FINANCIAL SECTION

2004

Contents

Persons responsible for the Annual Report

Name and title of the person responsible for the annual report

Mr. Emmanuel VIELLARD – Deputy Chairman

Statement of the person responsible for the annual report

"To my knowledge, the information contained in this document is accurate. This information provides all the details required for investors to form an opinion on the net worth, the business, the financial situation, the earnings and the outlook of LISI Group. There are no omissions that would significantly alter its impact."

Paris, April 25, 2005.

Emmanuel VIELLARD

Deputy Chairman

Persons responsible for controlling the statements

Regular auditors:

Monsieur Serge CLERC

4B Avenue Chabaud Latour – BP 295

25205 MONTBELIARD Cedex

Appointed April 13, 1993. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2004.

SALUSTRO REYDEL represented by Marie GUILLEMOT and Philippe DABEL

8 Avenue Delcassé

75378 PARIS Cedex 08

Appointed March 4, 1999. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2004.

Alternate auditors:

Monsieur Jean-François CALAME

4B Avenue Chabaud Latour – BP 295

25205 MONTBELIARD Cedex

Appointed April 13, 1993. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2004.

Monsieur Jean-Claude REYDEL

8 Avenue Delcassé

75378 PARIS Cedex 08

Appointed March 4, 1999. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2004.

Auditors' statement regarding the annual report

Financial year ending December 31, 2004

- In our capacity as auditors of LISI and in accordance with articles 211-1 to 211-42 of the General Rules of the French market authorities (Autorité des Marchés Financiers), we have reviewed, in accordance with the professional rules applicable in France, the information regarding the financial status and the historical statements given in this annual report.

- This annual report was drafted under the supervision of Mr. Emmanuel VIELLARD, Deputy Chairman. Our task is to issue an opinion on the accuracy of the information it contains regarding the financial status and statements.

- Our due diligence consisted, in accordance with the professional standards applicable in France, in assessing the accuracy of the information relative to the financial status and statements, in verifying its consistency with the statements that were reported.

It also consisted in reading the other information contained in the annual report in order to identify, if applicable, any significant inconsistencies with the information relative to the financial status and statements, and in pointing out any manifestly incorrect information we may have spotted on the basis of our overall knowledge of the company, as acquired in the context of our assignment. This document does not contain any forward-looking financial information resulting from a structured elaboration process.

- The annual statements and the consolidated statements for the financial years ended December 31, 2002, 2003, and 2004, settled by the Board of Directors, have been audited by us, in accordance with the professional standards applicable in France, and have been certified without any reservation or comments.

Based on such due diligence, we have no comments to make regarding the accuracy of the information relative to the financial status and statements contained in this annual report.

Paris and Montbéliard, April 25, 2005.

The Auditors

SALUSTRO REYDEL

Philippe DABEL   Marie GUILLEMOT   Serge CLERC

Auxiliary information:

This annual report includes:

- "the auditors' general report and report on consolidated statements as at December 31, 2004, which contain, on pages 106 and 108 respectively, a justification for the comments made in accordance with the provisions of article L.225-235 paragraphs 1 and 2 of the Commercial Code;
- the auditors' report, drafted in accordance with the last paragraph of article L.225-237 of the Commercial Code, regarding the report by LISI's Chairman, describing the internal control procedures relative to the elaboration and processing of accounting and financial information".

Information policy

Person responsible for the financial information

Mr. Emmanuel VIELLARD

LISI

Espace Vauban

BP 431

90008 BELFORT Cedex

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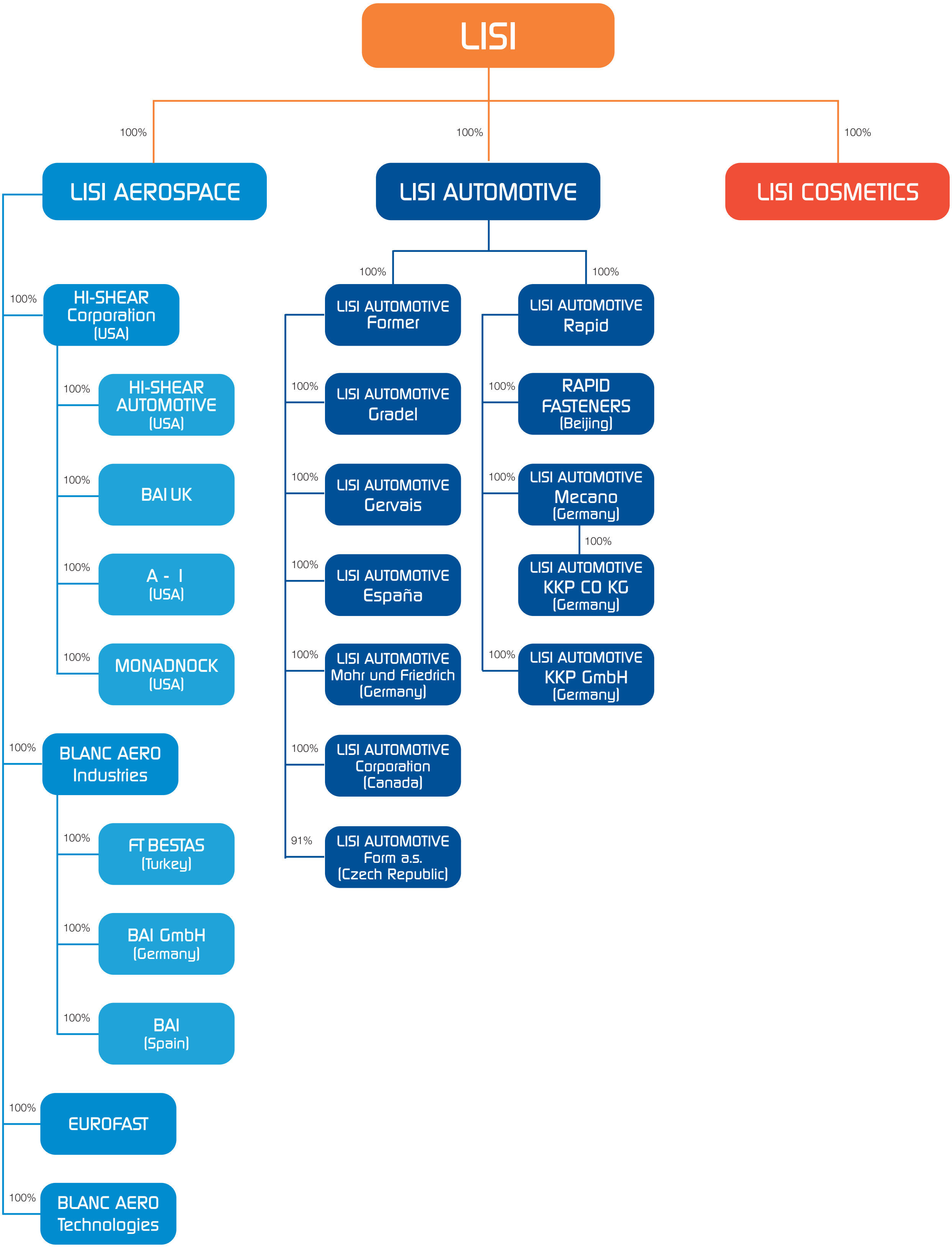
Organizational chart



Management report
on the consolidated statements as of December 31, 2004

Summary of activity

€ million	2004	2003	2002
Revenues	540.97	506.00	517.66
Of which foreign	263.19	243.51	250.73
EBITDA	93.45	78.70	77.32
EBIT	63.18	51.86	47.04
Net profit before goodwill amortization	35.31	29.57	23.66
Net profit after goodwill amortization	24.43	21.00	12.38
Registered workforce at year end	5,223	4,864	4,923
Net operating cash flow	68.18	60.32	70.58
Capital expenditures	28.78	25.16	29.25
Net financial investments	4.96	0.57	12.83
Equity and minority interests	270.78	256.74	252.20
Net debt	34.34	63.11	97.20
Return on capital employed (ROCE)	20.2%	15.3%	12.8%
Return on equity (ROE)	9.3%	8.3%	4.9%

An 8.6% increase in sales (with a comparable dollar and consolidation perimeter)

The group's consolidation perimeter for 2004 is virtually identical to that of 2003, with the June 2004 integration of FORM a.s making a €4.3 million contribution to the year's revenues, while the loss of LISI COSMETICS Italia on September 30, 2004 led to a €0.6 million drop in sales compared with the period October-December 2003. The year's most significant factor continues to be the dollar effect.

The LISI group's consolidated revenues for 2004 stands at €540.9 million, showing significant growth in comparison with 2003, despite the negative effect of the dollar.

This performance is the result of a return to strong growth in the aerospace industry, as well as increased market share for our AEROSPACE and AUTOMOTIVE divisions.

The proportion of sales generated in foreign markets, taking into account the dollar effect, remained level at 49% of the total figure.

Quarterly variations in turnover are summarized in the table below:

€ million	2004	2003	Variations: With new consolidation perimeter	Variations: With comparable dollar and consolidation perimeter
1st Quarter	135.9	136.2	–0.2%	+2.8%
2nd Quarter	140.1	132.4	+5.8%	+7.1%
3rd Quarter	127.4	115.4	+10.4%	+10.6%
4th Quarter	137.6	122.0	+12.7%	+14.6%
TOTAL	541.0	506.0	+6.9%	+8.6%

The growth in sales resulted in a marked rise in EBITDA and EBIT, with measures for development launched in 2003 compensating for 2004's rise in raw materials prices for the automotive sector.

The renewed growth in air traffic, along with increased production rates (e.g. for the A380), significant volumes of new products replacing old ones, and the rise in European automotive registrations (up 2.1%), have created a positive context for our AEROSPACE and AUTOMOTIVE divisions. These factors, combined with the considerable resourcefulness of our production sites and the group-wide implementation of the ACE plan (Amélioration Continue vers l'Excellence – Continued Improvement towards Excellence), have made a considerable improvement in performance possible, despite having generated costs.

Thus the EBITDA figure for 2004 rose by €14.8 million to €93.5 million, to account for 17.3% of sales and reach the top of its cycle, compared with 15.6% in the previous year.

Amortizations and depreciations remain level at 5.2% of sales, with operating provisions for stocks and clients taking into account changes in aerospace contracts in particular, and rising by €2 million as a result.

Consolidated EBIT for the year rose 21.8% to €63.2 million, representing 11.7% of turnover in 2004, compared with 10.2% in 2003. The group is therefore proceeding in line with its objectives, set a number of years ago, to see an improvement in results.

Significant improvement in net income despite considerable non-recurring items

The group's reduction in debt, the issue of OBSARs (bonds with redeemable share subscription warrants) and weak interest rates led to a €1.9 million increase in the financial result. The group's financial debt of €34.3 million has seen a fivefold reduction in 4 years, with gearing standing at 12.7%.

The non-recurring loss of €8.1 million (compared with €3 million in 2003) includes the following factors :

- The sale of our subsidiary LISI COSMETICS Italia, resulting in a loss of €1.3 million;
- A €1.8 million provision for a job security plan at our COSMETICS division;
- Environmental and regulatory provisions for all of our industrial sites, costing €3.6 million (including €2.4 million in the US);
- Potential consequences of ongoing legal cases creating additional costs of €1 million.

The figure of €10.9 million for goodwill amortization in 2004, against €8.6 million the previous year, includes goodwill amortization to the value of €3.6 million for LISI AUTOMOTIVE Gradel. The current scenarios of ongoing industrial reorganization prompted us to value this goodwill at zero at the end of 2004.

With these factors taken into account, net income stood at €24.5 million, a 16.4% rise on the €21 million posted for 2003. It should be noted that in 2004, a figure of €21,000 from net profits was allocated to the minority shareholders of FORM as (in which we acquired a 90.78% stake).

Continued growth in available cash flow…

The group's capacity for self-financing, of €68.2 million, or 12.6% of turnover, has confirmed its ability to free up cash assets. Indeed, with net industrial investments totaling €26.8 million (compared with €22.8 million in 2003), and thanks to efficient management of working capital, which dropped by €0.1 million*, Free Cash Flow rose to €41.3 million, equivalent to 7.6% of turnover.

* Including €5.3 million gained from receivables due.

…leading to an improved balance sheet structure

After a dividend outlay of more than €7.6 million, net financial debt was reduced by €28.8 million (compared with a drop of €34.1 million in 2003) bringing the net financial debt to EBITDA ratio to 0.4, compared with 0.8 in 2003.

Between 2000 and the end of 2004, the group therefore reduced its net debt by €150.9 million.

Equity grew to €270.8 million, against €256.7 million in 2003, despite a €3.9 million fall resulting from the dollar effect. Gearing dropped back to the 1997 level of 12.7%.

2005 Outlook

With the context currently looking favorable for the group in 2005, the aim for each of our divisions will continue to be to concentrate on strengthening fundamentals and on pursuing organic growth and growth in foreign markets.

Information on the transition to IFRS

Since the beginning of 2003, the LISI group has been progressively moving towards convergence with the new international accounting standards. At this point in time, the diagnostic phase of the stable regulatory platform has been carried out on schedule. Neither the figures for the impact on the balance sheet for the year beginning January 1, 2004, nor the financial information at December 31, 2004, will be validated or confirmed until some point during the first half of 2005, which explains the narrative and non-quantified information in the appendix to our financial statements at December 31, 2004. The complete information will be made available on June 30, 2005.

LISI AEROSPACE

Aerospace fasteners & assembly components

Key consolidated figures for LISI AEROSPACE

€ million	Revenues	Full-time employees*	EBIT	Cash flow	Capital expenditure	Net financial debt
2004 financial year	212.02	2,102	36.21	35.36	10.77	-18.69
2003 financial year	180.68	1,900	24.21	25.71	6.04	-1.92
2004/2003 variation	+17.3%	+10.6%	+49.6%	+37.5%	+78.3%	N/A
2002 financial year	180.22	1,969	15.47	23.74	7.69	19.04

* Including temporary employees.

A year of solid recovery

Thanks to growth in air traffic in 2004 to levels significantly higher than had been expected, the year closed in an excellent fashion for the aerospace industry as a whole, with a number of contracts and notifications of intended orders being signed.

The following developments from the year stood out:

- Our leading client, AIRBUS, has retained its position as the world's leading aircraft manufacturer for the second year running: 370 aircraft ordered and 320 delivered during the year, with BOEING posting 272 aircraft ordered (of which 56 were 7E7s) and 285 delivered.
- BOMBARDIER posted smaller figures with 134 units delivered to the end of November 2004, and 102 orders by the end of the year.
- EMBRAER, meanwhile, carried out a successful launch of its new line of aircraft with seating capacities of more than 100.

This favorable context, combined with the considerable resourcefulness of our production sites, led to our seeing considerable growth in the 4th quarter: LISI AEROSPACE saw overall growth of 30.5%, including a rise of 24.6% in Europe and of 32.2% (in dollar terms) in the US. Of course, the A380 program and the stocking of components on assembly lines catalyzed this trend, but our revenues were also boosted by such commercial and industrial successes as the establishing of a contract-based relationship with EMBRAER, new products with BOEING, the qualification of our IZMIR site by AIRBUS and the centralization in Torrance of our worldwide production activity of collars.

Revenues for the Racing division rose 5% during the year to almost €22.5 million, with growth of 16% being registered in the 4th quarter (+21% with a constant dollar) thanks to its Formula 1 and Nascar activities, which continue to represent the division's greatest prospects. The emergence of new clients for standard cars such as Maserati, Ducati, Dodge, Viper and Ferrari has also contributed to the division's performance. The division accounts for 11% of LISI AEROSPACE's overall activity and close to 20% of its EBIT, maintaining its high performance levels.

LISI AEROSPACE's overall turnover therefore stood at €212 million, up on the €180.7 million posted in 2003 and breaking the record set in 2001.

Performance continues to improve, boosted by the favorable market context

During the year, our sites at Villefranche de Rouergue and Torrance (USA) implemented the Amélioration Continue vers l'Excellence (Continued Improvement towards Excellence) plan, which has allowed them to free up some of the resources necessary to increase their capacities without raising costs.

At all of our sites, the emphasis has been placed on carrying out investment plans, recruiting and training, in order to develop production capacities. A plan initiated to extend the plant at Izmir (Turkey) comes under this heading.

Considerable effort has been made towards consolidating our delivery performance, despite dramatic rises in demand and price tensions for raw materials. The service that we provide to clients is key to the group's progress.

The considerable resourcefulness of our teams in the face of these intense levels of demand helped EBIT to rise to a record figure of €36.2 million, compared with the previous year's figure of €24.2 million. Our capacity for self-financing grew 37.5% and allows us to meet working capital needs, as well as funding the main part of our investments (€10.8 million against €6 million) and contributing to the reduction in the LISI group's net financial debt by €18.7 million.

2005 Outlook

2005 is looking to be another year of growth in the market, although the scale of this growth is set to be less significant in Europe. The AEROSPACE division continues to have room for improvement in production, especially in the US, where the leading plant at Torrance is yet to recover its historic production levels, and the Monadnock company has yet to show what it is capable of in terms of its new products program.

The outlook for the sector appears to be bright for the coming years, with a few potential clouds on the horizon in the form of raw materials availability.

LISI AUTOMOTIVE

Automotive fasteners & assembly components

Key consolidated key figures for LISI AUTOMOTIVE

€ million	Revenues	Full-time employees*	EBIT	Cash flow	Capital expenditure	Net financial debt
2004 financial year	292.29	2,586	26.09	31.60	16.13	23.07
2003 financial year	278.80	2,542	25.97	29.00	13.93	22.92
2004/2003 variation	+4.8%	+1.7%	+0.5%	+9.0%	+15.8%	+0.7%
2002 financial year	283.23	2,530	29.67	33.24	18.35	30.31

* Including temporary employees.

Increasing growth throughout 2004

In 2004, the European market, boosted by the first increase in registrations for 4 years in Germany, saw growth of 2.9% to 16.4 million vehicles.

In the US, the market registered growth of 1.4% to 16.9 million vehicles, a rise that was mainly accounted for by the 3 major Japanese carmakers.

On balance, the year was a positive one for our two leading carmaker clients, with progress outside of Europe boosting sales and compensating for level sales on the European market.

Worldwide sales for Renault grew by 4.2% en 2004, while those for PSA rose 2.7%.

Initial trends from equipment manufacturers appear to confirm this pattern of activity.

Against this backdrop, LISI AUTOMOTIVE has been able to gain market share with its carmaker and equipment manufacturing clients, leading to increased growth in business throughout the year: down 1.4% in the 1st quarter, up 3.9% in the 2nd quarter, up 4.1% in the 3rd quarter and up 7.2% in the 4th quarter.

The year ended with a 3.3% (comparable structure) rise in turnover to €292.3 million, against €278.8 million in 2003, with the group structure changing with the acquisition of FORM a.s, which has been consolidated since 06/01/2004 and which has contributed revenues of €4.3 million.

The key performance factors were:

- very strong activity with RENAULT, notably in the industrialization phase for the Modus,
- increasing demand from PSA for all models and DV engines (PSA, FORD),
- the success of highly technological products with equipment manufacturers such as AUTOLIV, SMI KOYO and FAURECIA.

It is also to be noted that sales at our Canadian subsidiary, which was set up in 2002, now stand at €3.5 million, a rise of 28.6%.

Profits, however, remained level

Within what appears to be a favorable context, our earnings did not match our expectations. EBITDA saw slight growth compared with the year before, to stand at €41.8 million, but EBIT remained level at €26.1 million and represents 8.9% of sales, against 9.2% in 2003.

The net impact of increased raw materials prices on EBIT during the year amounted to €-2.6 million, resulting from the period of time which passed between costs rising and our clients' willingness to accept increased sales prices.

The ACE progress plan, which has now been running for 2 years, led to a €3.9 million reduction in costs. However, falling production at certain weaker sites deducted €2.5 million from our EBIT, mainly from the 2 LISI AUTOMOTIVE Gradel sites. The restructuring scenarios led to goodwill being eliminated in 2004, with a resulting non-recurring cost of €3.6 million.

Cash flow allows us to finance growth in foreign markets and investments

The division's cash flow grew to €31.6 million, or 10.7% of revenues, a rise of 9% compared with the previous year, allowing for international development, as represented by the acquisition of a 90.78% stake in the FORM a.s company for €4.5 million. This company specializes in mechanical components and strengthens our position with regard to equipment manufacturers. In this way, we are strengthening and developing our position in an area with strong development potential.

Increased demands in terms of quality, productivity programs, the need to develop new abilities and measures for environmental protection swelled investment volumes to €16.1 million, against €13.9 million in 2003.

