

Legris Industries,
Boosting industrial performance

2005 FINANCIAL REPORT

GROUPE *L* **EGRIS INDUSTRIES**



... 2005 FINANCIAL REPORT CONTENTS

Business report	29
Consolidated financial statements	33
Social responsibility	37
Environment	41

Business report

Legris Industries Group

SIGNIFICANT EVENTS IN 2005

Following two years of significant improvement in financial fundamentals, Legris Industries ended 2005 with mixed success. A rise in the Logistics Division's margins failed to offset the negative impact of rises in raw-material prices and generally lackluster trends in European industry on the profitability of the Fluids Divisions. Overall, operating margin thus slipped from 7.9% in 2004 to 7.3% in 2005. The operating cash flow nonetheless showed continued improvement, benefiting from the sale of non-strategic assets and more efficient management of working capital requirement.

On January 5, 2006, Legris Industries announced the sale of Comap, its Domestic Fluids Division, to the Aalberts Industries group of the Netherlands. The tie-up will enable Comap to benefit from the complementary geographical presence and product ranges of a European leader on sanitation and heating markets.

The planned sale of Legris Autoline, in contrast, was postponed amid industry caution on prospects for the worldwide automobile market.

During the second half of 2005, the Group reviewed and analyzed a number of industrial sectors where it is considering new development in 2006.

CONSOLIDATED SALES

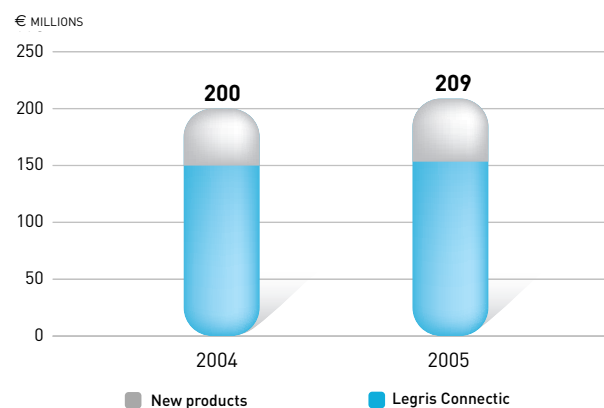
Consolidated sales

€ MILLIONS	2005	2004	real change	(1) comparable
Industrial Fluids	208.6	200.3	4.1%	3.9%
Domestic Fluids	185.6	179.6	3.4%	2.9%
Total Fluids Systems	394.2	379.9	3.8%	3.4%
Logistics	73.8	60.6	21.8%	21.8%
Group	468.0	440.5	6.2%	6.0%

(1) At constant scope of consolidation and exchange rates.

Consolidated sales at actual exchange rates increased 6.2% to €468 million in 2005 after rising 6.7% in 2004. This was in particular attributable to the progressive rise in orders booked by the Logistics Division from 2004.

Sales – Industrial Fluids

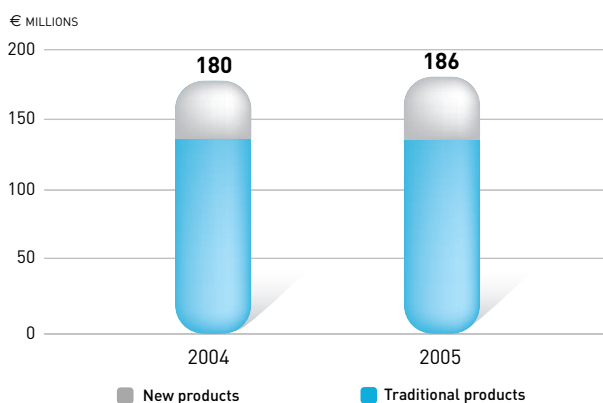


Sales of the Industrial Fluids Division came to €208.6 million in 2005, showing a rise of 4.1% after 9.9% in the previous year. Business outside Europe was up a healthy 18% and both Connectic and Transair did well, with sales up 3.2% and 25%, respectively. At the same time, Autoline sales were nearly flat, edging up just 0.2% amid slack trends on automobile markets.

