1.- CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

(Consolidated)

Consolidated annual accounts
and Consolidated Directors' Report
for the year
ended 31 December 2005

PricewaterhouseCoopers Auditores, S.L.
Edificio Sota
Gran Vía, 45
48011 Bilbao
España
Tel.: +34 946 022 500
Fax: +34 946 022 750
www.pwc.com/es

A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of CIE Automotive, S.A.

1. We have audited the consolidated annual accounts of CIE Automotive, S.A. (parent company) and subsidiaries (the Group) (notes 1 and 2 of the accompanying consolidated annual accounts), consisting of the consolidated balance sheet at 31 December 2005, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the Parent Company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

2. The accompanying consolidated annual accounts for 2005 are the first which the Group has prepared under the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which generally require that the financial statements present comparative information. In this respect, and in accordance with Spanish Corporate Law, the Directors of the Parent Company have presented, for comparative purposes, for each item in the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the notes to the consolidated annual accounts, the corresponding amounts for the previous year, as well as the amounts for 2005, which have been obtained through the application of IFRS –EU effective at 31 December 2005. Therefore, the figures for the previous year differ from those contained in the approved consolidated annual accounts for 2004 which were prepared under accounting standards effective in that year. The differences resulting from the application of IFRS-EU to consolidated equity at 1 January and 31 December 2004 and to the consolidated income statement for 2004 of the Group are set out in Note 5 to the accompanying consolidated annual accounts. Our opinion refers solely to the 2005 consolidated annual accounts. On 18 March 2005 we issued our audit report on the consolidated annual accounts for 2004, prepared under accounting standards effective in that year, in which we expressed an unqualified opinion.

PricewaterhouseCoopers Auditores, S.L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

PRICEWATERHOUSECOOPERS

3. In our opinion, the accompanying consolidated annual accounts for 2005 present fairly, in all material respects, the consolidated financial position of CIE Automotive, S.A. and subsidiaries at 31 December 2005 and the consolidated results of their operations, changes in consolidated net equity and consolidated cash flows for the year then ended and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union which are consistent with those applied in the preparation of the consolidated annual accounts for the previous year which have been included in the consolidated annual accounts for 2005 for comparative purposes.

4. The accompanying consolidated Directors' Report for 2005 contains the information that the Directors of the Parent Company consider relevant to the Consolidated Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the financial information contained in the aforementioned consolidated Directors' Report coincides with that of the financial statements for 2005. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the accounting records of CIE Automotive, S.A. and subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Francisco Javier Domingo
Partner-Auditor

15 March 2006

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONTENT

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005 AND 2004
(€'000)

		At 31 December	
	Note	**2005**	**2004**
ASSETS			
Non-current assets			
Property, plant and equipment	**7**	426.218	415.902
Goodwill	**8**	44.628	35.292
Other intangible assets	**8**	10.937	8.710
Non-current financial assets	**9**	3.642	3.186
Investments carried under the equity method	**1**	996	106
Deferred tax assets	**23**	32.914	32.544
Other non-current assets	**11**	7.784	3.681
		527.119	**499.421**
Current assets			
Inventories	**12**	118.821	100.894
Trade and other accounts receivable	**10**	127.689	116.863
Other current financial assets	**9**	23.443	21.931
Current tax assets	**-**	19.370	13.507
Other current assets	**-**	612	443
Cash and other cash equivalents	**13**	47.049	38.313
		336.984	**291.951**
Total assets		**864.103**	**791.372**

The accompanying notes included in pages 7 to 73 are an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005 AND 2004
(€'000)

	Note	At 31 December 2005	2004
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	**14**	23.028	23.028
Treasury shares	**14**	57	(274)
Share premium	**14**	33.752	33.752
Retained earnings	**15**	149.507	120.059
Accumulative exchange rate differences	**16**	14.333	(859)
Interim dividend	**15**	(4.560)	(2.276)
Minority interests	**18**	798	686
Total equity		**216.915**	**174.116**
Deferred income	**19**	**22.945**	**26.566**
LIABILITIES			
Non-current liabilities			
Provisions	**25**	19.734	20.076
Long-term bank loans	**20**	238.675	121.314
Deferred tax liabilities	**23**	18.223	16.867
Other non-current liabilities	**22**	35.874	48.887
		312.506	**207.144**
Current liabilities			
Short-term bank loans and overdrafts	**20**	66.354	175.573
Trade and other accounts payable	**21**	196.075	151.127
Current tax liabilities	**22**	18.408	18.050
Other current liabilities	**22**	30.900	38.796
		311.737	**383.546**
Total liabilities		**624.243**	**590.690**
Total equity and liabilities		**864.103**	**791.372**

The accompanying notes included in pages 7 to 73 are an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004
(€'000)

	Note	Year ended 31 December 2005	Year ended 31 December 2004
OPERATING REVENUE		806.727	688.092
Net turnover	26	782.035	669.998
Other operating revenue	26	13.247	9.112
Variation in inventories finished products and work in progress	12/26	11.445	8.982
OPERATING EXPENSES		(747.718)	(646.091)
Consumption	12	(369.174)	(317.670)
Staff costs	28	(197.130)	(168.115)
Depreciation / Amortisation	-	(57.386)	(49.324)
Other operating expenses	-	(125.993)	(105.889)
Other gains / (losses) net	27	1.965	(5.093)
OPERATING PROFIT		**59.009**	**42.001**
Financial income	29	4.669	1.085
Financial expense	29	(20.760)	(16.423)
Exchange differences	29	961	(1.201)
Gains / losses financial instruments at fair value	29	31	(173)
Share in profits companies carried under equity method	1	(890)	(1.330)
PROFIT BEFORE TAXES CONTINUED OPERATIONS		**43.020**	**23.959**
Income tax	30	(7.770)	(4.021)
PROFIT FOR THE YEAR		**35.250**	**19.938**
Minority interests	15	(112)	(135)
PROFIT ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**35.138**	**19.803**
Earnings per share attributable to Company shareholders during the year (expressed in euro per share)			
- Basic	31	**1,55**	**0,88**
- Diluted	31	**1,55**	**0,88**

The accompanying notes included in pages 7 to 73 are an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004
(€'000)

	Attributable to the Company's shareholders								
	Share capital (Note 14)	Treasury shares (Note 14)	Share premium (Note 14)	Reserve first conversion IFRS and other revaluation reserves (Note 15)	Cumulative translation differences (Note 15)	Retained earnings (Note 15)	Interim dividend	Minority interests (Note 18)	Total Equity
Balance at 1 January 2004 (*)	23.028	(2.654)	33.752	7.671	-	94.909	-	552	157.258
Gross cash flow hedging (Note 9)	-	-	-	(751)	-	-	-	-	(751)
Market value of financial assets (Note 9)	-	-	-	606	-	-	-	-	606
Foreign currency translation differences	-	-	-	-	(859)	-	-	-	(859)
Gross income / (expense) recognised directly in equity	-	-	-	(145)	(859)	-	-	-	(1.004)
Tax effect (Note 23)	-	-	-	47	-	-	-	-	47
Net income / (expense) recognised directly in equity	-	-	-	(98)	(859)	-	-	-	(957)
Profit for 2004	-	-	-	-	-	19.803	-	134	19.937
Total income recognised for 2004	-	-	-	(98)	(859)	19.803	-	134	18.980
Distribution of 2003 profit (complementary dividends)	-	-	-	-	-	(2.200)	-	-	(2.200)
Other movements	-	-	-	-	-	(26)	-	-	(26)
Net movement in treasury shares	-	2.380	-	-	-	-	-	-	2.380
Dividend for 2004	-	-	-	-	-	-	(2.276)	-	(2.276)
Balance at 31 December 2004	**23.028**	**(274)**	**33.752**	**7.573**	**(859)**	**112.486**	**(2.276)**	**686**	**174.116**

(*) Following the General Meeting's resolution for distribution of 2003 profits.

The accompanying notes included in pages 7 to 73 are an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004
(€'000)

	Attributable to the Company's shareholders								
	Share capital (Note 14)	Treasury shares (Note 14)	Share premium (Note 14)	Reserve First Conversion IFRS and other revaluation reserves (Note 15)	Cumulative translation differences (Note 15)	Retained earnings (Note 15)	Interim dividend a cuenta	Minority interests (Note 18)	Total Equity
Balance at 1 January 2005	23.028	(274)	33.752	7.573	(859)	112.486	(2.276)	686	174.116
Gross cash flow hedging (Note 9)	-	-	-	(1.175)	-	-	-	-	(1.175)
Market value of financial assets (Note 9)	-	-	-	1.775	-	-	-	-	1.775
Foreign currency translation differences	-	-	-	-	15.192	-	-	-	15.192
Gross income / (expense) recognised directly in equity	-	-	-	600	15.192	-	-	-	15.792
Tax effect (Note 23)	-	-	-	(183)		-	-	-	(183)
Net income / (expense) recognised directly in equity	-	-	-	417	15.192	-	-	-	15.609
Profit for the year	-	-	-	-	-	35.138	-	112	35.250
Total income recognised for 2005	-	-	-	417	15.192	35.138	-	112	50.859
Distribution of 2004 profits	-	-	-	-	-	(5.418)	2.276	-	(3.142)
Other movements	-	-	-	-	-	(689)	-	-	(689)
Net movement in treasury shares	-	331	-	-	-	-	-	-	331
Dividend for 2005	-	-	-	-	-	-	(4.560)	-	(4.560)
Balance at 31 December 2005	**23.028**	**57**	**33.752**	**7.990**	**14.333**	**141.517**	**(4.560)**	**798**	**216.915**

The accompanying notes included in pages 7 to 73 are an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004
(€'000)

	Notes	Year ended 31 December 2005	Year ended 31 December 2004
Cash flows from operating activities	**33**	106.432	76.790
Cash flows from investing activities			
Acquisition subsidiary, net of cash acquired	**35**	(7.201)	(562)
Acquisition of property, plant and equipment	**-**	(59.960)	(72.626)
Income from sale of property, plant and equipment	**33**	14.628	9.693
Acquisition of intangible assets	**-**	(4.111)	(6.550)
Acquisition / disposal of available- for- sale financial assets	**-**	(1.648)	1.214
Loans granted to related parties	**11**	(3.496)	-
Capital grants received	**19**	843	5.802
Net cash used in investing activities		(60.945)	(63.029)
Cash flows from financing activities			
Income from sale of treasury shares	**14**	2.886	3.011
Acquisition of treasury shares	**14**	(2.555)	(631)
Income (net of reimbursements) from borrowing and equity capital	**-**	(29.380)	13.286
Dividends paid to the Company's shareholders	**15**	(7.702)	(4.476)
Net cash used in financing activities		(36.751)	11.190
Net (decrease) / increase in cash and cash equivalents		**8.736**	**24.951**
Cash and bank overdrafts at the beginning of the year	**13**	38.313	13.362
Cash and bank overdrafts at the end of the year	**13**	**47.049**	**38.313**

The accompanying notes included in pages 7 to 73 are an integral part of these consolidated annual accounts.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2005 AND 2004

1. General information

CIE Automotive, S.A. is the parent company of an industrial group formed by several companies that are mainly engaged in the design, manufacture and sale of automobile components and sub-units on the world market. It applies complementary technologies – aluminium, moulding, metals, plastics and steel - and several associated processes: automation, welding, painting and assembly.

Its main facilities are located in Europe: Spain (Álava, Barcelona, Cádiz, Orense, Guipúzcoa and Vizcaya), Portugal and the Czech Republic and Nafta: Mexico and South America: Brazil and the People's Republic of China. The Company's registered office for tax and mercantile purposes is located in Azkoitia (Guipuzcoa).

CIE Automotive, S.A. (a listed company) currently, directly or indirectly, wholly owns CIE Azkoitia, S.L., CIE Bérriz, S.L. and CIE Inversiones e Inmuebles, S.L., which are the holding companies of the Group's production companies.

