

# Audika

**FRENCH LEADER IN  
HEARING CORRECTION**

2004  
ANNUAL REPORT

# Audika

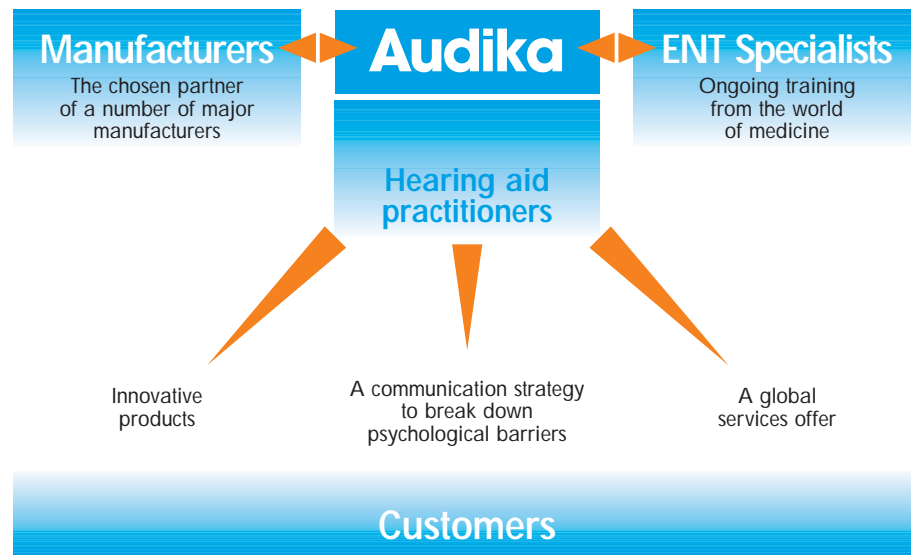
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# AUDIKA, FRENCH LEADER IN HEARING CORRECTION

## > A key player in the hearing correction market

Audika plays a major role in the hearing correction market in France. The market is currently very buoyant due to favorable demographic change and a product range which is increasingly efficient and discreet. The chosen partner of a number of major manufacturers, and working hand-in-hand with ENT specialists, Audika ensures customer relations through a policy of active communication and education, offering individually tailored health solutions. To achieve this, Audika draws on the expertise of its hearing aid practitioners and the quality and adaptability of its services in nearly 300 centers throughout France.

## > A partner for all market players



## AN INTERVIEW WITH THE PRESIDENTS

### > How was 2004 in terms of activity?



Alain Tonnard and  
Jean-Claude Tonnard  
founders and co-chairmen

**Alain:** Overall, 2004 was a success, with sales growth of over 23%. Moreover, this has been our level of average activity since we were listed on the Paris Bourse in 1998. As for organic growth, this stood at 7.3%, in line with the market.

**Jean-Claude:** This performance was achieved despite a temporary slow-down in the market in late September and early October, which affected the entire market. The pick-up in activity in November and December confirmed that this was just a temporary phase.

### Has your network developed much this year?

**Alain:** Firstly, don't forget that we merged with the L'Aide Auditive - Bernard Azéma company in 2004, which was one of the major networks in France, and the object of an acquisition by us at the end of 2003. We proceeded to bring these 23 new centers into line with Audika standards.

**Jean-Claude:** At the same time, we continued to develop in France, a policy which has been underway for several years now. In 2004, we pursued our ongoing expansion nationwide through the acquisition of a total of 19 new centers.

This acquisitions strategy enabled us to increase our concentration in regions where we were already well-established (from 4 centers in Provence, Alpes and Cote d'Azur region, we now have 27 centers), to develop our presence in areas where we have only just opened (6 new centers in the Midi-Pyrenees region, bringing the total number of regional Audika centers to 15) and lastly, to set up operations in new regions (2 centers in Deux-Sevres).

## Alain Tonnard and Jean-Claude Tonnard, founders and co-chairmen

### > What effect has this had on your results?

**Alain:** In 2004 we once again managed to improve our profitability: income grew by over 25%, bringing operating margin to 16.4% of sales, compared with 16.1% in 2003.

### > What should we expect in 2005?

**Alain:** In 2005, we intend to capitalize on our potential in terms of organic growth. All of our business indicators remain strong, the advertising campaign featuring Robert Hossein, the "ambassador" of our brand, is continuing to do well and a new generation of products will act as yet another growth driver. All these factors should allow us to increase our sales by at least 20% in 2005.

**Jean-Claude:** This growth target does not take into account the acquisitions we have planned in 2005. The market for hearing correction remains highly fragmented and, as a consequence, poised for growth! Our strategy will remain unchanged: continuing our nationwide expansion

through the acquisition of well-known regional centers. I am more confident than ever in our ability to generate profitable growth over the coming years.

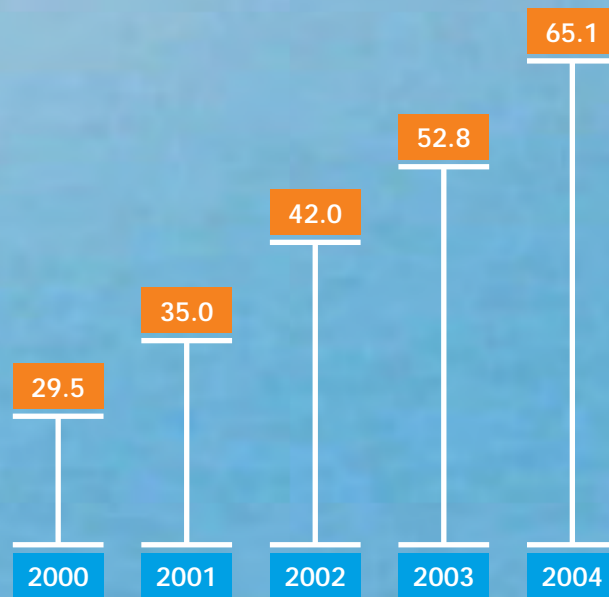
### Could international development be on the cards?

**Alain:** It's not part of our immediate plans. Obviously, we will remain alert to opportunities that may come our way, but we still have a great deal of potential in France.

**Jean-Claude :** Indeed, our priorities lie in France. Audika will continue to consolidate its role as a federating entity on the French market. Our current estimates indicate that we could operate a network of 500 hearing correction centers in France in the medium term, which still gives us plenty of room for growth.

## CHAPTER 1

# Audika, our plans and ambitions



**Sales**  
(in EUR millions)

## BACKGROUND INFORMATION ON AUDIKA

- 1976** Alain and Jean-Claude Tonnard create a structured network of hearing correction centers in a market consisting entirely of independent hearing aid practitioners.
- 1977** Alain and Jean-Claude Tonnard set up a purchasing centre, Sarffa, while at the same time taking the first steps to introduce an organized advertising campaign directed at the general public and the medical profession. This leads to the simultaneous introduction of one of the first structured communication channels between the general public and the medical profession.
- 1978** Otometry is introduced in France, revolutionizing the hearing aid sector by introducing the notion of a comfort threshold.
- 1979** The first intra-auricular aids are marketed in France.
- 1983** Audika launches its first national advertising campaign.
- 1990** The Audika brand is created, and the Group's first TV ads are broadcast.
- 1998** Audika is listed on the *Second Marché* of the Paris Bourse on May 26.
- 1999** Development of an acquisitions program with four acquisitions, two of which were major (a regional network in central France and Elstar). First sales of third-generation digital products.
- 2000** Acquisition of 26 centers, set-up of 8 centers and integration of 3 franchised centers.
- 2001** Acquisition of 10 new centers and integration of 7 franchised centers.
- 2002** Acquisition of 25 centers and set-up of 4 centers.
- 2003** Acquisition of 39 new centers including the major acquisition of L'Aide Auditiv - Bernard Azéma (23 centers located in 9 departments). Acquisition of 12 centers and set-up of 2 centers.
- 2004** Acquisition of 19 new centers, integration of 3 franchised centers and the set-up of 11 centers. Launch of the "Audika Kids" department.

## THE AUDIKA SPIRIT: AN AMBITIOUS FAMILY CULTURE

### > Ambitious, cohesive management



Audika, a true family company, equally bases its success on its employees and their expertise. Constantly driven by the complementarity and visionary talent of the two brothers who founded it, Jean-Claude and Alain Tonnard, and later strengthened with the arrival of the third brother, Patrick Tonnard, the Group has always made sure to choose competent management and staff, throughout its rapid development, in order to preserve the entrepreneurial family spirit which created, and continues to nurture, the strength necessary to overcome the Group's new challenges.

**Patrick Tonnard**  
Head of Marketing  
**Jean-Claude Tonnard**  
Co-Chairman  
**Alain Tonnard**  
Co-Chairman  
**Philippe Langzam**  
Head of Sales  
**Etienne Sirand-Pugnet**  
Management Controller  
**Didier van den Berg**  
Head of Finance

> **Teams that create added value  
and a satisfaction-driven organization**

**1/ Unchanging quality of  
services across all centers**

Thanks to the effective management of its network, ongoing technical and sales training for its hearing aid practitioners and their assistants, and the group-wide standards implemented in every center, Audika has created a perfectly harmonized network.



**Hearing aid practitioners**

All our practitioners hold national qualifications, and constantly receive training in the latest hearing correction techniques.

Nearly 300 Audika centers in France have the same mission: listening to your needs.

**2/ Quality customer service**

Welcoming customers and listening attentively to their needs, are fundamentals of Audika's service. The "psychological barrier" (hearing aids are all too often still considered a handicap) necessitates a certain awareness fostered amongst customers.



**Membership cards**

Guarantee of up to four years on hearing aids.

**3/ Qualified hearing  
aid practitioners**

Hearing aid practitioners form the backbone of the Audika model. The fitting of hearing aids for the hard of hearing constitutes a genuine career in patient follow-up and services, with the success of a good fitting lying more in its adjustment than in the type of device.

**4/ Tailored services**

Security and peace of mind are two values sought after by our customers. Audika offers a broad range of tailored services, which also promote customer loyalty (satisfaction guarantee, membership cards, free nationwide assistance, etc.).

**Nearly 300 Audika  
centers in France have  
the same mission:  
listening to your needs.**

## ROBERT HOSSEIN: THE AUDIKA AMBASSADOR

- > An prominent personality for senior citizens, Robert Hossein is seen as a man of passion and conviction.



**Robert Hossein** is also very well-perceived amongst all the ENT specialists with whom Audika is in contact.

# MARKETING TO GENERATE AND RETAIN CUSTOMER LOYALTY

## > Brand strength



Audika's window displays  
A strong brand identity

According to an IFOP survey conducted in February 2005, Audika is seen as "The" brand for this market. Almost one out of two senior citizens aged over 60 (44%) has heard of the Audika brand. Brand awareness is even higher amongst the prime target audience (those over 60 with hearing difficulties) with a recognition rate nearing 60%.

	2002	2004	2005	No. 2 brand
<b>Over 60s</b>				
Total recognition	27%	36%	<b>44%</b>	14%
Spontaneous recognition	11%	18%	20%	3%
<b>Over 60s, with hearing difficulties</b>				
Total recognition	37%	44%	<b>59%</b>	20%
Spontaneous recognition	18%	32%	32%	4%

These figures attest to the effectiveness of the campaign running since 2003 with Robert Hossein as the brand's spokesman.

## > Active communication



Sales brochure  
A guide to your hearing

By combining its specialist market position, an aggressive strategy and an ongoing and strong nationwide marketing plan (TV, the press, and mailshots),

Audika has succeeded in creating a national brand with strong recognition. The Group has devoted a budget of 5% of its sales to its strategy, broadcasting over 300 TV commercials per year. A strategy intended to progressively break down psychological barriers which continue to represent the main obstacle to market development.

Moreover, Audika is also able to draw upon a major asset: a database of 200,000 clients and 500,000 potential clients. Its expertise in exploiting these files enables Audika to both heighten existing customer loyalty and regularly win over new clients.

## AN AMBITIOUS EXPANSION PLAN

### > Rapid expansion to 500 centers in France

#### **Audika: a federating entity and growth driver**

Audika takes a leading role in the inevitable consolidation of the sector. A true federating entity since 1998, the Group has demonstrated its expertise through the acquisition of both strategic independent centers, and small local networks.

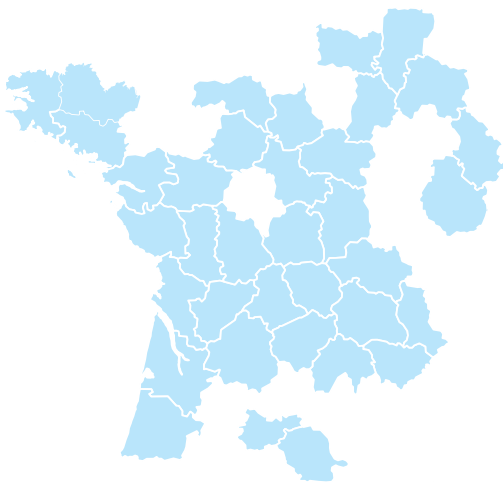
After each acquisition, Audika implements its business model in the new entities. In addition, the leverage provided by advertising, the application of new standards and its brand recognition nationwide make it easier to achieve economies of scale and allows for the smooth integration of new entities within 6 to 12 months.

#### **Strong potential in a fragmented market**

France has around 2,500 centers, 1000 of which are independent and 700 operate under a cooperative brand. With coverage of 300 centers in France, Audika Group enjoys market share of nearly 13% and is present in 74 departments.

The Group will continue its expansion in France. For example, in the Paris region, Audika grew from 15 centers in 1998 to 48 in 2004. Audika estimates its potential for short- to medium-term growth at 500 centers in France.

This acquisitions program will be pursued alongside the set-up of new centers for greater nationwide coverage and to maximize regional potential. Moreover, a hearing aid practitioner can work in two centers close to each other in the same region, thus reinforcing Audika's local presence.



2004, represented a new phase in Audika's expansion with the acquisition of the third largest national network, L'Aide Auditive - Bernard Azéma. This strategy provides it with immediate returns, in that it means buying into an existing clientele and immediately integrating new hearing aid practitioners.

## > Anticipating market change

In a constantly growing and changing market, Audika must be innovative and continually enhance its offer in order to preserve and strengthen its leading position in France. The acquisition of L'Aide Auditive - Bernard Azéma thus enabled the Group to gain considerable expertise children's hearing equipment and boost its medical and professional reputation.

## Audika Kids, children's hearing solutions

Audika Kids meets two needs: peace of mind for parents and easy access for children. In every "Audika Kids" center, children are welcomed in a specially-designed area for hearing equipment which is totally dedicated to their needs (children's furniture, games, toys, coloring books, etc.).

A range of fun and informative tools are designed to make wearing a hearing aid seem natural and straightforward:

- "Odik", our mascot, a little boy who wears a hearing aid, with whom children can identify;
- "Odik wants to hear", a picture book;
- "What sound does that make?", an interactive CD Rom;
- A booklet on how to use the hearing equipment.



Odik, the little boy with a hearing aid

"What sound does that make?"  
An interactive CD Rom

**Audika**

## CHAPTER 2

# A strategy underpinned by strong-growth markets

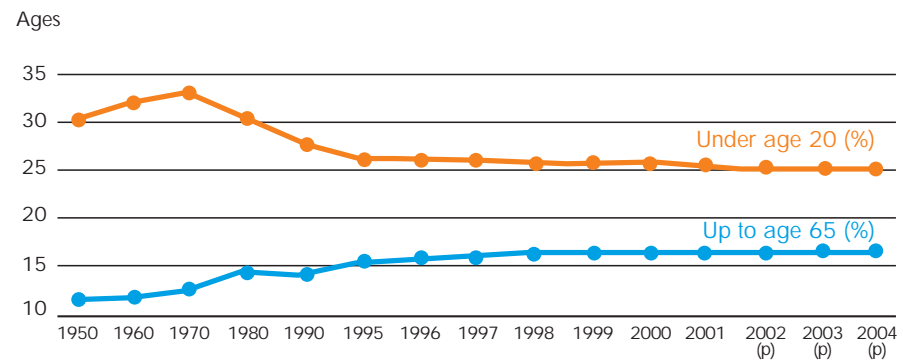
# THE HEARING CORRECTION MARKET

## > Which markets?

- 95% of the market for hearing correction in France is composed of treatment for presbycusis.
- 5% is made up of marketing to the profoundly deaf (essentially children).

## > From the baby boom to the oldies boom: inevitable growth

2005 is the year in which the generation born in 1945 (beginning of the baby boom) turns 60. The transformation of French demographics is underway.



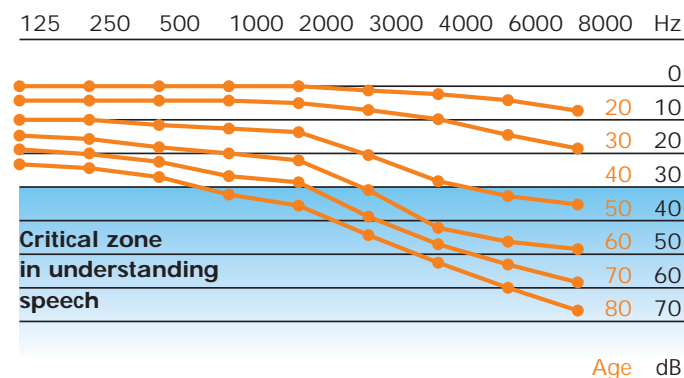
French population trends

As the over-60s are our target customers, this represents a genuine long-term growth driver. Moreover, life expectancy continues to rise in France. For the first time in 2004, life expectancy rose above the age of 80.

## PRESBYCUSIS

### > Natural loss of hearing...

Presbycusis is the natural loss of hearing. It is the result of an inevitable phenomenon much like its better-known counterpart, presbyopia (long-sightedness). This natural wearing out of the hearing system begins at age twenty-five and gradually becomes "awkward" as of age fifty or above. It takes the form of a very gradual cellular degeneration which affects each of us sooner or later depending on how noisy our surroundings are.



Loss of hearing with age

### > ... Exacerbated by noise pollution

Today, the natural decline in one's hearing is aggravated by sound pollution. Indeed, whatever our surroundings, we are increasingly exposed to varying degrees of sound pollution such as road traffic and road works or walkmans/discmans amongst the younger generations, etc.

Without being a direct cause, these factors can aggravate hearing difficulties.

## > A single solution: the use of hearing aids

Today, there is no medical solution currently suited to the treatment of presbycusis. Hearing aids are therefore the solution.

Hearing deficiencies can now be overcome by the majority of those who have them, giving people the chance to continue an active social life and relationships, thanks to modern technology.

## > Constantly improving products: discretion and performance



**Audipuce hearing aid**  
Guaranteed discretion

Hearing aids use digital technology that has evolved considerably to resemble natural hearing more and more. Thanks to the hearing aid's microprocessor, sound is analyzed several thousands of times a second, is modified and played back while being instantly adapted to the hard of hearing person's needs depending on their surrounding environment. The sound restored is pure and any situation is made more comfortable (background noise, street noise, restaurant, etc.).

## > A new generation of products to be released in 2005

Every three to four years, manufacturers release a new generation of digital hearing equipment on the market, which have been developed using the enhanced capabilities of digital microchips, as well as offering devices which are ever more miniaturized to overcome the psychological barriers linked to wearing a hearing aid, which still carries some degree of social stigma. In fact, nearly 85% of the hard of hearing difficulties do not currently wear one.



**"Aspect" from Starkey**  
Invisible technology

In 2005, the new generation of increasingly discreet, high-performance products will reinforce the favorable trends in the hearing correction market.

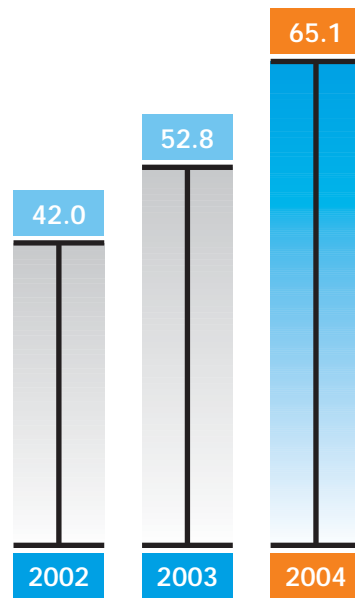
**Audika**

## CHAPTER 3

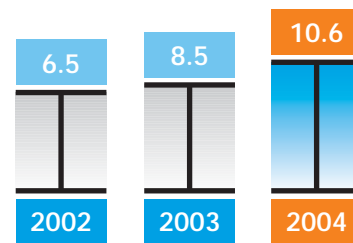
# Key figures and market prices

# AUDIKA IN FIGURES

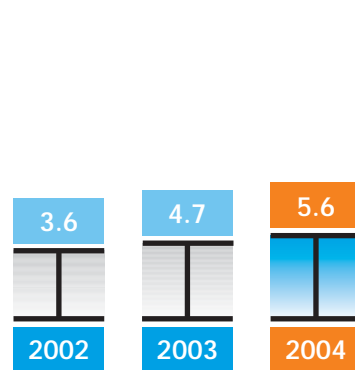
## > Key figures



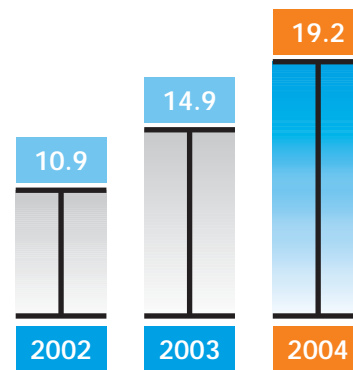
**Sales**  
(in EUR millions)



**Operating income**  
(in EUR millions)



**Group net income**  
(in EUR millions)

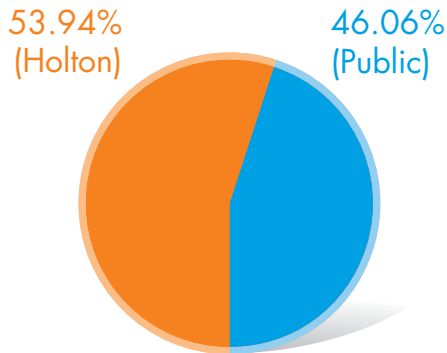


**Changes in consolidated shareholders' equity**  
(in EUR millions)

## SHAREHOLDERS' BROCHURE

### > Share ownership structure

Breakdown of capital and voting rights at 31/12/04:

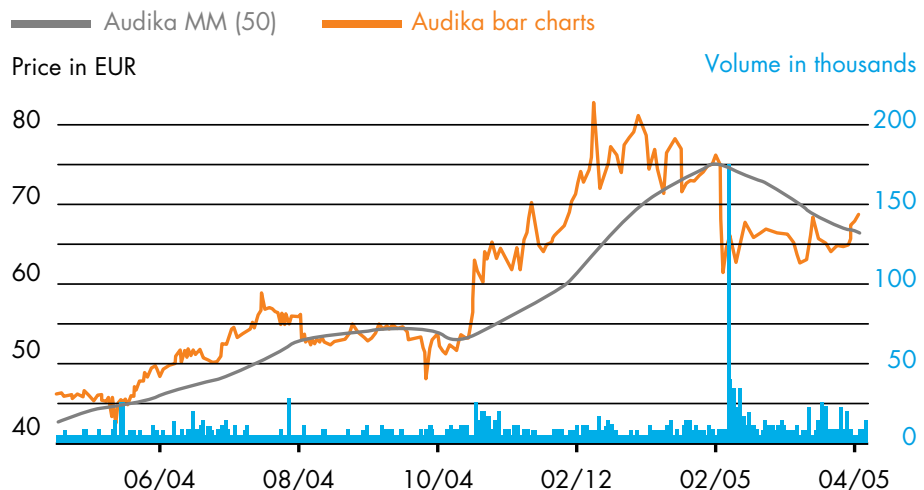


### > Strategic backing for long-term development

At the start of 2004, Audika Group signed a draft agreement governing the integration of "Fonds Partenaires-Gestion", the capital investment arm of the Lazard Group in France.

This strategic backing for Audika to best exploit the outstanding potential of the hearing correction market, and will serve to underpin the Group's aims in terms of long-term buoyant growth. In the medium-term, the partnership will also afford Audika the expertise it needs in analyzing any eventual overseas development.