Business report

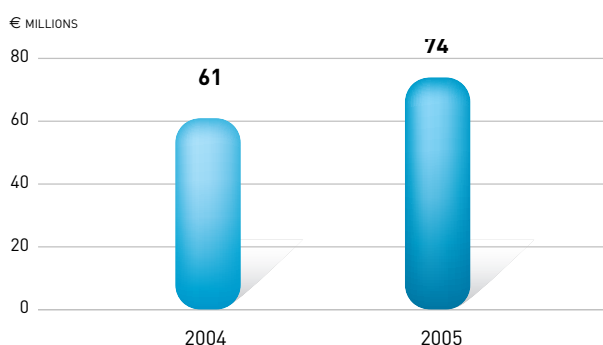
Legris Industries Group

Sales – Domestic Fluids



Sales of the Domestic Fluids Division rose 3.4% to €185.6 million. Following a temporary improvement in 2004, sales of traditional products for water and gas were nearly flat, dipping 0.7% as crimp fittings took the place of copper fittings on all European markets, driving sales of the latter down 11.3%. More favorably, Comap successfully continued expansion of its new ranges of ready-to-install solutions and crimp fittings, which generated sales of €43.7 million, up 18.9% from the previous year.

Sales – Logistics



The Logistics Division posted a healthy 21.8% rise in sales to €73.8 million, reflecting the progress of order-preparation and automated warehousing business in France. New orders rose 43.8% to reach a record €94.4 million in 2005. Measured relative to total 2005 sales, year-end order books represented nearly seven months of business.

CONSOLIDATED RESULTS

Operating margin by business line

€ MILLIONS	2005	2004
Fluids Systems		
Operating income	38.8	43.2
Operating margin	9.8%	11.4%
Logistics		
Operating income	4,5	1,9
Operating margin	6.2%	3.1%
Consolidated total		
Operating income (*)	34.1	34.6
Operating margin	7.3%	7.9%
(*) After holding company expense.	9	10

Operating income

Operational profitability fell back in 2005 after a strong rise in 2004. While operating income was little changed at €34.1 million, operating margin slipped from 7.9% of sales in 2004 to 7.3% in 2005. The two Fluids Divisions suffered from an unfavorable regulatory and economic environment and results also reflected reinforcement of sales and support resources. Operating margin in this area thus dropped from 11.4% to 9.8%. In contrast, the Logistics Division posted a further improvement with operating margin up from 0.2% in 2003 and 3.1% in 2004 to 6.2% in 2005. Performance during the year benefited from increased flexibility of operations to combine rises in sales and margins with more limited rises in operating expense.

Non-recurring operating items

Non-recurring operating items represented a net gain of €0.3 million, with net capital gains on the sale of buildings and land in an amount of €4.4 million more than offsetting business reorganization and restructuring charges of €1.8 million in Logistics and Fluids Divisions, accelerated depreciation, and deferred costs arising from loans issued in connection with Frégate's purchase of Legris Industries shares.

Net interest expense

Financial items are chiefly made up of interest and related expense on bond debt and bank and assimilated borrowings. The net charge for 2005 was little changed from the previous year at €13 million. On January 26, 2006, Legris Industries exercised the call option granted by Aalbert Industries for the purpose of acquiring the Domestic Fluids Division, a transaction that entailed a change in the valuation and the amortization period for redemption premiums on a certain type of bond. As a result, financial charges relating to bond debt rose from €6.3 million in 2004 to €8.5 million in 2005, but the negative effect was offset by a significant decline in average debt that brought the financial charges on bank borrowings down from €6.6 million in 2004 to €4.8 million in 2005.

Non-operating items

Non-operating items included income and charges relating to capital transactions, for which full provisions had been set aside in previous years. The balance for 2005 was close to nil.

Net income

Together, these items and corporate income tax set consolidated net income for 2005 at €9 million, with the rise from the previous year 15.3%. This reflected the contribution of non-operating income, in particular net capital gains on the sale of tangible assets during the year.

DEBT

Net financial debt stood at €143 million at December 31, 2005, of which €84.7 million represented bonds convertible into Frégate shares. This amount includes issue premiums and interest.

