LINK SOLUTIONS FOR INDUSTRY

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2005 First Half-year results

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LISI

Société anonyme au capital de 19 793 668 €
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H1 2005 ACTIVITY REPORT

The first half-year was marked by 4 major events:

- Contrasted activity trends in the Aerospace and Automotive divisions.
- The continuation of the industrial reorganization process, marked by the recovery of Monadnock in the USA, that of the Cosmetics division's major sites, and the gradual reorganization of the Automotive division.
- The completion of targeted strategic development projects, with the setting up of a production subsidiary in Canada, the significant industrial development plan in Aerospace, and the acquisition of Knipping, which will be consolidated as of July 1, 2005 by LISI AUTOMOTIVE.
- A significant increase in inventories, due to the current economic situation and generated by specific requirements within each division.

ENCOURAGING RESULTS

In line with Q2, organic growth consolidated during Q2, the group displaying, for the period, revenue up +6.8% of which +6.3% on a like-for-like and current exchange rate basis, versus +4,6% and +4.7%, respectively, during Q1 2005. These results are shared by all three divisions, which have all displayed positive trends simultaneously.
H1 revenue thus stands at €292m, up +5.7% from its level for the same period in 2004 (+5.5% on a like-for-like and constant exchange rate basis), the portion achieved outside France representing 49% of the total.

For the first publication of statements in line with IFRS standards, all financial indicators remain quite similar to their levels of last year; as an example, the EBITDA comes out to €43.7m versus €43.6m in 2004, and the EBIT moves from €28.8m (10.4% of the revenue) in 2004 to €29.4m (10.1%).
After taking into account the reimbursement of loans (0.6% of revenue) and the taxes, the net profit stands at €18.0m versus €15.0m in 2004, up 20% on a comparable method basis.

These figures take the following elements into account:

- An increase in consumption representing 2 points of margin (in percentage of the production), which came about as a result of the full impact of the increase in raw materials, particularly in the Automotive division.
- The pursuit of productivity efforts throughout the divisions, which have been, nevertheless, slowed down by significant recruitment in the Aerospace division: as compared to the June 2004 headcount, 135 individuals were hired in Torrance, 120 in Villefranche de Rouergue, and 50 in Izmir.
- The Canadian site's opening costs, which were recorded for the period (€0.8m), while the plant will only start billing during Q4 2005.

A BALANCE SHEET STRUCTURE THAT MAKES IT POSSIBLE TO FUND DEVELOPMENT PROJECTS

Cash flow remains above our target of 11% of revenue. Paid-out investments came out to €22.4m, up considerably from their H1 2004 level of €10.2m. Among those investments, we will remember the opening of the LGP workshop and the “collar” extension in Torrance (€1.2m), the equipment in Canada (approximately €2m), Villefranche (€1m) and Izmir (€0.8m); in the cosmetics division, the reconstruction of the polishing workshop and the installation of an effluent treatment station for €1.5m in Saint-Saturnin du Limet; lastly, in the Automotive division, €9.7m of investments mainly focused on ongoing improvement plans and new products for 2005 and 2006.

The major fact that is worth noting is, above all, an increase in working capital requirements in the two main divisions:

- First of all, in Aerospace, the new contract with Airbus and the setting up of a centralized logistic platorm have led to a €2.1-million increase in the finished products inventory. But the increase in works in progress (€6.4m) is the one that best reflects the strong activity of the end of the half-year, particularly in the USA. The increase in raw materials inventory also reflects an optimistic position on our part, driven by the desire to outweigh the impact of price rises that may affect the second half-year.
- In Automotive, the increase in finished products and works in progress (€5.5m) is meant to cover the requirements of July and August, pursuant to the decision to close LISI AUTOMOTIVE’s major production sites in France.

Consequently, the Free Cash Flow for the period is negative, at around -€15.6m. After reimbursing €8.0m of financial debts and paying €8.7m of dividends, the cash position drops by €32.3m. This seasonal €25.3m increase in working capital requirement, expected to partly deflate duringg the second half-year, remains under control, as evidenced by the apparent level of financial expenses, which come out to approximately 0.6% of the revenue, i.e. the same proportion as in 2004.

To conclude on that subject, the net financial indebtedness came out to €67.7m on June 30, 2005, versus €66.1m on June 30, 2004 and €37.4m on December 31, 2004. Gearing represents 23.8% of the shareholders’ equity, versus 24.9% in June 2004 and 13.6% in December 2004.

However, the net financial indebtedness/capitalization ratio comes out to 11.6% (with a share price of €59)

SUSTAINED RESULTS THROUGHOUT THE DIVISIONS

Strong activity in Aeronautics (40% of the group’s total revenue):

The latest programs received from major aircraft manufacturers confirm their desire to accelerate their production pace within a very short timeframe; thus both Airbus and Boeing plan to deliver 13% more aircraft this year than in 2004.
Although the comparison basis are now less favorable, LISI AEROSPACE’s figures for Q2 are still up significantly: +8.8%, of which +10.3% on a constant dollar rate basis. Throughout H1, the Aerospace division’s revenue stood at €117.3m, up +11.8% from its H1 2004 level, of which +14.1% on a constant dollar rate basis.

