



2006 FINANCIAL REPORT

- 32 Business report
- 35 Consolidated financial statements
- 38 Social responsibility
- 41 Environment

2006 highlights

In 2006, Groupe Legris Industries continued the momentum built up over previous years with double-digit rises in the operating margins of its two historic Divisions, Legris SA and Savoye SA. These performances and the sale of Comap opened the way for quicker debt reduction just three years after withdrawal from stock-market listing.

An eventful year began with the sale of the Comap Division to Aalberts Industries of the Netherlands. This tie-up with a European leader in domestic fluid equipment gives Comap the benefits of complementary ranges and geographical presence. The Legris Industries Group was thus able to provide Comap with an effective strategic positioning for the long term after having put new pace into its business performance.

We followed this up at the end of 2006 with the acquisition of Groupe Ceric, since renamed Keyria. Reporting sales of €303 million with a workforce of 1,673, this new Division specializes in the design and production of equipment and turnkey factories making clay building materials, mainly bricks and tiles. Since the acquisition was finalized on December 13 and a new management team was named at the end of December, Legris Industries took effective control only at the end of the year. As a result only Ceric's balance sheet is factored into our Group's consolidated financial statements for 2006.

Continuing expansion, in early 2007 we acquired Clextal, a company generating sales of €42 million with a workforce of 200. Clextal is a world leader in extrusion technology for the food industry, specializing in the design, manufacture and maintenance of equipment and turnkey production lines.

These two acquisitions provide new scope for Legris Industries to deploy its model for diversified business development and in so doing consolidate the special strengths that set us apart: the flexibility inherent to industrial SMEs backed by the strength and quality of a large group with a shared business culture.

Finally, on October 4, we received notice of a €46.8 million fine relating to violation of the provisions of article 81 of the Treaty establishing the European Community and article 53 of the European Economic Area Agreement. This fine, equal to 10% of Group sales in 2005, is extremely severe in relation to the allegations against Comap. Our Group finds this all the more difficult to accept as it has been clearly shown that we were not involved, and we have thus filed an appeal.

Consolidated sales

Sales	2006	2005	Real change	(*) comparable
IN € MILLIONS				
LEGRIS Division	222.3	208.6	6.6%	7.0%
COMAP Division	33.4	185.6	NS	
SAVOYE Division	93.1	73.8	26.1%	32.4%
Consolidated total	348.8	468.0		13.3%

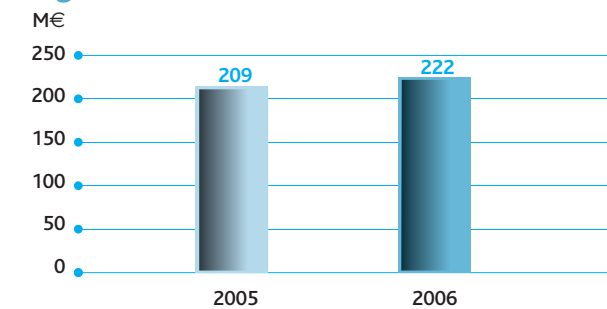
(*) at comparable scope of consolidation and exchange rates

Legris Industries' consolidated sales for 2006, with Comap consolidated over two months, came to €348.8 million compared with €468 million in 2005. At constant scope of consolidation and exchange rates, consolidated sales rose 13.3%, reflecting in particular the steady rise in order inflows observed in the Logistics Division since 2004.

Keyria (formerly Groupe Ceric) having been acquired in the middle of December 2006 and Clextal at the beginning of 2007, consolidated sales do not include these two new Divisions.

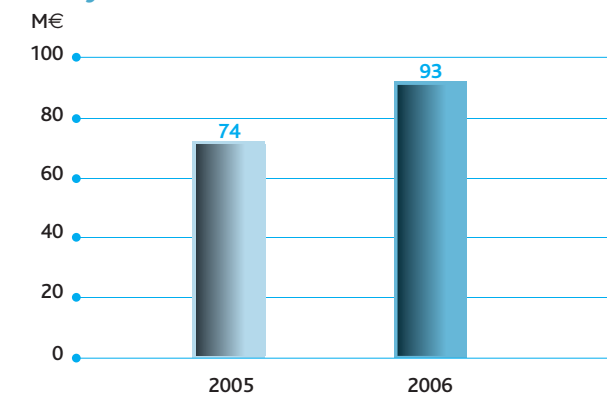
Full year, consolidated sales should be around €660 million for the reshaped Group including Legris, Savoye, Keyria and Clextal Divisions.