### > Stock price trends



> **A steadfast dividend policy**

Since its listing on the Second Marché in 1998, Audika Group has developed a steadfast policy of dividend distribution. The amount of dividends distributed corresponds to approximately 25% of consolidated net income.

The Board of Directors proposed the payment of a dividend of EUR 0.46 per share at the Shareholders' Meeting. This resulted in the distribution of a total of EUR 1,449,000, representing around 25% of consolidated net income.

> **An active policy for shareholders**

In order to maintain regular, transparent and exhaustive communication with its shareholders, Audika has devised a financial communication policy which includes:

- a full annual report, registered with the *Autorité des marchés financiers* (French financial markets authority) as its reference document;
- financial notices in the economic and financial press as well as a number of press releases most often circulated and distributed by stock market websites for the general public;
- a shareholders' letter presenting the year's highlights and the Group's outlook;
- regular meetings with analysts, managers and journalists;
- a complete, regularly updated website in French and English ([www.audika.com](http://www.audika.com)).

> **Communication Calendar**

Event	Date
Sales for the fourth quarter of 2004	08/02/05
Annual results 2004	22/03/05
Sales for the first quarter of 2005	03/05/05
Shareholders' Meeting	14/06/05
Sales for the second quarter of 2005	26/07/05
Half-yearly results for 2005	27/09/05
Sales for the third quarter of 2005	08/11/05

**Audika**

## CHAPTER 4

# Management Report

## 4.1 Introduction

2004 saw the continuation of our aggressive advertising campaign, featuring Robert Hossein as a spokesperson for Audika. The marketing budget remained stable compared to 2003, at about EUR 3.2 million.

### 4.1.1 Consolidated sales up by over 23%

Audika Group posted consolidated sales of EUR 65.1 million in 2004, an increase of 23.2% on 2003. This performance was underpinned by both organic growth of +7.3%, which matched the expansion of the market, and by the contribution of new acquisitions. For example, the Aide Auditiv network acquired in 2003 was successfully integrated within the Audika Group in 2004, enabled it to launch the Audika Kids concept.

### 4.1.2 Strategic backing in the name of long-term development

The acquisition by Holton of the shares in Audika sold by Alain and Jean-Claude Tonnard as well as by Philippe Langzam was financed via the issue of convertible bonds with a share warrant by Holton, which were subscribed to by the venture capital funds FCPR Partenaires Midcap and LFPI 1 duly represented by their management company, Fonds Partenaires Gestion SA (French Investment Capital arm of the Lazard Group), by the SAS La Financière Patrimoniale d'Investissement and by the non-trading companies Holinvest1 and Holinvest2. The characteristics of these convertible bonds are set out in the AMF ruling No. 204CO438 cited above.

Following this operation, Audika benefits from the support of a major financial partner to best exploit its growth potential in France. In the medium-term, the partnership will also afford Audika the expertise it needs in analyzing its eventual overseas development.

### 4.1.3 Acquisition of 19 new centers

After making a major acquisition at the end of 2003 (L'Aide Auditiv Bernard Azéma, 23 centers, consolidated on January 1, 2004), Audika continued to develop its network with:

- the acquisition of 19 new centers (2 centers in Aquitaine, 2 in Loire-Atlantique, 2 in Yvelines, 4 in Alpes-Maritimes, 6 in Haute-Garonne, 1 in the Vendée and 2 in Les Deux-Sèvres);
- the integration of three franchised centers (2 centers in the Nord region and 1 in Saône-et-Loire);
- the set-up of 2 centers (1 in the Marne region and 1 in Haute-Garonne).

### 4.1.4 Launch of "Audika Kids" department

Following the merger at the end of 2003 with L'Aide Auditiv Bernard Azéma, a company with renowned expertise in terms of children's hearing aids, Audika Group launched a children's department: "Audika Kids". Audika Kids is a response to two linked problems: peace of mind for parents and easy access for children. In every "Audika Kids" centre, children are welcomed in a specially-designed area which is totally dedicated to their needs: (specially-sized furniture, games, toys, coloring books), etc.

Fifteen centers currently offer the "Audika Kids" service and the concept will gradually be rolled out in all the major towns in France.

## 4.2 Report on the Group's management and consolidated financial statements

The principal consolidated figures (in EUR thousands) are indicated in the following table:

	2004	2003	Change as a %
Sales	65,092	52,819	+23.24
Operating income	10,645	8,487	+25.42
Financial items	(709)	(455)	-55.82
Recurrent income before tax	9,937	8,032	+23.71
Recurrent income before tax	9,937	8,032	+23.71
Consolidated net income	5,715	4,786	+19.41
<b>Group share</b>	<b>5,606</b>	<b>4,724</b>	<b>+18.67</b>

Sales grew by over 23% in 2003 to stand at EUR 65,092,000. Organic growth stood at 7.29% versus +12.57% in 2003.

Operating expenses totaled EUR 55,835,000, up by nearly 23% on 2003. The main changes include:

- an increase in gross margin from 72.82% to 73.79%;
- a rise in the Group's payroll expenses of over 27% mainly due to its ongoing acquisitions policy. The ratio of payroll/sales remained stable on 2003, up slightly from 31.24% to 32.27% of sales; mainly due to the drop in sales in the fourth quarter;
- an increase in the Group's depreciation, amortization and provisions of over 24% to EUR 2,613,000.

Operating income stood at EUR 10,646,000, up by over 25% on 2003, with gross margin up by 28 basis points to 16.35% versus 16.07% in 2003.

Financial income stood at EUR -709,000 compared with a loss of EUR -455,000 in 2003, following the increase in debt taken on by the Group in order to finance its acquisitions. Net debt nevertheless remained under control, coming out at 88% as against 74% in 2003.

Recurrent income before tax totaled EUR 9,937,000 compared with EUR 8,032,000 in 2003, up by over 24%.

Exceptional income remained unchanged at EUR -46,000, compared with a total of EUR -74,000 in 2003.

The Group's tax expense stood at EUR 3,584,000 versus EUR 2,847,000 in 2003. At 36.23%, the effective tax rate is very much in line with the theoretical tax rate -34.33%.

Consolidated net income totaled EUR 5,715,000, up by over 20% on 2003, coming out at 8.78% of sales compared with 9.06% in 2003.

Consolidated net income came out at 8.78% of sales compared with 9.06% in 2003.

## 4.3 Dividends

The Board of Directors proposed the payment of a dividend of EUR 0.46 per share at the Shareholders' Meeting.

## 4.4 Analysis of changes in the marketplace and competition

Audika operates on a highly fragmented market. France has around 2,500 hearing correction centers, 1000 of which are independent and 700 operate under a cooperative brand. These centers provide the Group with a wide range of potential acquisition targets.

On the French market, Audika's main competitor is CCA (Amplifon Group), which was created in 1980.

## 4.5 Analysis of financial position and Group financing

Audika's level of debt increased from EUR 14,423,000 at December 31, 2003 to EUR 20,925,000 at December 31, 2004, due to the new loan taken out in January 2004 to finance the Group's expansion. Gearing rose from 73.70% in 2003 to 87.80% at December 31, 2004. Audika generated a cash flow

of EUR 8,305,000 compared with EUR 7,086,000 in 2003. Working capital requirements fell from EUR 1,562,000 in 2003 to EUR 1,378,000 as a result of the integration of new companies being integrated into the consolidation scope, as the two acquisitions made over the year represented EUR 1,599,000. On a like-for-like basis, Audika Group recorded a negative change in working capital requirement of EUR 221,000.

## 4.6 Parent company financial statements

An examination of the income statement for the year ended December 31, 2004 highlights the following elements:

(in EUR)	2004	2003	Change as a%
Sales	10,654,691	8,901,164	+19.70
Operating income	1,617,363	1,247,122	+29.68
Financial items	539,961	482,362	+11.94
Recurrent income before tax	2,157,323	1,729,484	+24.74
Exceptional items	1,813	(4,756)	ns
<b>Net income for the year (profit)</b>	<b>1,727,448</b>	<b>1,444,528</b>	<b>+19.59</b>

In line with the CNC's recommendations, Audika has recorded its commitments relative to the long-service employee benefits in the financial statements for the year ended December 31, 2004.

In addition, Audika has opted for a tax consolidation scheme as from January 1, 2004, which applies to all companies more than 95% owned and included in the consolidation scope as at December 31, 2003.

Sales totaled EUR 10,655,000, up by over 20% on 2003.

Operating expenses totaled EUR 9,292,000, up by nearly 16% on the previous year.

The main changes include:

- personnel expenses, which rose by almost 31% partly due to the transfer of the IT department to the holding company, and partly because of the reinforcement of various departments at the head office;
- certain overheads that also increased significantly compared with the previous year for the above-mentioned reason;
- tax expenses amounted to EUR 234,000, up nearly 59%, due to the increase in the company's business tax expense linked to value added tax, other taxes directly linked to the company's payroll, and expenditure for training on the new software put in place and the transition to IFRS;
- amortization and provision expenses fell by over 2%.

Net income after taxes totaled EUR 1,727,000, up nearly 20% on 2003. The effective tax rate increased to 20%, down by more than 14 points on the normal rate following the positive impact of deductions and changes in the tax consolidation scope and, more particularly, as a result of the payment of dividends, 95% of which are not subject to corporate income tax.

Over the past financial year, Audika acquired stakes in a number of companies whose head offices are located in France:

- on 01/01/2004, acquisition of 100% of L'Aide Auditive Bernard Azéma;
- on 01/03/2004, acquisition of 100% of Audition Service;
- on 15/12/2004, acquisition of 50% of Opale Audiologie, in which Audika already had a 50% stake.

Financial income stood at EUR 540,000 versus EUR 482,000 in 2003, an increase which stems from the company increase in debt taken on in order to implement its acquisitions strategy. Dividends received totaled EUR 1,238,000 for the year, compared to EUR 913,000 for the previous year.

On January 13, 2004, Audika took out a EUR 32,000,000 syndicated loan with BNP PARIBAS, CIC and San Paulo in order to finance its acquisitions program in 2004 and 2005 and to refinance its outstanding bank debt.

## 4.7 IAS/IFRS

### 4.7.1 Context

In accordance with European regulation No. 1606/2002 of July 19, 2002, Audika Group's consolidated financial statements at December 31, 2005 will be presented under IAS/IFRS which apply at this date as approved by the European Union. The first financial statements published by Audika under IFRS will be those for 2005 (half yearly and yearly), presented in comparison with the 2004 financial statements. Audika has prepared a reconciliation of shareholders' equity between French standards and IFRS at January 1, 2004, the date at which the impact of the transition to IFRS will affect shareholders' equity.

The information presented has been prepared according to the standards thus far approved by the European Union. However certain standards may be subject to subsequent revisions and/or interpretations. These standards may change during the 2005 financial year, and Audika reserves the right to modify, upon the final and definitive publication of the first financial statements under IFRS, certain accounting methods and options applied with respect to requirements of the present information.

### 4.7.2 General principles and exemptions

To prepare the opening balance sheet at January 1, 2004, Audika followed the principles of first-time adoption of IFRS, as defined by IFRS 1. In general, IFRS regulations in effect have been applied retrospectively, as if the Group had always used these standards. However, IFRS 1 explicitly prohibits retrospective application of IFRS in certain mandatory exceptions, such as the use of IFRS for estimates determined under GAAP (i.e. benefit of hindsight) and optional exceptions for which Audika has decided not to apply IFRS retrospectively, with respect to the following points:

- business combinations prior to January 1, 2004 (IFRS 3);
- the Effects of Changes in Foreign Exchange Rates (IFRS 21) which allows for the cancellation of exchange differences accumulated as at January 1, 2004 (without affecting the total amount of shareholders' equity).

In addition, given the late application of IAS 32 and 39 relating to financial instruments by the European Union in 2004, Audika has decided not to apply these standards until January 1, 2005: the corresponding impact will be booked under shareholders' equity on January 1, 2005.

### 4.7.3 Quantitative Impact

The retrospective application (with the exception of the points mentioned above) of IFRS at January 1, 2004 led to a reduction in the opening balance of EUR 2.4 million in Group shareholders' equity, which can be broken down as follows:

Consolidated Shareholders' Equity at January 1, 2004	Note	Group	Minority interests	Total
Under French standards		14,548	370	14,918
Income from normal operations	(a)	(1,536)	(7)	(1,543)
Intangible assets/deferred expenses	(b)	(506)	(76)	(583)
Employee benefits	(c)	(187)	(2)	(190)
Other immaterial expenses		(163)	(51)	(214)
Under IFRS		12,156	233	12,389
<b>Equivalent to a reduction of:</b>		<b>(2,392)</b>	<b>(137)</b>	<b>(2,529)</b>

(a) The criteria for recognizing income from normal operations under IAS 18 are stricter than those previously applied. Under French standards, a percentage of sales on hearing aids which had not yet been collected by patients or which were being "road-tested" at home, was canceled from the opening balance sheet under IFRS.

(b) The criteria for booking intangible assets as defined by IAS 38 and the framework of standards are also different from those applied under French standards. The Group examined all of the intangible assets on its balance sheet at January 1, 2004, and eliminated deferred charges which essentially comprised fees and advertising expenses, as well as reclassification of business value as goodwill.

(c) Audika listed its retirement and related commitments as covered by IAS 19. This covers employment benefits, notably including retirement severance pay and other long-term benefits during employment, such as long-service employee benefits. Commitments linked to these schemes were evaluated by Audika in accordance with IAS 19, and were fully provisioned at January 1, 2004. The corresponding impact on shareholders' equity essentially includes the effects of redefining certain actuarial assumptions, and the accounting for long-service benefits, which were not provisioned at December 31, 2003 under previous standards.

**4.7.4 The next step in the transition to IFRS**

The publication of the 2004 consolidated financial statements under IFRS will take place at the same time as the release of the figures for the first half of 2005. The presentation of the 2004 consolidated financial statements will include an income statement, a balance sheet, a cash flow statement, and a statement of changes in shareholders' equity. A reconciliation (along with explanatory notes) between the French accounting principles and IFRS will be provided for each of the financial statements. The impact (on shareholders' equity and Group debt) of the first-time adoption of IFRS 32 and 39 relating to financial instruments, on January 1, 2005, will also be published.

The financial statements at June 30, 2005, will be published according to the accounting and assessment principles of IFRS. Comparative information for the previous period, prepared under the same accounting rules as used in 2005 (except for IAS 32 and 39 relating to financial instruments) will also be provided each time.

Lastly, Audika will publish in early 2006 full consolidated financial statements as at December 31, 2005, with data to compare with the financial statements at December 31, 2004.

**4.8 Recent development and future prospects**

Since the beginning of 2005, Audika Group has already acquired 9 centers (announced on December 16, 2004, and integrated at January 1, 2005), thus continuing the development of its French network. Audika is continuing with its advertising strategy featuring its "Ambassador", French celebrity Robert Hossein. With a marketing budget of approximately 5% of consolidated sales the Group aims to further heighten brand awareness and rank as the leader in hearing correction.

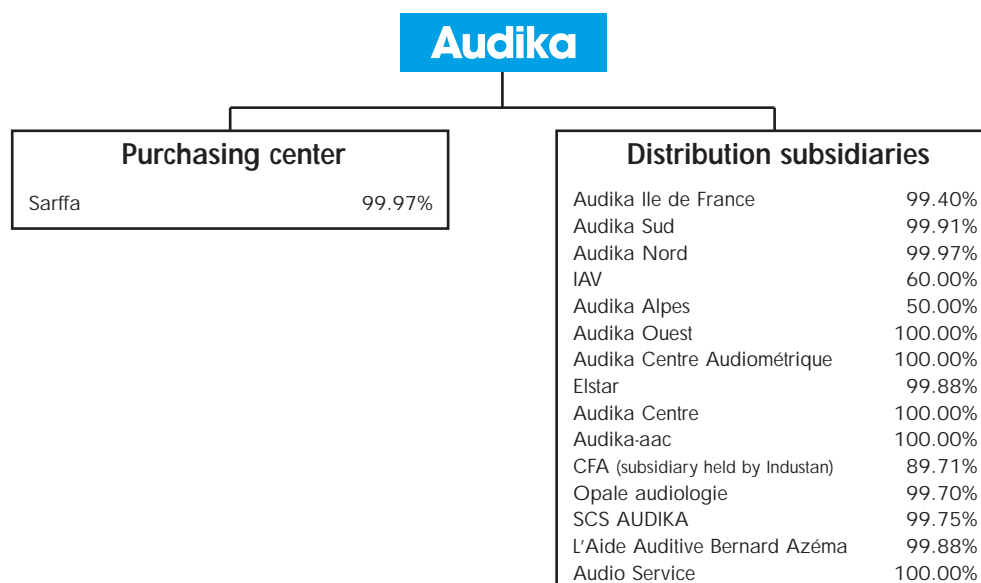
For 2005, Audika expects sales to rise 20% like-for-like, along with a further improvement in operating profitability. In line with the Group's proven strategy over the past few years, several acquisitions will accompany its organic growth. Indeed, given the number of targets identified, Audika continues to enjoy excellent visibility as to its future acquisitions.

A Group-wide employee profit-sharing agreement will be implemented in 2005.

Opale Audiologie, L'Aide Auditiv Bernard Azéma and Audioservice, companies in which Audika owns a stake of more than 95%, will become part of Audika's tax consolidation scope.

Lastly, Audika and Audika Centre are currently undergoing tax audits which began in December 2004.

**4.9 Audika Group – Simplified Organizational Chart**



**Audika**

## CHAPTER 5

# Consolidated Financial Statements

## 5.1 Consolidated balance sheet - Assets (in EUR thousands)

	31/12/04		31/12/03		31/12/03	31/12/02
	Gross	Amort. /Prov.	Net	Net	Pro- forma	Net
<b>Intangible fixed assets</b>						
Concessions, patents, licenses	1,331	1,096	235	312	332	507
Leaseholds	1,991		1,991	-	2,033	-
Business	19,382		19,382	16,100	17,198	12,721
Other	90	8	82	19	19	19
<b>Total</b>	<b>22,794</b>	<b>1,104</b>	<b>21,690</b>	<b>16,431</b>	<b>19,582</b>	<b>13,257</b>
<b>Goodwill</b>	<b>11,866</b>	<b>2,525</b>	<b>9,341</b>	<b>4,560</b>	<b>9,300</b>	<b>3,781</b>
<b>Tangible fixed assets</b>						
Buildings	3,287	1,570	1,717	1,804	1,805	1,390
Machinery and equipment	2,507	2,055	452	406	516	414
Other tangible assets	9,710	6,069	3,641	3,145	3,444	2,292
<b>Total</b>	<b>15,504</b>	<b>9,694</b>	<b>5,810</b>	<b>5,355</b>	<b>5,765</b>	<b>4,096</b>
<b>IT investments</b>						
Other equity investments	3		3	2	2	2
Loans	-		-	-	-	-
Other	464	33	431	357	407	305
<b>Total</b>	<b>467</b>	<b>33</b>	<b>434</b>	<b>359</b>	<b>409</b>	<b>307</b>
<b>Total</b>	<b>50,631</b>	<b>13,356</b>	<b>37,275</b>	<b>26,705</b>	<b>35,056</b>	<b>21,441</b>
Inventories	2,730		2,730	2,061	2,694	1,844
Accounts receivable and related accounts	9,505	505	9,000	8,868	9,732	5,401
Other receivables	2,113	10	2,103	3,834	4,123	2,550
Marketable securities	1,189		1,189	10	10	288
Cash and cash equivalents	4,422		4,422	4,221	4,596	3,877
Prepayments	530		530	876	887	831
<b>Total</b>	<b>20,489</b>	<b>515,19,974</b>	<b>19,870</b>	<b>22,042</b>	<b>14,791</b>	
Deferred charges	1,575		1,575	597	597	226
Unrealized exchange losses	1		1	-	-	-
<b>Overall Total</b>	<b>72,696</b>	<b>13,871</b>	<b>58,825</b>	<b>47,172</b>	<b>57,695</b>	<b>36,458</b>

## 5.2 Consolidated balance sheet - Liabilities (in EUR thousands)

	31/12/04	31/12/03	31/12/03	31/12/02
			Pro-forma	
<b>Shareholders' equity</b>				
Capital	252	252	252	252
Additional paid-in capital	913	913	913	913
Legal reserve	25	25	25	24
Other reserves	3,583	3,336	3,336	2,915
Consolidated reserves	8,464	5,299	4,800	2,949
Group net income	5,606	4,724	4,452	3,576
<b>Group shareholders' equity</b>	<b>18,843</b>	<b>14,549</b>	<b>13,778</b>	<b>10,629</b>
Minority interests (reserves)	279	309	250	213
Minority interests (earnings)	108	62	70	35
<b>Minority interests</b>	<b>387</b>	<b>371</b>	<b>320</b>	<b>248</b>
Provisions for risks and charges	1,050	1,354	1,412	1,043
<b>Financial debt</b>				
Bank loans and debt	20,847	14,321	22,788	10,686
Miscellaneous loans and debt	78	102	461	137
<b>Total</b>	<b>20,925</b>	<b>14,423</b>	<b>23,249</b>	<b>10,823</b>
Trade & other accounts payable	9,753	10,100	11,894	8,177
Taxes and social security liabilities	5,168	4,992	5,540	4,098
Other debt	2,579	1,261	1,380	1,349
Unearned income	120	111	111	63
Unrealized exchange profit	-	11	11	28
<b>Overall Total</b>	<b>58,825</b>	<b>47,172</b>	<b>57,695</b>	<b>36,458</b>

### 5.3 Consolidated income statement (in EUR thousands)

	31/12/04	31/12/03	31/12/03 Pro-forma	31/12/02
Operating income				
Sales of products and services	65,092	52,819	60,354	42,053
<b>Net sales</b>	<b>65,092</b>	<b>52,819</b>	<b>60,354</b>	<b>42,053</b>
Inventories	(81)	(131)	(130)	(161)
Operating subsidies	16	12	12	4
Write-back on depreciation, provisions and expense transfers	249	81	159	64
Other income	171	235	241	66
Transfer of operating expenses	1,034	728	728	211
<b>Total operating income</b>	<b>66,481</b>	<b>53,744</b>	<b>61,364</b>	<b>42,237</b>
Operating expenses				
Cost of merchandise	17,176	14,637	17,561	12,264
Change in inventory levels	(115)	(228)	(225)	(413)
Other outside purchases and expenses	13,679	11,166	12,810	8,541
Taxes and similar	1,341	1,002	1,164	730
Salaries and wages	14,599	11,500	13,293	9,117
Payroll taxes	6,408	5,001	5,743	3,979
Depreciation and provisions	2,613	2,107	2,434	1,517
Other expenses	134	72	75	22
<b>Total operating expenses</b>	<b>55,835</b>	<b>45,257</b>	<b>52,855</b>	<b>35,757</b>
<b>Operating income</b>	<b>10,646</b>	<b>8,487</b>	<b>8,509</b>	<b>6,480</b>
Financial income	578	67	67	30
Financial expenses	1,287	522	543	432
<b>Financial items</b>	<b>(709)</b>	<b>(455)</b>	<b>(476)</b>	<b>(402)</b>
<b>Recurrent income before tax</b>	<b>9,937</b>	<b>8,032</b>	<b>8,033</b>	<b>6,078</b>
Exceptional income	161	155	202	99
Exceptional expenses	207	229	246	158
<b>Exceptional items</b>	<b>(46)</b>	<b>(74)</b>	<b>(44)</b>	<b>(59)</b>
Income tax	3,584	2,848	2,882	2,106
Income from consolidated companies before amortization of goodwill	6,307	5,110	5,107	3,913
<b>Net income before amortization of goodwill</b>	<b>6,307</b>	<b>5,110</b>	<b>5,107</b>	<b>3,913</b>
Net allocations to goodwill	592	325	578	302
<b>Consolidated net income</b>	<b>5,715</b>	<b>4,785</b>	<b>4,521</b>	<b>3,611</b>
Minority interests' share in net income	108	62	70	35
Group share	5,606	4,724	4,451	3,576
Earnings per share (in EUR)	1.78	1.50	1.41	1.14
Diluted earnings per share (in EUR)	1.78	1.50	1.41	1.14

