCS Toulouse;

Chairman of the Board of Directors, Enertec Holding, S.A. with a capital of €2,636,520. 185, avenue du Général de Gaulle 92140 Clamart, 413 057 985 RCS Nanterre;

Chief Executive Officer, Fonderies Financiere Mercie, S.A. with a capital of €597,360. 25 chemin de Pouvoirville 31400 Toulouse, 550 802 128 RCS Toulouse;

Chairman of the Board of Directors, LP2C, SA with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse, 384 043 352 RCS Toulouse;

Director, IDE Ingenierie, S.A. with a capital of €57,150. 4 chemin de Pouvoirville 31400 Toulouse, 381 438 076 RCS Toulouse;

Director, Enertec, S.A. with a capital of €3,124,200. 185, avenue du Général de Gaulle 92140 Clamart, 382 360 956 RCS Nanterre;

Director, Actia Videobus Paher SA, Poligono Industrial “Los Olivos”, C/Calidad 66, 28906 Getafe Madrid (Spain);

Director, Actia de Mexico SA de CV, Prolongacion Saturno N° 456 Bodega N°19, Colonia Nueva Industrial Vallejo, Delegacion Gustavo A. Madero, CP 07700 Mexico D.F Mexico;

—

Director, Karfa Corporativo Variable Capital company under Mexican law, tax identification number KC 0940810384, with headquarters in Mexico (CP 07700 Mexico DF) Prolongacion Saturno n° 456, Colonia Nueva Industrial Vallejo Delegacion Gustavo A. Madero;

Member, Advisory Board Actia do Brasil (Brazil), Avenida Polônia, 344,90230-110 Porto Alegre RS Brazil;

Member, management committee Actia Corp (USA), 57459 DeWitt St Elkhart – Indiana 46517 USA;

Director, Actia Italia Srl, Corso Unione Sovietica 612/3/C, 10135 Torino Italy;

Director, Actia Inc (USA), 57459 DeWitt St Elkhart – Indiana 46517 USA;

Director, Actia India Private Limited, company under Indian law with a capital of US\$100,000. Identification number: U72200DL2002PTC115786 with headquarters in New Delhi (110001), 1 Dakshineshwar, 10 Hailey Road (India);

Permanent representative of ACTIELEC TECHNOLOGIES in Pilgrim, S.A. with a capital of €2,515,843.26. 25 chemin de Pourvoirville 31400 Toulouse, 403 566 375 RCS Toulouse;

Permanent representative of ACTIELEC TECHNOLOGIES in Sodielec, S.A. with a capital of €3,583,056. route de Mayres BP 9, Saint-Georges de Luzencon 12100 Millau, 699 800 306 RCS Millau;

Permanent representative of LP2C in Alpha Recyclage Franche Comte, S.A. with a capital of €100,000. Mairie de Rochefort sur Nenon 39700 Rochefort sur Nenon, 418 167 953 RCS Dole;

Permanent representative of Actia in Actia Muller Services, S.A. with a capital of €626,997.27. 25 chemin de Pouvourville 31400 Toulouse, 350 183 182 RCS Toulouse;

Permanent representative of Actia in Aixia, S.A. with a capital of €102,600. Allée B 130 – BP 282 Savoie-Technolac 73370 Le Bourget du Lac Cedex, 381 805 514 RCS Chambéry;

Permanent representative of ACTIELEC TECHNOLOGIES in Dateno, S.A. with a capital of €816,000. rue Amiral Béranger ZAC Ville-es-Passants II 35800 Dinard, 897 280 418 RCS Saint-Malo;

Permanent representative of LP2C in CIPI, S.A. with a capital of 500.000 Dinars. Rue des Entrepreneurs, ZI Charguia II, 2080 Ariana Aéroport Tunisia, RC B 180122000;

Permanent representative of LP2C in Mors Technologies, S.A.S. with a capital of €130,000. La Confrérie BP 22 13610 Le Puy Ste-Reparate, 432 005 569 RCS Aix;

Permanent representative of ACTIELEC TECHNOLOGIES in Ebim, S.A.S. with a capital of €945,600. ZI St-Joseph 04100 Manosque, 378 940 555 RCS Manosque.

Director, Espaces Sports Technologies (Esportec), S.A with a capital of €38,150.37. Parc Aéronautique, 27 Avenue Georges Guynemer, 31770 Colomiers, 400 557 096 RCS Toulouse;

Manager, Orbieu, Private company with a capital of €3,173,058. rue des Vignes, Ferrals Les Corbieres 11200 Lezignan Les Corbieres, 384 134 979 RCS Narbonne;

—  
Manager, La Voix, Private company with a capital of €3,173,058. Coz Castel 22500 Paimpol, 383 737 566 RCS Paimpol;

Manager, SCI de L'Oratoire, SCI with a capital of €1,500. 10 avenue Edouard Serres 31770 Colomiers, 345 291 405 RCS Toulouse;

Manager, SCI du 4 Rue Jules Védrières, SCI with a capital of €374,544. 4 Rue Jules Védrières 31000 Toulouse, 352 073 944 RCS Toulouse;

Vice-President of the Association Le Cercle d'Oc, Place Marcel Dassault – 31700 Blagnac;

Advisor, Banque de France de Toulouse, 4 Rue Deville 31000 Toulouse;

Independent advisor (*censeur*) to Banque Tofinso, SA with a capital of €26,737,450.57. 11, allées Franklin Roosevelt – BP n° 2 – 31012 Toulouse Cedex, 560 800 831 RCS Toulouse;

Advisor, Commerce Extérieur de la France, 22 Avenue Franklin Roosevelt BP 303 75365 Paris CEDEX 08;

Chairman, Société d'Épargne Locale de Toulouse Nord, 42 Rue du Languedoc 31000 Toulouse;

- *Office:* Work contract at LP2C, S.A. with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse.

- **Pierre Calmels**, Vice-Chairman of the Supervisory Board, also has Directorships in the companies listed below and the following offices:

- Mandates

Director, Enertec Holding, S.A. with a capital of €2,636,520. 185, avenue du Général de Gaulle 92140 Clamart, 413 057 985 RCS Nanterre;

Director, Enertec, S.A. with a capital of €3,124,200. 185, avenue du Général de Gaulle 92140 Clamart, 382 360 956 RCS Nanterre;

Administrator and Vice-President, Actia, S.A. with a capital of €15,443,593. 25 chemin de Pouvoirville, 31400 Toulouse, 389 187 360 RCS Toulouse;

Chairman of the Board of Directors, Sodielec, S.A. with a capital of €3,583,056. route de Mayres BP 9, Saint-Georges de Luzençon 12100 Millau, 699 800 306 RCS Millau;

Chief Executive Officer, Pilgrim, S.A. with a capital of €2,515,843.26. 25 chemin de Pouvoirville 31400 Toulouse, 403 566 375 RCS Toulouse;

Chairman of the Advisory Board, LP2C, S.A. with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse, 384 043 352 RCS Toulouse;

Director, Aixia, S.A. with a capital of €102,600. Allée B 130 – BP 282 Savoie-Technolac 73350 Le Bourget du Lac CEDEX, 381 805 514 RCS Chambéry .

—  
Director, IDE Ingenierie, S.A. with a capital of €57,150. 4 chemin de Pouvoirville 31400 Toulouse, 381 438 076 RCS Toulouse;

Permanent representative of ACTIELEC TECHNOLOGIES in MORS Technologies, S.A.S. with a capital of €130,000. La Confrerie BP 22 13610 Le Puy Ste-Reparate, 432 005 569 RCS Aix;

Permanent representative of ACTIELEC TECHNOLOGIES in Cipi, S.A. with a capital of 500,000 Dinars. Rue des Entrepreneurs, ZI Chargaia II, 2080 Ariana Airport Tunisia, RC B 180122000;

Director, Actia Videobus Paher S.A., Poligono Industrial “los Olivos”, C/Calidad 66, 28906 Getafe – Madrid (Spain);

Director, Actia de Mexico Variable Capital SA, Prolongacion Saturno N°456 Bodega N°19, Colonia Nueva Industrial Vallejo, Delegacion Gustavo A. Madero, CP 07700 Mexico D.F Mexico;

Director, Karfa Corporativo Variable Capital company under Mexican law, tax identification number KC 0940810384, with headquarters in MEXICO (CP 07700 MEXICO DF) Prolongacion Saturno n° 456, Colonia Nueva Industrial Vallejo Delegacion Gustavo A. Madero;

Member, Advisory Board, Actia do Brasil (Brazil), Avenida Polônia, 344,90230-110 Porto Alegre – RS Brazil;

Member, Management Committee, ACTIA CORP (USA), 57459 DeWitt St Elkhart – Indiana 46517;

Director, Actia Inc (USA), 57459 DeWitt St Elkhart – Indiana 46517;

Director, Actia Italia Srl, Corso Unione Sovietica 612/3/C, 10135 Torino Italy;

Director, Alpha Recyclage Franche Comte, S.A. with a capital of €100,000. Mairie de Rochefort sur Nenon 39700 Rochefort sur Nenon, 418 167 953 RCS Dole;

Director, Actia Muller Services, S.A. with a capital of €626,997.27. 25 chemin de Pouvoirville 31400 Toulouse, 350 183 182 RCS Toulouse;

Permanent representative of Sodielec in Dateno, S.A. with a capital of €816,000. rue Amiral Bérenger ZAC Ville-es-Passants II 35800 Dinard, 897 280 418 RCS Saint-Malo;

Vice-President and Director, Fonderies Financiere Mercie, S.A. with a capital of €597,360. 25 chemin de Pouvoirville 31400 Toulouse, 550 802 128 RCS Toulouse;

Permanent representative of LP2C in Fonderie Mercie Europe, S.A. with a capital of €500,000. 11 avenue de la Marcaissonne 31400 Toulouse, 391 888 062 RCS Toulouse;

Permanent representative of Sodielec in Ebim, S.A.S. with a capital of €945,600. ZI St-Joseph 04100 Manosque, 378 940 555 RCS Manosque;

Permanent representative of Actia Muller Services at Tecno France, S.A. with a capital of €152,000. Z.I Les Bosquets II n° 9 A, 95540 Mery sur Oise, 342 201 563 RCS Pontoise;

Manager, SCI Les Coteaux De Pouvoirville, Private company with a capital of €91,500. 25 chemin de Pouvoirville 31400 Toulouse, 343 074 738 RCS Toulouse;

—

Manager, SC La Voix, Private company with a capital of €3,173,058. COZ CASTEL 22500 Paimpol, 373 737 566 RCS Paimpol;

Manager, SC Orbieu, Private company with a capital of €3,173,058. rue des Vignes Ferrals Les Corbieres 11200 Lezignan Les Corbieres, 384 134 979 RCS Narbonne;

Manager, Scipia, Private company with Variable Capital, 25 chemin de Pouvoirville 31400 Toulouse, 344 081 278 RCS Toulouse;

Manager, SCI de l'Oratoire, SCI with a capital of €1,500. 10 avenue Edouard Serres 31770 Colomiers, 345 291 405 RCS Toulouse;

Manager, SCI at 4 Rue Jules Védrières, SCI with a capital of €374,544. 4 Rue Jules Védrières 31000 Toulouse, 352 073 944 RCS Toulouse.

- *Office: none*

- **The company Salvepar**, Member, Advisory Board also has the following directorships in the companies listed below.

- *Directorships*

Director, Afica – Affinage Champagne Ardennes, company with a capital of €1,216,000. BP 13, 51100 Bazancourt, 336 780 408 RCS Reims;

Director, Conflandey, company with a capital of €1,452,600. 130 rue Amelot 75011 Paris, 306 844 259 RCS Paris;

Director, Crometal, company with a capital of €14,076,829.73. 251 boulevard Péreire 75582 Paris CEDEX 17, 562 086 967 RCS Paris;

Director, Favi, company with a capital of €960,000. Le Laiton Injecte, BP 5, 80490 Hallencourt, 778 151 563 RCS Abbeville;

Director, Groupe Lippi, company with a capital of €1,897,000. La Fouillouse 16440 Mouthiers, 304 541 246 RCS Angoulême;

Director, Norinco, company with a capital of €2,667,857.80. 25 rue Aristide Briand BP 157 60111 Meru CEDEX, 592 029 425 RCS Beauvais;

Director, RG SAFETY, company with a capital of €18,563,825. 74 rue du Docteur Lemoine 51100 REIMS, 420 625 394 RCS REIMS;

Director, Samse, company with a capital of €3,122,234. 26 rue du Colonel Dumont 38000 Grenoble, 056 502 248 RCS Grenoble.

- **Pierre Degeorge**, Permanent representative of Salvepar, Member, Advisory Board also has directorships in the companies listed below and the following offices:

—  
- *Directorships*

Permanent representative of Salvepar on the boards of:

Afica – Affinage Champagne Ardennes, Company with a Board of Directors with a capital of €1,216,000. BP 13 51100 Bazancourt, 336 780 404 RCS Reims;

Favi, Company with a Board of Directors with a capital of €960,000. Le Laiton Injecte BP 5 80490 Hallencourt, 778 151 563 RCS Abbeville;

Groupe Lippi, Company with a Board of Directors with a capital of €1,897,000. La Fouillouse 16440 Mouthiers, 304 541 246 RCS Angouleme;

RG Safety, Company with a Board of Directors with a capital of €18,563,825. 74 rue du Docteur Lemoine 51100 Reims, 420 625 394 RCS Reims;

SG Finance Praha, Company with an Executive and Supervisory Board in the Czech Republic.

- *Office:* Deputy Chief Executive, Societe Alsacienne Et Lorraine De Valeurs, d'Entreprises et de Participations – Salvepar, S.A. with a capital of €12,523,408. 8, rue Félix Pyat 92972 Paris La Defense CEDEX, 552 004 327 RCS Nanterre.

- **Günther Thrum**, Member, Advisory Board also has directorships in the companies listed below and the following offices

- *Directorships*

Manager, Sidmia, Simple Limited Partnership with a capital of €353,400. 58 Avenue du Général Leclerc 92100 Boulogne Billancourt, 722 044 764 RCS Nanterre;

Manager, Sidmia International, SARL with a capital of €15,000. 58 Avenue du Général Leclerc 92100 Boulogne Billancourt, 348 900 564 RCS Nanterre.

- *Office: none*

- **François Losi**, Member, Advisory Board also has directorships in the companies listed below and the following offices:

- *Directorships*

Member, Advisory Board Societe de Gestion et de Participation Financiere E.C., with headquarters in Levallois Perret (92300) 108-110, rue Marius AUFAN.

- *Office: None.*

- **Alain Costes**, Member, Advisory Board also has directorships in the companies listed below and the following offices:

- *Directorships*

—  
Vice-President of Adermip (*Association pour le Développement de l'Enseignement, de l'Economie and des recherches de Midi-Pyrénées*) 32, rue des Cosmonautes – 31400 Toulouse;

Chairman of the Board of Directors, Renater (acronym for the national network of Telecom for technology, teaching and research);

Technical Advisor to the Toulouse Chamber of Commerce and Industry.

- *Office*: Professor, l'Institut National Polytechnique – 6, allées Emile Monso - 31000 Toulouse; Executive researcher, LAAS-CNRS – 7 avenue du Colonel Roche – 31077 Toulouse Cedex 4; Member of the Academy of Technologies.

- **Christian Desmoulin**, Chairman of the Board of Directors also has directorships in the companies listed below and the following offices:

- *Directorships*

Managing Director and Director, Actia, S.A. with a capital of €15,443,593. 25 chemin de Pouvoirville, 31400 Toulouse, 389 187 360 RCS Toulouse;

Director, Sodielec, S.A. with a capital of €3,583,056. route de Mayres BP 9, Saint-Georges de Luzencon 12100 Millau, 699 800 306 RCS Millau;

Chairman of the Board of Directors, l'Ecole Nationale Supérieure Mécanique and Microtechnique de Besançon (Public establishment), 26 chemin de l'Epitaphe 25030 Besancon CEDEX;

Director, l'Ecole Nationale Supérieure des Mines de St Etienne, 158 cours Fauriel 42023 Saint-Etienne Cedex 2;

Director, l'Ecole Nationale Supérieure des Ingénieurs en Arts Chimiques et Technologiques, 118 route de Narbonne 31077 Toulouse Cedex;

Administrator, Club des Affiliés du LAAS-CNRS, 7 avenue du Colonel Roche 31077 Toulouse Cedex;

Director, l'Association Nationale de la Recherche Technique (ANRT), 41 boulevard des Capucines 75002 PARIS;

Director, CIPI, SA with a capital of 500,000 Dinars. rue des Entrepreneurs, ZI Charguia II – 2080 Ariana Aéroport Tunisia.

- *Office*: Work contract director, LP2C, S.A. with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse.

- **Marine Candelon-Bonnemaison**, Member, Board of Directors also has directorships in the companies listed below and the following offices:

- *Directorships*

—  
Member, Board of Directors de LP2C, S.A. with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse, 384 043 352 RCS Toulouse;

Director, Actia, S.A. with a capital of €15,443,593. 25 chemin de Pouvoirville, 31400 TOULOUSE, 389 187 360 RCS Toulouse.

- *Office:* Director, LP2C, S.A. with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse.

• **Catherine Mallet**, Member, Board of Directors also has directorships in the companies listed below and the following offices:

- *Directorships*

Director, Fonderies Financiere Mercie, S.A. with a capital of €597,360. 25 chemin de Pouvoirville 31400 Toulouse, 384 043 352 RCS Toulouse;

Director, MORS TECHNOLOGIES, S.A.S. with a capital of €130,000. La Confrérie BP 22 13610 Le Puy Ste-Reparate, 432 005 569 RCS Aix en Provence;

Director, Ebim, S.A. with a capital of €945,600. ZI St-Joseph 04100 Manosque, 378 940 555 RCS Manosque;

Director, Pilgrim, S.A. with a capital of €2,515,843.26. 25 chemin de Pouvoirville 31400 Toulouse, 403 566 375 RCS Toulouse.

Member, Board of Directors LP2C S.A. with Supervisory & Executive Boards with a capital of €3,967,820. 25 chemin de Pouvoirville 31400 Toulouse .

Permanent representative of LP2C in Enertec Holding, S.A. with a capital of €2,636,520. 185, avenue du Général de Gaulle 92140 Clamart, 413 057 985 RCS Nanterre;

Permanent representative of LP2C in Enertec, S.A. with a capital of €3,124,200. 185, avenue du Général de Gaulle 92140 Clamart, 382 360 956 RCS Nanterre;

- *Office:* Work contract as management attaché ACTIELEC TECHNOLOGIES, S.A. with a capital of €12,864,906. 25 chemin de Pouvoirville 31400 Toulouse.

#### **4.1.4.3 Nominations, renewals and ratification of cooptation**

None of the Supervisory Board member terms are expiring immediately following this meeting. Since Mrs. Véronique Vedrine was appointed by the Supervisory Board on 12 March 2004 to replace Mr. François Losin, retiring Member, Advisory Board, this nomination is submitted for ratification to the General Meeting approving the financial statements of the year ended 31 December 2003.

#### **4.1.4.4 Directors fees and remuneration**

No directors fees were paid to Board members in 2003.

Remuneration paid in the year ended 31 December 2003 is found in the notes to the management report (see page 81).

#### **4.1.4.5 Transactions made on Company shares**

Over the full year, company representatives made the following transactions:

	Total trading 2003		Positions opened on the last day of the year	
	Bought	Sold	Buy	Sell
Number of representatives concerned	5	5	None	None
Number of shares	32,074	44,511	None	None
Weighted average price	2.56	2.66	None	None

#### **4.1.5 Statutory auditors**

No auditors' terms are expiring following the present meeting.

#### **4.1.6 Personnel**

##### **4.1.6.1 Share of capital held at year-end**

At the end of the fiscal year, employees held 0% of the parent company's capital as defined in article L225-102 of the *Code de Commerce*.

##### **4.1.6.2 Reserved capital increase**

As a reminder, the Combined Ordinary and Extraordinary Shareholders' Meeting on 9 May 2003 gave the Board full authorization to carry out a capital increase reserved for subscribers to the company savings scheme within the limit of 3% of the capital at the time and under the conditions it judges appropriate.

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#### **4.1.6.3 Appointment of employee shareholders to the Supervisory Board**

No candidates presented themselves to the Board.

#### **4.1.6.4 Election of Board members by personnel**

Since employees hold less than 3% of the parent company's capital as defined in article L225-102 of the *Code de Commerce*, there are no provisions for the election of a Board member by the personnel.

#### **4.1.7 Regulatory conventions**

We ask that you approve the conventions covered in article L225-86 of the *Code de Commerce* as regularly authorized by the Board.

The Auditors will present them to you and provide all of the information required concerning these conventions in their special report which will be read to you in a few minutes.

Some of these conventions have already been approved by the Board. You should thus validate them under the terms of article L225-88 of the *Code de Commerce*.

#### **4.1.8 Societal impact**

##### **4.1.8.1 Total personnel and changes in 2003**

The 29 units that make up the Company employed, as of 31 December 2003, 1,873 persons located both in France (1,030 employees) and abroad (13 other countries, 843 employees).

At the units located in France, 127 people were hired in 2003, 35 in fixed (shorter-term) contracts and 92 in indefinite term (permanent) contracts. Their recruitment did not pose any particular problems.

The monthly average in France of external staff employed (primarily temp workers) is 28.

The share of overtime hours is insignificant.

##### **4.1.8.2 Working hours and absenteeism**

According to French law, executives and higher level employees must work a fixed number of hours annually; other employees are on the 35-hour work week when full time. Part-time hours (27.5/week) have not changed.

At the business units located in France, absenteeism is less than 4%, with the primary cause being sickness.

#### **4.1.8.3 Remuneration and equal opportunity**

The Company's total payroll cost comes to €59.783m.

Compared to 2002, this is an increase of 12%. Analyzing the corresponding staff breakdown is difficult due to the changes in consolidation scope, with notably the acquisition of Muller Bem with its staff of 104 at 1 January 2003.

For the business units located in France, employee profit-sharing and bonus schemes are applied according to legal norms.

Equal opportunity for women is respected. It should be pointed out that women account for 67% of the Company's management boards.

#### **4.1.8.4 Labor relations and collective agreements**

Given the rather small size of even the largest units (all less than 500 people), labor relations are good.

#### **4.1.8.5 Health and safety**

(see paragraph on Environmental impact page 70).

#### **4.1.8.6 Training**

In France, training programs are generalized throughout the business units. Training budgets account for about 1.6% of the wage bill and thus often exceed the legal required minimum.