<u>Group structure</u>

Information on subsidiaries and associates at 31 December 2005 is given in the following table:

			% shareholding		
Company	**Activity**	**Registered office**	**Direct**	**Indirect**	**Auditor**
CIE Azkoitia, S.L. (*)	Holding company	Guipuzcoa	100%	-	PwC
GSB Acero, S.A.	Manufacture of special steels	Guipuzcoa	-	100%	PwC
GSB Forja, S.A.	Manufacture of automobile components	Guipuzcoa	-	100%	PwC
GSB Galfor, S.A.	Manufacture of automobile components	Orense	-	(****) 92,84%	PwC
Belgium Forge, N.V. (dormant)	Manufacture of automobile components	Belgium	-	100%	D&T
CIE Udalbide, S.A., Sociedad Unipersonal (2)	Manufacture of automobile components	Vizcaya	-	100%	PwC
CIE Udalbide, S.A., Sociedad Unipersonal	Manufacture of automobile components	Alava	-	100%	PwC
Mecanizaciones del Sur-Mecasur, S.A.	Manufacture of automobile components	Cadiz	-	100%	PwC
Gameko Fabricación de Componentes, S.A.	Manufacture of automobile components	Alava	-	100%	PwC
GSB-TBK Automotive Components, S.L.	Manufacture of automobile components	Barcelona	-	75%	PwC
Grupo Componentes Vilanova, S.L. (*)	Manufacture of automobile components	Barcelona	-	100%	PwC
Tarabusi, S.A.	Manufacture of automobile components	Vizcaya	-	100%	PwC
Talleres Matrimold, S.L.	Manufacture of automobile components	Barcelona	-	100%	PwC
Fabricación de Componentes del Motor, S.L.	Manufacture of automobile components	Barcelona	-	100%	PwC
CIE Bérriz, S.L. (*)	Holding company	Vizcaya	100%	-	PwC

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2005 AND 2004

Company	Activity	Registered office	% shareholding Direct	Indirect	Auditor
Egaña 2, S.L.	Manufacture of automobile components	Vizcaya	-	100%	PwC
Inyectametal, S.A.	Manufacture of automobile components	Vizcaya	-	100%	PwC
Orbelan Plásticos, S.A.	Manufacture of automobile components	Guipuzcoa	-	100%	PwC
Transformaciones Metalúrgicas Norma, S.A.	Manufacture of automobile components	Guipuzcoa	-	100%	PwC
Plasfil Plásticos da Figueira, S.A.	Manufacture of automobile components	Portugal	-	100%	PwC
CIE Plasty CZ, s.r.o. (1)	Manufacture of automobile components	Czech Republic	-	100%	PwC
CIE Plasty CZ, s.r.o.	Manufacture of automobile components	Czech Republic	-	100%	PwC
CIE Unitools Press CZ, a.s. (*)	Manufacture of automobile components	Czech Republic	-	100%	PwC
CIE Kataforesis, s.r.o. (1)	Manufacture of automobile components	Czech Republic	-	100%	-
CIE DESC Automotive, S.A. de C.V.	Manufacture of automobile components	Mexico	-	50%	-
CIE Celaya, S.A. de C.V.	Manufacture of automobile components	Mexico	-	100%	PwC
CIE Automotive Parts (Shanghai), Co. Ltd. (1)	Manufacture of automobile components	China	-	100%	-
Autokomp Ingeniería, S.A.	Services and installations	Vizcaya	-	100%	PwC
CIE Deutschland, GmbH	Services and installations	Germany	-	100%	-
CIE Automotive USA, Inc.	Services and installations	U.S.A.	-	100%	-
CIE Inversiones e Inmuebles, S.L. Sociedad Unipersonal (*)	Holding company	Vizcaya	100%	-	PwC
CIE Autometal, S.A. (*)	Holding company	Brazil	-	100%	PwC
Autometal, S.A.	Manufacture of automobile components	Brazil	-	100%	PwC
Autometal SBC Injeção, Pintura e Cromação de Plásticos, Ltda.	Manufacture of automobile components	Brazil	-	100%	PwC
Jardim Sistemas Automotivos e Industriais, S.A.	Manufacture of automobile components	Brazil	-	100%	PwC
Autometal Investimentos e Imóveis, Ltda	Investment company	Brazil	-	100%	PwC
Muskaria Inversiones SICAV, S.A.	Financial asset management	Madrid	(**) 99,5%	-	Oliver Camps
Matxitxako Diversificada SICAV, S.A.	Financial asset management	Madrid	(***) 97,94%	-	D&T

(1) New companies included in the consolidation in 2005.

(2) Result of the merger of Stuka, S.A. and Udalbide, S.A.U.

(*) Parent of all investee companies appearing subsequently in the table.

(**) 98.5% in 2004.

(***) 97.64% in 2004.

(****) 93.02% en 2004. Effect capital increase carried out in 2005.

Except for the companies set out below, all subsidiaries have been consolidated under the full consolidation method.

The companies consolidated under the equity method are as follows:

	2005	2004
Belgium Forge, N.V.	-	106
CIE DESC Automotive, S.A. de C.V.	326	-
CIE Automotive Parts (Shanghai), Co. Ltd.	670	-
	996	106

These companies were only recently set up in 2005 or are dormant.

On 6 June 2005 "Instituto Sectorial de Promoción y Gestión de Empresas, S.A." asked the National Securities Market Commission (CNMV) for authorisation to prepare a takeover bid for 100% of the share capital of CIE Automotive, S.A. The consideration offered by the offerer amounted to thirteen euro and fifty cents (€13.50) per share and was conditional upon the obtainment of a minimum of 55% of the share capital of CIE Automotive, S.A. (including the 36.50% already held by that shareholder).

The CNMV authorised the take-over bid on 6 July 2005 and on 19 September 2005 reported that the take-over bid had been accepted over 5,288,446 shares, representing 70.30% of the shares covered by the offer and 23.19% of the share capital of the company concerned.

Therefore the outcome of the public offering was positive since the number of shares included in the acceptance declarations exceeded the minimum set by the offerer. Since that date the shareholder "Instituto Sectorial de Promoción y Gestión de Empresas, S.A." has held 72.739% of the share capital, including an indirect holding of 12.985% in "Saltec, S.L." (acquired by "Instituto Sectorial de Promoción y Gestión de Empresas, S.A." at the takeover settlement date as was reported in the corresponding information brochure).

These annual accounts were prepared by the Board of Directors on 23 February 2006.

2. Summary of the main accounting policies

The main accounting policies adopted in the preparation of these consolidated annual accounts are described below. These policies have been applied consistently for all the years presented.

2.1 Basis of presentation

The Group's consolidated annual accounts at 31 December 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and approved by the European Commission Regulations and effective at 31 December 2005. These are the first consolidated annual accounts prepared under said standards (see Note 5).

The policies described below have been applied consistently to all years presented in these consolidated annual accounts.

Until the year ended 31 December 2004, inclusive, the Group's consolidated annual accounts were prepared in accordance with Spanish commercial legislation and the General Accounting Plan and Royal Decree 1815/1991 whereby the rules on the preparation of consolidated annual accounts were approved (generally accepted accounting principles - GAAP). Since these standards differ in some areas from IFRS, Group management has restated the figures for 2004 in order to present comparative information in accordance with IFRS.

The consolidated annual accounts have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivatives)at fair value with changes in the income statement.

The preparation of consolidated annual accounts under IFRS requires the use of certain critical accounting estimates. The use of IFRS also requires that Management exercise judgement in the process of applying the Company's accounting policies. Note 4 discloses the areas that require a higher level of judgement or entail greater complexity or the areas where assumptions and estimates are significant for the consolidated annual accounts.

2.2 Consolidation principles

a) Subsidiaries

Subsidiaries are all those companies where the Group is able to manage the financial and operating policies which is generally accompanied by a shareholding involving more than half of the voting rights. When assessing whether the Group controls another company, the existence and effect of potential voting rights which may be currently exercised or converted is taken into account. Subsidiaries are consolidated as from the date on which control is transferred to the Group and are excluded from the consolidation on the date on which such control ceases.

The Group accounts for the acquisition of subsidiaries under the purchase method. Acquisition cost is the fair value of the asset delivered, the equity instruments issued and the liabilities incurred or assumed at the date of exchange, plus the costs directly attributable to the acquisition. The identifiable assets acquired and identifiable contingencies assumed in a business combination are initially measured at fair value on the acquisition date, irrespective of minority interests. The excess of acquisition cost over the fair value of the Group's interest in identifiable net assets acquired is recognised as goodwill. If the acquisition cost is less than the fair value of net assets in the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment losses on the asset transferred. When necessary to ensure consistency with Group policies, the subsidiaries' accounting policies are changed accordingly.

Note 1 sets out the identification data of the subsidiaries included in the consolidation.

The annual accounts / financial statements used in the consolidation process are in all cases those for the year ended 31 December each year.

2.3 Segment reporting

A business segment is a group of assets and transactions, the aim of which is to supply products or services subject to risks and returns which differ from those of other business segments. A geographical segment aims to supply products or services in a specific economic environment subject to risks and returns which differ from those of other segments operating in different economic environments.

Segment reporting by the Group is primarily by business and secondarily on a geographical basis (Note 6).

2.4 Foreign currency transactions

a) Functional currency and presentation

The items included in the annual accounts of each of the Group companies are measured using the currency of the principal economic environment in which the company operates («functional currency»). The consolidated annual accounts are presented in euro, which is the Company's functional and presentation currency.

b) Transactions and balances

Transactions in foreign currency are translated to the functional currency using the exchange rates in force at the transaction dates. Foreign currency gains and losses resulting from the settlement of transactions and translation at the year- end exchange rates of monetary assets and liabilities denominated in foreign currency, are recognised in the income statement, unless they are deferred in equity as qualified cash flow hedges and qualified net investment hedges.

Translation differences in respect of non-monetary items such as equity instruments held at fair value with changes in the income statement are presented as part of the fair value gain or loss. Translation differences in respect of non-monetary items such as equity instruments classed as available-for-sale financial assets are included in equity in the revaluation reserve.

c) Group companies

Results and the financial situation of all Group companies (none of which has the currency of a hyperinflationary economy), with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

i) The assets and liabilities on each balance sheet presented are translated at the closing exchange rate at the balance sheet date ;

ii) The income and expenses in each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates existing at the transaction dates, in which case income and expenses are translated at the rates on the transaction dates); and

(iii) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, any exchange differences resulting from the translation of a net investment in foreign companies and loans and other instruments in foreign currency designated as hedges of those investments are taken to shareholders' equity. When sold, such exchange differences are recognised in the income statement as part of the profit or loss on the sale.

Adjustments to goodwill and fair value arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and translated at the year-end exchange rate.

2.5 Property, plant and equipment

Property, plant and equipment are recognised at cost less depreciation and cumulative impairment losses, except for land which is presented net of impairment losses.

Cost includes the expenses directly attributable to purchases of property, plant and equipment.

Subsequent costs are included in the carrying value of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset are to flow to the Group and the cost of the asset may be reliably determined. Other repair and maintenance expenses are charged in the income statement in the year in which they are incurred.

No depreciation is charged on land. The depreciation of other assets is calculated on a straight-line basis in order to assign cost to residual values based on the estimated useful lives of the assets in question:

	Estimated years of useful life
Buildings	20 – 50
Machinery	3 – 30
Vehicles	3 – 15
Furnishings, accessories and equipment	3 – 15

The residual value and useful lives of assets are reviewed, if necessary, at each balance sheet date.

When an asset's carrying value exceeds its estimated recoverable value, carrying value is reduced immediately to the recoverable amount (Note 2.7).

Gains and losses on the sale of property, plant and equipment are calculated by comparing the revenue obtained with the carrying value and are included in the income statement.

2.6 Intangible assets

a) Goodwill

Goodwill is the excess of acquisition cost over the fair value of the Group's shareholding in the identifiable net assets of the subsidiary acquired at the acquisition date. The goodwill relating to acquisitions of subsidiaries is included in intangible assets. The goodwill relating to acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and is carried at cost less cumulative impairment losses. Gains and losses on the sale of a company include the carrying value of goodwill related to the company sold.