## 5.4 Cash flow statement (in EUR thousands)

	31/12/04	31/12/03	31/12/02
<b>Operating margin</b>			
Net income	5,606	4,724	3,576
Elimination of items with no effect on cash or not linked to operations			
Minorities' share	108	62	35
Depreciation and provisions	2,930	2,440	1,820
Reversals of depreciation and provisions	(212)	(102)	(78)
Capital gains and losses on disposals	51	32	(6)
Deferred taxes	(178)	(70)	1
<b>Cash flow</b>	<b>8,305</b>	<b>7,086</b>	<b>5,348</b>
Changes in financial expenses	(10)	8	20
Changes in operating capital	(3,458)	(2,081)	(721)
Changes in inventories	(49)	(86)	(253)
Changes in deferred expenses	(1,376)	(674)	(157)
Changes in accounts receivable	987	(1,864)	(962)
Changes in trade payables	(3,020)	543	651
Changes in non-operating capital	2,090	511	(333)
Prepaid income and expenses	369	25	(100)
Exchange losses and gains	(12)	(17)	30
Other accounts	1,733	503	(263)
<b>Changes in working capital requirements</b>	<b>(1,378)</b>	<b>(1,562)</b>	<b>(1,034)</b>
<b>Cash flow from operations</b>	<b>6,927</b>	<b>5,524</b>	<b>4,314</b>
<b>Capital expenditure</b>			
Intangible fixed asset acquisitions	(2,083)	(1,963)	(1,333)
Tangible fixed asset acquisitions	(1,354)	(2,838)	(1,484)
Disposals of tangible and intangible fixed assets	94	109	13
Long-term investment acquisitions	(34)	(92)	(18)
Disposals of LT investments	3	53	5
Net cash from acquisitions of subsidiaries	(8,221)	(2,505)	(3,429)
<b>Cash flow from capital expenditure</b>	<b>(11,595)</b>	<b>(7,236)</b>	<b>(6,246)</b>
<b>Financing transactions</b>			
Capital increase	-	(157)	-
Dividends paid	(1,211)	(890)	(718)
Proceeds from borrowings	20,000	8,300	7,161
Principal payments on borrowings	(13,742)	(4,914)	(3,155)
Loans to purchase securities	982	-	-
Repayment of loans to purchase securities	(221)	(562)	(1,398)
<b>Cash flow from financing</b>	<b>5,808</b>	<b>1,777</b>	<b>1,890</b>
<b>Calculated change in treasury flow</b>	<b>1,140</b>	<b>65</b>	<b>(42)</b>
Cash at beginning of year	4,196	4,131	4,173
Cash at year end	5,336	4,196	4,131
<b>Change in actual cash position</b>	<b>1,140</b>	<b>65</b>	<b>(42)</b>

## 5.5 Statement of changes in shareholders' equity – Group share

	Capital	Premiums	Reserves	Income	Total shareholders' equity
At 12/31/2001 after allocation	241	913	6,342	0	7,496
Capital increase	11	-	(11)	-	0
Net income	-	-	-	3,576	3,576
Appropriation of earnings	-	-	2,694	(3,576)	(882)
Restatement of deferred tax	-	-	(423)	-	(423)
Other	-	-	(17)	-	(17)
Translation differences	-	-	(3)	-	(3)
At 12/31/2002 after allocation	252	913	8,582	0	9,747
Net income	-	-	-	4,724	4,724
Appropriation of earnings	-	-	3,527	(4,724)	(1,197)
Other	-	-	67	-	67
Translation differences	-	-	11	-	11
At 12/31/2003 after allocation	252	913	12,187	0	13,352
Net income	-	-	-	5,606	5,606
Appropriation of earnings	-	-	-	-	0
Change of method	-	-	(99)	-	(99)
Other	-	-	(16)	-	(16)
At 12/31/2004 before allocation	252	913	12,072	5,606	18,843

(1) Restatement of deferred tax liabilities from the previous year.

## 5.6 Notes to the consolidated financial statements

### 5.6.1 2004 highlights

- Consolidated sales grew by over 23% to EUR 65,092,000. Audika Group posted full-year sales of EUR 65.1 million, an increase of 23.24% on 2003. This performance was underpinned by both organic growth of 7.3%, which matched the expansion of the market, and by the contribution of new acquisitions.
- Acquisition of 19 new centers: 2 centers in Landes, 2 in Loire-Atlantique, 2 in Yvelines, 4 in Alpes-Maritimes, 6 in Haute-Garonne, 1 in Vendée and 2 centers in Deux-Sèvres. Audika also integrated 3 franchised centers (Nord and Saône-et-Loire) and set up 2 centers (Marne and Haute Garonne).
- Launch of "Audika Kids" department. Following the merger at the end of 2003 with L'Aide Auditive Bernard Azéma, a company with renowned expertise in terms of children's hearing aids, Audika Group launched a children's department, "Audika Kids".
- Strategic backing from Fonds Partenaires Gestion (Lazard Group) to ensure the Group's ongoing development. Following this operation, Audika benefits from the support of a major financial partner in order to best exploit its growth potential in France.
- Tax consolidation of subsidiaries in which the Group holds a stake of more than 95%. Audika Group has opted for a tax consolidation regime for these companies as from January 1, 2004.
- Syndicated loan of EUR 32 million: on January 13, 2004, Audika Group took out a syndicated loan of EUR 32 million in order to repay virtually all outstanding debts (EUR 10 million) and to finance its acquisitions program in 2004 and 2005 (EUR 22 million).

### 5.6.2 Accounting Principles

The consolidated financial statements were drawn up in accordance with the French Regional Audit Board (CRC) regulation No. 99-02 and regulation No. 00-06 regarding liabilities.

The consolidated financial statements are prepared in accordance with the same evaluation and presentation principles and methods as the previous year.

#### 1 Consolidation scope

Those companies exclusively controlled by Audika, be it directly or indirectly, are fully consolidated. Those companies in which Audika has a controlling stake, jointly with one or several other shareholders, are fully consolidated. The companies in which Audika has a material influence are consolidated using the equity method.

All of the consolidated companies have a fiscal year ending on December 31, 2004.

All major inter-company transactions and dividend payments have been eliminated.

#### 2 Goodwill

The difference between the purchase price of securities in consolidated companies and the share of the net worth of the companies concerned at the date of acquisition is broken down under goodwill.

Goodwill corresponds to the difference between the book value of an identifiable fixed asset in the consolidated balance sheet and the book value of the same asset in the balance sheet of the consolidated company.

The book value corresponds to the fair value of the items in question. Goodwill attributed to businesses when integrated into the consolidation scope represents the valuation of these businesses depending on their value in use, which is determined based on criteria defined by the Group.

Any residual goodwill not affected by this is booked as an asset on the consolidated balance sheet under "Goodwill" and amortized over twenty years. Moreover, this period, which is fixed by the Group's senior management, factors in the life of the underlying business and the hearing correction market potential.

Indeed, the nature of our market requires taking a long-term view of acquisitions and equity investments, notably when it comes to life expectancy, technological developments and winning over new market share.

An exceptional amortization expense is booked in the case of events or circumstances leading to an exceptional loss in value.

### 3 Other intangible assets

Intangible fixed assets are booked at their purchase price.

Business is not amortized, but may be written down when its book value (determined according to criteria specified by the Group) falls below its historical value. This value is determined using a valuation scale for "optical" businesses, which we consider to be similar to our activity. We also factor in earnings prospects.

Other intangible fixed assets are amortized using the straight-line method for the following useful lives:

- software: 2 to 3 years;
- concessions: 5 years.

### 4 Tangible fixed assets

Tangible fixed assets are booked at their purchase price.

Depreciation is calculated using the straight-line method depending on the estimated useful lives of these assets:

Assets' useful lives stand as follows:

Type	Term <sup>(1)</sup>
Buildings	10
Fixtures and fittings	6 to 7
Machinery and equipment	5
Office furniture	7
IT equipment	2 to 3

(1) Expressed in years.

Assets which are rented or leased under a contract with similar terms to that of an acquisition have been restated as fixed assets. The fixed assets are then booked as an asset at their value when the contract was signed and depreciated on a straight-line basis. The corresponding debt is booked as a liability under Miscellaneous loans and debt and its amount is reduced by the share of financial amortization included in the rental payments. The principal effects on the consolidated financial statements are listed in note 5.6.5 (3).

### 5 Inventories and work-in-progress

The gross value of merchandise and supplies includes the purchase price and any ancillary expenses, such as customs and shipping.

Manufactured goods are valued at their production cost, which includes all direct production expenses. As such, the production cost calculated does not include financial costs, sales costs, R&D expenses or idle capacity costs in keeping with the rules of the general chart of accounts.

Inventories are valued using the weighted average cost method.

A provision for depreciation is booked when the probable recovery value falls below the book value.

### 6 Trade and other accounts receivable

Sales of custom-made hearing aids are booked as sales when they are made available at the centers. The time between the point at which the hearing aids are made available and the point at which the client takes actual possession thereof is around 10 days.

Receivables are booked at their face value.

A provision for depreciation is set aside for contentious, disputed and irrecoverable receivables.

### 7 Marketable securities

Treasury stock set aside to stabilize stock prices or to be allocated to employees from the outset, and which is booked as marketable securities on the parent company's balance sheet, is not restated in the consolidated financial statements.

Other marketable securities appear on the balance sheet at their purchase price or at their market value at fiscal year end if it is lower.

**8 Deferred charges**

Expenses incurred in the acquisition of businesses and certain commercial and communication development costs are booked as deferred charges and amortized over a maximum period of 3 years.

**9 Unrealized exchange gains or losses**

Discrepancies between the value of receivables and payables in foreign currencies are recorded on the balance sheet as unrealized exchange gains or losses.

When an unrealized exchange loss occurs, a provision for financial risk is set aside for the equivalent amount.

**10 Deferred taxes**

The Group has chosen a tax consolidation scheme, whose impact is booked in the consolidated financial statements.

Deferred taxes are computed at the tax rate on the date the consolidated accounts are drawn up, i.e. using the liability method of tax allocation.

At December 31, 2004, the Group's companies were taxed at the standard rate of 33.33%, with an additional tax of 3%, and may be subject to a 3.3% social contribution for the part of the corporate tax in excess of EUR 763,000.

The net amounts of deferred taxes are calculated based on the tax position of each company, or the income of the group of companies included in the tax consolidation scope. Net deferred tax assets are not recorded if the company or the consolidated group has reasonable assurance that they will be recovered in the future.

Information on the deferred taxes booked and tax-loss carry-forwards is available in note 5.6.6 (7).

**11 Retirement and other commitments****Retirement commitments**

In 2000, Audika Group elected to adopt the preferential method, which consists of booking a provision for retirement severance pay for all of the Group's employees. The impact is recorded in reserves at the start of the year. At year end, the company assigns a value to its retirement commitments and either adds to or writes back its provisions in terms of retirement commitments.

**Long-service employee benefits**

According to the collective bargaining agreement covering all of Audika Group's personnel, extra days of paid holiday are earned each year, according to the number of years' service for the Group (between one and three days per year). The commitments were booked for the first time in 2004. The impact on opening balance is recorded in reserves. At year end, long-service benefits are subject to a valuation by company, for which a provision is booked or written back.

**12 Other provisions for risks and charges**

Provisions for risks and charges are set aside to cover probable risks and charges owing to events occurring before the accounts are closed if the related obligations are likely to result in a loss.

**13 Translation of foreign company accounts**

Foreign subsidiary accounts are translated at the year-end exchange rate for balance sheet items and at the average rate for the fiscal year for the income statement. Any differences are booked under Unrealized Exchange Gains or Losses. This item pertains to Industan only.

**14 Distinction between recurrent income and exceptional income**

Exceptional income and expenses on the consolidated income statement include exceptional items arising from normal operations and extraordinary items.

Exceptional items arising from normal operations include those not linked to the day-to-day running of the business, either because they are unusual given the amount involved or their impact, or because they rarely occur.

**15 Consolidated earnings per share**

The reported consolidated earnings per share is based on the number of shares outstanding. Earnings appear at the bottom of the consolidated income statement.

### 5.6.3 Consolidation scope

The consolidation scope at December 31, 2004 includes 18 fully consolidated companies including Audika, the parent company. The list of companies included in the consolidation scope is given at the end of the notes. Audika Group's consolidation scope is presented in the table below:

Companies	Head offices	SIREN N°	% equity stake 31/12/04	% controlling interest 31/12/04
Audika	24, avenue de Friedland 75008 Paris	31061238700053	Parent company	Parent company
Sarffa	24, avenue de Friedland 75008 Paris	31495130200053	99.97%	99.97%
Audika Ile de France	24, avenue de Friedland 75008 Paris	30889577000011	99.40%	99.40%
Audika Sud	1, La Canebière 13001 Marseille	38847059300012	99.91%	99.91%
IAV, Institut de l'Audition du Var	24, rue Gimelli 83000 Toulon	34077355500016	60%	60%
Audika Alpes	15, rue de la Préfecture 74000 Annecy	40415042700015	50%	50%
Audika Ouest	10, avenue des Congrès 17200 Royan	38045033800013	100%	100%
Audika-Centre Audimétrique	24, avenue de Friedland 75008 Paris	67203598700169	100%	100%
ELSTAR	24, avenue de Friedland 75008 Paris	40373270400024	99.88%	99.88%
Audika Centre	24, avenue de Friedland 75008 Paris	33779445800019	100%	100%
CFA	11, rue Jean Mermoz 75008 Paris	32299730500022	89.71%	99,68%
Industan AG	C/o M de Bavier rue François Bellot, 6 - GENEVE - Suisse	CH020-391-327-6-4	90%	90%
Audika-AAC	40, av. Joseph Claussat 63400 Chamalières	42095955500013	100%	100%
Audika Nord	14, rue Gabriel Péri 93200 Saint Denis	32378549100060	99,97%	99.97%
SCS Audika	21, rue de Fontvieille 98000 Monaco	ROI 03S04200	99.75%	99.75%
Opale Audiologie	17, rue du Temple 62100 Calais	40208512000036	99.70%	99.70%
L'Aide Auditive B. Azéma	230, rue Fbg St Honoré 75008 Paris	317144 004 00015	99.88%	99.88%
Audio Service	24, avenue de Friedland 75008 Paris	34349876200016	100%	100%

All of these companies were fully consolidated at December 31, 2004.

### 5.6.4 Information relating to comparative accounts

#### 1 Change in consolidation scope

Changes to the consolidation scope during the year concern the following companies:

- on 01/01/04, acquisition of a 100% stake in the company L'Aide Auditive Bernard Azéma;
- on 01/03/04, acquisition of a 100% stake in the company Audition Service;
- on 13/12/04, acquisition of a 50% stake in the company Opale Audiologie, in which the Group has held a 50% stake since 01/09/2003.

## 2 Change of method

The application of CNC directive No. 2004-05 (March 25, 2004), as an amendment to CRC regulation 99-02, on booking long-service benefits, required a change in method which was applied retrospectively and which resulted in the booking of a provision for long-service benefits. The impact of this commitment on January 1, 2004, after the impact on tax was booked under consolidated shareholders' equity at January 1, 2004, in the amount of EUR 99,000.

### 5.6.5 Notes to the balance sheet

#### 1 Intangible fixed assets

The changes in the gross values and amortization of intangible fixed assets break down as follows:

	Concessions and licenses	Business and leaseholds	Other tangible assets	Total
Gross value at January 1, 2003	1,133	12,731	27	13,891
Change in consolidation scope	19	1,601	-	1,620
Acquisitions	73	1,891	-	1,964
Disposals/reductions	(3)	(123)	-	(126)
Gross value at December 31, 2003	1,222	16,100	27	17,349
Accumulated amortization	910	-	8	918
Net value at December 31, 2003	312	16,100	19	16,431
Gross value at January 1, 2004	1,222	16,100	27	17,349
Change in consolidation scope	85	3,469	-	3,554
Acquisitions	109	1,910	63	2,083
Disposals/reductions	(85)	(71)	-	(156)
Other changes	-	(35)	-	(35)
Gross value at December 31, 2004	1,331	21,373	90	22,794
Accumulated depreciation	1,096	-	8	1,104
Net value at December 31, 2004	235	21,373	82	21,690

#### Acquisition of concessions and licenses

This item mainly includes the purchase of technical and management software.

#### Businesses and leaseholds

Changes in the consolidation scope are due to the business assets reported in the parent company statements of the companies acquired and to their subsequent revaluation or devaluation after their fair value restatement.

Acquisitions of businesses and leaseholds corresponds to the centers in Paris (rue Lecourbe), Armentières, Poissy, Mantes La Jolie, Grasse, Abbeville, Mandelieu, Le Cannet, le Creusot, Meaux, Châlon en Champagne and Antibes.

The gross amount of businesses and leaseholds stood at EUR 21,373,000 and primarily concerns the following:

(in EUR thousands)	Businesses	Leaseholds
Audika Ile de France	1,052	38
Audika Sud	1,763	125
Audika Ouest	2,304	203
Audika Centre Audiométrique	2,749	149
ELSTAR	593	259
Audika Centre	1,594	109
CFA	1,308	232
Audika-AAC	2,219	236
Audika Nord	2,030	640
SCS Audika	181	-
Opale audiologie	120	-
L'Aide Auditif Bernard Azéma:	3,258	-
Audio Service	211	-
<b>Total</b>	<b>19,382</b>	<b>1,991</b>

This business is not provisioned against given the aforementioned accounting principles and valuation methods.

Audika Group's activity is primarily dedicated to the distribution of goods and services. The Group has no research and development activities.

#### Goodwill

Goodwill is summarized in the following table:

(in EUR)	2004		2003	
	Gross values	Amortization	Net values	Net values
SARFFA	1,030,166	824,327	205,838	257,347
Audika Ile de France	682,175	262,369	419,806	453,917
Audika Sud	277,578	80,767	196,811	210,687
IAV	24,963	13,730	11,233	12,483
Audika Ouest	1,069,027	239,702	829,324	855,372
Audika Centre Audiométrique	710,568	251,160	459,408	494,936
ELSTAR	24,172	13,522	10,649	11,859
Audika Centre	555,793	181,013	374,779	402,568
Industan	285,080	71,270	213,810	228,064
Audika-AAC	1,166,980	223,411	943,569	1,001,921
Audika Nord	672,121	96,061	576,060	609,665
Opale audiologie	71,434	3,926	67,508	20,896
L'Aide Auditif Bernard Azéma	5,116,315	255,816	4,860,499	-
Audio Service	179,552	7,481	172,071	-
<b>Total</b>	<b>11,865,922</b>	<b>2,524,556</b>	<b>9,341,367</b>	<b>4,559,715</b>

The gross value of goodwill is EUR 11,865,922 while the year's amortization expense is EUR 591,800. In 2004, the integration of the companies acquired generated total goodwill assets of EUR 5,346,051, which break down as follows:

(in EUR)	
Opale audiologie	50,184
L'Aide Auditif Bernard Azéma	5,116,315
Audio Service	179,552
<b>Total</b>	<b>5,346,051</b>

Furthermore, the Group booked additional goodwill on former acquisitions following the triggering of earn-out clauses.

The following goodwill was booked in 2004:

(in EUR)

Audika Ouest	27,400
--------------	--------

## 2 Tangible fixed assets

The changes in the gross values and amortization of tangible fixed assets break down as follows:

	Buildings	Machinery and equipment	Other tangible assets	Total
Gross value at January 1, 2003	2,568	1,725	5,729	10,022
Change in consolidation scope	60	105	322	487
Acquisitions	599	145	1,590	2,334
Disposals/reductions		(22)	(102)	(124)
Gross value at December 31, 2003	3,227	1,953	7,539	12,719
Accumulated depreciation	1,422	1,547	4,394	7,363
Net value at December 31, 2003	1 805	406	3,145	5,356
Gross value at January 1, 2004	3,227	1,953	7,539	12,719
Change in consolidation scope	14	490	958	1,462
Acquisitions	254	157	1,264	1,675
Disposals/reductions	(208)	(107)	(73)	(388)
Other changes	-	14	21	35
Gross value at December 31, 2004	3,287	2,507	9,710	15,504
Accumulated depreciation	1,570	2,055	6,069	9,694
Net value at December 31, 2004	1,718	452	3,640	5,810

## 3 Financial leases

(in EUR thousands)

	31/12/04	31/12/03	31/12/02
Gross fixed assets	438	438	507
Accumulated depreciation	(436)	(417)	(432)
Net fixed assets	2	21	75

(in EUR thousands)

	31/12/04	31/12/03	31/12/02
Borrowings under one year	5	10	32
Borrowings from +1-5 years	-	4	14
Borrowings under a financial lease	5	14	46

## 4 LT investments

The changes in the gross values and provisions of LT investments break down as follows:

(in EUR thousands)

	Gross values
Value at January 1, 2004	394
Change in consolidation scope	51
Increases	34
Net reductions	(45)
<b>Value at December 31, 2004</b>	<b>434</b>

These mainly entail deposits and sureties paid on signing commercial leases.

## 5 Inventories

(in EUR thousands)	31/12/04	31/12/03	31/12/02
Finished products	2,730	2,061	1,844

Inventories rose by over 32% compared to the previous year. In days of sales, inventory/sales ratio is 15 days, up by 1 day on 2003.

## 6 Trade and other accounts receivable

Accounts receivable are summarized in the following table:

	2004	2003	2002
<b>Trade and accounts receivable</b>			
Trade and accounts receivable - gross	9,505	9,003	5,531
Provisions for depreciation	(505)	(135)	(130)
<b>Trade and accounts receivable - net</b>	<b>9,000</b>	<b>8,868</b>	<b>5,401</b>
<b>Other net receivables</b>			
Due from companies	109	122	106
Tax claims	547	1,308	1,192
Other receivables	993	1,481	510
Deferred taxes - assets	454	923	743
<b>Total - Other net receivables</b>	<b>2,103</b>	<b>3,834</b>	<b>2,551</b>

Tax receivables essentially comprise VAT credit currently being repaid and annual fixed taxes not booked at year end, or corporate tax prepayments for which Audika Group has not yet been refunded.

Other receivables essentially comprise sums due from suppliers (EUR 879,292).

Receivables are broken down according to liquidity in the following table:

(in EUR thousands)	Net values	Receivables < 1 year	Receivables 1 year to 5 years	Receivables over 5 yrs.
Trade and accounts receivable	9,000	9,000	-	-
Due from companies	109	66	-	43
Tax claims	547	547	-	-
Other receivables	993	993	-	-
Deferred taxes - assets	454	454	-	-
<b>Total</b>	<b>10,103</b>	<b>11,060</b>	<b>-</b>	<b>43</b>

There is no risk for the collection of accounts receivable as Audika Group's clientele is essentially comprised of individuals.

## 7 Marketable securities

(in EUR thousands)	Gross values	Provisions
Value at January 1, 2004	10	0
Change in consolidation scope	-	0
Acquisitions	1,189	0
Disposals and reductions	(10)	0
<b>Value at December 31, 2004</b>	<b>1,189</b>	<b>0</b>

Breakdown of marketable securities at December 31, 2004 (in EUR):

Description	Type	Quantity	Unit price	Amount
BNP Paribas Trésorerie C	Mutual fund	100	11,892.40	1,189,240

At the close of the financial year, the value of marketable securities stood at EUR 1,201,176, namely an unrealized profit of EUR 11,936.

**8 Deferred charges**

This item essentially includes EUR 491,000 in expenses linked to the syndicated loan, EUR 305,000 in expenses linked to the acquisition of business assets and leaseholds; EUR 42,000 in expenses linked to the production of Audika's advertising films; EUR 8,000 in expenses linked to the development of the Group's website and a databank of images; and EUR 84,000 in expenses linked to the merger operations carried out within the Group. These costs are amortized over two to three years.

This section also includes EUR 645,000 in communication expenses. These costs are amortized over three months.

**9 Group shareholders' equity**

**a) Capital**

At December 31, 2004, the Group's capital comprised 3,150,000 shares with a par value of EUR 0.08.