In accordance with French accounting regulations, bonds convertible into shares are recognized with premiums for early redemption and non-conversion. The amount of these premiums is reflected in a net amount of €25.3 million under deferrals on the assets side of the balance sheet at December 31, 2005.

Premiums have been calculated on the basis of the issuing contract, allowing for the probable maximum life of each category of bond.

CASH FLOWS

Statement of cash flows

€ MILLIONS	2005	2004
Cash flows from operations	34.9	28.8
Change in working capital	8.6	(1.0)
Net cash flows from operating activities	43.5	27.8
Investment in property, plant and equipment, net	(6.0)	(13.6)
Acquisitions of equity interests, net	(0.7)	(79.1)
Net cash flows from investing activities	(6.7)	(92.7)
Capital increase (decrease)	(0.0)	4.6
Dividends paid	(0.0)	(1.5)
Other	9.6	(4.8)
Net cash flows provided from financing activities	9.6	(1.7)
Net effect of currency translation	0.1	0.1
Decrease (Increase) in net debt	46.5	(66.5)

Cash flows for 2004 and 2005 are not directly comparable due to the direct and indirect costs relating to Frégate's purchases of Legris Industries and PJ Legris shares, and the restructuring of the ownership of Frégate that took place in 2004.

Business report

Legris Industries Group

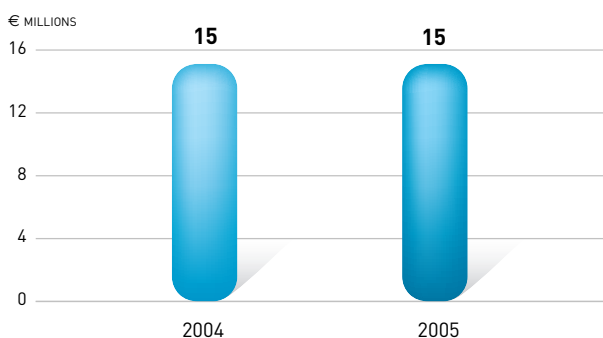
Cash flows for 2005 came to €46.5 million including €9.6 million relating to a change in the amortization periods for some bond loans. Cash flows from operations before changes in working capital requirement rose €6.1 million to €34.9 million. Of this, €4.4 million reflected a change in accounting treatment balanced out with an item under working capital requirement, while financial cash flows showed an improvement of €1.9 million. The efforts to improve working capital requirement that began in 2003 continued during the year, with progress at all three Divisions bringing an overall decline of €8.6 million despite the countervailing effects of higher business volumes.

The pace of capital expenditure was maintained in 2005 and total operating investments were steady at a gross €15 million. During the year, management continued the review and rationalization of assets begun in 2003. The proceeds of asset sales thus showed a steep rise to €9 million, while net financial investments were limited to €0.7 million.

BUSINESS ENVIRONMENT AND 2006 OBJECTIVES

Despite still slack trends in capital spending and persistently high raw-material costs, the Legris Industries Group should see continued growth as it accelerates development of new products and international expansion of its Industrial Fluids business. In the Logistics Division, the healthy inflow of orders observed in 2005 continued into the opening months of 2006, which should allow for a further improvement in operating income. Finally, the sale of the Domestic Fluids Division will have a favorable impact on overall profitability, and consolidated operating margin should thus show a rise in 2006.

Gross operating investment



Consolidated financial statement

Statement of income

€ MILLIONS	2005	2004
Sales	468.0	440.5
Other revenues	11.0	11.6
Raw materials, supplies and services	(273.1)	(253.8)
Personnel expenses	(132.6)	(130.4)
Other operating expenses	(39.2)	(33.3)
Operating income	34.1	34.6
Non-recurring operating items	0.3	(2.5)
EBIT	34.4	32.1
Interest expense, net	(13.2)	(13.3)
Amortization of goodwill	(6.2)	(7.0)
Non-operating items	0.0	1.2
Income before taxes	15.0	13.0
Income taxes	(6.0)	(5.2)
Net income, Group share	8.8	7.7
Minority interests	0.2	0.1
Consolidated net income	9.0	7.8