#### **4.1.8.7 Disabled workers**

The number of disabled workers employed by the Company in France falls well below the legal requirement: 2.1% instead of the required 6.0 %. However, the Company did advance in this area compared with 31 December 2002. Despite the special effort made to outsource to CAT (workers aid organization) and other centers for reintegration, further strides must be made.

#### **4.1.8.8 Community service**

Operations at the various related associations do not call for any specific comments.

#### **4.1.8.9 Outsourcing**

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The Company makes significant use of outsourcing, which varies according to each business unit's location relative to the Company's main production sites. A major effort was made in 2003 to reduce the amount of outsourcing, especially in terms of R&D.

#### ***4.1.8.10 Domestic impact***

Given the international nature of the Company, with operations in 14 different countries, it is mostly growing abroad, but without eliminating jobs in France, as long as its survival there is assured.

#### ***4.1.8.11 Public relations***

The Company has an excellent relationship with schools and institutions of higher learning, where it carries out important R&D and recruits numerous interns.

There have been no problems with environmental or consumer defense organizations, nor with local populations.

#### ***4.1.8.12 Ethics and outsourcing***

Subcontractors are regularly audited in terms of quality commitment to our customers. At this time, we also verify that work ethics regulations (child or slave labor) are being followed according to the recommendations of the ILO.

#### ***4.1.8.13 Subsidiaries abroad***

Regulations for the French units are applied to the behavior of the foreign subsidiaries while respecting local laws. Management in the concerned countries has not notified us of any particular problems.

### **4.1.9 Environmental impact**

The data gathered and presented below concerns the following organizations:

Actia: 694 employees ,of which:

- Actia Pouvoirville (265 employees)
- Actia Colomiers (215 employees)
- Actia Muller Services Champlan (69 employees)
- Actia Muller Services Lucé (122 employees)
- Aton (14 employees)
- Aixia (9 employees)

Sodielec: 365 employees, of which:

- Sodielec Millau (86 employees)
- Dateno Dinard (76 employees)
- Ebim Manosque (90 employees)

- Mors Technologies Le Puy St Réparate (113 employees)

A new entity is taken into account for the 2003 environmental report: Actia Muller Services Lucé (122 employees), which currently produces electronic cards. Note that when it was taken over, it also had a surface treatment business at another site (Chartres), which was discontinued in 2003. The Chartres site was completely cleared out and the organization was moved to Lucé.

#### 4.1.9.1 Consumption and waste

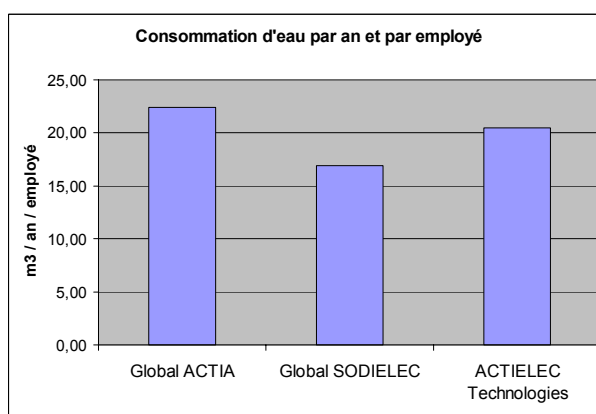
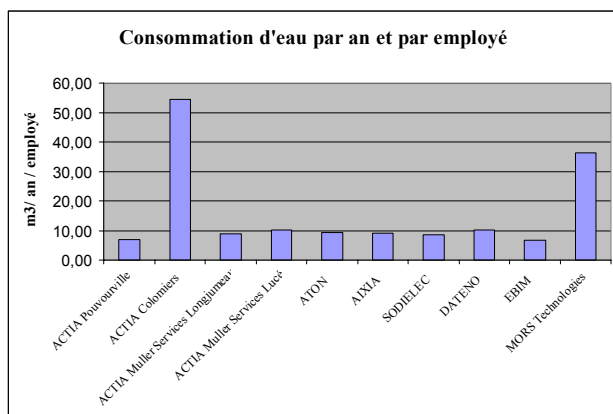
##### 4.1.9.1.1 Water consumption

Total water consumption at the nine sites in 2003 came to 21,718 m<sup>3</sup> (18,900 m<sup>3</sup> in 2002), i.e. an overall increase of 15%. The new site at Lucé represents 1,230 m<sup>3</sup> consumed. At constant scope compared with last year and excluding Lucé, the total increase in consumption came to around 8%. It should be pointed out that in the 2002 environmental report, some of the 2002 data was estimated. Since then, more precise data collection has been implemented at all of the sites.

53% of the water consumed at all sites comes from the public drinking water supply (11,568 m<sup>3</sup> in 2003); only the Actia Colomiers site has a private well source (10,150 m<sup>3</sup> consumed in 2003, intended for cooling stations). Since 2003, this consumption has been precisely measured by a meter.

Expressed in terms of employee numbers, total consumption at all of the sites in 2003 came to around 20 m<sup>3</sup>/year/employee, identical to 2002.

Sites	ACTIA Pouvourville	ACTIA Colomiers	ACTIA Muller Services Longjumeau	ACTIA Muller Services Lucé	ATON	AIXIA	Global ACTIA	SODIELEC	DATENO	EBIM	MORS Technologies	Global SODIELEC	ACTIELEC Technologies
Consommation d'eau par employé et par an (m <sup>3</sup> /an/employé)	6,86	54,31	8,70	10,08	9,29	9,00	22,39	8,41	10,17	6,68	36,15	16,94	20,51



Consumption at the various sites (except Actia Colomiers and Mors Technologies) is representative of a “Service/Research” activity. Daily water consumption comes to around 50 liters per day and per employee, compared with the average household consumption which is around 150 to 200 liters per person per day.

#### 4.1.9.1.2 Consumption of raw materials

The Company does not directly consume raw materials extracted from a natural source since the business involves products that are already partly manufactured (electronic components, electrical cables, etc.) and essentially made up of metals and plastics.

#### 4.1.9.1.3 Energy consumption

Three types of energy are used at all sites:

- Electricity: 5,691 MWh in 2003 (3,531 MWh in 2002), i.e. an increase of 60%;
- Fuel: 287 MWh in 2003 (188 MWh in 2002), i.e. an increase of 50%;
- Natural gas: 2,849 in 2003 (1,193 MWh in 2002), i.e. an increase of 140%.

Total energy consumed at all sites in 2003 came to 8,828 MWh (4,912 MWh in 2002), i.e. an overall increase of 80%.

The reasons for this are as follows:

1- First of all, there was the addition of the new production unit, Actia Muller Services at Lucé, which was not included in 2002. It consumed 2,127 MWh in 2003 (including 65% gas, linked to production).

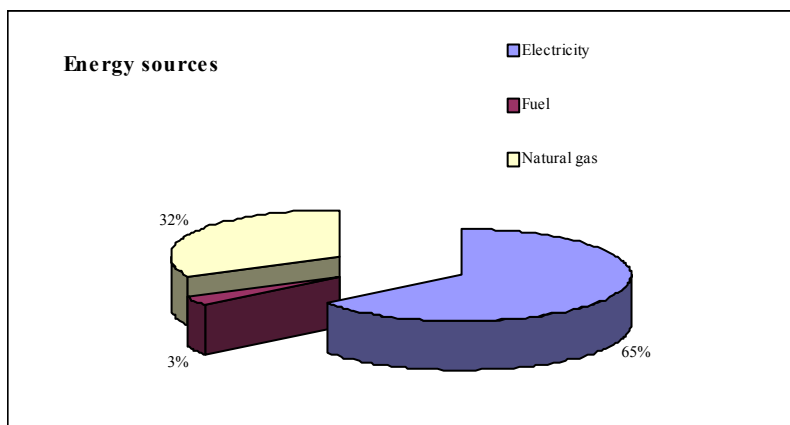
Thus, at constant scope excluding Lucé, overall consumption in 2003 came to 6,701 MWh, i.e. an increase of 36%.

2- Secondly, Sodielec saw its overall energy consumption rise 100% (3,254,743 kWh in 2003 versus 1,546,168 kWh in 2002) due to:

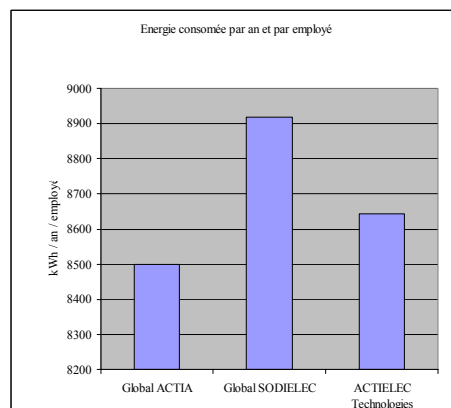
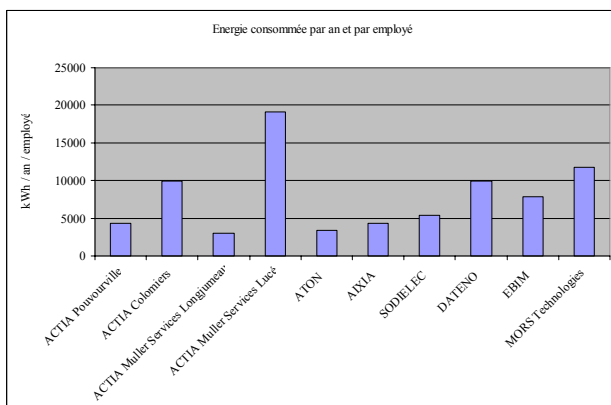
- The operation of a second building at Dateno over the full year 2003,
- The refill of fuel storage at Ebim which is independent of the calendar year,
- The installation of more exhaustive data collection Mors Technologies in 2003.

3- The 2003 summer heat wave increased the use of air conditioning (many of the sites are air conditioned).

Energy consumption by source breaks down as follows:



These charts illustrate energy consumption per employee in 2003:



Summary of energy consumption:

Sites	ACTIA Pouvourville	ACTIA Colomiers	ACTIA Muller Services Longjumeau	ACTIA Muller Services Lucé	ATON	AIXIA	Global ACTIA	SODIELEC	DATENO	EBIM	MORS Technologies	Global SODIELEC	ACTIELEC Technologies
Consommation par employé (kWh / an / employé)	4323	9883	2966	19158	3376	4347	8500	5420	9930	7870	11732	8917	8644

Excluding Lucé, the overall average ratio of annual energy consumption is 7,274kWh/year/employee (5,505kWh/year/employee in 2002). Including Lucé, the ratio comes to 8,644kWh/year/employee.

#### 4.1.9.1.4 Conditions for land use

Activity at all sites uses land and soil only as a base for buildings.

All sites combined represent a total of 12 hectares, of which 65% of the surface is taken up with landscaped greenbelt.

#### 4.1.9.1.5 Airborne emissions

The activities at our sites do not create significant airborne emissions.

Close to 65% of the energy used is electric, which does not generate any greenhouse effect gases (CO<sub>2</sub>, etc.).

However, a substantial undertaking to measure airborne emissions is planned in the 2004 budget for the Colomiers site.

#### 4.1.9.1.6 Land or water pollution

The activities at our sites do not discharge significant amounts of waste on land or in water:

- Waste water is classified as “household” and discharged into the community sewage network to be treated at the water purification plant.
- Potentially polluting products are not stored on the bare ground, as all activities are carried out in covered buildings with sealed floors.

The water network at the Actia Colomiers site, the main production site, is the separated kind: wastewater is directed to the local rainwater network.

#### 4.1.9.1.7 Noise or odor pollution

Given the quiet, non-odorous nature of the activity carried out on these sites, no noise or odor complaints were filed in 2003.

#### 4.1.9.1.8 Waste

Waste generated at all of the sites is composed primarily of packaging (boxes, pallets, plastic wrap, etc.), office trash, manufacturing scrap, and a small quantity of hazardous waste.

This waste is not disposed of or treated on site. It is temporarily stored before being taken away in the usual fashion to recycling, recovery or treatment plants.

Recycling already in place at our sites involves primarily boxes, paper, plastic and metal.

A sorting policy is already in place at seven sites.

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The two Actia sites in Toulouse and Colomiers (representing more than 50% of the Company's French staff), which have taken environmental management measures, have evaluated waste production ratios for 2003. This comes to:

- 210 kg/yr/employee for the two sites combined in 2003;

In comparison, household waste represents around 370 kg/year/habitant.

#### ***4.1.9.2 Measures taken to limit environmental impact***

The activities carried out at our sites do not have a significant impact on the natural balance, the environment, or any animal or plant species:

- A virtual lack of airborne emissions (trace amounts of greenhouse gases), noise or direct use of the natural environment),
- Measures to limit waste water and potentially polluting products are already in place,
- Waste water (essentially domestic) joins the sewage network and is treated at purification plants,
- Products that could potentially pollute land or water are stored in containers and do not come into direct contact with the ground.

As a reminder, greenbelt/landscaped areas represent 65% of the total surface area of our sites, reflecting a successful integration into the local natural environment.

#### ***4.1.9.3 Evaluation and certification***

Both the Actia Toulouse and Actia Colomiers sites (close to 50% of the total personnel out of 10 sites) obtained their ISO 14001 certification in July 2003.

#### ***4.1.9.4 Measures taken to ensure conformity***

Within the environmental management systems in place at Actia Toulouse and Actia Colomiers, regulations are constantly monitored, and the resulting tracking process ensures that the systems are in compliance with regulations.

A budget of €12,000 was committed in 2003: €5,100 for the acquisition of a second chemical products storage shelter and €7,300 for ISO 14001 certification.

#### ***4.1.9.5 Investments made for prevention***

Given that:

- Any danger is very limited in the event of site dysfunction,
- Measures are already in place to limit the sites' impact on the environment during normal operations (waste collection, water network connections, etc.),

- 
- Steps for environmental certifications mean that the sites are committed to constant improvement and perfected management of their environmental impact,

No substantial investments were necessary in 2003 for prevention of consequences from the Company's activity.

#### ***4.1.9.6 Internal organization for environmental management***

Within the administrative management team of ACTIELEC TECHNOLOGIES, one person is assigned the responsibility of coordinating all of the environmental efforts, with the support of an environmental research and consulting office.

In addition, there is an on-site technician at Actia Colomiers to supervise the site's waste management.

When environmental management measures were implemented at the Actia Toulouse and Actia Colomiers site, an environmental coordinator post was created. This office is supervised by the Actia - Quality/Environment Systems management.

This environmental coordinator has been trained in environmental management.

Implementation of ISO 14001 norms requires training and informing employees about environmental matters. The general session to make personnel aware of these issues has taken place. A training plan and consciousness-raising schedule have been established within the framework of the environmental management system.

Internal organization of risk management in the event of an accident has been taken at the sites where an environmental management system has been implemented (Actia Toulouse and Actia Colomiers). These systems require that emergency situations be identified and evaluated (such as pollution accidents) in order to develop the best response; there is also an obligation to write up a procedure for responding to emergency situations as well as identifying the latter.

Our sites do not present any pollution risk that would extend beyond their perimeters.

#### ***4.1.9.7 Provisions and guarantees***

Since none of our activities represent a significant environmental risk, no provisions or guarantees have been made in 2003 nor in previous years.

#### ***4.1.9.8 Indemnities paid and repairs***

No indemnities were paid in 2003 due to an environmental problem or accident.

No repairs were necessary in 2003 as regards the environment.

#### ***4.1.9.9 Objectives set for foreign subsidiaries***

The French sites are committed to continuously improving how they handle the various environmental issues in their sites' activities.

—  
In 2003, efforts to collect and centralize information were made at the French sites.

Sites abroad present the same characteristics as the French sites: the impact of their activities on the environment is extremely limited.

However, environmental issues will be gradually accounted for at the foreign subsidiaries in accordance with the current legislation in each country, but also within the framework of the voluntary commitment to this cause at ACTIELEC TECHNOLOGIES.

#### **4.1.9.10 Summary**

At constant scope and excluding the exceptional and temporary case of the Lucé site in 2003, there was not a substantial change in consumption and waste.

The increase in energy consumption observed in 2003 was due to several factors as outlined in paragraph II.1.3 (increased use of air conditioning in the summer of 2003, the operation of an additional building, more accurate and comprehensive data collection).

Efforts to streamline environmental data collection at all of the Company's sites will continue in 2004. A precise analysis of the airborne emissions at the Colomiers site is already budgeted for 2004.

#### **4.1.10 Presentation of resolutions**

In accordance with the meeting's agenda, we are going to submit several resolutions for your approval.

##### **4.1.10.1 Within the jurisdiction of the General Shareholders Meeting**

In the first resolution, we ask you to approve the full-year financial statements for the past year.

In the second resolution, we ask you to approve the financial statements for the consolidated year ended 31 December 2003, indicating a consolidated group income of €1,997,398.

You will then be asked in a third resolution to approve the conventions covered in article L225-86 of the Code of Commerce. Your Auditors will present them to you and give you all the required information about them in their special report which will be read to you in a few minutes.

If you approve the past year's financial statements and balance sheet for ACTIELEC TECHNOLOGIES S.A., in a fourth resolution we will propose the following distribution of earnings:

#### **Balance**

Retained earnings	€12,119,544.12
Full-year profit:	€121,569.66

#### **Distribution**

Accumulated	
Retained earnings	€12,241,113.78

<b>TOTAL</b>	<b>€12,241,113.78</b>	<b>€12,241,113.78</b>
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In a fifth resolution, you will be asked to ratify the appointment of a new member of the Supervisory Board.

The sixth resolution concerns giving the Managing Board the authorization to have the Company buy back its shares within the terms of article L225-209 of the *Code de Commerce*.

#### **4.1.10.2 Within the jurisdiction of the Extraordinary Shareholders' Meeting**

The seventh resolution will allow the Company's bylaws to be modified so as to be in compliance with the law of 1 August 2003 through the correlating modification of articles 26 and 27. The 1 August 2003 Financial Security Law has changed some of the operating rules for *Société Anonyme* (limited company) in France particularly as concerns the *Société Anonyme à Directoire et Conseil de Surveillance* (limited company governed by a Managing Board and Supervisory Board):

- 1- Control of regulated conventions between the Company and a Shareholder is applicable when said Shareholder owns more than 10% of the capital (replacing the former percentage of 5%);
- 2- As concerns the obligation to communicate the list and purpose of current conventions concluded under normal conditions: current conventions are excluded from this communication if their purpose or financial implication is not significant for any of the parties;
- 3- Starting 1 January 2003, the Chairman of the Supervisory Board is now responsible in the years to come for establishing a management report that covers:
  - the conditions for preparing and organizing the Board's work,
  - the management control processes implemented within the Company,
- 4- The Auditors must be convened to all the Supervisory and Advisory Board meetings where interim financial statements are to be closed or examined (in addition to the annual financial statements);
- 5- The Auditors are subject to new obligations in terms of information (network affiliations, fees paid, etc.); this information must be made available to the Shareholders and updated each year;
- 6- Resolution proposals to designate Auditors must come from the Supervisory Board (and not the Executive Board) or from the Shareholders; in addition, these resolution proposals must report if need be transfers or mergers by the Company or its holdings, verified over the past two years by the proposed Auditors;
- 7- The Auditors must justify their evaluation of the certification of financial statements (annual or consolidated); they must also present a report attached to their general report with their observations of the internal control procedures to create and process accounting and financial information;
- 8- For companies that are required to report consolidated financial statements, the Auditors proceed together to examine in due process the terms and conditions of the establishment of the financial statements in accordance with the dictates set forth in professional practice standards. Standard practice also determines how the division of tasks will be made amongst the Auditors to accomplish their mission.

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9- Resolution proposals made by Shareholders (representing at least 5% of capital) and listed on the meeting's agenda are made known to the Shareholders under conditions set out in a forthcoming decree;

10- When the meeting is called upon to deliberate on changes to the economic or legal organization of the company, if the Works Council was consulted about these changes in accordance with the terms of the Labor Code, its opinion must be communicated to the meeting.

The last resolution will concern the powers to be conferred.

#### **4.1.11 Conclusion**

We will ask you to fully and definitively discharge the Board for its management of the year ended 31 December 2003, as well as the Auditors for accomplishing their mission that they will tell you about in their general report.

Your Board invites you to approve by vote the text of the proposed resolutions.