Legris Division sales



Sales of the Legris Division came to €222.3 million, showing a further 6.6% rise after 4.1% in 2005. Connector sales were up a healthy 8% and Transair sales a steep 22%, but Autoline suffered a 7.6% decline in the US, reflecting lackluster trends in the automobile market.

Savoye Division sales



Sales of the Savoye Division showed a 26.1% rise to €93.1 million in 2006.

This reflected gains in France and other countries for business in order preparation, software and automated warehousing. New orders were steady at €91 million after a 43.8% rise in 2005, and at the end of the year outstanding orders represented nearly six months of business on the basis of 2006 sales.

Consolidated income

Consolidated results	2006	2005
Operating margin		
IN € MILLIONS		
Consolidated data		
Operating income on ordinary business (*)	33.8	34.1
Operating margin	9.7%	7.3%
Pro forma consolidated data (**)		
Operating income on ordinary business (*)	32.8	26.5
Operating margin	10.4%	9.4%

(*) after holding company expense

(**) excluding Comap, sold in March 2006

Pro forma operating margin on ordinary business

Pro forma operating margin on ordinary business came in at over 10%, rising faster than the sales of the two Divisions. This improvement is essentially attributable to healthy business volumes and effective control of operating costs.

Non-recurring operating items

Non-recurring operating items represented a net charge of €2.6 million. This is principally made up of an amount of €2.8 million representing the balance of the deferred charges relating to loan issuance expense in connection with Frégate's acquisition of Legris Industries. The full amount of related debt was paid.

Net interest and other financial items

Net interest expense and other financial items represented a charge of €20.3 million principally resulting from accelerated amortization of the issue premium on certain bonds following the redemption in July 2006 of two million convertible bonds. As a result, interest expense on bond debt showed a significant decline to €2.4 million after €2.9 million in 2005.

Interest paid on bank and assimilated debts fell sharply from €3.9 million in 2005 to €1.8 million in 2006, reflecting repayment of senior debt.

Non-operating items

Non-operating items represented a net charge of €7.2 million. In addition to income and charges relating to capital transactions (sale of Comap SA and Schulz SA), this includes the fine imposed by the European Commission in October.

Net result

After these items and allowance for corporate income tax, business for the year showed a consolidated net loss of €5.9 million.

Debt

At the end of December 2006, consolidated net debt stood at €29.1 million showing a decline of €113.9 million on a year. This includes €37.9 million in bonds convertible into Frégate shares, including issuing premiums and interest.

In accordance with accounting regulations, bonds convertible into shares are recognized together with premiums for early redemption or non conversion. A balancing entry in a net amount of €7 million is included under deferrals on the asset side of the balance sheet at December 31, 2006. Premiums are calculated according to the issuing contract, using the maximum probable life of each bond type.

Cash flows

IN € MILLIONS	2006	2005
CASH FLOWS FROM OPERATIONS	(18.5)	34.9
Change in working capital requirement	40.9	8.6
NET CASH FLOWS FROM OPERATING ACTIVITIES	22.4	43.5
Investment in property, plant and equipment, net (1)	(10.7)	(6.0)
Acquisitions of equity interests, net	100.6	(0.7)
NET CASH FLOWS FROM INVESTING ACTIVITIES	89.9	(6.7)
Capital increase (decrease)	(0.0)	(0.0)
Dividends paid	(0.0)	(0.0)
Other	1.7	9.6
NET CASH FLOWS FROM FINANCING ACTIVITIES	1.7	9.6
Net effect of currency translation	(0.1)	0.1
DECREASE (increase) IN NET DEBT	113.9	46.5

(1) Of which, gross investments: (11.9) (15.1)

Cash flows in 2005 and 2006 are not directly comparable in view of the direct and indirect impacts of capital transactions with the sale of the Comap Division in March 2006 and the acquisition of the Keyria Division in December 2006.