2005 Outlook

Forecasts by automotive industry analysts suggest stability in the European market and slight decline in the US market. Growth in worldwide production should therefore come from emerging countries. Taking into account these market predictions, and the considerable size of its order book at the beginning of the year, LISI AUTOMOTIVE should see a continuance of its organic growth in 2005, benefiting from revenues at FORM a.s.

The ACE plan, which has been progressively developed in stages at 8 plants in the AUTOMOTIVE division since January 2003, has demonstrated the possibility of making significant reductions in production costs. The plan will conclude at the last 3 plants in 2005 and will be succeeded by a new plan, ACE II, with equally ambitious goals.

The savings made through the ACE plan should once again compensate for the rise in raw materials prices, which could be a cause for concern in the early months of 2005.

The closure of our plant at Marignier was announced in December 2004, and its production equipment will be moved to our Melisey site in 2005.

LISI COSMETICS

Fragrance and cosmetics assembly and packaging components

Key consolidated figures for LISI COSMETICS

€ million	Revenues	Full-time employees*	EBIT	Cash flow	Capital expenditure	Net financial debt
2004 financial year	40.93	552	0.01	-0.19	1.68	0.17
2003 financial year	51.16	693	0.40	3.43	4.05	5.04
2004/2003 variation	-20.0%	-20.3%	N/A	N/A	N/A	N/A
2002 financial year	50.72	647	-0.52	0.23	2.90	3.81

* Including temporary employees.

A market in clear decline and a difficult sector

LISI COSMETICS' context is different from that of the other divisions: the luxury goods sector remains at the bottom of its cycle and its progress is hampered by the multiplication of "trend" products, as well as the falling dollar. In particular, the shortened lifespan of new products, the decreasing numbers of flagship products and the limited number of major launches has sharpened competition in the packaging sector.

Although the decline was seen to a lesser extent in the 4th quarter (-13.8%, or -8.8% with a comparable consolidation perimeter), LISI COSMETICS ended the year with a fall of 19% (with a comparable consolidation perimeter), in line with expectations (€40.9 million).

EBIT, however, was stable

Throughout the year, our teams have dedicated their time essentially to the implementation of a progress plan for industrial operations, which has made it possible to rationalize our earnings. Highly significant increases in production have been achieved by optimizing processes and flows. The usage rate of critical equipment (TRS) has been improved and quality indicators are finally moving forwards. As such, our operating margin (EBIT) remained level with a rise of €7,300 (against a rise of €404,600 in 2003), thanks to an increase in EBITDA to €2.2 million, to account for 5.5% of sales, compared with 5.3% in 2003.

With the aim of continuing to improve our break-even point, significant restructuring measures have been carried out throughout the year, notably including:

- the sale of LISI COSMETICS Italia on September 30, 2004 and the reintegration of the corresponding production activities to our French sites,
- the closure of our sales representation office in the US, which has been open since 1998,
- the job security plan which was launched at the end of December 2004, involving 57 people.

All of these measures have had a significant negative impact of €3.3 million on our consolidated exceptional result.

Optimization of industrial equipment and organization

On an industrial level, the investment plan was limited to €1.7 million and concentrated on improving the quality of our industrial equipment. The emphasis has been placed on improving our internal organization, and in particular on the creation of a central quality control service which has two major aims: continued improvement and the optimization of logistics.

2005 Outlook

Despite a sluggish market in 2004, LISI COSMETICS has been able to consolidate its relationships with its strategic clients and has signed contracts to supply new products for the 2nd quarter of 2005 only. This additional volume of business should allow the company to progress through 2005 with a slight improvement in operating results.

Consolidated income statement

(in thousand euros)	Notes	2004	2003	2002
Net revenues		540,971	505,997	517,661
Changes in inventory, finished and in process goods		6,775	2,295	1,496
Total production		547,746	508,292	519,157
Other revenues		4,136	6,378	4,001
Total operating revenues		551,882	514,670	523,158
Cost of materials		(136,047)	(123,431)	(130,776)
Other purchases and external expenses		(108,962)	(103,824)	(108,097)
Other management costs				
Value added before temporary employees		306,873	287,415	284,285
Taxes and duties		(10,379)	(9,893)	(9,305)
Temporary employee expense		(10,254)	(13,697)	(12,657)
Salaries and benefits		(188,921)	(182,323)	(183,242)
Profit sharing		(3,869)	(2,804)	(1,758)
EBITDA		93,449	78,698	77,323
Depreciation		(27,865)	(26,425)	(26,686)
Reserve allocations		(11,627)	(10,548)	(11,085)
Reversal of reserves		9,228	10,136	7,483
EBIT		63,185	51,861	47,035
Net financial income (loss)	5.1	(2,953)	(4,886)	(8,891)
Pre-tax income from ordinary operations		60,232	46,975	38,144
Extraordinary income		8,254	9,265	16,105
Extraordinary expenses		(16,367)	(12,272)	(21,582)
Net ordinary loss	5.2	(8,112)	(3,007)	(5,477)
Income tax	5.3	(16,810)	(14,396)	(9,003)
Income of consolidated companies		35,310	29,572	23,664
Equity-affiliated companies		–	–	–
Profit before goodwill amortization		35,310	29,572	23,664
Goodwill amortization allowance		(10,855)	(8,571)	(11,289)
Net profit		24,455	21,001	12,375
– Of which Group's share including the result of equity-affiliated companies		24,434	21,001	12,375
– Of which minority interests		21		
Base income per share (in euros):				
Profit (after tax)		4.39	3.30	2.95
Group's share of net profit		2.47	2.13	1.25
Diluted income per share (in euros):				
Profit (after tax)		3.93	3.23	2.95
Group's share of net profit		2.21	2.08	1.25

Consolidated balance sheet

Assets

(in thousand euros)	Notes	2004	2003	2002
• **Fixed assets**				
Goodwill	4.1	136,330	141,838	150,730
Intangible fixed assets	4.2	18,566	17,449	16,733
Tangible fixed assets	4.2	401,091	385,181	375,031
Financial assets	4.2	4,008	3,899	4,028
Depreciation and amortization	4.1/4.2	(303,266)	(281,133)	(256,896)
Total net fixed assets		256,729	267,234	289,626
• **Current assets**				
Raw materials and other supplies		30,306	24,018	27,487
Work in process		43,191	36,484	37,126
Finished goods		66,002	65,706	64,599
Inventory depreciation		(24,487)	(22,982)	(26,026)
Net inventory	4.3	115,012	103,226	103,186
Prepayments		61	28	23
Accounts receivable		87,595	79,225	82,378
Other receivables	4.4.1	11,438	13,665	15,814
Provisions for doubtful receivables		(2,939)	(3,026)	(3,397)
Taxes – Claim on the State				
Deferred taxes	4.8	10,943	8,280	7,946
Marketable securities	4.4.2	80,278	24,688	19,371
Cash	4.7	8,535	12,428	17,572
Provision for write-down of marketable securities	4.7			(737)
Total current assets		310,923	238,514	242,156
Accruals and prepaid expenses	4.4.3	3,565	4,070	4,364
of which deferred charges	4.4.3	2,427	2,672	3,726
of which foreign exchange translation adjustments	4.4.3	271	907	193
of which accrued expenses	4.4.3	867	491	445
TOTAL ASSETS		**571,217**	**509,818**	**536,146**

Liabilities

(in thousand euros)	Notes	2004	2003	2002
• **Equity (Group's share)**				
Capital stock		19,794	19,734	19,734
Additional paid-in capital		27,902	27,134	27,134
Foreign exchange translation adjustments		(10,672)	(6,674)	3,332
Retained earnings		208,924	195,545	189,625
Group's share of net income		24,434	21,001	12,375
Total equity	4.5	270,382	256,740	252,200
Minority interests	4.5	395		
Deferred taxes	4.8	24,490	24,372	22,888
Provisions for risks and contingencies	4.6	32,933	27,865	25,488
• **Liabilities**				
Long-term debt (*)	4.7	123,155	100,229	133,407
Prepayments received		752	1,585	657
Accounts payable		61,875	50,638	54,560
Tax and social security liabilities		42,001	40,875	37,179
Tax liability		5,066	2,358	1,395
Secured loans on fixed assets and related		3,029	1,688	2,265
Other liabilities		6,639	3,426	5,777
Total debt		242,517	200,799	235,240
Deferred income and other accruals	4.4.3	500	42	330
of which deferred income	4.4.3	500	42	330
TOTAL LIABILITIES		**571,217**	**509,818**	**536,146**
(*) of which banking facilities		11,077	14,393	16,540

Consolidated cash flow statement

(in thousand euros)	Notes	2004	2003	2002
• **Operating activities**				
Operating cash flow	5.4	68,207	58,847	57,515
Effect of changes in inventory		(14,330)	(1,706)	1,418
Effects of changes in accounts receivable and accounts payable		14,302	3,181	11,643
Cash provided by or used for operations (A)		68,179	60,322	70,576
• **Investment activities**				
Cash used to acquire tangible and intangible fixed assets		(30,011)	(25,158)	(29,252)
Cash received from disposals of tangible and intangible fixed assets		2,219	1,286	2,560
Cash used to acquire financial assets		(5,039)	(1,059)	(18,701)
Cash received from the disposal of financial assets		81	483	5,868
Net cash used for acquisitions and disposals of subsidiaries (1)		(1,180)	(30)	230
Cash provided by or used for investing activities (B)		(33,930)	(24,478)	(39,295)
• **Financing activities**				
Cash received from shareholders as part of a capital increase		828		
Dividends paid to shareholders of the parent company		(7,647)	(5,947)	(5,903)
Dividends paid to the minority shareholders of consolidated companies (1)				
Cash received from new loans		57,052	2,730	18,694
Cash used to pay off loans		(26,202)	(27,780)	(29,865)
Cash received from profit-sharing		2,644	1,661	1,940
Repayment of profit-sharing		(4,810)	(2,600)	(3,898)
Miscellaneous		11	120	106
Cash provided by or used for financing activities (C)		21,876	(31,816)	(18,926)
Effect of change in foreign exchange rates (D) (1)		(1,114)	(971)	(3,785)
Changes in net cash (A+B+C+D) *		**55,011**	**3,057**	**8,570**
Cash at year start (E)		22,723	19,666	11,096
Cash at year end (A + B + C + D + E)		77,737	22,723	19,666
Marketable securities		76,790	24,688	18,634
Cash		12,023	12,428	17,572
Banking facilities		(11,077)	(14,393)	(16,540)
Cash at year end **		**77,737**	**22,723**	**19,666**

(1) This item is specific to the consolidated financing statement.
* The overall change in cash position corresponds to the total of net cash flows generated by the various categories: operations, investment, and financing.
** The cash position is the algebric sum of the balance sheet assets and liabilities.

Appendix to the consolidated financial statements

1. Group activity and key highlights of the year

The LISI group's main business is the manufacture of multi-purpose fasteners and assembly components for three sectors: aerospace, automotive and selective fragrances.

The key events of the year were as follows:

- Debt in the form of OBSARs (Bonds with redeemable share subscription warrants) issued on May 5, 2004 for €50.1 million;
- LISI AUTOMOTIVE Former acquires 90.78% stake in Czech company FORM a.s on June 9, 2004;
- Sale of LISI COSMETICS Italia in November 2004.

2. Accounting principles

In drawing up and presenting its consolidated financial statements, the LISI group applies the accounting principles defined by rule no. 99-02 as approved by decree by the Accounting Regulations Board (CRC) of June 22, 1999.

2.1. IFRS regulations

In accordance with European Regulation no. 1606/2002, introduced on September 11, 2002, LISI S.A., a company listed on the *Second Marché* of the Paris Stock Exchange, will be obliged to present its consolidated annual financial statements according to IFRS standards (International Financial Reporting Standards) as of January 1, 2005.

For the past three years, the group has been running an operation that will allow it to converge with IFRS standards and has assembled a project team consisting of operational and functional representatives from the Group's 3 divisions.

- The first stage, encompassing diagnostics, training and setting out the terms under which IFRS standards would be applied, took place over the course of 2003;
- The second stage, evaluating the impact of the standards, was carried out at the Group's companies in 2004.

Parallel to the current accounting practice as detailed in the following notes, the main divergences between the guidelines currently followed by the group and those to be applied in compliance with the IFRS will be provided as and when necessary.

The implementation of the regulations will lead to their being used to validate the balance sheet for the year beginning January 1, 2004 during the 1st half of 2005.

Besides the divergences in accounting procedure, the move to IFRS will also result in modifications to the presentation of financial statements themselves, with one notable change being the distinction between current and non-current assets, as well as the removal of the concept of extraordinary results on the income statement.

2.2. Methods of consolidation

Subsidiaries controlled exclusively by the parent company are consolidated in accordance with the full consolidation method. A list of consolidated companies is provided in note 3. The group does not contain any companies consolidated through proportionate consolidation nor equity method.

All of the companies included in the consolidation perimeter had an accounting period of 12 months to December 31, 2004, with the exception of LISI AUTOMOTIVE FORM a.s, which was acquired in June 2004, and LISI COSMETICS Italia, which was sold in November 2004.

2.3. Comparability of statements

Specific operations:

- The operations undertaken to dispose of accounts receivable allowed net debt to be reduced by €50.9 million as at December 31, 2004, compared with €45.6 million at December 31, 2003. These disposals are carried out in the form of receivables factoring with conventional subrogation, but without recourse;
- As far as presentation is concerned, it had been decided that, as of January 1, 2002, royalties cashed by the USA AEROSPACE Division would be posted as turnover rather than other income. The implementation of this restatement, amounting to €0.8 million for the financial year 2004, had no impact on earnings.

2.4. Discretionary methods

The accounting principle allowing underwriting fees to be expensed up front is the only discretionary method not used by the LISI group.

2.5. Goodwill

Differences on first consolidation represent the difference between the acquisition price of a consolidated company's shares and the share of the company's restated net assets that has been acquired.

Current accounting practice

As far as is possible, these differences are suitably allocated. Assets allocated to tangible and intangible assets (patents) are amortized over the same period as comparable assets.

Assets allocated to brands are not amortized. If necessary, a provision for depreciation is set up.

Residual assets, or goodwill, are amortized using the straight-line method over a period that depends on the business conditions of each company, without ever exceeding 20 years.

Expenses relating to the acquisition of companies are now incorporated into the acquisition price and included in the goodwill calculation.

In addition, when circumstances or facts indicate that a drop in value may have occurred, a depreciation test is carried out. Depreciation has occurred when a differential can be observed between the fair value of the fixed asset, based on the current cash flow figure, and its market price.

In 2004, the book value of all of the assets belonging to members of the LISI group, including goodwill, was compared with the sum of future discounted cash flows in line with the most recent predictions.

IFRS

In line with IFRS 3, "Business combinations", goodwill will no longer be amortized. It will be examined for loss of value at least once a year, as soon as signs of falling value become apparent. This examination will involve goodwill being valued in individual cash-generating units or groups of cash-generating units. These units will correspond to similar areas of activity that jointly generate independent cash flows. The form of these examinations for falling value within cash-generating units will be detailed later.

Impact on the group's financial statements

The income statement will no longer carry a charge corresponding to provisions for goodwill amortization. It will, however, carry charges corresponding to irreversible loss of value for goodwill.

2.6. Intangible assets

Current accounting practice

Business equity, concessions, patents and software were entered at their purchase price and amortized according to a plan.

Generally speaking, the amortization schedules are as follows:

• business equity	10 years	straight-line
• concessions and patents	10 years	straight-line
• software	1 year	straight-line

Start-up costs are either posted as expenses for the year or posted on the asset side of the balance sheet and depreciated over 12 months.

The value assigned to brands is monitored on an annual basis according to several methods.

IFRS

We have not identified any divergence between current accounting practice and the future application of IFRS regulations, other than the reclassification of business equity gained through goodwill.

2.7. Tangible fixed assets

Current accounting practice

Tangible fixed assets were valued at their cost of acquisition or production, except in the case of assets legally marked to market and which are now immaterial.

The total initial cost of assets does not include financing costs taken on before the assets are used, and is not divided between the various constituent parts, which may have different life spans.

Fixed asset depreciation is determined on the basis of expected useful life.

Generally speaking, the depreciation schedules are as follows:

• buildings	20 years	straight-line
• fixings	10 years	straight-line
• vehicles	5 years	straight-line
• tools and machinery	10 years	straight-line

• office equipment	5 years	straight-line
• office furnishings	10 years	straight-line
• IT equipment	3 years	straight-line

An additional provision is set up should equipment become obsolete or if expected useful life is reduced.

Equipment subsidies are accounted for as liabilities and are registered on the income sheet at the same rate as the depreciation of the assets in question.

The initial value of leased fixed assets held by consolidated companies is posted under the relevant balance sheet entries. These are depreciated over the same period as comparable goods purchased outright. However, the corresponding debt is entered under liabilities on the balance sheet.

IFRS

The main changes to accounting practice resulting from the application of IAS 16, "Property, plant and equipment", and IAS 17, "Leases", will be the following:

- the definition of leasing contracts in line with IFRS regulations will immobilize some contracts which were previously considered to be simple lease contracts.

When different components of an asset have different life spans, or are useful to the company at a different rate, it will be convenient to divide the full cost of the asset between its constituent parts and account for each component separately. This change in procedure could be applied to certain significant assets in the future. An inventory currently being finalized has not shown up any significant assets requiring this component-based method, since the group's industrial equipment is largely made up of components which cannot be considered separately and that have an identical lifespan.

Impact on the group's financial statements

On the first balance sheet to feature the IFRS, for the year starting January 1, 2004, some financing contracts for leasing that were previously considered to be simple leasing contracts will be immobilized on the assets side and balanced by a debt on the liabilities side.

The new procedure for leasing financing will have a small but positive impact on income and a small but negative impact on the financial result.

2.8. Loss of value for tangible and intangible assets

Current accounting practice

Cf. § 2.5. goodwill, § 2.6. intangible assets, and § 2.7. tangible fixed assets.

IFRS

In line with IAS 36, "Impairment of assets", the book value of tangible and intangible assets will be assessed as soon as signs of falling value become apparent, and reviewed at the end of each accounting year.

The checks will be carried out at least once a year for assets with an indefinite lifespan, which is a category of limited size for a group featuring goodwill and brands.

The test will involve assets being grouped into cash-generating units (CGUs). CGUs are similar groups of assets, which, while in use, continuously generate cash flow that is largely independent from cash flow generated by other groups of assets. The useful value of these units is determined using future discounted net cash flows.

The group identifies these units with its strategic divisions of Business Units.

The AUTOMOTIVE division consists of 3 CGUs, which correspond to the following Business Units:

- Threaded fasteners BU,
- Components BU,
- Clip fasteners BU.

The AEROSPACE division is split into 5 CGUs:

- Airframe Europe BU,
- Airframe USA BU,
- Engines and Criticals BU,
- Specialty Fasteners BU,
- Racing BU.

The COSMETICS division is made up of one single CGU.

Impact on the group's financial statements

The checks will not lead to losses on the first balance sheet to feature IFRS, for the year beginning on January 1, 2004, above and beyond depreciations and amortizations that have already been carried out.

2.9. Equity interests

Current accounting practice

Non-consolidated equity interests are valued upon incorporation into the group at their acquisition or contribution value. If this value is greater than the usage value, a provision for depreciation is set up to make up the difference. The usage value is determined based on the portion of equity capital represented by the shares. If necessary, this can be rectified in order to take into account the value of these companies to the group, as well as their development and profit earning potential.

IFRS

We have not identified any divergence between current accounting practice and the future application of IFRS regulations.

2.10. Conversion of items in foreign currencies

Current accounting practice

a) The financial statements of foreign subsidiaries are converted:

- at the closing rate in the case of balance sheet entries, with the exception of equity capital, which is converted at the historic rate;
- at the average rate for the financial year in the case of items in the income statement.

Currency exchange differences resulting from the application of these rates are entered under equity capital as "Currency exchange differences".

b) Transactions carried out in foreign currency (non-local currency) are recorded at the rate of exchange in force on the day they take place. Exchange rate profits and losses, which result from the conversion of assets and liabilities in foreign currencies at the closing rate, are entered in the income statement. This does not apply to those profits and losses that result from permanent financing operations between companies within the group. These are entered under equity capital as "Currency exchange differences".

IFRS

The procedure for evaluating and accounting for operations carried out in foreign currencies is defined in IAS 21, "The Effects of changes in foreign exchange rates". By applying this regulation, the group's operations in foreign currencies will be recorded on the same day as the transaction. Foreign currency items on the balance sheet will be systematically reevaluated at the closing rate.

The corresponding currency exchange differences will be recorded on the income sheet in:

- the operating result, for commercial transactions;
- the financial result, for financial transactions.