THE BOARD

## 4.1.12 Notes to the management report

### 4.1.12.1 Appendix I: Consolidated companies as of 31 December 2003

Name	Headquarters	% of control	Business sector
<b>ACTIELEC Technologies SA</b>	Toulouse	Consolidating co.	Lead holding company
<b><u>Automotive</u></b>			
- ACTIA SA	Toulouse	99.98	Electronic development and manufacture
- ACTIA MULLER SERVICES SA	Toulouse	99.99	Manufacture and distribution of electronic equipment for garages
- TECNOFRANCE SA	Méry sur Oise	99.50	No industrial activity
- AUTOTECH SARL	Méry sur Oise	71.58	No industrial activity
- AIXIA SA	Le Bourget du Lac	99.91	Electronic development and manufacture
- ATON SYSTEMES SA	Maison Alfort	75.97	Electronic development and manufacture
- ACTIA UK LTD	Newtown ( <i>Wales</i> )	100.00	Electronic development and manufacture
- TEKHNE LTD	Farnborough ( <i>England</i> )	100.00	No industrial activity since 1995
- ACTIA VIDEOBUS SAS	Getafe Madrid ( <i>Spain</i> )	100.00	Audio and video equipment development and manufacture
- ACTIA AUTOMOTIVE	Getafe Madrid ( <i>Spain</i> )	80.01	Distribution of diagnostic products
- KARFA SA de CV	Mexico City ( <i>Mexico</i> )	90.00	Investment management
- ACTIA DE MEXICO SA de CV	Mexico City ( <i>Mexico</i> )	100.00	Audio and video equipment manufacture and distribution
- ACTIA DO BRASIL LTD	Porto Alegre ( <i>Brazil</i> )	80.00	Electronic development and manufacture
- ACTIA INC LTD	Elkhart, Indiana ( <i>USA</i> )	100.00	No activity
- ATAL SARL	Tabor ( <i>Czech Rep.</i> )	89.98	Electronic development and manufacture
- ACTIA ITALIA SPA	Torino ( <i>Italy</i> )	100.00	Electronic development and manufacture
- I + ME ACTIA GMBH	Braunschweig ( <i>Germany</i> )	100.00	Electronic development and manufacture
- ACTIA CORP.	Elkhart, Indiana ( <i>USA</i> )	100.00	Electronic development and manufacture
- ACTIA NL BV	Nuenen ( <i>Netherlands</i> )	100.00	Electronic development and manufacture
- ACTIA POLTIK SP Sarl	Lodz ( <i>Poland</i> )	70.00	Electronic development and manufacture
- CIPI SA	Tunis ( <i>Tunisia</i> )	65.40	Electronic manufacture
- ACTIA INDIA PRIVATE LTD	New Delhi ( <i>India</i> )	51.00	Electronic development and manufacture
- ACTIA CHINA	Shanghai ( <i>China</i> )	100.00	Electronic development and manufacture
<b><u>Telecommunication</u></b>			
- SODIELEC SA	St Georges de Luzençon	90.47	Electronic development and manufacture
- DATENO SA	Dinard	99.97	Electronic development and manufacture
- MORS TECHNOLOGIES SAS	Puy-Sainte-Réparate	99.96	Electronic development and manufacture
- EBIM SAS	Manosque	100.00	Electronic development and manufacture
- PILGRIM SA	Toulouse	99.99	Etudes et fabrications électroniques

#### 4.1.12.2 Appendix II: Total compensation paid to officers

Officers	Within the company			Within a held company	Within the controlling companies	
	Compensation paid in respect of:		Benefits	Compensation and benefits	Compensation	Benefits
	Directorship	Other				
(regardless of the directorship's length during the fiscal year)						
Louis Pech	0	0	0	0	221,660	3,264
Pierre Calmels	0	0	0	0	72,000	0
Günther Thrum	0	0	0	0	0	0
Pierre Degeorge/Salvepar	0	0	0	0	0	0
François Losi	0	0	0	0	0	0
Alain Costes	0	0	0	0	0	0
Christian Desmoulins	0	0	0	0	133,875	1,316
Catherine Mallet	0	55,500	1,292	0	0	0
Marine Candelon	0	0	0	0	28,470	1,766
<b>TOTAL</b>	<b>0</b>	<b>55,500</b>	<b>1,292</b>	<b>0</b>	<b>456,005</b>	<b>6,346</b>

## 4.2. PARENT COMPANY FINANCIAL STATEMENTS FOR ACTIELEC Technologies ON 31 DECEMBER 2003

### 4.2.1. Balance sheet

Assets in €		31/12/03		31/12/02	31/12/01
		Gross	Depreciation	Net	Net
Uncalled capital					
<b>INTANGIBLE FIXED ASSETS</b>					
Start-up costs					
Research & Development costs					
Concessions, patents and brands	34,361	33,924	437	1,416	2,676
Commercial goodwill					
Other intangible assets					
Advances and payments on account					
<b>TANGIBLE FIXED ASSETS</b>					
Land					27,225
Buildings	50,171	50,171	0	0	354,894
Plant, equipment and tools					
Other tangible assets	332,605	298,470	34,135	38,583	45,066
Fixed assets under construction					
Advances and payments on account					
<b>FIXED FINANCIAL ASSETS</b>					
Equity-accounted investments					
Other shareholdings	40,362,888	2,572,097	37,790,791	37,791,120	31 386 821
Receivables on investments	10,314,053	306,724	10,007,329	10,272,074	14,193,095
Other holdings	233,008		233,008	233,008	233,008
Loans					
Other fixed financial assets	7,382		7,382	7,382	21,422
<b>FIXED ASSETS</b>	<b>51,334,468</b>	<b>3,261,386</b>	<b>48,073,082</b>	<b>48,343,583</b>	<b>46,264,208</b>
<b>INVENTORIES AND WORKS IN PROGRESS</b>					
Raw materials, supplies					
Goods in progress					
Services in progress					
Intermediate and finished products					
Merchandise	1,975,440		1,975,440	2,148,733	3,764,424
Advances and payments on account for orders					266,389
<b>RECEIVABLES</b>					
Trade accounts receivable and related accounts	3,940,976		3,940,976	3,602,489	1,560,827
Other receivables	3,012,491		3,012,491	2,143,198	2,330,548
Unpaid called up capital					
<b>OTHER</b>					
Marketable securities	444 279	240,778	203,501	123,792	379,276
(o/w treasury stock: 443,470 )					
Cash and equivalents	224,320	42,863	181,457	113,639	70,037
<b>ADJUSTMENT ACCOUNTS</b>					
Pre-paid expenses	94 523		94,523	101,048	55,734
<b>CURRENT ASSETS</b>	<b>9,692,029</b>	<b>283,641</b>	<b>9,408,388</b>	<b>8,232,900</b>	<b>8,427,234</b>
Deferred charges					
Bond redemption premiums					
Unrealized exchange losses					

	<b>TOTAL ASSETS</b>	<b>61,026,497</b>	<b>3,545,027</b>	<b>57,481,470</b>	<b>56,572,483</b>	<b>54,691,442</b>
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<b>Liabilities and Shareholders' equity in €</b>	<b>31/12/03</b>	<b>31/12/02</b>	<b>31/12/01</b>
Company or individual capital (of which 12,864,906 paid)	12,864,906	12,864,906	12,864,906
Issuance, merger and transfer premiums	9,276,980	9,276,980	9,276,980
Revaluation reserves			
Legal reserve	1,286,491	1,286,491	1,160,116
Statutory or contractual reserves			
Regulated reserves (incl. share price fluctuation provisions)	189,173	189,173	189,173
Other reserves (incl. purchase of original artistic works)			
Retained earnings	12,119,544	10,406,178	
<b>GROUP NET INCOME (profit or loss)</b>	<b>121,570</b>	<b>1,713,366</b>	<b>11,558,375</b>
Investment subsidies			
Regulated provisions			
<b>SHAREHOLDERS' EQUITY</b>	<b>35,858,664</b>	<b>35,737,094</b>	<b>35,049,550</b>
Proceeds from issuance of non-voting shares			
Conditional advances			
<b>OTHER SHAREHOLDERS' EQUITY</b>	<b>0</b>	<b>0</b>	<b>0</b>
Provisions for liabilities			
Provisions for expenses			
<b>PROVISIONS FOR LIABILITIES AND EXPENSES</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FINANCIAL LIABILITIES</b>			
Convertible bond debt			
Other convertible debt			
Bank borrowings	14,497,020	13,407,777	11,653,308
Other borrowings and financial debt (incl. non-voting shares)			
Advances and payments on account for orders in progress			2,714,303
<b>OPERATING LIABILITIES</b>			
Trade accounts payable and related accounts	2,965,388	4,790,122	2,625,580
Tax, personnel and social security	229,203	148,294	140,922
<b>OTHER LIABILITIES</b>			
Amounts payable for fixed assets and related accounts	981,772	1,311,050	1,647,104
Other debts	2,949,423	1,182,146	860,674
<b>ADJUSTMENT ACCOUNTS</b>			
Pre-paid income			
<b>LIABILITIES</b>	<b>21,622,806</b>	<b>20,839,389</b>	<b>19,641,892</b>
Unrealized exchange gains			
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>57,481,470</b>	<b>56,576,483</b>	<b>54,691,442</b>

#### 4.2.2. Income statement

	<i>France</i>	<i>Export</i>	<i>31/12/03</i>	<i>31/12/02</i>	<i>31/12/01</i>
Sales of merchandise	9,205,696		9,205,696	6,109,174	189,130
Goods sold					
Services sold	3,683,508		3,683,508	3,476,766	3,581,318
<b>NET SALES</b>	<b>12,889,205</b>		<b>12,889,205</b>	<b>9,585,941</b>	<b>3,770,448</b>
Inventories					
Own work capitalized					
Operating subsidies					
Write-back of provisions and depreciation, transfers of expenses			46,289	58,986	75,439
Other income					
<b>OPERATING INCOME</b>			<b>12,935,493</b>	<b>9,644,926</b>	<b>3,845,887</b>
Purchase of merchandise (incl. customs duties)			9,032,402	4,493,484	3,953,554
Change in inventories (merchandise)			173,294	1,615,690	(3,764,424)
Purchase of raw materials and other supplies (incl. customs duties)					
Change in inventory of raw materials and other supplies					
Other purchases and external expenses			2,874,789	2,802,685	2,764,022
Taxes, duties and related payments			80,999	80,353	79,128
Salaries and other compensation			687,909	716,135	595,984
Social security charges			282,850	283,540	238,617
<b>ALLOCATION OF OPERATING INCOME</b>					
Fixed asset depreciation			12,085	24,857	41,394
Fixed asset provisions					
Provisions on current assets					
Provisions for risks and expenses					
Other expenses					
<b>OPERATING EXPENSES</b>			<b>13,144,329</b>	<b>10,016,744</b>	<b>3,908,275</b>
<b>OPERATING RESULT</b>			<b>(208,835)</b>	<b>(371,817)</b>	<b>(62,388)</b>
<b>JOINT VENTURES</b>					
Profits attributed or losses transferred out					
Losses taken or profits transferred out					
<b>FINANCIAL INCOME</b>					
Income from investments			677,406	1,586,550	1,957,558
Income from other marketable securities and receivables on fixed assets			122,400	109,562	27,358
Other interest and related income					228
Write-back of provisions and depreciation, transfers of expenses			2,580,754	7,852	3,607
Exchange gains					
Net profit on sale of marketable securities				9,627	4,882
<b>FINANCIAL INCOME</b>			<b>3,380,561</b>	<b>1,713,591</b>	<b>1,993,631</b>
Financial provisions and amortizations				172,334	6,183
Interest and related expenses			596,082	782,329	598,734
Exchange losses					
Net loss on sale of marketable securities					
<b>FINANCIAL EXPENSES</b>			<b>596,082</b>	<b>954,663</b>	<b>604,917</b>
<b>FINANCIAL RESULT</b>			<b>2,784,478</b>	<b>758,928</b>	<b>1,388,715</b>
<b>INCOME BEFORE EXCEPTIONAL ITEMS AND TAX</b>			<b>2,575,643</b>	<b>387,111</b>	<b>1,326,326</b>

				31/12/03	31/12/02	31/12/01
Exceptional income from revenue operations				296,403	3,241	5,808
Exceptional income on capital operations				2,083	3,851,993	10,825,025
Write-back of provisions, transfer of expenses				266,513		
<b>EXCEPTIONAL INCOME</b>				<b>564,999</b>	<b>3,855,234</b>	<b>10,830,833</b>
Exceptional expenses from revenue operations				362,374	56,008	693
Exceptional expenses on capital operations				2,641,453	2,469,160	598,091
Exceptional depreciation and provisions						
<b>EXCEPTIONAL EXPENSES</b>				<b>3,003,828</b>	<b>2,525,168</b>	<b>598,784</b>
<b>EXCEPTIONAL RESULT</b>				<b>(2,438,828)</b>	<b>1,330,066</b>	<b>10,232,049</b>
Employee profit sharing						
Corporate income tax				15,245	3,811	
<b>TOTAL INCOME</b>				<b>16,881,053</b>	<b>15,213,751</b>	<b>16,670,351</b>
<b>TOTAL EXPENSES</b>				<b>16,759,483</b>	<b>13,500,386</b>	<b>5,111,976</b>
<b>PROFIT OR LOSS</b>				<b>121,570</b>	<b>1,713,366</b>	<b>11,558,375</b>

### **4.2.3. Notes to the parent company financial statements**

#### **4.2.3.1 *Accounting principles***

##### **4.2.3.1.1 Significant events**

ACTIELEC TECHNOLOGIES acted as the Group's lead holding company in 2003.

However, as the result of a contract signed in 2001 with the French Ministry of Defense for the supply of ground stations by its subsidiaries Sodielec and Dateno, ACTIELEC TECHNOLOGIES purchased equipment from those subsidiaries and billed the Ministry of Defense 51% more than in fiscal 2002.

##### **4.2.3.1.2 Accounting principles**

The presentation of fiscal year financial statements is in keeping with prevailing legal and regulatory standards.

##### **4.2.3.1.3 Intangible fixed assets**

Concessions and licenses are subject to straight-line depreciation over two years.

##### **4.2.3.1.4 Tangible fixed assets**

Tangible fixed assets are recorded at acquisition cost.

Depreciation is calculated over the estimated lifetime of the asset according to the following accounting methods:

- Buildings, plant and equipment: Straight line, 10 to 20 years
- Others: Straight line 4 to 10 years

##### **4.2.3.1.5 Financial fixed assets**

Equity investments are recorded on the balance sheet at acquisition cost or contribution value.

When the net position of a company owned by ACTIELEC TECHNOLOGIES is less than its acquisition cost and a rebound is unlikely, the company can depreciate the asset so that its useful value is less than its share capital.

##### **4.2.3.1.6 Pension commitments**

Under Off balance sheet commitments, Pension commitments represent a total of €78,359.

#### 4.2.3.2 Additional information pertaining to the Balance sheet and Income statement

The financial statements cover a 12-month period ended 31 December 2003.

##### 4.2.3.2.1 Intangible fixed assets

Changes in the gross value of **intangible fixed assets** for the period:

<i>Figures in €</i>	At 31/12/2002	Acquisitions	Disposals Transfers	At 31/12/2003
Start-up costs	0			0
Other intangible fixed assets	34,361	1,350	1,350	34,361
<b>TOTAL</b>	<b>34,361</b>	<b>1,350</b>	<b>1,350</b>	<b>34,361</b>

##### **Depreciation and amortization:**

<i>Figures in €</i>	At 31/12/2002	Expense	Write-back	At 31/12/2003
Start-up costs	0			0
Other intangible fixed assets	32,945	2,329	1,350	33,924
<b>TOTAL</b>	<b>32,945</b>	<b>2,329</b>	<b>1,350</b>	<b>33,924</b>

##### 4.2.3.2.2 Tangible fixed assets

Changes in the gross value of **tangible fixed assets** for the period:

<i>Figures in €</i>	At 31/12/2002	Acquisitions	Disposals Transfers	At 31/12/2003
Land	0			0
Buildings	50,171			50,171
Plant, equipment and tools	0			0
Other	326,965	5,641		332,605
Fixed assets under construction	0			0
<b>TOTAL</b>	<b>377,135</b>	<b>5,641</b>	<b>0</b>	<b>382,776</b>

##### **Depreciation and amortization:**

<i>Figures in €</i>	At 31/12/2002	Expense	Write-back	At 31/12/2003
Land	0			0
Buildings	50,171			50,171
Plant, equipment and tools	0			0
Other	288,382	10,088		298,470
<b>TOTAL</b>	<b>338,552</b>	<b>10,088</b>	<b>0</b>	<b>348,641</b>

#### 4.2.3.2.3 Financial fixed assets

Changes in financial fixed assets for the period:

<i>Figures in €</i>	Carrying value of shares on the Balance sheet				% holding at 31/12/03	Shareholders' equity before appropriation of profits for FYE 31/12/03	2003 net sales	Net profit at 31/12/03
	at 31/12/02		at 31/12/03					
	Gross value	Net value	Gross value	Net value				
<b>EQUITY SHARES</b>								
<b><u>Subsidiaries and shareholdings &gt; 10 %</u></b>								
ACTIA	17,974,718	17,974,718	17,974,389	17,974,389	99.97%	22,708,720	69,423,701	101,238
SODIELEC	19,563,240	19,563,240	19,563,240	19,563,240	90.47%	27,281,216	15,960,126	1,559,305
PILGRIM	2,515,791	0	2,515,791	0	99.99%	<10,316>	45,562	3,110,976
MORS INC	0	0	0	0	100.00%	nc	nc	nc
CYT	33,494	0	33,494	0	15.00%	nc	nc	nc
SCI ORATOIRE	199,098	199,098	199,098	199,098	86.00%	114,380	300,174	46,849
SCI POUVOURVILLE	41,161	41,161	41,161	41,161	27.50%	1,204,765	577,970	441,914
ACEM (liquidated in 2003)	128,670	0						
<b><u>Subsidiaries and shareholdings &lt; 10 %</u></b>								
DATENO	206	206	206	206	0.006%	3,553,821	12,546,324	969,556
CIPI	10,138	10,138	10,138	10,138	0.200%	1,211,220	3,136,947	21,427
MORS TECHNOLOGIES	10	10	10	10	0.008%	3,735,360	10,607,372	257,003
EBIM	17	17	17	17	0.000%	1,299,415	11,064,629	148,468
<b><u>Outside the Group</u></b>								
MPC	1,525	1,525	1,525	1,525	0.024%	nc	nc	nc
CONTINENTALE	47	47	47	47	nm	nc	nc	nc
STEM	22,813	0	22,813	0	nm	nc	nc	nc
CGC	960	960	960	960	nm	nc	nc	nc
<b>Total</b>	<b>40,491,888</b>	<b>37,791,120</b>	<b>40,362,888</b>	<b>37,790,791</b>				
<b>OTHER SECURITIES</b>								
1% Construction loan	15,550	15,550	15,550	15,550				
PILGRIM bonds	2,286,735	0	0	0				
SODIELEC convertible bonds	217,458	217,458	217,458	217,458				
<b>Total</b>	<b>2,519,743</b>	<b>233,008</b>	<b>233,008</b>	<b>233,008</b>				
<b>OTHER FIXED FINANCIAL ASSETS</b>								
Deposits	30	30	30	30				
Other loans	7,352	7,352	7,352	7,352				
<b>Total</b>	<b>7,382</b>	<b>7,382</b>	<b>7,382</b>	<b>7,382</b>				

nm: not meaningful

nc: not communicated

#### 4.2.3.2.4 Inventories

As part of its contract with the Ministry of Defense, ACTIELEC TECHNOLOGIES purchases certain items from its Sodielec subsidiary. As of 31 December 2003, inventories amounted to €1,975,440 due to billing lags stipulated in the contract.

#### 4.2.3.2.5 Trade accounts receivable and other receivables

<i>Figures in €</i>	Gross value	Net value	Due within 1 year	Due after 1 year
Receivables linked to shareholdings	10,314,053	10,007,329	1,894,729	8,112,600
Trade accounts receivable	3,940,976	3,940,976	3,940,976	
Charge accounts linked to shareholdings	2,247,959	2,247,959	1,230,181	1,017,778
Other receivables (including pre-paid expenses)	859,055	859,055	859,055	
<b>TOTAL</b>	<b>17,362,043</b>	<b>17,055,319</b>	<b>7,924,941</b>	<b>9,130,378</b>

#### 4.2.3.2.6 Own shares

The share buyback plan was first authorized by the COB on 14 December 2000 (Visa # 00-2041) and then again on 11 April 2002 (Visa # 02-357). The 9 May 2003 shareholders' meeting approved a new 18-month buyback plan. The new plan does not require COB authorization because it does not entail the possibility of canceling shares purchased through the plan, as was the case with the previous two plans. The plan is designed to allow Actielec to buy and sell shares in the market to regulate its share price.

As of 31 December 2003 and since the beginning of the plan, ACTIELEC TECHNOLOGIES had purchased 61,996 of its own shares, which it records under Current assets for a gross value of €290,318, or an average purchase price of €4.68.

Excluding the buyback plan, ACTIELEC TECHNOLOGIES owns an additional 1,400 of treasury stock, booked at the gross value of €153,152. These shares were held by Mors SA at the time of the Actielec/Mors merger.

Actielec earmarks a provision covering these shares depending on the stock's closing price. For example, on 31 December 2003, given the closing price of €3.21, it set aside a total provision of €239,968.97.

#### 4.2.3.2.7 Share capital

The company's share capital is composed of 17,153,208 shares with a par value of €0.75 each, giving total share capital of €12,864,906.

Changes in net equity during the period are as follows:

<i>Figures in €</i>	Balance on 31/12/2002 before appropriation	Appropriation of 2002 profits		Balance on 31/12/2003 before proposed appropriation
		Reserves, Retained earnings	Dividends	
Capital	12,864,906			12,864,906
Issue premiums	6,409,976			6,409,976
Merger premiums	2,867,003			2,867,003
Legal reserve	1,286,491			1,286,491
Undistributable reserves	189,173			189,173
Regulated reserves	0			0
Retained earnings	10,406,178	1,713,366		12,119,544
2002 net income	1,713,366	<1,713,366>		0
2003 net income	0			121,570
<b>Net equity (before appropriation of profits)</b>	<b>35,737,094</b>	<b>0</b>	<b>0</b>	<b>35,858,664</b>

In 2003, the company adopted a stock option plan for its officers, in respect of their directorships. The stock option plan comprises 240,000 shares at a unit price of €1.92 and expires 31 August 2008. As of 31 December 2003, no options had been exercised.

This is the only stock option plan currently in place at the company.

#### 4.2.3.2.8 Liabilities

At the end of the year, financial liabilities are as follows, according to type and maturity:

<i>Figures in €</i>	Maturity			Total
	<31/12/04	>01/01/05 <31/12/08	>01/01/09	
Bank borrowings				
* Medium/Long-term borrowings	3,528,497	5,496,254		<b>9,024,751</b>
* Commercial paper, ST credit facilities	5,331,227			<b>5,331,227</b>
* Accumulated interest on financial debt	141,042			<b>141,042</b>
Trade accounts payable and related accounts	3,291,629	655,531		<b>3,947,160</b>
Taxes, personnel and social security	229,203			<b>229,203</b>
Other liabilities	2,949,423			<b>2,949,423</b>
<b>TOTAL</b>	<b>15,471,022</b>	<b>6,151,785</b>	<b>0</b>	<b>21,622,806</b>

Medium-term and long-term borrowings:

<i>Figures in €</i>	Initial amount	Date of issuance	Duration	Remaining capital due on 31/12/2003
Crédit Agricole	1,676,939	20.02.98	5 years	584,299
Société Bordelaise de CIC	457,347	01.10.99	5 years	107,611
Crédit Lyonnais	1,524,490	20.12.00	7 years	1,048,839
Crédit Lyonnais	3,048,980	08.02.01	6 years	2,177,843
Société Bordelaise de CIC	457,347	09.03.01	5 years	274,408
Société Générale	3,048,980	19.04.01	7 years	1,960,800
Natexis Banque	762,245	28.06.01	5 years	450,000
Société Bordelaise de CIC	457,347	11.12.01	5 years	228,500
Crédit Lyonnais	912,000	28.12.01	4 years	684,000
Banque Courtois	500,000	30.09.02	4 years	375,000
Société Bordelaise de CIC	400,000	25.11.02	5 years	320,000
Banque Populaire Toulouse-Pyrénées	1,000,000	23.12.02	5 years	813,451
<b>TOTAL</b>				<b>9,024,751</b>

#### 4.2.3.2.9 Financial result

The following significant items are included under **financial income**:

- ✓ Interest on current accounts invoiced to subsidiaries: €586,589.77
- ✓ Write-backs of provisions on Pilgrim bonds (repurchased 08/12/03): €2,286,735.36
- ✓ Write-backs of provisions on shares and Acem's current account (liquidated 03/10/03): €164,915.84

**Financial expenses** are composed entirely of interest and related charges stemming from bank borrowings.

#### 4.2.3.2.10 Exceptional result

The following significant items are included under **exceptional income**:

✓ Default interest paid by Ministry Of Defense:	€189,472.89
✓ Interest from Pilgrim bonds (generated the previous year):	€106,000.00
✓ Ministry of Defense market penalties (reimbursed to SODIELEC):	€266,512.97

The following significant items are included under **exceptional expenses**:

✓ Default Ministry of Defense interest (paid to SODIELEC): .....	€189,472.89
✓ Ministry of Defense market penalties (paid by SODIELEC): .....	€266,512.97
✓ the withdrawal from PILGRIM bonds: .....	€2,286,735.26
✓ Liquidation of ACEM shares and current account: .....	€164,915.84

#### 4.2.3.2.11 Financial commitments and securities

As of 31 December 2003, ACTIELEC TECHNOLOGIES has given €10,358,589 in security to banks on behalf of its subsidiaries.