Consolidated financial statement

Balance sheets

€ MILLIONS

	2005	2004
ASSETS		
Intangible assets.....	0.8	0.8
Goodwill.....	44.4	50.6
Property, plant and equipment.....	75.7	60.4
Investments.....	2.3	2.2
Fixed assets	123.2	114.0
Inventories and work in progress.....	82.3	86.1
Trade accounts receivable.....	143.2	127.9
Other accounts receivable.....	11.1	11.2
Cash and equivalents.....	32.2	39.3
Current assets	268.8	264.5
Deferrals and accruals*	32.0	46.8
Deferred tax assets.....	15.2	13.9
Total assets	439.2	439.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Capital stock.....	44.1	44.1
Additional paid-in capital.....	0.0	0.0
Consolidated reserves.....	25.0	6.4
Net income, Group share.....	8.8	7.7
Cumulative translation adjustment.....	(5.7)	(7.8)
Shareholders' equity	72.2	50.4
Minority interests.....	0.6	0.4
Shareholders' equity including minority interests	72.8	50.8
Other equity.....	0.0	0.0
Reserves for contingencies and charges	25.4	18.4
Borrowings**.....	175.2	228.8
Accounts payable.....	157.5	137.0
Other liabilities.....	4.0	3.3
Liabilities	336.7	369.1
Deferrals and accruals.....	0.9	0.3
Deferred tax liabilities.....	3.4	0.6
Total liabilities and shareholders' equity	439.2	439.2

(*) Including redemption premiums on convertible bonds issued by Frégate, calculated on the basis of French accounting regulations. An identical amount is included in the Borrowings item on the balance sheet.

25.3 40.5

(**) Including bonds convertible into Frégate shares together with related premiums calculated on the basis of French accounting regulations.

84.7 91.6

Consolidated financial statement

Statement of cash flows

€ MILLIONS	2005	2004
Cash flows from operations	34.9	28.8
Change in working capital.....	8.6	(1.0)
Net cash flows from operating activities	43.5	27.8
Investment in property, plant and equipment net (1)	(6.0)	(13.6)
Acquisitions of equity interests, net.....	(0.7)	(79.1)*
Net cash flows from investing activities	(6.7)	(92.7)
Capital increase (decrease)	(0.0)	4.6
Dividends paid	(0.0)	(1.5)
Other	9.6**	(4.8)**
Net cash flows provided from financing activities	9.6	(1.7)
Net effect of currency translation	0.1	0.1
Decrease (Increase) in net debt	46.5	(66.5)

(1) Of which, gross investment in property, plant and equipment

(15.1)

(14.7)

(*) Including €81.5 million for the purchase of Legris Industries and PJ Legris shares in 2004 (delisting of Legris Industries in March 2004).

(**) Including adjustment relating to redemption premiums on convertible bonds in the amount of €9.6 million in 2005 and -€4.6 million in 2004.



Social responsibility

Legris Industries Group

EMPLOYMENT POLICIES

Staff

In 2005, staff numbers based on full-time equivalents came to 3,314, showing a modest 2% rise from 3,256 in the previous year.

Employees (full-time equivalent)

	2005	2004	Variation
Industrial Fluids	1,683	1,595	+88
Domestic Fluids	1,091	1,126	-35
Logistics	507	504	+3
Holding company	33	31	+2
Total	3,314	3,256	+58

For the Group as a whole, 2,280 employees or 87% of the total are permanent employees, with 50 added in 2005.

The average number of employees on fixed-term contracts of employment, calculated on the basis of full-time equivalents, was 255 in 2005. This form of employment, which represented 8% of the average total, reflects temporary peaks in production and a training policy involving apprenticeship and job qualification contracts in our Fluids Systems businesses. In all three Divisions a number of fixed-term employees were also taken on for replacement of staff absent over a certain time for maternity leave, parental leave or other reasons.

Staff provided by temporary employment agencies accounted for around 5% of the total, as in previous years, but showed a 26% decline in the Domestic Fluids Division.