In the year to December 31, 2006, cash flows from operations represented a negative €18.5 million compared with a positive amount of €34.9 million in 2005. The difference reflects the impact of the €46.8 million fine imposed by the European Commission, which was paid at the beginning of 2007, while the debt is recognized under change in working capital requirement on 2006 consolidated financial statements. On a pro forma basis allowing comparisons excluding Comap, net cash flows from operating activities were in line with the positive trend in pro forma operating income for the group.

Cash flows from investment activities represent a positive total of €89.9 million reflecting the proceeds of the sale of Comap, and the cost of the Ceric acquisition. The figure also includes net investments in property, plant and equipment amounting to €10.7 million in the year compared with €6 million in 2005. The proceeds of sales of tangible assets undertaken to rationalize holdings came to €9 million in 2005 and €1.2 million in 2006.

Business environment and targets for 2007

After a year of growth in 2006, a number of indicators point to softening trends for industrial investment in 2007. At the same time, raw material prices remain high and the dollar parity of the euro is unfavorable. The Legris Industries Group should nonetheless continue to gain ground with the acceleration of innovation in its product and service offering and the expansion of international business for its two historical Divisions, Legris and Savoye. The year ahead will also see new deployments with the integration of our new Divisions Keyria (formerly Ceric Group) and Clextral.

Statement of income

€ MILLIONS	2006	2005
Sales	348.8	468.0
Other revenues	8.7	11.0
Raw materials, supplies and services	(189.7)	(273.1)
Personnel expenses	(108.3)	(132.6)
Other operating expenses	(25.7)	(39.2)
Operating income	33.8	34.1
Non-recurring operating items	(2.6)	0.3
EBIT	31.2	34.4
Interest expense, net (1)	(20.3)	(13.2)
Amortization of goodwill	(5.7)	(6.2)
Non-operating items (2)	(7.2)	0.0
Income before taxes	(2.0)	15.0
Income taxes	(3.9)	(6.0)
Net income, Group share	(6.1)	8.8
Minority interests	0.2	0.2
Consolidated net income	(5.9)	9.0

(1) including the impact of early redemption of convertible bonds held by Chequers Capital in 2006.

(2) including the capital gain on the sale of the Comap division in March 2006 and the impact of the fine imposed by the European Commission.

Consolidated financial STATEMENT

Balance sheets

€ MILLIONS	2006	2005
ASSETS		
Intangible assets	3.2	0.8
Goodwill	52.7	44.4
Property, plant and equipment	74.0	75.7
Investments	2.1	2.3
Fixed assets	132.0	123.2
Inventories and work in progress	154.9	82.3
Trade accounts receivable	170.6	143.2
Other accounts receivable	16.2	11.1
Cash and equivalents	60.2	32.2
Current assets	401.9	268.8
Deferrals and accruals*	12.4	32.0
Deferred tax assets	17.3	15.2
Total assets	563.6	439.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Capital stock	44.1	44.1
Additional paid-in capital		0.0
Consolidated reserves	31.1	25.0
Net income, Group share	(6.1)	8.8
Cumulative translation adjustment	(4.4)	(5.7)
Shareholders' equity	64.7	72.2
Minority interests	3.3	0.6
Shareholders' equity including minority interests	68.0	72.8
Other equity	0.9	0.0
Reserves for contingencies and charges	46.8	25.4
Borrowings**	89.3	175.2
Accounts payable	212.9	157.5
Other liabilities	54.4	4.0
Liabilities	356.6	336.7
Deferrals and accruals***	88.8	0.9
Deferred tax liabilities	2.5	3.4
Total liabilities and shareholders' equity	563.6	439.2
<i>*including redemption premiums on convertible bonds issued by Fregate, calculated in accordance with French accounting regulations. An identical amount has been entered under financial debt on the balance sheet.</i>	7.0	25.3
<i>**of which, bonds convertible into Fregate shares including issue premiums, calculated in accordance with French accounting regulations.</i>	37,9	84,7
<i>*** in 2006: deferred income in connection with accounting for long-term contracts under the completed contract method at Groupe Ceric.</i>		