Goodwill is assigned to cash generating units (CGUs) in order to test for impairment losses. This assignment may group together various legal entities if they benefit from synergies of the business acquired (Note 2.7).

b) Emission rights

Emission rights assigned to the Parent Company or subsidiaries under the National Assignment Plan (Law 1/2005 of 9 March 2005) are carried as an intangible asset, measured at current use value (market value at the time of their assignment) by credit to deferred income.

Emission rights acquired subsequently, in order to comply with coverage requirements of gas emissions by consolidated companies, are carried at cost.

Deferred income is credited in the income statement (other income) on the basis of the allocation of the emission expenses associated with the rights received gratuitously (Note 26).

Expenses generated in respect of greenhouse gas emissions are accounted for on the basis of the use of emission rights, assigned or acquired, as and when such gases are emitted in the production process by credit to the relevant provision account (Note 22).

The emission rights recorded as intangible assets will be cancelled as a balancing entry of the provision for the costs generated by the emissions generated at the time of delivery to the Authorities in order to settle the obligations assumed.

c) Research and development expenses

Research expenses are recognised as an expense when incurred. The costs incurred in development projects (associated with the design and testing of new products or upgrades) are recognised as an intangible asset when the project will probably be successful taking into account its technical and commercial feasibility and provided that the costs involved may be reliably estimated. Other development expenses are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent years. Development costs with a finite useful life which are capitalised are amortised from the start-up of the product's commercial production on a straight-line basis over the period in which profits are expected to be generated but in no event over more than five years.

d) Trademarks and licences

Trademarks and licences are presented at cost. They have a defined useful life and are carried at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis in order to assign the cost of the trademarks and licences over their useful lives estimated at no more than 5 years.

e) Software

Software licences acquired are capitalised on the basis of the costs incurred in their acquisition and preparation for the use of the specific program.

Expenses relating to software development or maintenance are recognised when incurred. Costs directly related to the production of single identifiable computer programs controlled by the Group and which will probably generate economic benefits in excess of costs for more than one year are recognised under intangible assets. Direct costs include costs relating to employees developing the software and an appropriate percentage of general expenses.

Computer programs acquired from third parties or developed in-house are recognised as assets and amortised over their estimated useful lives which do not exceed 5 years.

2.7 Asset impairment losses

Assets with indefinite useful lives are not subject to amortisation / depreciation and are tested annually for impairment losses. Assets subject to amortisation / depreciation are reviewed for impairment provided that some event or change in circumstances indicates that carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value of an asset less selling costs and value in use. For the purposes of assessing impairment losses, assets are grouped together at the lowest level for which there are separately identifiable cash flows (Cash Generating Units).

2.8 Financial assets

The Group classifies investments in the following categories: financial assets at fair value with changes in the income statement, loans and accounts receivable, investments that are intended to be held to maturity and available- for- sale financial assets. The classification depends on the purpose for which the investments were acquired. Management establishes the classification of investments at the time of their initial recognition and reviews the classification at each reporting date.

a) Financial assets at fair value with changes in the income statement

This category has two subcategories: financial assets acquired for trading and those designated fair value financial assets with changes in the income statement at inception. A financial asset is classified under this category if it is mainly acquired for sale in the short term or if it is thus designated by management. Derivatives are also classified as acquired for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are held for trading or are expected to be realised within 12 months of the balance sheet date.

b) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets involving fixed or determinable payments and which are not listed on an active market. They arise when the Group supplies money, goods or services directly to a debtor and does not intend to trade with the account receivable. Current assets are included, except for assets maturing in more than 12 months of the balance sheet date which are classified as non-current assets. Loans and accounts receivable are included under trade and other accounts receivable in the balance sheet (Note 10).

c) Investments which are intended to be held to maturity

Investments which are intended to be held to maturity are non-derivative financial assets involving fixed or determinable payments and fixed maturities that Group management intends and has the capacity to hold to maturity.

d) Available-for-sale financial assets

Available-for-sale financial assets are not derivatives. They are financial assets designated under this category or not classified in other categories. They include non-current assets unless management intends to sell the investment within 12 months of the balance sheet date.

Acquisitions and disposals of investments are recognised at the trading date, i.e., on the date the Group undertakes to acquire or sell the asset. Investments are recognised initially at fair value plus the transaction costs for all financial assets not carried at fair value with changes in the income statement Investments are written off when the rights to receive cash flows from them have expired or have been transferred and the Group has transferred substantially all the risks and advantages deriving from ownership. Available-for-sale financial assets and financial assets at fair value with changes in the income statement are subsequently accounted for at fair value. Loans and accounts receivable and investments which it is intended to hold to maturity are accounted for at amortised cost under the effective interest rate method. Realised and unrealised gains and losses resulting from changes in the fair value of financial assets at fair value with changes in the income statement are included in the income statement in the year in which they arise. Unrealised gains and losses resulting from changes in the fair value of non-monetary instruments classed as available for sale are recognised in equity. When instruments classed as available for sale are sold or are impaired, the cumulative fair value adjustments are included in the income statement as losses or gains on the instruments in question.

The fair values of listed investments are based on current purchase prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using measurement techniques which include the use of recent transactions between knowledgeable willing parties relating to other instruments which are substantially identical, the analysis of discounted cash flows and models for setting option prices upgraded to reflect the issuer’s specific circumstances.

At the balance sheet date, the Group assesses whether there is objective evidence of impairment losses with respect to a financial asset or group of financial assets. For equity instruments classed as available for sale, in order to determine whether there are impairment losses, it will be necessary to examine whether there is a significant or protracted decline in the fair value of the securities to below cost. If there is any evidence of this type for available-for-sale financial assets, the cumulative loss determined as the difference between the acquisition cost and current fair value, less any impairment loss in that financial asset previously recognised in results is eliminated from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is basically calculated as follows:

- Goods purchased for resale: acquisition cost, including certain direct costs incurred in the purchase.
- Raw materials and other supplies: the average weighted acquisition price.
- Finished products and goods being manufactured: at pre-set costs, which do not differ significantly from real costs incurred. These costs include raw materials, direct labour and direct and indirect manufacturing expenses (based on normal operational capacity). They do not include interest expense.

Obsolete or slow-moving goods are reduced to realisable value.

The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable cost of sales.

2.10 Trade accounts receivable

Trade accounts receivable are initially recognised at fair value and subsequently at amortised cost in accordance with the effective interest rate method, less the provision for impairment losses. A provision is recorded for impairment losses on trade accounts receivable when there is objective evidence that the Group will not be able to collect all amounts owed in accordance with the original terms of the accounts receivable. The amount of the provision is the difference between the carrying value of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term highly liquid investments with an original maturity of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are classified as borrowings under current liabilities.

2.12 Share capital

Ordinary shares are classed as equity.

Incremental costs directly attributable to the issue of new shares or options are presented in equity as a deduction, net of taxes, in the revenue obtained. Incremental costs directly attributable to the issue of new shares or options or for the acquisition of a business are included in the acquisition cost as part of the consideration for the acquisition.

When a Group company acquires Company shares (treasury shares), the consideration paid, including any directly attributable incremental cost (net of income tax) is deducted from equity attributable to the Company's shareholders through to redemption, reissue or disposal. When these shares are sold or subsequently reissued, any amount received, net of any incremental cost on the transaction which is directly attributable and the corresponding income tax effects, is included in equity attributable to the Company's shareholder.

2.13 Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be collected and the Group will comply with all established terms and conditions.

Government Government grants related to costs are deferred and recognised in the income statement over the necessary period to match them to the costs which are to be offset.

Government grants for the acquisition of property, plant and equipment are included in deferred income as deferred government grants and credited to the income statement on a straight-line basis over the expected lives of the corresponding assets.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of the costs incurred in the transaction. Borrowings are subsequently measured at amortised cost. Any difference between the funds obtained (net of the necessary costs incurred in their obtainment) and the repayment value are recognised in the income statement over the life of the debt in accordance with the effective interest rate method.

Borrowings are classed as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months as from the balance sheet date.

2.15 Taxes

a) Corporate income tax

Corporate income tax expense for the year is calculated based on profits before taxes, as adjusted for any permanent and / or temporary differences envisaged in tax legislation governing the corporate income tax base calculation.

Tax credits and deductions and the tax effect of applying tax-loss carryforwards that have not been capitalised are treated as a reduction in the corporate income tax expense for the year in which they are applied or offset.

The parent company is taxed under the tax consolidation system together with the subsidiaries listed below:

- CIE Azkoitia, S.L.
- CIE Bérriz, S.L.
- CIE Inversiones e Inmuebles, S.L. Sociedad Unipersonal
- Autokomp Ingeniería, S.A.
- CIE Udalbide, S.A., Sociedad Unipersonal
- CIE Udalbide, S.A., Sociedad Unipersonal (until 2004 Stuka, S.A.)
- Egaña 2, S.L.
- Gameko Fabricación de Componentes, S.A.
- GSB Acero, S.A.
- GSB Forja, S.A.
- Inyectametal, S.A.
- Orbelan Plásticos, S.A.
- Transformaciones Metalúrgicas Norma, S.A.
- Udalbide, S.A. (extinguished through a merger in 2005)

b) Deferred taxes

Deferred taxes are calculated in accordance with the liability method on the temporary differences between the tax bases of assets and liabilities and their carrying values in the consolidated annual accounts. However, if the deferred tax arises from the initial recognition of a liability or an asset on a transaction other than a business combination that at the time of the transaction has no effect on the tax gain or loss, they are not accounted for. The deferred tax is determined using tax rates (and laws) approved or about to be approved at the balance sheet date and which are expected to be applied when the corresponding deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets deriving from tax credits in respect of losses available for offset and corporate income tax allowances and deductions to which the company is entitled are recognised to the extent that there will be sufficient tax profits in the future against which to offset the temporary differences. For For investment deductions, the amount is recorded as a decrease in the expense over the time during which depreciation is charged on the property, plant and equipment that generated the tax credits (Note 2.5), the right being recognised by credit to deferred income (Note 19).

Deferred taxes on temporary differences arising on investments in subsidiaries and associates are recognised, except where the Group may control the date on which the temporary differences reverse and such temporary differences are unlikely to reverse in the foreseeable future.

2.16 Employee benefits

a) Pension obligations

Plans are financed through payments to insurance companies or funds managed externally, determined through regular actuarial calculations. The Group has defined benefit plans. A defined benefit plan is a pension plan under which the amount of the benefit that will be received by an employee at the time of retirement is defined, normally on the basis of one or more factors such as age, years or service or remuneration.

The liability recognised in the balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries in accordance with the projected unit credit method. The present value of the obligation is determined by discounting the estimated future cash flows at interest rates on government bonds denominated in the currency in which the benefits will be paid and maturities similar to those of the relevant obligations.

Actuarial gains and losses resulting from adjustments due to experience and changes in actuarial assumptions are credited or debited to the income statement over employees' expected remaining average working life.

Past service costs are recognised immediately in the income statement unless changes in the pension plan are conditional on the employees continuing in employment for a specific timeperiod (consolidation period). In this case, past service costs are amortised on a straight-line basis over the consolidation period.

b) Severance indemnities

Severance indemnities are paid to employees as a result of the Company's decision to terminate employment contracts before the normal retirement age or when employees voluntarily agree to resign in return for such benefits. The Group recognises these benefits when it has demonstrably undertaken to make present workers redundant in accordance with a detailed formal plan which cannot be withdrawn or to provide severance indemnities as a result of an offer to encourage employees to take up voluntary redundancy. Benefits which are not going to be paid within 12 months of the balance sheet date are discounted at present value.

c) Profit share plans and bonuses

The Group recognises a liability and a bonus expense based on a formula which takes into account the profit attributable to the Company's shareholders following certain adjustments. The Group recognises a provision when it is contractually obligated or when past practice has generated an implicit obligation.

2.17 Provisions

The provisions for specific liabilities and charges are recognised when:

(i) The Group has a present obligation, legal or implicit, as a result of past events;
(ii) It is more probable than not that an outflow of funds will be required to settle the obligation; and
(iii) The amount has been reliably estimated.