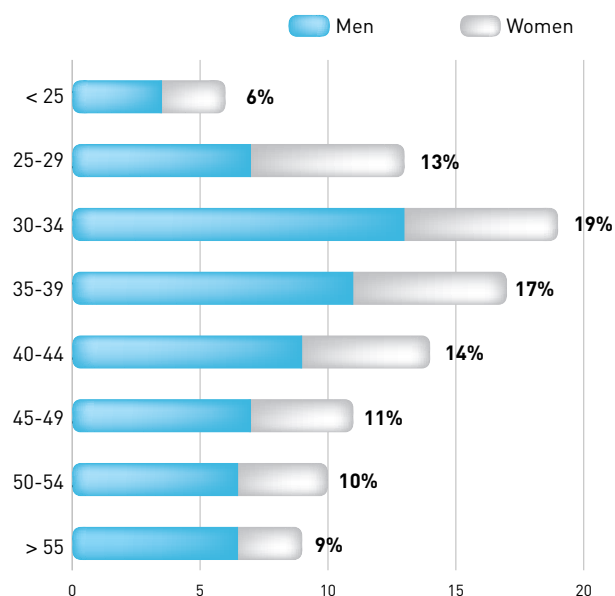
During the year, 315 permanent employees joined the Group after 253 in 2004. The Industrial Fluids Division encountered some difficulties in recruiting people with specialized skills, particularly in bar turning in Europe, while the Logistics Division had difficulty recruiting trilingual staff with the necessary technical expertise.

Policies favoring staff mobility within Divisions and between Divisions are being actively pursued, with 88 staff members concerned in 2005.

There were 87 dismissals in 2005, 17 being for reasons relating to business organization.

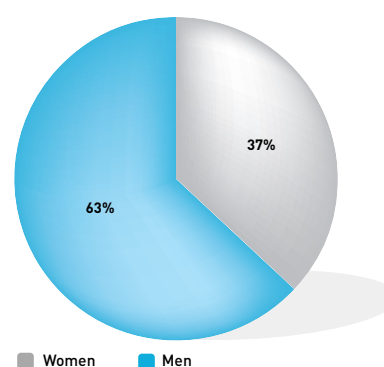
Restructuring conducted by Savoye in the UK and Germany led to the departure of 23 employees, who benefited from ad hoc support.

Age of employees



The proportion of male and female employees in different age brackets is fairly similar and the distribution of the workforce by age is well balanced with 63% aged from 25 to 44.

Men and women employed in 2005



The balance between male and female employees was unchanged from 2004. In Logistics, men represented a particularly high proportion, accounting for over 80% of employees, while in the Fluids Divisions they accounted for 60% and women for 40%.

Social responsibility

Legris Industries Group

International presence

Employees (full-time equivalent)		
	2005	2004
France	1,971	1,983
Other Europe	908	916
Americas	247	202
Asia-Pacific	156	122
Other	33	33
Total	3,314	3,256

Illustrating the international reach of Legris Industries, 40.6% of all employees work outside France. As in the previous year, the Industrial Fluids Division continued recruitment in the Americas and the Asia-Pacific area, regions where it is expanding sales. Rises in staff numbers in the Asia-Pacific concerned in particular both sales and production staff in China, while in the Americas growth centered on Mexico.

Organization and working hours

Part-time workers make up 7% of the workforce. In most cases, this is a personal choice. Part-time workers are also employed for weekend shifts where numbers have increased to optimize capacity utilization following the agreement on the reduction of working hours in France. In some cases, part-time work concerns employees preparing for retirement.

In France, working hours may vary according the collective labor agreements concerned, which in turn vary according to the legislation involved (the so-called *loi Robien* and *loi Aubry*). In other cases, hours simply depend on the application of the legislation introducing a 35-hour legal working week or the nationwide agreement for the metallurgy sector. In practice, average working weeks range from 34 hours and 20 minutes to 38 hours. In France, 21% of staff have a set annual number of workdays of between 211 and 218 days.

Overtime is rare, since preferences are for modular arrangements and annualized schedules to adapt hours to variations in production, where necessary with the help of temporary agency workers. The only exceptions in 2005 were at two Domestic Fluids Division sites, where overtime was needed to deal with increased production, particularly of new products, in the second half.

Absenteeism

The rate of absenteeism for the Group was unchanged at 4.6% overall and 3.8% excluding maternity leave in 2005. This is well below the sector average of 5.8% for metalworking industries in France (latest statistics available, 2002).