ACTIELEC TECHNOLOGIES has also pledged to purchase, from 1 January 2008 to 11 June 2011, stock purchase warrants issued by Actia SA and entirely subscribed by Anvar (€1.6m) if asked to by Anvar. The price of the warrants purchased by ACTIELEC TECHNOLOGIES will depend on its share price at the time of purchase.

### 4.2.3.3 Other information

#### 4.2.3.3.1 Future tax benefits and liabilities

As of 31 December 2003, items with an impact on future taxes were as follows:

✓ Tax-loss carryforwards:	€2,600,000
✓ ARD (perpetual deferred depreciation without expiry date):	€517,000
✓ Tax-loss carryforwards linked to LT capital losses:	€2,076,000

#### 4.2.3.3.2 Staff at year end

	2002	2003
Executives and managers	5	6
Administrative employees	1	1
Interns	-	-
Laborers	-	-
<b>TOTAL</b>	<b>6</b>	<b>7</b>

#### 4.2.3.3.3 Operations with related companies

Amount involving companies as of 31/12/03 in euros	related	with which the Group has ownership ties
<b><u>ASSETS</u></b>		
Receivables linked to shareholdings		10,314,053
Provisions on receivables linked to shareholdings		(*) -306,724
Other fixed asset securities		217,458
Other financial fixed assets		2,779
Trade accounts receivable and related accounts		960,378
Other receivables	776,205	1,471,755
<b><u>LIABILITIES</u></b>		
Trade accounts payable and related accounts	43,283	2,664,932
Other liabilities		
<b><u>Income statement</u></b>		
Operating expenses	1,796,430	9,658,680
Financial expenses	2,328	
Exceptional expenses		455,986
Operating income	41	3,725,242
Financial income		850,762
Exceptional income		562,910

(\*) Provision on CYT receivable at Mors SA at the time of the merger

#### 4.2.3.3.4 Risk management:

ACTIELEC TECHNOLOGIES has entered into the following agreements:

- ✓ An interest rate cap on 11 July 2002 covering €4.1m of borrowings at a rate of 4.5% over a 5-year period starting 1 January 2003. There remained €3.6m outstanding as of 31 December 2003.
- ✓ An interest rate swap (floating for fixed rate) on 13 March 2003 covering €3.6m of borrowings at 2.76% for a 2-year period starting 1 July 2003. There remained €3.6m outstanding as of 31 December 2003.

#### 4.2.3.3.5 Compensation of corporate officers

Neither the Chairman of the Managing Board nor the Chairman of the Supervisory Board of ACTIELEC TECHNOLOGIES SA is compensated by ACTIELEC TECHNOLOGIES. Only one member of the Managing Board has a contract stipulating compensation. That board member received a gross salary of €56,792 in 2003.

#### 4.2.3.3.6 Consolidating company

S.A. **LP<sup>2</sup>C**, share capital of €3,967,820

Registered office: 25, Chemin de Pouvoirville  
31400 Toulouse

Registered at Chamber of Commerce: Toulouse B 384 043 352

## 4.2.4. Additional notes to parent company financial statements

### Subsidiary and shareholding details

Figures in €  Company name	Subsidiary balance sheet and earnings at 31/12/03			Actielec Technologies S.A. accounts						
	Shareholders' equity before appropriation of profits	Net sales	Net income	at 31/12/03				at 31/12/02		
				% held	Number of shares	Receivables	Dividends due	Number of shares	Receivables	Dividends due
<b>1) Subsidiaries &amp; Shareholdings &gt; 10 %</b>										
ACTIA	22,708,720	69,423,701	10,1238	99.97%	17,974,389	9,168,632		17,974,718	8,030,862	
SODIELEC	27,281,216	15,960,126	1,559,305	90.47%	19,563,240			19,563,240	1,325,655	
PILGRIM	<10,316>	45,562	3,110,976	99.99%	2,515,791			2,515,791		
MORS INC	nc	nc	nc	100.00%	0			0		
Control Y Telemandos	nc	nc	nc	15.00%	33,494	306,724		33,494	306,724	
SCIORATOIRE	114,380	300,174	46,849	86.00%	199,098	26,140		199,098	103,000	
SCIPOUVOURVILLE	1,204,765	577,970	44,194	27.50%	41,161		100,650	41,161		90,750
ACEM (liquidated in 2003)								128,670	36,246	
<b>2) Shareholding &lt; 10 %</b>										
DATENO	3,553,821	12,546,324	969,556	0.006%	206		57	206		26
CIP I	12,112,220	3,136,947	21,427	0.200%	10,138			10,138		
MORS TECHNOLOGIES	3,735,360	10,607,372	257,003	0.008%	10	812,557		10	812,557	
EBIM	1,299,415	11,064,629	148,468	0.000%	17			17		
<i>Outside the Group</i>										
MPC	nc	nc	nc	0.024%	1,525			1,525		
CONTINENTALE	nc	nc	nc	nm	47			47		
STEM	nc	nc	nc	nm	22,813			22,813		
CGC	nc	nc	nc	nm	960			960		
TOTAL					#####	10,314,053	100,707	#####	10,615,044	90,776
<b>3) Other holdings</b>										
% Construction loan					15,550			15,550		
Pilgrim bonds					0			2,286,735		
Sodielec convertible bonds					217,458			217,458		
TOTAL					233,008	0	0	2,519,743	0	0
<b>4) Loans and other fixed financial assets</b>										
Guarantees					30			30		
Other loans					7,352			7,352		
TOTAL					7,382	0	0	7,382	0	0
<b>5) Provisions for financial holdings</b>										
Control Y Telemandos					33,494	306,724		33,494	306,724	
PILGRIM					2,515,791			2,515,791		
ACEM (liquidated in 2003)								128,670	36,246	
MORS INC										
STEM					22,812			22,812		
TOTAL					2,572,097	306,724	0	2,700,767	342,970	0
<b>6) Provisions for other holdings</b>										
PILGRIM								2,286,735		

nm: not meaningful

nc: not communicated

Note: shareholdings are valued as a function of the company's useful value

#### **4.2.5. Statutory Auditors' general and special reports**

KPMG

Eric Blache

KPMG Audit

14, rue Clapeyron

9, avenue Parmentier  
B.P. 2398  
31086 Toulouse Cedex 02  
France

75008 Paris  
France

**Actielec Technologies S.A.  
(a French public limited company governed by  
an Executive Board and a Non-Executive Board)**

Registered headquarters: 25, chemin de Pouvoirville – BP 4215 – 31432 Toulouse cedex 04 – France  
Share capital: € 12,864,906

#### **Report of the Statutory Auditors on the company's consolidated accounts**

For the trading year that ended on December 31, 2003

Dear Sirs

Pursuant to the mandate that was entrusted to us by your General Meeting, we proceeded to audit the consolidated accounts of Actielec Technologies S.A. for the trading year that ended on December 31, 2003, which you will find appended to this report.

The consolidated accounts were drawn up by the company's Executive Board. Having audited these accounts, it is our duty to inform you of our opinion thereof.

#### ***1. The Statutory Auditors' opinion on the consolidated accounts***

We performed our audit in accordance with the professional standards applicable in France; these standards call for investigations to be carried out in order to end up with reasonable certainty that the consolidated accounts do not incorporate significant anomalies. An audit involves an in-depth analysis of the salient elements underlying the data featuring in these accounts. It also involves assessing the accounting methods used and any significant estimates made in the process of drawing up these accounts, as well as checking the general presentation of the accounts. We consider that the checks that we have carried out form a reasonable basis for the opinion expressed below.

We hereby certify that the consolidated accounts are, in light of France's accounting rules and principles, accurate and truthful and properly reflect the situation of the company's assets, its financial position, as well as the performance of the block of companies whose results are thereby consolidated.

## Report of the Statutory Auditors on the company's consolidated accounts

## 2. *Justification for our assessments*

In accordance with the provisions of article L.225-235 of France's *Code de commerce*, whereby we must provide justification for our assessments, said provisions having been introduced by France's Financial Regulation Law of August 1, 2003 and being applicable from the 2003 trading year onwards, we hereby draw your attention to the following elements:

Point I-3 of the note to the consolidated accounts sets out methods of calculating, accounting and amortising consolidated goodwill.

The accounting rules and methods used in connection with Research & Development expenses and the accounting rules and methods used in connection with Design Costs and with Long-Term Contracts valued according to the percentage of completion method are described in points II-1 and II-4 of the note to the consolidated accounts.

Point II-6 of the note to the consolidated accounts describes the accounting rules and methods used in connection with the calculation of Deferred Taxes and the calculation of Deferred Tax Debit.

As part of our assessment of the accounting rules and methods used by your group, we proceeded to ascertain whether the above-mentioned accounting methods and the information provided in the various sections of the notes to the accounts were appropriate and whether they had been properly applied.

Our resulting assessments were incorporated into our overall audit of the consolidated accounts and thus contributed to the formation of the opinion expressed without reservation featuring in the first part of this report.

## 3. *Specific checks*

We also proceeded to check information regarding the group featuring in the management report. Further to these checks, we have no comments to make about their accuracy and concordance with the consolidation accounts.

Toulouse and Paris, April 14, 2004

The Statutory Auditors

KPMG Audit  
A unit of KPMG S.A.

Eric Blache

[signature]  
Philippe Saint-Pierre  
Partner

[signature]

—  
KPMG

Eric Blache

KPMG Audit

14, rue Clapeyron

9, avenue Parmentier  
B.P. 2398  
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Registered headquarters: 25, chemin de Pouvoirville – BP 4215 – 31432 Toulouse cedex 04 – France  
Share capital: € 12,864,906

**Special Report of the Statutory Auditors regarding regulated agreements**

For the trading year that ended on December 31, 2003.

Dear Sirs,

As Statutory Auditors of your company, we hereby present our special report on regulated agreements.

***1. Regulated agreements authorised during the past trading year***

In accordance with article L. 225-88 of France's *Code de commerce*, we have requested and received information about all agreements that had to be authorised beforehand by your supervisory board.

Our duties do not extend to investigating whether any other such agreements may have been withheld from us; our role is merely to inform you about the core characteristics and terms of those that we know of based on the information provided to us, without purporting to assess them on their merits. According to the provisions of article 117 of France's decree dated March 23, 1967, it is up to you to assess the utility and probity of entering into these agreements prior to approving them.

**ACTIELEC TECHNOLOGIES**

Special Report of the Statutory Auditors regarding regulated agreements

**WITH SODIELEC**

- Parties involved:
  - Mr. Pierre Calmels
  - Actielec Technologies represented by Mr. Louis Pech
- **Nature and subject-matter: comfort letter in favour of Crédit Lyonnais**
- Terms:

Your company issued a comfort letter in favour of Crédit Lyonnais in Millau, France, as part of a 1-year € 300,000 overdraft facility granted to your subsidiary Sodielec in connection with the pre-financing of conditional phases 3 and 4 of the DGA contract.

On December 31, 2003, the amount outstanding on this overdraft facility stood at € 298.401.

In return for issuing this comfort letter, your company received fees of € 1,500 excluding tax.

- **Nature and subject-matter: comfort letter in favour of Société Marseillaise de Crédit**
- Terms:

Your company issued a comfort letter in favour of Société Marseillaise de Crédit in Millau, France, as part of a 1-year € 300,000 overdraft facility granted to your subsidiary Sodielec in connection with the pre-financing of conditional phases 3 and 4 of the DGA contract.

On December 31, 2003, the amount outstanding on this overdraft facility was nil.

In return for issuing this comfort letter, your company received fees of € 1,500 excluding tax.

**WITH ACTIA**

- Parties involved:
  - Mr. Pierre Calmels
  - Mrs. Marine Candelon – Bonnemaïson
  - Mr. Louis Pech
  - Mr. Christian Desmoulins

**ACTIELEC TECHNOLOGIES**

## Special Report of the Statutory Auditors regarding regulated agreements

- **Nature and subject-matter: joint and several guarantee of debt owed to supplier**

- Terms:

Your company provided a joint and several guarantee to Classic Composants on behalf of Actia S.A. to guarantee payment of your subsidiary's debt to that company.

On December 31, 2003, the debt in question amounted to € 608,271.

In return for providing this guarantee, your company received commissions of € 3,123 excluding tax.

- **Nature and subject-matter: joint and several guarantee in favour of ANVAR**

- Terms:

France's ANVAR has provided your subsidiary Actia S.A. with a reimbursable loan of € 1,200,000 as part of the Government's scheme to back innovation, in connection with the development and pre-production of the secure digital tachograph. Your company provided a joint and several guarantee to guarantee repayment of this € 1,200,000 loan.

On December 31, 2003, the amount outstanding on this loan amounted to € 720,000.

In return for providing this guarantee, your company received commissions of € 6,000 excluding tax.

- **Nature and subject-matter: joint and several guarantee in favour of Banque Courtois and Crédit Agricole**

- Terms:

Your company provided a joint and several guarantee to guarantee repayment of a loan of € 4,000,000 which Actia borrowed from Banque Courtois and Crédit Agricole. This loan was taken out with a view to financing part of the Research & Development costs already incurred as part of the secure digital tachograph project.

On December 31, 2003, the amount outstanding on this loan amounted to € 2,000,000, half of which was paid out in 2003.

In return for providing this guarantee, your company received fees of € 2,389 excluding tax.

**WITH ACTIA MULLER SERVICES**

- Parties involved:

- Mr. Pierre Calmels
- Mr. Louis Pech

- **Nature and subject-matter: joint and several guarantee in favour of SCI Luce Investissement**

## ACTIELEC TECHNOLOGIES

**SPECIAL REPORT OF THE STATUTORY AUDITORS REGARDING REGULATED AGREEMENTS**

- Terms:

Your company provided a joint and several guarantee to guarantee full payment of the rent, charges and other costs incurred in connection with the lease granted by SCI Luce Investissement to your subsidiary AMS.

On December 31, 2003, the extent of your potential commitment amounted to € 3,345,000.

In return for providing this guarantee, your company received fees of € 13,224 excluding tax.

**Agreements approved during previous trading years that continued to be performed during the past trading year**

Furthermore, in accordance with France's decree dated March 23, 1967, we have been informed that the following agreements, which were approved during previous trading years, continued to be performed during the past trading year.

**WITH ACTIA**

- **Nature and subject-matter: Group Agreement**

- Terms:

The Group Agreement with your subsidiary gave rise to the following services and remuneration during the past trading year:

- Continuous and recurrent services: € 1,810,653 excluding tax.
- Financial services:

Your company receives interest on an overdraft facility granted to Actia at the average interest rate applicable to the moneys plus one point.

On December 31, 2003, the balance of this overdraft facility amounted to € 9,168,632.

The interest earned during the trading year as a whole amounted to € 455,838 excluding tax.

- **Nature and subject-matter: joint and several guarantee in favour of CRCA**

- Terms:

Your company provided a joint and several guarantee to guarantee the loan of € 762,245 borrowed by Actia from CRCA.

On December 31, 2003, the amount outstanding on this loan stood at € 304,898.

In return for providing this guarantee, your company received fees of € 3,048 excluding tax during the 2003 trading year.

**ACTIELEC TECHNOLOGIES**

## Special Report of the Statutory Auditors regarding regulated agreements

- **Nature and subject-matter: joint and several guarantee in favour of BPTP**

- Terms:

Your company provided a joint and several guarantee to guarantee the loan of € 457,347 borrowed by Actia from BPTP.

On December 31, 2003, the amount outstanding on this loan stood at € 209,113.

In return for providing this guarantee, your company received fees of € 2,803 excluding tax during the 2003 trading year.

- **Nature and subject-matter: guarantee in favour of Crédit Lyonnais**

- Terms:

Your company provided a guarantee for the loan of € 300,000 taken out by Actia with Crédit Lyonnais.

In return for providing this guarantee, your company received fees of € 375 excluding tax during the 2003 trading year.

- **Nature and subject-matter: comfort letter in favour of BDPME**

- Terms:

Your company issued an unremunerated comfort letter in favour of BDPME with a view to guaranteeing a loan of € 564,061 borrowed by Actia from that bank. This loan was taken out by Actia with a view to providing an overdraft facility to CIPI.

On December 31, 2003, the amount outstanding on this loan stood at € 38,098.

- **Nature and subject-matter: comfort letter in favour of Banque Natexis**

- Terms:

Your company issued a comfort letter in favour of Banque Natexis, with a view to securing a loan agreement for € 500,000 signed by Actia with that bank. This loan was taken out by Actia with a view to financing its working capital requirements.

On December 31, 2003, the amount outstanding on this loan stood at € 300,000. In return for issuing this comfort letter, your company received fees of € 4,000 excluding tax during the 2003 trading year.

- **Nature and subject-matter: joint and several guarantee in favour of Société Générale**

- Terms:

Your company provided a joint and several guarantee to guarantee the loan of € 1,000,000 taken out by Actia with Société Générale.

On December 31, 2003, the amount outstanding on this loan stood at € 714,288.

In return for providing this guarantee, your company received fees of € 8,036 excluding tax during the 2003 trading year.

**ACTIELEC TECHNOLOGIES**

## Special Report of the Statutory Auditors regarding regulated agreements

- **Nature and subject-matter: miscellaneous services**
- Terms:
  - Your company makes premises available to its subsidiaries. Your company charged Actia € 519,029 excluding tax during the past trading year in connection with this service, as well as the related costs, allocated pro rata in accordance with the surface area involved.

Land tax, amounting to € 43,489 excluding tax, was also charged to Actia.

  - Your company granted Actia licenses over patents that are not part of the partial merger of the Electronics arm into that company (art. 2 and 9 of the merger agreement). This service was provided free of charge.

**WITH SODIELEC**

- **Nature and subject-matter: Group Agreement**
- Terms:
 

The Group Agreement with your subsidiary gave rise to the following services and remuneration during the past trading year:

  - Continuous and recurrent services: € 575,144 excluding tax.
  - Financial services:
 

Your company receives interest on an overdraft facility granted to Sodielec at the average interest rate applicable to the moneys plus one point.

On December 31, 2003, the balance of the overdraft facility was settled.

The interest earned during the trading year as a whole amounted to € 33,734 excluding tax.
- **Nature and subject-matter: comfort letter in favour of Crédit Agricole**
- Terms:
 

Your company issued a comfort letter in favour of Crédit Agricole with a view to guaranteeing the repayment of a loan of € 2,286,735 taken out by Sodielec.

On December 31, 2003, the amount outstanding on this loan stood at € 1,575.733.

In return for issuing this comfort letter, your company received fees of € 17,809 excluding tax.

**ACTIELEC TECHNOLOGIES**

## Special Report of the Statutory Auditors regarding regulated agreements

- **Nature and subject-matter: comfort letter in favour of Société Marseillaise de Crédit**
- Terms:

Your company issued a comfort letter in favour of Société Marseillaise de Crédit with a view to securing the repayment of a loan of € 762,245 taken out by Sodielec.

On December 31, 2003, the amount outstanding on this loan amounted to € 409,111.

In return for issuing this comfort letter, your company received fees of € 5,110 excluding tax.

**WITH MORS TECHNOLOGIES S.A.S.**

- **Nature and subject-matter: Group Agreement**
- Terms:

The Group Agreement with your subsidiary gave rise to the following services and remuneration during the past trading year:

- Financial services:

Your company receives interest on an overdraft facility granted to Mors Technologies S.A.S. at the average interest rate applicable to the moneys plus one point.

On December 31, 2003, the balance of the overdraft facility amounted to € 2,280,771.

The interest earned during the trading year as a whole amounted to € 141,637 excluding tax.

**WITH LP2C**

- **Nature and subject-matter: Group Agreement**
- Terms:

The Group Agreement with your subsidiary gave rise to the following services and remuneration during the past trading year:

- Continuous and recurrent services:

. Yearly fixed fee: € 91,469 excluding tax.

. 0.85% of the consolidated turnover: € 1,779,938 excluding tax.

- Financial services:

The remunerated overdraft facility granted by LP2C to your company was settled on December 31, 2003.

The interest billed to your company during the trading year as a whole amounted to € 2,328 excluding tax.

**ACTIELEC TECHNOLOGIES**

Special Report of the Statutory Auditors regarding regulated agreements

**WITH S.C.I. LES COTEAUX DE POUVOURVILLE**

- **Nature and subject-matter: Lease agreement**
- Terms:

Under a 12 year lease signed on December 1, 1987 and renewed in 1999, S.C.I. Les Coteaux de Pouvoirville leases premises located at chemin de Pouvoirville in Toulouse, France, to your company, which is further liable for paying half the security costs in accordance with the rider to the lease.

The rent paid out over the past trading year amounted to € 519,029 excluding tax.

**WITH ACTIA, SODIELEC AND MORS TECHNOLOGIES**

- **Nature and subject-matter: Group Agreement**
- Terms:

Your company provides management personnel so its subsidiaries. This service is billed at cost, including social costs (as well as a provision for **employer costs**).

During the 2003 trading year, the fees charged by your company amounted to € 778,682 excluding tax.

**AGREEMENT SIGNED DURING THE PAST TRADING YEAR AND NOT AUTHORISED AS YET**

We draw your attention to the existence of an agreement that is covered by the provisions of article L. 225-90 of France's *Code de commerce*.

In accordance with article L. 225-240 of *Code de commerce*, we hereby inform you that this agreement was not authorised beforehand by your Non-Executive Board.

It is our duty to inform you of the key characteristics and terms of such agreements based on the information that has been provided to us, as well as of the circumstances owing to which the authorisation procedure was not followed, though our role does not extend to assessing them on their merits. According to the provisions of article 117 of France's decree dated March 23, 1967, it is up to you to assess the utility and probity of entering into these agreements prior to approving them.