The provisions for restructuring include employee severance payments. Provisions for future operating losses are not recognised.

When there is a number of similar obligations, the probable need for an outflow to settle them is determined taking into account the type of obligations as a whole. A provision is recognised even if the probability of an outflow with respect to any item included in the same class of obligations may be regarded as remote.

2.18 Revenue recognition

Revenues include the fair value relating to sales of assets and services, net of VAT, refunds and discounts, following the elimination of intragroup sales. Revenues are recognised as follows:

a) Sales of assets on a wholesale basis

Sales of assets are recognised when a Group company has delivered the products to the customer, the customer has accepted the products and the collectibility of the relevant accounts receivable is reasonably assured. Products are often sold with the right to return them. Accumulated experience is used to estimate and provide for those returns at the time of sale.

b) Sales of services

Sales of services are recognised in the accounting period in which the services are provided by reference to the completion of the specific transaction, assessed on the basis of the actual service provided as a percentage of the total service to be provided.

c) Interest revenue

Interest revenue is recognised using the effective interest rate method. When there is an impairment loss in respect of an account receivable, the Group reduces the carrying value to the recoverable value, discounting estimated future cash flows at the original effective interest rate of the instrument and continues to carry the discount as a decrease in interest revenue. Interest income on loans in respect of which there are impairment losses is recognised when the cash is collected or on the basis of the recovery of cost when conditions are guaranteed.

d) Royalty revenues

Royalty revenues are recognised on an accruals basis in accordance with the substance of the relevant agreements.

e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.19 Leases

Leases of property, plant and equipment in which the Group holds substantially all the risks and advantages deriving from the ownership of the assets are classified as finance leases. Finance leases are recognised at the start of the contract at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is broken down to show the reduction in the debt and the financial charge such that a consistent interest rate is obtained on the balance of the debt payable. The payment obligation deriving from the lease, net of the financial charge, is recognised under long-term debts payable. The interest associated with the financial charge is debited in the income statement over the period during which the lease is in effect in order to obtain a constant regular interest rate on the balance of the debt payable in each period. Property, plant and equipment acquired under finance lease contracts are depreciated over the assets' useful lives in accordance with the criteria used for property, plant and equipment.

Leases in which the lessor retains a substantial part of the risks and advantages deriving form ownership are classified as operating leases. Operating lease payments (net of any incentive received by the lessor) are debited in the income statement on a straight- line basis over the lease period

2.20 Non-current assets held for sale

Non-current assets are classified as assets held for sale and are recognised at the lower of the carrying value and fair value less selling costs, if the carrying value is mainly recovered through a sale instead of continuing use. At 31 December 2005 the Group holds no assets for sale.

2.21 Dividend pay-out

The pay-out of dividends to the Company's shareholders is recognised as a liability in the Group's consolidated annual accounts in the year in which the dividends are approved by the Company's shareholders.

2.22 Environment

Expenses deriving from business actions aimed at environmental protection and improvement are recorded as an expense of the year in which they are incurred. When such expenses entail additions to property, plant and equipment, the purpose of which is to minimise the environmental impact and protect and improve the environment, they are accounted for as an increase in the value of fixed assets.

Expenses generated in respect of greenhouse gas emissions (Law 1/2005 of 9 March 2005) are recorded, valued at current-use value or cost of the rights assigned or acquired, as and when such gases are emitted in the production process by credit to the corresponding provision account (Note 22).

2.23 Short and long-term balances

Long-term balances, under both assets and liabilities, are considered to include those amounts maturing in more than 12 months of the end of the accounting period.

2.24 New IFRS and IFRIC interpretations

New accounting standards (IFRS) and interpretations (IFRIC) have been approved and published, which are set to come into effect for the accounting periods commencing on or after 1 January

2006. The management of CIE Automotive, S.A. has assessed the impact of these new standards as is summarised below.

a) IFRS 6, Exploration for and Evaluation of Mineral Resources

In December 2004 the IASB issued International Financial Reporting Standard 6 Exploration for and Evaluation of Mineral Resources (IFRS 6). The publication of IFRS 6 established for the first time the rules for accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets. This IFRS is applicable to the annual periods commencing 1 January 2006. CIE Automotive, S.A. considers that its operations are not affected by this standard.

b) IFRS 7, Financial instruments: Disclosure

In August 2005 the IASB issued IFRS 7 Financial Instruments: Disclosure, and a complementary amendment to IAS 1, Presentation of the financial statements – capital disclosure. This IFRS introduces new requirements to improve the information disclosed on financial instruments presented in the financial statements and supersedes IAS 30, Disclosures in the Financial Statements of banks and similar financial institutions and some of the requirements of IAS 32, Financial Instruments: Disclosure and presentation. The amendment to IAS 1 introduces the disclosure requirements concerning capital. IFRS 7 is applicable to the years commencing on and after 1 January 2007. Earlier application of the standard is recommended. CIE Automotive, S.A. has not yet decided whether it will adopt this standard early. Its application will not be significant in relation to the consolidated financial statements of CIE Automotive, S.A.

c) Amendment to IAS 39— Accounting for cash flow hedges on forecast intragroup transactions

In April 2005 the IASB issued an amendment to IAS 39, Financial Instruments: recognition and measurement on hedge accounting. The amendment enables the exchange risk on a forecast highly probable intergroup transaction to be classified as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the company involved in the transaction and the exchange risk affects the consolidated financial statements. The amendment also establishes that if the cover of a forecast intragroup transaction is accounted for as a hedge, any gain or loss recognised directly or indirectly in equity in accordance with IAS 39: Accounting for hedges, should be reclassified as a gain or loss in the same period or periods during which the exchange risk on the transaction hedged affects consolidated results. The amendment contains detailed transition rules. The effective date of the amendment is 1 January 2006 although its early application is recommended. CIE Automotive, S.A. has not decided to adopt it early. The amendment is not expected to have a significant effect on the consolidated financial statements of CIE Automotive, S.A.

d) Amendment IAS 39—Fair value option

In April 2005 the IASB issued an amendment to the fair value option of IAS 39, Financial Instruments: Recognition and measurement. The amendment enables the irrevocable assignment at the time of initial recognition of the financial instruments that meet certain conditions to be recognised at fair value in the income statement. The conditions to be met, according to the amendment, are that such designation should eliminate or significantly reduce an accounting mismatch, that a group of financial assets or financial liabilities or both should be managed and their performance assessed on a fair value basis in accordance with a documented management of the risk or investment strategy, and when an instrument contains an implicit derivative that fulfils certain conditions. It is set to become effective on 1 January 2006 although its early application is recommended. CIE Automotive, S.A. has not chosen to adopt this standard early.

e) IAS 39 and amendment to IFRS 4— Financial guarantee contracts

In August 2005 the IASB issued changes to the requirements for financial guarantee contracts in the form of limited amendments to IAS 39, Financial Instruments: Recognition and measurement, and IFRS 4, Insurance Contracts. Such amendments seek to ensure that the issuers of financial guarantee contracts record the resulting liabilities in their balance sheets. The issuers should apply the amendments for the years commencing on or after 1 January 2006. Its early application is recommended. CIE Automotive, S.A. considers that its operations do not include situations affected by this standard.

f) IFRIC 4, Determining whether an arrangement contains a lease

In December 2004 the IFRIC issued IFRIC 4: Determining whether an arrangement contains a lease. IFRIC 4 establishes the rules to determine whether arrangements that do not have the legal form of a lease should be accounted for in accordance with IAS 17 Leases. It establishes that an agreement contains a lease if it depends on the use of certain assets in particular and includes a right to control their use. The application of IFRIC 4 is mandatory for the years commencing on or after 1 January 2006. Its early application is recommended. CIE Automotive, S.A. has opted not to apply IFRIC 4 but rather to apply it to its financial statements for 2006 in addition to the transitional provisions contained in IFRIC 4. CIE Automotive, S.A. considers that its operations do not include situations which are affected by this standard.

g) IFRIC 5, Interests in funds for decommissioning, restoration and environmental expenses

In December 2004 the IFRIC issued IFRIC 5 “Interests in funds for decommissioning, restoration and environmental expenses.” IFRIC 5 explains how to treat the forecast reimbursement of funds established to pay plant decommissioning costs; equipment or environmental restoration or expenses. The company will apply this Interpretation for the years commencing on or after 1 January 2006. CIE Automotive, S.A. has no interests in decommissioning or restoration funds. Therefore the interpretation will have no effect on the consolidated financial statements of CIE Automotive, S.A.

h) IFRIC 6, Liabilities arising from participating in a Specific Market – Waste Electrical and Electronic Equipment

In September 2005 the IFRIC issued IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.” IFRIC 6 establishes the rules for accounting for managing waste connected with electric and electronic equipment supplied to private homes. A company should apply this Interpretation for the years commencing on or after 1 December 2005. CIE Automotive, S.A. does not manufacture electric or electronic equipment. This interpretation will therefore have no effect on the consolidated financial statements of CIE Automotive, S.A.

i) IFRIC 7, Applying the restatement approach under IAS 29

In November 2005 the IFRIC issued IFRIC 7 Applying the revaluation approach under IAS 29, Financial Reporting in Hyperinflationary Economies. IFRIC 7 clarifies the requirements under IAS 29 Financial Reporting in Hyperinflationary Economies with respect to how to re-express comparative amounts in the financial statements when an entity detects hyperinflation in the economy of the currency used in the financial statements and how to re-express deferred taxes in the opening balance sheet. A company should apply this Interpretation for the years commencing on or after 1 January 2006. CIE Automotive, S.A. does not currently operate in hyperinflationary countries in accordance with IAS 29. Therefore this interpretation will have no effect on the consolidated financial statements of CIE Automotive, S.A.

j) Clarification and amendment of IAS 21 – The Effects of Changes in the Exchange Rates

On 15 December 2005 the IASB issued a clarification and an amendment to IAS 21 The effects of changes in the exchange rates. It clarified that the net investment in a foreign entity may arise between subsidiaries of the same parent company. It amended the treatment of exchange differences arising when the currency in which the net investment is made is not the functional currency of the foreign operation or the entity that carries out the net investment. In such cases, the differences that arise in the individual financial statements of any of the two companies should be carried under equity (legislation currently in effect requires recognition in the income statement). The change is applicable for the years commencing on or after 1 January 2006, although its early application is recommended. CIE Automotive, S.A. has applied the treatment to net investments in subsidiaries with financial statements in foreign currency.

3. Financial risk management

3.1 Financial risk factors

In the broadest sense, the management of financial risks aims to control the incidents generated by fluctuations in the exchange and interest rate. Management is through the arrangement of financial instruments which enable as far as possible participation in favourable environments relating to movements in the exchange and interest rates to be compatible with the limitation in part or in whole of the adverse effects due to an unfavourable environment.

a) Exchange rate

The presence of CIE Automotive, S.A. in the international market requires the Group to arrange an exchange rate risk management policy. The basic objective is to reduce the negative impact on operations in general and on the income statement in particular of the variation in interest rates such that it is possible to protect against adverse movements and, if appropriate, leverage a favourable development.

In order to arrange such a policy, CIE Automotive, S.A., uses the concept of Management Scope. This concept encompasses all those flows for collection / payment in a currency other than the euro, which will arise over a specific timeperiod. The Management Scope includes the assets and liabilities in foreign currency and firm or highly probable commitments for purchases or sales in a currency other than the euro. Assets and liabilities in foreign currency are subject to management, irrespective of timing scope, while firm commitments for purchases or sales that form part of the management scope will be subject to the same if their forecast inclusion in the balance sheet takes place in not more than 18 months.

In this respect, an internal review document is prepared at least monthly setting out each section of the Management Scope.

