2005
FINANCIAL SECTION

SUMMARY

Persons responsible for the annual report

Name and title of the person responsible for the annual report

Emmanuel VIELLARD – Deputy Chairman

Statement by the person responsible for the annual report

"I certify, after taking all reasonable measures to that end, that the information contained in this annual report is, to my knowledge, consistent with reality, and includes no omissions likely to alter its meaning or interpretation. I have secured from our auditors, SALUSTRO REYDEL (a member of KPMG International) and EXCO CAP AUDIT, a completion letter stating that they have verified the information regarding the financial situation and the financial statements provided in the annual report, and that they have read the entire annual report."

Paris, May 2, 2006.

Emmanuel VIELLARD

Deputy Chairman

Persons responsible for controlling the financial statements

Regular auditors:

EXCO CAP AUDIT, represented by Serge CLERC
2 rue Jules Emile Zingg – BP 9
25409 EXINCOURT Cedex

Appointed April 13, 1993. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ended December 31, 2011.

SALUSTRO REYDEL, a member of KPMG International
represented by Marie GUILLEMOT
1 cours Valmy
92923 PARIS-LA DÉFENSE Cedex

Appointed March 4, 1999. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ended December 31, 2011.

Alternate auditors:

Jean-François CALAME
2 rue Jules Emile Zingg – BP 9
25409 EXINCOURT Cedex

Appointed April 13, 1993. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ended December 31, 2011.

Jean-Claude REYDEL
1 cours Valmy
92923 PARIS-LA DÉFENSE Cedex

Appointed March 4, 1999. Mandate expired during the Ordinary General Meeting ruling on the statements for financial year ended December 31, 2011.

Information policy

Person responsible for the financial information

Emmanuel VIELLARD

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BP 431
90008 BELFORT Cedex
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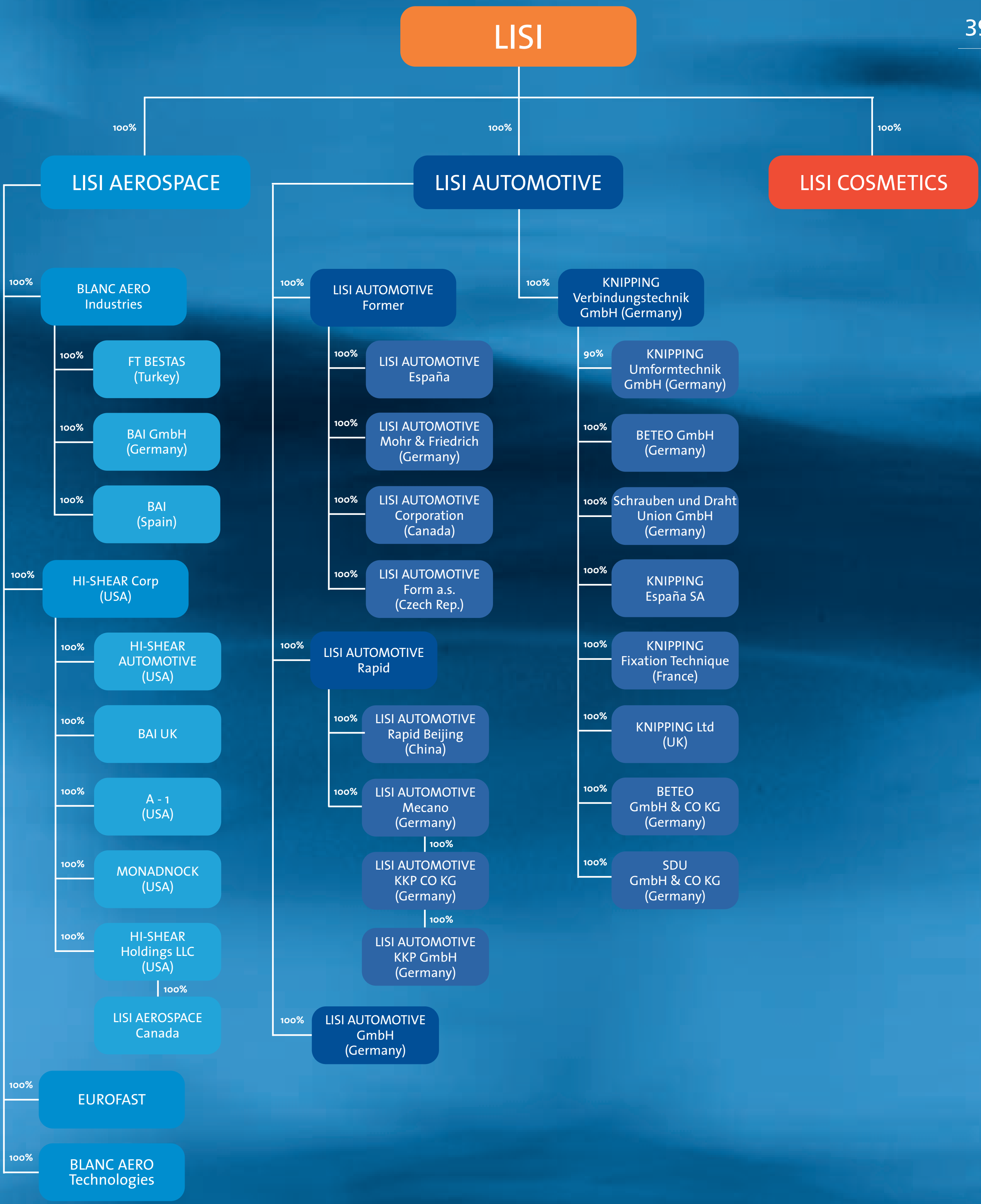
Organizational chart



MANAGEMENT REPORT
ON THE CONSOLIDATED STATEMENTS AS AT DECEMBER 31, 2005

Activity summary

(in million euros)	2005	2004	Variations
Revenues	617.6	541.0	+14.2%
of which foreign	338.8	263.2	+ 28.7%
EBITDA	92.9	91.7	+1.3%
EBIT	63.8	58.4	+9.4%
Net profit	35.6	31.4	+13.3%
Registered employees at period end	5,863	5,223	
Net operating cash flow	41.5	68.2	
Net industrial investments	47.3	27.0	
Net financial investments	26.1	5.0	
Equity and minority interests	310.3	276.6	+12.2%
Net debt	136.4	37.4	x 3.6
Return on capital employed (ROCE)	16.8%	18.3%	
Return on equity (ROE)	12.1%	11.8%	

The highly contrasted activity of the two main divisions did not enable the Group to benefit from the effects of its increased sales revenues.

On the whole, the Group improved significantly its performance indicators in a context of higher volumes. In 2005, the +4.5% increase in activity on a like-for-like basis, and even more so, the +14.2% increase on a new perimeter basis, enabled it to display EBITDA and EBIT progressions limited to +1.3% and +9.4%, respectively. What ought to be remembered are the 4 key factors that influenced the performance indicators:

1. The Automotive Division was faced, during the second half of the year, to a drop in delivery requests, both from French customers and from parts manufacturers, as a result of the production adjustment (Renault: -3.7% and PSA: -7.9% and -12.8% excluding the C1 and 107).
2. The Aerospace Division had to conduct a large number of recruitments over the year (some 367 new employees, that is +17.4% of its average head count) to meet the very strong rise in production pace at Airbus and Boeing.
3. 2005 was a year of unprecedented investment efforts for Aerospace sites (capacity investments) as well as for Automotive (lines dedicated to new products, ERP, productivity) and Cosmetics plants (automation of assembly operations, environment). Investments for the period thus amount to €47.3m versus €27m in 2004, up 75%.
4. Finally, the acquisition of KNIPPING (consolidated as of July 1, 2005) has a positive contribution to the overall performance, with EBIT of approximately 10% for revenue of €50.5m over 6 months of activity.

Thus, in 2005, EBITDA reached €92.9m, or 15% of revenue, versus 16.9% for the previous period. Depreciation rose by 12.6% at €31m due to the significant investments made during that period. Current provisions were slightly up for the year, due to the spending of the provisions recorded in 2004 for changes in aerospace contracts. The EBIT thus remained above the symbolic threshold of 10.3% at €63.8m versus €58.4m in 2004.

Quarterly variations in turnover are summarized in the table below:

(in million euros)			Variations	
	2005	2004	On a new consolidation perimeter basis	On a constant dollar and like-for-like basis
Q1	142.1	135.9	+ 4.6%	+ 4.7%
Q2	149.7	140.1	+ 6.8%	+ 6.3%
Q3	159.1	127.4	+ 24.9%	+ 4.7%
Q4	166.7	137.6	+ 21.2%	+ 2.1%
TOTAL	617.6	541.0	+ 14.2%	+ 4.5%

However, net earnings were up, at €35.6m

In 2005, non recurring operating expenses covered the loss recorded as a result of the disposal of LISI AUTOMOTIVE Gradel in Haute Savoie (France) for a gross amount of €4.2m. After the tax effect, the net loss on this disposal amounts to nearly €2.7m. Consequently, the operating profit represents a +15.6% improvement from 2004.

Financial expenses were marked by the increase in indebtedness due to the acquisition of Germany's KNIPPING. The latter, heavily indebted, benefited from the gradual restructuring of its debt with the Group's banks and the support of certain German banks. The amount of taxes amounts to an actual rate of 33.2% versus 32.5% in 2004, relatively similar to the average taxation rate observed in the Group's main countries.

Net earnings are at €35.6m, up 13.3% from the previous year, after a progression (on a comparable standard basis) of 16.4% from 2003 to 2004.

The cash flow table reflects overheating in the aerospace industry

With average working capital requirements in the order of 110 days, the Aerospace Division's working capital requirements weigh heavily on the Group's. Overheating in that division's activity has required a significant increase in inventories throughout the manufacturing chain, mainly for the production in progress. At €25.3m, the increase in LISI's consolidated working capital requirements alone aborbs more than one third of its cash flow, which stabilizes at nearly 11% of revenues. After investing €47.3m this year, for the first time since 2000 no excess cash has emerged from operations. Free cash flow is therefore negative, at €-5.8m.

Even after acquiring KNIPPING, the financial structure remains healthy

After paying €8.7m in dividends, acquiring KNIPPING and selling LISI AUTOMOTIVE Gradel, the net financial debt at year end stood at €136.4m, or 44% of shareholders' equity, twice the cash flow, 1.5 times the EBITDA.

Shareholders' equity at year end stood at €310.3m, benefiting from a favorable exchange rate difference at €+9.4m.

2006 Outlook

Visibility is limited in the automotive industry, with a first half-year that appears to be in line with the trend of H2 2005. However, our aerospace activities are still enjoying a very favorable context and should benefit from the high investments and recruitments and thus, drive the Group's profitability throughout 2006.

LISI AEROSPACE

Aerospace fasteners and assembly components

Key consolidated figures for LISI AEROSPACE

(in million euros)	Revenues	Full-time paid head count*	EBIT	Cash flow	Capital expenditure	Net debt
Financial 2005	243.7	2,469	37.3	32.3	20.9	-4.6
Financial 2004	212.0	2,102	33.7	35.4	10.8	-18.7
2005/2004 change	+14.9%	+17.5%	+10.8%	-8.8%	+93.6%	-75.4%

* Including temporary employees

A context that remains highly favorable

With over 2,000 firm orders (excluding the effect of cancellations) from BOEING and AIRBUS, 2005 will remain the year of historic records for LISI AEROSPACE's main market segment: 100+-seat commercial aircraft. All other market segments also maintained themselves at high levels, particularly in the USA, where the aerospace industry experienced growth estimated at +8.2%. The major event is BOEING's comeback thanks to the success of the B787, with more than 350 units ordered. This outstanding year confirms the excellent mid-term visibility of the aerospace industry.

Efforts therefore focused on increasing installed capacities, knowing that in 2004 LISI AEROSPACE had already experienced dramatic +17.3% progression in sales revenue.

In 2005, displayed activity growth stood again at +14.9%, supported by the USA: +31.4% and Europe +12.9%. For the last quarter, the score was even better, at +41.9% and +17.0%, respectively. The most effective sites in 2005 included the plants of Villefranche de Rouergue (France) and Izmir (Turkey) that specialize in motor and special fasteners (+30%), Torrance, USA (+40%) and the startup of the Canadian plant (€107K sales revenue).

As far as the Racing B.U is concerned, sales revenues stabilized at around €22 million, thanks to F1 and Nascar, that remain the main two activities in that niche.

2005: a year marked by investments

The increase in activity did not make it possible to improve the management indicators as significantly as in 2004. The division is preparing for a new boost in activity to face its customers' demand and thus pass a new threshold.

Thus, recruitment was in the order of 367 on an average full-time basis over the year, and nearly 310 registered employees. Capital expenditures amounted to nearly €21 million. They were mainly intended to increase the production capacity and the production roll-out of new products.

These considerable efforts have made it possible to achieve, throughout the division, constantly reinforced demands, both in terms of quality and delivery timescales.

However, EBIT rose by 10.8% in a context of shortage and increase in raw material prices, which exceeded 15%.

Cash flow was slightly down at €32.3 million, which did not suffice to cover all the investments and, above all, the increase in working capital requirements, particularly inventories.

However, the net debt remained negative at €4.6 million (positive net cash position), versus €-18.7m in 2004.

2006: headed for further growth

2006 is expected to be the third consecutive year of growth in the aerospace fasteners market, whose performance should be similar to that of 2005. Our expectations focuse on the full use of our installed capacities, mainly in Torrance, USA. The Monadnock plant, that concentrates on special products, is now fully compliant with Group standards.

Passing the 2005 threshold should enable the division to fully benefit in 2006 from the action taken during the previous year. Raw material costs are the only factor of uncertainty that may have adverse effects on future earnings.

LISI AUTOMOTIVE

Automotive fasteners and assembly components

Key consolidated key figures for LISI AUTOMOTIVE

(in million euros)	Revenues	Full-time paid head count*	EBIT	Cash flow	Capital expenditure	Net debt
Financial 2005	339.3	2,902	23.4	32.0	22.4	100.9
Financial 2004	292.3	2,586	24.7	31.6	14.5	23.1
2005/2004 change	+16.1%	+12.2%	-5.5%	+1.3%	+54.2%	NA

* Including temporary employees

A more difficult H2

In 2005, the division was faced with a difficult context, characterized by:

- Extremely competitive worldwide markets and relatively unequal performances between manufacturers, but everywhere to the benefit of Asian manufacturers;
- European production of 18 million vehicles that underwent a 1% overall decline over the year, but was estimated to be sharply down during the second half of the year for many of LISI AUTOMOTIVE's manufacturer customers: -3.4% for Renault, -5.3% for DaimlerChrysler and -7.9% for PSA, of which -12.8% excluding the C1 and 107, vehicles manufactured by the Czech plant common to PSA and Toyota and for which the Group only manufactures very few fasteners, procurement being controlled by the Japanese partner.

Besides that, the division saw its scope slighly modified as a result of:

- The disposal, early December 2005, of the subsidiary LISI AUTOMOTIVE Gradel, LISI AUTOMOTIVE's only site that specializes in lathing, which makes it possible to eradicate a source of recurring losses without disturbing the entire division, the impact on overall activity being limited (2005 sales revenue: €10m);
- The acquisition of Germany's KNIPPING as of July 1, 2005. This strategic operation marked a major milestone for LISI AUTOMOTIVE, as it enabled it to rebalance its customer portfolio between German and French manufacturers, as well as to expand its range of fasteners and assembly components. During H2 2005, the KNIPPING B.U generated sales revenue of €50.5m. On an annual basis, the share of the Automotive Division's revenue achieved in Germany is now quite close to that of France.

All in all, with the consolidation of the KNIPPING Group, as well as the ongoing development of new products and the strong growth of international B.Us (Czech and Chinese, in particular), LISI AUTOMOTIVE's sales revenues gained +16.1% at €339.3m, limiting its decline to -2.2% on a like-for-like basis.

Declining profitability

To understand the structure of annual earnings, one must remember that LISI AUTOMOTIVE set up inventories during the first half of the year, and then had to adjust its production drastically throughout the second half. The adjustment measures regarded flexibility factors such as temporary employees and worktime credits. Technical unemployment was thus limited.

Not taking into account the acquisition of the KNIPPING Group, LISI AUTOMOTIVE's EBIT declined by €24.7m at €18.2m. The cost cut schemes did offset salary rises and sale price declines, but the drop in production necessary to adjust to the shrinking of customer programs, combined with an unfavorable product mix effect, had a negative impact of €6.5m on the EBIT.

On the contrary, the contribution of Germany's KNIPPING, which has been consolidated since July 1, 2005 and whose integration is unfolding in accordance with expectations, is one of the very positive factors of 2005. Adjusted in accordance with IFRS standards, the margin level of the KNIPPING division is in the order of 10% due, in particular, to the outstanding productivity of the main Kierspe plant. All in all, the EBIT margin level dropped from 8.5% of sales revenue in 2004 to 6.9% in 2005. It should be noted that the price rise meant to offset the increase in raw material costs smashed the EBIT ratio by 0.25 points.

Cash flow established itself at €32m, or 9.4% of sales revenue, which made it possible to complete a sustained investment program of €22.4m necessary for the replacement of IT tools, the funding of new capacities and of programs intended to improve quality, productivity, and the environment.

2006 Outlook

Beyond market prospects regarding which the Group maintains a very conservative approach, particularly for H1 2006, efforts are still focussed on improving productivity and helping units with substandard achievements to recover. These issues are areas for performance improvements in a context of slashed costs and sustained high raw material prices, even if some slight decrease has already been observed.

2006 will see the prolongation of the ACE plan in its ACE II form, headed by dedicated in-house teams, and the pursuit of development beyond the boundaries of Western Europe.

LISI COSMETICS

Assembly and packaging components for fragrances and cosmetics

Key consolidated figures for LISI COSMETICS

(in million euros)	Revenues	Full-time paid head count*	EBIT	Cash flow	Capital expenditure	Net debt
Financial 2005	37.8	432	0.28	0.82	4.24	3.54
Financial 2004	40.9	552	0.04	-0.20	1.68	0.17
2005/2004 change	-7.6%	-21.7%	NA	NA	NA	NA

* Including temporary employees

Firm recovery

For several years now, new fragrances have been conditioning the activity level of the selective fragrance market. In that respect, 2005 will stay in the minds as a year of moderate achievements. LISI COSMETICS took part in major launches such as Shiseïdo (Gaultier[2]), Gucci (Envy me and Envy me 2), Procter & Gamble (Ghost), Chanel (Allure Sensuelle and Cristalle Gloss). But its product renewal rate still remains insufficient to ensure solid growth.

Due to the disposal of LISI COSMETICS Italia in 2004, the -7.6% drop is limited to -3.8% on a comparable data basis.

Consolidation of results

Thanks to a major resource optimization program, automated assembly, the setting up of an effective polishing workshop and the commissioning, towards the end of the year, of a new water treatment plant on the metal site of Saint-Saturnin du Limet, LISI COSMETICS has improved its productivity, its quality level, and its logistic service rate, significantly.

Thus, the operating margin is significant at €+0.3m, versus zero in 2004, while activity is slightly down. In 2005, the division sowed the fruits of the adjustment measures conducted in 2004 and displayed positive net results that are a source of encouragement for the future.

Such robustness is illustrated by the division's financial structure, with external debt limited to €3.5m, for shareholders' equity of €15.4m.

2006 Outlook

LISI COSMETICS' goal is to be able to take part in a large number of worldwide fragrance launches and consolidate its relationships with strategic clients. In 2006, LISI COSMETICS intends to confirm its commercial and financial recovery, whose key factors remain a number of projects in the pipeline that are expected to actually crop up in the course of H1 2006.