**ACTIELEC TECHNOLOGIES**

Special Report of the Statutory Auditors regarding regulated agreements

**With LP2C**

- Parties involved
  - Mr. Pierre Calmels
  - Mr. Louis Pech
- **Nature and subject-matter: overdraft facility**
- Terms:

Your company has granted LP2C an overdraft facility that is remunerated in accordance with the Group Agreement. On December 31, 2003, the outstanding balance of this overdraft facility amounted to € 776,205.

No interest was paid out during the past trading year.

This agreement was not authorised beforehand for practical reasons.

We have performed our duties in keeping with the professional standards applicable in France; these standards call for investigations to be carried out in order to ascertain that the information that was provided to us concords with the documents from which it originated.

Toulouse and Paris, April 14, 2004

The Statutory Auditors

KPMG Audit  
*A unit of KPMG S.A.*

Eric Blache

[signature]  
Philippe Saint-Pierre  
Partner

[signature]



### 4.3. ACTIELEC TECHNOLOGIES CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2003

#### 4.3.1. Consolidated balance sheet

Consolidated Assets in €		31/12/03		31/12/02	31/12/01
		Gross	Depreciation/ Provision	Net	Net
Uncalled capital					
Acquisition goodwill	27,415,380	6,320,852	21,094,528	22,605,993	23,024,632
<b>INTANGIBLE FIXED ASSETS</b>					
Start-up costs	146,789	5,030	141,759	7,800	13,289
Research and development expenditure	20,723,862	3,280,508	17,443,354	14,386,479	12,099,819
Concessions, patents and brands	5,152,566	4,201,489	951,077	1,420,150	1,217,816
Commercial goodwill	76,415	6,000	70,415	16,161	28,984
Other intangible fixed assets				69,285	10,970
Advances and payments on account	5,671		5,671		
<b>TANGIBLE FIXED ASSETS</b>					
Land	1641,276	13,291	1,627,985	1,676,903	1,845,483
Buildings	11,459,281	4,925,601	6,533,680	7,500,850	8,499,106
Plant, equipment and tools	23,423,845	18,651,676	4,772,169	5,623,345	7,302,032
Other tangible fixed assets	11,571,907	8,368,803	3,203,104	3,133,791	2,953,493
Fixed assets under construction	58,468		58,468	172,314	149,176
Advances and payments on account					78,989
<b>FINANCIAL FIXED ASSETS</b>					
Shareholdings	723,608	317,987	405,621	405,413	635,836
Equity-accounted investments	647,397		647,397	586,247	534,309
Receivables on investments	601,146	385,329	215,817	257,212	162,180
Other holdings	161,974	91,184	70,790	75,500	80,899
Loans	1,816		1,816	602	
Other financial fixed assets	296,485		296,485	196,213	301,467
<b>FIXED ASSETS</b>	<b>104,107,886</b>	<b>46,567,750</b>	<b>57,540,136</b>	<b>58,137,258</b>	<b>58,938,480</b>
<b>CURRENT ASSETS</b>					
Raw materials	21,724,206	3,039,580	18,684,626	18,745,572	25,793,630
Goods in progress	3,404,508		3,404,508	2,882,914	3,817,729
Services in progress	7,322,528	16,702	7,305,826	5,986,926	4,540,908
Intermediate and finished products	7,606,174	560,253	7,045,921	8,454,055	9,485,903
Merchandise	11,102,870	1,508,425	9,594,445	7,056,574	8,299,041
Advances and payment on account for orders	428,459		428,459	534,311	1,025,380
Trade accounts receivable	50,328,452	1,468,127	48,860,325	41,599,790	53,522,726
Deferred tax assets	7,770,206		7,770,206	7,341,907	5,873,139
Other receivables	7,478,005	67,722	7,410,283	9,065,161	13,105,985
Unpaid called-up capital	2,984		2,984		
Own shares	443,470	239,969	203,501	123,792	214,283
Other marketable securities	224,191	809	223,382	90,475	255,756
Cash and equivalents	6,378,974	47,145	6,331,829	5,192,757	10,341,096
Pre-paid expenses	1,528,608		1,528,608	999,510	964,877
<b>CURRENT ASSETS</b>	<b>125,743,635</b>	<b>6,948,732</b>	<b>118,794,903</b>	<b>108,073,744</b>	<b>137,240,453</b>
<b>ADJUSTMENT ACCOUNTS</b>					
Deferred charges	74,806		74,806	112,646	169,968
Bond redemption premiums					
Unrealized exchange losses					
<b>TOTAL ASSETS</b>	<b>229,926,327</b>	<b>53,516,482</b>	<b>176,409,845</b>	<b>166,323,648</b>	<b>196,348,901</b>

Consolidated Liabilities and Shareholders' Equity in €	31/12/03	31/12/02	31/12/01
Share capital	12,864,906	12,864,906	12,864,906
Issuance premiums	9,276,980	9,276,980	9,276,980
Group revaluation reserves			
Legal reserve	1,286,491	1,286,491	1,160,116
Statutory or contractual reserves			
Regulated reserves	189,173	189,173	189,173
Other reserves			
Group reserves	3,429,924	6,913,339	14,457,583
Currency translation reserve	(1,697,185)	(788,942)	392,784
Retained earnings	12,119,544	10,406,178	
<b>Group net income</b>	<b>1,941,038</b>	<b>(3,369,749)</b>	<b>3,692,615</b>
Investment subsidies			
Regulated provisions			
Treasury stock			
<b>SHAREHOLDERS' EQUITY</b>	<b>39,410,871</b>	<b>36,778,376</b>	<b>42,034,157</b>
Minority interests in reserves	2,839,217	3,045,353	4,180,370
Minority interests in net income	56,360	(100,854)	227,765
<b>MINORITY INTERESTS</b>	<b>2,895,577</b>	<b>2,944,499</b>	<b>4,408,135</b>
Proceeds from issuance of non-voting shares			
Conditional advances	647,880	1,205,430	3,356,238
<b>OTHER EQUITY</b>	<b>647,880</b>	<b>1,205,430</b>	<b>3,356,238</b>
Negative acquisition goodwill			
Provisions for risks	1,421,827	376,085	1,378,115
Provisions for expenses	1,984,186	2,162,489	2,015,005
Deferred tax liabilities	16,685	3,264	49,931
<b>PROVISIONS FOR RISKS AND EXPENSES</b>	<b>3,422,698</b>	<b>2,541,838</b>	<b>3,443,051</b>
Convertible bonds	1,499,159	1,443,600	1,143,396
Other bonds			
Bank borrowings	63,060,278	64,575,180	65,451,775
Other borrowings and financial liabilities	1,116,545	1,842,523	1,800,200
Advances and payments on account for orders	2,637,772	3,098,747	6,028,659
Trade accounts payable and related accounts	33,312,345	27,157,577	38,346,206
Tax, personnel and social security	16,436,299	12,891,699	14,620,203
Due for fixed assets	1,013,352	2,078,489	2,280,663
Other liabilities	5,782,005	3,673,198	6,908,171
Pre-paid income	5,175,064	6,092,492	6,528,047
<b>TOTAL LIABILITIES AND ADJUSTMENTS</b>	<b>130,032,819</b>	<b>122,853,505</b>	<b>143,107,320</b>
Unrealized exchange gains			
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>176,409,845</b>	<b>166,323,648</b>	<b>196,348,901</b>

### 4.3.2. Consolidated income statement

	31/12/03	31/12/02	31/12/01
Sales of merchandise	33,175,718	25,354,711	14,940,422
Goods sold	138,505,405	121,804,687	138,861,495
Services sold	26,898,395	28,936,899	29,815,473
<b>NET SALES</b>	<b>198,579,518</b>	<b>176,096,297</b>	<b>183,617,390</b>
Change in production inventories	300,071	(410,844)	1,265,996
Own work capitalized	4,285,059	4,851,883	4,181,947
Operating subsidies	281,330	208,998	399,077
Write-back of depreciation, provisions and transfers	3,052,890	3,716,656	3,390,656
Other income	276,846	67,770	206,593
<b>OPERATING INCOME</b>	<b>206,775,714</b>	<b>184,530,760</b>	<b>193,061,659</b>
Purchase of merchandise	23,338,912	16,067,936	15,657,102
Change in merchandise inventories	(1,567,908)	1,137,485	(4,838,807)
Purchase of raw materials	69,417,210	67,417,395	86,798,089
Change in raw materials inventories	676,973	2,084,466	(9,877,907)
Other purchases and external expenses	32,494,337	31,510,764	31,836,716
Taxes, duties and related payments	3,176,305	2,621,334	3,027,931
Salaries and other compensation	43,379,635	39,847,144	38,718,395
Social security charges	16,403,033	13,950,450	13,182,589
Fixed asset depreciation	5,833,127	5,671,426	5,290,034
Fixed asset provisions			
Provisions on current assets	1,357,094	2,598,100	1,807,843
Provisions for risks and expenses	1,135,823	409,541	883,882
Other expenses	868,661	703,787	169,225
<b>OPERATING EXPENSES</b>	<b>196,513,202</b>	<b>184,019,828</b>	<b>182,655,092</b>
<b>OPERATING RESULT</b>	<b>10,262,512</b>	<b>510,932</b>	<b>10,406,567</b>
Profits attributed or losses transferred out			
Losses taken or profits transferred out			
Income from shareholdings	21,142	23,361	8,407
Income from other marketable securities	13,567	3,570	8,821
Other interests and related income	108,814	156,872	141,725
Write-back of provisions and transfer of expenses	249,483	126,197	113,391
Exchange gains	1,606,655	1,303,601	889,881
Net profit on sale of marketable securities	4,714	10,544	7,104
Gain or loss on currency translation			445
<b>FINANCIAL INCOME</b>	<b>2,004,375</b>	<b>1,624,145</b>	<b>1,169,774</b>
Financial provisions and amortizations	1,374	323,718	147,043
Interests and related expenses	3,693,567	4,266,866	4,367,055
Exchange losses	2,663,693	2,124,756	732,125
Net loss on sale of marketable securities			7
<b>FINANCIAL EXPENSES</b>	<b>6,358,634</b>	<b>6,715,340</b>	<b>5,246,230</b>
<b>FINANCIAL RESULT</b>	<b>(4,354,259)</b>	<b>(5,091,195)</b>	<b>(4,076,456)</b>
<b>INCOME BEFORE EXCEPTIONAL ITEMS AND TAX</b>	<b>5,908,253</b>	<b>(4,580,263)</b>	<b>6,330,111</b>

		31/12/03	31/12/02	31/12/01
Exceptional income from revenue operations		593,498	1,252,983	383,793
Exceptional income on capital operations		261,451	5,669,952	975,726
Write-back of provisions and transfer of expenses		258,670	624,090	281,997
<b>EXCEPTIONAL INCOME</b>		<b>1,113,619</b>	<b>7,547,025</b>	<b>1,641 516</b>
Exceptional expenses on revenue operations		588,141	473,414	624,651
Exceptional expenses on capital operations		618,841	4,297,923	769,100
Exceptional provisions and amortization		141,034	291,283	106,017
<b>EXCEPTIONAL EXPENSES</b>		<b>1,348,016</b>	<b>5,062,620</b>	<b>1,499,768</b>
<b>EXCEPTIONAL RESULT</b>		<b>(234,397)</b>	<b>2,484,405</b>	<b>141,748</b>
Employee profit sharing				
Income tax, current		2,688,140	1,395,245	1,036,829
Income tax, deferred		(413,340)	(1,509,568)	230,130
<b>RESULT OF CONSOLIDATED COMPANIES</b>		<b>3,399,056</b>	<b>(1,981,535)</b>	<b>5,204,900</b>
Result of equity-accounted subsidiaries		151,900	134,439	105,385
Amortization of acquisition goodwill		1,553,558	1,623,507	1,389,905
<b>CONSOLIDATED NET INCOME</b>		<b>1,997,398</b>	<b>(3,470,603)</b>	<b>3,920,380</b>
<b>GROUP SHARE OF NET INCOME</b>		<b>1,941,038</b>	<b>(3,369,749)</b>	<b>3,692,615</b>
<b>MINORITY INTERESTS' SHARE OF NET INCOME</b>		<b>56,360</b>	<b>(100,854)</b>	<b>227,765</b>
<b>Earnings per share</b> (group share before amortization of acquisition goodwill)		<b>0.204</b>	<b>(0.102)</b>	<b>0.296</b>

### 4.3.3. Notes to the Consolidated financial statements

#### 4.3.3.1 Principles of consolidation

The consolidated financial statements are presented in accordance with French generally accepted accounting principles, notably Rule 99/02 of the Accounting Regulation Committee (*Comité de la Réglementation Comptable*).

##### 4.3.3.1.1 Consolidation scope and criteria

Companies controlled exclusively by ACTIELEC TECHNOLOGIES are fully consolidated. The statements for companies in which ACTIELEC TECHNOLOGIES exercises significant influence are consolidated by the equity method.

The list of consolidated companies appears in paragraph 4.1.12.1 (see page 77).

##### 4.3.3.1.2 Elimination of operations between consolidated companies

All significant transactions between consolidated companies and internally-generated group results included in the tangible fixed assets and inventories of consolidated companies have been eliminated.

##### 4.3.3.1.3 Acquisition goodwill

When a new company is acquired, its identifiable assets and liabilities are entered in the consolidated balance sheet at fair value at the date of acquisition. The residual differential between the acquisition cost and the portion of revalued shareholders' equity is included in assets under the heading of "Acquisition goodwill" or in liabilities under the heading of "Provision for expenses".

Acquisition goodwill is recorded in the income statement according to a straight-line amortization policy that currently runs between 10 and 20 years. Further details on outstanding acquisition goodwill can be found in the paragraph on Intangible fixed assets on page 102.

##### 4.3.3.1.4 Translation of the annual statements of subsidiaries reporting in foreign currencies

The annual statements of foreign companies are translated as follows:

- Rates at the end of the period are used to convert assets and liabilities;
- Items in the income statement are converted using the average exchange rate for the period, except for those of subsidiaries in countries with high inflation, which are translated using rates at the end of the period;
- Currency translation adjustments are recorded under shareholders' equity without affecting earnings;
- In keeping with CRC 99-02, currency translation adjustments related to permanent financing considered part of the net investment in a consolidated subsidiary are booked under shareholders' equity.

### 4.3.3.2 *Accounting principles*

#### 4.3.3.2.1 Intangible fixed assets

##### **Research and Development**

Research and Development (R&D) expenditure related to R&D operations with no immediate commercial application during the accounting period under consideration can be capitalized if a future commercial application is practically certain with serious chances for technical success.

These expenses include:

- The share of R&D costs arising from a joint order not covered by the customer;
- R&D work undertaken for “potential customers”;
- R&D corresponding to the implementation of plans and studies for the production of new or highly improved materials, devices, products, processes, systems or services, in application of discoveries made or knowledge acquired, before the start of commercial production;
- R&D corresponding to operations undertaken to profoundly modify a product in order to significantly prolong its useful lifetime.

These expenses do not include simple maintenance operations on a product, which are expensed as incurred.

The operations in question should be clearly individualized, each project having serious chances for technical success and commercial application at the time the financial statements are established.

The expenses relating to a project are distinctly identified through cost accounting allocations.

R&D expenditure by project, booked as intangible fixed assets, is systematically amortized over a maximum of five years, except for operations that require exceptionally long amortization periods suited to a specific situation. In no case can the maximum period exceed 10 years starting from the end of the accounting period in which the fixed asset was recorded.

At the end of each period, fixed assets related to a project may be totally amortized if the project is unsuccessful or lacks a future commercially.

#### 4.3.3.2.2 Tangible fixed assets

Tangible fixed assets are entered at their acquisition cost and include, when applicable, interest expense related to the period of construction. The effect of intra-group transfers is eliminated.

Depreciation is calculated on a straight-line basis over the asset's probable lifetime as follows:

- |   |                                |
|---|--------------------------------|
| ▪ Buildings and improvements:                   | 10 to 20 years                 |
| ▪ Plant, equipment and tools:                   | 6 to 10 years                  |
| ▪ Other tangible fixed assets:                  | 3 to 10 years                  |
| ▪ Fixed assets financed through capital leases: | According to the type of asset |

Significant real estate and other assets being acquired through capital leases are entered as fixed assets. Corresponding debts are included in financial liabilities.

#### 4.3.3.2.3 Financial fixed assets

Shares in non-consolidated companies are recorded at their acquisition costs.

When the net position of a company owned by ACTIELEC TECHNOLOGIES is less than its acquisition cost and a rebound is unlikely, the company can depreciate the asset so that its useful value is less than its share capital.

#### 4.3.3.2.4 Inventories and work in progress

Inventories and work in progress are valued at cost according to the weighted average cost method, or at the probable sales value, whichever is lower.

Services in progress are valued at the net cost price of invoices up to the amount of net remaining work on orders (cost of work left to perform). Firm orders (and those with a very high probability of completion) linked to future sales of finished goods may also be taken into account if necessary. In those cases, the excess cost of studies is assigned to sales of finished goods.

Long-term contracts are valued at the percentage of completion method. If a loss is expected upon completion, a provision is made.

#### 4.3.3.2.5 Trade accounts receivable and related accounts

Provisions are estimated to cover the risk of non-payment related to customers who dispute payment or to those in financial difficulties. Discounted notes receivable and unrecoverable 'Daily' are not included in Trade accounts receivable and related accounts.

#### 4.3.3.2.6 Income tax

Deferred taxes are entered according to the liability method.

In particular, they result from:

- Tax loss carryforwards,
- Timing differences between the moment a revenue or expense item is entered in the accounts and its inclusion in the fiscal result of a later period,
- Consolidation restatements.

Deferred tax assets are recorded when it is probable that they will be recovered (see page 99) within at least the next five years.

#### 4.3.3.2.7 Translation of items in foreign currencies

Payables and receivables denominated in foreign currencies are converted at the official exchange rate on 31 December 2003. The unrealized currency translation adjustment created is recorded in the income statement.

#### 4.3.3.2.8 Pension benefits

Until 2002, conventional or legally required indemnities payable to employees at their retirement were included in the consolidated financial statements on the basis of an actuarial estimation of potential benefits of employees at the year end. Starting in 2003, CNC recommendation number 2003-R.01, which tries to harmonize French requirements with IAS 19, will be applied.

#### 4.3.3.2.9 Provisions for risks and expenses

Provisions for risks and expenses comply with Regulation CNC 2000-06 on liabilities.

#### 4.3.3.2.10 Pre-paid income

Under subscription contracts, companies bill customers at the beginning of the period for services that are supplied on a regular basis during the period. Income is recorded on a straight-line basis over the period under consideration.

### 4.3.3.3 Consolidated companies

Name	Headquarters	Siren #	% of control		Consolidation method		Business sector
			Dec-02	Dec-03	Dec-02	Dec-03	
ACTIELEC Technologies	Toulouse	542,080,791	Consolidating company				Lead holding company
<i>Automotive</i>							
- ACTIA	Toulouse	389,187,360	99.98	99.97	FC	FC	Electronic development and manufacture
- ACTIA MULLER SERVICES (1)	Toulouse	350,183,182	99.92	99.99	FC	FC	Manufacture and distribution of electronic equipment for garages
- TECNOFRANCE	Méry sur Oise	342,201,563	99.50	99.50	FC	FC	No industrial activity
- AUTOTECH	Méry sur Oise	392,235,586	71.58	71.58	FC	FC	No industrial activity
- PARMA	Méry sur Oise	400,812,897	100.00	100.00	FC	FC	Property
- AIXIA	Le Bourget du Lac	381,805,514	99.91	99.91	FC	FC	Electronic development and manufacture
- ATON Systemes	Maison Alfort	384,018,263	75.97	75.97	FC	FC	Electronic development and manufacture
- ACTIA UK	Newtown (Wales)		100.00	100.00	FC	FC	Electronic development and manufacture
- TEKHNE	Farnborough (England)		100.00	100.00	FC	FC	No industrial activity
- ACTIA VIDEOBUS	Getafe Madrid (Spain)		100.00	100.00	FC	FC	Audio and video equipment development and manufacture
- ACTIA AUTOMOTIVE (2)	Getafe Madrid (Spain)		-	80.01	-	FC	Distribution de produits de diagnostic
- SCI Los Olivos	Getafe Madrid (Spain)		39.99	39.99	EM	EM	Property
- KARFA	Mexico (Mexico)		90.00	90.00	FC	FC	Investment management
- ACTIA DE MEXICO	Mexico (Mexico)		100.00	100.00	FC	FC	Audio and video equipment development and manufacture
- ACTIA DO BRASIL	Porto Alegre (Brazil)		80.00	80.00	FC	FC	Electronic development and manufacture
- ACTIA INC	Elkhart-Indiana (USA)		100.00	100.00	FC	FC	No activity
- ATAL	Tabor (Czech Rep.)		89.98	89.98	FC	FC	Electronic development and manufacture
- ACTIA ITALIA	Torino (Italy)		100.00	100.00	FC	FC	Electronic development and manufacture
- I + ME ACTIA	Braunschweig (Germany)		100.00	100.00	FC	FC	Electronic development and manufacture
- ACTIA Corporation	Elkhart-Indiana (USA)		100.00	100.00	FC	FC	Electronic development and manufacture
- ACTIA NL	Nuenen (Netherlands)		100.00	100.00	FC	FC	Electronic development and manufacture
- ACTIA POLTIK SP	Lodz (Poland)		70.00	70.00	FC	FC	Electronic development and manufacture
- CIPI	Tunis (Tunisia)		65.60	65.60	FC	FC	Electronic manufacture
- ACTIA INDIA	New Delhi (India)		51.00	51.00	FC	FC	Electronic development and manufacture
- ACTIA CHINA (3)	Shanghai (China)		-	100.00	-	FC	Electronic development and manufacture
<i>Telecom</i>							
- SODIELEC	St Georges de Luzençon	699,800,306	90.47	90.47	FC	FC	Electronic development and manufacture
- DATENO	Dinard	897,280,418	99.97	99.97	FC	FC	Electronic development and manufacture
- MORS Technologies	Puy-Sainte-Réparate	432,005,569	99.96	99.96	FC	FC	Electronic development and manufacture
- EBIM	Manosque	278,940,555	100.00	100.00	FC	FC	Electronic development and manufacture
- SCI Sodimob	St Georges de Luzençon	419,464,490	60.00	60.00	FC	FC	Property
- PILGRIM	Toulouse	403,566,375	99.99	99.99	FC	FC	Electronic development and manufacture
- SCI de l'Oratoire (4)	Colomiers	345,291,405	100.00	100.00	FC	FC	Property
- SCI Les Coteaux de Pouvoirville	Toulouse	343,074,738	27.50	27.50	EM	EM	Property