Consolidated financial STATEMENT

Statement of cash flows

€ MILLIONS	2006	2005
CASH FLOWS FROM OPERATIONS	(18.5)	34.9
Change in working capital	40.9	8.6
NET CASH FLOWS FROM OPERATING ACTIVITIES	22.4	43.5
Investment in property, plant and equipment net (1)	(10.7)	(6.0)
Acquisitions of equity interests, net	100.6*	(0.7)
NET CASH FLOWS FROM INVESTING ACTIVITIES	89.9	(6.7)
Capital increase (decrease)	(0.0)	(0.0)
Dividends paid	(0.0)	(0.0)
Other**	1.7	9.6
NET CASH FLOWS PROVIDED FROM FINANCING ACTIVITIES	1.7	9.6
Net effect of currency translation	(0.1)	0.1
DECREASE (Increase) IN NET DEBT	113.9	46.5
<i>(1) including gross investment in operations:</i>	<i>(11.9)</i>	<i>(15.1)</i>
<i>*impact of sale of Comap and acquisition of Groupe Ceric</i>		
<i>** adjustment for redemption premiums for convertible bonds</i>		

Employment policies

Staff numbers

Our Group workforce averaged 2,337 full-time equivalents in 2006, this being after deduction of the numbers employed by Comap, the Division sold in the first quarter of 2006, and not yet including the approximately 1,700 employed by Keyria (formerly Ceric), the new Division acquired in December 2006.

On the basis of comparable scope of consolidation, there was modest rise of 3% from 2,223 full-time equivalents excluding Comap in 2005.

Employees (full-time equivalents, FTE)	2006	2005	Variation
Legris	1 808	1 683	+ 125
Comap	-	1 091	-
Savoie	492	507	-15
Holding company	37	33	+ 4
GROUP TOTAL	2 337	3 314	+ 114

Of the total, 1,951 or 83% are under permanent contract. This is very slightly higher than in the previous year, with the rise mainly attributable to the Legris Division, where there were 56 more full-time equivalents.

Employees under permanent contract represented a significantly lower percentage of the total workforce than in 2005, reflecting in particular the character of employment contracts in China. The average number under fixed-term contracts was little changed at 246 (FTE) after 255 in the previous years. Variations in business volumes are the main reason for employment on this basis.

Employment agency workers represented 6% of the Group workforce. This is slightly more than in the previous year due to more regular calls on agencies from the Legris Division to deal with short-term contracts.

During the year, the Group recruited 302 permanent employees. At the Legris Division, recruitment was up 20% to reinforce production and sales teams, while the Logistics Division encountered continuing difficulties in the recruitment of technical staff able to speak two or more languages and willing to travel.

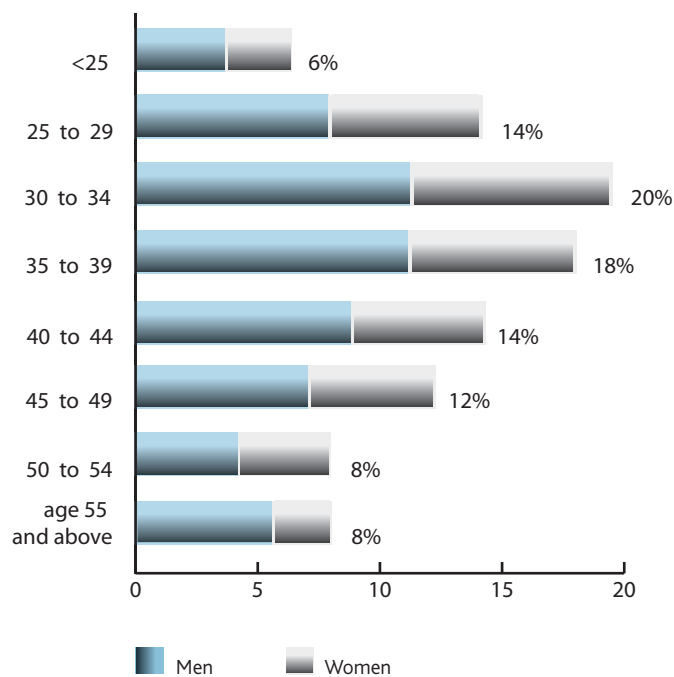
Our Group places continued emphasis on staff mobility as a lever for motivation and the development of competencies, as well as for business responsiveness and efficiency.