Given the double voting rights assigned to shares that have been registered for over four years, the total number of voting rights attached to Audika Group's capital is 3,150,056.

**10 Minority interests**

	2004	2003	2002
As at January 1	371	248	281
Share of income distributed to minority interests	108	62	35
Change in consolidation scope	(91)	61	(68)
<b>As at December 31</b>	<b>388</b>	<b>371</b>	<b>248</b>

**11 Provisions**

	31/12/04	31/12/03	31/12/02
Provisions for risks	195	258	105
Provisions for charges	803	410	347
Provisions for deferred tax liability	51	686	591
Provisions for exchange losses	1	-	-
<b>Total</b>	<b>1,050</b>	<b>1,354</b>	<b>1,043</b>

The risk provision mainly consists of EUR 155,000 to cover social disputes within various Group companies, EUR 32,000 to cover customer guarantees and EUR 8,000 to cover litigation with companies. These risks were correctly provisioned at year end and therefore should not have any further impact on future financial years.

The provision for charges includes the commitments for all of the Group's retirement severance pay. These are calculated according to the rules set out by the collective bargaining agreement covering all of the Group's personnel. The computation factors in life expectancy (of 88-90 years), the employee turnover rate according to the number of years' service, length of service (14%) and appreciation (2.20%) and depreciation (4.5%) assumptions. The social security contributions for retirement severance pay are calculated based on the assumption that 50% of employees who leave the company do so voluntarily, and are therefore recorded as expenses. The voluntary retirement age is 62 and the required retirement age is 65. At December 31, 2004, this provision amounted to EUR 593,000.

The provision for charges also includes commitments for additional paid holidays due to staff, depending on their length of service.

The assumptions used in the calculation are the same as those used to calculate the retirement severance pay. At December 31, 2004, this provision amounted to EUR 209,000.

The change in provisions for deferred tax liabilities mainly reflects the implementation of a Group-wide tax consolidation agreement at January 1, 2004.

The net amounts of deferred taxes are calculated based on the tax position of each company, or the income of the group of companies included in the tax consolidation scope.

The scope and changes in the provisions for risks and charges are as follows:

(in EUR thousands)	31/12/03	Change in method	Changes in consol. scope	Allocations	Reversals	31/12/04
Retirement severance	410	-	66	117	-	593
Long-service benefits	-	151	21	37	-	209
Social risks	251	-	-	83	178	156
Tax risks	2	-	-	-	2	0
Commercial risks	5	-	59	7	31	40
Financial risks	-	-	-	1	-	1
<b>Total</b>	<b>668</b>	<b>151</b>	<b>146</b>	<b>245</b>	<b>211</b>	<b>999</b>

All provision reversals (EUR 211,000) correspond to provisions used.

## 12 Financial and other debt

	31/12/04	Maturity up to 1 year	Maturity 1 to 5 years	Maturity over 5 years
Financial debt	20,925	5,202	15,669	54
Trade payables	14,921	14,921	-	-
Other debt	2,579	2,408	171	-
<b>Total</b>	<b>38,425</b>	<b>22,531</b>	<b>15,840</b>	<b>54</b>

The various debts mainly include the EUR 1,579,000 seller's loan negotiated by Audika at the time of the acquisitions; EUR 191,000 in debt of Aide Auditive Bernard Azéma owed to a manufacturer, EUR 33,000 in debts to the former associates of the acquired companies; EUR 319,000 in advances to customers (deposits on hearing aids) and EUR 382,000 in debt on fixed assets. It should be noted that the debt linked to the seller's loan pays no interest and is used to underwrite the liabilities guarantee given upon the acquisition.

Audika's debts are summarized in the following table:

	31/12/04	Maturity up to 1 year	Maturity 1 to 5 years	Maturity over 5 years
Bank loan	20,571,243	4,902,333	15,668,910	-
Financial lease	4,651	4,651	-	-
Deposits and sureties	54,227	-	-	54,227
Bank borrowings	295,344	295,344	-	-
Suppliers	9,753,430	9,753,430	-	-
Payroll	3,439,574	3,439,574	-	-
Tax liabilities	1,728,163	1,728,163	-	-
Group loans receivable	32,530	32,530	-	-
Seller's loan	1,579,415	1,407,989	171,426	-
Other debt	967,150	880,550	86,600	-
<b>Total</b>	<b>38,425,727</b>	<b>22,444,564</b>	<b>15,926,936</b>	<b>54,227</b>

Audika's debts to suppliers include EUR 293,000 outstanding to a supplier with whom the Group has been in dispute since 2004. The dispute involves services which were charged for but not provided, and services which were provided but billed in error. Total invoices for 2004 amounted to over EUR 700,000, including tax. The Group booked a sum due from this supplier worth EUR 169,000 (excluding tax) under assets.

In 2004, Audika Group took out a syndicated loan totaling EUR 32,000,000 with several banks. The loan is indexed on the 3-month Euribor at a +0.75% spread. The guarantees on the loan consist of a pledge of 95% of the shares in Sarffa and Aide Auditive Bernard Azéma, and a EUR 5 million

"Key employee" insurance policy on Alain and Jean-Claude Tonnard. In addition, Audika has also hedged the interest rate risk equivalent to 50% of the outstanding loan.

On January 20, 2004, Audika purchased an interest rate cap with the following terms:

- maturity: December 20, 2007;
- notional amount: EUR 9 million;
- guarantee rate: 3.10% per year;
- premium: 0.53% of the notional sum.

This loan includes a clause whereby the terms may be changed if certain of the Group's financial ratios deteriorate. For 2004, the ratios are set at:

- NFD/RGOS < 1.4
- FCF/DS > 1
- FD/SE < 1.7

The different notions are defined as follows:

- NFD: Net financial debt
- RGOS: Restated gross operating surplus
- FCF: Free cash flow
- DS: Debt servicing
- FD: Financial debt
- SE: Shareholders equity.

As at December 31, 2004, the terms of the different covenants were upheld.

The different loans taken out by Audika are outlined in the tables below along with the definitions of the terms of the covenants and a list of the covenants pertaining to each loan. The first two tables explain the third one.

Ref.	Bank	under 1 year	1 to 5 years	Amount total in EUR	Repayments schedule	Date value
E11	BDPME	350,000	350,000	700,000	A	2002
E21	CDN	400,000	1,200,000	1,600,000	S	2003
E22	BNP/CIC/San Paolo	2,000,000	8,000,000	10,000,000	A	2004
E23	BNP/CIC/San Paolo	2,000,000	6,000,000	8,000,000	A	2004
<b>Total (in EUR)</b>		<b>- 4,750,000</b>	<b>15,550,000</b>	<b>20,300,000</b>	<b>-</b>	<b>-</b>

(in EUR thousands)		31/12/04
NFD	Net financial debt	15,830
RGOS	Restated gross operating surplus	12,175
FCF	Free cash flow	17,845
DS	Debt servicing	14,672
FD	Financial debt	21,441
SE	Shareholders' Equity	19,231

Ref.	Covenant 1		Covenant 2		Covenant 3	
	Required ratio	Observed ratio	Required ratio	Observed ratio	Required ratio	Observed ratio
E11	None		None		None	
E21	NFD/RGOS < 1.4	1.30	FCF/DS>1	1.22	DF/SE < 1.7	1.11
E22/E23	NFD/RGOS < 1.4	1.30	FCF/DS>1	1.22	DF/SE < 1.7	1.11

The contract on the syndicated loan provides for the adjustment of covenants as a result of the transition to IFRS.

## 5.6.6 Notes on the income statement

### 1 Sales

(in EUR thousands)	31/12/04	31/12/03	31/12/02
Audio sales	61,199	50,060	39,351
Marketing activity	3,727	2,598	2,437
Franchise activity	166	161	265
<b>Total</b>	<b>65,092</b>	<b>52,819</b>	<b>42,053</b>

Consolidated sales increased by nearly 23% on 2003, with organic growth coming out at over 7%.

Since Audika's business is conducted entirely in France, and nearly 94% of its sales come from the sale of hearing aids and accessories, the industry information required under regulation 99-02 is not of particular interest.

Sales for the companies consolidated in 2004 stood at EUR 6,771,000. Operating income for the consolidated companies stood at EUR 2,729,000 for 2004.

### 2 Marketing expenses

Marketing expenses totaled approximately EUR 3.2 million for 2004. This budget, primarily dedicated to initiatives to gain market share and promote customer loyalty, is broken down into 4 categories:

- advertising on national television channels, in magazines and mail shots to senior citizen listings;
- point of sale promotions;
- marketing program to re-contact the Group's established customer base to promote new hearing aids;
- marketing program to re-contact prospective customers.

### 3 Payroll expenses and headcount

#### Payroll expenses

(in EUR thousands)	2004	2003	2002
Salaries and wages	14,599	11,500	9,117
Payroll taxes	6,408	5,001	3,979
<b>Total</b>	<b>21,007</b>	<b>16,501</b>	<b>13,096</b>

Personnel expenses increased 27% on 2003. The ratio of said expenses to sales rose slightly to just over 32%. This increase is due to a delay on sales in the fourth quarter of 2004, which led to this rise. 2004 also saw new investment in human resources with the creation of additional positions, in particular those of management controller and regional director.

#### Headcount

	31/12/04			31/12/03			31/12/02		
	Open	Fixed	Total	Open	Fixed	Total	Open	Fixed	Total
Executives	212	2	214	168	5	173	128	2	130
Non-executives	241	12	253	207	11	218	214	9	223
<b>Total</b>	<b>453</b>	<b>14</b>	<b>467</b>	<b>375</b>	<b>16</b>	<b>391</b>	<b>342</b>	<b>11</b>	<b>353</b>

### 4 Amortization, depreciation and provisions

#### Amortization and depreciation

(in EUR thousands)	31/12/04	31/12/03	31/12/02
Intangible fixed assets	194	260	241
Tangible fixed assets	1,611	1,238	936
<b>Total</b>	<b>1,805</b>	<b>1,498</b>	<b>1,177</b>

Provisions			
(in EUR thousands)	31/12/04	31/12/03	31/12/02
Personnel commitments	155	59	64
Amortized expenses	332	303	203
Customer depreciation	214	21	67
Other risks and charges	107	226	6
<b>Total</b>	<b>808</b>	<b>609</b>	<b>340</b>

5 Financial items			
(in EUR thousands)	31/12/04	31/12/03	31/12/02
Financial income	1	41	7
Reversals of provisions	1	-	2
Transfer of financial expenses	557	-	-
Net proceeds of selling marketable securities	2	7	1
Exchange gains	17	18	20
Amortization and provisions	(68)	-	(1)
Interest expenses	(1,217)	(503)	(427)
Exchange losses	(2)	(18)	(4)
<b>Net financial items</b>	<b>(709)</b>	<b>(455)</b>	<b>(402)</b>

The drop in financial income mainly stems from the Group's bank debt policy to support its acquisitions strategy.

The financial ratio, which improved slightly, remains under control, coming out at 1.09% of sales.

6 Exceptional items			
(in EUR thousands)	31/12/04	31/12/03	31/12/02
Proceeds from management operations	63	23	58
Proceeds from capital operations	95	111	15
Other exceptional income	3	-	13
Reversals of provisions and expense transfers	-	21	14
Management operations expenses	(61)	(71)	(30)
Capital operations expenses	(146)	(141)	(16)
Other exceptional expenses	-	(17)	(113)
<b>Exceptional items</b>	<b>(46)</b>	<b>(74)</b>	<b>(59)</b>

Proceeds from management operations include EUR 10,000 in tax refunds and EUR 53,000 for the regularization of auxiliary accounts.

Proceeds from capital operations are linked to the sale of various fixed assets, notably leaseholds in the amount of EUR 86,000.

Other exceptional income includes an indemnity due to a clause in a preliminary sales agreement involving a leasehold.

Management operations expenses refer principally to commercial disputes (EUR 24,000). These expenses also comprised additional social security and tax contributions (EUR 35,000), an industrial dispute involving IAV (EUR 1,000) and EUR 1,000 in fines.

Expenses on capital operations include the net book values of sold or scrapped fixed assets.

## 7 Taxation

Corporate income tax corresponds to the total corporate tax for all of the Group's companies adjusted for deferred taxes based on temporary variances and consolidation restatements.

The tax expense amounted to EUR 3,584,000, which breaks down as follows:

	2004	2003	2002
Current income tax	3,763	2,918	2,105
Deferred taxes	(179)	(70)	1
<b>Total</b>	<b>3,584</b>	<b>2,848</b>	<b>2,106</b>

A deferred tax charge of EUR -179,000 is recorded on the income statement and breaks down as follows:

- consolidation adjustments EUR 94,000;
- temporary differences EUR 85,000.

The reconciliation between the theoretical tax as computed according to the current tax rate in France and the actual tax expense is shown below:

(in EUR thousands)	2004	2003	2002
Consolidated net income	5,715	4,786	3,611
Tax	3,584	2,848	2,106
Amortization of goodwill	592	325	302
Earnings before taxes	9,891	7,959	6,019
Theoretical tax	3,477	2,732	2,066
Parent company/subsidiaries tax regime	33	23	16
Impact of social/tax discrepancies	139	100	16
Non-booking of losses	10	6	7
Consolidation adjustments	(75)	(13)	1
<b>Total calculated tax</b>	<b>3,584</b>	<b>2,848</b>	<b>2,106</b>

In accordance with accounting standards, deferred tax assets and liabilities are offset by tax entities, and can be broken down as follows:

(in EUR thousands)	Deferred taxes - assets	Deferred taxes - liabilities
Audika tax consolidation scope	383.27	-
Institut de l'Audition du Var	-	11.10
Audika Alpes	-	12.33
C.F.A.	-	27.41
Opale audiologie	9.03	-
L'Aide Auditive Bernard Azéma	59.60	-
Audio Service	2.13	-
<b>Total</b>	<b>454.03</b>	<b>50.84</b>

In 2004, Audika's tax consolidation scope included the following companies: Audika, Sarffa, Audika Ile de France, Audika Sud, Audika Ouest, Audika Centre Audiométrique, Elstar, Audika Centre, Audika AAC and Audika Nord.

#### Deferred taxes

(in EUR thousands)	31/12/04	31/12/03	31/12/02
Ordinary tax losses carried forward	16	0	40
Amortization deemed to be deferred	0	0	26
<b>Total</b>	<b>16</b>	<b>0</b>	<b>66</b>

### 5.6.7 Other information

#### 1 Off-balance sheet commitments

##### Commitments given

(in EUR thousands)	31/12/04	31/12/03
Discounted notes not yet matured	10	20
Sureties	427	270
Pledges, mortgages and collateral	18,079	175
Operating leases	4,198	5,159
<b>Total</b>	<b>22,714</b>	<b>5,624</b>

The significant change in pledges at December 31, 2004 is essentially due to the implementation of a guarantee for the syndicated loan.

Furthermore, the procedures relating to acquisitions disclose earn-out clauses whose amount is a function of sales targets over the 5 years following the acquisition.

These commitments, which stand at EUR 158,000, relate to Audiotechnologie (EUR 46,000), Cochlea (EUR 30,000) and Centre de l'Audition (EUR 82,000).

Commitments received		
(in EUR thousands)	31/12/04	31/12/03
First request guarantee	416	397
Bank guarantees	999	1,273
Transfer of receivables	76	76
<b>Total</b>	<b>1,491</b>	<b>1,746</b>

Audika Group receives a bank guarantee with each acquisition delivered on behalf of the seller which covers its assets and liabilities. These guarantees, which have a term of 3 years, are designed to cover any tax or social audit risk.

## 2 Earnings per share

As the company holds no treasury stock, earnings per share as at December 31, 2004 equated to the Group's net income divided by the number of outstanding shares (3,150,000). As there are no dilutive instruments, diluted earnings per share equated to net earnings per share.

## 3 Explanatory notes on the pro-forma financial statements

In accordance with regulation 99-02 of the French Regional Audit Board (CRC), the reference document for Audika Group is submitted pro-forma and then reviewed by its Statutory Auditors. The respective changes to the main income statement and balance sheet items following this review are presented in the table below for information purposes.

(in EUR thousands)	Consolidated at 31/12/03	Pro-forma consolidated at 31/12/03	As a %
Sales	52,819	60,354	14.27
Operating income	8,487	8,509	0.26
<b>Balance sheet total</b>	<b>47,172</b>	<b>57,695</b>	<b>22.31</b>

At December 31, 2003, the pro-forma financial statements were drawn up to establish a comparable consolidation scope with 2004, taking into account the following changes in consolidation scope:

As at January 1, 2003:

- acquisition of Opale Audiologie;
- acquisition of SARL Centre de l'Audition;
- acquisition of Aide Auditive Bernard Azéma;

As at March 1, 2003:

- acquisition of S.A.S. Audioservice;

## 4 Significant events after the closing date

- acquisition of "Laboratoire Renvoïret";
- acquisition of eight businesses;

These acquisitions were announced in December 2004, will be consolidated as of January 1, 2005 and are expected to generate sales of over EUR 1.7 million;

- continuing the tax consolidation scheme with the consolidation of L'Aide Auditive Bernard Azéma, Audio Service and Opale Audiologie as of January 1, 2005;
- tax audits began for Audika and Audika Centre in December 2004.

## 5.7 Report of the statutory auditors on the consolidated financial statements

Year ended December 31, 2004

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you for the year ended December 31, 2004, on the audit of the accompanying financial statements of Audika.

The consolidated financial statements were drawn up by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

### I. Opinion on the consolidated financial statements

We conducted our audit in accordance with auditing standards generally accepted in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above were drawn up in accordance with accounting rules and standards generally accepted in France, and present fairly, in all material respects, the assets, the financial position and the results of all the companies included in the consolidation.

Without affecting the opinion expressed above, we would like to draw your attention to note D 'Information pertaining to the comparability of accounts, which describes the change in accounting methods resulting from the application of the CNC's 2004-2005 directives relating to firsttime accounting of a provision for long-service benefits, as from January 1, 2004.

### II. Justification of our assessments

In accordance with the provisions of Article L.225-2345 of the French Commercial Code relating to the justification of our comments, the following points should be noted:

Note B in the "Accounting principles" section of the notes describes the rules and principles applied for the valuation of intangible assets. The Group regularly undertakes a review of the value of its principal intangible assets in order to identify any loss in value.

Under our examination into the accounting methods and principles followed by the company, we have verified the appropriate nature of the accounting principles discussed below and the information provided in the notes.

These assessments were performed as part of our audit approach to the consolidated financial statements taken as a whole and therefore contribute to the expression of the opinion given in the first part of this report.

### III. Specific procedures prescribed by law

Furthermore, we have also verified the information relating to the group which was given in the management report in accordance with accounting principles generally accepted in France. We have no observation to make as to its sincerity or consistency with the consolidated financial statements.

Paris and Neuilly, April 18, 2005  
Statutory Auditors

EXCOM  
Thierry Dubreuil  
12, rue Poncelet  
75017 Paris, France

Deloitte et Associés  
Alain Penanguer - Christophe Perreau  
185, avenue Charles de Gaulle  
92200 Neuilly-sur-Seine, France

**Audika**

## CHAPTER 6

# Parent company financial statements

## 6.1 Balance sheet - Assets (in EUR)

	Gross	Amort./ Prov.	31/12/04 Net	31/12/03 Net	31/12/02 Net
<b>Intangible fixed assets</b>					
Start-up costs	-	-	-	-	-
Concessions, patents, licenses	589,139	497,816	91,323	158,882	285,459
Business	-	-	-	-	-
Prepayments	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>589,139</b>	<b>497,816</b>	<b>9,323</b>	<b>158,882</b>	<b>285,459</b>
<b>Tangible fixed assets</b>					
Land	-	-	-	-	-
Buildings	17,005	12,264	4,741	6,442	8,143
Machinery and equipment	2,467	1,041	1,426	1,919	2,413
Other tangible assets	524,313	290,304	234,009	278,922	181,535
Property under development	-	-	-	-	-
Prepayments	-	-	-	-	-
<b>Total</b>	<b>543,785</b>	<b>303,609</b>	<b>240,176</b>	<b>287,283</b>	<b>192,091</b>
<b>LT investments</b>					
Other equity investments	24,975,325	-	24,975,325	16,471,263	13,453,381
Advances to non-consolidated companies	-	-	-	-	-
Other LT investments	-	-	-	-	-
Loans	-	-	-	-	-
Other	62,692	-	62,692	60,609	40,679
<b>Total</b>	<b>25,038,017</b>	<b>0</b>	<b>25,038,017</b>	<b>16,531,872</b>	<b>13,494,060</b>
<b>Total fixed assets</b>	<b>26,170,941</b>	<b>801,425</b>	<b>25,369,516</b>	<b>16,978,037</b>	<b>13,971,610</b>
Inventories	-	-	-	-	-
Prepayments on orders	-	-	-	-	167,500
Trade and other accounts receivable	1,470,118	8,042	1,462,076	1,857,780	2,476,007
Other receivables	4,142,814	-	4,142,814	4,038,311	1,708,119
Marketable securities	-	-	-	-	-
Cash and cash equivalents	3,048,780	-	3,048,780	2,975,760	932,571
Prepayments	217,129	-	217,129	173,976	182,367
<b>Total available</b>	<b>8,878,841</b>	<b>8,042</b>	<b>8,870,799</b>	<b>9,045,827</b>	<b>5,466,564</b>
Deferred charges	720,873	0	720,873	324,464	219,512
Unrealized exchange losses	-	-	-	-	-
<b>Overall total</b>	<b>35,770,655</b>	<b>809,467</b>	<b>34,961,188</b>	<b>26,348,328</b>	<b>19,657,686</b>

## 6.2 Balance sheet - Liabilities (in EUR)

	31/12/04	31/12/03	31/12/02
<b>Shareholders' equity</b>			
Capital	252,000	252,000	252,000
Additional paid-in capital	913,132	913,132	913,132
Legal reserve	25,200	25,200	24,100
Other reserves	3,582,804	3,335,277	2,914,952
Retained earnings	-	-	-
Net income for the year	1,727,448	1,444,528	1,303,424
<b>Total</b>	<b>6,500,584</b>	<b>5,970,137</b>	<b>5,407,608</b>
<b>Provisions for risks and charges</b>	<b>67,614</b>	<b>64,000</b>	<b>0</b>
<b>Financial debt</b>			
Bank loans and debt	20,586,493	13,844,110	10,177,270
Miscellaneous loans and debt	3,103,401	2,651,916	891,035
<b>Total</b>	<b>23,689,894</b>	<b>16,496,026</b>	<b>11,068,305</b>
<b>Prepayments received</b>			
Trade & other accounts payable	1,418,999	1,574,478	1,278,858
Taxes and social security liabilities	1,385,478	798,782	614,648
Debt on fixed assets & related debt	1,517,573	807,075	952,072
Other debt	381,046	637,830	336,195
Unearned income	-	-	-
Unrealized exchange profit	-	-	-
<b>Overall total</b>	<b>34,961,188</b>	<b>26,348,328</b>	<b>19,657,686</b>

### 6.3 Income statement

(in EUR)	31/12/04	31/12/03	31/12/02
Operating income			
Sale of merchandise	-	-	-
Sale of products	-	-	-
Sale of services	10,654,691	8,901,164	7,448,985
<b>Net sales</b>	<b>10,654,691</b>	<b>8,901,164</b>	<b>7,448,985</b>
Capitalized production	-	-	-
Inventories	-	-	-
Operating subsidies	-	648	-
Write-back on depreciation, provisions and expense transfers	223,722	323,194	191,319
Other income	31,221	45,185	26,924
<b>Total operating income</b>	<b>10,909,634</b>	<b>9,270,191</b>	<b>7,667,228</b>
Operating expenses			
Cost of merchandise	229	645	-
Change in inventory levels	-	-	-
Cost of goods sold	-	-	-
Other outside purchases and expenses	5,116,033	4,738,734	3,450,217
Taxes and similar	233,652	147,166	114,398
Salaries and wages	2,365,768	1,812,628	1,578,020
Payroll taxes	1,066,113	809,256	719,313
Amortization and depreciation on fixed assets	434,932	446,830	389,880
Net allocation to provisions for current assets	8,042	-	-
Provisions for risks and charges	60,614	64,000	-
Other expenses	6,888	3,810	3,763
<b>Total operating expenses</b>	<b>9,292,271</b>	<b>8,023,069</b>	<b>6,255,591</b>
Operating income	1,617,363	1,247,122	1,411,637
Financial income	1,908,382	1,009,713	661,340
Financial expenses	1,368,421	527,351	366,000
<b>Net financial items</b>	<b>539,961</b>	<b>482,362</b>	<b>295,340</b>
Recurrent income before tax	2,157,324	1,729,484	1,706,977
Exceptional income	4,000	20,466	6,860
Exceptional expenses	2,187	25,222	2,284
<b>Net exceptional items</b>	<b>1,813</b>	<b>(4,756)</b>	<b>4,576</b>
Employee profit sharing	-	-	-
Income tax	431,689	280,200	408,129
<b>Net income</b>	<b>1,727,448</b>	<b>1,444,528</b>	<b>1,303,424</b>

## 6.4 Five year financial summary

Under Articles 133, 135, and 148 of the Decree of March 23, 1967 governing commercial companies.