Following the definition of Management Scope, CIE Automotive, S.A. uses, in order to manage risks, a series of financial instruments that in some cases permit a certain degree of flexibility. These instruments will basically be as follows:

- Forward currency purchases / sales: An exchange rate known at a specific date is fixed which may, moreover, be subject to timing adjustments in order to adapt and apply it to cash flow.
- Other instruments: Other hedging derivatives may also be used, the arrangement of which will require specific approval by the relevant management body. This body will have to be informed beforehand as to whether or not it complies with the necessary requirements to be regarded as a hedging instrument, therefore qualifying for the application of the rule on hedge accounting.

b) Interest rates

The existence in CIE Automotive, S.A. of variable interest bank borrowings means that CIE Automotive, S.A. is subject to the risk of interest rate variations with a direct effect on the income statement. The general objective of the strategy will be to reduce the negative impact of interest rate rises and to leverage as far as possible the positive impact of potential interest rate cuts.

In order to attain this objective, the management strategy will be arranged through financial instruments that enable such flexibility. The possibility is expressly envisaged of arranging hedges for an identifiable and measurable portion of flows, which enables, if appropriate, the completion of the efficiency test evidencing that the hedging instrument reduces the risk of the hedged component in the part assigned and is not incompatible with the established strategy and objectives.

If appropriate, the Management Scope is limited to the debenture loans recorded in the balance sheet of the Group or any of its companies.

In order to manage this risk, CIE Automotive, S.A. will use financial derivatives that may be considered hedging instruments and therefore the rules confined to accounting for such instruments may be applied. The relevant accounting standard (IAS 39) does not specify the type of derivatives that may be considered hedging instruments except for options issued or sold. However, the necessary conditions to be met in order to be considered such are specified. As with respect to the management of the exchange rate risk, the arrangement of any financial derivative which is suspected not to comply with the necessary conditions to be regarded as a hedge will require the express approval of the relevant management body. For reference, the basic hedging instruments will be the following:

- Interest rate swaps: Through these derivatives, CIE Automotive, S.A. converts the variable interest rate reference of a loan to a fixed reference with respect to either the entire or part of the amount of the loan, affecting all or part of the life of the loan.
- Interest rate caps: Through these derivatives, CIE Automotive, S.A. converts a variable interest rate into a rate linked to a range, which will not exceed a cap. In this way we limit the negative impact of an unfavourable development.
- Other instruments: As discussed in the section relating to exchange rates, other hedging derivatives may also be used, the arrangement of which will require the specific approval of the relevant management body. It will have been previously reported whether the necessary requirements to consider them hedging instruments have been met and therefore whether the rule on accounting for hedges may be applied.

c) Liquidity risk

The prudent management of the liquidity risk entails maintaining sufficient cash and available financing through sufficient credit facilities. In this respect, the strategy of CIE Automotive, S.A. is to maintain through the Group's Treasury department the necessary financing flexibility through committed credit lines.

d) Customer credit risk

In order to minimise this risk, the CIE Automotive group's strategy is based on the arrangement of customer credit insurance policies and the setting of customer credit limits.

3.2 Hedge accounting

IAS 39 is very strict as regards the need for documentation that makes it possible to establish that an instrument meets the necessary conditions to be regarded as a hedge.

Therefore, in CIE Automotive, S.A. clear and specific guidance has been established in order to prepare the documentation setting out all the necessary aspects for identifying and following up hedging relations under this rule. At inception, formal documentation is prepared of the hedging relation, the scope affected, its objective, while identifying the hedging instrument, the component or transaction hedged and the nature of the risk covered and including an explanation of how the hedge efficiency will be assessed. A hedge will be effective if at inception and over the life of the hedge the changes in cash flows from the hedged component attributable to the risk covered may be expected to be almost totally offset by changes in the cash flows of the hedge and the results are in the accepted gap of 80% - 125%.

The treatment and classification of the Group's hedging transactions are as follows:

a) Fair value hedges of assets and liabilities recognised or with a firm commitment

Changes in the fair value of these derivatives are recognised in the income statement together with any change in the fair value of the assets or liabilities hedged which is attributable to the hedged risk.

b) Cash flow hedges

The efficient part with respect to changes in fair value of the derivatives designated and which are classed as cash flow hedges are recognised in equity. The gain or loss relating to the inefficient part is recognised immediately in the income statement.

The accumulated amounts in equity are transferred to the income statement in the year in which the hedged item will affect the gain or loss (e.g., when the forecast sale which is hedged takes place). However, when the forecast transaction which is hedged results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial cost measurement of the asset or liability involved.

When the hedging instrument matures or is sold or when a hedging transaction ceases to comply with the requirements for the application of hedge accounting, the gains or losses in equity to that time will continue forming part of the same and will be recognised when the transaction advanced is finally recognised in the income statement.

c) Derivatives not qualifying for hedge accounting

Changes in the fair value of any derivative which does not qualify for hedge accounting are recognised immediately in the income statement.

3.3 Measurement method

Effectiveness testing: The measurement method adopted by CIE Automotive, S.A. relates to its risk management strategy. If the principal terms of the hedging instrument and hedged underlying agree, the changes in cash flows attributable to the risk hedged may be entirely offset.

CIE Automotive, S.A. uses the offset method to measure the effectiveness of cash flow hedging on both a retrospective and prospective basis. Changes in cash flows of the hedged component and hedging instrument are compared to verify that they offset each other in order to reduce or eliminate the risk that it is sought to hedge in accordance with the established strategy and objectives.

For such purposes, cash flows from the hedged component and cash flows from the hedging derivative are broken down. Using the forward interest rate curve, both flows are measured to determine the level of effectiveness of the hedging on the basis of the set objective.

Measurement of the hedging derivative: If appropriate, derivatives are measured internally through the program "Financialcad". A breakdown of this measurement is provided.

4. Accounting estimates and judgements

Estimates and judgements are assessed on an on-going basis and are based on historic experience and other factors, including expectations of future events which may be considered reasonable in the circumstances.

4.1 Significant accounting estimates and judgements

The Group makes estimates and judgements in relation to the future. The resulting accounting estimates, by definition, will rarely match the real results. Set out below is an explanation of the estimates and judgements that entail a significant risk of material adjustment in the carrying values of assets and liabilities in next year.

a) Estimated impairment loss on goodwill

The Group verifies annually whether there is an impairment loss in respect of goodwill, in accordance with the accounting policy in Note 2.7. The recoverable amounts in cash generating units have been determined based on calculations of the value in use. These calculations require the use of estimates (Note 8).

If the revised estimated discount rate before tax which is applied to discounted cash flows were 10% higher than management's estimates, the Group would continue not to need to reduce the carrying value of goodwill.

With respect to the assumptions used to determine EBITDA (operating profit plus depreciation and amortisation) of the CGUs, the most conservative scenario has been used such that negative variations in the gross margin are unlikely to arise.

b) Income tax

The Group is subject to corporate income tax in several jurisdictions. A significant level of judgement is required to determine the worldwide provision for income tax. The Group recognises deferred taxes which, in accordance with legislation effective in different tax administrations, result from multiple temporary differences in assets and liabilities. Nonetheless, there are certain transactions and calculations with respect to which the ultimate calculation of the tax is uncertain in the ordinary course of business. The Group recognises liabilities for anticipated tax problems based on estimates as to whether additional taxes will be necessary. When the final tax result differs from the amounts which were initially recognised, such differences will have an effect on income tax and the provisions for deferred taxes in the year in which they are deemed to arise.

The calculation of income tax has not required making significant estimates except in the figure relating to the recognition of tax credits in the year. Had the premises used in this estimate changed by 10%, the effect on results for the year would not exceed (+/-) 3%.

c) Product warranty

Warranty product risks are recognised when there is a firm claim not covered by the relevant insurance policy.

5. IFRS transition

5.1 IFRS transition basis

Application of IFRS 1

The consolidated annual accounts at 31 December 2005 are the first consolidated annual accounts prepared under IFRS. Therefore the Group has applied IFRS 1 in their preparation.

The IFRS transition date in CIE Automotive, S.A. is 1 January 2004. The Group prepared its opening balance sheet in accordance with IFRS at that date.

In the preparation of these first consolidated annual accounts under IFRS 1, the Group has applied all mandatory exceptions and some of the optional exemptions to the retrospective application of IFRS.

Exemptions to retrospective application selected by the Group

CIE Automotive, S.A. has opted to apply the exemptions to the total retrospective application of IFRS which are set out below.

a) Business combinations

The exemption contained in IFRS for business combinations has been applied. Therefore the business combinations that took place prior to the transition date, 1 January 2004, have not been restated.

b) Fair value as an attributed cost

It has been elected to measure certain property, plant and equipment at fair value at 1 January 2004. The application of this exemption is discussed in Note 5.2.2.

c) Employee benefits

There are no unrecognised actuarial gains or losses at 1 January 2004.

d) Cumulative exchange differences

It has been elected to measure cumulative exchange differences prior to 1 January 2004 at zero value. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

e) Compound equity instruments

The Group has issued no compound equity instruments. The exemption is therefore not applicable.

f) Assets and liabilities in subsidiaries, associates and joint ventures

This exemption is not applicable since it is implemented at the level of the subsidiary, associate or joint venture adopting IFRS after the parent.

g) Restatement of comparisons with respect to IAS 32 and IAS 39

It has been elected to apply IAS 32 and IAS 39 for derivatives and financial assets and liabilities since the transition date.

h) Financial assets and financial liabilities

The Group has reclassified various securities as available for sale investments and financial assets at fair value with changes in the income statement.

i) Share based payments

The Group had no share based payment commitments. This exemption is therefore not applicable.

j) Insurance contracts

The Group does not write insurance contracts. This exemption is therefore not applicable.

k) Decommissioning liabilities included in fixed asset costs

Prior to 1 January 2004 the Group recorded a provision for environmental liabilities associated with soil contamination caused by the production process carried out by a subsidiary which is in the process of being wound up (Note 25).

The exemption envisaged in IFRS 1 relating to the retrospective application of IFRS 1 to determine the adjustment that would have to be included in property, plant and equipment in relation to the obligations in respect of the decommissioning of the existing production facilities is not applicable.

l) Initial measurement of financial assets and liabilities at fair value

The Group has not applied the exemption envisaged in revised IAS 39 with respect to the initial recognition at fair value with changes in the income statement of financial instruments for which there is no active market. This exemption is therefore not applicable.

Exemptions to retrospective application elected by the Group

CIE Automotive, S.A. has applied the following mandatory exemptions to the retrospective application of IFRS:

a) Write-off of financial assets and liabilities

Financial assets and liabilities written off before 1 January 2004 have not been recognised again under IFRS.

b) Estimates

Estimates under IFRS at 1 January 2004 should be consistent with the estimates made at the same date under previous accounting principles unless there is evidence that such estimates were erroneous.

c) Assets held for sale and discontinued operations

Management applies IFRS 5 on a prospective basis from 1 January 2005. Any asset held for sale or which is a discontinued operation is recognised under IFRS 5 solely from 1 January 2005. The Group had no assets that complied with the criteria to be regarded as held for sale or discontinued operations in the reporting period. There has been no need to include any adjustment.

d) Hedge accounting

In accordance with IAS 32 and IAS 39 hedge accounting has been applied since 1 January 2004.

5.2 Reconciliation of IFRS to local GAAP

The following reconciliations quantify the impact of IFRS transition. The first reconciliation provides an overview of the impact on consolidated equity of the transition at 1 January 2004 and 31 December 2004 and include details of the effect of the transition with respect to:

- Consolidated equity at 1 January 2004 (Note 5.2.2.)
- The consolidated balance sheet and consolidated equity at 31 December 2004 (Note 5.2.3.)
- Consolidated results for the year ended 31 December 2004 (Note 5.2.4.)