CONSOLIDATED FINANCIAL STATEMENTS

(in thousand euros)	Notes	12/31/2005	12/31/2004
Net revenues		**617,597**	**540,971**
Changes in inventory, finished and in process goods		8,578	6,775
Total production		626,175	547,746
Other revenues		5,033	4,184
Total operating revenues		**631,208**	**551,930**
Cost of materials	5.1	(177,350)	(136,047)
Other purchases and external expenses	5.2	(115,141)	(109,154)
Added value		**338,717**	**306,730**
Taxes and duties		(10,778)	(10,360)
Personnel expenses (including temporary personnel)	5.3	(235,061)	(204,701)
EBITDA		**92,878**	**91,668**
Depreciation		(30,972)	(27,514)
Net provisions		1,926	(5,803)
EBIT		**63,832**	**58,352**
Non-recurring operating expenses	5.5	(7,560)	(9,954)
Non-recurring operating revenues	5.5	3,304	3,017
Operating profit		**59,576**	**51,415**
Cost of finance	5.6	(5,640)	(2,739)
Other financial expenses and revenues	5.6	688	(244)
Taxes	5.7	(19,026)	(17,010)
Profit		**35,598**	**31,422**
Profit attributable to the Group		35,572	31,401
Minority interests		26	21
Earnings per share (in €):	5.8	**3.70**	**3.28**
Diluted earnings per share (in €) :	5.8	**3.33**	**3.05**

CONSOLIDATED BALANCE SHEET

ASSETS

(in thousand euros)	Notes	12/31/2005	12/31/2004	1/1/2004
NON-CURRENT ASSETS				
Intangible assets	4.1.1/4.1.2	131,151	106,385	111,300
Tangible assets	4.2.1/4.2.2/4.2.3	221,860	160,874	159,642
Financial assets	4.3.1/4.3.2	5,100	4,004	3,898
Deferred taxes	4.8	16,436	13,242	10,655
Other non-current assets		–	570	319
Total non-current assets		**374,547**	**285,075**	**285,814**
CURRENT ASSETS				
Inventories	4.4.1	149,221	115,012	103,226
Taxes – Claim on the State		6,904	–	–
Trade and other receivables	4.4.2	112,822	99,002	93,152
Financial assets	4.4.3	34,945	80,278	24,688
Cash and cash equivalents	4.4.4	13,045	8,535	12,428
Total current assets		316,937	302,827	233,494
TOTAL ASSETS		**691,484**	**587,902**	**519,308**

SHAREHOLDERS' EQUITY AND LIABILITIES

(in thousand euros)	Notes	12/31/2005	12/31/2004	1/1/2004
SHAREHOLDERS' EQUITY				
Capital stock	4.5	19,794	19,794	19,734
Additional paid-in capital	4.5	28,053	28,053	27,285
Treasury shares	4.5	(6,665)	–	–
Consolidated reserves	4.5	224,959	200,626	208,262
Conversion reserves	4.5	5,206	(4,147)	–
Other income and expenses recorded directly as shareholder's equity	4.5	3,256	509	–
Profit for the period	4.5	35,572	31,401	–
Total shareholders' equity – Group's share		**310,175**	**276,235**	**255,281**
Minority interests	4.5	166	395	–
Total shareholders' equity		**310,341**	**276,630**	**255,281**
LONG-TERM LIABILITIES				
Non-current provisions	4.6	32,638	27,574	25,837
Financial debt	4.7	125,847	91,117	60,678
Other long-term debt		–	–	–
Deferred taxes	4.8	29,208	26,118	25,772
Total long-term liabilities		**187,693**	**144,809**	**112,287**
SHORT-TERM LIABILITIES				
Current provisions	4.6	6,868	11,521	8,415
Financial debt*	4.7	58,630	35,080	42,713
Trade and other payables		127,952	114,796	98,254
Tax liability		–	5,066	2,358
Total short-term liabilities		**193,450**	**166,463**	**151,740**
TOTAL LIABILITIES		**691,484**	**587,902**	**519,308**
* of which banking facilities		28,497	11,077	14,393

CONSOLIDATED CASH FLOW STATEMENT

(in thousand euros)	Notes	12/31/2005	12/31/2004
Operating activities			
Operating cash flow	6	67,630	68,503
Effect of changes in inventory		(15,388)	(14,330)
Effects of changes in accounts receivable and accounts payable		(10,749)	14,302
Cash provided by or used for operations (A)		**41,493**	**68,475**
Investment activities			
Cash used to acquire tangible and intangible assets		(48,990)	(30,186)
Cash received from the disposal of tangible and intangible assets		1,681	2,219
Cash used to acquire financial assets		(26,171)	(5,039)
Cash received from the disposal of financial assets		99	81
Net cash used for acquisitions and disposals of subsidiaries		(27,219)	(1,180)
Cash provided by or used for investing activities (B)		**(100,600)**	**(34,105)**
Financing activities			
Cash received from shareholders as part of a capital increase			828
Dividends paid to shareholders of the parent company		(8,711)	(7,647)
Dividends paid to the minority shareholders of consolidated companies			
Cash received from new loans		52,029	57,227
Cash used to pay off loans		(40,599)	(26,498)
Cash received from profit-sharing		3,618	2,644
Repayment of profit-sharing		(2,491)	(4,810)
Miscellaneous		22	11
Cash provided by or used for financing activities (C)		**3,868**	**21,755**
Effect of change in foreign exchange rates (D)		1,258	(1,114)
Effect of change in accounting principles (D)	12.4.1 / 12.4.2	(4,261)	
Changes in net cash (A+B+C+D) *		**(58,242)**	**55,011**
Cash at year start (E)		77,736	22,723
Cash at year end (A+B+C+D+E)		19,493	77,736
Financial assets		34,945	80,278
Cash and cash equivalents		13,045	8,535
Banking facilities		(28,497)	(11,077)
Cash at year end		**19,493**	**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.

(in thousand euros)	Capital stock	Additional paid-in capital	Treasury shares	Conversion reserves	Consolidated reserves	Other income and expenses recorded directly as shareholder's equity	Group's share of net income	Equity (Group's share)	Minority interests	Total shareholder's equity
Shareholders' equity as at January 1, 2004	**19,734**	**27,285**		**208,262**				**255,281**		**255,281**
Earnings for year N (a)							31,401	31,401	21	31,422
Foreign exchange translation adjustments					(4,147)			(4,147)		(4,147)
Payments in shares (b)						509		509		509
Capital increase	60	768						828		828
Change in perimeter									359	359
Dividends distributed				(7,647)				(7,647)		(7,647)
Miscellaneous				11				11	15	26
Shareholders' equity as at December 31, 2004	**19,794**	**28,053**		**200,626**	**(4,147)**	**509**	**31,401**	**276,235**	**395**	**276,630**
Of which total income and expenses recorded for the period (a) + (b)					***(4,147)***	***509***	***31,401***	***27,762***		
Impact of the restatement of treasury shares held by the company (IAS 32)			(6,672)					(6,672)		(6,672)
Impact of the taking into account of derivatives, net of tax (IAS 39)				(321)		2,404		2,083		2,083
Impact of the taking into account of the amortized coston borrowings (IAS 39)				1,748				1,748		1,748
Impact of the application of IAS 32 and 39 standards as at January 1, 2005			**(6,672)**	**1,427**		**2,404**		**(2,841)**		**(2,841)**
Shareholders' equity as at January 1, 2005 after the impact of IAS 32 and IAS 39 standards	**19,794**	**28,053**	**(6,672)**	**202,053**	**(4,147)**	**2,913**	**31,401**	**273,394**	**395**	**273,789**
Earnings for year N (a)							35,572	35,572	27	35,599
Foreign exchange translation adjustments					9,353			9,353		9,353
Payments in shares (b)						301		301		301
Restatement of treasury shares (c)			7			551		558		558
Appropriation of N-1 earnings				31,909		(509)	(31,401)			
Change in method				(335)				(335)		(335)
Changes in consolidation perimeter									(255)	(255)
Dividends distributed				(8,689)				(8,689)	(1)	(8,690)
Miscellaneous				21				21		21
Shareholders' equity as at December 31, 2005	**19,794**	**28,053**	**(6,665)**	**224,959**	**5,206**	**3,256**	**35,572**	**310,175**	**166**	**310,341**
Of which total income and expenses recorded for the period (a) + (b) + (c)					***9,353***	***852***	***35,572***	***45,777***		

APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. THE GROUP'S ACTIVITY AND SIGNIFICANT EVENTS OF THE YEAR

The LISI Group's main activity is the manufacture of fasteners and multifunctional assembly components for three markets: aerospace, automotive and cosmetics.

Significant events during 2005 were as follows:

- Acquisition of the German group, KNIPPING, on June 2, 2005 by LISI AUTOMOTIVE, approved by the Cartel Authority on June 29, 2005, and consolidated on July 1, 2005.
- 100% subscription by LISI S.A. to the €10m increase in the capital of the LISI AUTOMOTIVE subsidiary in August 2005.
- Launch of a production site in Canada by LISI AEROSPACE in October 2005 in order to meet North American engine and equipment manufacturers' requirements locally.
- Acquisition of the remaining 9.22% of the shares of LISI AUTOMOTIVE Form a.s. in 2005 making it a 100% owned subsidiary of LISI AUTOMOTIVE Former.
- Disposal of LISI AUTOMOTIVE Gradel in December 2005.

2. RULES AND ACCOUNTING METHODS

LISI S.A. is a French domiciled company.

The Group's consolidated financial statements for the year ending December 31, 2005 include the Company and all of its subsidiaries (collectively referred to as "the Group").

The financial statements were approved by the Board of Directors on February 22, 2006.

2.1 Procedure for the preparation of the consolidated financial statements for 2005 and comparative accounts for 2004

The financial statements consolidated on December 31, 2005 were the first statements to be prepared in compliance with IFRS (International Financial Reporting Standards), as adopted by the European Union. The procedures set out in IFRS 1 (first time adoption of international financial reporting standards) were applied. Comparative financial statements for 2004 were prepared following the same standards and interpretations. However, the IFRS 2004 data does not take into account IAS 39 "Financial Instruments: recognition and measurement" and IAS 32 "Financial Instruments: disclosure and presentation". The Group has opted for the application of these standards from January 1, 2005.

In order to explain the effects of the change to IFRS on figures for 2004, note 12 describes the main impact of the transition on shareholder's equity as at January 1, 2004 and December 31, 2004, on the balance sheet, the income statement and the Group's cash flow statement. The note sets out the IFRS accounting principles adopted by the Group, as communicated in the note concerning the transition of the Group's accounts to IFRS which was prepared and published on June 30, 2005 to present the comparative 2004 accounts, and the final impact of the transition, after revision of the calculations of retirement commitments and of amortization periods for the Group's real estate assets.

2.2 Basis of the preparation of the financial statements

The financial statements are presented in thousands of euros.

They have been prepared on the historic cost basis except for the following assets and liabilities, which were valued at their fair value: derivative financial instruments, financial instruments held for transaction purposes and financial instruments classified as available for sale.

Non-current assets held for sale are valued at the lower of the carrying amount and fair value less the costs of the sale.

The preparation of the financial statements according to IFRS requires judgment to be exercised by the management, which consists of making estimations and assumptions which have an impact on the application of accounting methods, on the amounts relating to assets and liabilities, income and expenses, in particular concerning the following:

- amortization periods of tangible assets,
- valuation of provisions and commitments relating to retirement,
- procedures used for impairment tests,
- valuation of financial instruments at fair value,
- valuation of payments in shares.

The management continuously reviews its estimations and valuations on the basis of past experience and assumptions deemed reasonable enabling the establishment of carrying amounts of assets and liabilities. Real values may differ significantly from these estimations depending on assumptions and various conditions. The impact of changes in estimates of carrying values is recorded during the period of the change if it only affects that period or during the period of the change and subsequent periods if these are also affected by the change.

Judgments made by the management when applying IFRS that have a significant impact on the financial statements, and estimations having a considerable risk of necessitating adjustments during subsequent periods, in particular concern provisions (notes 2.17 and 4.6), deferred tax assets (note 4.8) and depreciation tests of assets (note 2.10).

The accounting methods set out below have been applied consistently to all the periods presented in the consolidated financial statements, with the exception of the application of IAS 32 and IAS 39 to financial instruments, the impact of which is presented in note 12, and the preparation of the opening balance sheet in IFRS as at January 1, 2004 in compliance with transition requirements to IFRS. They have been applied in a uniform manner by all entities in the Group.

2.3 Basis of consolidation

Subsidiaries over which the parent company has exclusive control are fully consolidated. The list of consolidated companies is given in note 3.2. There are no companies accounted for using the proportional consolidation or equity method.

All companies had a twelve month financial year ending on December 31, 2005, with the exception of LISI AEROSPACE Canada and HI-SHEAR Holdings, which were created in April 2005, the companies in the KNIPPING group, which was acquired in July 2005, and LISI AUTOMOTIVE Gradel, which was sold and deconsolidated on December 1, 2005.

2.4 Transactions eliminated in the consolidated financial statements

Residual balances, latent gains and losses, and income and expenses resulting from intragroup transactions have been eliminated in the consolidated financial statements.

Latent losses have been eliminated in the same way as latent profits, but only insofar as they do not represent a loss of value.

2.5 Currency translation methods

2.5.1 Foreign currency transactions

Foreign currency transactions are recorded in the functional currency using the exchange rate prevailing at the time of the transaction. At year-end monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the year-end exchange rate. Exchange adjustments resulting from conversion are recorded in income or expenses, with the exception of adjustments to borrowings in foreign currencies designated as hedging of the net investment in a foreign entity, which are recorded in conversion reserve, as a distinguishable component of shareholders' equity. They are recorded on the income statement at the conclusion of the activity.

2.5.2 Translation of financial statements of consolidated subsidiaries

Subsidiaries' financial statements for which the functional currency is not the euro are converted at the prevailing exchange rate at the year end for balance sheets and at the average exchange rate for the income and cash flow statements. Exchange adjustments resulting from conversions are recorded in conversion reserve, as a distinguishable component of shareholders' equity.

2.6 Derivative financial instruments

The Group uses derivative financial instruments to cover exposure to exchange and interest rate risks arising from its operational, financial and investment activities. In compliance with its cash flow management policy, LISI S.A. does not hold or issue derivative financial instruments for transaction purposes.

However, derivative instruments which do not meet hedging accounting requirements are recorded as speculative instruments and valued at their fair value. Profit or loss resulting from revaluation at fair value is immediately recorded on the income statement.

When a derivative financial instrument is designated as a cash flow hedging instrument for a recorded asset or liability, or for a transaction forecast as highly likely, the effective portion of the profit or loss relating to the derivative financial instrument is recorded directly in shareholders' equity. The associated profits or losses accumulated in shareholders' equity are transferred to the income statement for the period(s) during which the forecast transaction has an impact on the income statement.

When a derivative financial instrument is used as an economic hedge for exchange rate risks relating to a recorded financial asset or liability, hedge accounting is not applied and the profits or losses relating to the hedging instrument are recorded in the income statement.

2.7 Intangible assets

2.7.1 Goodwill

In compliance with IFRS 3, business combinations are recorded according to the acquisition method. According to this method, at the time of the initial consolidation of an entity over which the Group has acquired exclusive control, the assets acquired, and the liabilities and contingent liabilities assumed, are recorded at their fair value at the date of acquisition. At this date the cost of the goodwill corresponds to the difference between the cost of the business combination and LISI's participatory interest in the fair value of the assets, liabilities and identifiable contingent liabilities.

For acquisitions prior to this date, goodwill is maintained at its deemed cost, represented by the amount recorded according to the previous accounting principles. The classification and accounting methods applied to business combinations which took place before January 1, 2004 have not been modified for the preparation of the Group's opening balance sheet in accordance with IFRS on January 1, 2004 (see note 12), in compliance with the option available in IFRS 1.

Goodwill is carried at its cost, less accumulated impairment. Goodwill is allocated to cash-generating units or combinations of cash-generating units and is not amortized, but is subject to annual depreciation tests.

If the goodwill is negative it is recorded in profit directly on the income statement.

2.7.2 Other intangible assets

Licenses, patents and computer software are recorded at their acquisition price and are subject to an amortization schedule. Intangible assets acquired as the result of a business combination are recorded at their fair value at the time of acquisition. Intangible assets with a fixed life are amortized over the life of the asset, while intangible assets with an indefinite life are subject to a depreciation test at least once a year.

If the need arises, subsequent expenditure relating to intangible assets is only capitalized if it increases the future economic benefits associated with the specific corresponding asset. Other expenditure is recorded in expenses when it is incurred.

Amortization costs are recorded in expenses using the straight-line method to allocate cost over the estimated useful lives of intangible assets unless the length of useful life is indefinite.

Estimated useful lives are as follows:

Trademarks: 10 - 20 years

Software: 1 - 5 years

For intangible assets with an indefinite useful life a depreciation test is carried out at each year-end.

2.8 Research and development

Research expenditure incurred with a view to acquiring improved understanding and scientific knowledge or new techniques is recorded in expenses when it is incurred.

In the IFRS framework, development expenditure, i.e. expenditure resulting from the application of the results of research to a plan or model with a view to the creation of new products and procedures, or substantially improving existing ones, are recorded as fixed assets if the Group can demonstrate, amongst other things, the likely existence of future economic benefits.

Due to the nature of the research and development expenditure undertaken by the group most of the costs incurred do not meet the requirements for capitalization as intangible assets. However, it should be noted that some expenditure relates to the development or co-development of equipment and if the need arises are the subject of a capitalization as tangible assets or inventory depending on the conditions and procedures for development agreed with the client.

2.9 Tangible assets

2.9.1 Assets owned by the Group

Tangible assets are recorded at cost less accumulated depreciation and loss of value. This cost does not include the finance costs borne before their implementation. The cost of an asset produced by the Group for itself includes the cost of raw materials, direct labor, and, if the need arises, costs relating to dismantling and removal of the asset and the restoration of the site where it was located, and an appropriate share of the general production costs.

When the components of tangible assets have different useful lives they are recorded as separate tangible assets.

2.9.2 Assets financed by finance leases

Leasing contracts that effectively transfer to the Group almost all the risks and benefits inherent to ownership of an asset are classified as finance leases. Assets financed by finance leases are capitalized at the lower of the fair value of the leased asset and the present value of the minimum lease payments, and are amortized over the same period as if the assets were fully owned. To balance this, the corresponding debt is entered as a liability on the balance sheet.

2.9.3 Subsequent costs

The Group records in the carrying amount of a tangible asset the cost of replacement of a component of the tangible asset at the time when this cost is incurred if it is likely that the future economic benefits associated with this asset will flow to the Group and its cost can be reliably measured. All repair and maintenance costs are recorded as expenses at the time when they are incurred.

2.9.4 Amortization

Amortization costs are recorded in expenses using the straight-line method to allocate cost over the estimated useful life of each component of a tangible asset. Land is not amortized.

Estimated useful lives are as follows:

- Buildings: 20 – 40 years
- Plant and equipment: 10 – 15 years
- Fixtures: 5 – 15 years
- Equipment and motor vehicles: 5 years
- Tools and machinery: 10 years
- Office equipment: 5 years
- Office furnishings: 10 years
- IT equipment: 3 years

2.10 Impairment of assets

Whenever events or changes in market environment indicate impairment of goodwill, other intangible assets or tangible assets, an impairment test is carried out. This consists in determining if the carrying amount of the asset or group of assets is above its recoverable value. The recoverable value is determined for each element individually, unless it is not generating cash-flow that is sufficiently independent from the other fixed assets. In this situation the carrying amount of the element is included in the cash-generating unit (CGU) to which it belongs. A CGU corresponds to a group of assets generating an independent cash-flow.

The recoverable value is defined as the higher of the fair value (less disposal costs) and the value in use. The latter is determined by discounting future expected cash flows from the use of the asset and its disposal.

Furthermore, compliance with IAS 36 requires that the following principles are applied to impairment tests:

- Independent of whether or not an index of the risk of loss of value exists, goodwill and other intangible assets with indefinite lives are tested annually for impairment. Such tests are carried out during the fourth quarter of each financial year. The methodology used consists of comparing the recoverable value of each of the Group's operational units with the net carrying amount of the corresponding assets (including goodwill).

- The recoverable value is determined for each asset individually, unless it is not generating cash-flow that is largely independent from those generated by other assets or groups of assets. If the need arises, a recoverable value is determined for a group of assets.

- The value in use is determined by using cash-flows forecasts which are consistent with the budget and business plan that has been most recently approved by the management and presented to the Board of Directors. The discount rate applied should reflect current market assessments of the time value of money and the risks specific to the asset or group of assets.

- The fair value (less disposal costs) corresponds to the amount that could be obtained from the sale of the asset or group of assets in normal competitive market conditions between well-informed, consenting parties, less the disposal costs. These values are determined on the basis of market elements (comparisons with similar quoted companies, values allocated during recent operations and stock market prices) or, failing this, from discounted cash flows.

- If the recoverable value is lower than the net carrying amount of the asset or group of assets, an impairment loss corresponding to the difference is recognized. In the case of a group of assets, the loss is first allocated to the reduction of carrying amounts allocated to the goodwill.

Impairments recognized in relation to tangible and intangible assets (except for goodwill) may be subsequently reversed, if the recoverable value becomes higher than the net carrying amount, within the limits of the impairment that was initially recognized. However, impairments recognized concerning goodwill are irreversible.

For the definition of the CGUs the Group has used the strategic Business Units (B.U.) structure.

The AUTOMOTIVE division is split into 5 CGUs:

- Threaded fasteners B.U.,
- Mechanical components B.U.,
- Clip fasteners B.U.,
- International operations B.U.,
- Knipping B.U.

The AEROSPACE division is split into 5 CGUs:

- Airframe Europe B.U. ,
- Airframe USA B.U. ,
- Engines and Criticals B.U.,
- Speciality Fasteners B.U.,
- Racing B.U.

The COSMETICS division consists of a single CGU.

An impairment test was carried out on all the assets making up these CGUs on January 1, 2004, in compliance with IFRS 1, which requires such a test to be carried out on the date of transition to IFRS. The test did not result in the recognition of any depreciation at that date. The test was carried out on December 31, 2005 and did not arise in any impairment being identified.

2.11 Non-current financial assets

This entry includes non-consolidated investments and financial assets grouping investment contracts. These investments consist of shares in unquoted companies, of which fair value estimations may present uncertainties. As a last resort the Group can value these financial assets at historic cost less any potential loss of value, when no reliable estimation of fair value can be made using valuation techniques, in the absence of an active market. They are recorded on the balance sheet at their potentially depreciated cost.

2.12 Inventories

Inventories are valued at the lower of cost and net realizable value.

The costs of materials and merchandise correspond to their cost of acquisition and to costs incurred in bringing them to their current location and condition. Finished products and work in progress are valued at their real production cost recorded during the period and including an appropriate share of general costs based on normal production capacity.

The net realizable value corresponds to the estimated sale price in the normal course of business, less estimated costs for completion and costs related to the sale.

Inventories are subject to depreciation when their replacement or realizable value is lower than their cost, if they are damaged or obsolete, and every time they present a risk of not selling in normal conditions.

2.13 Clients and other debtors

Trade receivables, loans and advances appear on the balance sheet at cost amortized at the effective interest rate. When the term of these financial assets is short the values obtained applying this method are very close to the nominal value of the receivables, the latter is therefore used. In the event of a risk that not all amounts due will be able to be collected, impairments are calculated case by case on the basis of estimated future payments.

2.14 Current financial assets

Short term financial assets include securities held by the Group. They are recorded at fair value, this being very close to their acquisition cost, adjustments are recognized on the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand deposits. They are recorded at fair value, this being very close to their acquisition cost, adjustments are recognized on the income statement.

2.16 Capital

2.16.1 Own shares

The Group operates a policy of repurchasing the company's shares, in accordance with mandates given to the Board of Directors at the shareholders' General Meeting. The main objectives of the share repurchasing scheme are:

- 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 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.

Repurchased shares are classified as own shares and deducted from shareholders' capital.

2.16.2 Payments in shares (Stocks options)

See note 2.18 "Employee benefits".

2.16.3 Dividends

Dividends are recorded as debt during the period when the distribution was voted.

2.17 Provisions

A provision is recorded on the balance sheet when the Group has a current legal or implicit obligation resulting from past events and when it is likely that an outflow of resources representing economic benefits will be necessary to settle the obligation. They are valued at the estimated amount of the payment. If the effect of discounting the provisions is not significant then discounting is not carried out.

2.18 Employee benefits

2.18.1 Commitments to employees

In accordance with the laws and practices of each of the countries in which the Group operates, employees and former employees are offered, in particular under certain service conditions, the payment of pensions or benefits at retirement. These benefits may be paid within the framework of fixed contribution or fixed benefit plans.

Contributions to fixed benefit retirement plan are recorded in expenses in the financial year during which they were paid.

In the case of fixed benefit plans, the Group's commitments to its employees are determined by independent actuaries using the Projected Unit Credit Method in compliance with IAS 19. This method, amongst other things, takes into account the probability of keeping employees in the Group until retirement, the future evolution of payments and a discount rate.

These plans may be financed by investments in various instruments, such as insurance contracts, shares, bonds, but excluding debt and equity instruments issued by the Group.