(in EUR thousands, unless otherwise specified)

	31/12/00	31/12/01	31/12/02	31/12/03	31/12/04
<b>Capital at year-end</b>					
Common stock (in EUR)	240,107	241,000	252,000	252,000	252,000
Number of shares	787,500	787,500	3,150,000	3,150,000	3,150,000
<b>Operations and results for the year</b>					
Sales before tax	5,353	6,441	7,449	8,901	10,655
Earnings before tax, profit sharing, depreciation, amortization and provisions	1,499	2,165	2,101	2,171	2,663
Corporate income tax	425	487	408	280	432
Employee profit sharing	-	-	-	-	-
Earnings after tax, profit sharing, depreciation, amortization and provisions	874	1,422	1,303	1,445	1,727
Dividends paid	606	709	882	1,197	1,449
<b>Earnings per share (in EUR)</b>					
Earnings after tax and profit sharing but before depreciation, amortization and provisions	1.36	2.13	0.54	0.60	0.71
Earnings after tax, profit sharing, depreciation, amortization and provisions	1.11	1.81	0.41	0.46	0.55
Dividends per share	0.77	0.90	0.28	0.38	0.46
<b>Personnel</b>					
Average headcount during the year	17	22	32	35	48
Total payroll for the year	1,026	1,178	1,578	1,813	2,366
Amount of employee benefits paid	332	376	518	566	767

## 6.5 Notes to the parent company consolidated financial statements

### 6.5.1 2004 Highlights

#### 1 Mergers and Acquisitions

- on January 1, 2004, the company acquired 100% of the capital of Aide Auditive Bernard Azéma;
- on March 1, 2004, the company acquired 100% of the capital of Audio Service;
- on December 13, 2004, acquisition of the 50% stake in Opale Audiologie which was not already owned by Audika.

#### 2 Company loans

On January 13, 2004, Audika took out a syndicated loan of EUR 32,000,000 with several banks in order to finance its acquisitions program in 2004 and 2005 and to repay virtually all outstanding debts. The Board of Directors authorized the loan on January 12, 2004.

The loan is indexed on the 3-month Euribor at a +0.75% spread.

#### 3 Tax consolidation

Audika has opted for a tax consolidation scheme subject to the agreement of April 21, 2004, which took effect on January 1, 2004.

The following subsidiaries are part of the tax consolidation scope:

- SARFFA
- Audika Ile de France
- Audika Sud
- Audika Ouest
- Audika Centre Audiométrique
- ELSTAR
- Audika Centre
- Audika AAC
- Audika Nord

### 6.5.2 Accounting principles, rules and methods

#### 1 General principles

The financial statements for the year ended December 31, 2004 were drawn up in accordance with the legal and regulatory provisions and accounting standards generally accepted in France.

#### 2 Change of method

The application of CNC directive No. 2004-05 (March 25, 2004), as an amendment to CRC regulation 99-02, on booking long-service benefits, required a change in method which was applied retrospectively and which resulted in the booking of a provision for long-service benefits. The impact of this commitment on January 1, 2004, after the impact on tax was booked under consolidated shareholders' equity at January 1, 2004, in the amount of EUR 30,614.

#### 3 Intangible fixed assets

Concessions and similar rights are valued at their purchase price. They mainly comprise software, which is amortized using the straight-line method over 36 months.

#### 4 Tangible fixed assets

Tangible fixed assets are booked at their purchase price. Depreciation is computed based on the estimated useful lives of the assets. The most commonly used life spans are:

Type	Term <sup>(1)</sup>	Method <sup>(2)</sup>
Installations and buildings	10	SL
Equipment	4	SL
Fixtures and fittings	6 to 7	SL
Transport equipment	2 to 5	SL
Office and IT equipment	2 to 5	SL
Office furniture	4 to 7	SL

(1) expressed in years.

(2) SL: straight line.

#### 5 Equity investments

Investments are booked at their purchase price. When the estimated value falls below the purchase price, a provision for depreciation is set aside to cover the difference.

The book value of equity investments corresponds to their value in use. This is calculated according to the following factors: strategic interest of the investment held with regard to the company's activity, criteria relating to net assets and profitability of subsidiaries.

#### 6 Receivables

Receivables are booked at their face value. A provision for depreciation is set aside when their estimated value falls below their book value.

#### 7 Provisions for risks and charges

Provisions for risks and charges are set aside to cover risks and charges owing to events occurring before the accounts are closed if the related obligations are likely to result in a loss.

Commitments relating to the long-term employee benefits are provisioned in accordance with the collective bargaining agreement. The computation factors in life expectancy (of 88-90 years), the employee turnover rate according to the number of years' service (14%) and appreciation (2.20%) and depreciation (4.5%) assumptions.

### 6.5.3 Notes to the balance sheet - Assets

#### 1 Intangible fixed assets (in EUR thousands)

	Concessions and licenses	Businesses and assets leaseholds	Other tangible	Total
Gross value at January 1, 2003	498	-	-	498
Acquisitions	42	-	-	42
Disposals/reductions	-	-	-	0
Other changes	-	-	-	0
Gross value at December 31, 2003	540	-	-	540
Accumulated amortization	(381)	-	-	(381)
Net value at December 31, 2003	159	-	-	159
Gross value at January 1, 2004	540	-	-	540
Acquisitions	49	-	-	49
Disposals/reductions	-	-	-	-
Other changes	-	-	-	-
Gross value at December 31, 2004	589	-	-	589
Accumulated amortization	(498)	-	-	(498)
Net value at December 31, 2004	91	-	-	91

Acquisitions relate to:

- purchase of software for payroll management: EUR 38,000;
- purchase of software for sales management: EUR 9,000;
- purchase of software for remote transmission and reception of banking data flows: EUR 2,000.

## 2 Tangible fixed assets (in EUR thousands)

	Buildings	Machinery and equipment	Other tangible assets	Total
Gross value at January 1, 2003	17	3	324	344
Acquisitions	-	-	182	182
Disposals/reductions	-	-	(28)	(28)
Other changes	-	-	-	-
Gross value at December 31, 2003	17	3	478	498
Accumulated depreciation	(10)	(1)	(199)	(210)
Net value at December 31, 2003	7	2	279	288
Gross value at January 1, 2004	17	3	478	498
Acquisitions	-	-	48	48
Disposals/reductions	-	-	(2)	(2)
Gross value at December 31, 2004	17	3	524	544
Accumulated depreciation	(12)	(1)	(290)	(303)
Net value at December 31, 2004	5	2	234	241

Acquisitions relate to:

- installation of air conditioning system: EUR 17,000;
- installation of shelving units: EUR 2,000;
- purchase of computers: EUR 11,000;
- purchase of furniture: EUR 15,000;
- purchase of a vehicle (option to buy one): EUR 3,000.

The disposal relates to the sale of a vehicle for EUR 2,000.

## 3 LT investments (in EUR thousands)

	LT investments	Deposits and sureties	Total
Gross value at January 1, 2003	13,453	41	13,494
Increases	3,062	38	3,100
Reductions	(44)	(18)	(62)
Other changes	-	-	-
Gross value at December 31, 2003	16,471	61	16,532
Accumulated provisions	-	-	-
Net value at December 31, 2003	16,471	61	16,532
Gross value at January 1, 2004			
Increases	8,504	2	8,506
Reductions	-	-	-
Other changes	-	-	-
Gross value at December 31, 2004	24,975	63	25,038
Accumulated provisions	-	-	-
Net value at December 31, 2004	24,975	63	25,038

Investments in equities refer to the acquisition of the following companies:

- L'Aide Auditive Bernard Azéma: EUR 7,882,000;
- Audio Service: EUR 485,000;
- Acquisition of the remaining stake in Opale Audiologie: EUR 110,000.

An additional payment of EUR 27,400 was also booked for Centre de l'audition with regard to its probable acquisition.

Deposits and sureties correspond to deposits on rentals of EUR 2,000.

#### 4 Subsidiaries and affiliates (in EUR)

All of the subsidiaries listed below are fully consolidated.

Company	Capital	Shareholders' equity other than capital	Equity stake held	Net value of shares held	Sales over the past year	Income over the past year	Collateral and sureties given	Loans and advances granted by the company	Dividends received by the company
Sarffa	126,128	10,041,422	99.97%	1,340,697	29,119,164	3,877,643	4,712	-	1,221,555
Audika Ile de France	16,800	1,175,647	99.40%	1,029,286	7,040,067	276,799	-	147,983	-
Audika Sud	34,865	323,286	99.91%	430,091	5,177,198	(5,188)	10,845	1,223,006	-
IAV	7,622	126,561	60.00%	4,573	1,138,671	65,765	-	945	7,500
Audika Alpes	7,622	267,300	50.00%	3,811	909,020	108,840	-	1,095	8,750
Audika Ouest	86,042	1,581,336	100.00%	2,411,945	7,673,771	404,450	77,035	309,136	-
Audika									
Centre Audiométrique	178,289	2,016,010	100.00%	1,901,226	7,370,488	436,210	-	51,605	-
Elstar	40,000	39,424	99.88%	329,331	1,683,919	4,604	-	648,311	-
Audika Centre	92,220	1,509,892	100.00%	2,450,519	5,125,430	334,313	-	81,984	-
Industan	500,000 <sup>(1)</sup>	(391,650) <sup>(1)</sup>	90.00%	1,009,213	-	(20,606) <sup>(1)</sup>	-	523,634	-
Audika-AAC	1,154,023	348,180	100.00%	2,202,467	6,172,624	(6,065)	143,840	687,576	-
Audika Nord	746,620	645,762	99.97%	3,280,724	5,333,774	45,264	-	23,134	-
SCS Audika	40,000	(20,267)	99.75%	39,900	81,634	(20,580)	-	184,963	-
Opale Audiologie	38,112	(56,839)	99.70%	174,304	271,249	(14,781)	-	1	-
Aide Auditive	202,480	(152,581)	99.88%	7,881,873	6,516,538	1,026	190,766	-	-
B. Azéma									
Audio Service	37,000	136,331	100.00%	485,364	338,100	(895)	-	-	-
<b>Total</b>	-	-	-	<b>24,975,324</b>	-	-	<b>427,198</b>	<b>3,883,373</b>	<b>1,237,805</b>

(1) In CHF.

## 5 Maturities on receivables

Receivables (In EUR thousands)	Gross amount	Up to 1 year maximum	Over 1 year
Advances to non-consolidated companies	0	-	-
Loans	0	-	-
Other LT financial investments	63	-	63
Doubtful or contested accounts receivable	9	9	-
Other accounts receivable	1,461	1,461	0
Receivables in the form of securities lent	0	-	-
Personnel and related costs	31	5	26
Social Security and other agency liabilities	0	-	-
Income tax	-	-	-
Value added tax	83	83	-
Other taxes and charges	0	-	-
Others	0	-	-
Group and partners' receivables	3,910	3,386	524
Sundry debtors	117	117	-
Prepayments	217	217	-
<b>Total</b>	<b>5,893</b>	<b>5,280</b>	<b>613</b>

## 6 Trade and accounts receivable

Amounts due from customers decreased by EUR 396,000 relative to the previous year due to improvements in payment conditions. A provision for the depreciation of customer accounts has been booked for EUR 8,000.

## 7 Other receivables

### Personnel and accounts receivable

- advances due on permanent expenses: EUR 26,000;
- deposits on salaries: EUR 2,000;
- restaurant vouchers: EUR 3,000.

### Value added tax

- VAT deductible from goods and services: EUR 50,000;
- VAT deductible on invoices not received: EUR 26,000;
- VAT collected on credit notes to prepare: EUR 7,000.

### Group and associates

- EUR 3,910,000.

This consists of Group loans with the company's subsidiaries. These advances are paid back.

### Sundry debtors

- Credit notes due from suppliers: EUR 100,000;
- accrued income: EUR 17,000.

**8 Prepayments**

Unearned income essentially comprises operating income (EUR 217,000) due from 2005.

**9 Deferred charges**

This item consists of EUR 167,774 in expenses following the acquisition of equity shares, EUR 8,000 in expenses to develop the Audika website, EUR 38,000 in expenses linked to the production of advertising films, and the EUR 17,000 in expenses on the leasehold on 11, avenue de Friedland. These expenses are amortized over three years.

Type (in EUR)	Balance 31/12/03	Increase last year	Allocation last year	Balance 31/12/04
Acquisition of shares	192,548	129,194	154,830	166,912
Development costs	3,812	-	3,812	0
Advertising films	76,667	-	38,333	38,334
Non-marketing website	24,212	-	16,142	8,070
Friedland leasehold	27,225	-	10,209	17,017
Commission on bank loan	-	557,000	66,460	490,540
<b>Total</b>	<b>324,464</b>	<b>686,194</b>	<b>289,785</b>	<b>720,873</b>

**6.5.4 Notes to the balance sheet - Liabilities**

**1 Breakdown of common stock (in EUR)**

No operations affected Audika's common stock during financial year 2004.

Shares	Number of shares	Par value in EUR	Total
Ordinary shares	3,150,000	0.08	252,000
<b>Total</b>	<b>3,150,000</b>	<b>0.08</b>	<b>252,000</b>

**2 Statement of changes in shareholders' equity (In EUR thousands)**

	Capital	Premiums	Reserves	Income	Total
At 12/31/2003 before allocation	252	913	3,360	1,445	5,970
Appropriation of earnings 2003	-	-	248	(1,445)	(1,197)
2004 earnings	-	-	-	1,727	1,727
<b>Total</b>	<b>252</b>	<b>913</b>	<b>3,608</b>	<b>1,727</b>	<b>6,500</b>

**3 Provisions for risks and charges**

**Provisions for disputes**

This essentially comprises a provision of EUR 37,000 linked to an industrial dispute. Said provision includes the relevant payroll expenses.

**Provisions for other charges**

This refers to provisions on long-service benefits.

According to the collective bargaining agreement covering all of Audika Group's personnel, extra days of paid holiday are earned each year, according to the number of years' service for the Group (between one and three days per year). These engagements were booked for the first time in 2004. The provision amounted to EUR 30,614.

(in EUR thousands)	31/12/04	Allocations	Reversals used	Reversals not used	31/12/04
Provisions for disputes	64	30	57	0	37
Provisions for charges	0	31	-	-	31
<b>Total</b>	<b>64</b>	<b>61</b>	<b>57</b>	<b>0</b>	<b>68</b>

#### 4 Debt maturities

Debt schedule (In EUR thousands)	Gross amount	Up to 1 year maximum	1 to 5 years	Over 5 years
Banks loans and debt up to 1 year	267	267	-	-
Bank loans and debt over 1 year	20,320	4,770	15,550	-
Supplier and debts payable	1,419	1,419	-	-
Staff and related payables	190	190	-	-
Social Security and other agency liabilities	301	301	-	-
Income tax	709	709	-	-
Value added tax	137	137	-	-
Other taxes and duties	48	48	-	-
Debt on fixed assets	1,517	1,346	171	-
Group and partners' receivables	3,103	3,103	-	-
Other debt	381	381	-	-
Unearned income	-	-	-	-
<b>Total</b>	<b>28,393</b>	<b>12,672</b>	<b>15,721</b>	<b>-</b>

#### 5 Borrowings

On January 13, 2004, Audika took out a syndicated loan of EUR 32,000,000 with several banks in order to finance its acquisitions program in 2004 and 2005 and to repay virtually all outstanding debts. The Board of Directors authorized the loan on January 12, 2004.

The loan is indexed on the 3-month Euribor at a +0.75% spread.

This loan includes a clause whereby the terms may be changed if certain of the Group's financial ratios deteriorate. For 2004, the ratios are set at:

- NFD/RGOS < 1.4
- CFC/DS > 1
- FD/SE < 1.7

The different notions are defined as follows:

- NFD: Net financial debt
- RGOS: Restated gross operating surplus
- FCF: Free cash flow
- DS: Debt servicing
- FD: Financial debt
- SE: Shareholders equity

Lending establishment (in EUR)	Balance at 31/12/03	Subscription	Reimbursement	Balance at 31/12/04	EMT less than 1 year	EMT 1 to 5 years
BNP	4,497,347	20,000,000	6,497,347	18,000,000	4,000,000	14,000,000
CCF	1,607,280	-	1,607,280	0	-	-
San Paolo	1,929,197	-	1,929,197	0	-	-
WORMS	1,264,898	-	1,264,898	0	-	-
Crédit du Nord	1,900,000	-	300,000	1,600,000	400,000	1,200,000
CIC	1,554,102	-	1,554,102	0	-	-
BDPME	1,050,000	-	350,000	700,000	350,000	350,000
Bank borrowings	-	-	-	286,493	286,493	-
<b>Total</b>	<b>13,802,824</b>	<b>20,000,000</b>	<b>13,502,824</b>	<b>20,586,493</b>	<b>5,036,490</b>	<b>15,550,000</b>

Miscellaneous loans and debt: EUR 3,103,000.

This consists of Group loans to subsidiaries.

Supplier debts and related accounts (In EUR thousands)

Group suppliers	166
Non-Group suppliers	634
Notes payable (maturing in 2005)	544
Invoices not yet received	75
<b>Total</b>	<b>1,419</b>

Payroll and taxes (in EUR thousands)

Provision for paid holidays	153
Expenses	37
Social security and other agency liabilities	301
French state, taxes payable	709
French state, VAT payable	137
Organic	17
Business tax	19
Tax for the disabled	7
TVTS	5
<b>Total</b>	<b>1,385</b>

Debt and fixed assets (in EUR thousands)

Debts on securities purchased	1,506
Fixed asset suppliers	11
<b>Total</b>	<b>1,517</b>

Other debt

Credit notes to prepare: EUR 381,000.

### 6.5.5 Notes on the income statement

#### 1 Sales (in EUR thousands)

Activity	31/12/04	31/12/03	31/12/02
Advertising	7,577	5,831	4,931
Management	1,526	1,531	1,211
Accounting	682	615	509
Others	870	925	798
<b>Total</b>	<b>10,655</b>	<b>8,901</b>	<b>7,449</b>

#### 2 Reversals on amortization, provisions and expense transfers (in EUR)

Type	Amount
Acquisition of securities <sup>(1)</sup>	129,194
Benefits	18,234
Repayment of claims	19,294
Reversal of provisions	57,000
<b>Total</b>	<b>223,722</b>

(1) These expenses are staggered over three years.

### 3 Financial items (in EUR thousands)

Interest income on Group loans	113
Dividends received	1,238
Transfer of expenses	557
<b>Total financial income</b>	<b>1,908</b>
Provisions for deferred expenses	66
Interest on borrowings	1,167
Interest on Group loans	130
Interest on overdrafts	5
<b>Total financial expenses</b>	<b>1,368</b>
<b>Net financial items</b>	<b>540</b>

### 4 Exceptional items (in EUR thousands)

Income from the sale of fixed assets	4
<b>Total exceptional income</b>	<b>4</b>
Fines and penalties	0.6
Tax expenses	0.7
Sales of tangible fixed assets	0.7
<b>Total exceptional expenses</b>	<b>2</b>
<b>Net exceptional items</b>	<b>2</b>

## 6.5.6 Other information

### 1 Directors' and officers' compensation

	Compensation	Benefits
Alain Tonnard CEO	Gross annual income of EUR 270,000 including benefits	None
Jean-Claude Tonnard Vice President	Gross annual income of EUR 288,000 including benefits	None
Philippe Langzam Director	None	None

### 2 Tax consolidation - Taxation on profits

The company is taxed at the standard rate of 33.33%, in addition to:

- an additional tax of 3%;
- a social contribution of 3.3% after a tax deduction of EUR 763,000.

Audika and its main subsidiaries subscribe to the corporate tax scheme.

The impact on corporate tax is as follows:

- the differences between the tax booked and the tax which would have been owed in the absence of tax consolidation equals an additional tax payment in EUR 40,020 due to the 3.3% social contribution applied to Group earnings. Without tax consolidation, only one company was subject to the social contribution;
- the tax owed by consolidated subsidiaries is EUR 2,989,743;
- losses carried back: none;
- corresponding tax: none;
- total deferred amortization expenses: none.

Income	Before tax	Tax owed	Net income
Recurrent	2,157	430	1,727
Exceptional	2	1	1
<b>Total</b>	<b>2,159</b>	<b>431</b>	<b>1,728</b>

### 3 Parent company deferred taxes

(in EUR)	31/12/03	Decrease	Increase	31/12/04
Organic	11,854	11,854	16,811	16,811
Real tax rate	34.33%	34.33%	34.33%	34.33%
Deferred taxes - Liabilities	4,069	4,069	5,771	5,771
Deferred charges	324,464	223,325	129,194	230,333
Real tax rate	34.33%	34.33%	34.33%	34.33%
Deferred taxes - Assets	111,388	76,667	44,352	79,073

### 4 Items from several accounts concerning related companies (in EUR thousands)

Items	Related companies
<b>LT investments</b>	
Equity investments	24,975
<b>Receivables</b>	
Trade & other accounts receivable	403
Other receivables	3,910
<b>Debt</b>	
Supplier and debts payable	166
Group loans	3,103
Other debt	381
<b>Financial income</b>	
Income from equity investments	1,238
Other financial income	113
Financial expenses	130

### 5 Financial commitments

#### Commitments given

- Sureties: EUR 427,000.
- Pledging of shares in SARFFA and Aide Auditive Bernard Azéma: EUR 18,000, as a guarantee on the syndicated loan of EUR 32 million.
- Retirement commitments: EUR 156,000.
- Retirement commitments are calculated based on the same assumptions as those used to assess long-term benefits.
- Earn-out clauses: EUR 158,000; these clauses are linked to Audiotechnologie, Cochléa and Centre de l'Audition.

#### Commitments received

- Commitments received for liabilities guarantees: EUR 1,491,000.

### 6 Personnel by category

Category	31/12/04		31/12/03	
	Open	Fixed	Open	Fixed
Executives	33	0	23	1
Non-executives	16	1	15	2
<b>Total</b>	<b>49</b>	<b>1</b>	<b>38</b>	<b>3</b>

### 7 Accrued income (in EUR thousands)

Receivables	31/12/04
Due from customers, un-remitted invoices	340
Due from suppliers, credit notes due	100
Due from the state, income owed	0
<b>Total</b>	<b>440</b>

## 8 Accrued expenses (in EUR thousands)

Accrued expenses	31/12/04
<b>Bank</b>	
Interest owed	247
<b>Suppliers</b>	
Invoices not yet received	75
<b>Customers</b>	
Credit notes to prepare	381
Payroll and taxes	
Personnel	153
Social security payments	69
French state	76
<b>Total</b>	<b>1,001</b>

## 9 Relations between the parent company and its subsidiaries

Audika bills its subsidiaries for various services. These services mainly include communication, management and accounting costs as well as costs related to the management of the fleet of vehicles and insurance costs.

Billing is carried out under standard terms based on the services provided for each subsidiary.

In 2004, Audika billed its subsidiaries a total EUR 6,919,000 for these services.

## 10 Cross-shareholdings

There were no cross-shareholdings to report at December 31, 2004.

## 11 Significant events after the closing date

Acquisitions made since January 1, 2005:

Laboratoire Renvoïret: *société à responsabilité limitée* (limited liability company) with a capital of EUR 7,500.