The procedure for posting and measuring hedging instruments and their underlyings in terms of hedging for fair value or cash flow is defined in IAS 39, "Financial instruments: recognition and measurement". In line with the measures included in the regulation, all derivative instruments will be recorded on the balance sheet at fair value.

With the exception of derivative instruments classed as hedges, the change in fair value of derivative instruments will be recorded against the income sheet.

Impact on the group's financial statements

The LISI group manages exchange rate risk with derivative instruments in order to protect itself against future changes in value of cash flows linked to existing or future assets or liabilities.

In line with the option provided in the IFRS1 regulation regarding the first use of regulations, the LISI group has opted to apply the IAS 39 regulation for the first time from January 1, 2005.

No change in procedure for hedging resulting from the IFRS will therefore be seen on the balance sheet for the year starting January 1, 2004.

2.11. Stock

Current accounting practice

Goods and materials are valued at their acquisition cost using the weighted average purchase cost method.

The valuation of stock does not take into account storage costs for raw materials and goods.

Finished and unfinished products are valued at their true production cost, as recorded during the period.

In terms of margins generated by companies in the group from the sale of goods to sister companies, the proportion of the value that corresponds to products that have not been sold on by the purchasing company by December 31 is eliminated.

Depending on the stock rotation policy used, a provision for depreciation is set up by combining prospective methods with statistics on article turnover. This provision is completed by a comparison of the market price, minus distribution costs at net accounting value.

IFRS

We have not identified any divergence between current accounting practice and the future application of IFRS regulations.

2.12. Operating receivables

Current accounting practice

Receivables are valued at their nominal value. Because these are customer receivables, the depreciation of these receivables is determined depending on the risk of non-recovery that is inherent to each of the businesses, as well as past performance with regard to debt recovery.

IFRS

We have not identified any divergence between current accounting practice and the future application of IFRS regulations, inasmuch as the group does not have long-term operating receivables.

2.13. Amortization of operating receivables

Current accounting practice

These are calculated according to certain rules, the aim of which is to determine probable losses in a normal case scenario. For smaller receivables, provisions are set up in full, whereas all large debts are evaluated on a one-off basis taking into account the information gathered for each specific case.

IFRS

We have not identified any divergence between current accounting practice and the future application of IFRS regulations.

2.14. Marketable securities

Marketable securities are valued at their historic cost. These may be depreciated if their purchase or market value is less than their book value.

2.15. Deferred taxation

Current accounting practice

Deferred taxes are calculated based on the temporary timing differences between valuations carried out for tax purposes and those used for assets and liabilities on the consolidated balance sheet, with the exception of goodwill, when amortization of the same is not deductible. Deferred tax assets (including tax loss carryforwards) are posted when it is probable that they will be used in the future. In addition, deferred taxes on temporary valuation differences were still present in 2004, as a result of the application of regulation 99-02 of the CRC.

The variable deferral method was used at a rate that included exceptional contributions, i.e. 34.93% for French companies.

LISI is the parent company of a group that is consolidated for tax purposes. In 2004 the group included the following eleven companies: LISI AEROSPACE, BLANC AERO Industries, BLANC AERO Technologies, Eurofast, LISI AUTOMOTIVE Former, LISI AUTOMOTIVE Gradel, LISI AUTOMOTIVE Gervais, LISI AUTOMOTIVE Rapid, LISI AUTOMOTIVE, LISI COSMETICS, LISI S.A.

IFRS

We have not identified any divergence between current accounting practice and the future application of IFRS regulations.

2.16. Provisions for risks and contingences

Current accounting practice

Pursuant to CRC regulation 2000.06, which came into force on January 1, 2002, provisions for risks and contingencies are set up from the moment the risk becomes certain or probable, and as long as it can be estimated with sufficient reliability.

IFRS

We have not identified any divergence between current accounting practice and the future application of IAS regulation 37, “Provisions, contingent liabilities and contingent assets”.

2.17. Pension reserves and related commitments

Current accounting practice

Liabilities related to pension plans with defined contributions are subjected to actuarial evaluation and provisions are made following the projected unit credit method. The provision posted on the balance sheet corresponds to:

- the actuarial value of retirement commitments and related commitments in terms of active members of the workforce, and retired staff only in certain foreign subsidiaries;
- minus the market value of assets dedicated by the plan administrator to cover commitments;
- plus or minus the resulting difference in actuarial value:
  - differences in experience levels linked to the demographic variables of the calculations (staff turnover and death);
  - changes in the economic estimations underlying the calculations: interest rates, inflation rates, future salary growth;
  - differences noted between the true return on investments made by the plan administrator and the initial expected return on these investments.

The group amortizes differences in actuarial values on the balance sheet using the corridor method.

As all commitments are set out at the end of each financial year according to the conditions above, contingencies registered during the year correspond to:

- additional entitlements acquired by employees;
- changes resulting from existing entitlements being updated at the start of the financial year;
- amortization of differences in actuarial value.

Pension commitments

a) Calculation principles

The commitments of all of the companies in the group as at December 31, 2004 are evaluated using the projected unit credit method.

The most recent actuarial evaluations were carried out on December 31, 2004 for all of the plans in place on that date.

b) Evaluation of commitments, in figures, at December 31, 2004

€ million	Germany	UK	USA	France	Total
Recorded position at 12/31/2003	4,221	659	3,534	3,953	12,367
Actuarial gains and losses	3	3,959	- 111	672	4,523
Hedge assets		5,797	6,722		12,519
DBO	4,224	10,415	10,145	4,625	29,409
Cost of services rendered in 2004	44	715	20	284	1,063
Financial cost	215	585	398	233	1,431
Amortization of actuarial gains and losses		17	68	40	125
Estimated return on assets		- 386	- 334		- 720
Contributions paid	- 243	- 753	- 468	- 606	- 2,070
Contributions to provisions at 12/31/2004	16	277	- 316	- 49	- 72
Provisions at 12/31/2004	4,237	936	3,204	3,914	12,291

c) Calculation methods

The methods for evaluating the commitments depend on local contractual or statutory obligations. The calculations have been carried out by actuaries or specialized consultancies.

Germany

In Germany, commitments are calculated using the prospective method, taking into account the end-of-career salary and based on the rule given below.

UK

In the UK, commitments provide for a supplementary pension scheme. These commitments are calculated using the prospective method, taking into account the end-of-career salary and based on rule given below.

United States

In the US, commitments provide for pre-defined pension plans. To date, only one pension asset is eligible. The commitments are calculated using the prospective method, taking into account the end-of-career salary and based on the rule given below.

France

Provisions for retirement compensation at French companies are recorded in the consolidated financial statements, including corporate costs, with deductions made for deferred taxation.

These commitments reflect the obligations contained within collective agreements by which that the different companies are bound. The values have been calculated on the basis of the DADS (annual company data declaration) for that financial year, with the calculations including:

- a presumed date for voluntary retirement;
- a rate of staff turnover;
- a discount rate;
- a rate of salary increase.

d) Estimations for calculations used at December 31, 2004

Predicted	Germany	UK	USA	France
Discount rate	5.25%	5.20%	5.60%	4.30%
Rate of salary increase	2.50%	4.40%	–	3%
Rate of inflation	1.75%	2.90%	–	–
Rate of return on assets	–	6.10%	6.50%	–

IFRS

The methods for evaluating pension commitments as prescribed under IAS 19, “Employee benefits”, are the methods currently used by the LISI group, which opts to use the corridor method, meaning that differences in actuarial values are amortized throughout the probable average remaining period of service of the beneficiaries.

Impact on the group’s financial statements

The differences in actuarial value existing at January 1, 2004 will be charged directly to the group’s net financial situation, set against the retirement provision in the first balance sheet to feature IFRS, in line with the option provided in IFRS 1 (rule governing the first application of regulations).

2.18. Research and development costs

Current accounting practice

Research and development costs are posted as costs for the financial year during which they were incurred.

This accounting practice is a consequence of the nature of the group's research and development activities.

IFRS

In line with IAS 38, "Intangible assets", research costs are accounted for as costs, while development costs must be immobilized as intangible assets as soon as the company can demonstrate:

- its will and its financial and technical capacity to carry the development program to its conclusion;
- that it is likely that the future economic benefits attributable to the development outlay will be received by the company;
- that the cost of the asset can be reliably measured.

The immobilized expenditure includes the costs of employees allocated to the projects as well as the costs of prototypes and external contributions made in relation to the projects. This expenditure excludes all indirect costs related to research and development activities, such as rent, building depreciation and costs for using IT systems. Other research and development charges are posted as costs for the financial year during which they were incurred. The useful value of immobilized development costs is evaluated along with specific, related tangible investments. A provision for depreciation is established if the net book value of tangible and intangible fixed assets attached to a project exceeds its useful value.

In the first balance sheet to feature IFRS, for the year beginning January 1, 2004, the immobilized sum, set against a rise in equity capital, corresponds to the accumulated value of development costs incurred in previous years, net of accumulated depreciations.

Impact on the group's financial statements

The analysis carried out at the end of the year on expenses eligible for the regulations on research and development remains to be concluded, but it leads us to believe that few dossiers will meet the regulatory criteria, especially in terms of demonstrating the likelihood of future economic benefits between the date of expenses being taken on and the date of the financial statements for the corresponding financial year being drawn up.

2.19. Treasury stock

The LISI group has implemented a policy to repurchase its own shares, in line with the mandate accorded to the Board of Directors by the Shareholders' General Meeting. The principal aims of the share repurchase scheme are:

- the use of shares as consideration in acquisitions, with a view to reducing the acquisition cost or, more generally, to improve the terms of the transaction;
- to purchase shares in the open market in order to support the stock price and offset countervailing trends;
- to grant stock options to employees and corporate officers of the company and/or its consolidated group.

Current accounting practice

Coverage of share purchase options

LISI S.A. shares, held with the intention of covering share purchase options granted to employees, directors or corporate officers of the company, companies or groupings linked to them, are recorded on the assets side of the balance sheet under "marketable securities". They are posted at their acquisition price. Provisions are made for them, if necessary, at the value of the call price for the option, or of the stocktaking value if this is lower.

LISI S.A. treasury stock

When the group purchases its own shares with an aim other than covering stock options, they are allocated at their acquisition price as marketable securities.

The impact of a sale of treasury stock is registered directly in the financial result for that year.

IFRS

All LISI S.A. treasury stock will be accounted for against equity. This change will have no effect on the income sheet.

2.20. Stock options

Four stock options plans were active as at December 31, 2004. These are comprised of current shares issued in the form of purchase options.

A stock options plan for 97,500 shares was posted in December 1999, a stock options plan for 34,700 shares was posted in March 2001, a stock options plan for 39,500 shares was posted in December 2001 and the final plan for 163,000 shares was posted in June 2003.

Within the scope of covering the stock options schemes of 1999 and 2001, purchase option contracts for “call” shares, the characteristics of which are identical to those of the share purchase option plans, were agreed in August 2002 in order to cover the stock options exercised. Financial expenses relating to premiums paid were spread over the period during which the “call” purchase options were exercised.

Current accounting practice

Schemes for the purchase or subscription of shares, whatever their start date, grant their beneficiaries the right to acquire an existing share or subscribe to a capital increase at an agreed price, and are not recorded in the group’s financial statement.

A detailed note in section 3.3.1, “Stock options”, gives the main characteristics of LISI’s ongoing stock option schemes.

IFRS

In line with IFRS 2, “Share-based payment”, options are evaluated on the date that they are given.

The group applies the binomial method to this evaluation. Changes in value subsequent to the date of options being granted have no impact on the initial valuation.

The value of options is based in particular on their expected lifespan, which is estimated by the group to correspond to the period during which they are eligible for tax deductions. This value is recorded under staff costs and is processed with the straight-line method between the date that the option was granted and the expiry date – the period in which shares can be acquired – and set directly against equity capital.

By applying the IFRS 2 regulation, only those plans given out after November 7, 2002, with rights still not acquired by January 1, 2005, are evaluated and processed under staff costs. Plans dating from before November 7, 2002 are not evaluated and remain off the balance sheet.

Impact on the group’s financial statements

The application of the IFRS regulations will have no effect on the balance sheet for the year beginning January 1, 2004, or on consolidated equity.

Charges for the fair value of options granted from November 7, 2002 will be recorded and will lead to a rise in staff costs in the group’s operating income, set directly against capital equity.

2.21. Financial assets and liabilities

Financial assets include financial fixed assets, current assets representing operating receivables, proof of debt or equity interests, including derivative instruments, and cash assets.

Financial liabilities include borrowing, other forms of financing and bank overdrafts, derivative instruments and operating liabilities.

Effects of variations in exchange rates on financial assets and liabilities are dealt with in section 2.10., Conversion of items in foreign currencies.

Current accounting practice

a) Equity interests

These securities represent the interests of the group in the share capital of non-consolidated companies. They are registered in the balance sheet at their cost of acquisition. In the event of a long-term drop in useful value, provisions for depreciation are established. The useful value is determined according to the most appropriate financial criteria for each company.

b) Other financial fixed assets

This category includes receivables attached to securities, other loans and receivables due. They are recorded at nominal value. In the event of a long-term drop in useful value, provisions for depreciation are established.

c) Borrowing

Borrowing is recorded at its nominal value and amortized using the contractual interest rate. Premiums are spread out in linear fashion throughout the lifespan of the loan.

d) Derivative instruments

Variations in fair value of derivative instruments used to hedge future transactions or transactions that have been carried out are not recorded on the balance sheet. A note on their market value at year-end is given in the appendix to the consolidated financial statements.

IFRS

The evaluation and manner of accounting for financial assets and liabilities defined in the IAS 32 and IAS 39 regulations ("Financial Instruments"), in terms of presentation, disclosure and measurement.

a) Sellable assets

This category is made up of those equity interests that must be posted at fair value.

b) Borrowing and other financial liabilities

With the exception of derivative instruments, these will be measured at the amortized cost, calculated using the effective interest rate (EIR). Financial liabilities covered by interest rate swaps will be accounted for in terms of hedges, and reevaluated at the fair value of the loan, linked to the variations in interest rates. Changes in fair value linked to interest rates will be posted on the income sheet for that period and compensated for by symmetrical changes in interest rate swaps.

c) Derivative instruments

These will be measured at fair value. Changes in value of derivative instruments allocated to hedge the fair value of financial assets or liabilities will be recorded under income. The relevant changes in the value of derivatives used to hedge future cash flows will be recorded directly under equity capital. Reevaluation changes recorded under equity capital will be taken up on the income sheet on the date that the hedging operations take place.

Impact on the group's financial statements

In line with the option provided in the IFRS 1 regulation, regarding the first application of regulations, the LISI group has opted put back the date for the first application of IAS 39 to January 1, 2005.

No change will be noted for the balance sheet for the year beginning January 1, 2004.

2.22. OBSARs (Bonds with redeemable share subscription warrants)

Current accounting practice

LISI S.A.'s OBSARs (bonds with redeemable share subscription warrants) are considered to be redeemable, variable-rate bonds with a reimbursement premium and BSARs (redeemable share subscription warrants).

The bond is posted on its issue as a liability, under financial debts, for its nominal value.

For the group, BSARs represent a commitment to issue shares when the purchase right, attached to the bond, is acted upon. It is not foreseeable that BSARs will be posted under French regulations.

The issue fees for the bond issue are spread out over the lifetime of the bond.

IFRS

The IAS 32 regulation states that the issuer of a hybrid bond comprising elements of debt and equity must post these elements separately.

- The 1st element (the bond) is considered to be a form of debt characterized by the existence of a contractual obligation to the issuer to give to the holder of the financial instrument liquid assets or other financial assets.
- The 2nd element (the redeemable share subscription warrant, BSAR) is considered to be an equity instrument giving the bearer the option of buying into the issuer's share capital.

The value in terms of equity will not be reevaluated during the full lifetime of the BSAR. If the warrant is exercised, liquid assets received as part of the capital increase will be posted directly under equity capital.

The debt element will be measured in terms of amortized cost, as advocated in the IAS 39 regulation.

The existing accounting procedure for the initial posting of OBSARs will lead to a deferred tax liability (set against equity capital) being noted, which will progressively be reduced by the deferred tax assets noted each year (set against income) which results from the complement of the posted tax burden.

2.23. Hedging of rate risks

Current accounting practice

Derivative instruments used to cover rate risks are not posted on the balance sheet, but are instead presented in the appendix as off-balance sheet items. Accrued and overdue interest on hedging instruments is posted on the income sheet.

Accrued and overdue interest on derivative hedging instruments alone is recorded parallel to the income sheet.

IFRS

According to IAS 39, "Financial instruments", derivative instruments will be posted and measured on the balance sheet at fair value. Changes in fair value of derivatives will always be set against the income sheet.

The Derivative instruments used by the LISI group are hedging instruments used for hedging fair value.

The LISI group's hedging of fair value permits the group to protect itself against changes in the fair value of assets (non applicable) and liabilities (e.g. bank loans).

Hedging can be accounted for if:

- the hedging relationship is clearly defined and documented at the time of its implementation;
- the hedging relationship is shown to be effective from the date of its initiation and throughout its lifespan.

Accounting impact on the group

In line with the option provided in the IFRS 1 regulation, regarding the first application of regulations, the LISI group has opted put back the date for the first application of IAS 39 to January 1, 2005.

No change will be noted for the balance sheet for the year beginning January 1, 2004.

2.24. Revenues

The revenues indicated is the figure after deduction of discounts. Figures for royalties, patent fees and operating fees for brands are recorded in the revenues line on the income sheet.

2.25. Earnings per share

Net earnings per share are calculated according to the weighted average number of issued shares.

The dilution effect on profits per share results from the impact of stock options plans outstanding at 31 December 2004 and from issue of the debenture. In point of fact, for each debenture issued there was a share subscription voucher attached, to subscribe for a new share up to a maximum of 1,066,685 shares from 5 May 2007 up to maturity at 5 May 2009.

3. Consolidation perimeter

3.1. Changes in the consolidation perimeter

The variation in the consolidation perimeter in 2004 were as follows:

Companies	Type of change	Date of operation	Date of 1st consolidation or of deconsolidation
Joining: FORM a.s	Acquisition of 90.78%	June 9, 2004	June 1, 2004
Exiting: LISI COSMETICS Italia	Sale of 100%	September 2004	September 30, 2004

The main impact of the changes in consolidation perimeter on the group's results is as follows:

(€ thousands)

Joining company	FORM a.s	% impact on the group's indicators
Revenues	+ 4,275	0.80%
EBIT	+ 222	0.35%
Exiting company	**LISI COSMETICS Italia**	**% impact on the group's indicators**
Revenues	- 629	0.10%
EBIT	+ 52	0.10%

In light of the minimal size of the change in the group's consolidation perimeter, it has not been necessary to draw up pro-forma financial statements.

3.2. Consolidation perimeter

All companies were consolidated using the full-consolidation method.

Company	Head office	SIREN number	% control	% interests
Financial				
LISI S.A.	Paris 12e (75)	536,820,269	Mother company	
AEROSPACE division				
LISI AEROSPACE	Paris 12e (75)	320,152,333	99.99	99.99
BLANC AERO INDUSTRIES (BAI)	Paris 12e (75)	395,001,852	100.00	99.99
BAI GMBH	Hamburg	Germany	100.00	100.00
FT BESTAS	Izmir	Turkey	100.00	100.00
BLANC AERO TECHNOLOGIES (BAT)	Paris 12e (75)	301,393,161	100.00	99.88
EUROFAST	Paris 12e (75)	395,002,017	99.99	99.98
BAI Espagne (A)	Madrid	Spain	100.00	100.00
HI-SHEAR CORPORATION (HSC)	Torrance (California)	United States	100.00	100.00
HI-SHEAR AUTOMOTIVE CORPORATION	Torrance (California)	United States	100.00	100.00
MONADNOCK	City of Industry (California)	United States	100.00	100.00
BAI UK	Rugby	Great Britain	100.00	100.00
A 1	Paramount (California)	United States	100.00	100.00
AUTOMOTIVE division				
LISI AUTOMOTIVE	Belfort (90)	433,709,953	100.00	100.00
LISI AUTOMOTIVE Former	Delle (90)	322,624,701	99.99	100.00
LISI AUTOMOTIVE Espana	Rivas-Vaciamadrid	Spain	100.00	100.00
LISI AUTOMOTIVE Mohr und Friedrich	Vöhrenbach	Germany	100.00	100.00
LISI AUTOMOTIVE Gradel	Scionzier (74)	606,420,107	100.00	100.00
LISI AUTOMOTIVE Gervais Le Pont	Marnaz (74)	606,320,364	100.00	100.00
LISI AUTOMOTIVE CORPORATION	Mississauga (Ontario)	Canada	100.00	100.00
LISI AUTOMOTIVE Rapid	Puiseux Pontoise (95)	582,041,471	100.00	100.00
LISI AUTOMOTIVE Mecano	Heidelberg	Germany	100.00	100.00
LISI AUTOMOTIVE KKP GMBH	Mellrichstadt	Germany	100.00	100.00
LISI AUTOMOTIVE KKP CO KG	Mellrichstadt	Germany	100.00	100.00
RAPID Fasteners	Beijing	China	100.00	100.00
LISI AUTOMOTIVE Form a.s (B)	Brno	Czech Republic	100.00	90.78
COSMETICS division				
LISI COSMETICS	Paris 12e (75)	413,764,218	100.00	100.00
LISI COSMETICS Inc. (C)	Stamford (Connecticut)	United States		
LISI COSMETICS Italia (D)	Andezeno (Turin)	Italy		

(A) This company was incorporated on June 17, 2004.
(B) This company was acquired on June 9, 2004.
(C) This company was wound up.
(D) This company was sold on September 30, 2004.