Actuarial gains and losses are recorded in the income statement using the corridor method: if the accumulated unrecognized actuarial gains and losses exceed 10% of the value of the obligation, or the fair value of the plan assets if it is greater, a portion of that net gain or loss is required to be recognized immediately as income or expense. The portion recognized is the excess divided by the average remaining working lives of active employees.

The surplus or deficit in the fair value of the assets in relation to the updated value of obligations is recorded as an asset or liability on the balance sheet, after deduction of cumulated actuarial adjustments and past service costs not yet recognized. However, surplus assets are not recorded on the balance sheet insofar as they represent a future economic benefit for the Group.

2.18.2 Share-based payments

The Group has implemented share purchase plans for certain employees and executives. The objective of these plans is to create an additional incentive to improve the Group's performance.

Share purchase schemes are also offered to the Group's employees and enable the acquisition of LISI shares within the framework of reserved equity increases. Shares acquired by employees through these plans are subject to certain restrictions concerning their sale or transfer.

The allocation of options to subscribe to shares and the participation of employees in share purchase plans represents a benefit and therefore constitutes additional payment. This is valued at the fair value of the shares or derivatives of shares allocated.

In the case of share option plans, the benefit corresponds to the value of the option at the date of allocation, valued using the binomial model. In the case of increases in equity reserved for employees as part of the group savings plan, the benefit corresponds to the tax relief on the subscription price, which is the difference between the share subscription price and the share price on the date of allocation (to a maximum of 20% according to French law).

Payments made in LISI shares or derivatives of LISI shares are recorded as an employee expense, and the same amount is shown as an increase in shareholders' capital. This expense is recognized:

- in its entirety at the date of subscription in the case of the share purchase plan;

- over a period of four years starting from the date of allocation, in compliance with the rules of the plan, in the case of stock options.

Since these transactions use equity-settled instruments, the Group has applied the option permitted in IFRS 2 of only recording plans after November 7, 2002, which have not vested on January 1, 2004.

2.19 Financial debts

2.19.1 Bonds with redeemable share subscription warrants (OBSAR)

These financial instruments have both a debt and an equity component. The transaction costs associated with the issuing of a compound financial instrument are allocated to the instrument's debt and equity components on a pro rata basis over the issuing period of the product.

- The first component (bond) is a financial liability, namely the issuer's contractual obligation to pay the bearer of the financial instrument cash or other financial assets. It is valued on the amortized cost basis, the interest charges recorded in the income statement being calculated using the effective interest rate method.
- The second component (redeemable share subscription warrants) is an equity instrument giving the bearer the option to purchase share capital in the company. The value entered in equity is not revalued during the life of the warrants. In the event of these being exercised, cash assets received within the context of an increase in capital are accounted for by a corresponding amount in equity.

The accounting principles used for the initial accounting of the OBSAR in compliance with IAS 32 and 39 on January 1, 2005, resulted in the recording of a deferred tax liability (with a corresponding amount in equity), which will be progressively reduced by the deferred tax asset recorded each year (with a corresponding amount in income), resulting from the additional expense of interest accrued.

The OBSAR's diluting effect is included in the calculation of diluted earnings per share (cf. § 2.28).

2.19.2 Interest bearing loans

Interest bearing loans are initially recorded at fair value less associated transaction costs. Subsequently, they are recorded at amortized cost. The difference between the cost and the redemption value is recorded in the income statement over the period of the loans using the effective interest method.

2.20 Suppliers and other creditors

Debts to suppliers and other creditors are initially recorded at their fair value and then at amortized cost. When the term of these financial liabilities is short the values obtained applying this method are very close to the nominal value of the debts, the latter is therefore used.

2.21 Definition of "current" and "non-current" in the balance sheet presentation

Assets and liabilities that will mature within the normal operating cycle, generally twelve months, are classified as "current". If they mature outside of this period they are classified as "non-current" assets or liabilities.

2.22 Presentation of income statement

The Group has chosen to maintain the presentation of aggregates, the definition of which has been revised as follows:

- EBITDA includes added value, administrative and commercial expenses, the cost of pensions and retirements including estimated expenses relating to retirement commitments and the cost of payments in shares. It does not include other provisions and allocations relating to depreciation and amortization.
- The EBIT includes the EBITDA and the other provisions and allocations relating to depreciation and amortization.
- The operational income includes the EBIT, other non-recurrent operational income and expenses, which include on a restrictive basis expenses or indemnities relating to accidents, costs associated with closures, restructuring and relocation of sites, depreciation of goodwill and gains or losses resulting from the disposal of non-current tangible or intangible assets.

2.23 Sales of goods and services

Income from the sale of goods is recorded in the income statement when the significant risks and benefits inherent to ownership of the goods have been transferred to the purchaser. Income from the providing of services is recorded in the income statement according to the proportion of the service provided at year-end. This proportion is valued by referring to the work carried out.

Sales are shown after deduction of discounts. Total income from royalties, patents and trademarks are recorded in sales.

2.24 Payments relating to operating leases

Payments relating to operating leases are recorded as expenses on a straight-line basis over the term of the lease.

2.25 Payments relating to finance leases

Minimum payments relating to finance leases are allocated between finance charges and amortization of the debt. The finance charge is allocated to each period covered by the lease so as to obtain a constant periodic interest rate on the balance of the outstanding debt.

2.26 Cost of finance and other financial expenses and income

The cost of finance includes:

- Interest charges on loans calculated using the effective interest method.
- Interest charges included in payments made relating to a finance lease, calculated using the effective interest method.
- Income from interest generated by short-term investments.
- Variations in the fair values of financial instruments.
- Income from dividends is recorded in the income statement from the time the Group has the right to receive payments, which, in the case of quoted stocks, is the ex-dividend date.

Other income and financial charges mainly consist of translation profits and losses.

2.27 Tax on income

Tax on income (liability or asset) includes the tax liability (asset) to be paid for each financial year and the deferred liability (asset). Tax is recorded in income except when it is connected to items which are recorded directly in shareholders' equity; in which case it is recorded in shareholders' equity.

Deferred tax is determined using the variable reporting method, for any temporary differences existing at the year-end between fiscal values and carrying amounts of assets and liabilities in the consolidated balance sheet. The following items do not give rise to the recognition of deferred tax:

- goodwill that is non-deductible for tax purposes,
- temporary differences associated with investment in subsidiaries' activities insofar as these differences are unlikely to be reversed in the foreseeable future.

Deferred tax assets are not recognized if their recovery is likely. Deferred tax liabilities and assets are valued at the tax rates which will be in force at the time when the temporary differences are settled.

2.28 Earnings per share

Earnings per share (before dilution) are calculated on the basis of the relation between the income for the financial year and the average weighted number of shares in circulation during the financial year. The diluted earnings per share are calculated taking into account the financial instruments giving deferred access to the Group's equity (share options and warrants).

Control shares are deducted from the average weighted number of shares in circulation which serves as a basis for the calculation of earnings per share (before and after dilution).

2.29 Cash flow statement

The Group has chosen to present its consolidated cash flow statement using the indirect method. Net cash flow from operational activities is obtained from net income adjusted for non-monetary operations, items associated with net cash flow linked to investment and financing activities and variations in working capital requirements.

2.30 Segment reporting

A segment is a distinguishable component of the Group which is engaged either in providing products and associated services (business segment), or in providing products and services in a particular economic environment (geographical segment).

The Group is active in three sectors, within which three divisions operate:

- 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.

2.31 New standards applicable within IFRS

IFRS 7, "Financial Instruments: Disclosures" and amendment to IAS 1, "Presentation of Financial Statements: Capital Disclosures".

On August 18, 2005 the IASB issued IFRS 7 "Financial Instruments: Disclosures" and the amendment to IAS 1, "Presentation of Financial Statements: Capital Disclosures". The objective of IFRS 7 is to assemble in a new standard, after having redefined them, the rules for the presentation of financial information relating to financial instruments, such as those defined by IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". The amendment to IAS 1 introduces requirements concerning the presentation of qualitative information on the objectives, principles and processes implicit in operations having an impact on capital and the presentation of quantitative information on items that constitute the capital. The adoption of this standard and amendment will become obligatory from January 1, 2007.

3. CONSOLIDATION PERIMETER

3.1 Changes in the consolidation perimeter

The changes in the consolidation perimeter in 2005 were as follows:

Company	Type of change	Date of operation	Date of 1st consolidation or of deconsolidation
LISI AUTOMOTIVE Form a.s	100% increase of the interests	2005	June 1, 2004
KNIPPING Verbindungstechnik GmbH	Acquisition of 100%	6/2/2005	July 1, 2005
LISI AEROSPACE Canada	Operations started in October 2005	April 2005	June 30, 2005
LISI AUTOMOTIVE Gradel	Sale of 100%	December 2005	November 30, 2005
LISI AUTOMOTIVE Gervais-le-Pont	Deconsolidation	December 2005	December 31, 2005

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

(in thousand euros)		% impact on the Group's indicators
Joining company	**KNIPPING Group**	
Revenues	50,469	8.17%
EBIT	5,211	8.16%
Joining company	**LISI AEROSPACE Canada**	
Revenues	139	NS
EBIT	–1,367	2.14%
Exiting company	**LISI AUTOMOTIVE Gradel**	
Revenues	9,196	1.48%
EBIT	–1,981	3.10%

On June 2, 2005, the Group acquired 100% of the capital stock of KNIPPING Verbindungstechnik GmbH for €25.1m. The company and its subsidiaries, wholly-owned by LISI, are fully consolidated as of July 1, 2005.

(in thousand euros)	Book values on acquisition date
Fixed assets	51,441
Other short-term assets and liabilities	19,185
Net debt	(58,175)
Non current tax liabilities	–
Deferred taxes and provisions	(3,412)
Cash	345
Total net worth of the KNIPPING Group	**9,384**
Subsidiaries' minority interests	(139)
Total net worth of the KNIPPING Group – Group's share	**9,245**
% of acquired shares	100%
Share of net worth acquired by LISI AUTOMOTIVE	**9,245**
Price paid for the shares	25,088
Goodwill	**15,843**

The change in perimeter remains within the limits recommended by control authorities, and therefore did not require any proforma financial statements.

3.2 Consolidation perimeter

All companies were consolidated using the full-consolidation method.

Company	Head office	Country	% control	% interests
Financial				
LISI S.A.	Paris 12e (75)	France	Mother company	
Division AEROSPACE				
LISI AEROSPACE	Paris 12e (75)	France	99.99	99.99
BLANC AERO INDUSTRIES (BAI)	Paris 12e (75)	France	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)	France	100.00	99.88
EUROFAST	Paris 12e (75)	France	99.99	99.98
BAI Espagne	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
LISI AEROSPACE Canada (A)	Dorval	Canada	100.00	100.00
HI-SHEAR Holdings LLC (B)	Torrance (California)	United States	100.00	100.00
AUTOMOTIVE division				
LISI AUTOMOTIVE	Belfort (90)	France	100.00	100.00
LISI AUTOMOTIVE Former	Delle (90)	France	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 (C)	Scionzier (74)	France		
LISI AUTOMOTIVE Gervais Le Pont (D)	Marnaz (74)	France		
LISI AUTOMOTIVE CORPORATION	Mississauga (Ontario)	Canada	100.00	100.00
LISI AUTOMOTIVE Rapid	Puiseux Pontoise (95)	France	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 GmbH & CO KG	Mellrichstadt	Germany	100.00	100.00
LISI AUTOMOTIVE Rapid Beijing	Beijing	China	100.00	100.00
LISI AUTOMOTIVE Form a.s	Brno	Czech Republic	100.00	100.00
LISI AUTOMOTIVE GmbH	Schwetzingen	Germany	100.00	100.00
KNIPPING Verbindungstechnik GmbH (E)	Kierspe	Germany	100.00	100.00
KNIPPING Umformtechnik GmbH (E)	Herscheid	Germany	100.00	90.00
BETEO GmbH (E)	Gummersbach	Germany	100.00	100.00
KNIPPING Espana SA (E)	Madrid	Spain	100.00	100.00
KNIPPING Ltd (E)	Solihull	Great Britain	100.00	100.00
KNIPPING Fixations Techniques SARL (E)	Plaisir (78)	France	100.00	100.00
Schrauben und Draht Union GmbH (E)	Bochum	Germany	100.00	100.00
BETEO GmbH & CO KG (E)	Gummersbach	Germany	100.00	100.00
SDU GmbH & CO KG (E)	Bochum	Germany	100.00	100.00
COSMETICS division				
LISI COSMETICS	Paris 12e (75)	France	100.00	100.00

(A) This company was incorporated in April 2005
(B) This company was incorporated in April 2005
(C) This company was sold in December 2005
(D) This company was deconsolidated on December 31, 2005
(E) This company was acquired on June 2, 2005.

4. DETAIL OF BALANCE SHEET ITEMS

4.1 Long-term assets

4.1.1 Intangible assets: goodwill

(in million euros)	TOTAL
Net values as at December 31, 2004	**95,977**
– Change in perimeter	
– Increases	21,771
– Reductions	(907)
– Changes in foreign exchange rates	4,170
– Other net changes	
Net values as at December 31, 2005	**121,011**

As at December 31, 2005, the net value of goodwill broke down as follows:

- AEROSPACE Division: €34.1m
- AUTOMOTIVE Division: €79.6m
- COSMETICS Division: €7.3m

The change in gross value of goodwill is due:

- To the consolidation of KNIPPING into the Group. The goodwill resulting from the operation breaks down as follows:

(in million euros)	KNIPPING Group
Acquisition cost	25.1
Fair value of net assets excluding goodwill from subsidiaries	3.4
Recognized goodwill from subsidiaries	5.9
Goodwill from the KNIPPING Group	15.8

- The exit from balance sheet of the recognized goodwill from LISI AUTOMOTIVE Gradel, which was totally amortized as at December 31, 2005 for €6.8m and LISI AUTOMOTIVE Gervais-le-Pont, which was amortized as at December 31, 2005 for €0.2m.

Depreciation tests carried out on each cash-generating unit, have not led to the recording of any loss of value on goodwill.

The recoverable value of cash-generating units has been determined by discounting the future cash flows specific to each one, discounted on the basis of a rate integrating a return on investment component expected by the shareholders and an external financing cost component (9.5% to 10.5%).

Of which goodwill allocation

The proportion of goodwill eligible for allocation is posted in the corresponding balance sheet entries and amortized in line with the procedure applicable to 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, 2004	**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, 2005	**152**	**8,385**	**3,837**	**4,000**	**2,262**	**18,636**
Depreciations and provisions for value losses as at December 31, 2004	**142**	**462**		**1,587**	**2,262**	**4,453**
– Change in perimeter						
– Increases	10	294		174		478
– Reductions						
– Other net changes						
Depreciations and provisions for value losses as at December 31, 2005	**152**	**756**		**1,761**	**2,262**	**4,931**
Net values as at December 31, 2005		**7,629**	**3,837**	**2,239**		**13,705**

Allocations for the amortization of changes in value for the year totaled €478,000.

The RAPID brand was valued when the company was acquired in August 2000 at its fair value of €8,300,000, based on an independent valuation. Since 2003, it has been decided to amortize it over a period of 15 years, given the commercial usage period envisaged to date.

4.1.2 Other intangible assets

(in thousand euros)	Concessions, patents	Businesses	Other intangible assets	TOTAL
Gross values as at December 31, 2004	**9,563**	**8,621**	**381**	**18,565**
– Change in perimeter	2,766	(56)		2,710
– Increases	1,127	33	70	1,230
– Reductions	(404)		(4)	(408)
– Changes in foreign exchange rates	(19)		3	(16)
– Other net changes	320	120	(376)	64
Gross values as at December 31, 2005	**13,353**	**8,718**	**74**	**22,145**
Depreciations and provisions for value losses as at December 31, 2004	**7,635**	**234**	**289**	**8,158**
– Change in perimeter	2,195	(23)		2,172
– Increases	1,866		102	1,968
– Reductions	(573)		(4)	(577)
– Changes in foreign exchange rates	8			8
– Other net changes	492	120	(335)	277
Depreciations and provisions for value losses as at December 31, 2005	**11,623**	**331**	**52**	**12,005**
Net values as at December 31, 2005	**1,730**	**8,387**	**22**	**10,140**

4.2 Tangible assets

4.2.1 Fully owned tangible 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, 2004	**7,970**	**54,316**	**276,229**	**38,211**	**8,294**	**385,020**
– Change in perimeter	3,268	20,093	40,192	7,431	612	48,235
– Increases	1,178	2,248	25,631	2,989	14,417	46,463
– Reductions	(1)	(462)	(7,563)	(1,708)	(7)	(9,741)
– Changes in foreign exchange rates	6	350	5,526	345	357	6,584
– Other net changes	8	4,066	7,279	(5,777)	(10,636)	(5,060)
Gross values as at December 31, 2005	**12,429**	**80,611**	**347,294**	**41,491**	**13,037**	**494,862**
Depreciations and provisions for value losses as at December 31, 2004	**850**	**28,958**	**180,717**	**21,136**		**231,661**
– Change in perimeter		2,974	20,050	4,670		27,694
– Increases		2,907	22,848	4,326		30,081
– Reductions	(53)	(868)	(8,623)	(1,615)		(11,159)
– Changes in foreign exchange rates		379	2,432	276		3,087
– Other net changes		(3,632)	842	(1,056)		(3,846)
Depreciations and provisions for value losses as at December 31, 2005	**797**	**30,718**	**218,266**	**27,737**		**277,518**
Net values as at December 31, 2005	**11,632**	**49,893**	**129,028**	**13,754**	**13,037**	**217,344**

4.2.2 Tangible assets under a lease finance agreement

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Fixed assets in progress	TOTAL
Gross values as at December 31, 2004	**198**	**5,611**	**16,976**			**22,785**
– Change in perimeter	(198)	(815)	(10,394)			(11,407)
– Increases			1,269			1,269
– Reductions						
– Changes in foreign exchange rates			16			16
– Other net changes						
Gross values as at December 31, 2005		**4,796**	**7,867**			**12,663**
Depreciations and provisions for value losses as at December 31, 2004		**3,105**	**12,165**			**15,270**
– Change in perimeter		(440)	(7,875)			(8,315)
– Increases		132	1,059			1,191
– Reductions						
– Changes in foreign exchange rates			2			2
– Other net changes						
Depreciations and provisions for value losses as at December 31, 2005		**2,797**	**5,351**			**8,148**
Net values as at December 31, 2005		**1,999**	**2,516**			**4,515**

4.2.3 Operating lease agreements

The main assets required for operations that do not belong to the Group or its subsidiaries are two industrial buildings and office space (head office). Other operating lease agreements mainly relate to office automatique equipment and vehicles.

In total, the annual expense in 2005 was approximately €0.9m.

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

4.3 Long-term financial assets

4.3.1 Long-term financial assets

(in thousand euros)	Non consolidated equity interests	Other interests	Loans granted	Other financial assets	TOTAL
Gross values as at December 31, 2004	**8**	**36**	**40**	**3,924**	**4,008**
– Change in perimeter		(6)		12	6
– Increases			3	580	583
– Reductions		(1)	(6)	(91)	(98)
– Changes in foreign exchange rates				595	595
– Other net changes		7		4	11
Gross values as at December 31, 2005	**8**	**36**	**37**	**5,024**	**5,105**
Depreciations and provisions for value losses as at December 31, 2004	**1**	**4**			**5**
– Change in perimeter					
– Increases					
– Reductions					
– Changes in foreign exchange rates					
– Other net changes					
Depreciations and provisions for value losses as at December 31, 2005	**1**	**4**			**5**
Net values as at December 31, 2005	**7**	**32**	**37**	**5,024**	**5,100**

Other financial assets are primarily comprised of payments made for the life insurance contracts of the US companies, for €4.7m. Payments of deposits and guarantees amounted to €0.3m.

4.3.2 Other non-current assets

The content and main changes relative to that entry call for no specific remark as at December 31, 2005. As at December 31, 2004, the item was comprised of deferred charges on the issue costs of OBSARs, which have now been settled.

4.4 Current assets

4.4.1 Inventories

(in thousand euros)	Raw materials and other supplies	Tools	Supplies	Other procure-ments	Work in process	Finished and inter-mediary products	Goods	TOTAL
Gross values as at December 31, 2004	**25,285**	**3,513**		**1,508**	**43,191**	**51,708**	**14,294**	**139,499**
– Change in perimeter	1,676	125	260	147	4,468	4,750	4,856	16,282
– Of which increases	1,828	287	260	247	4,468	6,176	4,856	18,122
– Of which reductions	(152)	(162)		(100)		(1,426)		(1,840)
– Changes in foreign exchange rates	914	136		5	1,394	1,744	58	4,251
– Change in inventories	3,710	(455)	97	(43)	5,051	2,762	4,266	15,388
– Change in method							(534)	(534)
Gross values as at December 31, 2005	**31,585**	**3,319**	**357**	**1,617**	**54,104**	**60,964**	**22,940**	**174,886**
Depreciations and provisions for value losses as at December 31, 2004	**2,850**	**346**		**290**	**1,995**	**16,015**	**2,992**	**24,487**
– Change in perimeter	(21)			(10)		(26)		(57)
– Of which increases						702		702
– Of which reductions	(21)			(10)		(728)		(759)
– Reserve allocations	920	384		274	1,518	4,260	297	7,653
– Provision reversals	(251)	(346)		(257)	(1,035)	(5,276)	(267)	(7,432)
– Changes in foreign exchange rates	97				191	708	17	1,013
Depreciations and provisions for value losses as at December 31, 2005	**3,595**	**384**		**297**	**2,669**	**15,681**	**3,039**	**25,665**
Net values as at December 31, 2005	**27,990**	**2,935**	**357**	**1,320**	**51,435**	**45,283**	**19,901**	**149,221**

The calculation of value losses on inventories of finished products and works in progress is based on an approach that takes into account article turnover and completion times.

4.4.2 Trade and other receivables

(in thousand euros)	2005	2004
Gross accounts receivable	100,623	87,595
Depreciation of trade and other receivables	(3,421)	(2,939)
Net accounts receivable	97,202	84,656
State – Other taxes and duties	8,017	4,732
Translation differential assets	288	271
Deferred expenses	2,342	2,427
Other	4,972	6,916
Other receivables	15,620	14,346
Total trade and other receivables	**112,822**	**99,002**

4.4.3 Short-term financial assets

These include the marketable securities held by the Group for €34.9m, the net asset value being identical as at December 31, 2005. The latter are recorded at their fair value, and value adjustments are recorded into the income statement.