Head offices: 37, avenue du Général de Gaulle 79200 Parthenay.

Registered under SIREN number 451 557 094, RCS Bressuire.

Acquired on January 1, 2005.

### Other events

Audika was subject to a tax audit for fiscal years 2002 and 2003.

The audit began on December 14, 2004.

### Corporate tax

The three following companies were included in the Group's tax consolidation scope as of January 1, 2005:

- Audio Service;
- Opale Audiologie;
- L'Aide Auditive Bernard Azéma.

## 6.6 Report of the statutory auditors on the financial statements

In compliance with the assignment entrusted to us by your shareholders' annual general meeting, we hereby report to you for the year ended December 31, 2004, on:

- the audit of the accompanying financial statements of Audika;
- the justification of assessments;
- the specific verifications and information required by law.

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

### I. Opinion on the financial statements

We conducted our audit in accordance with auditing standards generally accepted in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above were drawn up in accordance with accounting rules and standards generally accepted in France, and present fairly, in all material respects, the results of the company's operations for the fiscal year as well as its financial position and the assets at year end.

Without affecting the opinion expressed above, we would like to draw your attention to note D "Information pertaining to the comparability of accounts", which describes the change in accounting methods resulting from the application of the CNC's 2004-2005 directives relating to first-time accounting of a provision for long-service benefits, as from January 1, 2004.

### II. Justification of our assessments

In accordance with the provisions of Article L.225-2345 of the French Commercial Code relating to the justification of our comments, the following points should be noted:

Note B describes the rules and principles applied for the valuation of equity investments.

Under our examination into the accounting methods and principles followed by the company, we have verified the appropriate nature of the accounting principles discussed below and the information provided in the notes.

These assessments were performed as part of our audit approach to the consolidated financial statements taken as a whole and therefore contribute to the expression of the opinion given in the first part of this report.

### III. Verifications and specific information

We have also performed the specific verifications required by law, in accordance with the professional standards applied in France.

We have no comment as to the fair presentation of the financial statements and their conformity with the information given in the management report of the Board of Directors, or with the documents addressed to the shareholders with respect to the financial position and the financial statements.

In accordance with the law, we have verified that the management report contains the appropriate disclosures as to the acquisition of shares and controlling interest and to the percentage interests and votes held by shareholders.

Paris and Neuilly, April 18, 2005  
Statutory Auditors

EXCOM  
Thierry Dubreuil  
12, rue Poncelet  
75017 Paris

Deloitte et Associés  
Alain Penanguer - Christophe Perreau  
185, avenue Charles de Gaulle  
92200 Neuilly-sur-Seine

## 6.7 Report of the Statutory Auditors on the special agreements

Year ended December 31, 2004

In our capacity as the Statutory Auditors of your company, we hereby present our report on the special agreements that have been brought to our attention. It is not our duty to research into the existence of such agreements.

We would like to inform you that we have not been advised of the existence of any such agreement, as defined in Article L.225-38 of the French Commercial Code.

Paris and Neuilly, April 18, 2005  
Statutory Auditors

EXCOM  
Thierry Dubreuil  
12, rue Poncelet  
75017 Paris

Deloitte et Associés  
Alain Penanguer - Christophe Perreau  
185, avenue Charles de Gaulle  
92200 Neuilly-sur-Seine

**Audika**

## CHAPTER 7

# Legal, social and financial information

## 7.1 Information on business risks

### 7.1.1 Financial risks

#### 1 Market risks (interest rates, exchange rates, financial instruments)

##### Interest rate risks

Audika's exposure to interest rate fluctuations stems from its medium-term loans which are variable rate loans. However, the syndicated loan taken out in January of 2004 contains a rate hedge clause for up to 50% of the sums used. As at December 31, 2004, Audika had hedged these loans in the amount of EUR 9 million with a 3.10% cap.

##### Currency risks

Audika Group's foreign currency risk exposure is extremely low since all of its sales are realized in France and foreign currency purchases account for only 1% of all external purchases and expenses. Consequently, the Group has no policy for foreign currency risks. In 2004, Audika Group recorded a net foreign exchange gain of EUR 14,000.

The company is not exposed to counterparty risk on financial instruments.

#### 2 Risks relating to cost, credit, liquidity and treasury risk

Audika Group's activities form part of a regulated sector. The principle requirements are:

- state qualification as a hearing aid practitioner;
- approval of premises;
- compliance with CE standards for all hearing aids sold;
- medical prescription.

Hearing aids are reimbursed by the French social security system. However, the level of reimbursement is so low that the Group's activity is not affected by any positive or negative variation in these reimbursements. In terms of liquidity and treasury risk, Audika Group has extremely low exposure, as the majority of the clientele is individuals, which greatly dilutes these risks.

### 7.1.2 Legal risks

The Group is not involved in any disputes which could have a material impact on its financial position. Like all other paramedical practitioners, hearing aid specialists are bound by secrecy. This is safeguarded by the configuration of the Group's IT systems.

Finally, the Group is insured in the case of a hearing aid practitioner causing damage during the fitting, and particularly the diagnosis, of the customer's hearing aid.

### 7.1.3 Environmental risks

As Audika has opted to outsource all manufacturing processes to industrial partners which meet rigorous selection criteria, it has no industrial activities of its own and therefore does not own any industrial production sites. Indeed, the Group's involvement in industrial processes is essentially restricted to its role as coordinator of the various sub-contractors and suppliers that intervene at each stage in the life of its products and, as such, that are directly liable for any impact on the environment.

Even though its sector of activity is deemed to produce a low level of pollution, Audika's commitment to preserving the environment is clear.

The company's consumption of water and energy remains low, limited as it is to the Group's commercial and administrative offices.

Under Decree 99-37 of May 12, 1990, which establishes a regulatory framework for reclaiming used batteries and storage cells, whether or not they are built into an appliance, any manufacturer, importer or distributor of batteries is required to collect batteries according to specific directives.

Audika implemented this decree on January 1, 2002. In each center there is a little box for customers to dispose of their used batteries. These batteries are then packed for shipment by a company which specializes in waste collection and recycling (Screlec). Screlec is paid through a tax which has been levied by suppliers on all sales since January 1, 2002.

**7.1.4 Commercial risks**

As a retail distributor of hearing aids, the Group is not concerned by any material commercial risks. Moreover, the Group's procurement policy advocates the use of diverse suppliers, the majority of which are major groups.

**7.1.5 Insurance and the level of coverage for all risks**

The company is insured for all of the risks inherent to its activity by Axa Group. Risk coverage includes the entire head office (Paris), the logistics platform, and all retail centers.

The main insurance contracts concern:

	Head office and centers	Clichy site (purchasing center)
Legal liability	EUR 9,395,000/claim	EUR 9,395,000/claim
Business interruption	EUR 5,029,000/claim	EUR 5,029,000/claim
Company multi-risk	EUR 570,000/claim	EUR 754,000/claim

**7.1.6 Social and tax risks**

Audika Group is subject to regular tax and social audits by competent organizations and administrations. Previous tax audits have had no material impact on the Group's results. During 2004, Audika Ouest was subject to a tax audit which did not lead to any adjustments. Since December 2004, two of the Group's companies have been undergoing a tax audit.

**7.2 Information on the method used by the company in incorporating social issues**

In application of Article L.225-102-1 paragraph 4 of the French Commercial Code and Article 148-2 of the Decree of March 23, 1967, the methods used by the company in incorporating the social consequences of its business over the past year are set out below:

**A**

a) Total headcount: 467 (453 on open-ended contracts and 14 on fixed-term contracts), including 214 executives (103 women and 111 men) and 253 employees (219 women and 34 men).

- Staff hired on open-ended contracts: the company's development in recent years has created a number of jobs. The Group's total headcount has risen by over 19% during the year, with 76 additional employees.
- Staff hired on fixed-term contracts: 38.
- Potential recruitment issues: no particular remarks.
- Lay-offs and causes: 12 ("real and serious" grounds) and 3 (gross misconduct).
- Overtime: working overtime is exceptional and is compensated in line with current legislation.
- External labor: none.

b) Plans for downsizing and maintenance of employment: not applicable.

- Plans for relocation: not applicable.
- Re-employment and support: not applicable.

**B**

Overall schedule: working hours.

- Working hours for full-time employees: 35 hours, or a fixed number of working days for executives.
- Working hours for part-time employees: variable.
- Agreements on the reduction of the working week are in place in many of the Group's companies, the others being subject to the terms of a collective bargaining agreement.
- Absenteeism and reasons: no particular remarks.

**C**

Compensation and changes in compensation: in 2004, personnel expenses (including social security payments) amounted to EUR 21,007,000, a rise of over 27% compared to 2003.

■ Payroll taxes: no particular remarks.

■ Application of Article IV of book IV of the French Labor Code: no particular remarks.

Professional equality between men and women: the company makes no distinction between men and women, either in terms of recruitment or remuneration, and the management structure is consistently applied to all staff.

**D**

Professional relationships and record of collective agreements: the Group's management took the initiative and requested legal recognition of a social and economic unit (SEU) which groups together all of Audika's companies. This request was granted in August 2004 and professional elections were held at the end of 2004. Audika Group now has a single works council and staff representatives for Group employees.

**E**

Health and Safety conditions: the recognition of the SEU also enabled the Group to extend the existing health and safety agreement to all the Group's companies. The Group's activities do not represent a particular risk. Nevertheless, the management and the health and safety committee will remain alert to hygiene and safety conditions of Group employees, with the implementation and monitoring of a health and safety policy.

**F**

Training: training is a key part of the Group's social policy. The highly technical work of hearing aid practitioners requires ongoing training in equipment techniques and instruction in new products. Assistants at our centers also benefit from career-related training. Finally, employees based at our head offices receive general training on software packages. Over 2004, more than 5,800 hours of training were given to nearly 200 employees.

**G**

Employment and integration of disabled workers: Audika Group has no obstacles to the employment of disabled workers, and sub-contracts work to the CAT (Centre d'aide par travail a center which integrates the disabled into the workplace) where possible.

**H**

Social organizations: there were no donations to social organizations.

**I**

Sub-contracting: the company occasionally calls on sub-contractors, primarily for areas such as cleaning and IT, but also consulting services, etc.

**J**

Methods relating to the company's responsibility for local impact in terms of employment and regional development: none.

**K**

Good relations between the company and job placement organizations, training establishments, environmental protection groups, consumer associations and local populations: none.

**L**

Sub-contracting and methods used by the company to ensure the awareness of subcontractors and compliance of subsidiaries with the basic terms of the International Labor Organization: not applicable.

**M**

Methods used by foreign subsidiaries to account for the impact of their activities on regional development and the local population: not applicable.

## 7.3 Corporate governance

### 7.3.1 The Board of Directors

#### 1 Composition

The Board of Directors is made up of 5 members, of whom two are employed by and are long-standing shareholders in Audika. Two external board members joined the Group in 2004, following the capital investment made by "Fonds Partenaire Gestion" (Lazard Group). The external board members receive no compensation.

Audika's current directors are:

- Holton, represented by Jean-Claude Tonnard, appointed Director at the Shareholders' Meeting of June 15, 2004.
- Mr. Alain Tonnard, 53 years of age with a Masters in Management from Paris Dauphine. Renewed on June 15, 2004 as Director for a mandate to expire at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ending December 31, 2009. Renewed on June 14, 2002 as CEO for an indefinite term.
- Mr. Philippe Langzam, 51 years of age with a Masters in Management from Paris Dauphine and an MBA from Insead. Renewed on June 15, 2004 as Director for a mandate to expire at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ended December 31, 2009.
- Mr. Oliver Lange, 31 years of age, graduate of the HEC, appointed on June 15, 2004 as Director for a mandate to expire at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ended December 31, 2009.
- Fonds Partenaires Gestion, represented by Mr. Gilles Etrillard, appointed on June 15, 2004 as Director for a mandate to expire at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ended December 31, 2009.

For fiscal year 2004, compensation for the members of the Board of Directors totaled EUR 437,633.

Mr. Jean-Claude Tonnard also holds the post of Vice President of Audika for an indefinite term.

#### 2 Preparation and structure of the work of the Board of Directors

The directors may be called to attend Board meetings by letter, telegram, fax or e-mail, with a notice period of at least five days. Said meetings may also be convened verbally and without notice, subject to the approval of all of the directors.

Where the Chairman is unable to attend, the Board of Directors shall appoint a member to chair the meeting from amongst those directors present.

The Board may appoint a secretary at each meeting who does not necessarily have to be a Board member.

Those directors taking part in Board meetings by videoconference, in accordance with the conditions, shall be deemed to be present for the purposes of calculating the requisite quorum and majority. However, this provision may not apply to all decisions governed by Articles L.225-47 (election of the Chairman of the Board of Directors), L.225-53 (appointment of the Vice President), L.225-55 (dismissal of the CEO), L.232-1 (drawing up of the yearly financial statements) and L.233-16 (drawing up of the consolidated financial statements).

Said decisions are subject to the majority vote of all Board members present or represented. As an exception to this rule, decisions governed by Article 14.3 of the current by-laws require the majority vote of two-thirds of the total number of Board members.

In the event of a tie in the voting, the Chairman's vote shall take precedence.

Said conditions are stipulated in Article 15 of the company's by-laws.

### 3 Work of the Board of Directors over the past year

All of the directors were able to satisfactorily carry out their mission and benefit from the necessary information to achieve their mission.

Over the past year, the Board of Directors met eight times.

The main decisions taken were in the following areas:

- the approval of the financial statements for the fiscal year ended December 31, 2003; preparation for and calling of the Ordinary Shareholders' Meeting;
- the acquisition of companies;
- the approval of the half-yearly financial statements and drawing up of the interim activity report;
- the authorization to take out a loan of EUR 32 million with a syndicate of banks;
- the option of tax consolidation;
- the approval of various guarantees;
- the appointment of two new Directors (Mr. Olivier Lange and Fonds Partenaires - Gestion).

### 4 General Management Mandate

In application of Article 148 of the Decree of March 23, 1967, the Shareholders' Meeting of June 12, 2002 voted that the general management of the company fall to the Chairman of the Board of Directors.

### 5 Limitation of the powers of the General Management

The general management of the company falls within the remit of either the Chairman of the Board of Directors or another individual appointed by the Board of Directors and named General Manager.

The Board of Directors chooses between these two options in terms of the general management of the company by majority vote as provided for in Article 15 of the current by-laws.

The General Manager may not be more than 70 years old. Where the General Manager exceeds this age, he shall be required to resign from office.

The General Manager is invested with the broadest of powers to act on behalf and in the name of the company. He exercises said powers within the limitations of the company's corporate purpose and subject to those powers expressly conferred on Shareholder Meetings and the Board of Directors in accordance with the regulatory provisions and by-laws, notably Article 14.3.

He represents the company with respect to third parties.

Said conditions are stipulated in Article 17 of the company's by-laws.

### 6 General Management of the Group

Alain Tonnard	CEO
Jean-Claude Tonnard	Vice President
Philippe Langzam	Head of Sales
Patrick Tonnard	Head of Marketing
Didier van den Berg	Head of Finance

Audika Group's management organizes a monthly Strategic Committee including Messrs. Alain Tonnard, Jean-Claude Tonnard and Philippe Langzam. These closed committees are the opportunity for committee members to review the Group's business strategy and past initiatives. Moreover, one of these committee meetings is also set aside to define the Group's payroll policy.

In addition, Audika Group's management meets four times a year in the form of a Management Committee in which all department heads take part and whose purpose is to:

- keep participants informed of the decisions taken by the Strategic Committee;
- provide each department head with the opportunity to present any future projects as well as review those projects already underway;
- validate any decisions.

**7 Compensation and benefits paid during the past year to each director and officer  
List of mandates held in different companies by each of the directors  
and officers during the past year**

Total compensation and benefits paid to each company director and officer during the past year by Audika

Pursuant to Article L. 225-102-1 of the French Commercial Code, the total compensation and benefits paid during the past year to each company director and officer by Audika were as follows:

	Compensation	Benefits
Alain Tonnard CEO	Gross annual income of EUR 270,000 including benefits	None
Jean-Claude Tonnard Vice President	Gross annual income of EUR 288,000 including benefits	None
Philippe Langzam Director	None	None

**8 Total compensation and benefits paid to each company director and officer during the past year by the companies controlled**

Pursuant to Article L. 225-102-1 of the French Commercial Code, the total compensation and benefits paid during the past year to each company director and officer by the companies controlled by Audika were as follows:

	Compensation	Benefits
Alain Tonnard CEO	None	None
Jean-Claude Tonnard Vice President	None	None
Philippe Langzam Director	167,633	None

**9 List of mandates and offices held in any company by each of the directors and officers during the past year**

Pursuant to Article L. 225-102-1 of the French Commercial Code, the list of mandates and offices held in any company by each of the directors and officers during the past year is as follows:

**Mr. Alain Tonnard**

Current mandates and offices:

- Chairman of:  
Audika-AAC, Sarffa, Holton, Audioservice
- Managing Director of:  
Audika Centre, Audika Sud, Audika-Centre Audiométrique, Compagnie Française d'Audiologie - CFA, Audika Ile de France, Sarffa, S.C.I. Imton, S.C.I. Jura, SCS Audika, SCI Tendance
- Chairman of the Board of Directors and CEO of:  
Audika, L'Aide Auditive Bernard Azema
- Chairman of the Board of Directors of:  
Elstar
- Director of:  
Audika Nord, Opale Audiologie SA

**Mr. Jean-Claude Tonnard**

Current mandates and offices:

- Managing Director of:  
SCI Cortambert
- Chairman of the Board of Directors and CEO of:  
Opale Audiologie SA
- Permanent representative of Holton on the Board of Directors at Audika.
- Vice President of:  
Audika
- CEO of:  
Holton
- Director of:  
Audika Nord, Audika, Elstar, L'Aide Auditive Bernard Azéma

**Mr. Philippe Langzam**

Current mandates and offices:

- Chairman of the Board of Directors and CEO of:  
Audika Nord
- CEO and Director of:  
Elstar
- Director of:  
Audika, L'Aide Auditive Bernard Azéma

**Monsieur Olivier Lange**

Current mandates and offices:

- Member of the Supervisory Board of:  
Sandinvest, SGNH
- Director of:  
Audika
- Member of the Supervisory Board of:  
Euroinvest

**Mr. Gilles Etrillard**

Current mandates and offices:

- Chairman and CEO of:  
Fonds Partenaires Gestion
- Partner - Managing Director of:  
Lazard Frères, Maison Lazard, Partena
- Chairman of:  
Topazholding, La Financière Patrimoniale d'Investissement
- Auditor of:  
Lazard Frères Banque
- Director of:  
Lazard Asia
- Managing Director of:  
SC Capinvest

- Permanent representative of Fonds Partenaires Gestion at:  
Sandinvest, Groupe Mondial Tissus, Chantemur Centrale, Manoir Industries, Audika, SGNH, ID Logistics
- Member of the Supervisory Board of:  
SGNH, IMMAT1
- Deputy Chairman of:  
Crédit Agricole Lazard Financial Products Limited, Crédit Agricole Lazard Financial Products Bank
- Member of the Board of Directors of:  
Joliette Parkings, Joliette Bâtiments
- Member of the Management Committee of:  
Titaninvest
- Director of:  
Laboratoire des Granions, Groupe Manoir Industries
- Member of the Management Committee of:  
Lumothel, Premium Spirits, Tracis
- Representative of Capinvest as:  
Chairman of Paninvest, Member of the Supervisory Board of ORCA
- Chairman and member of the Supervisory Board of:  
Euroinvest
- Member of the Supervisory Board of:  
Finexplo

#### 10 Directors' attendance fees

No proposal to award directors' fees to the Board of Directors was put before the Ordinary Shareholders' Meeting.

#### 11 Approval of temporary members by the Board of Directors - Renewal of mandates

No new board members have arrived since the last Shareholders' Meeting.

No mandate has expired.

### 7.3.2 Statutory Auditors

#### 1 Named auditors

EXCOM represented by Thierry Dubreuil appointed and renewed on June 12, 2002 as co-statutory auditor for a term expiring at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ending December 31, 2007.

Deloitte and associates, represented by Mr. Alain Penanguer, appointed June 15, 2004 as co-statutory auditor for a mandate expiring at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ending December 31, 2009.

#### 2 Substitute statutory auditors

Mr. Jean Prévost, appointed on June 12, 2002 as substitute statutory auditor for a mandate expiring at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ending December 31, 2007.

BEAS, appointed on June 15, 2004 as substitute statutory auditor for a mandate expiring at the close of the Shareholders' Meeting to approve the financial statements for the fiscal year ending December 31, 2009.

#### 3 Statutory Auditors' fees

(in EUR thousands)	Amount		Excom		Deloitte et Associés				Total			
	2004	2003	2004	%	2004	2003	2004	%	2004	2003	2004	%
Statutory auditors, certifications, examination of parent company and consolidated financial statements	75.0	64.0	100.0%	93.9%	75.0	64.3	100.0%	70.7%	150.0	128.5	100.0%	80.7%
Accompanying missions		4.2		6.1%		26.6		29.3%		30.8		19.3%
<b>Sub-total</b>	<b>75.0</b>	<b>68.5</b>	<b>100.0%</b>	<b>100.0%</b>	<b>75.0</b>	<b>90.9</b>	<b>100.0</b>	<b>100.0</b>	<b>150.0</b>	<b>159.3</b>	<b>100.0%</b>	<b>100.0%</b>
Other missions												
Legal, tax, social												
Information technology												
Audit interne												
Other												
<b>Sub-total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>75.0</b>	<b>68.5</b>	<b>100.0%</b>	<b>100.0%</b>	<b>75.0</b>	<b>90.9</b>	<b>100.0%</b>	<b>100.0%</b>	<b>150.0</b>	<b>159.3</b>	<b>100.0%</b>	<b>100.0%</b>

## 7.4 Report of the Chairman of the Board of Directors on internal control procedures

This report pertaining to the financial year ended December 31, 2004, was drawn up by the Chairman of the Board of Directors in line with Article L.225-37 of the French Commercial Code.

Under the supervision of the Board of Directors, the company's management bodies are responsible for defining and implementing adequate and effective internal control procedures.

In accordance with the law, the purpose of this report is to outline the internal control procedures implemented to date by Audika.

### 7.4.1 Internal control

#### 1 Definition of internal control

Audika defines the notion of internal controls as a process implemented by the company's Board of Directors, management bodies and staff with a view to ensuring the rigorous and effective management of the company.

This definition implies:

- compliance with the policies and procedures defined by management as well as with the relevant laws and regulations in force;
- the preservation of assets;
- the prevention of fraud and errors;
- the sincerity and exhaustiveness of financial information.

One of the objectives of the internal control procedures is to prevent and manage business risk as well as the risk of error and fraud, particularly in the areas of accounting and finance.

However, like any system of control, they can never constitute an absolute guarantee against these risks.

#### 2 Key players in internal control procedures

Audika Group is organized in the following way:

- Product and service purchasing centers that are managed by Audika and Sarffa.
- Distribution centers which are managed by the regional distribution companies (Audika Ile de France, Audika Sud, Audika Ouest, Institut de l'Audition du Var, Audika Alpes, Audika Centre Audiométrique, Elstar, CFA, Audika AAC, Audika Nord, Opale Audiologie, SCS Audika, Audio-Services and l'Aide Auditive Bernard Azéma).

The distribution centers have no management autonomy nor any responsibility within the decision-making process. Internal controls are dependent on the regional directors in charge of implementing the Group's commercial policy as approved by the Strategic Committee on the one hand, and on the distribution center staff in charge of passing on commercial data on the other.

The key players in terms of internal controls are as follows:

- the Board of Directors;
- the General Management, which defines the objectives of the different departments along with the methods and procedures for monitoring said objectives, as well as the Management Committee;
- the IT Services Department which oversees the correct operation of the Group's information systems;
- the various department heads in charge of monitoring compliance with the targets set and keeping the General Management adequately informed thereof.

### 3 Organization of internal controls

While Audika has no formal written Code of Ethics, its Chairman has always sought to instill a corporate culture that is based on honesty, expertise, reactivity, quality and respect for the customer.