(1) Actia Muller Services (AMS) was created on 23 October 2003 by the merger of Berenise (which had acquired the assets of Muller Bem on 1 January 2003) with Meiga, both 100%-owned by Actia

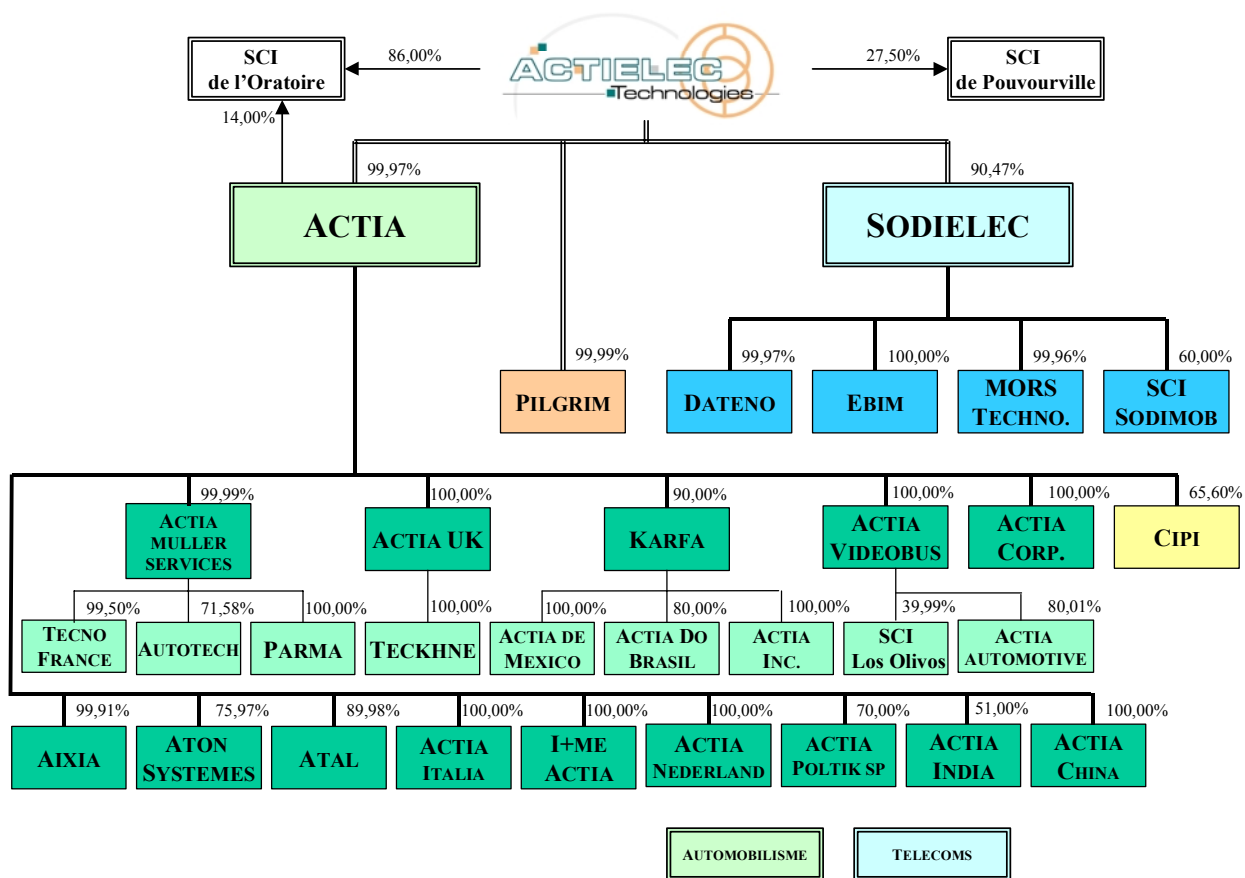
(2) Actia Automotive was formed on 6 June 2003 to acquire a business

(3) Actia China was created on 7 May 2003

(4) SCI de l'Oratoire is 86%-owned by ACTIELEC Technologies and 14%-owned by Actia

\* FC = fully consolidated, EM = equity method

# SCOPE OF CONSOLIDATION AS OF 31 DECEMBER 2003



#### 4.3.3.4 Intangible fixed assets

Changes in the gross value of **intangible fixed assets** for the period:

<i>Figures in € thousands</i>	at 31/12/02	Change in scope Translation adjustment	Acquisitions <Transfer>	Disposals and other reductions	at 31/12/03
Acquisition goodwill	28,374		42	1,001	27,415
Start-up costs	30	<18>	154	19	147
R&D expenditure	16,312	<84>	4,496		20,724
Concessions, patents and licences	4,947	<16>	264	42	5,153
Commercial goodwill	16		60		76
Other intangible fixed assets	84	<4>		80	0
Advances and payments on account			6		6
<b>Total</b>	<b>49,763</b>	<b>&lt;122&gt;</b>	<b>5,022</b>	<b>1,142</b>	<b>53,521</b>

#### Depreciation and amortization:

<i>Figures in € thousands</i>	at 31/12/02	Change in scope Translation adjustment	Attributions <Transfer>	Write-backs and other reductions	at 31/12/03
Acquisition goodwill	5,768		1,554	1,001	6,321
Start-up costs	22	<1>	3	19	5
R&D expenditure	1,926	<6>	1,361		3,281
Concessions, patents and licences	3,527	<7>	850	168	4,202
Commercial goodwill	0		6		6
Other intangible fixed assets	14	<3>		11	0
<b>Total</b>	<b>11,257</b>	<b>&lt;17&gt;</b>	<b>3,774</b>	<b>1,199</b>	<b>13,815</b>

In 2003, Actia Videobus' acquisition of Actia Automotive's business (80.01% for €42,000) generated €42,000 of new acquisition goodwill.

Fully amortized acquisition goodwill was removed from the balance sheet at both the gross value (€1,001,000) and amortization lines (€1,001,000).

Significant acquisition goodwill is generally amortized over 20 years, but in certain regional instances, it may be amortized over 10 years, notably:

- Cipi (Tunisian production facility),
- Actia Poltik,

The increase in R&D expenditure stemmed mainly from Actia SA (tachograph: +€1,928,000), Actia Corp. (+€466,000), Ebim (+€365,000) and Mors Technologies (+€776,000).

#### Acquisition goodwill details:

Figures in € thousands	Gross value					Amortization					Net value	
	at 31/12/02	Acquisitions and other increases	Disposals and other reductions	Removed from balance sheet	at 31/12/03	at 31/12/02	Attributions	Write- backs, disposals	Removed from balance sheet	at 31/12/03	at 31/12/02	at 31/12/03
Meiga	260			260		257	3		260		3	
Actia Videobus	741			741		728	13		741		13	
Cipi	2,633				2,633	1,448	263			1,711	1,185	922
Aton Systemes	352				352	140	45			185	212	167
Karfa	85				85	39	15			54	46	31
Actia Corporation	9,093				9,093	1,137	455			1,592	7,956	7,501
Actia Poltik	298				298	45	30			75	253	223
Actia Automotive		42			42		4			4		38
Sodielec	1,680				1,680	629	56			685	1,051	995
Mors Technologies	5,763				5,763	692	296			988	5,071	4,775
Ebim	7,469				7,469	653	374			1,027	6,816	6,442
<b>Total</b>	<b>28,374</b>	<b>42</b>		<b>1,001</b>	<b>27,415</b>	<b>5,768</b>	<b>1,554</b>		<b>1,001</b>	<b>6,321</b>	<b>22,606</b>	<b>21,094</b>

#### 4.3.3.5 Tangible fixed assets

Changes in the gross value of **tangible fixed assets** for the period:

Figures in € thousands	at 31/12/02	Change in scope Translation adjustment Other changes	Acquisitions and transfers	Disposals and other reductions	at 31/12/03
Land	1,694	<131>	95	17	1,641
Buildings	12,016	<486>	210	281	11,459
Plant, equipment and tools	24,114	<492>	1,192	1,390	23,424
Other tangible fixed assets	11,371	<30>	1,228	997	11,572
Fixed assets under construction	172		<114>		58
<b>Total</b>	<b>49,367</b>	<b>&lt;1,139&gt;</b>	<b>2,610</b>	<b>2,684</b>	<b>48,155</b>
<b>Capital leases:</b>					
Land	129			67	62
Buildings	4,080	1,823			5,903
Equipment and tools	1,988		102		2,090
Other tangible fixed assets	2,103		100	153	2,050

Translation adjustments stem mainly from fluctuations in the following currencies:

- Tunisian dinar (Tunisia): - €0.5m
- US dollar (USA): - €0.6m

The most significant assets acquired in 2003 were:

- Actia: €0.9m (technical installations = €0.7m - other fixed assets = €0.2m),
- Actia Muller Services: €0.3m (technical installations = €0.1m - other fixed assets = €0.2m),
- Actia Corp. (USA): €0.5m (technical installations = €0.1m - other fixed assets = €0.4m),
- Ebim: €0.3m (land and buildings).

Aside from scrapped assets, the most significant disposal in 2003 was that of I+ME - Actia in Germany for €0.3m (land and buildings).

In addition, Mors Technologies negotiated an early termination of a capital lease contract covering one of its industrial plants for the sum of €676,000, i.e. the amount remaining due.

#### **Depreciation and amortization:**

<i>Figures in € thousands</i>	at 31/12/02	Change in scope Translation adjustment Other changes	Attributions	Write-backs	at 31/12/03
Land	17			4	13
Buildings	4,515	<32>	572	130	4,926
Plant, equipment and tools	18,487	<255>	1,806	1,386	18,652
Other tangible fixed assets	8,238	<179>	1,271	961	8,369
<b>Total</b>	<b>31,257</b>	<b>&lt;466&gt;</b>	<b>3,649</b>	<b>2,481</b>	<b>31,959</b>
<b>Lease financing:</b>					
Buildings	1,889	1,199	102		3,190
Equipment and tools	1,591		227		1,818
Other tangible fixed assets	1,440		428	146	1,722

#### **4.3.3.6 Financial fixed assets: shareholdings**

<i>Figures in € thousands</i>	at 31/12/02		at 31/12/03		Holding
	Gross value	Net value	Gross value	Net value	31/12/2003
<b>Shareholdings</b>					
C.Y.T.	33	0	33	0	15%
Stem	23	0	23	0	nm
C.G.C.	1	1	1	1	nm
Actimur	53	53	53	53	37%
Eruodio	23	0	23	0	Being broken up
Acem	129	0	0	0	Liquidated in 2003
Cast	8	0	8	0	Being broken up
3 I S	27	0	27	0	45%
Midi Pyrenees Creation	2	2	2	2	nm
Intecs	350	350	350	350	14%
S.T.A.	203	0	203	0	5%
<b>Total</b>	<b>852</b>	<b>406</b>	<b>723</b>	<b>406</b>	
<b>Other fixed asset shareholdings</b>					
GTI Siglo XXI	94	3	94	3	
Tunisian shares	57	57	52	52	
Other (partnership shares in banks linked to borrowings)	16	16	16	16	
<b>Total</b>	<b>167</b>	<b>76</b>	<b>162</b>	<b>71</b>	

#### **4.3.3.7 Equity-accounted shareholdings**

<i>Figures in € thousands</i>	Value of shares		Share of earnings
	at 31/12/02	at 31/12/03	31/12/2003
SCI Los Olivos	77	96	19
SCI de Pouvoirville	509	551	133
<b>Total</b>	<b>586</b>	<b>647</b>	<b>152</b>

#### 4.3.3.8 Inventories

In 2003, inventories grew by €2.8m. The increase was mainly due to:

- Berenisce's 2003 acquisition of Muller Bem; and
- the Actia Muller Services' business, created by the Meiga/Berenisce merger;

which together generated additional inventories of €2.5m.

#### 4.3.3.9 Trade accounts receivable and related accounts, Other receivables

Virtually all trade accounts receivable are due within 12 months. Other receivables include notably:

- A research tax credit worth €2.1m, which breaks down as follows:
  - Actia €1.9m
  - Sodielec €0.2m

If these amounts cannot be set off against taxes due, they will be refunded by the government according to the following timetable:

- in 2004 €1.8m (o/w €1.6m has been pledged as collateral against a loan (see page 122))
- in 2005 €0.2m
- in 2006 €0.1m
- An income tax credit, including €0.4m for Actia SA and €0.2m for Actia Muller Services.
- VAT reimbursement of €0.7m for ACTIELEC TECHNOLOGIES SA.
- VAT deductions, including €0.9m for Actia Muller Services and €0.6m for Actia de Mexico.

#### 4.3.3.10 Deferred taxes

<i>Figures in € thousands</i>	31/12/2002	31/12/2003
<b>Tax assets attributed to:</b>		
Timing differences between book and fiscal	771	790
Tax loss carryforwards	6,571	6,980
<b>NET TOTAL OF TAX ASSETS</b>	<b>7,342</b>	<b>7,770</b>
<b>Tax liabilities attributed to:</b>		
Deferred tax liabilities	3	17
<b>NET TOTAL OF TAX LIABILITIES</b>	<b>3</b>	<b>17</b>
Provision for deferred tax assets	<262>	
<b>NET TOTAL OF TAX ASSETS OR LIABILITIES</b>	<b>7,077</b>	<b>7,754</b>

Meiga's (currently Actia Muller Services) €262,000 provision for deferred tax charges was written back on 30 June 2003.

The tax-loss carryforwards and long-term capital losses of the Group's French companies that have not been used represent a total tax base of €9.4m (€8.7m at 31 December 2002), for a potential tax saving of €2.9m (€2.6m at 31 December 2002).

#### 4.3.3.11 Share buyback plan

The share buyback plan was first authorized by the COB on 14 December 2000 (Visa # 00-2041) and then again on 11 April 2002 (Visa # 02-357). The 9 May 2003 shareholders' meeting approved a new 18-month buyback plan. The new plan does not require COB authorization because it does not entail the possibility of canceling shares purchased through the plan, as was the case with the previous two plans. The plan is designed to allow Actielec to buy and sell shares in the market to regulated its share price.

As of 31 December 2003 and since the beginning of the plan, ACTIELEC TECHNOLOGIES SA had purchased 61,996 of its own shares, which it records under Current assets for a gross value of €290,318, or an average purchase price of €4.68.

Excluding the buyback plan, ACTIELEC TECHNOLOGIES owns an additional 1,400 of treasury stock, booked at the gross value of €153,152. These shares were held by Mors SA at the time of the Actielec/Mors merger.

Actielec earmarks a provision covering these shares depending on the stock's closing price. For example, on 31 December 2003, given the closing price of €3.21, it set aside a total provision of €239,968.97.

#### 4.3.3.12 Financial liabilities and related accounts, Conditional advances

At the end of the year, financial liabilities are as follows, according to type and maturity:

	31/12/2002				31/12/2003			
	<31/12/03	>01/01/04 <31/12/07	>01/01/08	Total	<31/12/04	>01/01/05 <31/12/08	>01/01/09	Total
<i>Figures in € thousands</i>								
Conditioned advances	505	700		<b>1,205</b>	396	252		<b>648</b>
Convertible bond		1,444		<b>1,444</b>		1,499		<b>1,499</b>
Bank borrowings and financial liabilities	8,857	24,849	1,126	<b>34,832</b>	8,791	20,214	2,022	<b>31,027</b>
Lease financing liabilities	1,175	1,217	956	<b>3,348</b>	536	729	817	<b>2,082</b>
Other borrowings and financial liabilities	1,843			<b>1,843</b>	1,117			<b>1,117</b>
Banking facilities and overdrafts	26,395			<b>26,395</b>	29,951			<b>29,951</b>
<b>Total</b>	<b>38,775</b>	<b>28,210</b>	<b>2,082</b>	<b>69,067</b>	<b>40,791</b>	<b>22,694</b>	<b>2,839</b>	<b>66,324</b>

- Banking facilities and overdrafts as of 31 December 2003 are generally authorized for a one-year period and are renewable midway through the year.
- Convertible bonds were issued at the end of December 2001 by Sodielec SA under the following conditions:
  - Nominative bonds issued at €18 par value,
  - Duration of the loan: 6 years from issue date,

- Interest rate: 2.5 % per year payable on 30 June and 31 December of each year,
- Conversion rate: one share for one bond,
- Conversion option can be exercised at any time.

In case of non-conversion, the bonds will be redeemable by thirds during the 4th, 5th, and 6th years; and will be entitled to a non-conversion premium calculated at a rate which will give an annual gross actuarial rate of 6%. As of 31 December 2003, no conversion option had been exercised.

- At the end of 2003, Actia SA took a €4m loan in order to finance development costs for the secure electronic tachograph. On 31 December 2003, it drew an initial tranche of €2m. It will draw on the remaining amount when the secure electronic tachograph receives certification (first half of 2004). In the event that the conditions for certification are not met, the loan's reimbursement is partially guaranteed by a €1.6m research tax credit (30 June 2004), and the remainder will be repaid before the end of 2004. The loan is subject to covenants.
- The ratio of "Net Indebtedness/Shareholder's Equity" was 67% on 31 December 2003 as opposed to 86% on 31 December 2002.

Net indebtedness consists of:

- In their totality (due in both less than and more than one year):
  - Medium and long-term borrowings,
  - Convertible bonds,
  - Capital leases,
- For the part due over one year only (as the part due under one year partially finances the working capital requirement):
  - Other borrowings and financial liabilities,
  - Conditioned advances

Cash and equivalents are deducted from the total net indebtedness.

Net indebtedness does not include "Dailly" financing, discounted trade bills or overdrafts.

- The guarantees given on borrowings and other financial liabilities are listed in the paragraph on off balance sheet commitments (see page 122).

#### 4.3.3.13 Change in shareholders' equity

We note the following changes in shareholders' equity:

Figures in € thousands	Group share							Minority interests			Total shareholders' equity
	Share capital	Premiums	Retained earnings	Consolidated reserves	Net income	Translation adjustment	Total group share	Minority interests	Share of net income	Total minority interests	
Shareholders' equity on 31/12/2001	12,865	9,277		15,807	3,693	393	42,034	4,180	228	4,408	46,442
Appropriation of prev. year's net income (dividends: €1,025,822)			10406	-7739	-3,693		-1,026	228	-228		-1,026
Net income					-3,370		-3,370		-101	-101	-3,471
Translation adjustment and other				322		-1,182	-860	-1,362		-1,362	-2,222
Shareholders' equity on 31/12/2002	12,865	9,277	10,406	8,389	-3,370	-789	36,778	3,046	-101	2,945	39,723
Appropriation of prev. year's net income			1713	-5083	3,370			-101	101		
Actia share purchase warrants				1600			1,600				1,600
Net income					1,941		1,941		56	56	1,997
Translation adjustment and other						-908	-908	-106		-106	-1,014
Shareholders' equity on 31/12/2003	12,865	9,277	12,120	4,906	1,941	-1,697	39,411	2,839	56	2,895	42,306

In 2003, Anvar (*Agence Française de l'Innovation*) and ACTIELEC TECHNOLOGIES signed an agreement to convert an innovation grant, initially paid in the form of a reimbursable advance, into warrants (*bons de souscription d'actions*) to purchase shares in Actia, a subsidiary of ACTIELEC TECHNOLOGIES. On 11 June 2003, Anvar subscribed 943 share purchase warrants with the following conditions:

- The issued warrants entitle the holder to purchase one Actia share per warrant.
- The new shares subscribed via the exercise of warrants must be fully released at their subscription at a price of €283 per share,
- The warrants may be exercised at any time within 8 years of issuance. Beyond that date, any unexercised warrants will lose all value.

ACTIELEC TECHNOLOGIES has also pledged to purchase, from 1 January 2008 to 11 June 2011, stock purchase warrants issued by Actia SA and entirely subscribed by Anvar if asked to by Anvar. The price of the warrants purchased by ACTIELEC TECHNOLOGIES will depend on its share price at the time of purchase.

#### 4.3.3.14 Share capital

The company's share capital is composed of 17,153,208 shares with a par value of €0.75 each, giving total share capital of €12,864,906.

Changes in ACTIELEC TECHNOLOGIES SA's net equity over the period are as follows:

Figures in € thousands	Balance on 31/12/02 before appropriation	Appropriation of 2002 net income		Balance on 31/12/2003
		Dividends	Other	
Share capital	12,865			12,865
Issue and merger premiums	9,277			9,277
Legal reserves	1,286			1,286
Undistributable reserves	189			189
Retained earnings (incl. dividends on own shares)	10,406		1,713	12,120
Actielec Technologies (parent company) 2002 net income	1,713		<1,713>	0
Actielec Technologies (parent company) 2003 net income				122
<b>Net equity</b>	<b>35,737</b>	<b>0</b>	<b>0</b>	<b>35,859</b>

In 2003, the company adopted a stock option plan for its officers, in respect of their directorships. The plan comprises 240,000 shares at a unit price of €1.92 and expires 31 August 2008. As of 31 December 2003, no options had been exercised. This is the only stock option plan currently in place at the company.

#### 4.3.3.15 Provisions for risks and expenses

Changes for the period are as follows:

<i>Figures in € thousands</i>	<b>at 31/12/02</b>	<b>Change in scope, Translation adjustment</b>	<b>Increases</b>	<b>Reductions</b>	<b>at 31/12/03</b>
Provisions for risks	376	472	883	309	1,422
Provisions for social security charges / deferred taxes	382		269	262	389
Provisions for retirement indemnities	1,781		204	390	1,595
Provisions for deferred taxes	3		17	3	17
<b>Total</b>	<b>2,542</b>	<b>472</b>	<b>1,373</b>	<b>964</b>	<b>3,423</b>

Provisions for risks have to do mainly with product warranties and a provision on default interest. The write-back of provisions on deferred taxes stems from Meiga.

#### 4.3.3.16 Breakdown of net sales

The regional breakdown of consolidated net sales is as follows:

<i>Figures in € thousands</i>	<b>2002</b>	<b>2003</b>
Sales realized by French companies	109,673	128,087
<i>* sales in France</i>	97,738	109,020
<i>* export sales (A)</i>	11,935	19,067
Sales realized by foreign companies (B)	66,423	70,493
<i>* in Europe</i>	39,934	46,213
<i>* in the Americas</i>	26,489	24,276
<i>* in Asia</i>		4
<b>Total</b>	<b>176,096</b>	<b>198,580</b>
<i>International sales (A+B)</i>	78,358	89,560

The breakdown of consolidated net sales by business is as follows:

<i>Figures in € thousands</i>	<b>2002</b>		<b>2003</b>	
	<b>Division consolidated sales</b>	<b>Net contribution to consolidated group sales</b>	<b>Division consolidated sales</b>	<b>Net contribution to consolidated group sales</b>
Automotive	135,506	135,411	151,228	150,824
Telecom (*)	44,068	39,361	47,839	47,756
Oceanography	1,324	1,324		
<b>Total</b>		<b>176,096</b>		<b>198,580</b>

\* includes sales realized by the holding company for the telecom division:

- In fiscal 2002, €6.109m of sales under the contract signed between the Ministry of Defense and Dateno
- In fiscal 2003, €9.206m of sales under the contract signed between the Ministry of Defense and Dateno

For the protection of our sales network, sales are not broken down by country.