Summary of equity adjustments

	1 January 2004	Note	31 December 2004	Note
Equity under GAAP (*)	**151.689**		**164.380**	
Restatement of land	36.087	5.2.2.a)	36.087	5.2.2.a)
Goodwill and capital gains assigned on business combinations expressed in local currency	(7.119)	5.2.2.b)	(6.899)	5.2.2.b)
Write-off of formation expenses	(2.475)	5.2.2.c)	(2.066)	5.2.2.c)
Write-off of capital increase expenses	(212)	5.2.2.c)	(101)	5.2.2.c)
Write-off of research expenses	(2.032)	5.2.2.d)	(2.193)	5.2.2.d)
Write-down of irrecoverable goodwill	(704)	-	(548)	-
Presentation of treasury shares under IAS 32	(2.654)	5.2.2.j)	(728)	5.2.2.j)
Write Adjustment of negative differences on consolidation	4.713	5.2.2.e)	4.713	5.2.2.e)
Write-off of annual amortisation of goodwill	-	-	3.271	5.2.2.f)
Tax credits generated by investments in new fixed assets	(12.806)	5.2.2.g)	(13.788)	5.2.2.g)
Measurement of financial derivatives	1.708	5.2.2.h)	(279)	5.2.2.h)
Market value of financial assets initially measured at cost	1.071	5.2.2.h)	1.679	5.2.2.h)
Tax effect	(10.521)	5.2.2.i)	(10.032)	5.2.2.i)
	156.745		173.496	

Minority interests		
Opening balance	513	620
Total equity under IAS/IFRS	**157.258**	**174.116**

(*) Not including Minority Interests

Reconciliation of consolidated equity at 1 January 2004

	GAAP	Effect of transition to IFRS	IFRS
EQUITY			
Capital and reserves attributable to shareholders	**151.689**	**5.017**	**156.706**
Share capital	23.028	-	23.028
Other reserves	33.752	-	33.752
Cumulative conversion adjustment	-	5.017	5.017
Interim dividend	(2.243)	-	(2.243)
Retained earnings	97.152	-	97.152
Minority interests	**513**	**39**	**552**
Total equity	**152.202**	**5.056**	**157.258**

Explanation of the effect of the transition to IFRS

Set out below are the effects on equity of the most significant adjustments relating to IAS/IFRS conversion of the opening consolidated balance sheet for 2004.

a) Selective revaluations have been carried out of land under IFRS 1. The gross revalued amount totals €36,087k. This revaluation, which has been carried out on the basis of independent expert valuations, has resulted in deferred tax of €11,728k.
b) Goodwill in foreign companies has been translated to local currency in accordance with IFRS 1 – IAS 21.
c) Formation or capital increase expenses carried in assets under GAAP have been written off or recorded against equity instruments.
d) Capitalised research expenses have been adjusted under IAS 38.
e) Negative differences on consolidation have been eliminated under IFRS 3.
f) Goodwill which has been tested for impairment under IAS 36 is no longer systematically amortised.
g) The recording in the income statement of tax deductions relating to investments in new fixed assets associated with assets not yet depreciated in accordance with the interpretations of IAS 12 and IAS 20 has been deferred.
h) All derivatives and financial instruments have been recognised at fair value under IAS 32/39.
i) The corresponding deferred tax effect of the aforementioned adjustments has been recorded, generating a net effect of:

1 January	31 December

	2004	2004
Deferred tax asset	1.762	1.888
Deferred tax liability	(12.283)	(11.960)
NN Net deferred tax liability	(10.521)	(10.072)

j) Treasury shares have been reclassified to equity under IAS 32.

k) Additionally, the system for the consolidation of the two investment companies has changed from the equity method to the full consolidation method.
This change has not given rise to any equity adjustment except for the effect of the presentation in the income statement.

Reconciliation of the consolidated balance sheet and consolidated equity at 31 December 2004

	Notes	GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Non-current assets				
Property, plant and equipment	5.2.2.a) and 5.2.4.a)	371.670	44.232	415.902
Goodwill	5.2.2.b) and 5.2.2.f)	32.207	3.085	35.292
Other intangible assets	5.2.2.c),d) and 5.2.4.a)	26.975	(18.265)	8.710
Non-current financial assets	-	3.186	-	3.186
Investments carried under the equity method	-	106	-	106
Deferred tax assets	5.2.4.b)	32.477	67	32.544
Other non-current assets	5.2.4.b)	4.672	(991)	3.681
		471.293	28.128	499.421
Current assets				
Inventories	-	100.943	(49)	100.894
Trade and other accounts receivable	-	117.523	(660)	116.863
Other current financial assets	5.2.2.h) and 5.2.4.b)	47.959	(26.028)	21.931
Current income tax assets	-	13.459	48	13.507
Other current assets	-	1.171	(728)	443
Cash and other cash equivalents	5.2.4.b)	10.457	27.856	38.313
		291.512	439	291.951
Total assets		**762.805**	**28.567**	**791.372**

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2005 AND 2004

	Notes	GAAP	Effect of transition to IFRS	IFRS
EQUITY				
Capital and reserves attributable to the Company's shareholders				
Share capital	-	23.028	-	23.028
Treasury shares	-	-	(274)	(274)
Share premium	-	33.752	-	33.752
Retained earnings	-	119.656	403	120.059
Cumulative exchange differences	-	(9.780)	8.921	(859)
Interim dividend	-	(2.276)	-	(2.276)
Minority interests	-	620	66	686
Negative consolidation differences	5.2.2.e)	4.713	(4.713)	-
Total equity	5.2.1	**169.713**	**4.403**	**174.116**
DEFERRED INCOME	5.2.2.g)	**12.778**	**13.788**	**26.566**
LIABILITIES				
Non-current liabilities				
Provisions	-	20.322	(246)	20.076
Long-term bank loans	5.2.4.c)	214.014	(92.700)	121.314
Deferred tax liabilities	5.2.2.g)-i)	23.516	(6.649)	16.867
Other non-current liabilities	5.2.4.b)	31.174	17.713	48.887
		289.026	**(81.882)**	**207.144**
Current liabilities				
Short-term bank loans and overdrafts	5.2.4.c)	82.873	92.700	175.573
Trade and other accounts payable	-	151.456	(329)	151.127
Current income tax liabilities	-	18.050	-	18.050
Other non-current liabilities	-	38.909	(113)	38.796
		291.288	**92.258**	**383.546**
Total liabilities		**580.314**	**10.376**	**590.690**
Total equity and liabilities		**762.805**	**28.567**	**791.372**

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS FOR 2005 AND 2004

Reconciliation of the consolidated income statement for the year ended 31 December 2004

	Notes	GAAP	Effect of transition to IFRS	IFRS
OPERATING REVENUE		686.617	1.475	688.092
Net turnover	-	669.998	-	669.998
Other operating revenue	5.2.4.d)	6.678	2.434	9.112
Variation in inventories finished products and work in progress	5.2.4.d)	9.941	(959)	8.982
OPERATING CHARGES		(642.920)	(3.171)	(646.091)
Consumption	5.2.4.d)	(318.827)	1.157	(317.670)
Staff costs	-	(168.115)	-	(168.115)
Depreciation / Amortisation	5.2.4.d)	(50.224)	900	(49.324)
Other operating charges	-	(105.754)	(135)	(105.889)
Other gains / (losses) net	5.2.4.d)	-	(5.093)	(5.093)
OPERATING PROFIT		**43.697**	**(1.696)**	**42.001**
Amortisation of goodwill on consolidation	5.2.2.b)-f)	(3.271)	3.271	-
Share in profits companies under the equity method	5.2.2.k)	652	(652)	-
Financial income	5.2.2.k)	1.122	(37)	1.085
Financial expense	5.2.2.k)	(16.099)	(324)	(16.423)
Exchange differences	-	(1.201)	-	(1.201)
Gains / losses financial instruments at fair value	-	-	(173)	(173)
Share in profits companies carried under the equity method	5.2.2.k)	-	(1.330)	(1.330)
Extraordinary items	5.2.4.d)	(3.408)	3.408	-
PROFIT BEFORE TAXES DISCONTINUED OPERATIONS		**21.492**	**2.467**	**23.959**
Income tax	5.2.2.g)	(3.252)	(769)	(4.021)
PROFIT FOR THE YEAR		**18.240**	**1.698**	**19.938**
Minority interests	5.2.1	(107)	(28)	(135)
PROFIT ATTRIBUTABLE TO EQUITY INSTRUMENTS		**18.133**	**1.670**	**19.803**

Set out below is an explanation of the main adjustments included (of more than €500k):

		Retained earnings Dr / (Cr)		Results (Dr) / Cr		
	Minority interests	Gross effect	Tax effect	Gross effect	Tax effect	Total net effect
Restatement of land	166	36.087	(11.728)	-	-	24.193
Goodwill and capital gains assigned on business combinations expressed in local currency	-	(5.412)	(1.599)	116	(47)	(6.942)
Write-off of formation expenses	(100)	(2.475)	804	409	(133)	(1.295)
Write-off of research expenses	-	(2.032)	660	(162)	52	(1.482)
Presentation of treasury shares	-	(274)	-	(454)	-	(728)
Adjustment of negative differences on consolidation	-	4.713	-	-	-	4.713
Write-off of annual amortisation of goodwill	-	-	-	3.271	-	3.271
Tax credits generated by investments in new fixed assets	-	(12.806)	-	(982)	-	(13.788)
Market value of financial assets	-	1.480	-	199	-	1.679

These adjustments are explained in paragraphs 5.2.2.a) to 5.2.2.k) above.

Additionally, the balance sheet at 31 December 2004 records certain reclassifications in order to bring it into line with IFRS / IAS. The most significant adjustments relate to the following:

a) Presentation of finance lease contracts under property, plant and equipment. Under GAAP they were recorded under Other intangible assets.
b) Presentation of other balances receivable and payable under the corresponding balance sheet headings.
c) Presentation of credit policies tacitly renewable based on the maturities arranged in them.

The most significant presentation reclassifications in the 2004 income statement are as follows:

d) Extraordinary and financial results for 2004 are presented under IAS 1.

6. Segment reporting

The CIE Automotive group's model is based on two strategic focal points: multi-technology and the global market, which entails capacity to supply technology worldwide.

Multi-technology: command of different technologies and processes enables complex high value-added products to be offered. The CIE Automotive Group has the capacity to design and manufacture products using alternative or complementary technologies.

Global market: Worldwide industrialisation and supply capacity. The Group has global customers and the CIE Automotive Group has the capacity to supply customers from different geographical areas.

Similarly, concerning the management of the business, the Group is managed by legal entities. Management information is based on financial information for each legal entity and aggregate information is only presented at consolidated account level.

Moreover, although there are certain Group operations such as Engineering services or holding company activities, which could be considered not consistent in terms of risk and profitability with other group companies' operations and which may therefore be considered a different business segment, the limited volume involved in terms of sales, results or assets do not justify segmentation.

As a result of these characteristics, the Group's financial information is reported as follows.

a) Principal format for segment reporting: business segments

The Group has a single business segment, namely the production of parts and components for the automotive industry, operating as a TIER 2 in most cases. Although the group supplies certain automobile manufacturers directly (OEM) on some occasions, CIE normally acts as a TIER 2 since the role of TIER 1 is taken on by the OEMs.

b) Secondary format for segment reporting: geographical segments

The Group mainly operates in the following geographical areas: Europe and America.

The main figures of the Group's income statement by geographical area based on production company location are as follows:

	2005			2004		
	Europe	America	Total	Europe	America	Total
Sales	650.192	131.843	782.035	580.547	89.451	669.998
EBITDA (*)	92.521	23.874	116.395	74.911	16.414	91.325
Amort / Deprec.	(50.228)	(7.158)	(57.386)	(46.378)	(2.946)	(49.324)
EBIT (**)	42.293	16.716	59.009	28.533	13.468	42.001

(*) Operating revenues plus depreciation / amortisation
(**) Operating results

There are no sales between the two segments.

The information in the main headings of the financial statements with respect to geographical areas based on production asset location is as follows:

	2005				2004			
Area / location	Europe	America	(**) Elimination on consolidation	Total	Europe	America	(**) Elimination on consolidation	Total
Total assets (*)	1.046.845	153.600	(336.342)	864.103	965.278	82.605	(256.511)	791.372

Total liabilities	893.124	117.502	(363.436)	647.190	833.892	69.566	(286.202)	617.256
Investments for the year (Notes 7 and 8)	47.058	12.651	-	59.709	62.266	11.062	-	73.328
Asset impairment (Note 7.c)	2.167	-	-	2.167	-	-	-	-

(*) Not including financial holdings.
(**) These eliminations mainly relates to intercompany balances.