4. Details for balance sheet entries

4.1. Goodwill

a) Goodwill

(in thousand euros)	TOTAL
Gross values as at December 31, 2003	141,838
Change in perimeter	
– Increases	980
– Reductions	(3,600)
Changes in foreign exchange rates	(2,888)
Other net changes	
Gross values as at December 31, 2004	136,330
Depreciations and provisions as at December 31, 2003	40,833
Change in perimeter	
– Increases	10,855
– Reductions	(3,600)
Changes in foreign exchange rates	(999)
Other net changes	
Depreciations and provisions as at December 31, 2004	47,089
Net values as at December 31, 2004	89,241

Gross values:

- The increase of €980,000 corresponds to goodwill for the company LISI AUTOMOTIVE Form a.s, which was acquired in June 2004.
- The reduction of €3,600,000 corresponds to goodwill for Italian subsidiary LISI COSMETICS Italia, which was sold in 2004.

Amortizations and provisions:

The allocation for goodwill amortization for the year stood at €10,855,000, including €7,239,000 for recurring amortizations. For the specific case concerning the exceptional amortization of goodwill in 2004 for the sum of €3,616,000 for the company LISI AUTOMOTIVE Gradel, restructuring scenarios prompted us to value this goodwill at zero as of December 31, 2004.

b) Allocation of goodwill

The proportion of goodwill eligible for allocation is posted in the corresponding balance sheet entries and amortized in line with goods of the same type.

(in thousand euros)	Concessions, patents	Trademarks	Land	Buildings	Technical facilities equipment and tools	TOTAL
Gross values as at December 31, 2003	152	8,385	3,837	4,000	2,262	18,636
Change in perimeter						
– Increases						
– Reductions						
Other net changes						
Gross values as at December 31, 2004	152	8,385	3,837	4,000	2,262	18,636
Depreciations and provisions as at December 31, 2003	132	210		1,412	2,262	4,016
Change in perimeter						
– Increases	10	252		175		437
– Reductions						
Other net changes						
Depreciations and provisions as at December 31, 2004	142	462		1,587	2,262	4,453
Net values as at December 31, 2004	10	7,923	3,837	2,413		14,183

Allocations for the amortization of changes in value for the year totaled €437,000.

The RAPID brand was valued when the company was acquired in August 2000 at its fair value of €8,385,000 based on an independent valuation. In this specific case, we have had to reevaluate the prominence of the RAPID brand as a consequence of the strategy of the AUTOMOTIVE division, which in time will lead to the value of the brand being diluted. It was decided that the brand should be amortized progressively over 15 years, starting from 2003. An allocation to this effect of €252,000 can be noted in the financial statements for 2004.

4.2. Fixed assets

a) Intangible fixed assets

(in thousand euros)	Concessions, patents	Businesses	Other intangible assets	TOTAL
Gross values as at December 31, 2003	6,862	8,858	1,731	17,449
Change in perimeter	4	(235)	7	(224)
– Increases	1,619		22	1,641
– Reductions	(332)	(2)	(8)	(342)
Changes in foreign exchange rates	(3)			(3)
Other net changes	1,413		(1,371)	42
Gross values as at December 31, 2004	9,563	8,621	381	18,565
Depreciations and provisions as at December 31, 2003	5,269	328	1,556	7,153
Change in perimeter		(112)	7	(105)
– Increases	1,402	18	29	1,449
– Reductions	(332)		(8)	(340)
Changes in foreign exchange rates				
Other net changes	1,265		(1,265)	
Depreciations and provisions as at December 31, 2004	7,604	234	319	8,157
Net values as at December 31, 2004	1,959	8,387	62	10,409

b) Tangible fixed assets

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Fixed assets in progress	TOTAL
Gross values as at December 31, 2003	7,539	53,603	258,361	34,512	7,490	361,505
Change in perimeter	252	1,362	658	375	118	1,151
– Increases	375	1,100	13,534	4,751	8,424	28,184
– Reductions	(175)	(1,905)	(4,996)	(561)	(270)	(7,907)
Changes in foreign exchange rates	5	(110)	(1,802)	(104)	(194)	(2,205)
Other net changes	(26)	266	10,324	(7,327)	(7,274)	(4,037)
Gross values as at December 31, 2004	7,970	54,316	276,079	31,646	8,294	378,305
Depreciations and provisions as at December 31, 2003	903	30,431	163,612	22,714		217,660
Change in perimeter		1,082	(377)	275		980
– Increases		2,826	19,754	2,873		25,453
– Reductions	(53)	(984)	(4,480)	(543)		(6,060)
Changes in foreign exchange rates		(209)	(804)	(105)		(1,118)
Other net changes		25	3,012	(7,207)		(4,170)
Depreciations and provisions as at December 31, 2004	850	33,171	180,717	18,007		232,745
Net values as at December 31, 2004	7,120	21,145	95,362	13,639	8,294	145,560

c) Leases

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Fixed assets in progress	TOTAL
Gross values as at December 31, 2003	198	7,026	16,452			23,676
Change in perimeter						
– Increases		(1,415)	711			(704)
– Reductions						
Changes in foreign exchange rates			10			10
Other net changes			(197)			(197)
Gross values as at December 31, 2004	198	5,611	16,976			22,785
Depreciations and provisions as at December 31, 2003		4,320	11,164			15,484
Change in perimeter		(1,445)				(1,445)
– Increases		260	987			1,247
– Reductions						
Changes in foreign exchange rates			(1)			(1)
Other net changes		(30)	15			(15)
Depreciations and provisions as at December 31, 2004		3,105	12,165			15,270
Net values as at December 31, 2004	198	2,506	4,811			7,515

d) Assets necessary for operations but not owned by the company

The principal assets necessary for operations but not owned by LISI S.A. or its subsidiaries are as follows:

- Industrial installation at Puiseux (95):
  - – initial value €7 million;
  - – 30-year commercial lease;
  - – lease dates from: January 1, 1991;
  - – lease expires: December 31, 2020.
- Industrial installation at Torrance (California, USA):
  - – initial value $4.2 million;
  - – commercial lease renewed on July 27, 2004 for 10 years;
  - – date of expiry June 30, 2014.
- Buildings for administrative use: head office of the parent company and offices for AEROSPACE and COSMETICS divisions (12th arrondissement, Paris).

No significant commercial leases have been signed with company executives or with companies belonging to executives or their families.

e) Financial fixed assets

(in thousand euros)	Non consolidated equity interests	Receivables related to equity interests	Other interests	Loans granted	Other financial assets	TOTAL
Gross values as at December 31, 2003	8		37	102	3,752	3,899
Change in perimeter	(18)				(1)	(1)
– Increases				3	382	385
– Reductions				(66)	(15)	(81)
Changes in foreign exchange rates	18		(1)	1	(194)	(176)
Other net changes						
Gross values as at December 31, 2004	8		36	40	3,924	4,008
Depreciations and provisions as at December 31, 2003	1					1
Change in perimeter						
– Increases			4			4
– Reductions						
Changes in foreign exchange rates						
Other net changes						
Depreciations and provisions as at December 31, 2004	1		4			5
Net values as at December 31, 2004	7		32	40	3,924	4,003

4.3. Stock

A revised estimate of the rate of incorporating added value to cost prices for the AUTOMOTIVE division had an impact of around €2 million on the value of outstanding stock in 2004.

As regards discounted stock, a group of companies with the AUTOMOTIVE division decided to make provisions for these losses over 6 months after the entry is made in the order book. The impact on the income sheet as at December 31, 2004 stood at €0.6 million.

4.4 Current assets

4.4.1 Other operating receivables

(in thousand euros)	2004	2003
Other taxes	4,732	6,086
Accounts payable - Accrued credit notes	507	625
Debtor suppliers	386	268
Social Security	117	185
Employees	69	70
Accrued receivables - insurance		2,467
Accrued receivable	81	148
Guarantee funds	4,378	3,511
Miscellaneous	1,168	305
Gross value	11,438	13,665
Depreciation		
Net value (*)	**11,438**	**13,665**
(*) of which liabilities due within less than one year	11,438	13,665

4.4.2 Marketable securities

These are posted at their gross acquisition price, equivalent to €80,452,00. In the specific case of company shares allocated to employees, the net sums received by the company only are recorded at net value, equivalent to €80,278,000.

When the market value or net asset value is less than the accounted acquisition cost, a provision for amortization is established.

The net asset value of these marketable securities as at December 31, 2004 amounted to €82,532,000.

4.4.3 Adjustment account

On the assets side, this entry mainly comprises charges noted in advance, as well as charges to be deferred.

4.5. Equity

Changes in equity and minority interests over two years is analyzed as follows:

(in thousand euros)		Total	Group equity	Minority interests
As at 01.01.2003		252,200	252,200	
Profit for the period		21,001	21,001	
Dividends paid		(5 947)	(5,947)	
Foreign exchange translation adjustments		(10,006)	(10,006)	
Capital increase				
Effect of change in methods				
Change in perimeter				
Other changes		(508)	(508)	
As at 12.31.2003		256,740	256,740	
Profit for the period		24,455	24,434	21
Dividends paid		(7,647)	(7,647)	
Foreign exchange translation adjustments		(3,969)	(3,984)	15
Capital increase		828	828	
Effect of change in methods				
Change in perimeter		359		359
Other changes		11	11	
As at 12.31.2004		270,777	270,382	395
Foreign exchange translation adjustments	01.01.03	3,332		
	Change	(10,006)		
	12.31.03	(6,674)		
	Change	(3,969)		
	12.31.04	(10,643)		

4.6. Provisions for risks and charges

Changes in provisions are analyzed as follows:

(in thousand euros)	As at January 1, 2003	Provisions (net of reversals)	As at December 31, 2003	Provisions	Reversals (amounts used)	Reversals (amounts not used)	Entry into / Exit from perimeter	Translation differences	As at December 31, 2004
Litigation	2,667	1,342	4,009	2,909	- 1,500	- 415	311	2	5,316
Major repairs	583	- 583							
Restructuring of manufacturing operations	424	- 80	344	297	- 66	- 2			573
Risques liés à l'environnement	5,125	- 634	4,491	3,431	- 563			- 372	6,987
Environmental	1,610	- 38	1,572	45	- 18			- 42	1,557
Guarantees to clients		738	738	52	- 170	- 1			619
Taxes	904	- 812	92		- 92				
Pension plans	167	87	254	263	- 254				263
Losses on foreign exchange rates	1,791	1,925	3,716	2,863	- 1,144	- 66			5,369
Pensions and retirement	12,217	431	12,648	776	- 625		- 285	- 264	12,250
Total	**25,488**	**2,376**	**27,864**	**10,636**	**- 4,432**	**- 484**	**26**	**- 676**	**32,933**

Allocations and adjustments to the provisions for risks and contingencies are divided according to the type of flow, as follows:

(in thousand euros)	Provisions	Reversals (amounts used)	Reversals (amounts not used)
Operating income	2,367	1,877	
Financial income	263	254	
Extraordinary income	8,006	2,301	484
TOTAL	**10,636**	**4,432**	**484**

4.7. Cash assets and debts

(in thousand euros)	2004	2003
Short-term bank loans	10,942	14,366
Medium-term loans	54,122	75,010
Bonds With Redeemable Share Subscription Warrants (OBSAR) (1)	50,134	
Lease obligations	3,034	3,769
Employee profit-sharing (frozen in current accounts)	4,901	7,067
Other financial debt	23	16
Total	**123,155**	**100,229**
Loans		
Less than 1 year	21,400	24,771
Between 2 and 5 years	31,866	48,528
More than 5 years	50,990	1,711
Total	104,256	75,010
Other financial debts		
Less than 1 year	13,680	17,942
Between 2 and 5 years	5,196	7,162
More than 5 years	23	115
Total	18,899	25,219
Loans and financial debts (A)	123,155	100,229
Other marketable securities	80,278	24,688
Cash	8,535	12,428
Available cash (B)	88,813	37,116
Net financial debt (A) - (B)	**34,342**	**63,113**

(1) In May 2004, LISI S.A. issued OBSARs (bonds with redeemable share subscription warrants) to a value of €50,134,000 in order to bolster working capital and finance possible future acquisitions.

Each bond, with a nominal value of €47, carries interest of 0.35% below the 3-month Euribor rate, and will be redeemed at face value in two periods of 5 and 6 years respectively. This entry is set against marketable securities on the assets side at December 31, 2004.

Each bond issued has a share warrant attached allowing the bearer to subscribe to one new share at the end of the 5 year period, at the call price of €47.

Before this date, and after May 2007, the company may choose to force the conversion of the bonds if the LISI share price rises to €60 or above.

The total number of bonds allocating the right to one LISI share per bond is 1,066,685.

4.8. Deferred taxation

(€ thousand)	2004	2003
Deferred taxes on assets side	10,943	8,280
Deferred taxes on liabilities side	24,490	24,372
Net deferred taxes	(13,547)	(16,092)

Changes in deferred taxation

(€ thousand)	
Deferred taxation at end of December, 2003	(16,092)
Impact on reserves	–
Impact on foreign currency translation reserve	(362)
Impact on income	+ 2,828
Other impacts	+ 79
Deferred taxation at end of December, 2004	(13,547)

5. Details of entries on the income sheet

5.1. Financial result

(in thousand euros)	2004	2003
Investment income	2,501	979
Foreign exchange profits (A)	710	920
Reversal of provisions on financial assets	254	1,442
Financial costs	(5,209)	(6,383)
Foreign exchange losses (B)	(943)	(1,140)
Provisions on financial assets	(266)	(704)
Total	**(2,953)**	**(4,886)**
(A) of which reversal of provisions for foreign exchange losses	254	189
(B) of which provisions for foreign exchange losses	(263)	(254)

5.2. Non-recurring income

(in thousand euros)	2004	2003
Extraordinary income		
Disposals of tangible and intangible fixed assets	2,231	1,314
Disposals of financial assets		415
Reversal of severance reserves	457	1,024
Reversal of asset depreciation reserves	62	53
Reversal of tax reserves	170	
Reversal of environmental reserves	563	645
Reversal of major repair reserves		544
Reversal of market risks reserves		59
Other reserve allocations for risks and contingencies	1,912	1,510
Damages for the Saint-Saturnin-du-Limet plant fire		2,417
Miscellaneous extraordinary revenues	2,858	1,285
Total	**8,253**	**9,266**
Extraordinary expenses		
Net book value of tangible and intangible fixed assets disposals	2,402	1,200
Net book value of financial assets disposals (A)	265	134
Severance payments	1,245	2,214
Reserve allocations for severance costs	2,293	423
Reserve allocations for fixed asset depreciation	17	257
Reserve allocations for environmental costs	3,431	634
Reserve allocations for major repairs		50
Reserve allocations for taxes	52	715
Reserve allocations for market risks		
Other reserve allocations for risks and contingencies	2,488	2,969
Expenses relating to the Saint-Saturnin-du-Limet plant fire		350
Miscellaneous extraordinary expenses	4,172	3,327
Total	**16,365**	**12,273**
Extraordinary result	**(8,112)**	**(3,007)**

Non-recurring items are defined as income and charges resulting from events or transactions that are clearly distinct from the company's ordinary activities, and that are not expected to reoccur on a regular basis, owing to:

- their infrequent nature;
- their non-recurrence.

To the company's knowledge, no other legal disputes, arbitrages or exceptional occurrences exist that could or would have had a significant effect on the company or group's financial situation, income, business or assets.

5.3. Company taxation

5.3.1. Breakdown of corporate tax (in thousand euros)

Breakdown	Result before restated taxes	Restated taxes	Net result after restated taxes
Income from ordinary operations	60,146	(21,807)	38,339
Short-term extraordinary result	(7,844)	3,025	(4,819)
Long-term extraordinary result	(252)	(684)	(936)
Profit-sharing	70	92	162
Tax credits from previous tax profits		101	101
Taxes from fiscal integration		1,816	1,816
Goodwill amortization allocations (B)	(10,855)	647	(10,208)
Net profit	**41,265**	**(16,810) (A)**	**24,455**

(A) of which, taxes due: €19,639,000
of which, deferred taxes: €-2,829,000
(B) pertains only to restatement of goodwill for U.S. subsidiaries.

5.3.2. Reconciliation of actual tax expense with theoretical calculated tax expense (in thousand euros)

Theoretical rate (based on French rate)	34.93%	
Theoretical tax		18,206
Foreign company tax exemption		(280)
Fiscal treatment discrepancy of deductible US GWs		(647)
French subsidiary tax credit		(101)
Foreign subsidiary tax credit		(1,385)
Exceptional withholdings on the transfer of special reserves for long-term capital gains		684
Other differences		333
Real tax		16,810
Effective tax rate	32.25%	

5.3.3. Tax rates on LISI Group companies

Germany	40.00%
Great-Britain	30.00%
France	34.93%
United States	40.00%
Canada	34.12%
Czech Republic	26.00%

5.4. Cash flow

(in thousand euros)	2004
Net profit	24,455
Net depreciations	38,980
– of which operating depreciations	27,865
– of which goodwill amortization	10,855
– of which extraordinary depreciations	260
Net reserves	5,719
– of which net operating reserves	490
– of which net financial reserves	9
– of which net extraordinary reserves	5,221
Changes in deferred taxes	- 2,823
Elimination of capital gains or losses from disposals	- 167
Other income and expenses	134
Cash flow	66,298
Net change in operating reserves	1,909
Net cash flow	68,207

6. Additional information

6.1. Sector information

a) Division by sector of activity

The LISI group is active in three sectors and divided into three divisions:

- The AEROSPACE division, comprising activities in the aerospace sector;
- The AUTOMOTIVE division, which groups together activities in the automotive sector;
- The COSMETICS division, which groups together activities in fragrances and cosmetics.

The group's activity as a holding company is one of its other principal activities.

2004 (in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL
Income component						
Division's revenue	212,023	292,290	40,934	5,129	(9,405)	540,971
EBITDA	47,933	41,786	2,242	1,488		93,449
EBIT	36,212	26,091	7	874		63,185
Balance sheet component						
Gross goodwills	42,111	83,090	11,129			136,330
Gross intangible assets	4,401	13,830	267	68		18,566
Gross tangible assets	101,307	259,700	38,687	1 395		401,090
Acquisitions of tangible assets (net of debt variations)	10,768	16,132	2,096	2		28,997
Goodwill amortization	14,142	28,424	4,523			47,089
Intangible assets depreciation	2,742	5,100	256	60		8,157
Tangible assets depreciation	57,771	167,028	22,393	822		248,014

2003 (in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL
Income component						
Division's revenue	180,682	278,801	51,157	4,840	(9,484)	505,996
EBITDA	33,425	41,144	2,739	1,389		78,697
EBIT	24,211	25,970	405	1,277		51,861
Balance sheet component						
Gross goodwills	45,037	82,073	14,729			141,838
Gross intangible assets	3,588	13,261	527	74		17,449
Gross tangible assets	97,706	242,847	43,193	1,436		385,181
Acquisitions of tangible assets (net of debt variations)	5,956	12,678	5,154	8		23,796
Goodwill amortization	12,968	20,438	7,427			40,833
Intangible assets depreciation	2,389	4,320	376	69		7,154
Tangible assets depreciation	54,899	152,561	24,876	807		233,144

b) Division of revenues by country

2004 (in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL
European Union	144,786	242,700	39,988	5,059	(9,332)	423,201
North American continent	55,952	5,800	726			62,478
South American continent	5,469	3,000				8,469
Far East	4,011	2,100				6,111
Middle East	520	3,800				4,320
Eastern Europe	131	23,200				23,331
Other	1,152	11,690	219			13,061
TOTAL	**212,021**	**292,290**	**40,933**	**5,059**	**(9,332)**	**540,971**

2003 (in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL
European Union	121,533	240,864	49,780	4,840	(9,484)	407,533
North American continent	52,272	5,627	1,298			59,197
South American continent	1,973	2,728				4,701
Far East	2,796					2,796
Middle East	393					393
Eastern Europe		22,335				22,335
Other	1,715	7,247	79			9,041
TOTAL	**180,682**	**278,801**	**51,157**	**4,840**	**(9,484)**	**505,996**

6.2. Workforce by category

Registred employees at period end	2004	2003
Managers	480	442
Supervisors	535	505
Wage-earners	4,208	3,917
Total	**5,223**	**4,864**

6.3. Compensation for members of executive bodies

The members of the consolidating group's Board of Directors did not receive any compensation from the consolidated companies.