4.4.4 Cash and cash equivalents

The cash available as at December 31, 2005 stood at €13m. It was mainly comprised of current bank accounts in euros and currencies.

4.5 Shareholders' equity

The Group's shareholders' equity stood at €276.2m as at December 31, 2004, and at €310.2m as at December 31, 2005, up €33.9m.

This change takes into account the following main factors:

- €+35.6m of Group's share of net profit,
- €+9.3m of translation differentials related, in particular, to the dollar,
- €-8.7m of dividends paid in May 2005,
- €-6.7m of change in method due to the restatement of treasury shares (or 287,108 LISI shares) due to the first application of IAS 32 and 39 standards.

Besides, the consolidated reserves are impacted by a change in accounting method related to the taking into account, as of January 1, 2005, of the restatement of margins on inventories by the Automotive Division.

The 2005 dividends subjected to the approval of the Shareholders' General Meeting of May 10, 2006 (not recorded) and the amount per share break down as follows:

	2005	2004
Amount distributed in million euros	10.70*	8.70
Dividend per share in euros	1.08	0.90

(*) Estimate based on shares that entitled their holders to dividends on the date of the Board held February 22, 2006, or 9,896,834 shares.

4.6 Provisions

Changes in provisions break down as follows:

(in thousand euros)	As at January 1, 2004	Provisions (net of reversals)	As at December 31, 2004	Provisions	Reversals (used amounts)	Reversals (unused amounts)	Restatements	Entry into / Exit from perimeter	Foreign exchange translation adjustments	As at December 31, 2005
Environmental	4,491	2,496	6,987	808	(272)		1,060	125	698	9,406
Guarantees to clients	1,572	(15)	1,557	9	(24)			25	112	1,679
Taxes	738	(119)	619	400	(147)				1	873
Pensions and retirement	19,036	(625)	18,411	900	(345)			1,147	567	20,680
Subtotal non-current provisions	**25,837**	**1,737**	**27,574**	**2,117**	**(788)**		**1,060**	**1,297**	**1,378**	**32,638**
Litigation	4,009	1,307	5,316	1,324	(3,747)			900		3,793
Restructuring of manufacturing operations	344	229	573		(248)					325
Pension plans	92	(92)								
Losses on foreign exchange rates	254	9	263	110	(218)			(45)		110
Other	3,716	1,653	5,369	1,411	(1,521)	(2,611)	(1,060)	1,027	26	2,641
Subtotal current provisions	**8,415**	**3,106**	**11,521**	**2,845**	**(5,734)**	**(2,611)**	**(1,060)**	**1,882**	**26**	**6,868**
Total	**34,252**	**4,843**	**39,095**	**4,962**	**(6,522)**	**(2,611)**		**3,179**	**1,404**	**39,506**
Of which as current operating profit				*4,531*	*(4,685)*	*(2,611)*				
Of which as operating profit				*321*	*(1,619)*					
Of which as financial income				*110*	*(218)*					

Current provisions

Current provisions cover the provisions directly related to the operating cycle of each division, regardless of their estimated due dates. Provisions for legal disputes concern mainly disputes with customers, subcontractors, and suppliers. Provisions for other current risks are also mainly comprised of provisions for late penalties, provisions for layoffs, and other operating risks.

Non-current provisions

Non-current provision are provisions not directly related to the operating cycle, whose due date is generally within more than one year. They also comprise provisions for environmental risks and provisions for retirement.

The main provisions concern retirement commitments and additional benefits granted to employees (see Note 8), as well as environmental risks, which concern primarily the industrial sites. Provisions that were up to now recorded as other risks by the COSMETICS B.U have been restated as environmental provisions; they cover "asbestos" and "depollution" risks.

4.7 Financial debt

a) Breakdown by nature

(in thousand euros)	2005	2004
Non-current share		
Mid-term loans	72,433	35,764
OBSAR	47,120	50,134
Debt related to lease agreements	1,035	1,921
Employee profit-sharing (frozen on a current account)	5,242	3,276
Other financial debts	17	22
Subtotal non-current financial debt	125,847	91,117
Current share		
Banking facilities for operations	28,497	11,077
Mid-term loans	22,890	21,535
Debt related to lease agreements	1,458	1,113
Employee profit-sharing (frozen on a current account)	785	1,625
Other financial debts	5,000	–
Subtotal current financial debt	58,630	35,350
Total financial debt	**184,477**	**126,467**

b) Breakdown by maturity date

(in thousand euros)	2005	2004
Borrowings		
Less than one year	22,890	21,535
Between 2 and 5 years	102,176	34,908
More than 5 years	17,378	50,990
	142,443	***107,433***
Other financial debts		
Less than one year	35,740	13,815
Between 2 and 5 years	6,247	5,196
More than 5 years	47	23
	42,034	***19,034***
Loans and financial debts	**184,477**	**126,467**

c) Breakdown by currency

The various borrowings and loans taken out from credit institutions are denominated in euros or US dollars for US companies. The Group's bank debts therefore do not expose it to any foreign exchange risk.

d) Breakdown by interest rate category

Below is a table that summarizes the Group's most significant borrowings, broken down between fixed rate and variable rate.

Contracting entities	Nature of the loan	Fixed rate	Variable rate	Total amount in €M	Capital due as at 12/31/2005 in €M	Maturity date	Rate or currency hedging instruments	Condition of the collaterals used to guarantee the loans
LISI S.A.	OBSAR [1]		Euribor 3 Months – margin	50.1	47.1	2010	Partly hedged by a SWAP	
LISI S.A.	Syndicated loan [2]		Euribor 3 Months + margin	76.4	13.4	2007		Pledging of LISI AUTOMOTIVE securities
HI-SHEAR Corporation	Syndicated loan [3]		Libor 3 Months USD + margin	29.6	12.2	2009	Partly hedged by a SWAP and a CAP	
LISI AEROSPACE	Conventional loan		Libor 3 Months USD + margin	2.9	2.9	2010	Partly hedged by a SWAP and a CAP	
LISI COSMETICS	Conventional loan		Euribor 3 Months + margin	1.6	1.3	2008		Pledging of equipment
	Conventional loan		Euribor 3 Months + margin	0.8	0.7	2009		Pledging of equipment
	Conventional loan		Euribor 3 Months + margin	0.7	0.7	2012		Letter of intentionLISI S.A.
	Conventional loan		Euribor 3 Months + margin	1.0	1.0	2012		Letter of intentionLISI S.A.
	Conventional loan		Euribor 3 Months + margin	0.5	0.5	2010		Letter of intentionLISI S.A.
	Conventional loan		Euribor 3 Months + margin	0.6	0.6	2010		Letter of intentionLISI S.A.
LISI AUTOMOTIVE Former	Conventional loan		Euribor 3 Months + margin	1.5	0.1	2006		
	Conventional loan		Euribor 3 Months + margin	2.0	0.1	2006		
	Conventional loan		Euribor 3 Months + margin	2.5	0.8	2007		
	Conventional loan		Euribor 6 Months + margin	2.5	2.3	2010		
LISI AUTOMOTIVE Mohr und Friedrich	Conventional loan		Euribor 3 Months + margin	1.0	0.2	2006		
	Conventional loan		Euribor 3 Months + margin	0.8	0.5	2009		
LISI AUTOMOTIVE Mecano	Conventional loan	5.44%		2.9	1.0	2008		Guarantee from Rapid
	Conventional loan	4.50%		5.1	1.9	2008		Guarantee from Rapid
LISI AUTOMOTIVE	Conventional loan [4]		Euribor 6 Months + margin	4.0	4.0	2012		Letter of intentionLISI S.A.
	Conventional loan [5]		Euribor 3 Months + margin	4.0	4.0	2012		Letter of intentionLISI S.A.
	Conventional loan [6]		Euribor 3 Months + margin	4.0	4.0	2012		Letter of intentionLISI S.A.
	Conventional loan		Euribor 3 Months + margin	4.0	4.0	2012		Letter of intentionLISI S.A.
	Conventional loan [7]		Euribor 3 Months + margin	3.0	2.9	2010		Letter of intentionLISI S.A.
Schrauben und Draht Union GmbH	Conventional loan	6.45%		2.0	1.2	2017		
	Conventional loan	3.85%		0.6	0.6	2006		
	Conventional loan	3.85%		0.4	0.4	2006		
BETEO GmbH	Conventional loan	4.35%		1.0	0.8	2011		
KNIPPING España S.A	Conventional loan		Euribor 3 Months + margin	0.4	0.3	2010		
	Conventional loan		Euribor 3 Months + margin	0.3	0.2	2009		
	Conventional loan		Euribor 3 Months + margin	0.5	0.2	2007		
	Conventional loan		Euribor 3 Months + margin	0.3	0.2	2007		
	Conventional loan		Euribor 3 Months + margin	5.0	4.8	2018		
	Conventional loan		Euribor 3 Months + margin	1.5	1.4	2020		
	Conventional loan		Euribor 3 Months + margin	0.3	0.3	2010		
KNIPPING Umformtechnik GmbH	Conventional loan	7.24%		1.1	0.7	2011		
	Conventional loan	6.84%		1.8	0.4	2006		
KNIPPING Verbindungstechnik GmbH	Conventional loan	6.60%		0.7	0.3	2009		Letter of intention
	Conventional loan	5.20%		1.3	0.3	2006		Letter of intention
	Conventional loan	1.50%		1.1	0.6	2017		Letter of intention
	Conventional loan	6.45%		1.1	0.2	2007		Letter of intention
	Conventional loan	5.20%		1.0	0.3	2006		Letter of intention
	Conventional loan	5.75%		0.8	0.8	2009		Letter of intention
	Conventional loan	6.95%		2.7	1.0	2007		Letter of intention
	Conventional loan	5.50%		0.8	0.8	2008		Letter of intention
	Conventional loan	6.70%		2.5	0.9	2007		
	Conventional loan	5.00%		0.8	0.8	2009		
	Conventional loan	4.15%		0.6	0.6	2010		
	Conventional loan	6.35%		2.5	0.9	2007		
	Conventional loan	5.50%		0.8	0.8	2010		
	Conventional loan		Euribor 3 Months + margin	1.5	1.5	2009		
	Conventional loan		Euribor 3 Months + margin	3.0	3.0	2010		
KKP	Conventional loan	4.75%		1.5	0.4	2007		
	Conventional loan		Euribor 3 Months + margin	2.5	1.5	2009		

In order to handle the risk related to interest rate fluctuations on variable rate loans, the Group has entered into interest rate SWAP and CAP contracts (the characteristics of these instruments are described in Note 9.4 "Commitments".

The Group has not bank facilities based on its credit rating. The contracts entered into include conventional clauses regarding the financial health of the Group or its subsidiaries. The definition and levels of ratios, also called "financial covenants", are set by prospective mutual agreement with the credit institutions. Compliance with these ratios is assessed once a year only, at year end. Failure to comply with these ratios entitles the credit institutions to impose early repayment (total or partial) of the facilities granted.

For the reader's information, the financial "covernants" related to each loan are described below:

1) OBSAR LISI S.A. (for its bond portion only)

Each bond, with a face 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.

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.

As at December 31, 2005, the total number of bonds allocating the right to one LISI share per bond was 1,066,685.

- Method used to calculate the margin: fixed margin

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 an early redemption 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.

Early redemption mandatory whenever:

- the company opts to implement early redemption 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 outstanding at an early redemption price equal to the face value plus interest earned up to the date set for redemption, at most 2 months after the BSAR bearers are informed of the redemption.

Early redemption due to default:

Bonds will become collectible in the event of the Group or one of its major subsidiaries defaulting.

2) LISI S.A. syndicated loan

- Method used to calculate the margin:

- 1st tranche: fixed margin;

- 2nd tranche: variable margin based on Gearing (+ or -0.20%).

Early redemption: acceleration on default

- Gearing less than or equal to 1.2 for a maximum of 2 consecutive years and < 1 during the other years;
- Net debt < 3.5 years of financing self capacity.

3) HI-SHEAR Corporation syndicated loan

- Method used to calculate the margin:

- variable margin based on Gearing (+ or -0.25%).

Early redemption cases:

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

4) LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:

- < 0.25: 0.25% per annum.

- >= 0.25 and < 0.40: 0.30% per annum,

- >= 0.40 and < 0.80: 0.375% per annum,

- >= 0.80 and < 1.00: 0.475% per annum,

- >= 1.00 and < 1.20: 0.60% per annum.

Early redemption: acceleration on default

- Net debt / Shareholders' equity < 1.2.
- Net debt < 3.5 years of cash flow.

5) LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:

- < 0.25: 0.25% per annum,

- >= 0.25 and < 0.40: 0.30% per annum,

- >= 0.40 and < 0.80: 0.375% per annum,

- >= 0.80 and < 1.00: 0.475% per annum,

- >= 1.00 and < 1.20: 0.60% per annum.

Early redemption: acceleration on default

- Net debt / Shareholders' equity < 1.2.
- Net debt < 3.5 years of cash flow.

6) LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:

- <= 0.50: 0.40% per annum,

- > 0.50 and < 0.75: 0.45% per annum,

- >= 0.75: 0.50% per annum.

Early redemption: acceleration on default

- Consolidated net debt / Consolidated shareholders' equity < 1.2.
- Consolidated net debt / Consolidated cash flow < 3.5.

7) LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin: fixed margin

Early redemption: acceleration on default

- Net debt / EBITDA <= 2.5.
- Net debt / Shareholders' equity <= 1.2.

e) Guarantees

(in million euros)	Capital remaining due as at December 31, 2005
Guarantees and deposits	24.6
Mortgages and pledged assets	15.4
Total	**40.0**

The guarantees and deposits granted by the Group to cover loans taken out from credit institutions are mainly comprised of:

- Letters of intention delivered by the Group to banks for €21.7m as part of:

- The partial funding of the acquisition of KNIPPING by LISI AUTOMOTIVE for €18.9m (acquisition cost €25.1m),
- The acquisition of equipment by LISI COSMETICS for a total of €2.8m.

- Pledging by LISI S.A. 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, 2005 amounted to €26.7 million.

- Pledging by LISI COSMETICS of tangible assets for their financing. The capital that remained due on December 31, 2005 amounted to €2m.

The summary of pledges and mortgages granted by the Group is as follows:

Type of pledge/ mortgage	Pledge start date	Pledge expiry date	Value (€ thousands) of initially pledged shares (a)	Balance of pledged shares (b)	Balance of pledged equipment (c)	Total balance sheet item (€ thousands) (d)	% corresponding (b) / (d) or (c) / (d)
On intangible fixed assets	-	-	-	-	-	-	-
On tangible fixed assets	2003	2009	2,400	-	2,000	41,770	4.79%
On financial fixed assets	06/2000	09/2007	93,636	13,370	-	150,048	8.91%
TOTAL			**96,036**	**13,370**	**2,000**	**191,818**	**8.01%**

f) Market risks

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.

• Cash flow management

Cash flow management is centralized by the various divisions and by the financial department of the Group. Excess cash is escalated to LISI S.A., which invests it with a view to achieving maximum, risk-free, liquidity. Current investments include monetary funds and interest-bearing deposits. Their investment involves no risk on capital.

• **Liquidity risk**

As at December 31, 2005, the Group's cash position stood at €19m. This amount corresponds to the gross cash position, minus all bank overdrafts. The ratio between net debt and shareholder's equity came out to 44%, to be compared with 13.6% as at December 31, 2004.

(in thousand euros)	2005	2004
Financial assets	34,945	80,278
Cash and cash equivalents	13,045	8,535
Available cash	**47,990**	**88,813**
Banking facilities for operations	28,497	11,077
Net cash	**19,493**	**77,736**
Loans	142,443	107,433
Other financial debts	13,537	7,957
Financial debts	**155,980**	**115,390**
Net financial indebtedness [A]	**136,487**	**37,654**
Group equity [B]	**310,175**	**276,235**
Indebtedness ratio (in %) [A / B]	**44.0%**	**13.6%**

• **Interest rate risk**

Market risks related to interest rate fluctuations are handled in a centralized manner by the Group's financial department. The Group has as its policy to limit its exposure to interest rate fluctuations. To achieve that goal, the Group uses derivatives such as interest rate SWAPs, CAP and FLOOR contracts.

These hedging positions are negotiated by private contracts with banks. Despite the fact interest rate risks are under control, the Group having taken out new variable rate loans at end 2005, it is exposed to additional expenses or to a potential loss should interest rates risk.

As at December 31, 2005, the Group's net variable rate position broke down as follows:

(in thousand euros)	2005
Loans – variable rates	115,952
Financial assets	29,945
Cash and cash equivalents	13,045
Net cash before management	**72,962**
Interest rate CAP	7,714
Interest rate SWAP	25,000
Hedging	**32,714**
Net cash after management	**40,248**

Based on the rate that was current on December 31, 2005, 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 €400,000, or 8.1% of total financial expenses for 2005.

• **Exchange rate risk**

On one hand, the Group's flows relate essentially to non-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. 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: the US dollar, the Canadian dollar, and the Pound.

• **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.

4.8 Deferred taxes

(in thousand euros)	2005	2004
Deferred tax assets	16,436	13,242
Deferred tax liabilities	29,208	26,118
Net deferred taxes	(12,772)	(12,876)

Non recognized deferred tax assets:

The Company does not recognize its deferred tax assets whenever it has no sufficient assurance that it will recover carried forward deficits and tax credits.

5. DETAILS OF ENTRIES ON THE INCOME SHEET

5.1 Purchases of consumables

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	OTHER ACTIVITIES	ELIMINATIONS	TOTAL 2005	TOTAL 2004
Consumption of goods	8,031	30,953	1		(3,142)	35,843	22,667
Consumption of raw materials	37,054	56,796	3,500			97,350	75,660
Machinery	13,280	14,296	1,871		(2)	29,445	25,884
Other purchases	2,588	8,124	3,984	16		14,712	11,836
Total purchases	**60,953**	**110,169**	**9,356**	**16**	**(3,144)**	**177,350**	**136,047**

For 2005, the increase in raw material prices in all divisions, and mainly in the Automotive Division, combined with the effect of the rise in volumes, has caused this expense item to rise dramatically.

5.2 Other purchases and external expenses

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	OTHER ACTIVITIES	ELIMINATIONS	TOTAL 2005	TOTAL 2004
Outsourcing	8,818	25,845	2,131			36,794	38,005
Maintenance	4,364	11,885	1,418	39	(9)	17,697	15,401
Transportation	3,342	8,120	622			12,084	10,119
Energy	3,643	7,178	1,159	4		11,984	9,760
Other external costs	17,456	21,381	2,370	1,205	(5,830)	36,582	35,869
Total other purchases and external expenses	**37,623**	**74,409**	**7,700**	**1,248**	**(5,839)**	**115,141**	**109,154**

We observe:

- That outsourcing has been limited, particularly at LISI AUTOMOTIVE,
- An increase in maintenance expenses due to a high usage rate, particularly at LISI AEROSPACE,
- A strong increase in energy (+23%) and transportation (+19%) due to the rise in oil prices,
- Good control over "Other external costs", which is up pursuant to the consolidation of KNIPPING.

5.3 Personnel expenses

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	OTHER ACTIVITIES	ELIMINATIONS	TOTAL 2005	TOTAL 2004
Temporary employee expense	7,302	4,945	144		(22)	12,369	10,254
Salaries and wages	66,825	78,464	11,713	1,512		158,514	136,405
Social contributions and taxes on salaries	26,355	29,635	5,057	551		61,598	54,174
Profit sharing	2,374	206				2,580	3,868
TOTAL personnel expenses	**102,856**	**113,250**	**16,914**	**2,063**	**(22)**	**235,061**	**204,701**

For 2005, personnel expenses stood at €235m, up 14.6% from the previous year. This move breaks down as follows:

- A 10.7% rise in head count on an average full time head count basis,
- A rise in temporary workers in excess of €2m,
- A decline in profit sharing of €1.3m,
- The balance is due to the rise in salaries over the period.

5.4 R&D expenses

These are mainly comprised of personnel expenses dedicated to R&D services. For 2005, they stood at €10.1m, equal to their 2004 level.

5.5 Non-recurring operating expenses and revenues

(in thousand euros)	2005	2004
Non-recurring operating income		
Sale price of fixed assets disposals	1,685	2,221
Insurance payments		796
Redundancy plan provision reversals	1,619	
Total	**3,304**	**3,017**
Non-recurring operating costs		
Net book value of fixed assets disposals	(590)	(2,402)
Disposal of LISI COSMETICS Italy		(3,286)
LISI AUTOMOTIVE Gradel goodwill		(3,957)
LISI AUTOMOTIVE Gervais Le Pont merger	(502)	
Disposal of LISI AUTOMOTIVE Gradel	(4,717)	
Redundancy plans	(1,430)	
Disposals of assets	(321)	
Reserve allowance for redundancy plans		(309)
Total	**(7,560)**	**(9,954)**
Result of non-recurring operations	**(4,256)**	**(6,937)**

Non-recurring items are defined as income and expenses 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 unusual nature,
- their random occurrence, such as expenses or compensation received for losses, costs resulting from shutdowns, restructurings, or site relocations, goodwill amortization, and capital gains and losses on the sale of non-recurring, tangible and intangible assets.

To the company's knowledge, no other legal disputes, arbitrations 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.

5.6 Financial result

(in thousand euros)	2005	2004
Cost of financing		
Financial income	2,321	2,501
Impact of the change in fair value of financial instruments	40	
Financial expenses	(8,001)	(5,240)
Subtotal cost of financing	**(5,640)**	**(2,739)**
Other financial revenues and expenses		
Foreign exchange gains	2,429	963
Foreign exchange losses	(1,670)	(1,209)
Other	(70)	
Subtotal other financial revenues and expenses	**688**	**(244)**
Total	**(4,951)**	**(2,985)**

5.7 Company taxation

a) Breakdown of income tax

(in thousand euros) Breakdown	Earnings before restated tax	Restated tax	Earnings after restated tax
Income from ordinary operations	59,011	(21,358)	37,653
Income from other operations	(4,243)	1,248	(2,995)
Employee profit-sharing	(144)	(154)	(298)
Tax credit		(122)	(122)
Tax integration taxes		1,360	1,360
Earnings	54,624	(19,026) a	35,598

a of which taxes due: €19,445 K
of which deferred taxes: €(419) K

b) Reconciliation between the actual tax burden and the theoretic calculated tax burden

(in thousand euros)	
Theoretical rate (on the basis of French taxation rates)	34.43%
Theoretical tax on the basis of French taxation rates	18,807
Total theoretical tax	**18,807**
Tax exemption for foreign subsidiaries	(284)
Non activated deferred tax assets	1,539
Tax credits for foreign subsidiaries	(1,604)
Tax credits for French subsidiaries	(122)
Taxation rate differential for foreign subsidiaries	692
Other changes	(2)
Reported tax	**19,026**
Apparent tax	34.83%

c) Tax rates applied by LISI Group companies

Germany	40.00%
Great-Britain	30.00%
Canada	34.12%
Spain	35.00%
United States	40.00%
France	34.43%
Czech Republic	28.00%

5.8 Earnings per share

The basic earnings per share is calculated on the basis of the average weighted number of shares outstanding for the period, minus the average weighted number of treasury shares.