Furthermore, the procedures set out below have been defined with a view to ensuring that the objectives linked to an internal control system are met.

#### Procedures and operational reporting

The sales department applies a number of procedures across the network (Operational Guidelines for Regional Directors, sales conditions, accounting procedures, etc.) which allow for the preservation of assets, prevention of fraud, and errors at the level of centers.

Each staff member at centers (assistant) therefore has access to documentation on all sales conditions, which must be applied across the network, and enable best management in each center. In addition to the documentation, staff members receive regular training (from regional training supervisors) which ensures that sales conditions are properly understood and applied.

Audika Group has also implemented, alongside the network management at the head office, several Regional Directors. Regional Directors are chiefly responsible for supervising sales activity in each center with regard to the targets set at the start of each year and ensuring this is managed well.

At head office level, Network Management teams and Regional Directors regularly report to each other in order to ensure rigorous and effective network management, and analyze centers' performance relative to Group targets. Network Management uses various indicators based on the IT system (Progeka) to perform additional controls. Audika has implemented weekly and monthly reporting to measure the Group's activities and commercial profitability (monitoring of margins by entity and by product family).

Network Management and General Management regularly analyze different performance and security indicators in order to allow the General Management to run the company as effectively as possible.

Any differences noted with respect to the targets shall, where applicable, result in corrective measures (sales and/or marketing initiatives to help the retail centers meet their targets).

#### Accounting and finance internal control procedures

Audika's Finance and Administrative Department is headed up by a Director who reports directly to the General Management.

The Finance Director is assisted by an accounting manager who oversees the general accounts and accounting teams. The accounts are booked in the AS400 system used by all Group companies. The chart of accounts applies group wide. Internal controls are based on a centralized approach to flows via a single IT system.

The consolidation of the accounts is centralized within the Finance and Administrative Department of Audika which is assisted in this respect by a specialist outside firm. The consolidation software used is called Reflex (AS Group).

The Finance Department has issued accounting procedures to be applied by each staff member in centers. Regional Directors are chiefly responsible for ensuring that these financial procedures are applied correctly. In addition, Regional Directors must ensure good management in centers, through a system of regular spot checks.

At each accounting closure (half-yearly or yearly), the accounts are analyzed and justified in a structured statement.

Moreover, a number of different tables have been set in place, notably as regards:

- the follow-up of acquisitions (follow-up tables for shares and the various impacts of acquisitions on the consolidated accounts);
- the follow-up of debt (follow-up tables for debt and covenants);
- the follow-up of off-balance sheet commitments;
- monthly consolidated reports.

The other procedures, albeit unwritten, cover the main internal control processes.

In most of these areas, standard documents have been developed with a view to reinforcing internal controls.

Furthermore, Audika's General Management has also implemented the follow-up of yearly investment budgets by department. The regular follow-up of capital expenditure (by the general management and finance department) helps ensure rigorous and effective management of the company.

#### Separation of functions

In addition, particular attention is paid to the separation of functions assigned to company employees.

Requests for investments are submitted to heads of department.

For current investments, estimates are made by the Head of General Services, who places the order and checks invoices. Invoices are then validated by the Finance Department or the General Management prior to settlement.

For major investments, the request is approved directly by the General Management in agreement with the Finance Department and the Management Controller. Once the order has been placed, each bill is checked by the head of department, then the finance department and/or the General Management prior to settlement.

The procedures in effect in the company ensure the separation of functions between the person placing orders and the person proceeding with payment.

At the level of the accounting departments, the procedures for the separation of functions and systematic checks by hierarchical superiors ensure against fraud with regard to financial flows.

#### External audit by the statutory auditors

Audika's two statutory auditors are designated for a term of six years by the Shareholders' Meeting. Said statutory auditors carry out a general inspection of the half-yearly accounts and audit the financial statements as at December 31.

Any recommendations put forward by the statutory auditors within the framework of their assignment are examined by Audika's management bodies.

#### Other measures in the company's internal control procedures

Audika Group occasionally calls upon the services of specialist external consultants (insurance, IT, legal, etc.).

### 7.4.2 Initiatives undertaken in 2004 and action plan for 2005

Within the framework of this report on Audika's internal control methods and procedures, the Management Controller, under the supervision of the Chairman, took the following initiatives:

1. definition of the overall framework
2. listing of all operating internal control procedures
3. listing of all financial and accounting internal control procedures
4. review of internal (separation of functions) and external (audit by Statutory Auditors, external consultants) procedures.

The report drawn up in accordance with Article L225.237 of the French Commercial Code was subject to revision, which, along with the work undertaken in 2004, did not reveal any major discrepancies or serious shortcomings as regards the company's internal control methods and procedures.

In 2004, Audika Group strengthened its internal control procedures with the recruitment of a management controller. Reporting to the CEO and in direct liaison with the various departments (finance, sales, marketing, logistics, IT, etc.), the management controller is in charge of rationalizing the management of the company and optimizing its profitability (forecasts, control, analysis). His role is essentially one of coordination, which must be constantly streamlined in order to increase the reliability of Group figures.

In 2005, the management controller will primarily be responsible for implementing a harmonized reporting system (designed in collaboration with the different heads of departments) using the network's new centralized IT management software (Audikanet/Progeknet). This system, developed in 2004, will gradually be deployed throughout Audika's network of centers in 2005. Each employee working in the centers will receive training on how to use the new program.

The Internal Control Committee, set up in 2004, is overseen by the Management Controller and is under the responsibility of the Chairman. In 2005, the Committee will map out the risks that are specific to Audika Group's activity and to each function. All of the current procedures will be centralized and reviewed. The role of the Internal Control Committee is to define additional procedures in order to best meet all internal control requirements (respect of the policies and procedures defined by the management, compliance with laws and regulations in effect, preservation of assets, prevention of fraud and errors, sincerity and exhaustiveness of financial information).

Audika Group has taken the necessary steps to enable the management and IT systems to publish the 2005 half-yearly and yearly financial statements under IFRS. Monthly reporting tables have also been adapted to meet these new standards.

## 7.5 Report of the Statutory Auditors on the report furnished by the Chairman of the Board of Directors

### **Report of the Statutory Auditors drawn up in accordance with the last paragraph of Article L.225-235 of the French Commercial Code on the Report furnished by the Chairman of the Board of Directors on internal control procedures governing the drafting and processing of financial and accounting information**

Dear shareholders,

In our capacity as statutory auditors for Audika and in application of the provisions of the last paragraph of Article L.225-235 of the French Commercial Code, we hereby present our report on the report drawn up by the Chairman of your company in accordance with the provisions of Article L.225-37 of the same Code for the financial year ended December 31, 2004.

Moreover, the Chairman is responsible for outlining the way in which the work of the Board of Directors is prepared and structured as well as the different internal control procedures implemented within the company in his report.

Our task here is to relay any comments we may have as regards the information given in the Chairman's report on internal control procedures governing the way in which accounting and financial information is drawn up and processed.

We conducted our audit in accordance with auditing standards generally accepted in France. Said standards require that we perform due diligence aimed at verifying the accuracy of the information given in the Chairman's report on the internal controls governing the way in which accounting and financial information is drawn up and processed. Said due diligence notably consists in:

- identifying the aims and general organization of internal controls, as well as those internal controls governing the way in which the accounting and financial information presented in the Chairman's report is drawn up and processed.
- identifying the work underpinning the information presented in the report.

Based on our audit, we have no comments to make as to the information on the company's internal control procedures governing the compilation and processing of the accounting and financial information given in the report of the Chairman of the Board of Directors drawn up in accordance with the provisions of the last paragraph of Article L.225-37 of the French Commercial Code.

Paris and Neuilly, le 18 avril 2005  
Statutory Auditors

EXCOM  
Thierry Dubreuil  
12, rue Poncelet  
75017 Paris

Deloitte et Associés  
Alain Penanguer - Christophe Perreau  
185, avenue Charles de Gaulle  
92200 Neuilly-sur-Seine

**Audika**

## CHAPTER 8

# Shareholder information

## 8.1 General Information on the issuer and common stock

### 8.1.1 Information concerning the issuer

**1 Company name**

Audika.

**2 Registry date**

July 7, 1977.

**3 Head offices**

24, Avenue de Friedland - 75008 Paris, France.

**4 Term**

Until August 4, 2076 unless extended or dissolved in advance by vote of the Extraordinary Shareholders' Meeting.

**5 Legal form**

French *société anonyme* (public limited company) with a Board of Directors governed by Articles L.210-1 to L.247-9 of the French Commercial Code and the Decree of March 23, 1967.

**6 Fiscal year**

The fiscal year begins on January 1 and ends on December 31 of each year.

**7 Corporate purpose (article 2 of the by-laws)**

The company's purpose is:

The acquisition by any means, management and eventual sale of equity investments in French or foreign companies whose business is to buy, sell, promote, import, export, distribute, manufacture or repair hearing aids as well as any accessory products and franchising therein.

To provide all services that fall within the framework of the management of those companies in which it has a stake.

To provide all services in terms of sales, finance, administration or any other services as well as the execution of all financial, real estate or commercial transactions for the benefit of or aimed at both the companies in which it holds a stake or third parties.

To promote, create and develop commercial and industrial companies.

To buy, sell, build, rent and operate offices, shops, workshops and factories that fall within the framework of this activity or any related activities. The company may, in addition, act as a sales agent.

To take out, acquire, operate, sell or grant licenses or patents or brand names and other industrial or intellectual property rights falling within the company's purpose.

To act as an advertising agency.

The disposal or contribution of all or part of the company's assets as well as any leasing or subleasing transactions.

To gain equity stakes through capital contributions, mergers, equity investments and the purchase of stock, partnership shares or bonds or by any other means, in any businesses or companies directly or indirectly related to the corporate purpose and generally in any businesses or companies which may add to its clientele or favor the businesses in which it might have interests; and this by any means notably by forming new companies, capital contributions, mergers, partnerships, joint ventures, or economic interest groupings.

To carry out any industrial, commercial or financial operations, including any capital equipment or real estate transactions, which may pertain directly or indirectly to the corporate purpose as well as to any similar or related purposes.

- 8 Trade and Companies' Register**  
SIREN 310 612 387, RCS Paris
- 9 NAF Code**  
523C

### 8.1.2 Main legal and statutory regulations

**1 Appropriation and distribution of earnings (Article 23 of the by-laws)**

On the profit to be distributed, the Shareholders' Meeting shall withhold all sums to be appropriated to retained earnings or to create any ordinary, extraordinary or contingency reserve funds.

Where applicable, the balance shall be divided between all shares proportional to the amount paid up and non-amortized.

The Shareholders' Meeting may decide to distribute sums deducted from the reserves at its disposal. Where it does, its decision must expressly indicate on which reserves the deductions have been made.

However, any dividends shall be primarily deducted from the distributable profit for the year.

**2 Shareholders' Meetings (Articles 19 to 22 of the by-laws)**

Shareholders' Meetings are called and held under the conditions stipulated by French law.

The meetings are held either at the head offices of the company in question or at another location specified in the meeting's notice.

Any shareholder is entitled to attend the Shareholders' Meetings and to take part in the deliberations, in person or through a proxy, no matter how many shares he owns, simply by proving his identity and ownership of his shares.

The Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director specially appointed for this purpose by the Board. Failing this, the Shareholders' Meeting elects its own Chairman.

The minutes of the Shareholders' Meeting are taken and their copies are certified and distributed in accordance with the law.

**3 Stock repurchase program (Article 25 of the by-laws)**

1) The Ordinary Shareholders' Meeting of June 15, 2004 authorized the Board of Directors to repurchase treasury stock (for an 18-month period), with a view to (listed in order of priority):

- purchasing and selling the stock depending on market conditions;
- using the stock for investments or in the financing of acquisitions (where stock is tendered either as payment, in exchange or in the form of a capital contribution) or in the issue of marketable securities resulting in the allocation of company shares (as payment, in exchange or in any other form);
- stabilizing share prices by systematically countering market trends;
- allocating stock options to Group employees, directors and officers;
- allocating shares to employees in recognition of their contribution to the company's results under a company savings plan or under any other employee savings scheme.

These purchases may involve a number of shares such that the total number of shares held by the company following said purchases does not exceed 10% of the shares comprising its capital.

The company may acquire, sell or transfer these shares by any means according to the following conditions:

- the company may pay no more than EUR 70 (excl. expenses) per share in repurchasing its own stock;
- the company may not sell its own stock for under EUR 20 per shares (excl. expenses).

The maximum amount of purchases authorized is thus set at EUR 22,050,000.

2) Pursuant to Article L.225-211 of the French Commercial Code, we report that the company neither bought nor sold its own stock during 2004.

The company held none of its own shares at the beginning of the 2004 financial year and none at its close on December 31, 2004.

#### **4 Breaching thresholds (Article 11.3 of the by-laws)**

Where the shares are listed on a regulated market, any individual or legal entity, acting alone or in concert, that comes into possession of over one twentieth, one tenth, one fifth, one third, one half or two thirds of the capital or voting rights, must report his equity stake (total number of shares and voting rights held directly or indirectly or in concert) to the company within 15 days of the breach in threshold. The company must also be duly informed within the same deadlines where the equity stake of an individual or legal entity falls back below the thresholds specified above.

The person required to provide the information above must specify the number of shares they own as well all attached voting rights.

Should the aforementioned reporting requirement be violated, the provisions of the first 2 paragraphs of Article L.233-14 of the French Commercial Code shall only apply at the request, specified in the minutes of the Shareholders' Meeting, of one or several shareholders holding a percentage of the capital or voting rights of the issuing company that is at least equal to the smallest fraction of capital held that must be declared. Said percentage may not, however, exceed 5%.

Any breach of the threshold of one tenth or one fifth of the capital or voting rights must also result in the reporting of the information stipulated in Article L.233-7 of the French Commercial Code.

#### **5 Voting rights (Article 11.2 of the by-laws)**

Each share entitles its holder to a proportional share of the company's capital. Shares that have been fully paid-up and registered for at least four years carry double voting rights.

#### **6 Extraordinary circumstances and lawsuits**

To the best of the company's knowledge, there are, at present, no exceptional circumstances or disputes which could or, in the recent past, have had a material effect on the activity, results, financial situation or assets of Audika and its subsidiaries.

#### **7 Consultation of company, accounting and legal documents**

The by-laws, minutes and other corporate documents may be consulted at the company's head offices located at 24, Avenue de Friedland - 75008 Paris, France.

### **8.1.3 Information on the capital**

#### **1 Capital (Article 7 of the by-laws)**

The capital stands at EUR 252,000 and is divided into 3,150,000 shares which are fully paid up and all of the same class. The par value of shares is EUR 0.08.

#### **2 Breakdown of capital and voting rights**

##### **Breakdown of capital**

The table below lists those shareholders who held over one twentieth, one tenth, one fifth, one third, one half or two thirds of capital or voting rights at shareholder meetings as at December 31, 2004, as well as any changes thereto which occurred during 2004.

Shareholder	Capital held	Voting rights held	Threshold(s) breached in terms of capital	Threshold(s) breached in terms of voting rights
Holton	over 1/2	over 1/2	thresholds exceeded: 1/20, 1/10, 1/5, 1/3 and 1/2	thresholds exceeded: 1/20, 1/10, 1/5, 1/3 and 1/2
Alain Tonnard	less than 1/20	less than 1/20	dropped below thresholds of 1/5, 1/10, and 1/20	dropped below thresholds of 1/5, 1/10, and 1/20
Jean-Claude Tonnard	less than 1/20	less than 1/20	dropped below thresholds of 1/5, 1/10, and 1/20	dropped below thresholds of 1/5, 1/10, and 1/20

To the company's knowledge, no other shareholder directly, indirectly or jointly holds more than 5% of Audika's capital or voting rights.

**Treasury stock**

There is no company holding Audika shares which is controlled by Audika.

**Employee share ownership at December 31, 2004**

■ Employee(s) holding registered shares in the company at December 31, 2004 were as follows:

Employees	Number of shares	% of capital
None	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

■ Shares owned by employees which are managed in a fund and which the owners cannot access freely:

Legal framework	Number of shares	% of capital
None	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

**Acquisition of shares to be allocated to employees under an employee shareholding plan**

In financial year 2004, the company did not acquire any of its own shares to allot to employees under an employee shareholding plan pursuant to Article 225-208 of the French Commercial Code.

**3 Potential capital**

No security exists that could result in a direct or indirect claim on the company's stock.

**4 Authorized and unissued capital stock**

The company's Board of Directors was authorized by the Extraordinary Shareholders' Meeting of June 15, 2004 for a maximum period of 26 months to increase the capital to EUR 50,000 in one or several stages either in cash shares, with or without pre-emptive rights or through the incorporation of reserves and the free allocation of shares.

**5 Shareholders' agreement**

None.

**6 Pledging of shares**

None.

**7 Change in Audika's Capital** (FRF = French Francs, EUR = Euros)

Date	Type of operation	Increase in capital	Issue or share premium	Number of shares	Original value	Capital stock after operation
07/07/1977	Company formed	FRF 100,000	-	1,000	FRF 100	FRF 100,000
26/11/1984	Increase in capital	FRF 150,000	-	2,500	FRF 100	FRF 250,000
31/12/1997	Merger absorption with l'Européenne de l'audition	FRF 110,000	FRF 1,649,102	3,600	FRF 100	FRF 360,000
31/12/1997	10-for-1 stock split	-	-	36,000	FRF 10	FRF 360,000
23/01/1998	Increase in capital through the incorporation of reserves	FRF 1,140,000	-	150,000	FRF 10	FRF 1,500,000
27/04/1998	5-for-1 stock split	-	-	750,000	FRF 2	FRF 1,500,000
26/05/1998	Increase in capital concomitant with IPO	FRF 75,000	FRF 7,387,500	787,500	FRF 2	FRF 1,575,000
30/05/2001	Increase in capital through the incorporation of reserves and conversion	FRF 4,856.37	-	787,500		FRF 1,579,856.37 or EUR 241,000
01/07/2002	Increase in capital through the incorporation of reserves	EUR 11,000	-	787,500	EUR 0.32	EUR 252,000
01/07/2002	Stock split	-	-	3,150,000	EUR 0.08	EUR 252,000

**8 Breakdown of capital and voting rights**

Shareholders	31/12/2003				31/12/2004			
	Shares		Voting rights		Shares		Voting rights	
Holton					1,699,200	53.94%	1,699,200	53.94%
Jean-Claude Tonnard	797,000	25.30%	1,583,116	32.78%				
Alain Tonnard	797,000	25.30%	1,583,116	32.78%	1	ns	1	ns
Philippe Langzam	107,200	3.40%	214,400	4.44%	1	ns	1	ns
Public	1,448,800	46.00%	1,448,856	30.00%	1,448,800	46.06%	1,448,856	46.06%
<b>Total</b>	<b>3,150,000</b>	<b>100.00%</b>	<b>4,829,488</b>	<b>100.00%</b>	<b>3,150,000</b>	<b>100.00%</b>	<b>3,150,056</b>	<b>100.00%</b>

To the best of the company's knowledge, one public shareholder dropped below the 5% threshold in 2004.

### 8.1.4 Dividends

In accordance with Article 243a of the French General Tax Code, the total dividends paid over the three years prior to the financial year ended December 31, 2004 were as follows:

Fiscal year	Total dividends	Net dividend	Tax credit per share	Gross dividend per share
2001	EUR 708,750	EUR 0.90	IND: EUR 0.45 LE: EUR 0.36	LE: EUR 1.35 LE: EUR 1.26
2002	EUR 882,000	EUR 0.28 <sup>(1)</sup>	IND: EUR 0.14 LE: EUR 0.028	IND: EUR 0.42 LE: EUR 0.308
2003	EUR 1,197,000	EUR 0.38	IND: EUR 0.19 LE: EUR 0.03	IND: EUR 0.57 LE: EUR 0.418 <sup>(1)</sup>

(1) 4-for-1 stock split (Shareholders' Meeting of June 27, 2003)

IND: Individuals

LE: Legal entities

Since its listing on the Second Marché in 1998, Audika Group has developed a steadfast policy of dividend distribution. The amount of dividends distributed corresponds to approximately 25% of consolidated net income.

The Board of Directors proposed the payment of a dividend of EUR 0.46 per share at the Shareholders' Meeting, for a total dividend payment of EUR 1,449,000, representing around 25% of net consolidated income.

### 8.1.5 Stock market information

Audika (Euroclear Code 6375) has been listed on the Second Marché of Euronext Paris since May 26, 1998. The company's stock has also been traded on the MidCac index since July 20, 1999 and on the Second Marché index since April 3, 2001.

On January 1, 2002, the stock was listed on the Nextprime market segment and its corresponding index.

Since June 27, 2002 and following the 4-for-1 stock split, Audika Group's capital is made up of 3,150,000 shares.

	Lowest	Highest	Average price	Average daily volume
July 2003	31.80	32.50	32.20	1,875
August 2003	31.80	32.98	32.26	2,183
September 2003	33.85	39.95	36.83	3,342
October 2003	37.80	40.28	39.14	5,511
November 2003	39.25	42.30	40.51	2,866
December 2003	38.00	40.40	39.12	2,084
January 2004	38.00	40.48	39.31	2,698
February 2004	37.35	41.20	39.41	7,189
March 2004	42.50	44.50	43.52	4,708
April 2004	42.25	46.50	46.01	2,215
May 2004	43.00	49.80	46.33	3,862
June 2004	49.15	52.95	50.72	5,058
July 2004	53.15	57.25	55.42	3,317
August 2004	52.20	56.00	53.37	2,303
September 2004	50.90	55.10	53.59	2,642
October 2004	51.30	65.10	57.25	7,369
November 2004	62.00	69.00	65.39	3,207
December 2004	69.45	79.85	75.77	4,212
January 2005	72.20	80.10	75.99	5,351
February 2005	62.85	76.00	68.37	18,847
March 2005	62.60	68.40	65.57	7,242

## 8.2 Information requests

Any requests for information may be addressed to the company.

All documents relating to the company may be consulted at its head offices:

24, Avenue de Friedland 75008 Paris, France.

Head of Financial Information:

Alain Tonnard

Co-Chairman and CEO

Tel. +33 (0)1 55 37 30 30

Fax +33 (0)1 55 37 30 36

## 8.3 Stock market firms carrying out financial studies on Audika

A number of stock market firms, banks or financial organizations regularly monitor and/or publish studies on Audika for their clients. They include:

- Cazenove
- Cheuvreux
- Euroland Finance
- Ixis Market
- Fortis Securities
- Gilbert Dupont
- ING Financial Markets
- Merrill Lynch
- Oddo Midcaps
- Portzamparc

**Audika**

## CHAPTER 9

# Annual Ordinary and Extraordinary Shareholders' Meetings of June 14, 2005

## 9.1 Report of the Board of Directors to the Annual Ordinary and Extraordinary Shareholders' Meetings of June 14, 2005

Dear shareholders,

In accordance with the relevant legal and statutory regulations, we have convened an Ordinary Shareholders' Meeting in order to report on the company's results for the fiscal year ended December 31, 2003, to appropriate the year's earnings, to approve the renewal of the stock repurchase program and to deliberate on the other items contained on the agenda of the Ordinary Shareholders' Meeting called to approve the year's financial statements.

We have also convened an Extraordinary Shareholders' Meeting in order to grant the Board of Directors authorization to decide on an increase in the Group's capital and to approve a capital increase reserved for employees.

### 9.1.1 Appropriation of earnings

We propose to appropriate the net income of EUR 1,727,447.86 for the year ended December 31, 2004 as follows:

- EUR 278,447.86 under "Other Reserves";
- the payment of an overall dividend of EUR 1,449,000 (or EUR 0.46 per share) to be taken entirely on the net income for 2004.

In accordance with Article 158-3-2 of the General Tax Code, the dividends paid are eligible for an allowance of 50% under said article, for shares held by individuals and companies which are taxed on behalf of their individual partners.