6.4. Off-balance sheet commitments

A - Given within the scope of ordinary operations

(€ thousands)	2004	2003
Debts secured with tangible assets or deposits	9,453	9,513
Balance of orders and investments	6,477	7,423
Commitments given	15,930	16,936
– Interest rate cap		30,000
Commitments received		30,000
– Interest rate swap	34,825	13,046
Reciprocal commitments	34,825	13,046

Commitment given:

Commitment given in 2002 by LISI to NATEXIS within the scope of the use of derivative products used to cover the stock options plan: sale of a put option for 100,000 LISI shares expiring on 12/07/05, with a call price of €17 per share.

Commitments received:

The 3 interest rate caps contracted from banking groups to cover variable-rate loans, set up to finance acquisitions, expired in 2004.

Reciprocal commitments:

Interest rate swap contracts signed with banks in order to cover variable-rate loans (c.f. note 2.21 – Financial assets and liabilities) set up to finance acquisitions. On December 31, 2004, the characteristics of the interest-rate swap contracts were as follows:

Notional at 12/31/2004	Value in € thousands	Start date	Expiry date	Lending rate	Net Present Value (NPV) In € thousands
LISI S.A.	7,623	09/08/00	09/08/05	3-month Euribor	(166)
LISI AEROSPACE	2,202	01/08/03	01/10/06	USD 3-month Libor	(32)
LISI S.A.	25,000	07/27/04	05/07/07	3 and 6-month Libor	(296)
Total					**(494)**

B – Given within the scope of non-recurring operations

1. Financial guarantees given to the transferee with the scope of the disposal of GFD

Primarily, the assets and liabilities guarantee given to the transferee includes the coverage of environmental losses or damage (excess of €762,000, 50% coverage of amounts paid between €762,000 and €1,524,000 and 100% coverage of amounts paid above €1,524,000, expiry: July 17, 2006).

2. Financial guarantees given to the transferee with the scope of the disposal of ARS Industries

Primarily, the assets and liabilities guarantee awarded to the transferee includes the coverage of non-environmental losses or damage (minimum amount = €10,000, excess of €100,000, cap of €650,000, expiry: January 15, 2006) and environmental losses or damage (excess of €100,000, 50% coverage of amounts greater than the cap, expiry: October 15, 2005).

C - Received within the scope of non-recurring operations

1. Financial guarantees received by the LISI group within the scope of the acquisition of MONADNOCK

This guarantee includes consideration of the organization's impoverishment caused by the drop in equity capital (triggering threshold of $200,000, cap of $2,700,000).

2. Financial guarantees received by LISI AUTOMOTIVE Former within the scope of the acquisition of Form a.s

As coverage for asset and liability guarantees, LISI AUTOMOTIVE Former received a bank guarantee for an initial sum of CZK5,000,000 and an additional guarantee of CZK11,000,000 (expiry: June 9, 2007).

D - Pledging of assets

Pledging of 300,017 LISI AUTOMOTIVE shares, that is, 99.99% of capital, in order to cover bank loans due for repayment in 2007. The capital that remained due on December 31, 2004 amounted to €26.7 million.

Type of pledge / mortgage	Pledge start date	Pledge expiry date	Value (€ thousands) of initially pledged shares (a)	Balance of pledged shares (b)	Total balance sheet item (€ thousands) (c)	corresponding % (b) / (c)
On intangible fixed assets	–	–	–	–	–	–
On tangible fixed assets	–	–	–	–	–	–
On financial fixed assets	06/2000	09/2007	83,636	26,740	140,048	19.09%
TOTAL			**83,636**	**26,740**	**140,048**	**19.09%**

6.5. Risk exposure

6.5.1 General risks: Insurance

The LISI group is covered by insurance policies that are intended to protect it in the event of major damage being caused. The amount covered is contractually limited to €100 million.

- Damage insurance: Covers owned or lent facilities, as well as operating losses in the event of any damage being caused. The excess is applied per loss and ranges up to €154,000 with maximum cover of €667 million for buildings and equipment and €114 million for goods.
- Civil liability insurance: Covers any physical, material or immaterial damage that may occur during the course of operations, as well as damage after delivery, for a sum of €7.6 million per loss and per annum for the first line. The group is also covered by an Excess policy for a sum of €7.6 million in addition to the first line. A third line was subscribed to in 2004 with the aim of increasing the €7.6 million guarantee platform. An aerospace insurance policy covers specific risks up to a sum of €305 million (flight disruption is covered for up to €107 million and space products up to €125 million).
- Civil liability insurance for company directors: The group is covered by a directors' liability insurance policy for all its subsidiaries up to a sum of €7.7 million.
- IT insurance: The group has covered the risks linked to malfunctions or unauthorized access to its IT systems.

6.5.2 Environmental risks

On December 31, 2004, provisions for environmental risks posted on the balance sheet amounted to €7 million, compared with €4.5 million on December 31, 2003.

More specifically, a sum of €4 million has been established which relates to the assessed cost of decontaminating the Torrance site (California – USA) which suffered TCE (solvent) pollution several years ago (before 1975). The process that is currently in progress involves pumping and filtering underground water downstream from the site. So far, 15 tons of TCE in layers relatively close to the surface have been treated using the process, as well as 7 tons located deeper under the surface. The estimated funds at December 31, 2004 will cover the treatment plan for more than 10 years, which, we have been informed, will make it possible to treat the entire volume of pollution so far discovered.

In France, the group operates out of a number of very old industrial sites, soil studies at which have been carried out in line with national planning regulations. The AUTOMOTIVE division made provisions for the costs of these studies in 2004, raising the total for environmental provisions to €1.3 million.

6.5.3 Other risks

Market risks (interest rates, exchange rates and securities)

Hedging and market operations on interest rates, exchange rates or securities using futures instruments are recorded in accordance with the provisions of CRBF rules nos. 88-02 and 90-15. Commitments relating to these operations are posted to off-balance sheet accounts for the nominal value of the contracts. On December 31, the sum of these commitments represented the volume of operations that remained unsettled at year-end.

The accounting principles applied vary according to the nature of the instruments and the operator's initial intentions.

1. Interest rate risks: The Group makes selective use of interest rate risk management instruments to cover its own risks relating to loans. The operations carried out were for the most part interest rate swap contracts intended to cover loans. Income and expenses relating to futures instruments set up to cover and manage LISI S.A.'s overall interest rate risks are posted to the income statement on a pro rata basis. Unrealized profits and losses are not recorded. Profits and losses resulting from coverage operations are posted to the income statement, symmetrically with the income and expenses posted for the element covered. These are posted under the same item as the income and expenses for this element. Because it has taken out variable rate loans, the LISI group is exposed to a potential increase or loss in earnings because of variations in interest rates. Based on the rate that was current on December 31, 2004, the impact of a one point change in variable rates, before any coverage operation, would amount to an increase or a loss of earnings of around €442,000, or 8.5% of total financial expenses for 2004.

Exposure to interest rate risks is monitored within the scope of a group-wide financial assets policy.

2. Exchange rate risk: On one hand, the group's flows relate essentially to non-exposed exposed currencies; on the other, the main cash inflows outside the eurozone are offset by similarly sized cash outflows (most notably for raw materials). Consequently, the exchange rate risk relates purely to the conversion of income generated by consolidated companies located outside the eurozone. The exchange rate risk is mainly due to export sales. Financial instruments are used selectively in order to cover known or estimated turnover for up to one year, and never for speculation purposes. The group is primarily exposed with respect to the following currencies: US dollar and pound sterling.

3. Securities risk: The share portfolio held by LISI S.A. is not a speculative portfolio; it is a portfolio of investment and interests (see table of subsidiaries and interests in the appendix). In view of this, no specific action has been taken to manage the securities risk.

Liquidity Risk

Below is a table summarizing the group's debts in terms of fixed and variable rate debts:

Contracting entities	Nature of the loan	Fixed rate	Variable rate
LISI S.A. (1)	OBSAR		Euribor 3 Months - margin
LISI S.A. (2)	Loan from a banking consortium		Euribor 3 Months + margin
LISI COSMETICS	Conventional loan		Euribor 3 Months + margin
	Conventional loan		Euribor 3 Months + margin
LISI AUTOMOTIVE Former	Conventional loan		Euribor 3 Months + margin
	Conventional loan		Euribor 3 Months + margin
	Conventional loan		Euribor 3 Months + margin
	Conventional loan		Euribor 3 Months + margin
LISI AUTOMOTIVE Mohr und Friedrich	Conventional loan		Euribor 3 Months + margin
	Conventional loan		Euribor 3 Months + margin
LISI AUTOMOTIVE Mecano	Conventional loan	5.44%	
	Conventional loan	4.50%	
LISI AUTOMOTIVE KKP	Conventional loan	5.20%	
	Conventional loan	4.75%	
	Conventional loan		Euribor 3 Months + margin
HI-SHEAR Corporation (3)	Loan from a banking consortium		Libor 3 months USD + margin

N.B.: only significant loans are listed in this table

LISI S.A.:

(1) OBSARs (Bonds with redeemable share subscription warrants) (bond element only):

a) Method used to determine the interest rate: 3-month Euribor

b) Method used to calculate the margin: fixed margin

c) Early redemption: possible -

- at any time, through trading on stock market or off the stock market, or by public offerings;
- at the company's option, at any interest payment date from August 5, 2004 to May 5, 2010;
- in full or in part at a reimbursement price set to be equal to the face value plus interest earned;
- bonds subjected to early redemption in this manner will be proportionally assigned to the two annual installments relating to bonds.

d) Early redemption: obligatory if:

- the company opts to implement early reimbursement of the BSARs (redeemable share subscription warrants);
- 100% of the BSARs are exercised at the request of their bearers, or repurchased and cancelled by the company;
- the company reimburses all of the bonds in circulation at an early reimbursement price equal to the face value plus interest earned up to the date set for reimbursement, at most 2 months after the BSAR bearers are informed of the reimbursement.

e) Acceleration due to default:

- bonds will become collectible in the event of the group or one of its major subsidiaries defaulting.

(2) Syndicated loan:

a) Method used to determine the interest rate: 3-month Euribor

b) Method used to calculate the margin:

- 1st credit tranche: fixed margin;
- 2nd credit tranche: variable margin based on Gearing (+ or – 0.20%).

c) In the event of acceleration:

- Gearing $\leq$ 1.2 for a maximum of 2 consecutive years and < 1 during the other years;
- Net debt < 3.5 years of cash flow.

Total amount of each item in million euros	Capital due as at 31/12/2004 in million euros	Maturity date	Rate or currency hedging instruments	Condition of the collaterals used to guarantee the loans
50.1	50.1	2010	Partly hedged by a SWAP	None
76.4	26.74	2007	Partly hedged by a SWAP	Pledging of LISI AUTOMOTIVE securities
1.6	1.3	2008		Pledging of equipment
0.8	0.7	2009		Pledging of equipment
10.0	0.5	2005		
1.5	0.4	2006		
2.0	0.5	2006		
2.5	1.2	2007		
1.0	0.4	2006		
0.8	0.7	2009		
2.9	1.3	2008		Guarantee from RAPID
5.1	2.6	2008		Guarantee from RAPID
0.9	0.2	2006		None
1.5	0.6	2007		None
2.5	2.0	2009		None
29.6	13.3	2009	Partly hedged by a SWAP	

HI-SHEAR Corporation:

(3) Syndicated loan:

a) Method used to determine the interest rate: USD 3-Month Libor

b) Method used to calculate the margin: variable margin based on Gearing (+ or – 0.25 %)

c) In the event of acceleration:

- Failure to comply with financial indicators: negative net worth
- Occurrence of legal events: failure to meet payment dates, insolvency, reduction of capital.

Raw materials risk:

The group uses highly specific raw materials that historically have only been subject to price fluctuations over limited periods of time. In the past, a fixed price was guaranteed for supplies for a period of between 3 months and 3 years without any commitment being made in terms of volume. The recent situation shows signs of genuine tension in terms of prices and availability of most of the raw materials used by the group. For 2005, only the AEROSPACE division has been able to sign supply contracts for the entire year, while the other divisions are covered for 3 months only.

Legal risk:

Given LISI S.A.'s line of business, there are no specific legal risks.

Commercial risk:

To recap, the group manufactures several thousand different types of product from numerous raw materials, (steel, alloy, aluminum, various plastics, titanium, etc…) and employs a wide range of technologies in doing so (cold forging, hot forging, machining, stamping, plastic injection, heat treatment and surface treatment).

As a result, the commercial risk is spread over a considerable number of products manufactured at the 30 LISI sites around the world. Thus, the company's leading product since 2001, a system to take up play in rear disk brakes that allows parking brakes to function correctly, has represented just over 1% of total consolidated turnover.

The main product families are developed in collaboration with customers, and the proportion of turnover from patented products plays only a secondary role in total consolidated sales.

Clients:

Looking at the figures for 2004, only 4 clients accounted for more than 5% of the LISI group's consolidated sales. Our 10 largest customers represented 50% of total sales, with all 3 of our divisions - AEROSPACE, AUTOMOTIVE and COSMETICS - appearing in the list. Our 65 largest customers accounted for 80% of sales.

Figures for our 3 largest customers have evolved as follows:

	2004	2003	2002
CLIENT A	13.50%	13.50%	13.75%
CLIENT B	7.30%	7.60%	12.50%
CLIENT C	4.80%	6.80%	7.90%

Suppliers:

As a general rule and in view of the nature of its manufacturing activities, the company does not rely exclusively on any one supplier or strategic subcontractor. The company's main suppliers are those that provide it with raw materials.

Outsourcing is confined mainly to technical applications, primarily specific heat treatment and finishing operations (surface treatment and assembly), since most of the group's activities are integrated. In 2004, the total number of operations outsourced by LISI sites represented around 6.9% of consolidated sales.

6.6. Foreign subsidiaries

The closing rates and average rates of foreign currencies against the euro were as follows:

		2004		2003	
		Closing	Average	Closing	Average
U.S. dollar	(USD)	1,3621	1,2462	1,2630	1,1418
Sterling Pound	(GBP)	0,7051	0,6793	0,7048	0,6934
Chinese Yuan	(RMB)	11,2925	10,3065	10,4387	9,4535
Canadian dollar	(CAD)	1,6416	1,6164	1,6234	1,5865
Czech crown	(CZK)	30,4640	31,4247		

6.7. Events after the close of the financial year

1st Quarter 2005 revenues

	2005	2004	Changes	
			on a new perimeter basis	on a like for like and constant exchange rate basis
Q1	142.1	135.9	+ 4.6%	+ 4.7%

After Q1 that saw +4.7% growth on a comparable data basis, in line with budgets, the Group maintains its organic growth targets. Sales achieved abroad account for 49.8% of total revenues (€70.8 million)

LISI intention to purchase KNIPPING

LISI and KNIPPING shareholders' have signed a letter of intent that grants LISI exclusive negotiation rights up until April 25, 2005, in order to enable them to conduct all the necessary due diligence to complete a purchase agreement covering most of the company's shares. The company's current management remains a partial shareholder.

KNIPPING's 2004 turnover, estimated at €97 million, was generated by selling fasteners and assembly components to key clients such as German car manufacturers.

Company financial statement

Income statement of LISI S.A. Parent Company

(in thousand euros)	2004	2003	2002
Net revenues	5,134	4,827	4,842
Total operating revenues	6,468	5,044	5,219
Cost of materials	(2,963)	(2,023)	(1,817)
Taxes	(121)	(114)	(104)
Salaries and benefits	(1,826)	(1,464)	(1,258)
Other expenses	(70)	(53)	(45)
Depreciation	(161)	(67)	(92)
EBIT	1,327	1,322	1,903
Financial income			
– from equity interests	11,839	10,681	6,664
– from other marketable securities and loans	127	300	554
– from disposals of marketable securities	1,546	362	52
– reversal of reserves		1,187	
Financial expenses			
– interest and similar expenses	(3,002)	(3,527)	(4,840)
– from disposal of marketable securities			(269)
– reserve allocations	(5,000)	(450)	(738)
Financial result	5,510	8,553	1,423
Pre-tax income on ordinary operations	6,837	9,875	3,326
Extraordinary income			
– from financing activities		3	5,150
– from management operations	4	13	4
– reversal of reserves	285	100	566
Extraordinary expenses			
– from financing activities			(2,442)
– from management operations	(6)	(206)	(75)
– reversal of reserves	(1,000)	(766)	(100)
Extraordinary result	(717)	(855)	3,103
Income tax	1,366	979	2,273
NET INCOME	**7,486**	**9,999**	**8,702**

Balance sheet of LISI S.A. Parent company

Assets

(in thousand euros)	2004	2003	2002
• **Fixed assets**			
Intangible fixed assets	68	74	63
Tangible fixed assets	1,395	1,434	1,426
Financial assets	145,823	154,569	163,920
Depreciation	(5,923)	(915)	(847)
Net total fixed assets	141,364	155,162	164,562
• **Current assets**			
Accounts receivable	201	108	301
Other receivables	6,066	3,851	4,803
Provision for doubtful receivables			
Marketable securities	76,790	12,857	11,987
Cash	1,224	433	4,223
Depreciation and provision			(737)
Total current assets	84,280	17,249	20,577
Accruals and prepaid expenses	848	333	937
Total assets	**226,493**	**172,744**	**186,076**

Liabilities

(in thousand euros)	2004	2003	2002
• **Equity**			
Capital stock	19,794	19,734	19,734
Paid-in merger capital	27,902	27,134	27,134
Retained earnings	46,844	44,915	42,159
Net income for the year	7,486	9,999	8,702
Total equity	102,026	101,782	97,729
Provisions for risks and contingencies	1,572	858	192
• **Liabilities**			
Loans and financial debt (*)	113,599	64,848	83,340
Taxes due	5,066	2,358	1,395
Accounts payable	2,693	1,879	911
Other debts	1,538	1,019	2,509
Total debt	122,896	70,104	88,155
Total liabilities	**226,493**	**172,744**	**186,076**
(*) of which banking facilities and subsidiaries' current accounts	36,644	22,719	25,871

Cash flow statement of LISI S.A. Parent company

(in thousand euros)	2004	2003	2002
• **Operating activities**			
Operating cash flow	13,360	10,728	5,621
Effects of changes in inventory			
Effects of changes in accounts receivable and accounts payable	1,937	2,190	(3,035)
Cash provided by or used for operations (A)	15,297	12,918	2,586
• **Investing activities**			
Cash used to acquire tangible and intangible fixed assets	(14)	(19)	(13)
Cash received from disposals of tangible and intangible fixed assets	3		
Cash used to acquire financial assets			(51)
Cash received from the disposal of financial assets		3	5,151
Net cash used for acquisitions and disposals of subsidiaries			
Cash received from loans to subsidiaries	8,801	9,352	5,730
Cash provided by or used for investing activities (B)	8,790	9,336	10,817
• **Financing activities**			
Cash received from shareholders as part of a capital increase	828		
Impact of the processing of long-term capital gains tax	(423)		
Dividends paid to shareholders of the parent company	(7,647)	(5,946)	(5,902)
Cash received from new loans	49,319		
Cash used to pay off loans	(15,309)	(15,340)	(9,582)
Cash provided by or used for financing activities (C)	26,768	(21,286)	(15,484)
Effect of change in foreign exchange rates (D)			(2,783)
Changes in net cash (A + B + C + D) *	**50,855**	**968**	**(4,864)**
Cash at year start (E)	(9,430)	(10,398)	(5,534)
Cash at year end (A + B + C + D + E)	41,426	(9,430)	(10,398)
Marketable securities	76,790	12,857	11,250
Cash	1,280	433	4,222
Banking facilities	(36,644)	(22,719)	(25,871)
Cash at year end **	**41,426**	**(9,430)**	**(10,398)**

* The overall change in cash position corresponds to the total of net cash flows generated by the various categories: operations, investment, and financing.