The diluted earnings per share takes into account the average weighted number of shares that would have been outstanding under the assumption that all potentially dilutive instruments (OBSARs, i.e. bonds with redeemable share subscription warrants) were converted into shares.

The tables below indicate the reconciliation between the non diluted and the diluted earnings per share.

2005	Earnings *	Number of shares	Earnings per share**
Total number of shares		9,896,834	
Treasury shares		(292,135)	
Non-diluted earnings per share	**35,572**	**9,604,699**	**3.70**
OBSAR		1,066,685	
Diluted earnings per share	**35,572**	**10,671,384**	**3.33**

(*) in thousand euros
(**) in euros

2004	Earnings *	Number of shares	Earnings per share**
Total number of shares		9,884,336	
Treasury shares		(316,719)	
Non-diluted earnings per share	**31,399**	**9,567,617**	**3.28**
OBSAR		711,123	
Diluted earnings per share	**31,399**	**10,278,741**	**3.05**

(*) in thousand euros
(**) in euros

6. OPERATING CASH FLOW

(in thousand euros)	2005
Earnings	**35,598**
Elimination of depreciation and non-recurring financial provisions	27,509
Elimination of the change in deferred taxes	(465)
Elimination of capitals gains and losses on asset disposals	3,486
Elimination of other changes	663
Cash flow	**66,791**
Net change in operating reserves	839
Operating cash flow	**67,630**

7. SHARE-BASED PAYMENTS

Share purchase options

The Group operates executive and employee share purchase option plans. In compliance with IFRS 2 "share-based payment", equity-settled instruments are measured by the value of the equity instruments at grant date. The Group uses the binomial model to value these instruments.

Options granted before November 7, 2002 and which did not vest before the January 1, 2004 have not been accounted for, as permitted by IFRS 2. Consequently, for 2005, a charge of €0.3m was recorded. A charge for the same amount was recorded in 2004.

Only one options plan has an impact on the income statement for 2005:

Date allocated	June 25, 2003
Option exercise price	€20.33
Contractual maturity	8 years
Number of shares allocated	163,000

The options will vest on June 26, 2007, i.e. a vesting period of four years from the grant date.

The value of these options at their grant date has been established on the following basis:

Date allocated	June 25, 2003
Option exercise price	€24.00
Contractual maturity	8 years
Volatility	30%
Risk-free interest rate	5.0%
Dividend rate	2.5%
Fair value of option	€9.09

The estimated life of these options is determined using assumptions that aim to model the behavior of the beneficiaries on the basis of the intrinsic value of the option. The volatility is calculated on the basis of the historical volatility of the LISI share price.

The fair value of the options thereby established is recorded linearly in employee expenses between the grant date and the end of the vesting period, with a corresponding amount in equity.

	Number	Average weighted price of options in €
Options outstanding at year start	**263,380**	**21.47**
Options allocated during the period	–	
Options cancelled during the period	(11,000)	20.33
Options exercised during the period *	(68,910)	23.55
Options that reached maturity during the period	–	
Options outstanding at year end	**183,470**	**20.76**

(*) Average weighted price of the share on its exercise date.

The table below provides information on share options outstanding at December 31, 2005:

Date of option allocation	Exercise price in euros	Number of options outstanding as at December 31, 2005	Of which, options that could be exercised	Residual contractual life
12/15/1999	22.70	23,170	23,170	12/14/2007
03/01/2001	27.82	9,300	9,300	02/28/2009
12/06/2001	18.81	30,000	30,000	12/05/2009
06/25/2003	20.33	121,000	–	06/24/2011
Total		**183,470**	**62,470**	

8. COMMITMENTS TO THE PERSONNEL

In accordance with the laws and practices of each of the countries in which the Group operates, employees and former employees are offered, in particular under certain service conditions, the payment of pensions or benefits at retirement. These benefits may be paid within the framework of fixed contribution or fixed benefit plans.

The geographical distribution of commitments undertaken by the Group to personnel on December 31, 2005 concerning fixed benefit plans and the main assumptions used for their valuation are as follows:

	Euro zone	United States	UK
Actuarial debt (in thousand euros)	13,385	11,015	14,738
Discount rate	4.1%	5.7%	4.7%
Increase in wages and salaries	2.5%	NA	3.9%

The long term forecast for funds has been established on the basis of the allocation of assets and the forecast yields for each of their components. The yields thereby obtained are equal to 6.0% for hedging assets in American plans and 6.1% for UK plans.

Furthermore, the Group's contributions in 2005 to retirement funds and payments to eligible parties totaled €2.5m. The corresponding amount for 2006 is estimated at €1.9m.

On December 31, 2005, the allocation of hedging assets was as follows:

Shares	61.7%
Bonds	38.2%
Others	0.1%
Total	100.0%

The following table gives details of the changes in actuarial debt during 2005 and of the market value of hedging assets (in thousand euros):

Changes in actuarial debt

Actuarial debt at year start	31,751
Cost of services rendered over the period	1,225
Cost of accretion	1,757
Contributions paid by personnel	246
Benefits paid	(2,143)
Reductions	–
Settlements	–
Changes in regime	–
Changes in consolidation perimeter	4,082
Translation adjustments	1,838
Actuarial losses (gains)	832
Actuarial debt at year end	39,588
Of which totally or partly financed actuarial debt	*24,607*
Of which non financed actuarial debt	*14,981*

Change in market value of hedging assets

Value at year start	14,172
Contributions paid by the Group	1,333
Contributions paid by employees	246
Benefits levied on funds	(923)
Settlements	–
Expected yield from regime assets	934
Translation adjustments	1,279
Actuarial gains (losses)	959
Value at year end	18,000

The table below describes the reconciliation between the amounts recorded to the Group's consolidated financial statements and the amounts above (in thousand euros):

Non financed actuarial debt	(21,588)
Deferred actuarial losses (gains) recorded to the balance sheet	1,096
Cost of past services not yet recognized	–
Liabilities recorded at year end	(20,492)

The expense recorded by the Group during 2005 relating to fixed benefit plans totaled €2.1m and may be broken down as follows (in thousand euros):

Cost of services rendered over the year	1,225
Cost of accretion	1,757
Expected yield from regime assets	(934)
Actuarial adjustments recognized during the year	22
Cost of past services	–
Depreciation of transition asset	–
Limitation of asset	–
Reductions / Settlements	–
Change in consolidation perimeter	1
Recorded expense (income)	**2,071**

This charge is recorded in the operational statement.

9. ADDITIONAL INFORMATION

9.1 Sector information

a) Breakdown by area of activity

The LISI group is active in three markets 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 other activities mainly include the activities of the holding company.

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other lines of business	Eliminations	Total
12/31/2005						
Income component						
Revenue by line of business	243,662	339,302	37,816	5,598	(8,781)	617,597
EBITDA	45,721	41,815	2,506	2,836		92,878
EBIT	37,342	23,362	279	2,849		63,832
Operating profit	36,980	19,164	487	2,945		59,576
Profit	25,690	8,381	200	1,327		35,598
Balance sheet component						
Net fixed assets	99,281	231,112	26,983	735		358,111
Acquisitions of fixed assets	20,956	23,882	4,241	86		49,165
12/31/2004						
Income component						
Revenue	212,023	292,290	40,934	5,129	(9,405)	540,971
EBITDA	47,185	41,135	2,173	1,175		91,668
EBIT	33,701	24,710	(67)	8		58,352
Operating profit	34,175	20,573	(3,267)	(66)		51,415
Profit	23,944	10,658	(3,612)	432		31,422
Balance sheet component						
Net fixed assets	80,628	164,896	25,063	676		271,263
Acquisitions of fixed assets	11,254	16,280	2,096	14		29,644

b) Breakdown by area of activity and country

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	Total
12/31/2005						
Income component						
Revenue by destination area						
European Union	154,640	282,261	36,997	5,598	(8,781)	470,715
Of which France	*89,791*	*159,108*	*33,117*	*5,598*	*(8,781)*	*278,833*
North American continent	70,832	5,330	638			76,800
South American continent	6,182	6,809				12,992
Far East	6,168	4,068				10,236
Middle East	776	3,960				4,736
Eastern Europe	140	29,370				29,510
Other	4,923	7,503	180			12,606
Total	**243,662**	**339,302**	**37,816**	**5,598**	**(8,781)**	**617,597**
Balance sheet component						
Net fixed assets by destination area						
European Union	33,198	225,801	26,983	735		286,717
Of which France	*28,491*	*133,166*	*26,983*	*735*		*189,375*
North American continent	58,026	4,860				62,886
Middle East	8,057	451				8,508
Total	**99,281**	**231,112**	**26,983**	**735**		**358,111**
Acquisition of fixed assets by destination area						
European Union	9,375	22,649	4,241	86		36,351
Of which France	*7,931*	*18,731*	*4,241*	*86*		*30,989*
North American continent	9,779	1,021				10,800
Middle East	1,802	212				2,014
Total	**20,956**	**23,882**	**4,241**	**86**		**49,165**
31/12/04						
Income component						
Revenue by destination area						
European Union	144,786	242,700	39,988	5,129	(9,405)	423,198
Of which France	*88,135*	*157,662*	*36,263*	*5,129*	*(9,405)*	*277,784*
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	**212,023**	**292,290**	**40,934**	**5,129**	**(9,405)**	**540,971**
Balance sheet component						
Net fixed assets by destination area						
European Union	29,478	161,013	25,063	676		216,230
Of which France	*25,416*	*134,852*	*25,063*	*676*		*186,007*
North American continent	44,447	3,655				48,102
Middle East	6,703	228				6,931
Total	**80,628**	**164,896**	**25,063**	**676**		**271,263**
Acquisition of fixed assets by destination area						
European Union	6,050	16,059	2,096	14		24,219
Of which France	*5,077*	*13,336*	*2,096*	*14*		*20,523*
North American continent	3,980	186				4,166
Middle East	1,224	35				1,259
Total	**11,254**	**16,280**	**2,096**	**14**		**29,644**

9.2 Head count by category

Registered employees at year end	2005	2004
Managers	568	480
Supervisors	576	535
Wage-earners	4,719	4,208
Total	**5,863**	**5,223**

9.3 Information on related companies / Compensation of directors

a) Informations on related companies

The Group's only relation with its parent company is linked to the capital holding structure. However, LISI S.A. provides accounting, financial, strategic and legal support for its subsidiaries.

b) Compensation of directors

(in thousand euros)	2005	2004
Short term benefits (salaries, bonuses, others)	747	786
Benefits after employment	15	10
Other long term benefits	–	–
Benefits linked to terminations of contracts	–	–
Equity benefits	–	–
Total compensation	**762**	**796**

9.4 Commitments

The Group draws up a detailed inventory on an annual basis of all contractual obligations, financial and commercial commitments, and conditional obligations to which LISI S.A. and/or its subsidiaries are party or exposed. This inventory is updated on a regular basis by the relevant departments and reviewed by the Group's management. In order to ensure that the inventory is exhaustive, accurate and consistent, specific checking procedures are implemented, in particular including:

- regular examination of the minutes of the shareholders' General Meetings, meetings of the board of directors, associated Committees relating to contractual commitments, disputes and authorizations relating to the acquisition or sale of assets;
- reviews with banks and financial establishments of guarantees and securities;
- reviews with internal and external legal advisors of disputes and court cases in progress, environmental issues, and evaluations of the associated liabilities;
- examination of tax inspectors' reports and reassessment notices relating to previous years;
- examination with those responsible for risk management and the insurance brokers and agents of the companies with which the Group has contracted insurance in order to cover risks relating to conditional obligations;
- examination of transactions with associated parties concerning guarantees and other commitments undertaken or received;
- the general review of all contracts or contractual commitments.

a) Given within the scope of ordinary operations

(in thousand euros)	2005	2004
Debts secured with tangible assets or deposits	8,423	9,453
Balance of orders and investments	7,940	6,477
Forward sale of currencies	83	
Forward purchase of currencies	625	
Commitments given	**17,071**	**15,930**
Interest rate CAP/FLOOR	5,171	
Interest rate SWAP	27,543	34,825
Reciprocal commitments	**32,714**	**34,825**

Reciprocal commitments:

Reciprocal commitments include interest rate swap contracts signed with banks in order to cover variable-rate loans (c.f. note 4.7 Financial assets and liabilities) set up to finance acquisitions. On December 31, 2005, the characteristics of the interest-rate swap contracts were as follows:

Notional at 12/31/2005	Value in thousand euros	Start date	Maturity date	Lending rate	Net Present Value (NPV) in thousand euros
HI-SHEAR Corp.	2,120	11/25/05	07/31/08	USD 3-Month Libor	3
HI-SHEAR Corp.	2,543	01/08/03	01/10/06	USD 3-Month Libor	(39)
LISI AEROSPACE	3,051	12/30/05	12/31/08	USD 3-Month Libor	12
LISI S.A	25,000	07/27/04	05/07/07	Euribor 3 and 6 months	(424)
				Total	**(448)**

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).

c) Received within the scope of non-recurring operations

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

As coverage for 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).

2. Financial guarantees received by LISI AUTOMOTIVE within the scope of the acquisition of KNIPPING

A guarantee granted by the sellers for up to €1m, deposited to an escrow account to cover the change in assessment of pension funds or any liabilities revealed after the acquisition and not recognized at the time of purchase.

10. FOREIGN CURRENCY EXCHANGE RATE USED BY FOREIGN SUBSIDIARIES

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

		2005		2004	
		Closing	Average	Closing	Average
U.S. dollar	(USD)	1.1797	1.2380	1.3621	1.2462
Sterling Pound	(GBP)	0.6853	0.6830	0.7051	0.6793
Chinese Yuan	(RMB)	9.5204	10.1308	11.2925	10.3065
Canadian dollar	(CAD)	1.3725	1.4997	1.6416	1.6164
Czech crown	(CZK)	29.0000	29.7948	30.4640	31.4247

11. EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

a) Q1 2006 sales revenue

(in million euros)	2006	2005	Changes with new consolidation perimeter	Changes on a like-for-like and constant exchange rate basis
Q1	192.6	142.1	+35.5%	+16.5%

With growth of +35.5% of which 16.5% on a like-for-like basis, the Group has achieved a great leap forward. However, the magnitude of the movement does cause any major change in the various divisions, as background trends remain the same as during the second half of 2005.

b) Number of LISI S.A. shares

In March 2006, as a result of the subscription of LISI shares through the exercise of BSARs, the number of LISI S.A. shares rose from 9,896,834 to 9,918,654. Consequently, on the day the shares were subscribed, the number of BSARs outstanding stood at 1,044,865.

The exercise of the option relative to the BSARs has caused the shareholder FMR Corp & Fidelity to pass the threshold from 5% to 4.99%.

12. MOVE TO IFRS STANDARDS

12.1 Opening balance sheet as at January 1, 2004 and financial statements closed as at December 31, 2004

A statement by LISI S.A.'s board of directors finalized on June 22, 2005 concerning the transition to IFRS, enabling the reconciliation of accounts based on French accounting principles with those drawn up in compliance with IFRS was published on June 30, 2005.

It should be noted that the opening balance sheet from which the consolidated accounts for 2005 were drawn up has been changed as a result of the above statement on the following points:

- Tangible fixed assets: see note 12.2.4. The net impact on shareholders' equity as at January 1, 2004 was €+2.4m.
- Employee benefits: see note 12.2.2. The net impact on shareholders' equity as at January 1, 2004 was €-0.9m.

12.1.1 Description of the standards applied and interpretations retained for setting up the opening balance sheet as at January 1, 2004

IFRS compliant financial information was drawn up in accordance with first time adoption procedures defined by IFRS 1.

The retrospective application of the IFRS accounting principles retained for the setting up the opening balance sheet as at January 1, 2004 constitutes the main basis for restatement. The effects of the application of these standards as if Group had always used them have been recorded in shareholders' equity.

However, the Group has retained some optional exceptions, explicitly provided by IFRS 1 in relation to this principle of retroactive restatement.

Business combinations

Business combinations prior to January 1, 2004 have not been restated in accordance with IFRS 3.

Actuarial adjustments on pension commitments

All actuarial adjustments not recorded by the January 1, 2004 according to French accounting principles have been accounted for in the consolidated shareholder's equity as at January 1, 2004.

Foreign exchange translation adjustments

Cumulative translation adjustments as at January 1, 2004 relating to foreign operations have been balanced by a corresponding adjustment to the consolidated reserves (with no impact on total shareholder equity).

Share-based payments

The Group decided to only apply IFRS 2 to payments made in the form of equity instruments granted after November 7, 2002 and which have not fully vested by January 1, 2005.

Financial instruments

Given the late adoption of IAS 32 and 39, the Group has opted to apply these standards for the first time from January 1, 2005. The resulting impact is reported in note 12.4.

12.1.2 Reconciliation of shareholders' equity as at January 1, 2004

Restatements

January 1, 2004 (restated in accordance with IFRS standards and the layout required by French accounting principles)

(in thousand euros)	French accounting principles	Cancellation of translation differential	Elimination of goodwill amortization	Stock-options and Group savings plans	Pensions and retirement	Other restatements	IFRS after restatements
Relevant principle		IFRS 1	IAS 36	IFRS 2	IFRS 1 / IAS 19	IAS 17	
ASSETS							
Goodwill	141,838						141,838
Intangible fixed assets	17,449						17,449
Tangible fixed assets	385,181					6,389	391,570
Financial assets	3,899						3,899
Depreciation and amortization	(281,133)					726	(280,407)
Total net fixed assets	**267,234**					**7,115**	**274,349**
Net inventory	103,226						103,226
Prepayments	28						28
Accounts receivable	79,225						79,225
Other receivables	13,665						13,665
Provisions for doubtful receivables	(3,026)						(3,026)
Taxes – Claim on the State							
Deferred taxes	8,280				2,375		10,655
Marketable securities	24,688						24,688
Cash	12,428						12,428
Provision for write-down of marketable securities							
Total current assets	**238,514**				**2,375**		**240,889**
Deferred income and other accruals	4,070						4,070
TOTAL ASSETS	**509,818**				**2,375**	**7,115**	**519,308**
LIABILITIES:							
Equity (Group's share)							
Capital stock	19,734						19,734
Additional paid-in capital	27,134			151			27,285
Foreign exchange translation adjustments	(6,674)	6,674					
Retained earnings	195,545	(6,674)		(151)	(4,012)	2,553	187,261
Group's share of net income	21,001						21,001
Total shareholders' equity – Group's share	**256,740**				**(4,012)**	**2,553**	**255,281**
Minority interests							
Provisions for risks and contingencies	27,865				6,387		34,252
Deferred taxes	24,372					1,400	25,772
S/Total	**52,237**				**6,387**	**1,400**	**60,024**
Miscellaneous borrowings	100,229					3,162	103,391
Prepayments received	1,585						1,585
Accounts payable	50,638						50,638
Tax and social security liabilities	40,875						40,875
Other liabilities	3,426						3,426
Tax liability	2,358						2,358
Secured loans on fixed assets and related	1,688						1,688
Total debt	**200,799**					**3,162**	**203,961**
Deferred income and other accruals	42						42
TOTAL LIABILITIES	**509,818**				**2,375**	**7,115**	**519,308**

Reclassifications

January 1, 2004

(in thousand euros) Format compliant with French accounting principles	IFRS after restatement	Breakdown current/ non-current	Other restatements	IFRS	Format compliant with IFRS standards
Relevant principle		IAS 1			
ASSETS					**ASSETS**
					NON-CURRENT ASSETS
Goodwill	141,838		(141,838)		
Intangible fixed assets	17,449		93,851	111,300	Intangible assets
Tangible fixed assets	391,570	491	(232,419)	159,642	Tangible assets
Financial assets	3,899		(1)	3,898	Financial assets
Depreciation and amortization	(280,407)		280,407		–
Total net fixed assets	274,349	491		274,840	
		10,655		10,655	Deferred taxes
		319		319	Other non-current assets
		11,465		**285,814**	**Total non-current assets**
					CURRENT ASSETS
Net inventory	103,226			103,226	Inventories
Prepayments	28		(28)		–
Accounts receivable	79,225		(79,225)		–
Other receivables	13,665	3,260	76,227	93,152	Trade and other receivables
Provisions for doubtful receivables	(3,026)		3,026		–
Taxes – Claim on the State					–
Deferred taxes	10,655	(10,655)			–
Marketable securities	24,688			24,688	Financial assets
Cash	12,428			12,428	Cash and cash equivalents
Provision for write-down of marketable securities					–
Total current assets	240,889	**(7,395)**		**233,494**	**Total current assets**
Deferred income and other accruals	**4,070**	**(4,070)**			**–**
TOTAL ASSETS	**519,308**			**519,308**	**TOTAL ASSETS**

January 1, 2004

(in thousand euros) Format compliant with French accounting principles	IFRS after restatement	Breakdown current/ non-current	Other restatements	IFRS	Format compliant with IFRS standards
Relevant principle		IAS 1			
LIABILITIES					**SHAREHOLDERS' EQUITY AND LIABILITIES**
					SHAREHOLDERS' EQUITY
Equity (Group's share)					
Capital stock	19,734			19,734	Capital stock
Additional paid-in capital	27,285			27,285	Additional paid-in capital
Foreign exchange translation adjustments					–
Retained earnings	187,261		(187,261)		–
			208,262	208,262	Consolidated reserves
Group's share of net income	21,001		(21,001)		–
Total shareholders' equity – Group's share	255,281			255,281	Total shareholders' equity – Group's share
Minority interests					Minority interests
				255,281	Total shareholders' equity
					LONG-TERM LIABILITIES
Provisions for risks and contingencies	34,252		(8,415)	25,837	Long-term provisions
		60,678		60,678	Financial debt
					Other long-term liabilities
Deferred taxes	25,772			25,772	Deferred taxes
S/Total	60,024	60,678	(8,415)	112,287	
		60,678	**(8,415)**	**367,568**	**Total long-term liabilities**
					SHORT-TERM LIABILITIES
			8,415	8,415	Short-term liabilities
Miscellaneous borrowings	103,391	(103,391)			–
		42,713		42,713	Financial debt
Prepayments received	1,585		(1,585)		–
Accounts payable	50,638		(50,638)		–
Tax and social security liabilities	40,875		(40,875)		–
Other liabilities	3,426		94,828	98,254	Trade and other payables
Tax liability	2,358			2,358	Tax liability
Secured loans on fixed assets and related	1,688		(1,688)		–
Total debt	203,961	(60,678)	8,457	151,740	Total short-term liabilities
Deferred income and other accruals	42		(42)		–
TOTAL LIABILITIES	**519,308**			**519,308**	**TOTAL LIABILITIES**