Mobility across different functions and locations has thus been monitored on a quarterly basis. In 2006, opportunities benefited 107 employees compared with 88 in the previous year, when the Group still had its Domestic Fluids Divisions. Recent acquisitions mean added scope for significant moves of this kind.

All told, the Group counted 49 dismissals and layoffs during the year, including 12 relating to the reorganization of Savoie's UK subsidiary.

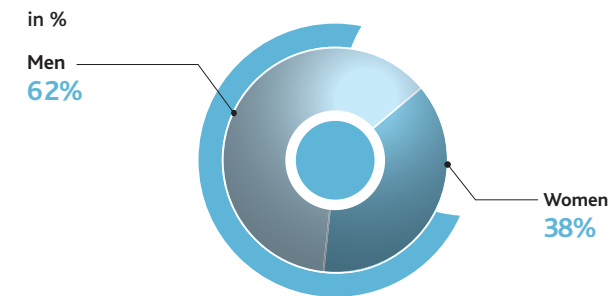
The Savoie Division also sold its German subsidiary Schulz, resulting in the departure of 43 employees including 39 under permanent contracts.

Workforce age groups



The proportions of male and female employees is fairly similar from one age group to the next, and representation of different age groups is well balanced with 66% of the workforce in the 25-to-44 bracket. The average age of employees excluding new Divisions is 39 compared with 40 for the metalworking sector in Brittany as a whole.

Men and women employed in 2006



Relative representation of men and women is much the same as in 2007. The Savoie Division counts a high 78% of male employees, while at Legris Division 58% are men and 42% women.

Our area of business, metalworking, has traditionally employed a high proportion of male workers and in 2006 women accounted for only 23.5% of the sector workforce compared with 33.7% of total industrial employment. However, the range of positions held by women is widening steadily from one year to the next.

Internationalization

Employees (full-time equivalent FTE)	2006	2005
France	1 328	1 971
Other Europe	557	908
Americas	253	247
Asia-Pacific	181	156
Other	18	33
GROUP TOTAL	2 337	3 314

Over 43% of all staff members are based outside France, underscoring our Group's international scope. The Legris Division, actively pursuing its expansion in the Americas and the Asia-Pacific region, is also taking on new recruits with an international profile in France. Our new Keyria Division is highly international and its integration will have little effect on the balance.

Working hours

Part-time employees make up 8.26% of the Legris Industries workforce compared with 7% in 2005. For the most part, this is a matter of personal choice. There are also some part-time workers in teams for weekend work.

Absenteeism

Absenteeism in 2006 was little changed from the previous year, standing at 4.6% overall and 3.4% excluding maternity leave. This compares favorably with an overall average of 4.1% excluding maternity leave for French industry.

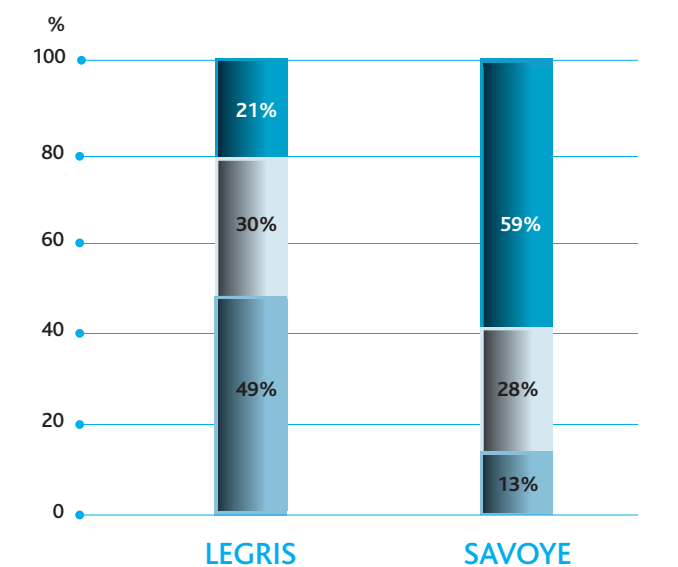
Employee compensation and development

Payroll expense excluding outsourced staffing came to EUR 108.3 million.