Segment assets mainly include property, plant and equipment, intangible assets, inventories, accounts receivable and operations cash. Investments in investees are excluded.

Segment liabilities include operating liabilities and long-term financing, including those pertaining to the Group which are eliminated on consolidation.

Fixed asset investments include additions of property, plant and equipment (Note 7) and intangible assets (Note 8).

Transfers or transactions between segments are conducted under ordinary business terms and conditions that should also be available to non-related third parties.

7. Property, plant and equipment

A breakdown and movements in the different categories of property, plant and equipment is as follows:

	Balance at 01.01.04	Additions due to the change in the scope of consolidation (note 33)	Additions	Disposals	Transfers	Other movements	Balance at 31.12.04
Cost							
Land and buildings	180.386	2.717	2.081	(5.277)	741	195	180.843
Plant and machinery	460.732	1.394	18.445	(12.840)	34.631	266	502.628
Fixtures, fittings, tools and equipment	83.181	136	7.839	(1.893)	600	286	90.149
Other fixed assets	11.571	662	1.388	(1.097)	786	359	13.669
Prepayments and PPE in course of construction	24.299	127	41.880	(3.320)	(37.347)	(18)	25.621
	760.169	5.036	71.633	(24.427)	(589)	1.088	812.910
Depreciation							
Land and buildings	45.211	81	3.042	(879)	(407)	(138)	46.910
Plant and machinery	256.315	(257)	34.733	(11.148)	483	(295)	279.831
Fixtures, fittings, tools and equipment	54.395	-	9.198	(1.666)	-	13	61.940
Other fixed assets	7.873	142	1.250	(788)	(243)	93	8.327
	363.794	(34)	48.223	(14.481)	(167)	(327)	397.008
Net carrying value	**396.375**						**415.902**

	Balance at 31.12.04	Additions due to the change in the scope of consolidation (note 33)	Additions	Disposals	Transfers	Other movements	Balance at 31.12.05
Cost							
Land and buildings	180.843	-	6.395	(6.933)	348	2.932	183.585
Plant and machinery	502.628	335	10.635	(3.788)	22.320	11.967	544.097
Fixtures, fittings, tools and equipment	90.149	32	7.386	(2.446)	3.177	917	99.215
Other fixed assets	13.669	68	2.776	(286)	(113)	679	16.793
Prepayments and PPE in course of construction	25.621	-	28.885	(3.342)	(23.712)	2.819	30.271
	812.910	435	56.077	(16.795)	2.020	19.314	873.961
Depreciation							
Land and buildings	46.910	-	2.744	(3.327)	(87)	393	46.633
Plant and machinery	279.831	14	37.074	(3.896)	(770)	4.662	316.915
Fixtures, fittings, tools and equipment	61.940	1	11.285	(2.540)	1.798	376	72.860
Other fixed assets	8.327	5	1.103	(268)	20	291	9.478
	397.008	20	52.206	(10.031)	961	5.722	445.886
Provisions							
Plant and machinery	-	-	(1.857)	-	-	-	(1.857)
	-	-	(1.857)	-	-	-	(1.857)
Net carrying value	**415.902**						**426.218**

The heading Other movements basically includes the effect of currency exchange movements affecting property, plant and equipment in the foreign subsidiaries: CIE Autometal, S.A. (sub-group), CIE Unitools Press CZ, a.s., CIE Plasty CZ, s.r.o., CIE Metal CZ, s.r.o and CIE Celaya, S.A. de C.V.

a) Revaluations

Net cumulative revaluations at the year end under Provincial Regulation 6/96, of 21 November 1996, and Provincial Regulation 11/96, of 5 December 1996, amount to €16,7 million (€17 million in 2004) at consolidated Group level. The effect of these revaluations was a €129k increase in depreciation for the year (€310k in 2004).

Furthermore, the property, plant and equipment of the subsidiary Grupo Componentes Vilanova, S.L. resulted from the contribution of a line of activity on 25 June 2001 by Componentes Vilanova, S.L., then the Company's parent (now wound up and merged into CIE Azkoitia, S.L.). Net cumulative revaluations at the year end resulting from this operation total €5,711k (€6,571k in 2004). The effect of these revaluations was a €860k increase in depreciation for the year (€1,054k in 2004).

Moreover, under IFRS 1, certain land owned by the Group has been revalued at the date of the first application of International Financial Reporting Standards (IFRS), 1 January 2004, based on independent expert valuations, and on the basis of market value. Gains on revaluation, net of the relevant deferred tax, €24,193k, were credited to shareholders' equity (Note 5.2.1).

b) Property, plant and equipment located abroad

As at 31 December 2004 and 2005 the Consolidated Group recorded the following investments in property, plant and equipment located abroad:

	2005			**2004**		
Fixed assets	**Cost**	**Accumulated depreciation**	**Net carrying value**	**Cost**	**Accumulated depreciation**	**Net carrying value**
Land and buildings	18.582	3.323	15.259	12.619	2.298	10.321
Plant and machinery	86.258	38.507	47.751	65.768	27.352	38.416
Fixtures, fittings, tools and equipment	10.509	7.121	3.388	6.682	4.834	1.848
Other fixed assets	4.078	1.295	2.783	1.918	695	1.223
Prepayments and assets in course of construction	14.434	-	14.434	11.724	-	11.724
	133.861	**50.246**	**83.615**	**98.711**	**35.179**	**63.532**

c) Property, plant and equipment not used in operations and impairment losses

At 31 December 2005 property, plant and equipment with a net carrying value of €2827k were no longer used in operations (€273k in 2004).

In 2005 the Company has recognised in the income statement asset impairment relating to Aluminio en Europa. This impairment relates to the net carrying value of those assets at 31 December 2005 and amounts to €2.167k, of which €310k has been definitively written off. The Company has recognised this impairment because the assets involved (Plant and machinery) are currently no longer in use and there is no prospect of their operation being resumed or their being sold in the short term. When calculating impairment, it has been considered that decommissioning costs will at least be covered by revenues from scrap.

d) Fully- depreciated assets

At 31 December 2005 there are fully-depreciated property, plant and equipment with a cost of €205,091k still in use (€174,139k).

e) Property, plant and equipment given as security

At 31 December 2005 there are property, plant and equipment pledged to guarantee debts with the public administrations totalling €16,776k, which are pending payment at 31 December 2005 (€18,379k in 2004) (note 22).

f) Insurance

The Consolidated Group has taken out a number of insurance policies to cover risks relating to property, plant and equipment. The coverage provided by these policies is considered to be sufficient.

g) Finance leases

Plant and equipment include the following amounts in respect of finance leases under which the Group is the Lessee:

	2005	2004
Capitalised finance lease cost	11.739	21.039
Accumulated depreciation	(3.925)	(7.044)
Net carrying value	7.814	13.995

The amounts payable under finance leases are carried under Other liabilities (Note 22).

8. Intangible assets

The movement in the main intangible asset classes, broken down between those generated internally and other intangible assets, is as follows:

2004

	Goodwill	Emission rights	Development expenses	Patents and trademarks	Computer applications	Prepayments and other	Total
Cost							
Balance at 1 January 2004	35.042	-	7.699	369	5.623	446	49.179
Additions (**)	250	-	1.197	3	85	410	1.945
Transfers (*)	-	-	1.079	-	2.826	(159)	3.746
Balance at 31 December 2004	35.292	-	9.975	372	8.534	697	54.870
Amortisation							
Balance at 1 January 2004	-	-	4.586	198	3.908	20	8.712
Additions	-	-	1.039	35	1.076	6	2.156
Transfers (*)	-	-	17	-	-	(17)	-
Balance at 31 December 2004	-	-	5.642	233	4.984	9	10.868
Net carrying value							
Balance at 1 January 2004	35.042	-	3.113	171	1.715	426	40.467
Balance at 31.12.04	35.292	-	4.333	139	3.550	688	44.002

(*) Mostly relating to reclassifications in the presentation of property, plant and equipment.
(**) Effect of exchange rate.

2005

	Goodwill	Emission rights	R&D	Patents and trademarks	Computer applications	Prepayments and other	Total
Cost							
Balance at 1 January 2005	35.292	-	9.975	372	8.534	697	54.870
Additions / disposals due to change in consolidation scope	-	-	-	-	33	-	33
Additions (**)	9.336	767	2.259	-	409	197	12.968
Disposals	-	-	(2)	-	(283)	-	(285)
Transfers (*)	-	-	325	(5)	1.212	(1)	1.531
Other movements	-	-	-	-	19	2	21
Balance at 31.12.05	44.628	767	12.557	367	9.924	895	69.138
Amortisation							
Balance at 1 January 2005	-	-	5.642	233	4.984	9	10.868
Additions	-	-	1.648	37	868	60	2.613
Other movements	-	-	39	-	53	-	92
Balance at 31.12.05	-	-	7.329	270	5.905	69	13.573
Net carrying value							
Balance at 1 January 2005	35.292	-	4.333	139	3.550	688	44.002
Balance at 31 December 2005	44.628	767	5.228	97	4.019	826	55.565

(*) Mostly relating to reclassifications in the presentation of property, plant and equipment.
(**) Goodwill on the acquisition of Jardín Sistemas Automotivos e Industrias, S.A., €7.392k (Note 35) and the effect of exchange rate fluctuations.

a) Testing for impairment losses on goodwill

Goodwill has been assigned to the Group's cash generating units on the basis of the criterion of grouping together under each CGU all the Group's assets and liabilities that jointly and indivisibly generate cash flows in an area of the business from a technology and / or geographical and / or customer viewpoint, on the basis of the synergies and risks shared.

Set out below is goodwill assignment at CGU level (production company or group of production companies grouped together):

Group of companies	Individual company or group of companies (Note 1)	Goodwill not assigned	Goodwill assigned to land and buildings
Metal Europa	Egaña 2, CIE Udalbide, CIE Unitools, T.M. Norma	4.215	2.487
Aluminio España	G.C. Vilanova, Inyectametal, Tarabusi	7.194	2.329
Brazil	Subgroup CIE Autometal	16.418	1.564
Plástico Europa	Plasfil, CIE Plasty, Orbelán	7.852	-
Mecanizado España	Gameko, CIE Mecauto, Mecasur	8.949	-
		44.628	**6.380**

The amount recoverable from a CGU is terminated on the basis of calculations of value in use. These calculations use cash flow projections based on financial budgets approved by management that cover a five year period. Cash flows for periods over five years are extrapolated on the basis of a prudent assumption concerning the estimated growth rates indicated below since that growth rate is considered 0% which is lower than the average long-term growth rate for the automotive business in which each of the CGUs operates.

b) Key assumptions used in the calculation of value in use

The discount rate applied to cash flow projections amounts to:

Metal Europa	8,08%
Aluminio España	8,08%
Brazil	13,43%
Plástico Europa	8,08%
Mecanizado España	8,08%

The discount rate is after tax and reflects the specific risk related to significant segments and has been applied in the analysis of 2004 and 2005.

Budgeted EBITDA (operating results plus depreciation / amortisation) is determined by Company management in their strategic plans, taking into account operations with a similar structure to the current structure and based on prior year experience. These EBITDAs (operating results plus amortisation / depreciation) vary between 13% and 20%.

c) Results of the analysis

The Group has verified that in 2005 goodwill has not suffered any impairment loss. Note 4 includes a sensitivity analysis of the calculation of the impairment loss on goodwill.