** The cash position is the algebric sum of the balance sheet assets and liabilities.

Company's legal financial results over the past five years

(articles 133, 135 and 148 of the law on commercial companies)

INDICATIONS	2004	2003	2002	2001	2000
Financial situation at period end					
Capital stock	19,793,668	19,733,676	19,733,676	19,733,676	14,946,414
Number of shares issued	9,896,834	9,866,838	9,866,838	9,866,838	9,804,205
Total result of actual operations					
Net revenues	5,133,638	4,826,638	4,842,314	5,462,214	4,946,203
Earnings before taxes, depreciation and reserves	11,995,522	9,015,772	6,793,622	15,032,618	6,300,507
Corporate tax	- 1,366,336	- 978,873	- 2,273,016	- 435,041	- 351,751
Profit-sharing					
Earnings after taxes, depreciation and reserves	7,485,903	9,998,523	8,702,436	15,097,335	6,361,233
Distributed profit (A)	8,907,151	7,893,470	5,946,310	5,902,579	5,843,185
Result of operations per share					
Result after taxes, before depreciation and reserves	1.35	1.01	0.92	1.57	0.68
Result after taxes, depreciation and reserves	0.76	1.01	0.88	1.53	0.65
Dividends allocated per share (net)	0.90	0.80	0.62	0.62	0.61
Staff					
Average head count	9	9	9	8	7
Payroll	1,328,850	1,060,762	909,412	760,186	693,257
Benefits paid (social security, benefits, etc.)	496,856	403,226	348,263	293,393	262,026

(A) after deducting the dividend that would have concerned the own shares held by the company.

General information

I. General information on the issuer

1.1. Company name and head office

LISI S.A. - Tour Gamma « A », 193 rue de Bercy, 75012 PARIS.

1.2. Legal form of the issuer and applicable legislation

"Société Anonyme" (public limited company) governed by French legislation.

1.3. Date founded and duration

The company was formed on July 5, 1968 and has an expiry date of July 4, 2067, barring early dissolution or extension.

1.4. Business purpose

According to article 2 of the by-laws, the company's purpose is:

- The acquisition of equity interests in all types of companies, including commercial, manufacturing, financial, securities and property development companies;
- The manufacture, purchase and sale of all items, especially those relating to screws, nuts and bolts, forging, lathing and machine tooling and building;
- Where necessary, all transactions relating to the machine industry and sale of related products;
- The direct or indirect participation in all transactions or business matters that could have an impact on said business purpose or which could help further the interests of the corporation, by any means, including the creation of new companies, subscription contribution, the purchase of shares and rights, etc.;
- And more generally, all commercial, securities and real estate transactions, be they directly or indirectly related to the business purpose or likely to facilitate its expansion or growth.

1.5. Commercial and corporate register (RCS)

- R.C.S.: PARIS 536 820 269
- NAF Code: 741 J

1.6. Consultation of corporate documents

The corporate documents pertaining to LISI S.A. (by-laws, Shareholders' General Meeting reports, Auditors' reports and all documents available to shareholders) can be viewed upon request at the corporation's head office at the following address: Société LISI S.A., Espace Vauban, 7 Boulevard Richelieu, B. P. n° 431, 90008 BELFORT Cedex .

1.7. Accounting period

The company's accounting period begins on January 1 and ends on December 31 of each year.

1.8. Individual statutory clauses

Article 17 – Distribution of earnings

- Out of the distributable profit, all amounts the Shareholders' General Meeting shall decide to carry forward to the next year or allocate to the creation of extraordinary, contingency, or other funds, with or without a special allocation, shall be withdrawn first. The remainder is distributed between the shareholders, in proportion to the share capital held.
- Each shareholder may be granted the option of receiving payment in cash or in shares under the terms provided for by law, for all or part of the dividend or the advance on the dividend distributed.

Article 15-1 to 15-5 – Shareholders' General Meetings

- Shareholder meetings are held and deliberate in accordance with the applicable legal provisions. They meet at the head office or at any other location specified in the meeting notice.
- The shareholders' meeting is composed of all the shareholders, regardless of the number of shares they own, provided that the shares are fully paid-up. The right to attend in person or to be represented by proxy is subject:
  1. For registered shareholders, to the registration of their shares in a pure or administered personal account at least 5 days before the date of the meeting;
  2. For holders of bearer shares, if any exist, to the submission within the same period of time, of a certificate established by the authorized proxy acknowledging the unavailability of the shares registered in the account until the date of the Meeting.

- However, the Board of Directors may, as a general rule, reduce or waive this time period.
- The Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by the oldest Deputy Chairman, or in the absence of a Deputy Chairman, by the most senior director present at the Meeting. Failing this, the Meeting may elect its own Chairman.
- Barring any legal or regulatory measures to the contrary, each member of the Shareholders' Meeting is entitled to as many share votes as he owns or represents, both in his own name and as a proxy, without limitation. However, certain shares have double the voting rights of other shares in view of the proportion of share capital they represent, namely:
  1. All fully paid-up shares registered in the name of the same shareholder for at least four (4) years;
  2. All shares allocated free of charge to shareholders as part of a capital increase carried out through the incorporation of reserves, profits or issue premiums, up to the number of existing shares for which they are entitled to such double voting rights.

Double-voting rights cease to apply once the shares change hands. However, the aforementioned time period is not interrupted and double voting rights still apply in the event that transfers occur as a result of inheritance, liquidation of community property between spouses or donations inter vivos to a partner or family relation who is entitled to inheritance rights.

- In the event that shareholders vote by proxy, only those proxy votes that have arrived at the company at least 3 days prior to the date of the Shareholders' Meeting will be counted.

In addition, the shareholder's presence at the general meeting will result in the cancellation of the proxy vote and/or the power of attorney that said shareholder might have sent to the company, since his presence takes precedence over all other means of participation previously chosen. If the shareholder is not present at the meeting, his power of attorney is only taken into consideration with respect to the votes cast in his proxy voting form, if one has been submitted.

Article 9 – Statement of beneficial ownership

- Shares are freely tradable in the absence of any legal or regulatory provisions to the contrary.
- Shares are delivered by transfer from one account to another according to the terms and conditions set forth by regulations.
- The company's shares are indivisible.
- If a specific quantity of existing shares is required for a shareholder to exercise rights, or if existing shares are exchanged or issued which grant the right to a new share in return for the redemption of several existing shares, any odd-lot shares or shares that fall short of the minimum number required will not provide shareholders with rights vis-à-vis the company, as it is up to the shareholders to gather the required number of shares and, if possible, to buy or sell the required number of shares.
- Without prejudice to the provisions covered in article 356-1 of law no. 66-537 of July 24, 1966, any person who owns or acquires at least 3% of the share capital either directly or indirectly, as set forth under the provisions of said article 356-1, must report the total number of shares that he owns by recorded delivery with confirmation of receipt to the company's registered office within 15 days of this 3% threshold being exceeded.

Shareholders are also required to inform the company within the same time period should their stake dip below the aforementioned thresholds.

In the event that beneficial share ownership is not reported in accordance with the aforementioned procedures, the shares that exceed the reporting threshold shall be deprived of voting rights for all Shareholders' Meetings held within a period of up to 3 months after the date the declaration of beneficial ownership is finally made in accordance with the proper procedures, by one or more shareholders who jointly own at least 5% of the share capital, as recorded in the minutes of the Shareholders' General Meeting.

2. Management policy

2.1. The Board of Directors of December 31, 2004

The management of the company is entrusted to a Board of Directors comprising 8 members, 2 of whom are independent.

2.1.1 Composition.

Surname and forename	Position	Year of first appointment/ date of expiry of mandate	Positions within other companies
KOHLER Gilles	Chairman CEO	1985 AUG 2009	Chairman: • LISI AUTOMOTIVE SAS Chairman of the Board of Directors: • Compagnie Industrielle de Delle Director: • HI-SHEAR Corporation (USA) • HI-SHEAR Automotive (USA) • I.F.C. (Immeubles de Franche-Comté) Member of the Management Board: • LISI AUTOMOTIVE Former SAS • LISI AUTOMOTIVE Rapid SAS • LISI AUTOMOTIVE Gradel SAS • LISI AUTOMOTIVE Gervais Le Pont SAS • LISI COSMETICS SAS • LISI AEROSPACE SAS • BLANC AERO Technologies SAS • BLANC AERO Industries SAS • EUROFAST SAS
VIELLARD Emmanuel	Deputy Chairman Deputy CEO	2000 AUG 2007	Chairman: • LISI AEROSPACE SAS • BLANC AERO Technologies SAS • Financière VIELLARD SAS Chief Executive Officer: • VIELLARD MIGEON & Cie Director: • BLANC AERO Industries (UK) • EUROFAST • Compagnie Industrielle de Delle • HI-SHEAR CORPORATION (USA) • RAPALA-VMC OYJ. (Finlande) • FSH WELDING GROUP Member of the Management Board: • LISI AUTOMOTIVE SAS • LISI AUTOMOTIVE Former SAS • LISI AUTOMOTIVE Rapid SAS • LISI AUTOMOTIVE Gradel SAS • LISI AUTOMOTIVE Gervais-Le-Pont SAS • LISI COSMETICS SAS • BLANC AERO Industries SAS • EUROFAST SAS Other positions: • Judge at the Belfort Commercial Court

Surname and forename	Position	Year of first appointment/ date of expiry of mandate	Positions within other companies
PEUGEOT Christian	Director	2003 AUG 2007	Chairman of the Board of Directors: • La Française de Participations Financières Deputy Chairman: • Football Club Sochaux Montbéliard Director: • Ets PEUGEOT Frères • Société Foncière Financière et de Participation Marketing and Quality control Manager: • Automobiles PEUGEOT
BURRUS Roland	Director	1984 AUG 2009	Chairman: • Syndicat des propriétaires Forestiers Sylviculteurs de la Haute-Saône et du Territoire de Belfort Deputy Chairman: • Centre régional de la Propriété Forestière de Franche-Comté • I.D.F. (Institut pour le Développement Forestier) Acting Partner: • Groupement Forestier de Saint-André • CLARTUS • SARL LA BRUNELLIERE Director: • Fédération Nationale des syndicats des propriétaires Forestiers Sylviculteurs • Mouvement Européen Paris-Ouest • Association Futaie Irrégulière • Comité National pour le développement du bois • LUCAY Terroir Préservé
VIELLARD Christophe Permanent Representative for VMC on the LISI S.A. Board of Directors	Director	2000 AUG 2009	Manager: • Groupement Forestier des Lomonts Deputy Chairman: • VIELLARD MIGEON & Cie Member of the Management Committee: • Financière VIELLARD SAS Director: • Compagnie Industrielle de Delle • EUROSAGA • F.S.H. • RAPALA VMC OYJ. (Finlande) • Saint-Menin Investissements • S. A. REBOUD ROCHE

Surname and forename	Position	Year of first appointment/ date of expiry of mandate	Positions within other companies
KOHLER Jean-Philippe Permanent representative of S.C. CIKO on the LISI S.A. Board of Directors	Director	2002 AUG 2009	Chief executive Officer: • Compagnie Industrielle de Delle Member of the Management Board: • LISI AEROSPACE SAS • BLANC AERO Industries SAS • EUROFAST SAS • LISI COSMETICS SAS Manager: • S.C CIKO
PEUGEOT Thierry Permanent representative of S.C. CIKO on the LISI S.A. Board of Directors	Director	1977 AUG 2007	Chairman of the Supervisory Board: • PEUGEOT S.A. Deputy Chairman: • Ets PEUGEOT Frères Company Director: • Compagnie Industrielle de Delle • Immeubles et Participations de l'Est • La Française de Participations Financières • Société Anonyme de Participation • Société Foncière, Financière et de Participations • FAURECIA
ANDRE Eric	Director	2002 AUG 2008	Member of the Management Board: • NATEXIS Finance Director: • R.DI GIOIA Cie

2.1.2. Tasks and operating procedures of the Board of Directors

During the Meeting of March 1, 2004, the LISI Board of Directors set out the terms of a Corporate Governance Charter detailing the rules that apply to all members and participants of this Board. This is an exclusively internal document and in no way does it replace the by-laws or the provisions of commercial Law.

Tasks of the Board of Directors

LISI S.A.'s Board of Directors is a collegial body that represents all shareholders and which has a duty to act in the corporate interests of the company.

In exercising its prerogatives, subject to the powers expressly assigned to the shareholder's meetings and purely within the scope of the business purpose, the Board must examine any question that may affect that correct functioning of the company and, through its deliberations, address any related issues.

As a general rule, the Board of Directors has 4 main tasks:

1. It sets out the company's strategy.
2. It nominates the directors in charge of running the company within the framework of this strategy and selects an appropriate form of organization (dissociation of the functions of the Chairman and the Chief Executive Officer or fusion of these functions).
3. It supervises the company's management.
4. It guarantees the quality of the information supplied to shareholders and the markets via the financial statements or in the event of significant transactions.

The Board of Directors carries out any controls or checks that it deems necessary.

The Board of Directors will ensure that its composition, as well as its work, is representative of LISI S.A.'s share ownership structure.

The Board may decide to create Committees, to which it can submit questions in order to obtain advice. It sets out the composition and powers of the Committees, who carry out their work under the Board's authority.

Directors' code of ethics

Each director must consider himself to represent all shareholders and conduct himself accordingly when exercising his functions.

During the Meeting of March 1, 2004, the Board of Directors of LISI S.A. deemed it unnecessary to draw distinctions between the directors, regardless of whether or not they are corporate officers, directors of a parent company, or directly or indirectly tied to the Company or its subsidiaries in an economic capacity. Indeed, the Board considers that its members are selected purely on the strength of their competence and on their active contribution to its missions.

Before accepting their functions, directors must ensure that they have familiarized themselves with the general and special obligations that relate to the position of director. LISI S.A.'s by-laws and this charter will be handed to them prior to them taking up their functions. Acceptance of the position of director implies acceptance of this charter.

All members of the Board of Directors must devote sufficient time to examining the files sent to them in order to adequately prepare for Board Meetings and for the meetings of the Committees to which they have been appointed. They may ask the Chairman for any additional information they may require in order to carry out their work.

Directors must be committed and take part in all meetings held by the Board or by the Committees to which they have been appointed. A provisional calendar of Board Meetings is set out each year for the following year.

Directors must notify the Board of Directors of any conflicts of interest with LISI S.A., even potential ones. They must abstain from taking part in the vote for any deliberations that are affected by these conflicts.

If a member of the Board of Directors has a direct or indirect role in an operation in which LISI S.A. has interests or which he has gained knowledge of as a result of his membership of the Board, he must bring this to the attention of the Board prior to their meeting.

Operating procedures of the Board of Directors

The Board of Directors meets whenever it is in the Company's interests to do so or when a meeting is called by the Chairman, or failing this, by a Deputy Chairman he has nominated.

Notwithstanding exceptional circumstances, invitations to meetings will be sent in writing to the members of the Board less than two weeks before the date it is to be held. The documents relating to subjects to be covered in the meeting agenda will be attached to this invitation, which will allow the members of the Board to form an informed opinion on the stakes involved.

The members of the Board of Directors have the right to have themselves represented by one of their colleagues by written proxy. A member of the Board of Directors may only represent one person at any one meeting.

For the deliberations of the Board of Directors to be valid, the number of members present must be at least equal to half the total number of members.

Decisions are taken by majority vote of the members present or represented. Should the vote be split, the Chairman of the meeting shall have the casting vote.

For corporate governance to be practiced to an acceptable standard, the Board will assess its ability to fulfill the requirements of the shareholders, who have given them a mandate to run the company, by carrying out a periodic review of its composition, its organization and its operating procedures at least once a year. In particular, it will check that important issues are suitably prepared and debated.

The Board of Directors and the Shareholders' General Meeting

The Board of Directors represents all shareholders. In carrying out its missions it reports jointly to the Shareholders' General Meeting, whose principal legal responsibilities it assumes.

Operations of truly strategic importance, such as acquisitions or disposals, investment for the purposes of organic growth or significant internal restructuring, must be examined by the Board of Directors for approval.

Directors' obligations

Each member of the Board of Directors must own a minimum of one LISI share registered in his own name, for the entire duration of his mandate.

Directors must refrain from carrying out any transactions using LISI S.A. securities, including derivative products, either personally or via an intermediary, insofar as their position allows them to have knowledge of events that have not yet been made public and which may affect the share price.

2.2. Compensation Committee

The Compensation Committee is in charge of:

- setting out the general rules of compensation (fixed salaries and variable bonuses of all types)
  a) for the members of LISI S.A.'s General Management (Chairman of the Board of Directors, Chief Executive Officer and Deputy Chief Executive Officers);
  b) for Chief Executive Officers of LISI S.A.'s different Divisions;
- to check the annual application of these rules.
- advising the LISI S.A. Chairman and Chief Executive Officer on the compensation policy for the top management of each of the group's subsidiaries. Within the scope of this advisory role, the Compensation Committee submits all proposals to the Board relating to incentive and profit-sharing schemes for the group's top management, in particular with regard to the parent company's stocks options policies, the corresponding terms and conditions, as well as the terms of eligibility.

It also presents its recommendations regarding the appearance fees awarded to directors and to members of the Board's Committees and the pay scale applied to these fees.

The Compensation Committee is comprised of at least 3 members and at most 5 members, the majority of whom cannot be corporate officers. The members of this Committee are Messrs. Eric ANDRE, Gilles KOHLER and Thierry PEUGEOT.

Members who are corporate officers do not take part in the vote when the Committee deliberates on their own compensation or on any incentive systems from which they may benefit.

The Committee meets a minimum of twice a year. Its work leads to the drafting of a written report that allows the Board to remain fully informed, thus facilitating its deliberation.

The Committee met twice in 2004 and all its members were present. It presented its recommendations to the Board on the following points:

- the terms under which stock options are awarded to the group's corporate officers and personnel;
- the fixed compensation paid to members of LISI S.A.'s General Management and to Chief Executive Officers of the group's Divisions, as well as the calculations that apply to the variable portion of this compensation, known as the Objective-Related Bonus. Thus, for the financial year 2005, the Bonus paid to the management of the LISI group will be linked primarily to the growth of Restated Net Assets. The remainder will be left to the discretion of the Committee and will be a function of the quality of the year's performance.

2.3. Audit Committee

The main tasks of the Audit Committee are:

- to examine the financial statements and to ensure that the accounting methods used to establish the company's consolidated financial and corporate statements are relevant and permanent;
- to check that the internal procedures used to gather and verify information will guarantee this. In order to do so, the Audit Committee analyses and monitors the company's risk management procedures. It issues an opinion on the process used to check the financial statements, assesses the independence of the auditors and familiarizes itself with the auditors' comments on the financial statements.

The Audit Committee steers the auditor selection procedure and submits the outcome of this selection to the Board. Once the auditors' mandate comes to an end, the selection of new auditors or the renewal of their mandate must be preceded by a call for tender issued by the Board and supervised by the Audit Committee. The amount paid in fees by the company and group to the consultancy and the auditors involved is communicated to the Committee, which verifies that this amount and the proportion of the consultancy's turnover it represents are not likely to affect their independence.

The Audit Committee is comprised of at least 2 members and at most 5 members, the majority of whom cannot be corporate officers. The Members of this Committee are Messrs. Christophe VIELLARD and Emmanuel VIELLARD.

It meets prior to the Board of Directors' meetings that are held to set out the annual or half-yearly financial statements.

The auditors are invited to take part in this preparatory meeting.

The Audit Committee's examination of the financial statements must be accompanied by a note from the auditors highlighting the key points not only of the results, but also of the accounting methods selected, as well as a note from the company describing its exposure to risks and any significant off-balance sheet commitments.

The Committee met twice in 2004 and all its members were present. It heard the Auditors report on the execution of their mission and was informed by the company's General Management of the internal procedures employed. Information relating to the consolidation perimeter and to the off-balance sheet risks described in the appendix to the consolidated financial statements was sent to the Audit Committee, which submitted a report on its work to the Board of Directors.

2.4. Independent directors and directors linked to the company

Independent directors are those who have neither direct nor indirect links to the reference shareholders, namely CIKO, FFP and VIELLARD MIGEON & CIE.