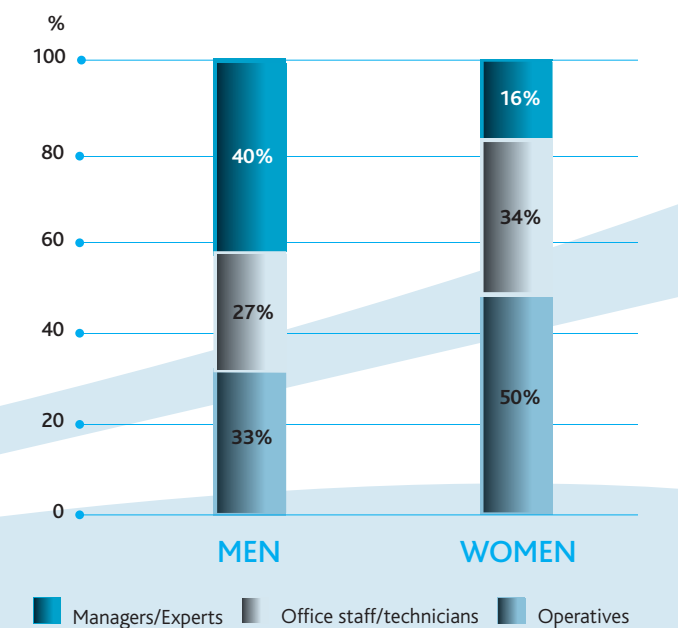
All Group employees in France are entitled to profit-sharing under a collective labor agreement and 95% are eligible for profit-sharing provided for in French law.

In 2006, nearly 70% of all Group employees benefited from general wage increases and 32.8% from an individual increase or a promotion.

Breakdown of staff by category:



Differences in the breakdown of staff by category at Legris and Savoie reflect differences in the two Divisions' businesses.



The Legris Industries Group has defined six priorities for the creation of societal value, among them equal opportunity. In particular, this means action to forestall any danger of limitations on career opportunities resulting from employees' sex, age or nationality, or based on any other criterion not directly related to professional competence.

In 2006 a Diversity and Equal Opportunity program was initiated to define policies and first plans for action. Within this framework, we will be phasing in new indicators such as measurement of the proportion of men and women in different categories as a means to monitor the action undertaken and assess results.

Labor relations

Employee representation and collective labor agreements

Every site in France counting more than 50 employees has a site or company Works Committee and our main sites outside France have all adopted structures for employee representation. In France, a Group Works Committee brings together the individual site and company Works Committee. Its members include representatives of all sites, who may be appointed locally or be specially invited. In 2006, employee representatives from Group businesses in Germany, Spain and the UK attended the Group Committee's annual meeting for the first time.

In addition to annual wage negotiations, collective labor agreements in 2006 included a new agreement on employee profit sharing at Legris.

Reinforcing competencies

In 2006, 1,894 employees or 81% of the Group workforce benefited from training, an exceptionally high proportion reflecting our dedication to training as a priority in the interest of both business performance and the progress of individual employees. In particular, it results from the growing momentum of Legris University programs, of which there are currently two. The first, Cap Eco, is designed to raise awareness of the financial imperatives of business and employees' contribution to business performance, while the second, Cap Dialog, is dedicated to annual Performance and Development reviews, clarifying the roles and responsibilities of participants to shape interviews that reflect our values and lend meaning to action.

During the year, training represented a total of 6,026 days or an average of three days for each employee in the Group. Managers have received instructions to ensure that every employee, at all levels and in every country, is to benefit from at least three days or approximately 25 hours of training in any three-year period.

Commitment to the development of competencies is a fundamental component of the common culture that we are continuing to consolidate.

The monitoring of Performance and Development interviews that began in 2005 continues, with specific targets now defined for each employee category. The 1,193 interviews conducted in 2006 concerned 76% of managers and experts, 57% of office staff and technicians and 34% of operatives. The total for the year compares with 724 in 2005 and targets for further rises have been set, with progress assessed on a quarterly basis.