The actual structure of the profit is marked by our willingness to follow our ever-rising clients' demand and, therefore, to accelerate recruitment (+€8m of wage bill) and investments, at the detriment of productivity, which is slightly down (the payroll/revenue ratio is up 2 points). This temporary phenomenon, added up to the comparative drop in the A380's requirements as compared to 2004 (setting up of the assembly line) have had a downward effect on margins: the EBITDA comes back to 17.9 of the revenue, versus 20.7% in 2004, and the current operating profit (EBIT) to 14.4% versus 15.5% in 2005, although it rose to €16.9m from €16.3m the previous year.

To date, we identify no signs of a change in the H1 economic trend. Today, we have kicked off negotiations with our main clients to face the new increase in raw materials announced for H2.

Sag in the Automotive division (54% of the group's total revenue):

After a difficult start of the second half-year (-0.8% in April, -1.7% in May, like in H1), the recovery experienced by the European Automotive market in June mitigates the overall drop, bringing it back to –1.1% from the H1 level.

In this generally downwards context, LISI AUTOMOTIVE demonstrates apparent resistance, with revenue of €156.8M, up 3.2% (+4.3% for Q2 after +2% for Q1) which, on a like for like and constant exchange rate basis, i.e. excluding Form a.s, corresponds to 0.4% of organic growth.
Besides, one must not forget that the half-year was marked by significant increases in raw materials, whose partial repercussions on selling prices somewhat hire the actual business trends. We estimate the overall impact of these increases at €7.1m of revenue. Thus, on a constant raw materials cost basis, i.e. in volume, the Automotive division's sales would display a drop of approximately 4% as a result of the large destocking carried out by our main clients at the beginning of the year.

The effects of these two adverse events were nevertheless neutralized by the "ACE" cost reduction plan; thus, the EBITDA remains at 13.2% of sales; on the other hand, the impact of the increase in depreciations, and the reserves system, cause the current operating profit (EBIT) to drop to €11.5m versus €12.8m in 2004, i.e. 7.3% of revenue versus 8.4%.

Confirmed turn in Cosmetics (6% of the group's total revenue):

As announced previously, the sales trend reverted totally between Q1 2005, when it was down 21.6% from its level during the same quarter in 2004? And Q2 2005, up 20.3% on a like for like basis.
Thanks to the capacity anticipation action taken in 2004, the division displays positive performance results. The EBITDA comes out to €1.5m, i.e. 7.5% of the revenue, versus €1.1m and 5.1% in 2004, and the current operating profit (EBIT) at €0.1m versus -€0.3m at end June 2004.

* **ACE:** ongoing improvement towards excellence

H2 OUTLOOK

For the financial year as a whole, one must take into account the seasonal nature of the structure of the working capital requirements. Generally speaking, the second half-year sees a drop in the inventory that has been set up to face the summer production drop. Our annual target is to reduce drastically the half-year's variation to return to a clarly positive Free Cash Flow.

Overall, we do not expect any slowdown in activity in any of our 3 divisions. On the contrary, the accelerating pace of the various projects under way during H2 and the consolidation of Knipping, should help the group improve its performance results, in absolute value, significantly over the coming six months.

2- IFRS-compliant LISI Group's consolidated balance sheet

ASSETS

(in thousand euros)	*06/30/2005*	*06/30/2004*	*12/31/2004*
NON CURRENT ASSETS			
Net fixed assets			
Net goodwill	99 391	99 456	95 976
Net intangible fixed assets	10 269	10 752	10 409
Net tangible fixed assets	164 842	152 423	156 659
Non current financial assets	4 523	8 988	4 004
Total net fixed assets	**279 025**	**271 619**	**267 048**
Deferred tax assets	11 291	10 338	12 246
Other non current assets	593	902	570
Total non current assets	**290 909**	**282 859**	**279 864**
CURRENT ASSETS			
Net inventory	132 092	102 008	115 012
Taxes - Claim on the State			
Operating and other assets	124 562	120 713	99 002
Short-term financial assets	58 647	60 183	80 278
Cash	13 908	19 589	8 535
Total current assets	**329 209**	**302 493**	**302 827**
TOTAL ASSETS	**620 118**	**585 352**	**582 691**