Pay and promotion

Payroll outlays excluding personnel from outside the Group totaled €132.6 million in 2004 compared with €130.4 million in 2004.

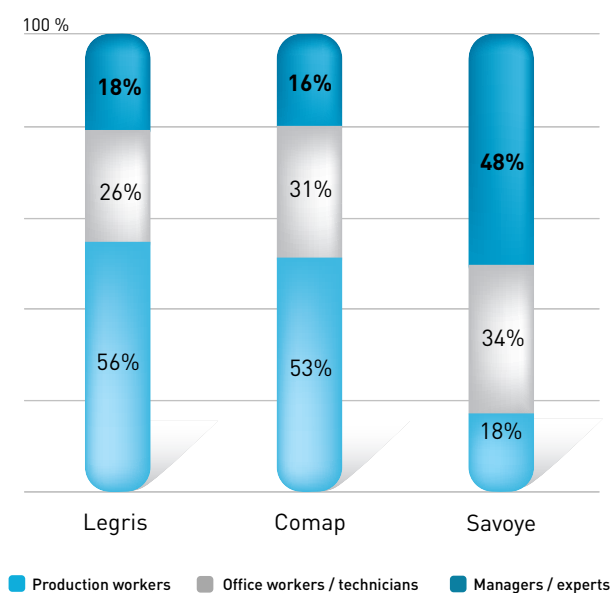
In France, all employees are covered by profit-sharing agreements (*intéressement*) and 99% are eligible for profit-sharing under national legislation (*participation*).

In 2005, nearly 72% of Group employees benefited from general wage increases and 26% from individual raises or promotion.

Breakdown by job category

The breakdown of total employees between blue and white-collar workers (the latter including both managers and experts) is nearly identical in Fluids Divisions, but the respective proportions are reversed in Logistics.

Breakdown by job category



- Domestic Fluids Division: agreements on profit-sharing were supplemented following legal restructuring and signature of a new Group-wide agreement for three years.
- Industrial Fluids Division: in France, an agreement on the 35-hour workweek at production plants, plus an agreement on bonus pay for holiday work and another on the payment of exceptional profit-sharing as provided by new legislation (*loi Breton*). Under the same legislation, all three Divisions signed an agreement freeing previously frozen profit-sharing entitlements for 2004.

Training and skill development

In 2005, 1,742 employees representing all job categories benefited from training, some 400 more than in 2004. Altogether 53% of the total workforce, including agency temps and outsourced staff, went on a training course of some sort, up from 30% in 2003 and 40% in 2004. Group-wide, a total of 5,882 days of training were taken up, for an average 3.4 days for each person involved.

The development of individual and Group competence is a key component of the Legris Industries project, making an essential contribution to progress for all. In 2004 the Group launched Legris Industries University and successfully deployed its first module, CAP éco, designed to familiarize all staff members with the basics of business economics. The program has so far been attended by 1,218 employees, 860 in France and 358 in other countries.

In the closing quarter of 2005 a second module was added. Called CAP dialogue, it is also designed for all staff members and aims to give each individual the desire and skills to make annual performance reviews both useful and satisfying, building on our Group's values.

In 2005, the number of reviews conducted was tracked for the first time; altogether 1,158 took place, 62% with managers and experts, 38% with office workers and technicians, and 21% with production staff. In each case, targets were set and this indicator is now monitored quarterly.

Legris Industries Group also welcomed 182 student interns. Twenty-three interns were students in France sent to assignments in other countries.

DIALOG

Labor relations and collective bargaining

Every French site with more than 50 employees has a site or company works council. In a number of cases, there are central works councils for a company with several sites. Where there are no other central bodies, arrangements are made with employee representatives to allow for effective circulation of information and dialog. Outside France, all major Group businesses have set up some form of employee representation, and in France there is also a Group works council bringing together representatives of the various company works councils.

In 2005, a number of new collective labor agreements were concluded in addition to annual wage negotiations at each Division.

- Logistics Division: harmonization of conditions following the merger of Logarithme in St. Etienne and 3i in Tourcoing to form a-Sis.