Working conditions

Compliance with hygiene and safety rules is a priority for all our sites, whether in production, logistics or sales.

In 2006, accidents resulted in a total of 1,900 days' absence, setting the accident rate (i.e., days of absence x 1,000/hours worked) at 0.39. The overall average for France is 1.5 including all sectors and 1.2 in metalworking.

Employee savings and share ownership

Employee savings and share ownership programs within the Legris Industries group operate through three dedicated investment funds that collect profit-sharing and voluntary payments.

The first of these funds, Legris Avenir, has some 60% of assets in company shares and the remainder in money-market instruments. Employee payments into this fund are generally topped up by the business. At December 31, 2006, net assets amounted to €11.8 million with 1,349 employees holding interests.

A second fund, Legris Trésorerie, invests at least 75% of assets in euro-zone money markets. Net assets amount to € 3 million with 1,707 employees holding interests.

Finally, Legris Diversifié, recently renamed Arcancia Equilibre, is a diversified fund. It invests in investment funds with euro-zone assets, aiming for an even balance between bond and equity funds. Allocations to equity funds range from 40 to 60%. Net assets amount to €3.6 million with 974 Group employees holding interests.

Environment

In 2006, we pursued our drive to protect and promote the natural environment, with a view to gradually moving beyond simple compliance with regulations.

In June 2004, Groupe Legris Industries had already joined the UN Global Compact launched in 2000 by the then Secretary General of the United Nations. In doing so, we undertook to uphold and promote, within our sphere of influence, the Compact's fundamental principles for best practice in the fields of human rights, labor standards and the environment.

To meet its commitments, Legris Industries publishes an annual review of initiatives taken and measures adopted in support of the Global Compact and its principles.

Two major initiatives in 2006:

- **Legris**, specializing in connectors for fluid circuits in industry, Legris began preparation for ISO 14 001 certification with the launch of an in-depth review of environmental standards at its two production sites in 2006. The guiding principle of ISO 14 001 is continued improvement, which means it calls for not only compliance with regulations but also ongoing progress.

The three sites concerned are:

- **The production site in Muzillac, France** (Morbihan - 56) : with a workforce of 160 specialized in plastic injection and instant fittings
- **Headquarters in Rennes, France** (Ile et Vilaine - 35) : with a management, administrative and technical workforce of 200
- **The production site in Baillé, France** (Ile et Vilaine - 35) : with a workforce of 120 specialized in assembly and order dispatch

In 2006, a full inventory of environment-related factors and impacts was completed at the Muzillac site and review at headquarters in Rennes is now in progress. The process will get under way at the Baillé site in 2007. The immediate priority is to complete these reviews and to define targets and schedules for action to obtain certification no later than 2008.

- **Savoie**, the Group Division specialized in automated warehousing systems and logistic equipment, has developed a ground-breaking automated packaging machine that limits the height of each package to the level actually needed for the contents. Reducing packaging volume and weight, this brings clear environmental benefits as well as savings on dispatching costs for Savoie's customers, with technology that combines speed, simplicity and affordability.

Tracking environmental performance through consumption of water and energy, air pollution/emissions, etc. is achieved through regular reporting. The 2006 figures shown below do not include Comap, a division sold in March 2006, or Keyria, the new name of Groupe Ceric, acquired in December 2006. Data for 2005 are restated for comparison with 2006.

Indicators		2006 total	2005 total
Energy	Total consumption (kWh)	18 725 417	17 895 553
	Electricity (kWh)	13 334 673	12 382 516
	Natural gas (kWh-Pcs)	3 610 052	3 801 618
	Domestic fuel (kWh-Pcs)	1 780 692	1 711 419
Water	Total consumption (cubic meters)	26 995	23 280
Atmospheric emissions	CO ₂ (metric tons)	1 212	1 232
	SO ₂ (kg)	1 923	1 848
	NO _x (kg)	2 366	2 453

French texts

Direction de la Communication
Groupe Legris Industries
74, rue de Paris - BP 70411 - F
35704 Rennes Cedex 7

Printing

Imprimerie Le Govic - Saint-Herblain

Photos

Ian Sanderson / Richard Volante

English translation

C. Durban - R. Blake