SHAREHOLDERS' EQUITY AND LIABILITIES

(in thousand euros)	*06/30/2005*	*06/30/2004*	*12/31/2004*
SHAREHOLDERS' EQUITY			
Equity	19 794	19 794	19 794
Additional paid-in capital	28 053	28 053	28 053
Reserves	218 986	201 639	195 464
Income for the period	18 001	15 019	31 067
Total equity - Group's share	**284 834**	**264 505**	**274 378**
Minority interests	239	442	395
Total shareholders' equity	**285 073**	**264 947**	**274 773**
NON CURRENT LIABILITIES			
Non current reserves	32 964	32 784	37 232
Long-term financial debts	88 584	78 012	91 117
Other non current liabilities			
Deferred tax liabilities	26 340	24 799	24 627
Total non current liabilities	**147 888**	**135 595**	**152 976**
CURRENT LIABILITIES			
Current reserves			
Short-term financial debts	51 680	67 816	35 080
Operating debts	135 099	111 505	114 796
Taxes due	378	5 489	5 066
Total current liabilities	**187 157**	**184 810**	**154 942**
TOTAL LIABILITIES	**620 118**	**585 352**	**582 691**

3 - IFRS-compliant LISI Group's consolidated P&L statement

(in thousand euros)

	06/30/2005	06/30/2004	12/31/2004
Pre-tax revenue	**291 827**	**276 047**	**540 971**
Change in finished products and works in progress inventory	9 030	-799	6 775
Total production	300 857	275 248	547 746
Other income	1 589	2 905	4 184
Total operating income	**302 446**	**278 153**	**551 930**
Consumption	(80 876)	(66 514)	(136 047)
Other purchases and external expenses	(58 746)	(56 732)	(109 154)
Value added before temporary workers	**162 824**	**154 907**	**306 730**
Taxes and duties	(5 620)	(5 447)	(10 360)
Payroll costs	(113 457)	(105 833)	(204 701)
EBITDA	**43 747**	**43 627**	**91 668**
Depreciation allowance	(14 717)	(14 147)	(28 024)
Reserve allowance	339	(636)	(5 803)
EBIT	**29 369**	**28 844**	**57 842**
Non-current operating expenses and income	109	(2 087)	(6 937)
Operating income	**29 478**	**26 757**	**50 904**
Loan costs	(1 883)	(1 733)	(2 739)
Other financial expenses and income	(47)	14	(244)
Taxes	(9 525)	(10 018)	(16 833)
Net income share of equity-accounted companies			
Net income	**18 023**	**15 019**	**31 089**
of which Group's share	18 001	15 019	31 068
of which minority interests	22	0	21
Group's share of net earnings per share (in euros)	**1,88**	**1,52**	**3,15**
Group's share of net diluted earnings per share (in euros)	**1,66**	**1,48**	**2,81**

4 - IFRS-compliant LISI Group's consolidated cash flow statement

(in thousand euros)

	06/30/2005	*06/30/2004*	*12/31/2004*
Operating activities			
Cash flow	32 319	32 384	68 503
Effect of changes in inventory	(16 994)	1 447	(14 330)
Effects of changes in accounts receivable and accounts payable	(8 325)	(10 686)	14 302
Cash flow provided by or used for operating activities (A)	**7 000**	**23 145**	**68 475**
Investment activities			
Cash used to acquire tangible and intangible fixed assets	(23 000)	(11 356)	(30 186)
Cash received from disposals of tangible and intangible fixed assets	420	531	2 219
Cash used to acquire financial assets	(297)	(3 931)	(5 039)
Cash received from the disposal of financial assets	38	51	81
Net cash used for acquisitions and disposals of subsidiaries (1)			(1 180)
Cash provided by or used for investing activities (B)	**(22 839)**	**(14 705)**	**(34 105)**
Financing activities			
Cash received from shareholders as part of a capital increase		828	828
Dividends paid to shareholders of the parent company	(8 690)	(7 647)	(7 647)
Dividends paid to the minority shareholders of consolidated companies (1)			
Cash received from new loans	7 124	54 442	57 227
Cash used to pay off loans	(16 627)	(14 319)	(26 498)
Cash received from profit-sharing	3 679	2 651	2 644
Repayment of profit-sharing	(2 223)	(3 098)	(4 810)
Miscellaneous		9	11
Cash provided by or used for financing activities ©	**(16 737)**	**32 866**	**21 755**
Effect of change in foreign exchange rates (D) (1)	363	300	(1 114)
Changes in net cash (A+B+C+D) *	**(32 213)**	**41 606**	**55 011**
Cash at year start (E)	71 814	22 723	22 723
Cash at year end (A+B+C+D+E)	39 601	64 329	77 736
(1) This item is specific to the consolidated financing statement			
Marketable securities	58 647	60 183	80 278
Cash	13 908	19 589	8 535
Banking facilities	(32 954)	(15 442)	(11 077)
Cash at year end **	**39 601**	**64 329**	**77 736**

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

** The difference between the net cash position as at December 31, 2004 and the cash position as at January 1, 2005 is due to the effects of the application of the IAS standards from that date on (own shares are now recorded against shareholders' equity).