12.1.3 Reconciliation of profit as at December 31, 2004

Restatements

Year ended December 31, 2004 (restated in accordance with IFRS standards and the layout required by French accounting principles)

(in thousand euros)	French accounting principles	Elimination of goodwill amortization	Stock-options and Group savings plans	Pensions and retirement	Other restatements	IFRS after restatements
Relevant principle		IAS 36	IFRS 2	IFRS 1/IAS 19	IAS 17	
Net revenues	**540,971**					**540,971**
Changes in inventory, finished and in process goods	6,775					6,775
Total production	***547,746***					***547,746***
Other revenues	4,136					4,136
Total operating revenues	**551,882**					**551,882**
Cost of materials	(136,047)					(136,047)
Other purchases and external expenses	(108,962)				327	(108,635)
Other management costs						
Value added before temporary employees	**306,873**				**327**	**307,200**
Taxes and duties	(10,379)					(10,379)
Temporary employee expense	(10,254)					(10,254)
Salaries and benefits	(188,921)		(508)	225		(189,204)
Profit-sharing	(3,869)					(3,869)
EBITDA	**93,449**		**(508)**	**225**	**327**	**93,493**
Depreciation	(27,865)				360	(27,505)
Reserve allocations	(11,627)					(11,627)
Provision reversals	9,228					9,228
EBIT	**63,185**		**(508)**	**225**	**687**	**63,589**
Net financial income	(2,953)				(31)	(2,984)
Pre-tax income from ordinary operations	**60,232**		**(508)**	**225**	**656**	**60,605**
Extraordinary income	8,254					8,254
Extraordinary expenses	(16,367)					(16,367)
Net extraordinary income or loss	***(8,112)***					***(8,112)***
Income tax	(16,810)			(76)	(225)	(17,111)
Income of consolidated companies	**35,310**		**(508)**	**149**	**431**	**35,382**
Equity-affiliated companies						
Profit before goodwill amortization	**35,310**		**(508)**	**149**	**431**	**35,382**
Goodwill amortization allowance	(10,855)	6,898				(3,957)
Net profit	**24,455**	**6,898**	**(508)**	**149**	**431**	**31,422**
Of which Group's share including equity-affiliated companies	24,434	6,898	(508)	149	431	31,401
Of which minority interests	21					21

Reclassifications

Financial year ending December 31, 2004

(in thousand euros) Format compliant with French accounting principles	IFRS after restatements	Restatement of income statement items	Other restatements	IFRS	Format compliant with IFRS standards
Net revenues	**540,971**			**540,971**	**Net revenues**
Changes in inventory, finished and in process goods	6,775			6,775	Changes in inventory, finished and in process goods
Total production	***547,746***			***547,746***	***Total production***
Other revenues	4,136		48	4,184	Other revenues
Total operating revenues	**551,882**		**48**	**551,930**	**Total operating revenues**
Cost of materials	(136,047)			(136,047)	Cost of materials
Other purchases and external expenses	(108,635)		(519)	(109,154)	Other purchases and external expenses
Value added before temporary employees	**307,200**		**(471)**	**306,729**	**Added value**
Taxes and duties	(10,379)		19	(10,360)	Taxes and duties
Temporary employee expense	(10,254)	10,254			–
Salaries and benefits	(189,204)	(14,123)	(1,374)	(204,701)	Personnel expenses (including temporary employees)
Profit-sharing	(3,869)	3,869			–
EBITDA	**93,493**		**(1,826)**	**91,668**	**EBITDA**
Depreciation	(27,505)		(9)	(27,514)	Depreciation
Reserve allocations	(11,627)	9,228	(3,404)	(5,803)	Net provision allowances
Provision reversals	9,228	(9,228)			–
EBIT	**63,589**		**(5,239)**	**58,351**	**EBIT**
Net financial income	(2,984)	2,984			–
Pre-tax income from ordinary operations	**60,605**	**2,984**	**(5,239)**	**58,351**	**–**
Extraordinary income	8,254		(5,237)	3,017	Non-recurring operating income
Extraordinary expenses	(16,367)		6,413	(9,954)	Non-recurring operating expenses
Net extraordinary income or loss	***(8,112)***		***1,175***	***(6,937)***	***–***
				51,414	**Operating result**
		(2,747)	8	(2,739)	Cost of finance
		(244)		(244)	Other financial revenues and expenses
Income tax	(17,111)		101	(17,010)	Taxes
Income of consolidated companies	**35,382**	**(2,991)**		**31,422**	**–**
Equity-affiliated companies					–
Profit before goodwill amortization	**35,382**	**(7)**		**31,422**	**–**
Goodwill amortization allowance	(3,957)		3,957		–
Net profit	**31,422**	**(7)**		**31,422**	**Earnings**
Of which Group's share including equity-affiliated companies	31,401			31,401	Earnings attributable to the Group
Of which minority interests	21			21	Minority interests

12.1.4 Reconciliation of shareholders' equity as at December 31, 2004

Restatements

Year ended December 31, 2004 (restated in accordance with IFRS standards and the layout required by French accounting principles)

(in thousand euros)	French accounting principles	Cancellation of translation differential	Elimination of goodwill amortization	Stock-options and Group savings plans	Pensions and retirement	Other restatements	IFRS after restatements
Relevant principle		IFRS 1	IAS 36	IFRS 2	IFRS 1/IAS 19	IAS 17	
ASSETS							
Goodwill	136,330						136,330
Intangible fixed assets	18,566						18,566
Tangible fixed assets	401,091					6,565	407,656
Financial assets	4,008						4,008
Depreciation and amortization	(303,266)		6,735			1,086	(295,445)
Total net fixed assets	**256,729**		**6,735**			**7,651**	**271,115**
Net inventory	115,012						115,012
Prepayments	61						61
Accounts receivable	87,595						87,595
Other receivables	11,438						11,438
Provisions for doubtful receivables	(2,939)						(2,939)
Taxes – Claim on the State							
Deferred taxes	10,943				2,299		13,242
Marketable securities	80,278						80,278
Cash	8,535						8,535
Provision for write-down of marketable securities							
Total current assets	310,923				2,299		313,222
Deferred income and other accruals	3,565						3,565
TOTAL ASSETS	**571,217**		**6,735**		**2,299**	**7,651**	**587,902**
LIABILITIES							
Equity (Group's share)							
Capital stock	19,794						19,794
Additional paid-in capital	27,902			151			28,053
Foreign exchange translation adjustments	(10,672)	6,511	163				(3,998)
Retained earnings	208,924	(6,674)	(163)	358	(4,012)	2,553	200,986
Group's share of net income	24,434		6,898	(509)	149	428	31,401
Total shareholders' equity – Group's share	**270,382**	**(163)**	**6,898**		**(3,863)**	**2,981**	**276,235**
Minority interests	395						395
Provisions for risks and contingencies	32,933				6,162		39,095
Deferred taxes	24,490					1,628	26,118
S/Total	**57,818**				**6,162**	**1,628**	**65,608**
Miscellaneous borrowings	123,155					3,042	126,197
Prepayments received	752						752
Accounts payable	61,875						61,875
Tax and social security liabilities	42,001						42,001
Other liabilities	6,639						6,639
Tax liability	5,066						5,066
Secured loans on fixed assets and related	3,029						3,029
Total debt	**242,517**					**3,042**	**245,559**
Deferred income and other accruals	500						500
TOTAL LIABILITIES	**571,217**	**(163)**	**6,898**		**2,299**	**7,651**	**587,902**

Reclassifications

(in thousand euros) Format compliant with French accounting principles	December 31, 2004 IFRS after restatement	Breakdown current/ non-current	Other restatements	IFRS	Format compliant with IFRS standards
Relevant principle		IAS 1			
ASSETS					**ASSETS**
					NON-CURRENT ASSETS
Goodwill	136,330		(136,330)		–
Intangible fixed assets	18,566		87,819	106,385	Intangible assets
Tangible fixed assets	407,656	148	(246,930)	160,874	Tangible assets
Financial assets	4,008		(4)	4,004	Financial assets
Depreciation and amortization	(295,445)		295,445		–
Total net fixed assets	**271,115**	**148**		**271,263**	
		13,242		13,242	Deferred taxes
		570		570	Other non-current assets
		13,960		**285,075**	**Total non-current assets**
					CURRENT ASSETS
Net inventory	115,012			115,012	Inventories
Prepayments	61		(61)		–
Accounts receivable	87,595		(87,595)		–
Other receivables	11,438	2,847	84,717	99,002	Trade and other receivables
Provisions for doubtful receivables	(2,939)		2,939		–
Taxes – Claim on the State					Taxes – Claim on the State
Deferred taxes	13,242	(13,242)			–
Marketable securities	80,278			80,278	Financial assets
Cash	8,535			8,535	Cash and cash equivalents
Provision for write-down of marketable securities					–
Total current assets	**313,222**	**(10,395)**		**302,827**	**Total current assets**
Deferred income and other accruals	3,565	(3,565)			–
TOTAL ASSETS	**587,902**			**587,902**	**TOTAL ASSETS**

Reclassifications (continued)

December 31, 2004					
(in thousand euros) **Format compliant with French accounting principles**	**IFRS after restatement**	**Breakdown current/ non-current**	**Other restatements**	**IFRS**	**Format compliant with IFRS standards**
LIABILITIES					**SHAREHOLDERS' EQUITY AND LIABILITIES**
					SHAREHOLDERS' EQUITY
Equity (Group's share)					
Capital stock	19,794			19,794	Capital stock
Additional paid-in capital	28,053			28,053	Additional paid-in capital
Foreign exchange translation adjustments	(3,998)		3,998		–
Retained earnings	200,986		(200,986)		–
			200,626	200,626	Consolidated reserves
			(4,147)	(4,147)	Translation reserves
			509	509	Earnings recorded directly as shareholders' equity
Group's share of net income	31,401			31,401	Profit for the period
Total shareholders' equity – Group's share	**276,235**			**276,235**	**Total shareholders' equity – Group's share**
Minority interests	395			395	Minority interests
S/Total				276,630	Total shareholders' equity
					LONG-TERM LIABILITIES
Provisions for risks and contingencies	39,095		(11,521)	27,574	Long-term provisions
		91,117		91,117	Financial debt
					Other long-term liabilities
Deferred taxes	26,118			26,118	Deferred taxes
	65,608	91,117	(11,521)	144,809	
		91,117	**(11,521)**	**421,439**	**Total long-term liabilities**
					SHORT-TERM LIABILITIES
Miscellaneous borrowings	126,197	(126,197)			–
		35,080		35,080	Financial debt
			11,521	11,521	Current provisions
Prepayments received	752		(752)		–
Accounts payable	61,875		(61,875)		–
Tax and social security liabilities	42,001		(42,001)		–
Other liabilities	6,639		108,157	114,796	Trade and other payables
Tax liability	5,066			5,066	Tax liability
Secured loans on fixed assets and related	3,029		(3,029)		–
Total debt	**245,559**	**(91,117)**	**12,021**	**166,463**	**Total short-term liabilities**
Deferred income and other accruals	500		(500)		–
TOTAL LIABILITIES	**587,902**			**587,902**	**TOTAL LIABILITIES**

12.1.5 Summary of restatements

(in thousand euros)	Shareholders' equity as at January 1, 2004	Group's share of net income	Dividends paid	Capital increase	Foreign exchange translation adjustments	Other reserves	Shareholders' equity as at December 31, 2004
Shareholders' equity, Group's share in accordance with French accounting principles	256,740	24,434	(7,647)	828	(3,984)	11	270,382
Elimination of goodwill amortization (IAS 36)		6,898			(163)		6,735
Pensions (IAS 19)	(4,012)	149					(3,863)
Stock-options and Group savings plans (IFRS2)		(509)				509	
Other restatements	2,553	428					2,981
Total restatements net of taxes and minority interests	**(1,459)**	**6,966**			**(163)**	**509**	**5,853**
Equity (Group's share)	255,281	31,401	(7,647)	828	(4,147)	520	276,235

(in thousand euros)	Shareholders' equity as at January 1, 2004	Share of minority shareholders in consolidated subsidiaries' earnings	Dividends paid by consolidated companies	Change in perimeter	Foreign exchange translation adjustments	Other reserves	Shareholders' equity as at December 31, 2004
Minority interests in accordance with French accounting principles		21		359	15		395
Elimination of goodwill amortization (IAS 36)							
Pensions (IAS 19)							
Stock-options and Group savings plans (IFRS2)							
Other restatements							
Total restatements net of taxes							
Minority interests IFRS		21		359	15		395
Shareholders' equity IFRS	**255,281**	**31,422**	**(7,647)**	**1,187**	**(4,132)**	**520**	**276,630**

12.2 Main restatements

12.2.1 Translation adjustments (IFRS 1)

IFRS 1 (first time adoption of IFRS) allows translation adjustments existing before January 1, 2004 to be reset to zero. In the event of the subsequent disposal of a subsidiary not using the consolidation currency (Euros), the resulting profit or loss will not be adjusted by the translational adjustments generated before January 1, 2004.

The adoption of this optional restatement will result in the reclassification at the transition date (January 1, 2004) of an amount of €-6,674K as consolidated reserves, instead of translation adjustments, with no impact on the total amount of shareholders' equity.

12.2.2 Retirement provisions and similar commitments (IFRS 1 and IAS 19)

Evaluation and accounting procedures for retirement provisions and similar commitments, such as those described in notes 2.18 of the appendix to the consolidated accounts in accordance with French standards on December 31, 2004, comply with IAS 19 "Employee benefits", with the exception of the surplus actuarial adjustment cumulated according to the corridor approach which extends over the period of their average expected remaining working lives. Note 8 of the appendix sets out the means of determining commitments.

Impact on the opening balance sheet as at January 1, 2004

Applying IFRS 1 the Group has decided to record actuarial adjustments not yet registered on the balance sheet as a corresponding amount in consolidated shareholders' equity on the opening balance sheet as at January 1, 2004. This option has resulted in the recording of actuarial losses of €-4,012K as a corresponding reduction in shareholders' equity, net of deferred taxes (€-6,387K before deferred taxes).

Impact on the income statement as at December 31, 2004

The restatement of actuarial losses and the cost of past services in the January 1, 2004 transition balance sheet results in a saving in the cost of retirement benefits being recorded in the EBITDA. In the profit and loss account this saving net of deferred taxes is €+149K (€+225K before deferred taxes).

12.2.3 Payments in shares (IFRS 2)

Application of IFRS 2 (payments in shares) has accounting requirements for stock-option plans (options to buy shares allocated by the Group to certain directors and employees of its subsidiaries) and group savings plans (increase in capital for employees who have joined the group savings plan). Only plans implemented after November 7, 2002 and of which the rights have not vested on January 1, 2005 are restated. The following are thus concerned:

- The stock-options plan allocated on June 25, 2003.
- The group savings plan offered for subscription in April 2004.

In applying IFRS 2, the benefit granted to employees when stock-options are allocated (value of the option at the date of allocation) and subscription to a group savings plan (20% tax relief on the reference value) constitutes additional remuneration. This additional remuneration is recorded as an employee expense, spread over the vesting period of the benefit granted.

More precisely, the expense determined at the grant date of stock-options using the binomial model will be spread over the vesting period, i.e. in quarters over four years, and in compliance with the rules of the Group's plan. On the other hand, the expense of a group savings plan, which is equal to the tax relief granted to the beneficiaries (i.e. the difference between the subscription price and the share price on the date of allocation), is treated as occurring at the time of subscription.

Impact on the balance sheet as at January 1, 2004

Concerning the restatement of stock-options, the application of this standard has no impact on shareholders' equity, in as much as the additional expense of the deferred remuneration is off set by a corresponding increase in the consolidated reserves.

Impact on the income statement as at December 31, 2004

The amount recorded in employee expenses as payment in shares was €508K. Stock-options which vested in 2003 accounted for €301K and the group savings plan accounted for €207K.

12.2.4 Tangible assets (IAS 16)

The Group has carried out a review of all significant tangible assets held by the parent company and the Group's companies. This review involved both an analysis of the acquisition costs of the above mentioned assets and of the means and amortization periods used, it being necessary that the latter are appropriate to the rate at which the subsequent economic benefits associated with the assets flow to the business in question.

When the useful lives of different components of an asset are not of the same length as the overall life of the asset or they provide the business with benefits at a different rate, the total cost of the asset is spread over the various components, which are amortized separately over appropriate periods of use.

The amortization periods of assets have been reviewed when the period of use of the assets is significantly different from the periods used in the accounts drawn up according to French standards. The amortization of any assets using the degressive method has been revised to the linear method, as required by IAS 16.

The main restatements carried out concern certain constructions for which the amortization period has been increased from twenty to thirty-three years for French companies only.

Impact on the balance sheet as at January 1, 2004

The review of amortization procedures has resulted in an increase in the net value of tangible assets of €3,705K. The impacts on shareholders' equity and deferred tax liabilities are €+2,391K and €+1,314K respectively.

Impact on the income statement as at December 31, 2004

The impact on the income statement, net of deferred taxes, of restatements carried out of amortization schemes was €+333K for 2004.

12.2.5 Depreciation of assets (IAS 36)

In accordance with French accounting principles, the Group has amortized goodwill linearly and may be required to recognize other exceptional amortizations on the basis of other than temporary impairment requirements. According to IAS 36 goodwill is not amortized but is subject to annual impairment testing.

Impact on the income statement as at December 31, 2004

The discontinuation of the amortization of goodwill had a favorable impact to the value of €6,898K on the net income statement for 2004. As part of the application of IAS 36 requirements, depreciation tests were carried out on the future cash flow basis updated to the level of the Cash Generating Units identified within the Group and did not result in the recognition of an impairment loss except for that relating to the goodwill associated with LISI AUTOMOTIVE Gradel, already recorded in previously published accounts according to French principles as corresponding to an amount of €3,957K.

12.2.6 Leases (IAS 17)

In accordance with IAS 17 "Accounting for Leases", an analysis of all of the group's three divisions' leasing contracts has been carried out in order to be able to classify them as finance leases or operating leases. Generally, this classification has been carried out for fleets of vehicles and handling equipment, and certain other categories of industrial equipment.

Impact on the balance sheet as at January 1, 2004

The restatement of leasing contracts resulted in an entry for net assets of €+3,410K and of a loan of €+3,162K. The associated impact on opening shareholders' equity was €+162K.

Impact on the income statement as at December 31, 2004

The restatement of leasing contracts for 2004 resulted in an increase in the net income statement of €95K.

12.3 Main reclassifications

12.3.1 Balance sheet reclassifications (IAS 1)

The distinction required by IAS 1 (Presentation of financial statements) between current and non-current elements in balance sheets presented in accordance with IFRS does not generate any major divergence, in terms of presentation of the balance sheet relative to practices adopted up until now by the Group using French standards. Assets and liabilities linked to the Group's normal operating cycle and those that will mature within the next twelve months come under the "current" category; others are classified as non-current. All deferred tax credits and liabilities must be shown in a specific line in non-current elements.

Application of IAS 1 also results in the inclusion of minority interests in shareholders' equity, the distinction between equity held by the Group and minority interests being maintained in the presentation in shareholders' equity.

12.3.2 Financial assets and liabilities

Equity interests, loans and other long term assets have been reclassified under the newly created heading "non-current financial assets".

12.3.3 Recurrent and non-recurrent nature of operating income and expenses

In the Group's consolidated accounts prepared according to French principles, the operating income excluded certain elements such as expenses or indemnities relating to accidents, costs associated with closures, restructuring and relocation of sites, depreciation of goodwill and gains or losses resulting from the disposal of non-current tangible or intangible assets.

A certain number of reclassifications were made in the presentation of the income statement as at December 31, 2004 totaling €-5,132K in order to integrate these elements into operational income.

Nevertheless, some of these elements of a non-recurrent nature and considered significant relative to the Group's size have been presented separately under the headings "non-recurrent operational products" and "non-recurrent operational expenses", of which the main items as at December 31, 2004 were: a decrease in value of the goodwill associated with LISI AUTOMOTIVE Gradel of €-3,957K, restructuring plans associated with LISI COSMETICS totaling €-3,286K and incremental costs relating to insurance settlements.

12.4 Impact of the implementation of IAS 32 and 39 standards as at January 1, 2005

(in thousand euros)	Equity (Group's share)	Minority interests	Total shareholders' equity
Shareholders' equity as at December 31, 2004	276,235	395	276,630
Adjustments net of deferred taxes			
Impact of the restatement of treasury shares held by the company (IAS 32)	(6,672)		(6,672)
Impact of the taking into account of derivatives, net of tax (IAS 39)	2,083		2,083
Impact of the taking into account of amortized cost on borrowings (IAS 39)	1,748		1,748
Impact of the implementation of IAS 32 and 39 standards as at January 1, 2005	**(2,841)**		**(2,841)**
Shareholders' equity as at January 1, 2005 after taking into account the impact of IAS 32 and IAS 39 standards	273,394	395	273,789

12.4.1 Treasury shares

Own repurchased shares or treasury shares must, under IFRS, be deducted from equity, whatever procedures have been used in the consolidated accounts prepared prior to the application of IAS 32, i.e. classification in marketable securities in the Group's case. As of January 1, 2005, the impact of this reclassification on equity was €-6,672K. As of December 31, 2005 the impact was €-6,665K.

12.4.2 Derivatives

This net figure includes unrealized gains and losses relating to swap and rate agreement derivatives which could not be recognized as hedging instruments and which were not reevaluated at fair value in 2004. As at January 1, 2005, these instruments have been recorded in current financial debts.