After this appropriation, the shareholders' equity accounts will stand as follows:

#### Shareholders' equity (in EUR)

Capital	252,000.00
Additional paid-in capital	913,132.49
Legal reserve	25,200.00
Other reserves	3,861,252.14
<b>Total</b>	<b>5,051,584.63</b>

### 9.1.2 Dividends paid over the three previous fiscal years

In accordance with Article 243 a of the French General Tax Code, the total dividends paid over the three years prior to the fiscal year ended December 31, 2004 were as follows:

Fiscal year	Total dividends	Net dividend per share	Tax credit per share	Gross dividend per share
2001	EUR 708,750.00	EUR 0.90	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.45 Other legal entities: EUR 0.13	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 1.35 Other legal entities: EUR 1.03
2002	EUR 882,000.00	EUR 0.28 <sup>(1)</sup>	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.14 Other legal entities: EUR 0.028	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.42 Other legal entities: EUR 0.308
2003	EUR 1,197,000.00	EUR 0.38	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.19 Other legal entities: EUR 0.038	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.57 Other legal entities: EUR 0.418

(1) A 4-for-1 stock split was approved at the Shareholders' Meeting of June 12, 2002.

### 9.1.3 Approval of certain non-deductible expenses

In accordance with Article 39-4 of the French General Tax Code, EUR 11,543 in excess depreciation was added back to taxable income for 2004, with the tax owed as a result of this excess depreciation amounting to EUR 3,963.

### 9.1.4 Regulated agreements

The regulated agreements governed by Article L.225-38 of the French Commercial Code are listed in the statutory auditors' special report which is presented pursuant to Article L.225-40 and, where applicable, L.225-42 of the French Commercial Code. These agreements will be subject to approval.

### 9.1.5 Directors' attendance fees

No proposal to award directors' fees to the Board of Directors was put before the Ordinary Shareholders' Meeting.

### 9.1.6 Approval of temporary members by the Board of Directors

#### Renewal of mandates

#### Appointment of new board members – Expiry of the Statutory Auditors' mandate

#### Appointment of new statutory auditors

No new board members have arrived since the last Shareholders' Meeting.  
No mandate has expired.

#### A) Special Report by the Board of Directors on stock option plans approved by the company

None.

#### B) Renewal of the stock repurchase program

##### 1 Company transactions on treasury stock during 2004

1.1 The Ordinary Shareholders' Meeting of June 15, 2004 authorized the Board of Directors to repurchase treasury stock (for an 18-month period) with a view to, in order of priority:

- purchasing and selling the stock depending on market conditions;
- stabilizing share prices by systematically countering market trends;
- allocating stock options to Group employees, directors and officers;
- allocating shares to employees in recognition of their contribution to the company's results under a company savings plan or under any other employee savings scheme;
- using the stock for investments or in the financing of acquisitions (where stock is tendered either as payment, in exchange or in the form of a capital contribution) or in the issue of marketable securities resulting in the allocation of company shares (as payment, in exchange or in any other form).

The purchases may involve a number of shares such that the total number of shares that the company holds following these purchases does not exceed 10% of the shares comprising its capital.

The Shareholders' meeting of June 15, 2004 decided that the acquisition, selling and trading by the company of its own shares could be affected by any methods, according to the following conditions:

- the company may pay no more than EUR 70 (excl. expenses) per share in repurchasing its own stock;
- the company may not sell its own stock for under EUR 20 per shares (excl. expenses).

1.2 Pursuant to Article L.225-211 of the French Commercial Code, we report that the company neither bought or sold its own stock during 2004.

The company held none of its own shares at the beginning of the 2004 financial year and none at its close on December 31, 2004.

## 2 New authorization granted to the Board of Directors to replace the previous authorization governing the stock repurchase program

In replacement of the previous authorization granted at the Ordinary Shareholders' Meeting of June 15, 2004, we propose, in accordance with Article L.225-209 of the French Commercial Code, that the Board of Directors be given a new authorization to repurchase the company's treasury stock.

This repurchase program aims to:

- hedge against potential dilution linked to stock option plans or other programs allocating shares to employees, directors and officers of the Group;
- allocate shares to employees in recognition of their contribution to the company's results under a company savings plan or under any other employee savings scheme;
- use stock for financing acquisitions, where stock is tendered either as payment, in exchange or in the form of a capital contribution;
- use stock for exercising rights linked to the issue of marketable securities resulting in the allocation of company shares, as payment, in exchange or in any other form;
- hedge against potential dilution due to convertible debt securities;
- sign liquidity contracts with an investment services provider in accordance with a compliance charter recognized by the AMF.

There are no foreseeable requests to cancel treasury stock.

The purchases may involve a number of shares such that the total number of shares that the company holds following these purchases does not exceed 10% of the shares comprising its capital.

The company may acquire, sell or transfer these shares by any means. The company may pay no more than EUR 110 (excl. expenses) per share in repurchasing its own stock.

The maximum amount of purchases authorized is thus set at EUR 34,650,000.

Said purchases, sales or transfers may be made by any means and at any time, including during a public offering, as the Board of Directors elects. They may be made on the market or off the market insofar as current regulations allow for an exception to the principal of centralizing transactions on securities that are traded on a regulated market. This includes block trades and transactions involving stock options. The maximum share of capital acquired or transferred in the form of blocks of securities may equate to the overall authorized ceiling for the stock repurchase program.

Should the shares' par value be changed, there be an increase in capital through the incorporation of reserves, the free allocation of shares, a reverse split, the distribution of reserves, capital amortization or any other operation affecting the company's treasury stock, the Shareholders' Meeting would authorize the Board of Directors to adjust the purchase price in question in order to factor in the effect of these transactions on the stock price.

The authorization granted by the Shareholders' Meeting would remain valid for 18 months.

Full powers would be conferred on the Board of Directors to decide whether or not to implement the authorization and, if necessary, clarify the terms of this authorization, with the option of delegating the powers of execution therein to its Chairman.

The company intends to finance the program with its own resources.

As the stock repurchase program is not intended to reduce the number of company shares by canceling the acquired securities, and given the means of financing envisaged by the company, the implementation of the program should not have a material effect on the company's financial position nor on its net earnings per share or shareholders' equity per share, with the exception of any profit or loss arising from the sale of shares.

The stock repurchase program can only be implemented upon approval of the prospectus relating to this program by the AMF.

**C) Report of the Board of Directors to the Extraordinary Shareholders' Meeting**

**1 Authorization granted to the Board of Directors to decide on a capital increase**

- Full authorization granted to the Board of Directors to issue all capital shares and marketable securities which afford access to Group capital, within a limit of EUR 50,000.

In accordance with Article L.225-129-2 of the French Commercial Code, you are requested to grant the Board of Directors the authorization to increase Group capital, to a limit of EUR 50,000.

This authorization would replace the authorization previously granted at the Shareholders' Meeting of June 15, 2004.

The authorization is valid for a period of 26 months starting at the date of this meeting.

If the Board of Directors uses this authorization, the capital increase must take place within five years after the date of the authorization.

This will enable the Board to proceed autonomously with the issue of capital shares or any other marketable securities giving access to Group capital.

This system is designed to allow the Group to react as quickly as possible to its financial needs, by enabling it to decide to issue, where necessary, both in France and abroad, the best-adapted type of marketable securities, within the aforementioned EUR 50,000 limit. This limit does not include the nominal amount of additional shares which would be issued to preserve the rights of holders of securities convertible into shares.

The wide range of financial products and the rapid change in capital markets requires great flexibility, in order to choose the best method of issuing shares for the company and complete issuances as opportunities arise.

This authorization would be granted for any capital increase in cash and/or through the incorporation of reserves, earnings or premiums, or, within the limit of 10% of Group capital, paid through benefits in kind consisting of capital shares or marketable securities which afford access to Group capital, where the regulations set out by Article 225-148 relative to public exchange offers are not applicable.

The Board can use this authorization either fully or in part, in one or several stages, where it deems appropriate.

The Board may choose the type of securities to issue and the terms of the issue.

The Board of Directors has been granted full powers to implement the authorization which would be granted, set the dates, terms and conditions of any issue, report on the resulting capital increase and modify the by-laws accordingly.

The Board of Directors has been granted full powers to define the investment terms with the investment services provider responsible for investing the securities and set the price of the securities based on the financial analysis carried out by said establishment (subject to, in the event of a public share offer, compliance with the rules governing issue prices as defined in Article L.225-136 of the French Commercial Code).

- Additional capital increases

Lastly, it will be proposed at the Extraordinary Shareholders' Meeting to authorize the Board of Directors, in accordance with Article L.225-135-1 of the French Commercial Code, if the issue is successful, to increase the amount within the limit of a fraction of the initial issue, subject to the legal and regulatory terms, and at the same price as the initial issue.

■ Revocation of pre-emptive subscription rights

As company shares are traded on the Second Marché of Euronext Paris SA, the Board of Directors must be granted full powers to make effective decisions in the allotted time, particularly to take account of market conditions, allow for the subscription of new shareholders and facilitate the sale of stock to individual, institutional and foreign investors.

As such, we propose, in accordance with Article L.225-135 paragraph 1 of the French Commercial Code, to grant the Board of Directors, in a separate resolution covered in the Statutory Auditors' report, the option to revoke pre-emptive subscription rights for the entire authorized amount of the capital increase described in section D)l.1, i.e. the limit of EUR 50,000.

If the Board of Directors uses this authorization with revocation of pre-emptive subscription rights, the capital increase must be completed within 18 months of the date on which the Shareholders' Meeting agreed to the authorization.

In application of Article L.225-135 paragraph 2, the Shareholders' Meeting would grant the Board of Directors the option to determine a time limit on pre-emptive subscription rights for shareholders and set this limit in accordance with regulations.

**2 Capital increase reserved for employees under the terms of Article L.225-129-6 of the French Commercial Code**

In accordance with Article L.225-129-6 of the French Commercial Code, the Board of Directors submitted a draft resolution at the Extraordinary Shareholders' Meeting with the aim of carrying out a capital increase reserved for employees under the terms of Article L.225-129-6 of the French Labor Code. The Extraordinary Shareholders' Meeting may grant the Board of Directors full powers to issue a maximum of EUR 10,000 in cash shares, in one or several stages, within a period of 26 months starting as of the date of this meeting. Subscription to these shares shall be reserved for those employees who have signed up for the said employee savings plan and shall be carried out pursuant to Article L.443-5 of the French Labor Code.

In accordance with Articles L.225-129-1 and L.225-138-1 of the French Commercial Code, the Board of Directors shall have full powers to set the terms and price of the issue in accordance with Article L.443-5 of the French Labor Code.

This authorization implies that shareholders refute their pre-emptive subscription rights.

While the resolution meets with legal requirements, the Board of Directors does not deem this capital increase necessary and has voted not to carry out the draft resolution pertaining thereto. Consequently, we propose that you vote against this resolution.

## 9.2 Draft resolutions submitted by the Board of Directors before the Annual Ordinary and Extraordinary Shareholders' Meetings of June 14, 2005

### 9.2.1 Resolutions put before the Ordinary Shareholders' Meeting

#### First resolution

The Shareholders' Meeting, having heard the Board of Directors' management report and the statutory auditors' general report for the fiscal year ended December 31, 2004, approves the management report and the annual financial statements for the fiscal year ended December 31, 2004 such as they were presented. It also approves the operations disclosed in these reports or summarized in the management report.

Pursuant to Article 223 quater of the French General Tax Code, the Shareholders' Meeting approves the amount of expenses, as defined in Article 39-4 of the French General Tax Code, i.e. EUR 11,543, which corresponds to excess depreciation and other non-deductible depreciation and was added back to taxable income for 2004. As a result, the tax owed following this excess depreciation was EUR 3,963.

#### Second resolution

The Shareholders' Meeting, having heard the Board of Directors' management report and the statutory auditors' general report for the fiscal year ended December 31, 2004, approves the management report and the annual financial statements for the fiscal year ended December 31, 2004, such as they were presented, disclosing a consolidated net income (Group share) of EUR 5,606,460. It also approves the operations disclosed in these reports or summarized in the Group's management report.

#### Third resolution

The Shareholders' Meeting, on a motion from the Board of Directors, votes to appropriate the reported net profit of EUR 1,727,447.86 for the year ended December 31, 2004 as follows:

- EUR 278,447.86 under "Other Reserves";
- the payment of an overall dividend of EUR 1,449,000 (or EUR 0.46 per share) to be taken entirely on the net income for 2004.

In accordance with Article 158-3-2 of the French General Tax Code, the Shareholders' Meeting notes that the dividends paid are eligible for an allowance of 50% under said article, for shares held by individuals and companies which are taxed on behalf of their individual partners.

After this appropriation, the shareholders' equity accounts will stand as follows:

Shareholders' equity	in EUR
Capital	252,000.00
Additional paid-in capital	913,132.49
Legal reserve	25,200.00
Other reserves	3,861,252.14
<b>Total</b>	<b>5,051,584.63</b>

The Shareholders' Meeting takes note of the reminder, in application of Article 243a of the French General Tax Code that dividends paid over the three years prior to the fiscal year ended December 31, 2003 were as follows:

Fiscal year	Total dividends	Net dividend per share	Tax credit per share	Gross dividend per share
2001	EUR 708,750.00 Paid out of the "Net income for the year"	EUR 0.90	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.45 Other legal entities: EUR 0.13	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 1.35 Other legal entities: EUR 1.03
2002	EUR 882,000.00 Paid out of the "Net income for the year"	EUR 0.28 <sup>(1)</sup>	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.14 Other legal entities: EUR 0.028	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.42 Other legal entities: EUR 0.308
2003	EUR 1,197,000.00 Paid out of the "Net income for the year"	EUR 0.38	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.14 Other legal entities: EUR 0.028	Individuals and legal entities subject to the tax regime for parent companies and subsidiaries: EUR 0.57 Other legal entities: EUR 0.418

(1) A 4-for-1 stock split was approved at the Shareholders' Meeting of June 12, 2002.

#### Fourth resolution

The Shareholders' Meeting, having heard the statutory auditors' special report on the agreements governed by Articles L.225-38 and L.225-42 of the French Commercial Code, approves this report and each of the agreements described therein.

#### Fifth resolution

The Shareholders' Meeting authorizes the Board of Directors, in accordance with Article L.225-209 of the French Commercial Code, to repurchase the company's stock.

The AMF's (French Financial Markets Authority) approval of the prospectus relating to this repurchase program must be obtained before the program is implemented.

This repurchase program aims to:

- hedge against potential dilution linked to stock option plans or other programs allocating shares to employees, directors and officers of the Group;
- allocate shares to employees in recognition of their contribution to the company's results under a company savings plan or under any other employee savings scheme;
- use stock for financing acquisitions, where stock is tendered either as payment, in exchange or in the form of a capital contribution;
- use stock for exercising rights linked to the issue of marketable securities resulting in the allocation of company shares, as payment, in exchange or in any other form;
- hedge against potential dilution due to convertible debt securities;
- sign liquidity contracts with an investment services provider in accordance with a compliance charter recognized by the AMF.

The purchases may involve a number of shares such that the total number of shares that the company holds following these purchases does not exceed 10% of the shares comprising its capital.

The company may pay no more than EUR 110 (excl. expenses) per share, with a par value of EUR 0.08, in repurchasing its own stock.

The maximum amount of purchases authorized is thus set at EUR 34,650,000.

Said purchases, sales or transfers may be made by any means and at any time, including during a public offering, as the Board of Directors elects. They may be made on the market or off the market insofar as current regulations allow for an exception to the principal of centralizing transactions on securities that are

traded on a regulated market. This includes block trades and transactions involving stock options. The maximum share of capital acquired or transferred in the form of blocks of securities may equate to the overall authorized ceiling for the stock repurchase program.

Should the shares' par value be changed, there be an increase in capital through the incorporation of reserves, the free allocation of shares, a reverse split, the distribution of reserves, capital amortization or any other operation affecting the company's treasury stock, the Shareholders' Meeting authorizes the Board of Directors to adjust the purchase price in question in order to factor in the effect of these transactions on the stock price.

The authorization granted by the Shareholders' Meeting shall remain valid for 18 months.

Full powers are conferred on the Board of Directors to decide whether or not to implement the authorization and, if necessary, clarify the terms of this authorization, with the option of delegating the powers of execution therein to its Chairman.

This authorization replaces that given by the Ordinary Shareholders' Meeting of June 15, 2004.

#### **Sixth resolution**

The Shareholders' meeting is notified of the merger, via absorption, of Deloitte Touche Tohmatsu with Deloitte Touche Tohmatsu – Audit, and resolves that the Statutory Auditors' mandate held by Deloitte Touche Tohmatsu is passed on to Deloitte Touche Tohmatsu – Audit, under the new corporate name of "Deloitte & Associates".

The CEO has been granted full powers to proceed with the formalities relating to the Trade and companies' register.

#### **Seventh resolution**

The Shareholders' Meeting gives full powers to the bearer of an original, a copy or an excerpt of these minutes to carry out any legal notice formalities or other formalities required in accordance with the law.

### **9.2.2 Resolutions put before the Extraordinary Shareholders' Meeting**

#### **Eighth resolution**

The Extraordinary Shareholders' Meeting, in accordance with the provisions of Articles L.225-129 and L.225-129-2 of the French Commercial Code, grants the Board of Directors full powers to issue any capital shares or any other marketable securities which afford access to Group capital, as part of a capital increase, within the restrictions indicated hereafter.

This authorization on capital increases is capped at a nominal amount of EUR 50,000, it being specified that, where necessary and in accordance with the law, the amount of additional shares issued in order to preserve the rights of holders of securities shall be added to this amount.

This authorization is given for any capital increase realized:

- in cash,
- through the incorporation of reserves, earnings or premiums,
- through benefits in kind,
- or, within the limit of 10% of Group capital, paid through benefits in kind consisting of capital shares or marketable securities which afford access to Group capital, where the regulations set out by Article 225-148 relative to public exchange offers are not applicable;
- or, where Article L.225-148 of the French Commercial Code is applicable, paid through shares which have been publicly offered for exchange with shares in a company whose shares are traded on regulated markets in the European Economic Area or of a member state of the OECD.

The authorization is valid for a period of 26 months starting as of the date of this meeting.

#### **Ninth resolution**

In accordance with the provisions of Article L.225-135-1 of the French Commercial Code and Article 155-4 of the decree of March 23, 1967, the Extraordinary Shareholders' Meeting decided that, in the event of a capital increase in cash, the number of shares could be increased to a maximum of 15% of the initial issue, within thirty days following the closure of subscription, and at the same price as the initial issue.

#### **Tenth resolution**

In the event of a capital increase in cash, the Extraordinary Shareholders' Meeting resolved that, in accordance with the provisions of Article L.225-135-1 of the French Commercial Code, the maximum limit for capital increases resulting from all securities issues that may be carried out by virtue of the authorization outlined in the resolution above, at EUR 50,000 (to which may be added, where necessary and in accordance with the law, the nominal amount of additional shares issued in order to preserve the rights of holders of securities). The capital increase in full or in part may be used by the Board, where it deems necessary, through revocation of the pre-emptive subscription rights.

In the case of revocation of the pre-emptive subscription rights, the Board may, in accordance with Article L.225-135 paragraph 2 of the French Commercial Code, grant shareholders a pre-emptive subscription right on all or part of the issue, during a period of no less than three trading days.

#### **Eleventh resolution**

The Extraordinary Shareholders' Meeting, having heard the statutory auditors' special report, votes, pursuant to Article L.225-129-6 of the French Commercial Code, to reserve a capital increase in cash for company employees under the terms of Article L.443-5 of the French Labor Code, within a maximum limit of EUR 10,000.

This authorization implies that shareholders refute their pre-emptive subscription rights.

For a maximum period of 26 months, the Board of Directors will have full powers to:

- set up an employee savings plan under the terms of Article L.443-1 of the French Labor Code;
- set the issue price of shares whose subscription is reserved for those employees who have signed up for the said employee savings plan and shall be carried out pursuant to Article L.443-5 of the French Labor Code;
- set, in accordance with Article L.225-129-1 of the French Commercial Code, the terms and conditions of any issue, report on the resulting capital increase and modify the by-laws accordingly.

### 9.3 Report of the Statutory Auditors on the capital increase with revocation of pre-emptive subscription rights

#### Joint Shareholders' Meeting of June 14, 2005

Dear shareholders,

As the statutory auditors for your company and as part of our mission, as set out by Article L.225-135 of the French Commercial Code, we present our report on the capital increase reserved for employees who have signed up for the employee savings plan, within a limit of EUR 10,000, on which you have been asked to vote (eleventh resolution).

This capital increase is submitted for your approval in accordance with the provisions of L.225-129 of the French Commercial Code and Article L.443-5 of the French Labor Code.

Your Board of Directors proposes that, based on its report, you grant the authorization to set the terms of this operation for a 26-month period, under Article L.225-129-1 of the French Commercial Code.

We conducted our audit in accordance with professional standards generally accepted in France. These standards require that we perform due diligence aimed at verifying the terms under which the issue price is determined.

Subject to a subsequent revision of the terms of the proposed capital increase, we have no comments relating to the methods used to determine the issue price as outlined in the report of the Board of Directors.

As the issue price is not set, we shall not express an opinion on the definitive terms under which the capital increase will be carried out nor on the proposal to revoke pre-emptive subscription rights, although the nature of this proposal is consistent with the operation submitted for your approval.

In accordance with Article 155-2 of the decree of March 23, 1967, we will draw up an additional report when the capital increase is carried out by the Board of Directors.

Paris and Neuilly, April 18, 2005  
Statutory Auditors

EXCOM  
Thierry Dubreuil  
12, rue Poncelet  
75017 Paris

Deloitte et Associés  
Alain Penanguer - Christophe Perreau  
185, avenue Charles de Gaulle  
92200 Neuilly-sur-Seine



**Audika**

## CHAPTER 10

# Person responsible for the document

## 10.1 Certification of the person responsible for the reference document

To the best of my knowledge, the information set out in this document is true and includes all the information needed by investors to form an opinion regarding Audika's assets and liabilities, financial position, results and prospects; there are no omissions that could impair its meaning.

Signed in Paris, April 27, 2005

Alain Tonnard  
Chairman and CEO

## 10.2 Statement by the Statutory Auditors relating to the Reference Document

Dear shareholders,

As Audika's independent statutory auditors and pursuant to AMF (French financial markets authority) Article 211-5-2, we have reviewed the information on its financial condition and historical accounts given in this reference document in accordance with auditing standards generally accepted in France.

This reference document was drawn up under the responsibility of the Chairman of the Board of Directors. Our responsibility is to express an opinion on the information it contains pertaining to the financial condition and the financial statements.

Our due diligence, in accordance with the professional standards generally accepted in France, was to assess the sincerity of the information pertaining to the financial condition and the financial statements and to verify their consistency with the financial statements which were disclosed. It also consisted of reading the other information contained in the reference document in order to identify any material inconsistencies with the information pertaining to the financial condition and the financial statements and to report any material misstatements we might have found based on our general knowledge of the company acquired while performing our mission. Since this reference document does not contain financial forecasts resulting from a structured elaboration process, our reading did not have to factor in any assumptions made by management as reflected in the numbers.

We audited the individual and the consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 as drawn up by the Board of Directors in accordance with accounting standards generally accepted in France. Our opinion was given without reservation or observation.

Based on our due diligence, we have no observation to make as to its sincerity of the information pertaining to the financial condition and the financial statements as disclosed in this reference document.

Paris and Neuilly, April 27, 2005  
Statutory Auditors

EXCOM  
Thierry Dubreuil  
12, rue Poncelet  
75017 Paris

Deloitte et Associés  
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### Additional information

The present reference document includes:

- The general report and the report on the consolidated financial statements as at December 31, 2004 provided by the statutory auditors including, on pages 64 and 47 respectively, the justification of the assessments furnished in accordance with the provisions of Article L.225-235 of the French Commercial Code.
- The report of the statutory auditors (page 79) drawn up in application of the last paragraph of Article L.225-235 of the French Commercial Code, on the report furnished by the Chairman of the Board of Directors on the internal auditing of the way in which accounting and financial information is drawn up and processed.

# Cross-reference index

In order to make it easier to read the annual report that is filed as a reference document, the table below lists those pages that refer to the main headings required by the regulations and instructions of the Autorité des Marchés Financiers.

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# NOTES

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A French société anonyme  
(public limited company)

with a capital of EUR 252,000