#### 4.3.3.17 Income tax

<i>Figures in € thousands</i>	2002	2003
Results of consolidated companies after amortization of acquisition goodwill	<3,605>	1,465
Tax <credit>	<114>	2,275
<b>Results of consolidated companies before tax</b>	<b>&lt;3,719&gt;</b>	<b>3,740</b>

ACTIELEC TECHNOLOGIES, through its Automotive and Telecom divisions, assumes significant R&D expenditures, averaging 17.6% of consolidated sales over the past three years. The consequences in tax terms of this deliberate policy is the gain of a research tax credit, which reduces the standard tax rate applicable in France.

The details in the table below explain the tax expense or credit in the consolidated financial statements:

<i>Figures in € thousands</i>	2002	2003
Theoretical tax calculated according to the standard French tax rate	<1,277>	1,284
Research tax credit	<57>	<164>
Acquisition goodwill amortization	557	533
Effect on theoretical tax:		
- Rate differential (abroad, French rate)	163	288
- Unused tax-loss carryforwards	247	168
- Change in tax rate	0	0
- Preset value of expected tax-loss carryforward use	238	31
- Adjustment of previous year's tax	0	69
- Other (incl. permanent differences)	15	66
<b>Tax charge/credit</b>	<b>&lt;114&gt;</b>	<b>2,275</b>

For details on deferred taxes see page 119.

Distribution of tax between income before exceptional items and taxes and exceptional result is as follows:

<i>Figures in € thousands</i>	2002	2003
Income before exceptional items and tax	<938>	2,355
Exceptional result	824	<80>
<b>Total</b>	<b>&lt;114&gt;</b>	<b>2,275</b>

#### 4.3.3.18 Note on the financial result

Significant items in financial expenses include:

	2002	2003
▪ Bank interest and financial charges:	€4.267m	€3.694m
▪ Exchange losses:	€2.125m	€2.664m

Significant items in financial income include:

	2002	2003
▪ Exchange gains:	€1.304m	€1.607m

#### 4.3.3.19 Note on the exceptional result

There was no significant exceptional result for the 2003 fiscal period.

For 2002, the significant items include the following:

- Divestment of the Oceanography division (shares and all property) generated a capital gain of €1.4m out of a total selling price of €3.8m.
- Ebim negotiated:
  - the cancellation of €229,000 of reimbursable conditional advances owed to Anvar,
  - the cancellation of €245,000 payable to the French government (VAT + late penalties).

#### 4.3.3.20 Operations with related companies

Figures in € thousands	2002	2003
<b>Assets</b>		
Other receivables		776
<b>Liabilities</b>		
Trade accounts payable	225	43
Other liabilities	175	
<b>Income statement:</b>		
Operating expenses	1,588	1,796
Financial expenses	5	2

#### 4.3.3.21 Compensation of corporate officers

Neither the Chairman of the Managing Board nor the Chairman of the Supervisory Board of ACTIELEC TECHNOLOGIES SA is compensated by ACTIELEC TECHNOLOGIES. Only one member of the Managing Board has a contract stipulating compensation. That board member received a gross salary of €56,792 in 2003.

#### 4.3.3.22 Personnel

Average headcount by region	2002	2003
France	922	1,030
Abroad	793	843
<b>Total</b>	<b>1,715</b>	<b>1,873</b>

The increase in average headcount in 2003 was partly due to the acquisition of the assets of Muller Bem (106 employees).

The breakdown of personnel by division on 31 December was as follows:

	Management	Mid-level	Salaried manual laborers	Total
AUTOMOTIVE	378	607	510	1,495
TELECOM	160	114	97	371
Actielec Technologies	6		1	7
<b>Total</b>	<b>544</b>	<b>721</b>	<b>608</b>	<b>1,873</b>

#### 4.3.3.23 Off balance sheet commitments and Guarantees involving assets

Below is a breakdown of off balance sheet commitments as of 31 December 2003.

<i>Figures in € thousands</i>	31/12/2002	31/12/2003
<b><u>Commitments received</u></b>		
Bank guarantees	225	194
<b>Total off balance sheet commitments received</b>	<b>225</b>	<b>194</b>
<b><u>Commitments given</u></b>		
Purchase of warrants issued by Actia		* 1,600
<b>Total off balance sheet commitments given</b>	<b>-</b>	<b>1,600</b>

\* This amount is a function of ACTIELEC TECHNOLOGIES' share price (see page 121).

Below is a breakdown of asset-backed guarantees.

<i>Figures in € thousands</i>	31/12/2002	31/12/2003
Discounted notes receivable and 'Dailly' sales	18,362	17,576
Pledged equipment	197	172
Pledged research tax credit	171	1,738
Mortgages	1,493	2,463
<b>Total asset-backed guarantees</b>	<b>20,223</b>	<b>21,949</b>

The above information does not include outstanding capital leases, which are listed under tangible fixed assets (see page 108).

#### **4.3.3.24 Risk management policy**

Currency risk: In countries where currency risks are highest, the Group switched all inter-group invoicing to euros in 1999 and has limited customer credit in countries with weak currencies.

Interest rate risk: The Group has taken out 41% of its medium and long-term loans at fixed rates compared with 59% at variable rates. Of the variable rate loans, 83% are covered by caps or swap agreements.

Short-term loans are at variable rates.

As of 31 December 2003, ACTIELEC TECHNOLOGIES SA has entered into the following agreements:

- ✓ An interest rate cap covering €3.6m of borrowings at a maximum rate of 4.5% over a 5-year period starting 1 January 2003.
- ✓ An interest rate swap (floating for fixed rate) covering €3.6m of borrowings at 2.76% for a 2-year period starting 1 July 2003.

Actia SA monitors its interest rates daily. As of 31 December 2003, the company has entered into the following agreements:

- An interest rate cap covering €4m of borrowings at a maximum rate of 4.25% versus E3M over a 5-year period starting 1 January 2003.
- An interest rate swap (floating for fixed rate) covering €4m of borrowings at 2.77% for a 2-year period starting 1 July 2003.

#### **4.3.3.25 Post balance sheet events**

No significant items have arisen since 31 December 2003.

#### 4.3.4. Consolidated cash flow statement

€	31/12/02		31/12/03	
Net income of consolidated companies	(3,605,042)		1,845,498	
Elimination of expenses and income without effect on the cash flow or not related to the business:				
- Amortization and provisions (1)	6,298,337		7,843,563	
- Other income and expenses	(3,085,474)		(28,215)	
Cash flow of consolidated companies	(392,179)		9,660,846	
Dividends received from equity-accounted investments	82,500		90,750	
Change in operating working capital requirement	1,920,178		1,274,686	
Net operating cash flow		1,610,499		11,026,282
Cash flow from investment operations:				
Acquisition of fixed assets	(10,017,127)		(8,695,480)	
Divestment of fixed assets, net of tax	1,256,702		259,259	
Impact of change in consolidation scope (2)	3,605,496		(967,000)	
Cash flow from investment operations		(5,154,929)		(9,403,221)
Cash flow from financing operations:				
Dividends paid to parent company shareholders	(1,025,824)			
Dividends paid to consolidated company shareholders	(26,222)		(8,860)	
Capital increases by minority shareholders in consolidated companies				
Debt issues	5,158,939		2,649,516	
Debt repayments	(8,074,404)		(6,698,244)	
Net cash flow from financing operations		(3,967,511)		(4,057,588)
Change in cash position		(7,511,941)		(2,434,527)
Cash position at the beginning of the period	(13,394,746)		(20,987,718)	
Cash position at the end of the period	(20,987,718)		(23,192,524)	
Impact of currency fluctuations	(81,031)		229,721	

(1) Excludes provisions on current assets

(2) Acquisition or selling price adjusted by cash in the entities acquired or sold

## 4.3.5. Additional notes to the consolidated financial statements

### 4.3.5.1 Earnings per share

- Calculation for earnings per share on 31 December 2003

Calculation method: group share of net income / weighted average number of shares in issue

Number of shares: 17,153,208

Group share of net income: €1,941,038

Earnings per share (group share before amortization of goodwill): €0.20

- Calculation of fully diluted earnings per share on 31 December 2003

Calculation method: group share of net income / (weighted average number of shares + maximum number of shares potentially created by conversion of dilutive instruments)

As ACTIELEC TECHNOLOGIES has no outstanding dilutive instruments, its fully diluted EPS is the same as its EPS.

### 4.3.5.2 Details on provisions

#### 4.3.5.2.1 Provisions for risks:

Total provisions for risks in the consolidated accounts come to €1.421m. Most are linked to product warranties at the following companies:

- Actia: €433,000
- Actia Muller Services: €485,000
- I + Me Actia GMBH: €140,000

Most of the provisions made by other Group companies are intended to cover legal disputes.

These provisions represent a probable payment in favor of an external third party and are in compliance with accounting regulations on liabilities.

#### 4.3.5.2.2 Provisions for expenses:

Provisions for expenses in the consolidated financial statements amount to €1.984m and are mainly (90%) designed to cover retirement indemnities.

### 4.3.5.3 Information on the Group's divisions

#### 4.3.5.3.1 Operating income

Operating results are presented in detail in the Management Report (see page 43).

Automotive (Actia Group)	€5.15m
Telecom (Sodielec Group)	€5.00m
	<u>€10.15m</u>

These figures are consolidated figures for the divisions and not their contributions to the consolidated Group result, which totals €10.26m (few intra-division transactions).

#### 4.3.5.3.2 Net assets (consolidated division level)

##### Actia Group:

Intangible fixed assets	€18.070m
Tangible fixed assets	€11.414m
Financial fixed assets	€1.043m
Net inventories	€28.720m
Net trade receivables/(payables)	€26.472m
<u>Total current assets</u>	<u>€72.175m (o/w cash and equiv. €5.196m)</u>

##### Sodielec Group:

Intangible fixed assets	€5.065m
Tangible fixed assets	€4.021m
Financial fixed assets	€22,000
Net inventories	€15.339m
Net trade receivables/(payables)	€22.355m
<u>Total current assets</u>	<u>€41.756m (o/w cash and equiv. €935,000)</u>

#### 4.3.5.4 Marketable securities

▪ Actia	€10,000	= Crédit Agricole membership shares, BPTP
▪ Actia Muller Services	€134,000	= C.L. security deposit
▪ Aixia	€4,000	= Banque Populaire membership shares
▪ Ebim	€76,000	= Crédit Coopératif security deposit
	<b>€224,000</b>	

#### 4.3.5.5 Amortization of research and development costs for the secure electronic tachograph

New European regulations require that starting 5 August 2004 and within a maximum implementation delay of 12 months, the secure electronic tachograph be fitted as original equipment on trucks over 3.5 t and public passenger transport carrying more than 9 passengers. It is also required as a mandatory retrofit for any faulty paper disk tachograph beyond repair on vehicles over 12 tonnes or carrying more than 9 passengers put into service after 1996. The 25 European Union countries have been granted an additional 8-10 months to pass the relevant legislation.

In this context of an enduring market undergoing a complete upheaval, the company decided exceptionally to amortize R&D for this product over a maximum period of 10 years starting from the first deliveries in late 2004 or early 2005. The total amount to be amortized came to €11.3m at 31 December 2003.

#### 4.3.5.6 Off balance sheet commitments

In 2003, Anvar (*Agence Française de l'Innovation*) and ACTIELEC TECHNOLOGIES signed an agreement to convert an innovation grant, initially paid in the form of a reimbursable advance, into warrants (*bons de souscription d'actions*) to purchase shares in Actia, a subsidiary of ACTIELEC TECHNOLOGIES (see Notes to the consolidated financial statements, page 122).

Conversion of these warrants into shares would increase Actia's share capital by 1.73% and thus dilute that of ACTIELEC TECHNOLOGIES by 1.67%.

ACTIELEC TECHNOLOGIES has not entered into any agreements that might have a significant impact on its share price.

Below is a breakdown of the maturities of the company's asset backed guarantees.

<i>Figures in € thousands</i>	31/12/2002	31/12/2003			
		<1 yr.	> 1 yr. < 5 yrs.	> 5 yrs.	Total
Discounted notes receivable and 'DAILY' sales	18,362	17,576			17,576
Pledged equipment	197		172		172
Pledged research tax credits	171	1,738			1,738
o/w Actia SA (84% of the balance sheet item in 2003)		1,600			
o/w Sodielec SA (100% of the balance sheet item in 2003)		138			
Mortgages	1,493			2,463	2,463
<b>Total asset backed guarantees</b>	<b>20,223</b>	<b>21,052</b>	<b>172</b>	<b>2,463</b>	<b>21,949</b>

#### 4.3.5.7 Auditors' fees

The breakdown of fees paid by the Group to its statutory auditors are as follows:

<i>Figures in € thousands</i>	2003				2002			
	KPMG		E. Blache		KPMG		E. Blache	
	Amount	%	Amount	%	Amount	%	Amount	%
<b><u>Audit</u></b>								
Auditing, examination and certification of company and consolidated financial statements	307	94%	20	6%	325	95%	18	5%
<b><u>Other services</u></b>	0		0		0		0	
<b>Subtotal</b>	<b>307</b>	<b>94%</b>	<b>20</b>	<b>6%</b>	<b>325</b>	<b>95%</b>	<b>18</b>	<b>5%</b>
<b>TOTAL</b>	<b>327</b>				<b>343</b>			

#### 4.3.6. Statutory auditors' report on the financial statements

See pages below

KPMG

Eric Blache

KPMG Audit

14, rue Clapeyron

9, avenue Parmentier  
B.P. 2398  
31086 Toulouse Cedex 02  
France

75008 Paris  
France

**Actielec Technologies S.A. (a French public limited company governed by an Executive Board and a Non-Executive Board)**

Registered headquarters: 25, chemin de Pouvoirville – BP 4215 – 31432 Toulouse cedex 04 – France  
Share capital: € 12,864,906

**Report of the Statutory Auditors on the company's consolidated accounts**

For the trading year that ended on December 31, 2003

Dear Sirs

Pursuant to the mandate that was entrusted to us by your General Meeting, we proceeded to audit the consolidated accounts of Actielec Technologies S.A. for the trading year that ended on December 31, 2003, which you will find appended to this report.

The consolidated accounts were drawn up by the company's Executive Board. Having audited these accounts, it is our duty to inform you of our opinion thereof.

***1. The Statutory Auditors' opinion on the consolidated accounts***

We performed our audit in accordance with the professional standards applicable in France; these standards call for investigations to be carried out in order to end up with reasonable certainty that the consolidated accounts do not incorporate significant anomalies. An audit involves an in-depth analysis of the salient elements underlying the data featuring in these accounts. It also involves assessing the accounting methods used and any significant estimates made in the process of drawing up these accounts, as well as checking the general presentation of the accounts. We consider that the checks that we have carried out form a reasonable basis for the opinion expressed below.

We hereby certify that the consolidated accounts are, in light of France's accounting rules and principles, accurate and truthful and properly reflect the situation of the company's assets, its financial position, as well as the performance of the block of companies whose results are thereby consolidated.

## Report of the Statutory Auditors on the company's consolidated accounts

**2. *Justification for our assessments***

In accordance with the provisions of article L.225-235 of France's *Code de commerce*, whereby we must provide justification for our assessments, said provisions having been introduced by France's Financial Regulation Law of August 1, 2003 and being applicable from the 2003 trading year onwards, we hereby draw your attention to the following elements:

Point I-3 of the note to the consolidated accounts sets out methods of calculating, accounting and amortising consolidated goodwill.

The accounting rules and methods used in connection with Research & Development expenses and the accounting rules and methods used in connection with Design Costs and with Long-Term Contracts valued according to the percentage of completion method are described in points II-1 and II-4 of the note to the consolidated accounts.

Point II-6 of the note to the consolidated accounts describes the accounting rules and methods used in connection with the calculation of Deferred Taxes and the calculation of Deferred Tax Debit.

As part of our assessment of the accounting rules and methods used by your group, we proceeded to ascertain whether the above-mentioned accounting methods and the information provided in the various sections of the notes to the accounts were appropriate and whether they had been properly applied.

Our resulting assessments were incorporated into our overall audit of the consolidated accounts and thus contributed to the formation of the opinion expressed without reservation featuring in the first part of this report.

**3. *Specific checks***

We also proceeded to check information regarding the group featuring in the management report. Further to these checks, we have no comments to make about their accuracy and concordance with the consolidation accounts.

Toulouse and Paris, April 14, 2004

The Statutory Auditors

KPMG Audit  
A unit of KPMG S.A.

Eric Blache

[signature]  
Philippe Saint-Pierre  
Partner

[signature]



## 5. CORPORATE GOVERNANCE

ACTIELEC TECHNOLOGIES S.A. has been governed by a Supervisory Board and a Managing Board since its extraordinary shareholders' meeting on 12 November 2002.

The Supervisory Board has not adopted any internal rules.

### 5.1. MANAGEMENT AND ADMINISTRATION

#### 5.1.1. Supervisory Board

ACTIELEC TECHNOLOGIES expanded its Supervisory Board from four members to six at the end of fiscal 2003.

Below is the Supervisory Board's membership as of 30 April 2004:

Name	Title	Member since:
Mr. Louis Pech	Chairman of the Supervisory Board	12/11/02
Mr. Pierre Calmels	Vice-Chairman of the Supervisory Board	09/05/03
Salvepar, Represented By Mr. Pierre Degeorge	Member of the Supervisory Board	12/11/02
Mr. Günther Thrum	Member of the Supervisory Board	12/11/02
Mr. Alain Costes	Member of the Supervisory Board	10/11/03
Ms. Véronique Vedrine	Member of the Supervisory Board	30/04/04

#### 5.1.2. Managing Board

The Managing Board was created by the 12 November 2002 shareholders' meeting, is composed of three members, and has a very broad mandate.

The Managing Board is responsible for setting strategy at the Group and division levels. Strategic areas include industrial strategy, R&D (a key link in the Group's long-term viability), organization and finance, and sometimes even operations:

- Executive officers of the Group's principal subsidiary;
- Dealings with banks and implementation of management tools;
- Bottom-up information collection;
- Negotiation of key contracts;
- Decisions on significant investments or divestments involving the Group;
- Management control with respect to its targets.

Below is the Managing Board's membership as of 30 April 2004:

Name	Title	Member since:
Mr. Christian Desmoulins	Chairman of the Managing Board	28/03/03
Ms. Marine Candelon	Member of the Managing Board	12/11/02
Ms. Catherine Mallet	Member of the Managing Board	12/11/02

### **5.1.3. Other executive committees**

#### **5.1.3.1 Specialized committees**

As of this writing, the Group has not formed any specialized committees (finance and audit, compensation, nominating, etc.). Given the size of the Group and its policy of significant cost cutting at every level, no specialized committees are planned for the near future unless new regulations require one.

#### **5.1.3.2 Independent advisors:**

Bruno Denis was appointed independent advisor (*censeur*) by the Supervisory Board at its first meeting on 12 November 2002.

## **5.2. COMPENSATION**

For information on the compensation of ACTIELEC TECHNOLOGIES' corporate officers, see the notes to the management report on page 78.

ACTIELEC TECHNOLOGIES and its subsidiaries do not pay directors' fees.

## **5.3. MAIN FUNCTIONS AND DIRECTORSHIPS HELD IN ALL GROUP COMPANIES AND BY ALL OFFICERS DURING THE PAST FISCAL YEAR**

For a detailed list of functions and directorships, see page 57 in the Managing Board's report.

Since 31 December 2003, Louis Pech has also served as:

- Chairman of the Steering Committee for Anvar Midi-Pyrénées.

Mr. Pech no longer serves as an officer in the following company:

- Espaces Sports Technologies (Esportec), a French limited company with share capital of €38,150.37 – Parc Aéronautique, 27 Avenue Georges Guynemer, 31770 Colomiers, 400 557 096 registry number at the Toulouse Chamber of Commerce, France;

#### **5.4. LOANS AND GUARANTEES GRANTED TO MEMBERS OF THE MANAGING BOARD AND SUPERVISORY BOARD**

None

#### **5.5. STOCK OPTIONS**

Stock option plans are presented in detail in the first section of this document (see page 14).

#### **5.6. INTERNAL CONTROL**

##### **5.6.1. Chairman of the Supervisory Board's report**

**ACTIELEC TECHNOLOGIES**  
French limited company with share capital of €12,864,906  
Registered office: 25, chemin de Pouvoirville  
31400 Toulouse  
RCS Toulouse: 542080791

#### **COMBINED ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETINGS** **30 APRIL 2004**

#### **CHAIRMAN OF THE SUPERVISORY BOARD'S REPORT ON THE ORGANIZATION OF THE BOARD AND THE INTERNAL CONTROL SYSTEM**

Dear shareholders,

In application of article L. 225-68 of the *Code de Commerce*, this report provides my account of:

- The preparation and organization of Supervisory Board meetings during the fiscal year ended 31 December 2003; and
- The company's internal control system.

##### ***5.6.1.1 Preparation and organization of Supervisory Board meetings***

ACTIELEC TECHNOLOGIES S.A. has been governed by a Supervisory Board and a Managing Board since its extraordinary shareholders' meeting on 12 November 2002.

The Supervisory Board has not adopted any internal rules.

#### 5.6.1.1.1 Supervisory Board members

Membership of the Supervisory Board underwent the following changes in fiscal 2003:

24/04/03 Jean Lagasse, Vice-Chairman of the Supervisory Board, passed away;  
09/05/03 AGM Pierre Calmels appointed Member of the Supervisory Board;  
29/09/03 Board meeting Pierre Calmels appointed Vice-Chairman of the Supervisory Board;  
10/11/03 shareholders' meeting François Losi appointed Member of the Supervisory Board;  
10/11/03 shareholders' meeting Alain Costes appointed Member of the Supervisory Board.