12.4.3 Assessment of other financial assets and liabilities

Loans are shown as assets on the balance sheet at the amortized cost at the effective interest rate. Adjustments in value are shown under income. Loans and financial debts shown as liabilities on the balance sheet are valued at the amortized cost at the effective interest rate.

The main restatement carried out as of January 1, 2005 concerns the OBSAR (Bonds with Redeemable Share Subscription warrants) issued by the Group in 2004. This compound financial instrument has been restated in order to separate the debt component from the equity component:

- The first component (bonds) is a financial liability, namely the issuer's contractual obligation to pay the bearer of the financial instrument cash or other financial assets. It is valued on the amortized cost basis recommended by IAS 39.
- The second component (redeemable share subscription warrants) is an equity instrument giving the bearer the option to purchase share capital in the company. The value entered in equity is not revalued during the life of the warrants. In the event of these being exercised, cash assets received within the context of an increase in capital are accounted for by a corresponding amount in equity.

When this OBSAR was first accounted for applying IAS 32 and 39, a deferred tax liability (balancing equity) was recorded. It will be progressively reduced by the deferred tax benefit recorded each year (balancing income), resulting from the additional expense of interest accrued.

The net impact on capital as of January 1, 2005 was €+1,748K.

PARENT COMPANY

INCOME STATEMENT

(in thousand euros)	2005	2004	2003
Net revenues	**5,648**	**5,134**	**4,827**
Total operating revenues	**6,266**	**6,468**	**5,044**
Cost of materials	(1,206)	(2,963)	(2,023)
Taxes and duties	(127)	(121)	(114)
Salaries and benefits	(1,737)	(1,826)	(1,464)
Other expenses	(58)	(70)	(53)
Depreciation	(755)	(161)	(67)
EBIT	**2,382**	**1,327**	**1,322**
Financial income			
– from equity interests	13,458	11,839	10,681
– from other marketable securities and loans	567	127	300
– from disposals of marketable securities	1,449	1,546	362
– reversal of reserves			1,187
Financial expenses			
– interest and similar expenses	(2,742)	(3,002)	(3,527)
– from disposal of marketable securities	(137)		
– reversal of reserves	(70)	(5,000)	(450)
Net financial income	12,526	5,510	8,553
Pre-tax income from ordinary operations	**14,910**	**6,837**	**9,875**
Extraordinary income			
– from financing activities			3
– from management operations	46	4	13
– reversal of reserves	1,143	285	100
Extraordinary expenses			
– from financing activities			
– from management operations		(6)	(206)
– reversal of reserves	(750)	(1,000)	(766)
Net ordinary loss	**439**	**(717)**	**(855)**
Income tax	337	1,366	979
NET INCOME	**15,685**	**7,486**	**9,999**

BALANCE SHEET

ASSETS (in thousand euros)	2005	2004	2003
Fixed assets			
Intangible fixed assets	68	68	74
Tangible fixed assets	1,466	1,395	1,434
Financial assets	160,253	145,823	154,569
Depreciation and amortization	(5,896)	(5,923)	(915)
Total net fixed assets	**155,891**	**141,364**	**155,162**
Current assets			
Accounts receivable	648	201	108
Other receivables	1,598	6,009	3,514
Subsidiaries' current accounts	12,564	57	336
Provision for doubtful receivables			
Tax credit	1,002		
Marketable securities	37,602	76,790	12,857
Cash	125	1,224	433
Prov. write-down of marketable securities	(70)		
Total current assets	**53,468**	**84,280**	**17,249**
Deferred income and other accruals	611	848	333
Total assets	**209,971**	**226,493**	**172,744**

LIABILITIES	2005	2004	2003
Equity			
Capital stock	19,794	19,794	19,734
Paid-in merger capital	27,902	27,902	27,134
Retained earnings	45,651	46,844	44,915
Profit for the period	15,685	7,486	9,999
Regulated provisions	72		
Total equity	**109,103**	**102,026**	**101,782**
Provisions for risks and contingencies	**1,726**	**1,572**	**858**
Liabilities			
Long-term debt (*)	93,048	113,599	64,848
Taxes due		5,066	2,358
Accounts payable	2,012	2,693	1,879
Other liabilities	4,082	1,538	1,019
Total debt	**99,142**	**122,896**	**70,104**
Total liabilities	**209,971**	**226,493**	**172,744**
(*) of which banking facilities and subsidiaries' current accounts	*(29,504)*	*(36,644)*	*(22,719)*

CASH FLOW STATEMENT

(in thousand euros)	2005	2004	2003
Operating activities			
Operating cash flow	16,001	13,360	10,728
Effect of changes in inventory			
Effects of changes in accounts receivable and accounts payable	(150)	1,937	2,190
Cash provided by or used for operations (a)	**15,851**	**15,297**	**12,918**
Investment activities			
Cash used to acquire tangible and intangible assets	(86)	(14)	(19)
Cash received from the disposal of tangible and intangible assets	46	3	
Cash used to acquire financial assets	(10,000)		
Cash received from the disposal of financial assets			3
Net cash used for acquisitions and disposals of subsidiaries			
Cash received from loans to subsidiaries	5,739	8,801	9,352
Cash provided by or used for investing activities (b)	**(4,301)**	**8,790**	**9,336**
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	(8,679)	(7,647)	(5,946)
Cash received from new loans	24	49,319	
Cash used to pay off loans	(13,436)	(15,309)	(15,340)
Cash provided by or used for financing activities (c)	**(22,091)**	**26,768**	**(21,286)**
Effect of change in foreign exchange rates (d)	(10,169)		
Changes in net cash (a+b+c+d)*	**(20,710)**	**50,855**	**968**
Cash at year start (e)	41,426	(9,430)	(10,398)
Cash at year end (a+b+c+d+e)	20,716	41,426	(9,430)
Marketable securities	37,532	76,790	12,857
Cash, subsidiaries’ current accounts	12,689	1,280	433
Banking facilities, subsidiaries’ current accounts	(29,504)	(36,644)	(22,719)
Cash at year end**	**20,716**	**41,426**	**(9,430)**

(*) 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.

CHANGES IN EQUITY

(in thousand euros)	
As at 01.01.2004	**101,782**
Profit for the period	7,486
Capital increase	828
Impact RSPVLT tax	(423)
Dividends paid	(7,647)
As at 12.31.2004	**102,026**
Profit for the period	15,685
Dividends paid	(8,679)
Accelerated depreciation	71
As at 12.31.2005	**109,103**

COMPANY'S LEGAL FINANCIAL RESULTS OVER THE PAST FIVE YEARS

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

NATURE OF INDICATIONS (in €uros)	2001	2002	2003	2004	2005
Financial situation at year end					
Share capital	19,733,676	19,733,676	19,733,676	19,793,668	19,793,668
Number of shares issued	9,866,838	9,866,838	9,866,838	9,896,834	9,896,834
Number of convertible bonds				1,066,685	1,066,685
Total result of actual operations					
Net revenues	5,462,214	4,842,314	4,826,638	5,133,638	5,648,417
Earnings before taxes, depreciation and reserves	15,032,618	6,793,622	9,015,772	11,995,522	16,116,234
Corporate tax	(435,041)	(2,273,016)	(978,873)	(1,366,336)	(336,648)
Profit sharing					
Result after taxes, depreciation and reserves	15,097,335	8,702,436	9,998,523	7,485,903	15,684,834
Distributed profit (a)	5,902,579	5,946,310	7,647,159	8,678,813	10,688,581
Result of operations per share					
Result after taxes, before depreciation and reserves	1.57	0.92	1.01	1.35	1.66
Result after taxes, depreciation and reserves	1.53	0.88	1.01	0.76	1.58
Dividends allocated per share (net)	0.62	0.62	0.80	0.90	1.08
Staff					
Average head count	8	9	9	9	9
Payroll	760,186	909,412	1,060,762	1,328,850	1,210,667
Benefits paid					
(social security, benefits, etc.)	293,393	348,263	403,226	496,856	526,634

(a) After deducting the dividend that would have concerned the own shares held by the company.

GENERAL INFORMATION REGARDING THE COMPANY AND ITS SHARE CAPITAL

GENERAL INFORMATION REGARDING THE COMPANY AND ITS SHARE CAPITAL

1. COMPANY ID

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 Inception and term

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

1.4 Purpose of the company

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.;
- 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 Special 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 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 share capital, as recorded in the minutes of the Shareholders' General Meeting.

2. INFORMATION REGARDING THE SHARE CAPITAL

2.1 Value of share capital

Share capital taken up by shareholders and fully paid-up, as at December 31, 2005, amounted to €19,793,668, divided into 9,896,834 shares with a face value of €2.

2.2 Changes in share capital over the past 5 years

Date of Shareholders' General 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 12/31/2005: €19,793,668 divided into 9,896,834 shares with €2 face 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	FRF626,330	FRF8,999,781.19	62,633	FRF10	9,866,838	FRF98,668,380
05/18/95	03/03/00	Capital increase following application of subscription options	FRF915,000	FRF5,772,003	91,500	FRF10	9,804,205	FRF98,042,050

2.3 Authorized share capital not yet issued

The Board of Directors' Meeting of December 17, 2003 proposed a capital increase reserved 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 (face value plus premium) and to waive preferential subscription rights. 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.

2.4 Securities giving access to the share capital

2.4.1 Stock option plans

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.

2.4.2 Option of shares

Plans in place as at December 31, 2005:

General Meeting Date Board of Directors	Category P No. plan	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 exercised as at 01/01/2005	Options exercized in 2005	Options cancelled	Options remaining as at 12/31/2005
Authorization granted on 05.20.1999												
12.15.1999	P Plan no. 1	125,000	13,000	43,500	10,500	9	12.16.2004 12.14.2007	€22.70	13,120	48,710	40,000	23,170
Authorization granted on 02.28.2001												
03.01.2001	P Plan no. 2	34,700		5,500	6,500	6	03.02.2005 02.28.2009	€27.82	None	14,200	11,200	9,300
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	None	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	70	06.26.2007 06.24.2011	€20.33	4,000	6,000	32,000	121,000

P = purchase.

No stock purchase options were granted to LISI Group employees or corporate officers during financial 2005. Some executives used existing options to purchase shares.

2.5 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. BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

3.1 Breakdown of share capital and voting rights over the past 2 years

Description	2005			2004		
	as % of capital	as % of voting rights	Number of shares	as % of capital	as % of voting rights	Number of shares
CID	59.9	73.0	5,928,725	59.9	72.9	5,928,725
VMC	6.5	7.8	641,675	6.7	8.2	661,675
Other corporate officers	0.2	0.1	17,178	0.2	0.1	20,462
TOTAL FOR CORPORATE OFFICERS	**66.6**	**80.9**	**6,587,578**	**66.8**	**81.2**	**6,610,862**
Of which directors	0.02	0.02	1,990	0.05	0.03	4,594
FFP	5.1	3.3	500,000	5.1	3.1	500,000
FMR Corp and Fidelity	5.0	3.1	495,206	–	–	–
Treasury stock	2.9	–	287,108	3.0	–	297,162
Employees	0.9	0.6	93,150	0.9	0.5	84,799
Public	19.5	12.1	1,933,792	24.2	15.2	2,404,011
Grand Total	**100.0**	**100.0**	**9,896,834**	**100.0**	**100.0**	**9,896,834**

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, 2005, it held 59.9% of share capital and 73% of voting rights.
- As at December 31, 2005, VMC, a company based at Route des Forges 90120 MORVILLARS, held 6.5% of share capital and 7.8% of voting rights.
- As at December 31, 2005, FFP, a company based at 75 Avenue de la Grande Armée 75116 PARIS held 5.1% of share capital and 3.3% of voting rights.
- FMR Corp et Fidelity International, a company acting on behalf of mutual funds managed by its subsidiaries, stated on November 30, 2005, that it had passed the threshold, on November 28, 2005, pursuant to the purchase of shares, of 5% of share capital of LISI S.A. As at December 31, 2005, it held 5% 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).

3.2 Shareholder agreements

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

3.3 Pledging

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

3.4 LISI S.A. shareholding

An analysis of those shares with identifiable bearers was carried out in April 2006. Out of the floating stock that represented around 25% of the total shareholding, 2,776 shareholders could be identified. At that date, the breakdown was as follows:

- French institutional investors: 38, or 10.2% of share capital;
- International institutional investors: 31, or 12.1% of share capital;
- French and international individual shareholders: 2,707, or 2.7% of share capital.

3.5 LISI S.A. treasury shares

As at December 31, 2005, LISI S.A. held 287,108 of its own shares, or 2.9% of share capital. No shares were cancelled.

3.6 Stock repurchase program

In place at December 31, 2005:

On May 10, 2005, 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 15, 2005, under reference no. 05-265.

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

1. increase the activity of the stock via an independent investment services provider;
2. grant stock options to employees and directors of the company and/or its consolidated group;
3. keep and deliver shares as a means of exchange or payment in the context of possible external growth operations,
4. 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 €75, not including transaction fees,
- the company may sell all or some of the shares purchased for a minimum unit price of €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.

In 2005, within the context of the stock repurchase plan referred to below, LISI S.A. acquired 137,068 of its own shares, or 1.4% of its share capital, by virtue of the authorizations granted by the Shareholder's Ordinary Meeting of May 10, 2005.

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

	Number of shares	Average weighted Prices in €
Shares held at 1/1/2005	297,162	23.04
Shares acquired in 2005	137,068	36.84
Shares disposed of in 2005	147,122	38.11
Shares held at 12/31/2005	287,108	23.82
Of which shares assigned to the stock options program	*183,470*	
Of which available	*103,638*	

As at March 21, 2006, LISI S.A holds 268,723 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.

3.7 New stock repurchase program

It is suggested, at the upcoming General Meeting, to renew LISI S.A.'s stock repurchase program, in accordance with the new regime applicable since the entry in force of European Regulation Nr. 2273/2003 of December 22, 2003. LISI S.A. offers to acquire a number of shares representing 10% of the total number of shares that make up its share capital.

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

The new stock repurchase program provides that the stock purchased will serve the following purposes:

- 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 *AMF* (the French stock market authority);
- 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.

4. DIVIDEND DISTRIBUTION POLICY FOR THE PAST FIVE YEARS – DIVIDEND PRESCRIPTION PERIOD

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:

	Gross dividend in €	Tax credit in €	Net dividend in €
2001	0.93	0.31	0.62
2002	0.93	0.31	0.62
2003	1.20	0.40	0.80
2004	–	–	0.90
2005 (1)	–	–	1.08

(1) Pending the decision of the Shareholders' Ordinary General Meeting of May 10, 2006. The date for payment of dividends has been set at may 12, 2006.

The timeframe for paying dividends is 9 months as of the year end date. Unclaimed dividends are waived to the State after a period of 5 years beginning of the payment date.

5. RELATIONSHIP BETWEEN THE COMPANY AND ITS SUBSIDIARIES

5.1 Activity of the company and relationship with 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.

Data with related companies are as follows:

(in thousand euros)	Amount concerning…	
	related companies	companies with which the company has an ownership relationship
ASSETS:		
Provisions on equity shares	(5,000)	–
Receivables related to equity interests	10,169	–
Accounts receivable	623	–
Cash advances to subsidiaries	12,564	–
Tax integration current account	1,136	–
LIABILITIES:		
Subsidiaries' financial assistance	29,026	–
Tax integration current account	3,305	–
Advance payments from customers	79	–
Accounts payable	823	–
Other liabilities	–	–
INCOME STATEMENT:		
Reserves for equity interests	–	–
Interest and similar expenses	721	–
Sales revenues from subsidiaries	5,595	–
Revenues from loans to subsidiaries	505	–
Revenues from equity interest	12,953	–

Significant intra-group items include:

On the assets side:

- receivables relating to equity interests: LISI S.A. advanced, as a mid-term loan, €10m to its subsidiary LISI AUTOMOTIVE so as to enable it to fund part of the acquisition, in July 2005, of Germany's KNIPPING. The loan contract was entered into on July 15, 2005 for a period of 7 years, refundable, with reimbursements deferred 2 years,
- the current accounts for the fiscal integration of tax receivables of the companies consolidated within the group.

On the liabilities side:

- cash granted to group subsidiaries within the group cash management agreement.
- the current accounts for the fiscal integration of tax receivables of the companies integrated within the group.

On the income statement:

- invoices for services and management fees from LISI S.A. to its various subsidiaries,
- dividends received by LISI S.A. during the financial year 2004.

These transactions are entered into under normal market conditions; in particular, they take into account costs that were actually incurred and are billed back.

6. AUDITORS' FEES

The table below lists the fees paid to the Auditors appointed for certifying the Group's financial and consolidated statements. These fees pay for services rendered and are recorded as expenses for fiscal 2005 in the financial statement of LISI S.A. and its subsidiaries whose income statements for the period and balance sheets are fully consolidated.

The fees relative for tax services regarding the French or foreign companies, rendered by Bureau Francis LEFEBVRE or other consultancies, are not listed in this table.

(in thousand euros)	Salustro Reydel, member of KPMG Amount		Exco Cap Audit Amount		Foreign Auditors Amount		Sécafi Alpha (1) Amount	
	N	N-1	N	N-1	N	N-1	N	N-1
Audit								
Auditors, certification, review of individual and consolidated financial statements	99	70	112	104	538	257	–	–
Auxiliary assignments	–	–	–	–	–	–	–	–
TOTAL	99	70	112	104	538	257	–	–
Other services	**–**	**–**	**41**	**6**	**124**	**63**	**129**	**145**

(1) Group committee auditors.

1. 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.

Director's 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. THE COMPENSATION COMMITTEE

The Compensation Committee is in charge of:

- Setting out the general rules of compensation (fixed salaries and variable bonuses of all types)
  - for the members of LISI S.A.'s General Management (Chairman of the Board of Directors, Chief Executive Officer and Deputy Chief Executive Officers);
  - for Chief Executive Officers of LISI S.A.'s different Divisions;

and 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 2005 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.

3. THE 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 analyzes 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.
- To take into account the Group's general risk analysis, follow up the action plans set up and their progression. As such, the internal audit reports are presented to the Audit Committee, as well as the follow-up and corrective action reports.

The Audit Committee has full authority to issue to the Board of Directors the recommendations designed to improve the Group's internal control.

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 3 members and at most 5 members, the majority of whom cannot be corporate officers. The Members of this Committee are Messrs. Christophe VIELLARD, Pascal LEBARD, 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 2005 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.

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.

5. COMPOSITION OF THE BOARD OF DIRECTORS AND THE SPECIALIZED COMMITTEES

The Group's Board of Directors is comprised of 9 members, 3 of whom are independent.

		Independent director	Date appointed	Date mandate expires
Board of Directors				
Chairman	Gilles KOHLER		1985	2009 General Meeting [3]
Member	Emmanuel VIELLARD		2000	2007 General Meeting [1]
Member	Eric ANDRE	X	2002	2008 General Meeting [2]
Member	Roland BURRUS	X	1984	2009 General Meeting [3]
Member	Christian PEUGEOT		2003	2007 General Meeting [1]
Member	Pascal LEBARD	X	2005	2011 General Meeting [4]
Member	Compagnie Industrielle de Delle represented by Thierry PEUGEOT		1977	2007 General Meeting [1]
Member	Société Civile CIKO represented by Jean-Philippe KOHLER		2002	2009 General Meeting [3]
Member	VIELLARD MIGEON & Cie represented by Christophe VIELLARD		2000	2009 General Meeting [3]
Secretary	Maître Olivier PERRET (member of Cabinet Bernard Roy)			
Audit Committee				
Member	Emmanuel VIELLARD			
Member	Christophe VIELLARD			
Member	Pascal LEBARD			
Compensation Committee				
Member	Gilles KOHLER			
Member	Thierry PEUGEOT			
Member	Eric ANDRE			

[1] Ordinary General Meeting slated to rule in 2007 on the financial statements for the period ended December 31, 2006.
[2] Ordinary General Meeting slated to rule in 2008 on the financial statements for the period ended December 31, 2007.
[3] Ordinary General Meeting slated to rule in 2009 on the financial statements for the period ended December 31, 2008.
[4] Ordinary General Meeting slated to rule in 2011 on the financial statements for the period ended December 31, 2010.

6. INFORMATION REGARDING THE MEMBERS OF THE BOARD OF DIRECTORS

6.1 The members of the Board of Directors

Mandates exercised in other companies over the past five years:

Gilles KOHLER, age 52, Chairman and CEO of LISI.

He attends the Board of Directors and the Compensation Committee.

Gilles KOHLER has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - Chairman of the Management Committee of LISI AUTOMOTIVE SAS,
  - Member of the Management Committee of HI-SHEAR Corporation (USA),
  - Member of the Management Committee of HI-SHEAR AUTOMOTIVE (USA),
  - Member of the Management Committee of LISI AUTOMOTIVE Former SAS,
  - Member of the Management Committee of LISI AUTOMOTIVE Rapid SAS,
  - Member of the Management Committee of LISI COSMETICS SAS,
  - Member of the Management Committee of LISI AEROSPACE SAS,
  - Member of the Management Committee of BLANC AERO Technologies SAS,
  - Member of the Management Committee of BLANC AERO Industries SAS,
  - Member of the Management Committee of EUROFAST SAS.

- Outside the LISI Group (in France and abroad):
  - Chairman of the Board of Directors of Compagnie Industrielle de Delle,
  - Director of Société Immeubles de Franche-Comté.

Emmanuel VIELLARD, age 42, Deputy Chairman and Deputy CEO of LISI.

He attends the Board of Directors and the Audit Committee.

Emmanuel VIELLARD has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - Chairman of the Management Committee of LISI AEROSPACE SAS,
  - Chairman of the Management Committee of BLANC AERO Technologies SAS,
  - Member of the Management Committee of HI-SHEAR Corporation (USA),
  - Member of the Management Committee of BLANC AERO Industries UK,
  - Member of the Management Committee of LISI AUTOMOTIVE SAS,
  - Member of the Management Committee of LISI AUTOMOTIVE Former SAS,
  - Member of the Management Committee of LISI AUTOMOTIVE Rapid SAS,
  - Member of the Management Committee of LISI COSMETICS SAS,
  - Member of the Management Committee of BLANC AERO Industries SAS,
  - Member of the Management Committee of EUROFAST SAS.
- Outside the LISI Group (in France and abroad):
  - Chairman of the Management Committee of Financière VIELLARD SAS,
  - CEO of VIELLARD MIGEON & Cie,
  - Director of Compagnie Industrielle de Delle,
  - Director of RAPALA-VMC OYJ (Finland),
  - Director of FSH WELDING GROUP,
  - Judge at the Belfort Commercial Court.