Social responsibility

Legris Industries Group

Working conditions

Compliance with high standards of hygiene and safety is a priority at all sites in production, logistics or sales.

During the year, Legris Industries recorded 79 accidents leading to absence from work and 2,949 days were lost. Represented as a ratio of number of days lost x 1000/number of hours worked, this came to 0.41%, compared to an overall average for French industry of 1.5; the average for metalworking industries is 1.2 (2004 data).

The accident frequency rate in the Group was 11 (number of accidents divided by total number of hours worked multiplied by 1,000,000), compared with a rate of 31.3 in French metalworking industries and an overall French average of 31.7.

Employee share ownership and savings

Employee savings plans at Legris Industries in France operate through three company investment funds for employees' voluntary contributions and profit-sharing entitlements.

One of these funds invests half of its assets in company shares, with amounts paid in by or on behalf of employees generally topped up by their employer. At the end of 2005, it counted €8,489,000 in assets and 1,304 employee investors from all Divisions. Of the two other funds, one invests in money-market instruments and has assets of €2,702,570 owned by 1,437 employees, while the other is diversified, with assets of €3,996,000 and 900 employee investors.

The environment

Legris Industries Group

Limiting the environmental impact of operations is a priority for Legris Industries, and in 2005 the Group once again pursued goals for continued improvement that go beyond simple regulatory compliance.

A unified reporting system to track key environmental indicators such as water and energy consumption, atmospheric emissions, and treatment of waste is now in operation at most industrial sites in France and other countries.

In June 2004, Legris Industries underscored its commitment to the causes of sustainable development and corporate responsibility by joining the UN-sponsored Global Compact, undertaking to support and promote all the fundamental principles set out in this charter within its area of influence.

Launched by the UN Secretary General in 2000, the Global Compact aims to encourage greater consideration in business practice for universal principles regarding human rights, international labor standards and the protection of the environment.

Trends in the Group's environmental indicators for 2005—most notably an increase in natural gas consumption—reflect the rise in business. But figures also take into account savings achieved with the full-year operation of the Domestic Fluids Division's new factory at Abbeville in northern France, in operation since June 2003. Other contributing factors include a marked drop in water consumption following a reduction from four compressors in 2004 to three this year, and in the production of waste at the Saint-Denis de l'Hôtel site linked to the installation of an evaporator in the last quarter of 2004. The Industrial Fluids Division also pursued its drive to obtain ISO-14001 certification, now shaping up for year-end 2007.

Environmental indicators at main production sites

	2005	2004	2003
Energy, total consumption (kWh)	33,146,822	33,153,587	32,276,798
Electricity (kWh)	23,508,819	24,117,921	23,257,997
Gas (kWh-Pcs)	7,926,584	7,185,164	7,253,145
Heating oil (kWh-Pcs)	1,711,419	1,850,502	1,765,656
Water, total consumption, (cubic meters)	145,068	172,466	174,160
Waste, total production (metric t)	2,673	3,172	3,343
Special industrial waste (metric t)	1,460	1,528	1,706
General waste, excl. packaging (metric t)	959	1,311	1,251
Packaging waste (metric t)	253	333	386
Atmospheric emissions			
CO ₂ (metric t)	2,072	1,959	1,950
SO ₂ (kg)	1,848	1,999	1,907
NO _x (kg)	4,681	4,313	4,330

ENERGY AND WATER

The main sources of energy at Group sites are electricity and natural gas. Water is used in production, mostly for cooling, and for sanitation.

The rise in gas consumption came primarily in the Industrial Fluids Division's Malestroit and Muzillac plants and was linked to increased use of heaters in winter.

WASTE

In addition to ordinary industrial waste, including packaging waste, presenting no special hazards, operations also generate special waste in the form of wastewater, oils and solvents, etc. Legris Industries has taken direct responsibility for the treatment of waste for a number of years. One result worth special mention is that all packaging waste at sites in France is fully recycled or put to other uses.

ATMOSPHERIC POLLUTION

Atmospheric emissions are mainly from boilers. Levels of CO₂, SO₂ and NO_x emissions have been calculated on the basis of coefficients for consumption of gas and oil.

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