Below is the Supervisory Board's membership as of 31 December 2003:

Louis Pech	Chairman of the Supervisory Board
Pierre Calmels	Vice-Chairman of the Supervisory Board
Salvepar S.A. - Permanent representative Pierre Degeorge	Member of the Supervisory Board
Günther Thrum	Member of the Supervisory Board
François Losi	Member of the Supervisory Board
Alain Costes	Member of the Supervisory Board
Bruno Denis	Independent advisor ( <i>Censeur</i> )

ACTIELEC TECHNOLOGIES expanded its Supervisory Board from four members to six at the end of fiscal 2003.

#### 5.6.1.1.2 Meeting schedule

During the past fiscal year, the Supervisory Board met four times, in accordance with current legal regulations and company bylaws.

Below are the agendas from the Board's four meetings:

28 March 2003 Supervisory Board meeting – Draft agenda:

- Approval of the minutes of the previous meeting,
- Managing Board's report on Q4 2002 activity,
- Give the Supervisory board the list of current conventions decided under normal conditions,
- Managing Board's report on activity for the fiscal year ended 31 December 2002,
- Overview of the parent company and consolidated financial statements for the fiscal year ended 31 December 2002'
- Examination of documents to be presented at the AGM,
- Creation of the Supervisory Board report to be presented at the AGM,
- Recognize the resignation of the Chairman of the Managing Board,
- Appointment of a new Managing Board member and chairman,
- Authorize the signature of an agreement with Anvar.

30 June 2003 Board meeting – Draft agenda:

- Approval of the minutes of the previous meeting,
- Managing Board's report on Q1 2003 activity,
- Update on the agreement between ACTIELEC Technologies and LP2C,
- Authorize the granting of a security deposit on behalf of our Berenice SAS subsidiary guaranteeing payment of rent,
- Hear information regarding a plan to merge certain of the company's subsidiaries,
- Authorize the granting of a security deposit on behalf of our Actia SA subsidiary,

- Powers to be conferred,
- Other queries.

#### 29 September 2003 Board meeting – Draft agenda:

- Approval of the minutes of the previous meeting,
- Managing Board's report on Q2 2003 activity,
- Managing Board's report on activity and results for the first half of fiscal year 2003,
- Managing Board's presentation of financial statements for the first half of 2003, approval of the financial statements,
- Managing Board's presentation of documents to be published in the *BALO* regarding the first half of 2003 (sales and earnings figures, interim report), approval of these documents,
- Cooptation of a new member of the Supervisory Board,
- Appointment of a new Vice-Chairman,
- Anvar security deposit on behalf of Actia,
- Guarantees for Sodielec's trade accounts payable,
- Meiga / Berenise merger agreement,
- Bank guarantees for Actia related to the secure electronic tachograph project,
- Accounting methods for amortization of acquisition goodwill,
- Asset disposals,
- Conversion of Pilgrim convertible bonds,
- Powers to be conferred,
- Other queries.

#### 19 December 2003 Board meeting – Draft agenda:

- Approval of the minutes of the previous meeting,
- Managing Board's report on Q3 2003 activity,
- Hear information on negotiations between Actia and Airbus and related guarantees,
- Business plan project and related measures,
- Update on divestments,
- Modifications to the employment contracts of ACTIELEC Technologies' officers,
- Authorize the granting of an additional security deposit on behalf of our Actia Muller Services S.A. subsidiary guaranteeing payment of rent,
- Other queries.

#### 5.6.1.1.3 Convening the Boards

In accordance with current regulations, our bylaws and company practice, members of the Supervisory Board are notified of meetings by telephone, fax and mail far enough in advance to allow as many members as possible to attend the meetings.

In addition, in accordance with article L. 225-38 of the *Code de Commerce*, Statutory Auditors are notified of all meetings by telephone and by registered mail with return receipt.

#### 5.6.1.1.4 Conduct of meetings

Supervisory Board meetings were all held at the company's administrative headquarters. On average, 94% of Board members were present at meetings.

#### 5.6.1.1.5 Specialized committees

As of this writing, the Group has not formed any specialized committees (finance and audit, compensation, nominating, etc.). Given the size of the Group and its policy of significant cost cutting at every level, no specialized committees are planned for the near future unless new regulations require one.

#### 5.6.1.1.6 Decisions made

All resolutions submitted to the Supervisory Board were adopted.

#### 5.6.1.1.7 Board meeting minutes

The minutes of each Supervisory Board meeting are drawn up at the end of the meeting and sent immediately to all board members for their perusal. Approval of the minutes takes place at the following board meeting.

#### 5.6.1.1.8 Independent board members:

**Criteria** – none of the following are considered independent:

- Executive officers, former executive officers, or employees of the company or any of its subsidiaries;
- Shareholders, representatives or employees of shareholders acting alone or in concert and possessing at least 5% of the company's total voting rights;
- Any individual with a connection to the company capable of hindering the fulfillment of his or her duties as a member of the Supervisory Board or Managing Board.

#### **List of independent board members:**

- Alain Costes                      Member of the Supervisory Board

#### 5.6.1.1.9 Required ownership of company shares by Supervisory Board members:

Company bylaws stipulate that Supervisory Board members must own at least one share in the company.

#### 5.6.1.1.10 Supervisory Board members elected by company employees:

All Supervisory Board members were elected at company shareholders' meetings. No member was selected by a scheduled election for the appointment of employee members.

#### 5.6.1.1.11 Number of Independent advisors (*censeur*) appointed:

Bruno Denis was appointed independent advisor (*censeur*) by the Supervisory Board at its first meeting on 12 November 2002.

### **5.6.1.2 Internal control procedures**

Our Group has adopted internal control procedures in order to ensure rigorous financial management and risk management and to provide shareholders with information on the Group's financial situation and financial statements.

The Group's internal control is based on the following organization and methodology:

#### **5.6.1.2.1 Risk management strategy:**

ACTIELEC Technologies operates in a single field: electronics. It focuses on two market segments:

- Automotive division (Actia)
- Telecom division (Sodielec)

### **The Group determines overall policies and strategy and decides which markets to enter.**

In 2003, the decision was made to concentrate our efforts on certain well defined business segments in order to better manage technological, industrial and commercial risks, which grow as businesses become more diverse. These segments include:

#### **1. In the automotive division:**

- Electronic diagnostics equipment and software for vehicle manufacturers and their customer service activities, vehicle repair and maintenance providers, mechanics, and vehicle testing centers;
- Onboard electronics, including the secure electronic tachograph, for industrial and military vehicles.

#### **2. In the telecom division:**

- Satellite communication ground stations for the military;
- Terrestrial audio/video broadcasting and reception equipment;
- Microwave networks.

Because the Group's production capacity in onboard electronics exceeds internal demand, it makes and installs equipment for outside parties.

The Group is ISO 9001 certified in all of these fields. It manages risk related to its main design, procurement, production and quality control functions. In this respect, the Group is subject to an annual external audit by an independent expert and numerous audits by its customers.

#### **5.6.1.2.2 Internal organization**

Given the Group's culture and past history, its subsidiaries enjoy a great deal of autonomy.

Nevertheless, several recent measures have led to the following internal organization and accompanying targets.

### **IT systems**

There is currently little uniformity in the Group's IT equipment, networks and software. Significant recent efforts have focused on streamlining the servers of Actia France's principal subsidiaries and ERP software (Movex).

This effort will be expanded by the creation of a centralized Group Actielec IT systems department in the second quarter of 2004. Its mission will be to coordinate the efforts of the Group and its subsidiaries; and gradually to streamline and standardize IT equipment, networks and software as part of a multiyear action plan. In today's difficult market context, we will strive to implement these changes without disrupting or disabling our production capacity.

### Internal competitiveness

The Group has appointed a Managing Director for internal competitiveness who reports to the Managing Board and is responsible for:

- Conducting follow-up audits and function audits for the Group as a whole and its subsidiaries;
- Proposing measures and action plans to the Managing Board based on observations and intercomparisons;
- Once the Managing Board has taken a position, negotiating targets and corrective action with the relevant line managers;
- Once a decision has been made, supervising the action plans' implementation and monitoring results.

To date, two reports have been filed on electronic production systems and Group purchasing. The latter report led to the appointment of a Group central purchasing manager, who will organize and coordinate this function in order to cut costs, which currently represent 50% of revenues. The purchasing manager will implement the control indicators in use at Actia SA throughout the Group.

### Managing Board

The Managing Board was created by the 12 November 2002 shareholders' meeting, is composed of three members, and has a very broad mandate.

The Managing Board is responsible for setting strategy at the Group and division levels. Strategic areas include industrial strategy, R&D (a key link in the Group's long-term viability), organization and finance, and sometimes even operations:

- Executive officers of the Group's principal subsidiary;
- Dealings with banks and implementation of management tools;
- Bottom-up information collection;
- Negotiation of key contracts;
- Decisions on significant investments or divestments involving the Group;
- Management control with respect to its targets.

### 5.6.1.2.3 Internal control

Operational management is carried out by the Actia and Sodielec divisions.

Operational control of the Actielec Group is performed monthly, quarterly, half-yearly and annually by a Group control unit in the following areas:

- Production of financial statements (including conformity to standards);
- Information circulation;
- Presentation of financial statements;
- Management control;
- Financial management;
- Financial control;
- Consolidation;
- Reporting.

The control unit is headed by Catherine Mallet and Christian Desmoulins.

Follow-up controls refer specifically to the budget forecasts created by the divisions and approved by the Managing Board.

Forecasts are created differently in the two divisions:

- In the Actia division, forecasts are proposed at the year-end (n-1) budget meeting attended by all Actia subsidiary managing directors, and a final decision is made by the Managing Board. Budget forecasts are updated in June of the present fiscal year (n).
- In the Sodielec division, subsidiary managing directors propose their forecasts, which are vetted by the division's managing director before a final decision is made by the Managing Board.

#### Management control:

In the Automotive division, management control is organized according to the following regional breakdown:

Actia has two management control units, one for France and one for abroad.

Sodielec has a single management control unit.

Lastly, a Finance Committee (restricted and enlarged) was created in 2003 in order to standardize the methods used to collect financial information and for internal management control. The committee is headed by Catherine Mallet.

The committee's first tasks have been to finalize and standardize the consolidation methods of the Group's two divisions (notably in terms of R&D), implement procedural changes related to the recently passed Financial Security Law (shorter lead times for producing financial statements, resulting in a change of schedule for closing accounts, new reports, etc.), and begin paving the way for the switch to IAS-IFRS. Committee meetings also examine more specific matters like a subsidiary's cash position, an investment opportunity, or dealings between two Group units.

The Finance Committee is also a forum for individuals from the two divisions to share their experience.

#### 5.6.1.2.4 Internal control projects for 2004

As a result of the positions taken in the previous paragraph, the Group plans to:

- Pursue ISO 9000 certification in quality assurance (see Appendix 1);
- Maintain Actia SA's ISO 14000 certification in environmental management;
- Step up internal competitiveness audits;
- Enforce strict application of the management control systems adopted in 2003;
- Continue to streamline the Group's IT systems;
- Coordinate and monitor purchasing functions;
- Coordinate and gradually standardize Group management control systems.

These efforts will improve the effectiveness and standardization of efforts to manage risks and information as a complement to existing management tools.

#### 5.6.1.3 Appendices to the Supervisory Board Chairman's report

##### Appendix I

##### Certification of Group companies' quality systems as of 31 December 2003

Company	ISO 9000	Certified by:
Actia Corporation	ISO 9001: 2000	TRA
Actia de Mexico	Q3 2005	
Actia do Brazil	ISO 9001: 2000	BVQI
Actia Italia	ISO 9001: 2000	CS/CERT
Actia Muller Services	ISO 9001: 2000	DNV
Actia Poltik	Q4 2004	TUV
Actia SA	ISO 9001: 2000	BVQI
Actia UK	ISO 9001: 2000	BSI
Actia Videobus	ISO 9001: 2000	AENOR
Cipi	ISO 9001: 2000	AFAQ
Dateno	ISO 9001: 2000	AFAQ
Ebim	ISO 9001: 2000	AFAQ
Mors	ISO 9001: 2000	AFAQ
Sodielec	ISO 9001: 2000	AFAQ

##### Other certifications:

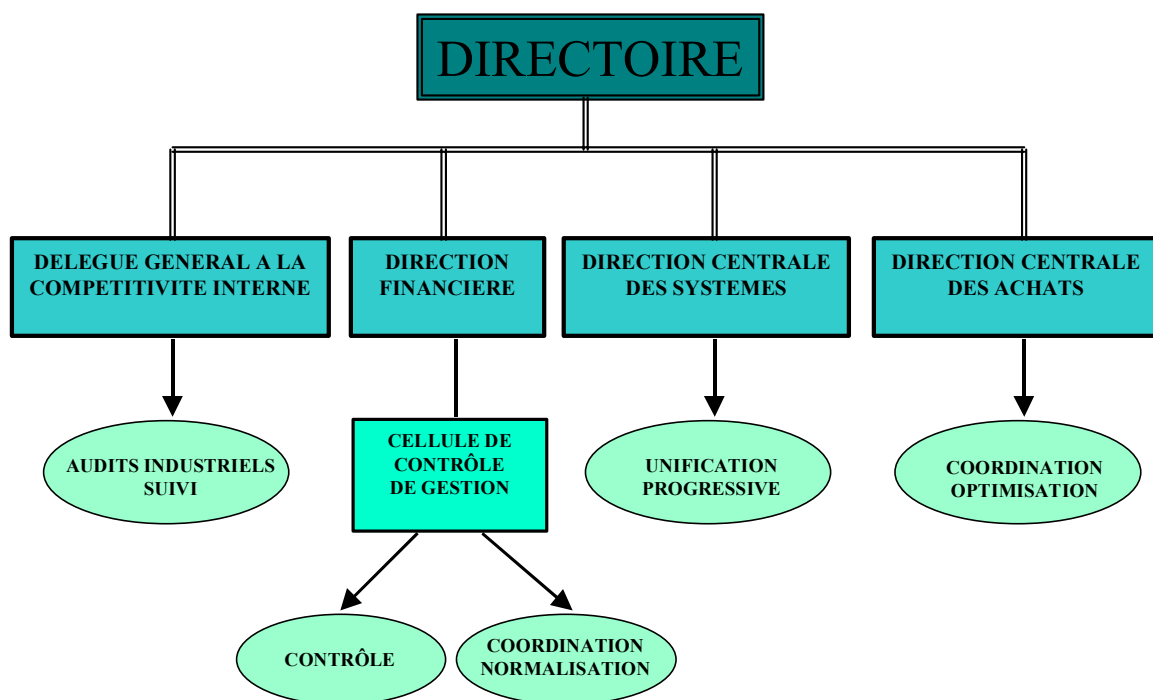
- ✓ Actia SA: ISO/TS 16949 certified (Automotive Technical Specification complement to ISO 9000) by BVQI;
- ✓ Actia SA: ISO 14001:1996 certified by BVQI;
- ✓ Cipi: ISO/TS 16949 certified by AFAQ;
- ✓ Mors Technologies: JAR 21 sub-part G+JAR 145 (aerospace maintenance organization).

##### Pending certifications:

- ✓ Actia de Mexico: ISO 9000 expected in 2005;
- ✓ Actia Poltik: ISO 9000 expected in 2004;
- ✓ Cipi: ISO 14000 expected in 2004;

## Appendix II

### INTERNAL CONTROL ORGANIZATIONAL CHART



## **5.6.2. Statutory Auditors' report on the Supervisory Board Chairman's report**

KPMG

Eric Blache

KPMG Audit

14, rue Clapeyron

9, avenue Parmentier  
B.P. 2398  
31086 Toulouse Cedex 02  
France

75008 Paris  
France

### **Actielec Technologies S.A. (a French public limited company governed by an Executive Board and a Non-Executive Board)**

Registered headquarters: 25, chemin de Pouvoirville – BP 4215 – 31432 Toulouse cedex 04 – France  
Share capital: € 12,864,906

**Report of the Statutory Auditors, drawn up in accordance with the provisions of the last paragraph of article L.225-235 of France's *Code de commerce*, on the report of the Chairman of the Non-Executive Board of Actielec Technologies S.A. describing the internal audit procedures implemented in connection with the drafting and processing of the company's financial and accounting information.**

For the trading year that ended on December 31, 2003.

Dear Sirs,

As Statutory Auditors of Actielec Technologies and in accordance with the provisions of the last paragraph of article L.225-235 of France's *Code de commerce*, we hereby present our report on the report drawn up by the Chairman of your company in accordance with the provisions of article L. 225-68 of *Code de commerce* for the trading year that ended on December 31, 2003.

It is up to the Executive Board of the company, operating under the supervision of the Non-Executive Board, to implement effective and adequate internal audit measures. For his part the Chairman must draw up a report describing the conditions under which the work of the Non-Executive Board was prepared and organised and the internal audit procedures that were implemented within the company.

It is our duty to inform you of any comments that we believe should be made in connection with the Chairman's report describing the internal audit procedures implemented in connection with the drafting and processing of the company's financial and accounting information.

We have performed our duties in accordance with the professional doctrine that is applicable in France. This doctrine calls for investigations to be carried out in order to ascertain the accuracy and truthfulness of the information featuring in the Chairman's report describing the internal audit procedures implemented in connection with the drafting and processing of the company's financial and accounting information. These investigations involve, among other things:

Report of the Statutory Auditors, drawn up in accordance with the provisions of the last paragraph of article L.225-235 of France's *Code de commerce*, on the report of the Chairman of Actielec Technologies S.A. describing the internal audit procedures implemented in connection with the drafting and processing of the company's financial and accounting information.

- ascertaining the general aims and the organisation of the internal audit processes, as well as determining what internal audit procedures were implemented in connection with the drafting and processing of the company's financial and accounting information.
- Verifying the work that was carried out in order to generate the data featuring in the report.

Further to our investigations, we have no comments to make regarding the information provided about the internal audit procedures implemented in connection with the drafting and processing of the company's financial and accounting information in the report of the Chairman of the Non-Executive Board drawn up in accordance with the provisions of article L. 225-68 of *Code de commerce*.

Toulouse and Paris, April 14, 2004

The Statutory Auditors

KPMG Audit  
A unit of KPMG S.A.

Eric Blache

[signature]  
Philippe Saint-Pierre  
Partner

[signature]



## 6. RECENT EVENTS AND OUTLOOK

### 6.1. RECENT EVENTS

#### 6.1.1. Fiscal 2003 highlights

##### 6.1.1.1 *Meiga/Berenisce merger*

Berenisce, which owned the assets of Muller Bem, was folded into Meiga on 1 January 2003 (purchased at the Chartres Commercial Court on 23 December 2002). The merged company was rechristened Actia Muller Services, and its administrative headquarters are located in Toulouse. Actia Muller Services has two main sites, one in Champlan (sales & marketing services) and one in Lucé (production and after-sale service). The Group's ownership of the merged company remained at 99.92%.

The goal of the merger was essentially to reinforce the synergies between the two companies to create a structure with industrial and commercial facilities capable of targeting new markets through a comprehensive offering of Diagnostics products.

##### 6.1.1.2 *New companies*

Actia S.A. created a subsidiary in China in which it holds 1 share representing 100% of the capital. Our total investment came to €83,000.

The purpose of this subsidiary is to provide support for our key clients who operate in China and to penetrate the local market, especially for data/events recorders, which harbors strong potential in this area. In addition, through this subsidiary the Company will be able to organize outsourcing based in China.

Actia Videobus created a Spanish subsidiary, Actia Automotive, with a view to acquiring an existing business. It is 80%-owned by Actia Videobus. Our total investment came to €42,000.

This subsidiary was created to distribute Diagnostics products to garages/mechanics and independent networks.

##### 6.1.1.3 *New contracts*

The Group signed some major contracts with important customers:

- The Automotive division signed a contract to sell diagnostics tools for Mitsubishi's European network for the first half of 2004 and also won a contract with Irisbus for instrument panels to be delivered starting in 2005.
- The Telecom division made rapid progress on the conditional stages of its contract with the French Ministry of Defense for equipment delivery. The part of the contract stipulating maintenance of the equipment in working order should follow.

### 6.1.2. Early fiscal 2004 highlights

#### 6.1.2.1 Sales

First-quarter 2004 sales were as follows:

€ thousands	Q1 2004	Q1 2003
Automotive	44,516	33,458
Telecom	7,226	5,540
<b>TOTAL</b>	<b>51,742</b>	<b>38,998</b>

ACTIELEC TECHNOLOGIES generated first-quarter 2004 sales of €51.7m, up 32.3%.

Automotive sales rose 33.1% to €44.6m due to significant deliveries over a relatively short period of time as part of the contract it signed in 2003 with Mitsubishi for automotive diagnostics.

Telecom sales rose 30.4% to €7.2m as a direct result of progress on the Ministry of Defense contract.

#### 6.1.2.2 Acquisitions

The Group's consolidation scope was not altered significantly in the first quarter of 2004.

The Group signed an agreement to acquire a majority interest (55%) in Nira Components AB of Sweden. The company is an automotive electronics research company with sites in Göteborg and Stockholm. It generated €2.7m in sales in 2002 (year ended 30 April 2003), which represents around 1.4% of Group revenues.

ACTIELEC TECHNOLOGIES is now present in 15 countries, including Sweden, which is widely known for its passenger car and commercial truck manufacturers. Renamed Actia Nordic, the company has around 20 employees and will be the Group's dedicated research facility for commercial truck voltage regulators and fleet management.

#### 6.1.2.3 New contracts

The secure electronic tachograph obtained its last certificate (interoperability) in January 2004. The certificate automatically initiates the quality assurance approval process, which requires a total of five certificates: two for security, two for functionality and one for interoperability. The actual approval process is an administrative formality and takes four months to complete. Hence, on 9 June 2004, definitive approval was granted, making Actia the first certified digital tachograph manufacturer.

Ramp-up of the Telecom division's contract with the French Ministry of Defense continued apace, with the ministry confirming its order for batch TC 10C in January 2004 and batch TC 10B in June 2004.

## 6.2. OUTLOOK

All of our efforts at organization, consolidation and expansion tend to keep a tight rein on our indebtedness and improve our margins and gearing.

### 6.2.1 Sales

2004 target	Automotive	Telecom	TOTAL
Consolidated sales	158	52	210

### 6.2.2 Forecasts

Based on first-quarter sales up 32.3% to €51.6m, ACTIELEC TECHNOLOGIES is confident it will meet its full-year 2004 pro forma target of 6% growth to €210m. Consolidation of a new subsidiary will not have a significant impact on Group activity.

For a breakdown of forecasts by division and by business unit, see page 50 of the management report.

The first few months of fiscal 2004 confirm a gradual recovery of the electronics market, driven notably by the auto components segment, in which the Group will have to begin renegotiating procurement delivery times, and the commercial truck market. That said, the Group's performance will depend in large part on the launch of the digital tachograph market.