2.5. Directors' other interests

2.5.1. Compensation and advantages in kind

Compensation accorded to directors and LISI shares held at 31 December 2004

€ million

Director	Mandate	Compensation paid by LISI S.A. (a)	Number of LISI shares held by directors: Physical entities	Number of LISI shares held by directors: Moral entities
Gilles KOHLER	Chairman and CEO	302.6	759	
Emmanuel VIELLARD	Deputy Chairman	271.2	3,835	
Christian PEUGEOT	Director	4.5		
Roland BURRUS	Director	6.7	20	
Christophe VIELLARD	Permanent representative of VMC	7.9		644,230
Jean-Philippe KOHLER	Permanent representative of S.C. CIKO	212.6	690	15,153
Thierry PEUGEOT	Permanent representative of CID	9.0	25	5,928,725
Eric ANDRE	Director	9.0	5	
TOTAL		**823.5**	**5,334**	**6,588,108**

(a) Compensation paid by LISI S.A. comprises total gross compensation, bonuses, benefits of all kinds and appearance fees paid during the year to each director according to their employment contract or to their corporate mandate.

Holding companies that own shares in LISI S.A. pay no compensation to the company's corporate officers for the functions they exercise.

Directors' fees

The directors' duties are compensated in the form of appearance fees for attendance at meetings of the Board of Directors and other committees of which they are members. For 2004, appearance fees amounted to €61,875 and the attendance rate stood at 94%.

2.5.2. Stock Options

No share options were granted to directors in 2004. The directors, in turn, did not take up any options to buy shares during the year.

2.5.3. Profit-sharing scheme for employees

2.5.3.1 Profit-sharing scheme contracts and participation in the scheme

Participation

The funds paid out in the form of special reserves for participation in the scheme during the past 3 years are as follows (in € million):

2004	2003	2002
3.9	2.8	1.6

Profit-sharing

Most of the companies within the group have a profit-sharing system allowing employees to participate actively in the group's performance. The methods for calculating the sums involved depend on the criteria of each company.

Group savings plan (PEG)

In 2001, the LISI group created a savings plan dubbed "LISI in action" for its French companies. In 2001 and 2004, the plan led to employees participating in capital increases reserved for them of €1.47 million and €0.8 million respectively.

In 2002 and 2003, the group savings plan was renewed in the form of a share repurchase program.

The levels of voluntary contributions by employees and the extent of profit-sharing schemes are set by the company in accordance with a scale.

At December 31, 2004, the "LISI in action" plan consisted entirely of LISI shares, to a total of 84,799 shares, and had 870 members.

2.5.3.2. Stock options

In 1995, LISI launched plans to grant subscription or purchase options for LISI shares to the personnel of LISI or its subsidiaries and for the company's directors. Options relating to the plans in place on December 31, 2004 can be exercised 4 years after the date the options are granted, and this for a period of 4 to 5 years depending on the plan. The options granted are cancelled in the event of resignation or redundancy or if the period during which they can be exercised has expired.

2.5.3.3. Employee shareholders

The Shareholders' Extraordinary Meeting of February 10, 2004 authorized the Board of Directors to increase one or more times the share capital of LISI S.A. by issuing new shares reserved for employees of the group's French companies, as part of the group savings plan, and within the framework of legal measures relating to salary savings schemes. The authorization is valid for 26 months from February 10, 2004, with a maximum value of €5,000,000 including the issue premium.

The subscription share price for capital increases reserved for employees should be set on the basis of the average opening price for the 20 market sessions preceding the day that the decision is made to open the subscription window, with a reduction in subscription price equivalent to 20% of this average.

The percentage of share capital held by the group's employees stood at 0.9% at December 31, 2004.

3. General information regarding share capital

3.1. Value of share capital

Share capital taken up shareholders and fully paid-up, at December 31, 2004, amounted to €19,793,668, divided into 9,896,834 shares with a nominal unit value of €2.

3.2. Authorized share capital not yet issued

The Board of Directors' Meeting of December 17, 2003 proposed a capital increase solely for employees belonging to the "LISI in action" group savings plan, to the Shareholders' Extraordinary Meeting of February 10, 2004. The Meeting authorized the company to issue shares paid in cash for up to €5,000,000 (nominal value plus premium) and to waive preferential subscription rights. The Board of Directors' meeting of March 1, 2004 decided, within the scope of the authorization granted, to increase capital stock by €108,656. At its meeting of June 23, 2004, the Board of Directors established that 29,996 new shares with a unit value of €2 have been subscribed to by employees who have joined the "LISI in action" group savings plan, with the subscriptions making up this operation adding up to €59,992 for the capital increase alone and €768,197.56 for the issue premium. The value of capital not subscribed to by employees within the time limit set by the Board on March 1, 2004, of €4,231,802.44 will be made available exclusively to employees in the form of a new capital increase, within the time limit set by the Shareholders' Extraordinary Meeting of February 10, 2004.

3.3. Securities giving access to share capital

3.3.1. Stock options

Plans in place at December 31, 2004:

General Meeting Date Board of Directors	Category (a) Plan no.	Number of options allocated	Of which to corporate officers	Of which to members of the Management Committee	Of which to the 10 best-paid employees	Headcount	Exercise period	Subscription or purchase price	Options exercized in 2004	Options cancelled	Options remaining as at 12/31/2004
Authorization granted on 05.20.1999											
12.15.1999	P Plan no. 1	125,000	13,000	43,500	10,500	32	12.16.2004 12.14.2007	€22.70	13,120	40,000	71,880
Authorization granted on 02.28.2001											
03.01.2001	P Plan no. 2	34,700		5,500	6,500	19	03.02.2005 02.28.2009	€27.82	None	11,200	23,500
Authorization granted on 02.28.2001											
12.06.2001	P Plan no. 3	39,500	10,000	34,500	10,000	9	12.07.2005 12.05.2009	€18.81	4,500	5,000	30,000
Authorization granted on 02.28.2001											
06.25.2003	P Plan no. 4	163,000	10,000	47,500	12,500	82	06.26.2007 06.24.2011	€20.33	4,000	21,000	138,000

(a) P = purchase, S = subscription.

No stock purchase options were granted to LISI group employees or corporate officers during the financial year 2004. Some executives used existing options to purchase shares.

3.4. Potential share capital

Within the issue of OBSARs (bonds with redeemable share subscription warrants), each bond issued had a redeemable share subscription warrant (BSAR) attached, allowing the bearer to subscribe to 1 new share after a 5 year period. Following the authorization granted by the Shareholders' Extraordinary Meeting of February 10, 2004, the Board of Directors established on May 3, 2004, that 1,066,685 BSARs had been issued.

3.5. Evolution of capital over the past 5 years

Date of Share-holders' meeting	Date of Board meeting	Nature of transaction	Nominal increase (reduction) in capital	Increase (reduction) in capital inc. premium	Number of shares created (cancelled)	Nominal value of shares	Total number of shares after issue	Capital after transaction
Capital at 12/31/2004: €19,793,668 divided between 9,896,834 shares with €2 nominal unit value								
02/10/04	03/01/04	Capital increase reserved for employees	€59,992	€768,198	29,996	€2	9,896,834	€19,793,668
05/10/01	07/05/01	Conversion of share capital into € via debit from “merger premium” account	€4,691,778.44	–	–	€2	9,866,838	€19,733,676
02/28/01	07/05/01	Capital increase reserved for employees	FFR626,330	FFR8,999,781.19	62,633	FFR10	9,866,838	FFR98,668,380
05/18/95	03/03/00	Capital increase following application of subscription options	FFR915,000	FFR5,772,003	91,500	FFR10	9,804,205	FFR98,042,050

4. Division of share capital and voting rights

4.1. Company shareholders

An analysis of those shares with identifiable bearers was carried out in February 2004. Out of the floating stock that represented around 25% of the total shareholding, 2,500 shareholders could be identified. At that date, the division was as follows:

- French institutional investors: 34, or 8.7% of the share capital;
- International institutional investors: 27, or 11.7% of the share capital;
- French and international individual shareholders: 2,439 or 4.6% of the share capital.

4.2. Treasury stock

At December 31, 2004, the company LISI S.A. held 297,162 of its own shares, or 3% of the share capital.

No shares were cancelled.

4.3. Division of share capital and voting rights over the past 3 years

4.3.1. Division of share capital and voting rights

Description	2004 as % of capital	2004 as % of voting rate	2004 Number of shares	2003 as % of capital	2003 as % of voting rate	2003 Number of shares	2002 as % of capital	2002 as % of voting rate	2002 Number of shares
CID	59.9	72.9	5,928,725	60.1	73.2	5,928,725	60.1	72.5	5,928,725
VMC	6.7	8.2	661,675	6.7	8.2	664,675	6.7	8.1	664,675
Other corporate officers	0.2	0.1	20,462	0.3	0.2	27,764	0.3	0.2	25,188
TOTAL FOR CORPORATE OFFICERS	66.8	81.2	6,610,862	67.1	81.6	6,621,164	67.1	80.8	6,618,588
Of which directors	0.05	0.03	4,594	0.08	0.10	8,291	0.10	0.06	9,990
FFP	5.1	3.1	500,000	5.0	3.1	494,000	5.0	3.1	494,000
Treasury stock	3.0		297,162	3.4		336,275	2.7		269,858
Employees	0.9	0.5	84,799	0.9	0.6	88,000	0.8	0.5	77,584
Public	24.2	15.2	2,404,011	23.6	14.7	2,327,399	24.4	15.6	2,406,808
Overall total	**100.0**	**100.0**	**9,896,834**	**100.0**	**100.0**	**9,866,838**	**100.0**	**100.0**	**9,866,838**

Shareholders or groups of shareholders controlling more than 3% of share capital

The sole activity of CID, a company based at 28 Faubourg de Belfort 90100 DELLE, is the ownership of LISI shares. As at December 31, 2004, the company owned 59.9% of share capital and 72.9% of voting rights.

As at December 31, 2004, VMC, a company based at Route des Forges 90120 MORVILLARS, held 6.7% of share capital and 8.2% of voting rights.

As at December 31, 2004, FFP, a company based at 75 Avenue de la Grande Armée 75116 PARIS held 5.1% of share capital and 3.1% of voting rights.

To the company's knowledge, no other shareholders hold more than 3% of share capital or voting rights, be it directly, indirectly or jointly.

The percentage of share capital held by personnel is not significant (less than 1% of share capital).

4.3.2. Shareholder pacts

There are no shareholders' pacts at LISI S.A., and no shareholders (other than those listed in the above chart) have declared that they have breached the threshold of between 3% and 5%, as provided for in the by-laws.

4.3.3. Pledging

To the company's knowledge, no pure registered shares have been pledged as collateral.

5. Dividends

The distributable profit is at the disposal of the Shareholders' General Meeting, which determines its allocation.

In the past 5 years, dividends paid out per share have been as follows:

In €	Gross dividend	Tax credit	Net dividend
2000	0.91	0.30	0.61
2001	0.93	0.31	0.62
2002	0.93	0.31	0.62
2003	1.20	0.40	0.80
2004 (1)	1.35	0.45	0.90

(1) Pending the decision of the Shareholders' Ordinary General Meeting of May 10, 2005. The date for payment of dividends has been set at May 13, 2005.

The delay in payment of dividends is 9 months from the close of the financial year, and the expiry date of unclaimed dividends is 5 years from the payment date.

Additional legal information on the Parent company

1. Article 6 – Share capital

Share capital is set at €19,793,668 (nineteen million seven hundred and ninety-three thousand six hundred and sixty-eight euros). This is divided into 9,896,834 shares (nine million eight hundred and ninety-six thousand eight hundred and thirty-four shares), each with a value of €2 (two). These are fully paid up and of the same class.

In accordance with article L 233-13 of the French Commercial Code, we inform you that:

- Compagnie Industrielle de Delle holds 59.9% of share capital and 72.9% of the voting rights;
- Viellard Migeon et Cie holds 6.7% of share capital and 8.2% of the voting rights;
- FFP holds 5.1% of share capital and 3.1% of the voting rights;
- The Group Savings Plan holds 0.9% of share capital and 0.6% of the voting rights.

2. Stock option schemes

Since May 18, 1995, the Shareholders' Meeting has given the Board of Directors authorization to grant share subscription or purchase options. The last authorization, given on February 28, 2001, is valid for 5 years and involves 500,000 shares.

Additional information relating to stock option schemes is provided in section (p. 94) of this document, "General information regarding share capital".

3. Compensation of corporate officers

Information relating to the compensation of corporate officers can be found in section (p. 93) of this document, "Management policy".

4. Activity of the company in relation to its subsidiaries

LISI S.A. operates as a holding and support company for its subsidiaries. It manages its portfolio of interests, the funding of its operations and those of its subsidiaries, as well as exchange rate, interest rate and liquidity risks. If necessary, it can also grant loans to its subsidiaries and centralize the group's cash flow surpluses, within the scope of a cash management agreement. These operations are charged at the market price plus a margin.

In France, LISI S.A. is the parent company of a group consolidated for fiscal purposes. In accordance with the express provisions of the Fiscal Consolidation Agreement, tax credit is retained by the parent company, and companies are not entitled to compensation should they leave the consolidation perimeter.

LISI S.A. offers its subsidiaries a certain number of services and skills relating to central functions, such as legal and fiscal support, financial support, management controls, procedures and audits, insurance management and assistance with human resources matters. The three divisions pay LISI S.A. a normal level of compensation for these services, based on their added value.

Aspects regarding related companies and equity interests (in thousand euros)

	Related companies	Amount concerning… Companies with which the company has a relationship based on interests held
ASSETS:		
Participations	5,739	–
Accounts receivable	195	–
Cash advances to subsidiaries	57	–
Tax integration current account	5,561	–
LIABILITIES:		
Subsidiaries' financial assistance	36,464	–
Tax integration current account	850	–
Accounts payable	560	–
Other debts		
INCOME STATEMENT:		
Reserves for equity interests	5,000	–
Interest and similar expenses	712	–
Revenues from loans to subsidiaries	336	–
Revenues from equity interest	11,503	–

Significant intra-group items include:

On the assets side:

- receivables relating to equity interests: pursuant to the contribution of Rapid and Former shares to LISI AUTOMOTIVE in 2002, together with a proportion of related debt, LISI S.A. still holds a portion of the loans arranged for the acquisition of the Rapid shares. To make up the total, a loan was arranged for LISI AUTOMOTIVE under the same terms as the corresponding bank line. The shares in Rapid have been pledged as collateral;
- the current accounts for the fiscal integration of tax receivables of the companies integrated within the group.

On the liabilities side:

- cash granted to group subsidiaries within the group cash management agreement.

On the income sheet:

- the allocation for provisions for equity interests in the company LISI COSMETICS;
- dividends received by LISI S.A. during the financial year 2003.

5. Stock repurchase program in place at December 31, 2004

On May 11, 2004, the Shareholder's Ordinary Meeting authorized the company to repurchase up to 10% of its own shares in the open market for a period of 18 months, i.e. up until November 11, 2005. This program was approved by the AMF on April 20, 2004, under reference no. 04-299.

Thus, LISI S.A. plans to launch a stock options program for the following purposes, in decreasing order of importance:

1. to grant stock options to employees and corporate officers of the company and/or its consolidated group;
2. to sell repurchased shares on the open market when the opportunity arises;
3. to purchase shares in the open market in order to support the share price and offset countervailing trends;
4. the use of shares as consideration in acquisitions, with a view to reducing the acquisition cost or, more generally, to improve the terms of the transaction;

5. to issue shares by redemption, conversion, exchange, presentation or by any other means available to the company, in the event that the rights attached to securities are exercised;

6. to cancel shares purchased, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

The following terms apply to this authorization:

- the company may repurchase its own shares for a maximum price of €50, not including transaction fees,
- the company may sell all or some of the shares purchased for a minimum unit price of €20, not including transaction fees.

The highest sum that LISI S.A would pay if it purchased shares at the maximum price set by the Shareholders' Meeting, i.e. €50, is €49,334,150.

In 2004, within the context of the stock repurchase plan referred to below, LISI S.A. acquired 22,117 of its own shares, or 0.22% of its share capital, by virtue of the authorizations granted by the Shareholder's Ordinary Meeting of May 11, 2004.

The operations carried out by the Company on its own shares are summarized in the table below:

	Number of shares	Average weighted price in €
Shares held at 01/01/2004	336,275	21.74
Shares acquired in 2004	22,117	38.92
Shares disposed of in 2004	61,230	21.64
Shares held at 12/31/2004	297,162	23.04
• of which shares assigned to stock options program	209,880	
• of which available	8,282	

As at March 16, 2005, LISI S.A holds 265,762 of its own shares, or 2.7% of its share capital.

Shares have been purchased and sold within the scope of the market-making contract with Oddo Pinatton Corporate. The market-making contract complies with the ethical charter of the AFEI.

As a matter of interest, the table below contains information on the derivative products being used within the LISI group on December 31, 2004, within the context of the coverage of stock options issued in 2002. These operations have been set up by the head of the group's financial division, on the initiative of the group's general management and under the authority of the Deputy Chairman. This has been done within the scope of the application of internal rules governing the restricted use of derivative products as hedging instruments and not as speculative instruments.

	Plan n° 2	Plan n° 3	
Type	Call (Purchase)	Call (Purchase)	Put (Sell)
Date of option commencing	08/23/02	08/23/02	08/23/02
Date of option expiry	03/02/05	12/07/05	12/07/05
Number of options	34,700	39,500	100,000
Call price	€27.82	€18.81	€17.00
Price of coverage options	€5.70/share	€8.60/share	€2.40/share
Premium paid by LISI S.A.	€197,790	€339,700	
Premium paid by NATEXIS to LISI S.A.			€240,000

6. New stock repurchase program

Within the scope of a new stock repurchase program, which will be detailed in a prospectus registered with the Financial Markets Authority, LISI S.A. proposes to repurchase shares representing up to 10% of share capital.

The duration of the stock repurchase program is set at 18 months.

The aims of the stock repurchase program have been renewed, taking into account regulatory changes coming into effect on October 13, 2004. It is expected that shares acquired as part of the new stock repurchase program will be used as follows:

- placed on the market by an independent investment services provider;
- to grant stock options to employees and directors of the company and/or its consolidated group;
- to keep and use shares as consideration or payment for potential future acquisitions;
- to cancel shares purchased, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

The maximum purchase price may not exceed €75 per share and the minimum sale price may not be lower than €35 per share.

Should derivative products be used, LISI S.A will ensure that the price of its shares is not made more volatile as a result.

7. Auditors' fees

(in thousand euros)	Salustro Reydel Amount		Serge CLERC Amount		Foreign Auditors Amount		Sécafi Alpha (1) Amount	
	N	N-1	N	N-1	N	N-1	N	N-1
Audit								
Auditing, certification, individual and consolidated statements review	70	83	104	105	257	288	–	–
Auxiliary assignments	–	14	–	–	–	–	–	–
TOTAL	**70**	**97**	**104**	**105**	**257**	**288**	**–**	**–**
Other services	–	–	6	–	63	–	145	91

N.B.: In France, the tax review is conducted by Bureau Francis LEFEBVRE, whose fees are not mentioned on this statement.

(1) Group committee auditors.

Documents specific to the Ordinary General Meeting of shareholders of May 10, 2005

I. Report of the Chairman of the Board of Directors: Financial Security Law (art. L 225-37 of the French Commercial Code)

REMINDER OF THE FSL CONTEXT AND THE OBJECTIVES OF INTERNAL CONTROLS EXERCISED WITHIN THE LISI GROUP

In accordance with article L 225-37 of the French Commercial Code on Financial Security, the Chairman of the Board of Directors must compile a report containing details of the preparation and organization of the Board's tasks and of the internal control procedures that have been set up.

In the light of this, this report will concentrate mainly on the factual description of current procedures, as well as providing a summary of actions to be taken in 2004 and 2005.

1.1. Preparation and organization of the Board of Directors' tasks

1.1.1. Organization

The Board meets whenever it is in the interests of the company to do so. Directors may be invited to Board meetings by the Chairman using any means available and even verbally. If the Board has not assembled for more than two months, directors representing at least one third of the members of the Board can request that the Chairman call a meeting on a particular agenda.

Decisions are made based on a quorum and a majority vote, as provided for by the Law; in the event that votes are split, the Chairman's vote will be the casting vote. However, a majority of three quarters of the votes of the members who are present or represented is required when decisions relating to the following issues are to be taken:

- the calculation of amortization and depreciation expenses and of provisions,
- proposals to be made to the Shareholder's Ordinary Meeting for the allocation of profits for the financial year just ended,
- resolutions to be submitted to a Shareholder's Extraordinary Meeting,
- the replacement of a director who has resigned or is deceased.

Copies or extracts of the deliberations of the Board of Directors are certified as valid by the Chairman of the Board of Directors, a Chief Executive Officer, a director who has been temporarily vested with the Chairman's powers or a representative authorized to this effect.

The Board of Directors sets out the company's business policies and ensures that they are followed. The Board of Directors carries out any checks and controls it deems necessary.