Eric ANDRE, age 57, Director of LISI.

He attends the Board of Directors and the Compensation Committee.

Eric ANDRE has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad): – None
- Outside the LISI Group (in France and abroad):
  - Member of the Board of Directors of NATEXIS France,
  - Director of R. DI GIOIA Cie.

Roland BURRUS, age 69, Director of LISI.

He has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad): – None.
- Outside the LISI Group (in France and abroad):
  - Chairman of the Syndicat des producteurs forestiers privés de la Haute-Saône et du Territoire de Belfort,
  - Chairman of the Union Régionale des producteurs forestiers privés de Franche-Comté,
  - Acting Partner of Groupement Forestier de Saint-André,
  - Acting Partner of CLARTUS,
  - Acting Partner of LA BRUNELLIERE SARL,
  - Director of Fédération Nationale des Forestiers Privés de France,
  - Director of Mouvement Européen Paris Ouest,
  - Director of Association Futaie Irrégulière,
  - Director of Comité National pour le développement du bois,
  - Director of LUCAY, Terroir Préservé.

Christian PEUGEOT, age 52, Director of LISI.

He has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad): – None
- Outside the LISI Group (in France and abroad):
  - Chairman of the Board of Directors of La Française de Participations Financières,
  - Deputy Chairman of Football Club de Sochaux-Montbéliard,
  - Director of Ets PEUGEOT Frères,
  - Director of Société Foncière Financière et de Participation,
  - Director of SEB,
  - Director of Compagnie Industrielle de Delle,
  - Communication Manager of Automobiles PEUGEOT.

Pascal LEBARD, age 43, Director of LISI.

He attends the Board of Directors and the Audit Committee.

Pascal LEBARD has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad): – None.
- Outside the LISI Group (in France and abroad):
  - Director – Deputy CEO of Sequana Capital,
  - Chairman of Greysac SAS (ex-Domaines Codem),
  - Chairman of the Supervisory Board of Permal Group SAS,
  - Director of Club Méditerranée,
  - Director of Permal Group Ltd,
  - Director of Société Générale de Surveillance (Geneva),
  - Director of Exint SA,
  - Manager of Ibéria SARL.

Thierry PEUGEOT, age 48, Director of LISI.

He attends the Board of Directors and the Compensation Committee.

Thierry PEUGEOT has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad): – None.
- Outside the LISI Group (in France and abroad):
  - Chairman of the Supervisory Board of PEUGEOT SA,
  - Deputy Chairman of Ets PEUGEOT Frères,
  - Director of Compagnie Industrielle de Delle,
  - Director of Immeubles et Participations de l'Est,
  - Director of Française de Participations,
  - Director of Société Anonyme de Participation,
  - Director of Société Foncière Financière et de Participation,
  - Director of FAURECIA,
  - Director of Air Liquide.

Jean Philippe KOHLER, age 45, Director of LISI.

He has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - Member of the Management Committee of LISI AUTOMOTIVE Former SAS,
  - Member of the Management Committee of LISI AUTOMOTIVE Rapid SAS,
  - Member of the Management Committee of LISI COSMETICS SAS,
  - Member of the Management Committee of LISI AEROSPACE SAS,
  - Member of the Management Committee of BLANC AERO Industries SAS,
  - Member of the Management Committee of EUROFAST SAS.
- Outside the LISI Group (in France and abroad):
  - Managing Director of Compagnie Industrielle de Delle,
  - Director of Compagnie Industrielle de Delle,
  - Manager of Société Civile CIKO.

Christophe VIELLARD, age 64, Director of LISI.

He attends the Board of Directors and the Audit Committee.

Christophe VIELLARD has exercised the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad): – None.
- Outside the LISI Group (in France and abroad):
  - Deputy Chairman of VIELLARD MIGEON & Cie,
  - Member of the Management Committee of Financière VIELLARD SAS,
  - Member of the Management Committee of REBOUD ROCHE SAS,
  - Member of the Management Committee of FSH Industries,
  - Member of the Management Committee of SELECTARC Industries,
  - Member of the Board of Directors of Agence Régionale de Développement de Franche-Comté,
  - Director of Compagnie Industrielle de Delle,
  - Director of RAPALA-VMC OYJ (Finland),
  - Director of FSH WELDING GROUP,
  - Director of EUROSAGA,
  - Manager of Groupement Forestier des Lomonts.

6.2 Family ties

The only family ties between the individuals listed above are the following:

Gilles KOHLER is the brother of Jean-Philippe KOHLER.

6.3 No conflicts of interests

To the Company's knowledge, there are no current or potential conflicts of interests between LISI S.A. and the members of the Board of Directors, both in terms of their personal interests and of their other obligations. The internal rules of the Board provide explicitly, if applicable, for a situation of conflict of interests: "The members of the Board of Directors have as an obligation to notify the Board of any situation of conflict of interests, be it potential, current, or future, where they are or are likely to be involved. Whenever the Board of Directors deliberates on a subject that concerns one of its members, either directly or indirectly, the said member is invited to leave, for the time of deliberations and, if applicable, of the vote, the Board meeting".

6.4 No condemnation for fraud, involvement in bankruptcy or incrimnation and/or public sanction

To the Company's knowledge, in the past five years:

- no condemnation for fraud has been pronounced against any of the members of the Board of Directors,
- none of the members of the Board of Directors has been involved in a bankruptcy, receivership, or winding up, as a member of a board of directors, a management board, or a supervisory board,
- no official incrimination and/or public sanction has been pronounced by statutory or regulatory authorities against any of the members of the Board of Directors of the company.

7. DIRECTORS' INTERESTS

7.1 Compensation and benefits in kind

Compensation paid to directors and LISI shares held as at December 2004.

(in thousand euros) Director	Mandate	Compensation paid by LISI S.A. (a) in 2005	Compensation paid by LISI S.A. (a) in 2004	Number of LISI shares held by directors	
				Physical entities	Legal entities
Gilles KOHLER	Chairman and CEO	271.6	302.6	15	
Emmanuel VIELLARD	Deputy Chairman	253.6	271.2	1,975	
Christian PEUGEOT	Director	5.0	4.5		
Roland BURRUS	Director	6.2	6.7	20	
Christophe VIELLARD	Permanent representative of VMC	8.7	7.9		634,230
Jean-Philippe KOHLER	Permanent representative of S.C. CIKO	222.0	212.6		15,153
Thierry PEUGEOT	Permanent representative of CID	8.7	9.0	25	5,928,725
Eric ANDRE	Director	8.7	9.0	5	
Pascal LEBARD	Director	3.7	_	10	
TOTAL		**788.2**	**823.5**	**2,050**	**6,578,108**

(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 directors' fees for attendance at meetings of the Board of Directors and other committees of which they are members. For 2005, directors' fees amounted to €65,000 and the attendance rate stood at 95%.

7.2 Share options

No share options were granted to directors in 2005.

Options exercised during the period by each of the corporate officers (nominative information):

Corporate officer	Number of options	Price
Emmanuel VIELLARD	6,500	€22.70

7.3 Profit-sharing

7.3.1 Profit-sharing and incentive scheme

Profit-sharing

The funds paid out in the form of special reserves for profit-sharing during the past 3 years are as follows (in million euros):

2003	2004	2005
2.8	3.9	2.6

Incentive

Most of the companies within the Group have an incentive 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.

7.3.2 Group Savings Plan (Plan d'Epargne Groupe or PEG)

In 2001, the LISI Group created a savings plan dubbed "LISI en 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, 2003 and 2005, 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 schedule.

Benefits granted to employees under the Group savings plan are recorded to the income statement and assessed in accordance with IFRS 2.

As at December 31, 2005, the "LISI en action" plan consisted entirely of LISI shares, for a total of 93,150 shares, and had 1,018 members.

7.3.3 Employee shareholding

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 employee 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% as at December 31, 2005.

7.3.4 Share 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, 2005 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.

Option applications in 2005 concerning the Goup's 10 non-corporate officer employees holding the largest number of options (general information):

Number of options exercised	Price
7,000	€22.70
2,000	€27.82

RISKS FACTORS

RISK EXPOSURE

In an approach meant to analyze the general and specific risks the Group is exposed to, the following categories have been identified:

- strategic risks,
- general risks covered by the various insurance policies,
- environmental risks,
- legal risks,
- IT-related risks,
- market risks (see note 4.7-f)
- other risks.

1. STRATEGIC RISKS

These risks are identified as major risks likely to compromise durably the completion of the strategic plan. All the risks identified that were classified in the “STRONG” occurrence category are subject to a corrective action plan and are treated in priority by the management of the various divisions.

2. GENERAL RISKS COVERED BY THE VARIOUS INSURANCE POLICIES

The LISI Group is covered by Group 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.

a) Damage insurance:

Covers owned or lent facilities, as well as operating losses in the event of any damage being caused. The deductible is applied per loss and stands at €100K with maximum cover of €667 million for buildings and equipment and €119 million for goods. Insurance companies organize periodical site visits so as to set up prevention programs coordinated with the sites’ PASE (Environment Safety Action Plans).

b) 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 €15.2 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. 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).

c) Directors’ liability insurance policy:

The Group is covered by a directors’ liability insurance policy for all its subsidiaries up to €7.7 million.

3. ENVIRONMENTAL RISKS

As at December 31, 2005, the provisions for environmental risks recorded in the balance sheets stood at €9.4 million versus €7 million as at December 1, 2004, and €4.5 million as at 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, 2005 will cover the treatment plan for more than 10 years.

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. Thus, at AUTOMOTIVE, a complete inventory of survey costs was conducted and led to completing the provision for 2005, thus bringing the environmental provision up to €1 million.

4. LEGAL RISKS

The Group is involved in a small number of legal disputes with third parties (non customers). All these disputes have been reviewed with our auditors and the most significant were appreciated by the Audit Committee. The amount of provisions for legal disputes set up for that purpose stands at €3.8 million. Generally speaking, all legal positions are determined and reviewed by third-party and in-house specialists.

5. IT-RELATED RISKS

For each of its divisions, the Group has identified an IT safeguard action plan likely to be implemented in the event of a serious failure. Furthermore, the Group has covered risks of disruption, malfunctions, or forced use of its IT systems with a specific insurance policy.

6. OTHER RISKS

a) Raw material risks

The Group uses specific raw materials that have incurred significant fluctuations within 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. Into 2006, only the Aerospace Division has been able to find procurement agreements for the whole of 2006, yet these integrate overload clauses. The other divisions are covered for 3 months only.

b) Commercial risks

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 35 LISI sites around the world. Thus, the company's first product in 2005, a parking brake system, accounted for slightly above 1% of the total consolidated sales revenue.

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.

c) Customer-related risks

Looking at the figures for 2005, only 4 clients accounted for more than 5% of the LISI Group's consolidated sales. Our 10 largest customers represented 46% of total sales, with all 3 of our divisions - AEROSPACE, AUTOMOTIVE and COSMETICS - appearing in the list. Our 81 largest customers accounted for 80% of sales.

Figures for our 3 largest customers have evolved as follows:

	2003	2004	2005
CUSTOMER A	13.5%	13.75%	11.9%
CUSTOMER B	6.8%	7.9%	10.9%
CUSTOMER C	7.6%	12.5%	7.2%

d) Supplier-related risks

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 thermal treatment and finishing operations (surface treatment and assembly), since most of the Group's activities are integrated. For 2005, the various operations outsourced by the Group's sites represented approximately 6% of consolidated sales revenue.

DOCUMENTS SPECIFIC TO THE ORDINARY GENERAL MEETING

REPORT BY 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 this context, this report will concentrate mainly on the factual description of applicable procedures, as well as providing a progression report of the 2005 action plan and a description of targets for 2006.

1. PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' TASKS

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.

1.2 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.

1.3 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.

1.4 Decision-making process

All major decisions are subjected to the Board's ratification, in accordance with the operating procedures described in paragraph 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.

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 paragraph 1.

Present on the Board of Directors are 3 independent directors, in compliance with the Bouton report. There are also 2 specific committees in existence: the Compensation Committee and the Audit 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 paragraph 3.2).

3. INTERNAL CONTROL PROCEDURES

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 control and cash flow,
  - purchase.
- 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.

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 officer.
  - 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. Recruitment is under way to strengthen our teams in 2006.
  - The structure of the procedure for internal audits may require the intervention of an outside consultancy specializing 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, procurement policy, as well as human resource management.

- Group baseline:
  - 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. This methodology is now deployed throughout the Group and handled down to the level of each individual management unit. It has been reviewed comprehensively and systematically each year as part of the preparation of the 4-year strategic plan. The priority action plans for the main risks identified in each division are validated in the next year's budget.
  - The security and environmental risks committee identifies and lists all inherent risks since 2001 and takes the corrective action required.

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 progression status of budget completion is assessed each month at all levels: elementary management units, B.Us, divisions and Group.
- 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 falls within the scope of the strategic and budgetary mechanism. Any commitment to purchase or to invest that deviates from budget authorizations is subject to prior approval at the appropriate level.
- The sales and contract process is reviewed specifically by the local teams, BUs, divisions or the Group 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.
- The Health, Safety, and Environment (HSE) process has been subjected to the quarterly review of management indicators (industrial accident rates, non-compliances, etc.) and the major resulting action plans.
- As far as the move to IFRS standards is concerned, since 2003, the LISI Group has been conducting a gradual convergence approach towards the new principles. Full communication on the impacts of the move to the worldwide standards system was conducted on June 30, 2005 on the opening situation as at January 1, 2004. Besides, the Group has decided to switch its consolidation platform to a new software program set up in accordance with the new accounting standards in the course of H2 2006.

3.4 2005 achievements and 2006 targets

- 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 3.2, this objective has been fully met.
- The Group also aimed to strengthen its risk detection and prevention activities through better organization of its internal checking unit. The pursuit of close collaboration with external auditors has allowed the Group to increase the efficiency of its checks. The aim was met in 2005, as shown by the list of interventions carried out:

	2004	2005 Targets	2005 achievements
Full Audit of an area of procedure:	6	10 to 12	11
Notes from internal audits complied with:	N/A	5 to 6	7

The intervention pace thus accelerated in 2005 and will be confirmed in 2006 with the envisaged reinforcement of LISI S.A.'s internal control structure. In parallel, management team training schemes on internal control and brainstorming sessions are considered for 2006 with, in particular, the publication of an ethics charter.

3.5 Conclusion

In 2005, the interventions conducted by the entire internal control system described above have not revealed any major risks likely to affect significantly the achievement of the targets set by the General Management.

Whenever non-compliances were observed, proposals for improvement were made, validated, and handled by the relevant operational staff, within the timeframes set. Subsequent follow-up procedures make it possible to ensure they are applied properly.

With the LSF Act, the Group has engaged into an ongoing progress initiative. Relying on knowledge that can always be improved and the involvement of those in charge of key processes, it facilitates the development and improvement of internal control over time.

Gilles KOHLER
Chairman of the Board of Directors

AUDITORS' REPORT DRAWN UP IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE ON THE REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS, WITH REGARD TO PROCEDURES FOR THE ELABORATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

Financial year ending December 31, 2005.

Dear Shareholders,

In our capacity as Auditors of LISI S.A. and in accordance with the provisions 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 ended December 31, 2005.

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 processing 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, as they are presented in the Chairman's report;
- familiarizing ourselves with the work underlying the information thus delivered in the 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, as they appear in the Chairman's report, which was drafted in accordance with the provisions of article L.225-27 of the French Commercial Code.

Paris and Exincourt, February 23, 2006.

The Auditors

Salustro Reydel *Member of KPMG International*	Exco Cap Audit
Marie Guillemot Auditor	Serge Clerc Auditor

AUDITORS' GENERAL REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Financial year ended December 31, 2005.

In carrying out the mission entrusted to us by your Shareholders' General Meeting, we hereby present you with our report for the financial year ended December 31, 2005, relating to:

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

The annual 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 statements

We performed our audit in accordance with the professional standards applicable 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.

Without challenging the aforementioned opinion, we call your attention on Notes 1 and 1A to the Appendix, which describe the effects on the financial statements, of the application of Rules CRC 2004-06 of November 23, 2004 on the definition, the accounting, and the assessement of assets, and CRC 2002-10 and 2005-07 on the definition of amortizations and depreciations.

Justifications for our assessments

In accordance with the provisions of article L.823-9 of the French Commercial Code with regard to the justifications for our assessments, we bring the following to your attention:

- As indicated in Note 1.B to the Appendix introducing the accounting rules and methods relative to non-voting shares, your company sets up depreciation allowances when the net book value exceeds their usage value. We have assessed the reasonable nature of the estimates retained by your company.

These assessments form part of our task as Auditors of the annual statements, taken as a whole, and have therefore helped us to form our unreserved opinion, 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 statements, of the information given in the Board of Directors' management report, or that given in the documents addressed to shareholders relating to the group's financial situation and the annual statements.

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

Paris and Exincourt, February 23, 2006.

The Auditors

Salustro Reydel *Member of KPMG International*	Exco Cap Audit
Marie Guillemot Auditor	Serge Clerc Auditor

P.S.: The above Auditors' report certifies the complete annual financial statements for the year ended December 31, 2005, including an integral appendix to accounts.

AUDITORS' SPECIAL REPORT ON REGULATED CONVENTIONS

Financial year ended December 31, 2005.

Dear Shareholders,

In our capacity as Auditors in charge of your company's financial statements, we are required to inform you about the regulated 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 of the conventions mentioned in article L.225-38 of the French Commercial Code.

Paris and Exincourt, February 23, 2006.

The Auditors

Salustro Reydel *Member of KPMG International*	Exco Cap Audit
Marie Guillemot Auditor	Serge Clerc Auditor

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended December 31, 2005.

Dear Shareholders,

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 ended December 31, 2005, 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. These financial statements were prepared for the first time in accordance with IFRS standards as adopted by the European Union. For comparison purposes, they include data relative to fiscal 2004, restated in accordance with the same rules except for standards IAS 32, IAS 39 which, in accordance with the option offered by the IFRS 1 standard, are applied by the company as of January 1, 2005 only.

Assessment of the consolidated financial statements

We have performed our audit in accordance with professional standards applicable 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 financial statements for the period are, in regards to the IFRS standards as adopted by the European Union, honest and sincere, and provide a reliable picture of the assets, the financial health, and the performance of the group made up of the physical and legal entities comprised in the consolidation scope.

Justifications for our assessments

In accordance with the provisions of article L.823-9 of the French Commercial Code with regard to the justifications for our assessments, we bring the following to your attention:

- When drafting its financial statements, the management of the LISI Group retains judgments and estimates, and issues assumptions regarding, in particular, the depreciation of assets, deferred taxes, and provisions, as described in Notes 2.2, 2.10, 2.17 and 2.27 to the Appendix. For all these estimates, we have assessed the data and assumptions on which they are founded, reviewed randomly the calculations made by the company, reviewed the available material, and verified that the notes to the annex provide appropriate information regarding the assumptions retained by the company.
- Note 2.18.1 describes the methods of assessing retirement commitments and post-retirement benefits. These commitments have been assessed by third-party actuaries. Our work has consisted in reviewing the data used, in assessing the assumptions retained, in reviewing the calculations made, and in verifying that Notes 2.18.1 and 8 to the Appendix provide appropriate information.

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

Specific verification

Besides, in accordance with professional standards applicable in France, we have also verified the information delivered in the report regarding the management of the Group. We have no comments to make on their sincerity and consistency with the consolidated financial statements.

Paris and Exincourt, February 23, 2006.

The Auditors

Salustro Reydel *Member of KPMG International*	Exco Cap Audit
Marie Guillemot Auditor	Serge Clerc Auditor

RESOLUTIONS PRESENTED BY THE BOARD OF DIRECTORS

ORDINARY GENERAL MEETING OF SHAREHOLDERS OF MAY 10, 2006

AGENDA

- Review and approval of the annual financial statements for the period ended December 31, 2005;
- Discharge to the Directors and Auditors;
- Approval of consolidated financial statements for the period ended December 31, 2005;
- Approval of the conventions covered by articles L.225-38 et seq. of the French Commercial Code;
- Appropriation of earnings;
- Authorization for the Company to repurchase its own shares;
- Determination of directors' fees;
- Proxies;
- Miscellaneous questions.

DRAFT 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, 2005, as they are presented, with profits of €15,684,834, 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 French General Tax Code, which amounts to a total of €17,046.

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, 2005, set out in accordance with article L.233-16 et seq. of the French Commercial Code, showing profits of €35,571,843.

3rd resolution

Having listened to the reading of the Auditors' special report on the agreements covered under article L225-38 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 2005, and to the Auditors for their 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	€15,684,834
increased by retained earnings to a total of	€27,151,340
To give a total of	**€42,836,174**

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

Special reserve for long-term capital gains	€917,249
as dividends to shareholders a sum of €1.08 per share, for the total of payable on may 12, 2006	€10,688,581
the remainder to the retained earnings account, for a sum of	€31,230,344
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 €1.08. The value of the dividend eligible for 50% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.08.

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:

Financial year ended December 31, 2002	Net dividend €0.62	Tax credit	€0.31	Gross income €0.93
Financial year ended December 31, 2003	Net dividend €0.80	Tax credit	€0.40	Gross income €1.20
Financial year ended December 31, 2004	dividends eligible for a 50% tax discount: €0.90			

6th resolution

Having listened to the reading of the Board of Directors' report and reviewed the data contained in the program description, the Shareholders' General Meeting:

- cancels the purchase authorization given on May 10, 2005;
- gives its authorization, in accordance with articles L.225-209 et seq. of the French Commercial Code, to the Board of Directors, to proceed, by whatever means it deems appropriate, to the repurchase of own shares, representing up to 10% of the company's share capital, corresponding to 989,683 shares, except for the acquisition of shares meant to be retained and the delivery of shares to be used as consideration or payment for external growth operations whose total will be limited to 5% of the share capital or 494,841 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 French market authority (AMF);
  - to grant stock options or free shares to employees and corporate officers of the company and/or its consolidated group;
  - to retain and use shares as consideration or payment for potential acquisitions;
  - to cancel purchased shares, 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 undertakes to remain constantly within the limits set by article L.225-209 of the Commercial Code.

The following terms apply to this authorization:

- the company may not repurchase its own shares for 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.

7th resolution

The General Shareholders' Meeting has decided to allocate directors' fees of €82,500 to the Board of Directors.

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

8th 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.