1.1.2. Operating procedures

The Board meets upon invitation by the Chairman a minimum of 4 times per financial year and whenever an important decision is to be made. Each member participates in the tasks supervised by the Chairman and decisions are made on a majority vote of the members who are present or represented.

Debates are recorded in a report that is submitted for approval by the members within a month of the meeting and signed at the following meeting. The Board submits legal resolutions for approval by the Shareholders' Meeting.

1.1.3. Preparation of tasks

- Prior to each Board meeting, participants receive a file that has been duly documented so that they may adequately prepare for the meeting.
- Meetings that require the approval of annual and half-yearly financial statements are accompanied by a presentation by the Audit Committee, which will have met prior to the meeting.
- Meetings on the subject of compensation are accompanied by a presentation by the Compensation Committee, which will have met prior to the meeting.

1.1.4. Decision-making process

All important decisions are submitted for ratification by the Board in accordance with the operating procedures described in § 1.1.2. Important decisions include: approval of financial statements, acquisitions, disposals, forecasting elements, the compensation of directors, the nomination of directors, or any other element which may have a significant influence on the financial statements.

1.2. Restriction of the powers of the Chief Executive Officer

The Chief Executive Officer and Chairman of the Board is assisted by the Executive Vice President for the day-to-day management of the group. Their power is limited by the Board of Directors' authority to rule on all decisions relating to the structure of the group, such as described in § 1.

Present on the Board of Directors are 2 independent directors, in compliance with the Bouton report. There are also 2 specific committees in existence: the compensation committee and the auditing committee, both of which are responsible for supervising the work of General Management in these 2 fields. The two committees brief the Board of Directors on the work they have carried out (organizational principles are detailed in § 1.3.2).

1.3. Internal control procedures

1.3.1. General principles

- Reminder of the objectives of General Management: according to an internal memo dated August 21, 2003 (ref.: EV/VC14203), General Management has declared its objectives in clear terms. The standards currently selected are that of the COSO, the methodology of which should enable the gradual convergence of these objectives with the reality experienced by all individuals within the group.
- To ensure that these objectives are met, the group has set up a prevention and detection process:
  - at group level, through the coordinated audits of the internal audit officer and external auditors (during the review of internal control mechanisms which takes place at least once a year in all divisions);
  - for each division, through the deployment policy of the local auditors.

It must be noted that this prevention mechanism is non-exhaustive and that a residual risk remains.

- This mechanism is based on a decentralized organization for each division. An Executive Committee is responsible for ratifying a global policy, which must then be channeled down to each individual department. The group has set out a number of procedures, summarized in an internal group control manual.

  This manual is supplemented by a group accounting procedures manual. In addition, the group has deployed a uniform reporting and information system in each division using an identical procedure each time.
- The specificities of the LISI group's activities require that precise quality control be carried out on operational processes in the following areas:
  - quality;
  - health and safety;
  - the environment;
  - staff and salaries;
  - accounting, management controls and finance.
- Action is taken within the group on a continual basis to ensure that these mechanisms are effective. This action is regularly assessed using performance tables.

1.3.2. Organizational principles and general context of internal controls

- Decision-making committees: the group's Board of Directors is the most senior decision-making entity. The group's Executive Committee channels the information to the divisions, which are themselves organized in such a way that enables their management to carry out the group's decisions at individual department level.
- Supervisory bodies:
  - The Audit Committee familiarizes itself with the general management and risk-monitoring environment in the presence of the external auditors and the internal auditing officers.
  - Given the size of the group, the internal audit team includes the group's internal audit officer, who may be assisted by internal or external agents in order to make up a complete intervention team.
  - The structure of the procedure for internal audits has made necessary the intervention of an outside consultancy specialized in risk management.
  - Coordination with the external auditors is particularly close in order to direct controls specifically towards areas that have been identified as being high-risk and to allocate sufficient time to the task.
  - Certain functions that are judged to be critical are monitored throughout the group. These include finance, cash flow management, consolidation, the legal secretariat, insurance cover, security policy, environmental policy, as well as human resource management.
- Group standards:
  - Each division has set up a value charter based on a common set of values.
  - An internal control procedures manual is in circulation, which is supplemented by an accounting and consolidation procedures manual. These procedures are made available to all the individuals involved and are regularly updated in electronic form via a dedicated Internet portal.
  - Each division and each operational unit is responsible for ensuring that these procedures are followed and adapted to their country's specific context.
  - Each manager receives notification of new levels of responsibility in the form of delegation letters.

- Risk-mapping and monitoring processes:
  - The group is committed to a process that will eventually allow it to converge with COSO risk mapping procedures. Risk-mapping and monitoring procedures spread progressively throughout the group during 2004. At the end of the year, the methods were being followed and utilized by all of the AEROSPACE division, as well as by some Business Units of the AUTOMOTIVE division.
  - The security and environmental risks committee identifies and catalogues all inherent risks since 2001 and has been in charge of taking corrective action for the last three financial years.

1.3.3. Main internal control procedures relating to the drafting and processing of accounting and financial information

- The group carries out an annual review of the 4 to 5-year strategic plan that has been set out and, based on this review, defines a priority action plan. The budget for the coming financial year falls within the scope of this plan for a 12-month period. The planning process is approved first by the Executive Committee and then by the Board of Directors. The level of progress of the budget's realization is measured monthly, at BU, division, and finally, group level.
- The monthly consolidation of management indicators, the income statement, the balance sheet and the funding table allow a precise measure to be obtained within a short time of year-end. This facilitates the decision-making process.
- The purchasing and investment process also falls within the scope of the strategic and budgetary mechanism. Any purchases or investments not covered by the budgetary authorizations must receive prior approval from the relevant individuals.
- The sales and contract process is reviewed by the local teams, BUs, divisions or groups depending on the materiality level, before the actual commitment is made.
- The Cash Flow-Finance process also requires specific commitments. For example, all financial investments are carried out at group level, with the exception of cash managed in the US.
- The pay process is managed at operational unit level and is regularly reviewed both by the internal audit team and by external auditors.

1.3.4. Compliance with the 2004 Action Plan and objectives for 2005

The objective for 2004 in terms of Risk Management implementation, the aim of which is to strengthen internal checking procedures, was to achieve a coordinated and homogenous compliance of risk management and mapping throughout the group. As is indicated in paragraph 1.3.2, this objective has not been fully met, and has been renewed for 2005.

The group also aimed to strengthen its risk detection and prevention activities through better organization of its internal checking unit. Along the same lines, the pursuit of close collaboration with external auditors will allow the group to increase the efficiency of its checks. The aim was met in 2004, as shown by the list of interventions carried out:

	2004	Expected in 2005
Full Audit of an area of procedure:	6	10 to12
Notes from internal audits complied with:	NA	5 to 6

The rate of interventions being carried out will therefore increase in 2005.

Gilles KOHLER
Chairman of the Board of Directors

2. Auditors' report

2.1. General report

Financial year ending December 31, 2004

In carrying out the mission entrusted to us by your General Meeting of Shareholders, we hereby present you with our report for the financial year to December 31, 2004, relating to:

- the audit of the annual accounts for the company LISI S.A., as attached to this report;
- the justifications for our assessments;
- specific verifications and legally required information.

The annual accounts were drafted by the Board of Directors. Our role is to issue an opinion on the accounts based on our audit.

Assessment of the annual accounts

We performed our audit in accordance with the professional standards that apply in France; these standards require due diligence to ensure with a reasonable degree of certainty that the consolidated financial statements do not contain any significant anomalies. An audit involves examining the key elements that support the data contained in these financial statements, through surveys. It also involves assessing the accounting principles followed and any significant estimates used in the drafting of financial statements, as well as assessing overall presentation. It is our belief that our audit provides a reasonable basis for the opinion expressed hereafter.

We certify that the annual accounts comply with French accounting rules and principles and provide a true and fair view of the earnings derived from the company's activity during the year, as well as the financial situation and net worth of the company at the end of the financial year.

Justification for our assessments

In accordance with the provisions of paragraph 1 of article L.225-235 of the French Code of Commerce with regard to the justifications for our assessments, we bring the following to your attention:

Your company's assets are essentially composed of non-voting shares. We have verified that the usage values as detailed in note 1.B of the appendix are at least equal to their accounting value.

These assessments form part of our task as auditors of the annual accounts, taken as a whole, and have therefore helped us to form our unreserved opinion, such as is described in the first part of this report.

Verifications and specific information

We have also carried out verifications specifically required by law, in accordance with French professional regulations.

We have no comments to make on the sincerity and consistency with the annual accounts of the information given in the Board of Directors' annual report, or that given in the documents addressed to shareholders relating to the group's financial situation and the annual accounts.

In accordance with the law, we have ensured that the various information relating to the identity of the holders of share capital and voting rights has been communicated to you within the management report.

Paris and Montbéliard, February 24, 2005

The auditors

SALUSTRO REYDEL

Philippe DABEL   Marie GUILLEMOT   Serge CLERC

2.2. Special report

FINANCIAL YEAR ENDING DECEMBER 31, 2004

In line with our duties as the auditors to the accounts of your company, we are required to inform you on the regulatory conventions of which we have been notified. It is not part of our task to determine the existence or otherwise of these conventions.

We hereby inform you that we have not been notified of any conventions related to article L 225-38 of the French Code of commerce.

Paris and Montbéliard, February 24, 2005

The auditors

SALUSTRO REYDEL

Philippe DABEL　　Marie GUILLEMOT　　Serge CLERC

2.3. Report on the consolidated financial statements

Financial year ending December 31, 2004

In carrying out the mission entrusted to us by your Shareholder's General Meeting, we have audited the consolidated statements of LISI S.A. for the financial year ending December 31, 2004, which are attached to this report.

The consolidated financial statements were drafted by the Board of Directors. Our task is to issue an opinion on these financial statements based on our audit.

Assessment of the annual accounts

We performed our audit in accordance with the professional standards that apply in France; these standards require due diligence to ensure with a reasonable degree of certainty that the consolidated financial statements do not contain any significant anomalies. An audit involves examining the key elements that support the data contained in these financial statements, through surveys. It also involves assessing the accounting principles followed and any significant estimates used in the drafting of financial statements, as well as assessing overall presentation. It is our belief that our audit provides a reasonable basis for the opinion expressed hereafter.

We certify that the consolidated accounts comply with French accounting principles in providing a true and fair view of the net worth, the financial situation and the earnings of the consolidated companies.

Justifications for our assessments

In accordance with the provisions of paragraph 2 of article L.225-235 of the French Code of Commerce with regard to the justifications for our assessments, we bring the following to your attention:

- Note 2.5 of the appendix sets out the accounting rules and methods pertaining to goodwill, and note 2.8 those relating to loss in value of tangible and intangible assets.

Within the scope of our assessment of the accounting rules and principles followed by your company, we have verified the correctness of the accounting methods detailed above and the information supplied in the appendix, and ensured that they have been applied correctly.

Your company has created provisions to cover the risks and costs inherent in its activities, as described in 2.16 and 2.17 of the appendix. Our task has been: to assess the information and hypotheses, as well as certain external evaluations upon which these estimates are based; to review the company's calculations; to compare the accounting estimates from previous periods with the corresponding results; and to examine the procedures by which management approves these estimates.

These assessments form part of our task as auditors of the consolidated accounts, taken as a whole, and have therefore helped us to form our unreserved opinion, such as is described in the first part of this report.

Specific verification

In addition, we have also verified the information provided in the report on the group's management. We have no comments to make on their sincerity and consistency with the consolidated financial statements.

Paris and Montbéliard, February 24, 2005

The auditors

SALUSTRO REYDEL

Philippe DABEL — Marie GUILLEMOT — Serge CLERC

2.4. Auditors' report drawn up in accordance with the last paragraph article L.225-235 of the French Code of Commerce on the report by the Chairman of the Board of Directors, with regard to procedures for the elaboration and treatment of accounting and financial information

FINANCIAL YEAR ENDING DECEMBER 31, 2004

Dear shareholders,

In our capacity as auditors of LISI S.A. and in accordance with the provisions of the last paragraph of article L. 225-235 of the French Commercial Code, we hereby present our report on the report drafted by the Chairman of your company's Board of Directors in compliance with the provisions of article L.225-37 of the French Commercial Code for the financial year ending December 31, 2004.

Under the authority of the board of directors, it is the management's responsibility to define and implement suitable and effective internal control procedures. In his report, the Chairman must, first and foremost, provide details of the preparation and organization of the tasks for which the board of directors is responsible and of the internal control procedures set up within the company.

It is our job to provide you with any comments we have to make on the information and declarations contained in the Chairman's report regarding the internal control procedures for the drafting and processing of accounting and financial information.

We have carried out our work in accordance with the professional rules that apply in France. This has required us to carefully evaluate the sincerity of the information and declarations within the Chairman's report regarding internal monitoring of the elaboration and treatment of accounting and financial information. These careful evaluations largely consist of:

- familiarizing ourselves with the objectives and general organization of these internal controls, as well as the internal control procedures for the drafting and processing of accounting and financial information, such as they are presented in the Chairman's report,
- examining the evaluations of procedures in terms of adequacy and effectiveness, and in particular to judge the relevance of the evaluative procedures that have been put in place and the tests that have been carried out,
- setting up additional checks on the elaboration and functioning of these procedures, that complement our work in auditing the accounts, and that we have judged necessary, in order to corroborate the information and declarations on this subject that are included in the Chairman's report.

Based on these undertakings, we have no comments to make on the information and declarations relating to the company's internal control procedures for the drafting and processing of accounting and financial information, such as they appear in the Chairman's report, which was drafted in accordance with the provisions of the last paragraph of article L. 225-27 of the French Commercial Code.

Paris and Montbéliard, February 24, 2005

The auditors

SALUSTRO REYDEL

Philippe DABEL Marie GUILLEMOT Serge CLERC

3. Resolutions presented by the Board of Directors

Ordinary General Meeting of Shareholders of May 10, 2005

Resolutions

1st resolution

Having listened to the reading of the Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves the annual financial statements established as at December 31, 2004, as they are presented, with profits of €7,485,903 as well as the transactions described in these financial statements that are summarized in these reports.

In particular, the Shareholders' General Meeting approves the spending carried out over the last year in relation to the transactions covered by article 39-4 of the General Tax Code, which amounts to a total of €16,410.

2nd resolution

Having listened to the reading of Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves, as they are presented, the consolidated financial statements to December 31, 2004, set out in accordance with article L. 233-16 and following the French Code of Commerce, showing profits of €24,433,913.

3rd resolution

Having listened to the reading of the Auditors' special report on the agreements covered under article L. 225-38 of the French Commercial Code, the Shareholders' General Meeting approves the agreements covered by this report.

4th resolution

The Shareholders' General Meeting gives full discharge to the Directors for their work for the year 2004, and to the Auditor for his mandate.

5th resolution

Acting on the proposal of the Board of Directors, the Shareholders' General Meeting has decided to allocate last year's profits as follows:

profits for the financial year of	€7,485,903
increased by retained earnings to a total of	€28,773,163
reduced by an exceptional debit for the transfer of long-term capital gains from the special reserve	(€422,915)
To give a total of	€35,836,151

This represents distributable profit, which the Board of Directors proposes should be distributed as follows:

to the legal reserve, for the sum of	€5,999
as dividends to shareholders a sum of €0.90 per share, for the total of payable on May 13, 2005	€8,907,151
the remainder to the retained earnings account, for a sum of	€26,923,001

it being understood that this amount will be increased by the sum of the dividends payable on the shares owned by the Company as of the ex-dividend date.

The dividend for each share amounts to €0.90. The value of the dividend eligible for 50% deduction, as covered by article 158-3-2° of the General Tax Code, is €0.90.

In addition, the Shareholders' General Meeting acknowledges that it has been apprised that the dividend payouts per share for the last 3 years were as follows:

	Dividend	Tax Credit	Gross income
Financial year to 12/31/01	€0.62	€0.31	€0.93
Financial year to 12/31/02	€0.62	€0.31	€0.93
Financial year to 12/31/03	€0.80	€0.40	€1.20

As at December 31, 2004, the retained earnings account has been reduced by €422,915, in the wake of an exceptional deduction relating to the transfer of long-term capital gains from the special reserve to the ordinary reserves, in accordance with recommendations from the National Accounting Board.

6th resolution

Having familiarized itself with measures in the Corrective Finance Law for 2004, the Shareholders' General Meeting notes that the special reserve account for long-term capital gains amounts to €17,416,615 and opts to transfer the funds in the following manner, it having been made clear that the exceptional deduction of €422,915 has been charged to the retained earnings account:

Special reserve for long-term capital gains	€17,416,615
Transfer to "other reserves" account	€17,416,615

7th resolution

Having listened to the Board of Directors' report and familiarized itself with the elements contained in the prospectus registered with the Financial Markets Authority, the Shareholders' General Meeting:

- cancels the purchase authorization given on May 11, 2004;
- authorizes the Board of Directors, in accordance with articles L225-209 et seq. of the French Commercial Code, and within the scope of the DDOEF Law of July 2, 1998, to proceed, by any means available, with the repurchase of its own shares, representing up to 10% of the company's capital stock, which corresponds to 989,683 shares;
- decides that the acquired shares will be used as follows:
  - to increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the professional code of ethics recognized by the Financial Markets Authority;
  - to grant share options to employees and directors of the company and/or its consolidated group;
  - to retain and use shares as consideration or payment for potential acquisitions;
  - to cancel shares purchased, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

Shares can be acquired or sold by any means and at any time, in accordance with the regulations in force, on or off the market, including through the use of derivatives traded on a regulated market or by private contract.

The company agrees to keep within the limit set at 10% of capital stock in compliance with the DDOEF Law of July 2, 1998.

The following terms apply to this authorization:

- the company may not repurchase its own shares for a more than €75, not including transaction fees;
- the company may not sell all or part of the shares purchased for less than €35, not including transaction fees.

The highest figure that LISI S.A. would pay if it purchased shares at the ceiling price set by the Shareholders' Meeting, i.e. €75, is €74,226,225.

This authorization is valid for a period of 18 months from the date of this Shareholders' meeting.

- assigns full powers to the Board of Directors, which may choose to delegate them, within the limitations detailed above, to put in stock market orders, to negotiate agreements in the aim of carrying out all formalities and all declarations to all organizations, to carry out all other formalities and, as a general rule, to do all that is necessary.
- assigns full powers to the Board of Directors, as and when necessary, with regard to shares acquired prior to October 13, 2004, in line with methods to be set out by the Financial Markets Authority:
  - to assign them towards an objective benefiting from the indisputable presumption of legitimacy laid out under European Regulations;
  - or to assign them using one of the 2 accepted market practices;
  - or to sell them through an independently acting Investment Services Provider.

8th resolution

Following the proposal of the Board of Directors, the Shareholders' General Meeting has decided to appoint to the position of director:

- Mr. Pascal LEBARD
  Residing at 129 avenue de MALAKOFF – 75116 PARIS

for a duration of 6 years, or until the date of the Shareholders' General Meeting convened to give its verdict on the accounts for the year ending December 31, 2010.

9th resolution

Following the proposal of the Board of Directors, the Shareholders' General Meeting has decided to renew the mandate of permanent Auditor to the consultancy SALUSTRO REYDEL for a duration of 6 years, or until the date of the Shareholders' General Meeting convened to give its verdict on the accounts for the year ending December 31, 2010.

10th resolution

Following the proposal of the Board of Directors, the Shareholders' General Meeting has decided to renew the mandate of deputy Auditor to Mr. Jean-François CALAME for a duration of 6 years, or until the date of the Shareholders' General Meeting convened to give its verdict on the accounts for the year ending December 31, 2010.

11th resolution

Following the proposal of the Board of Directors, the Shareholders' General Meeting has decided to renew the mandate of deputy Auditor to Mr. Jean-François CALAME for a duration of 6 years, or until the date of the Shareholders' General Meeting convened to give its verdict on the accounts for the year ending December 31, 2010.

12th resolution

The Shareholders' General Meeting officially records the non-renewal of the mandate of permanent Auditor of Mr. Serge CLERC and appoints in replacement, for a duration of 6 years, or until the date of the Shareholders' General Meeting convened to give its verdict on the accounts for the year ending December 31, 2010:

- The company EXCO CAP AUDIT
  Headquartered at 4 B avenue Chabaud Latour
  25200 MONTBELIARD.

13th resolution

The General Shareholders' Meeting has decided to allocate appearance fees of €71,250 to the Board of Directors.

This decision, which applies to the current year, will remain valid until a decision is made to the contrary.

14th resolution

The Shareholders' General Meeting assigns all rights to the bearer of an original, a copy or extracts of the minutes of its deliberations for the purpose of accomplishing all formalities, as well as all legally required filings and publications.

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