9. Financial assets

	Financial assets at fair value with changes in the income statement	Financial derivatives	Available-for-sale financial assets	Held – to-maturity investments	Deposits and guarantees	Total
Balance at 1 January 2004	9.543	1.708	2.038	10.483	3.046	26.818
Additions	534	-	4.169	-	69	4.772
Disposals	-	-	-	(5.986)	-	(5.986)
Fair value adjustment						
- Results	161	(503)	-	-	-	(342)
- Equity	-	(751)	606	-	-	(145)
Balance at 31 December 2004	10.238	454	6.813	4.497	3.115	25.117
Additions	1.172	-	-	-	476	1.648
Disposals	-	-	(547)	(628)	-	(1.175)
Fair value adjustments						
- Results	447	448	-	-	-	895
- Equity	-	(1.175)	1.775	-	-	600
Balance at 31 December 2005	11.857	(273)	8.041	3.869	3.591	27.085
2004						
Non-current	-	-	-	200	2.986	3.186
Current	10.238	454	6.813	4.297	129	21.931
2005						
Non-current	-	-	-	180	3.462	3.642
Current	11.857	(273)	8.041	3.689	129	23.443

a) Financial assets at fair value with changes in the income statement

This heading includes the portfolios relating to the consolidated investment companies Muskaria Inversiones SICAV, S.A. and Matxitxako Diversificada SICAV, S.A.:

	2005	2004
Variable income	7.141	3.027
Fixed income	368	186
Investment funds	172	-
Bills, bonds and debentures	538	866
Foreign securities	114	3.727
Temporary acquisition of assets	-	2.432
Exchange insurance	3.524	-
	11.857	**10.238**

Financial assets are classed as at fair value at the time they are initially accounted for.

Financial assets at fair value with changes in the income statement are presented in trading operations as part of changes in working capital in the cash flow statement (Note 33).

b) Financial derivatives

	2005	2004
Interest rate swaps – cash flow hedges	(227)	(675)
Exchange forwards – cash flow hedges	(46)	1.129
Total	**(273)**	**454**

Gains and losses in equity in respect of currency forwards at 31 December 2005 will be transferred to the income statement over the next 18 months.

- Interest rate swaps (variable to fixed)
  The notional principal on interest rate swaps outstanding at 31 December 2005 amounted to €109,802k (2004: €81,714k).

  At 31 December 2005 fixed interest rates vary between 2.81% and 3.45% (2004: 2.91% and 3.45%) and the main variable interest rates are EURIBOR and LIBOR.
- Foreign currency cash flow hedges
  At 31 December 2005 foreign currency forwards amounted to:
  - Purchase of US dollars: USD14,680k (2004: USD 12,493k).
  - Purchase of pounds sterling: GBP4,775k (2004: GBP 2,025k).
  - Purchase of Canadian dollars: CAD3,557k (2004: CAD 1,150k).
  - Sale of US dollars: USD2,950k (2004: USD 2,575k).

c) Available-for-sale financial assets

Available-for-sale financial assets include:

	2005	2004
FIM Edelsthal	8.041	6.813

In 2004 and 2005 no provisions have been recorded for impairment losses on available- for- sale financial assets.

The return on this financial fund stood at 18.02% in 2005 and 7.27% in 2004.

The fair value of this Investment Fund includes the liquidation value of its portfolio at each date.

d) Held – to-maturity investments

This heading includes the following items and amounts:

	2005		2004	
	€'000	Interest rate	€'000	Interest rate
Mixed variable income fund	1.033	9,11%	1.033	9,57%
Investment portfolios	2.642	17,78%	3.156	10,15%
Minority shareholdings in unlisted companies	194	-	308	-
	3.869		**4.497**	

10. Trade and other accounts receivable

	2005	2004
Trade accounts receivable	124.907	119.399
Less: Provision for impairment losses on accounts receivable	(6.154)	(6.170)
Trade accounts receivable – Net	118.753	113.229
Other accounts receivable	8.936	3.634
Total	**127.689**	**116.863**

Trade and other balances receivable do not differ from fair value.

There is no credit risk concentration with respect to trade accounts receivable since the Group has a large number of customers worldwide.

At 31 December 2005 trade receivable balances and accounts receivable discounted and advanced at financial institutions amount to €52,785k (€56,568k in 2004) (Note 20).

The movement in the bad debts or doubtful debts provisions in 2004 and 2005 relates to the following amounts and items:

Balance at 1 January 2004	**5.180**
Transfers	1.455
Recoveries	(365)
Balance write-offs	(100)
Balance at 31 December 2004	**6.170**
Transfers	1.509
Recoveries	(1.121)
Balance write-offs	(404)
Balance at 31 December 2005	**6.154**

11. Other non-current assets

This balance sheet heading records the following items and amounts:

	2005	**2004**
Loans to personnel (Note 36)	6.102	3.681
Other balances	1.682	-
	7.784	3.681

Loans to personnel basically include the principal of the non-interest loans granted to managers maturing in 5 and 8 years that fall due in 2009 and 2013, respectively. The effect of restatement at fair value is adjusted under Deferred income (Note 19).

12. Inventories

	2005	**2004**
Raw materials and supplies	48.392	42.761
Work in progress and semi-finished goods	38.334	26.333
Finished products	28.803	28.772
Prepayments to suppliers	3.292	3.028
	118.821	**100.894**

The cost of inventories recognised as an expense and included in the cost of goods sold breaks down as follows:

2004

	Raw materials and supplies	**Work in progress and finished goods**	**Total**

Opening balance	32.895	46.344	79.239
Purchases	327.536	(*) (221)	327.315
Closing balance	(42.761)	(55.105)	(97.866)
Cost of inventories	317.670	(8.982)	308.688

2005

	Raw materials and supplies	Work in progress and finished goods	Total
Opening balance	42.761	55.105	97.866
Purchases	374.805	(*) 587	375.392
Closing balance	(48.392)	(67.137)	(115.529)
Cost of inventories	369.174	(11.445)	357.729

(*) This basically relates to the effect of exchange rate fluctuations in the companies located abroad.

The value of work in progress and finished products includes the value of the following provisions for obsolescence, movements in which are presented below:

Balance at 1 January 2004	**801**
Transfers	1.064
Recoveries	(105)
Balance at 31 December 2004	**1.760**
Transfers	361
Recoveries	(66)
Balance write-offs	(794)
Balance at 31 December 2005	**1.261**

13. Cash and other cash equivalents

	2005	2004
Cash and banks	29.549	10.812
Short-term bank deposits	17.500	27.501
	47.049	**38.313**

Short-term deposits at credit institutions relate to investments of cash surplus maturing in less than 3 months.

The effective interest rate on short-term deposits in credit institutions has been the market rate (varying between 2% and 3% in 2005 and 2004).

14. Capital and share premium

	No. shares (thousand)	Ordinary shares	Share premium	Treasury shares	Total
Balance at 1 January 2004	22.800	23.028	33.752	(2.654)	54.126
Acquisition of treasury shares	-	-	-	(631)	(631)
Disposal of treasury shares	-	-	-	3.011	3.011
Balance at 31 December 2004	22.800	23.028	33.752	(274)	56.506
Acquisition of treasury shares	-	-	-	(2.555)	(2.555)
Disposal of treasury shares	-	-	-	2.886	2.886
Balance at 31 December 2005	22.800	23.028	33.752	57	56.837

a) Share capital

The parent Company's share capital is represented by 22,800,000 fully paid ordinary bearer shares with a par value of €1.01 each, all listed on the Spanish stock market. The companies that hold a direct or indirect interest of more than 10% are as follows:

	% shareholding	
	2005	**2004**
Instituto Sectorial de Promoción y Gestión de Empresas, S.A.	59,755%	36,560%
Saltec, S.L. Sociedad Unipersonal (*)	12,985%	12,985%

(*) The single shareholder of Saltec, S.L. Sociedad Unipersonal is Instituto Sectorial de Promoción y Gestión de Empresas, S.A.. Therefore adding the direct and indirect shareholding, this company controls 72.739% of CIE Automotive, S.A.

b) Share premium account

This reserve is freely available for distribution.

c) Treasury shares

At 31 December 2005 the Company held 51,675 treasury shares (68,989 shares in 2004).

The movement in treasury shares in 2004 and 2005 breaks down as follows:

	2005		2004	
	Number of shares	**Amount (€'000)**	**Number of shares**	**Amount (€'000)**
Opening balance	68.989	274	373.550	2.654
Acquisitions	201.214	2.555	55.439	631
Disposals	(218.528)	(2.886)	(360.000)	(3.011)
Closing balance	**51.675**	**(57)**	**68.989**	**274**

15. Reserves and retained earnings

Movements in Reserves and retained earnings are as follows:

	Retained earnings and first –conversion reserves							
	Legal reserve	**Other reserves (**)**	**Reserve Consolidated companies and effect of first conversion (Note 17)**	**Profit and loss**	**Subtotal**	**Exchange rate differences (Note 16)**	**Interim dividend**	**Total**
At 1 January 2004 (following application of 2003 results) (*)	4.606	37.380	58.394	(***) 2.200	102.580	-	-	102.580
Cancellation / Payment of dividends 2003	-	-	-	(2.200)	(2.200)	-	-	(2.200)
Net income / (expense) recognised directly in equity	-	(98)	-	-	(98)	-	-	(98)
Other movements	-	-	(26)	-	(26)	(859)	-	(885)
Interim dividend	-	-	-	-	-	-	(2.276)	(2.276)
Result for year	-	-	-	19.803	19.803	-	-	19.803
Balance at 31 December 2004	4.606	37.282	58.368	19.803	120.059	(859)	(2.276)	116.924
Distribution of 2004 profit	-	3.334	11.051	(19.803)	(5.418)	-	2.276	(3.142)
Net income / (expense) recognised directly in equity	-	417	-	-	417	-	-	417
Other movements	-	(8.308)	7.619	-	(689)	15.192	-	14.503
Interim dividend	-	-	-	-	-	-	(4.560)	(4.560)
Result for year	-	-	-	35.138	35.138	-	-	35.138
Balance at 31 December 2005	4.606	32.725	77.038	35.138	149.507	14.333	(4.560)	159.280

(*) General Shareholders' Meeting resolution of 28 April 2004.
(**) includes the reserve for treasury shares in accordance with current legislation.
(***) Complementary dividend agreed in the General Meeting.

a) Revaluation reserve

The balance of this account in terms of the amount pending application, which derives from the provisions of Regional Law 11/1996, may be used to offset accounting losses, increase share capital or be held as restricted reserves without accruing any taxes. If the balance of this account is used for any purpose other than those defined by Provincial Law 11/1996, the balance may be subject to taxation. This reserve has been used to offset prior year losses in accordance with the distribution agreed in the General Shareholders' Meeting of 28 April 2004.

b) Legal reserve

In accordance with the Spanish Companies Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital.

The legal reserve may be used to increase the capital up to the portion of said legal reserve which exceeds 10% of the capital after the increase.

Except for the aforementioned purpose, until it exceeds 20% of the share capital, this reserve may be used only to set off losses and this may only be done if other available reserves are insufficient for this purpose.

c) Reserve for parent company shares

The reserve for parent company shares is not freely available and must be maintained until such shares are disposed of or redeemed at the same amount as their accounting acquisition cost.

d) Reserve for first IFRS conversion and other restatement reserves

This heading records the effects of the adjustments of the conversion to IFRS on the date of first-time application 1 January 2004 (Note 5) and the effect of valuing certain financial assets at market price (Note 9).

e) Interim dividend

On 21 December 2005 the Parent Company's Board of Directors adopted a resolution to distribute an interim dividend on account of 2005 results. The gross dividend is €0.20 per share, for a total of € 4,560k, payable on 26 December 2005.

On 25 November 2004 the Parent Company's Board of Directors adopted a resolution to distribute an interim dividend on account of 2004 results. The gross dividend is €0.10 per share, for a total of € 2,276k, payable on 15 December 2004.

As is required by Article 216 of the Spanish Companies Act, the Directors prepared the necessary provisional financial statements that revealed the existence of sufficient liquidity.

f) Proposal for the distribution of results

The proposal for distributing the parent company's 2005 results that will be presented to shareholders at the General Meeting and the approved distribution for 2004 is as follows:

	Under GAAP	
	2005	**2004**
Available for distribution		
Profit for the year	15.086	10.754
Distribution		
Interim dividend	4.560	2.276
Complementary dividend	5.700	3.192
Voluntary reserves	4.826	5.286
	15.086	**10.754**

g) Stock options

There were no stock option plans over the Company's shares at the 2005 or 2004 year end.

16. Cumulative exchange differences

1 January 2004	**-**
Translation differences:	
– Group	(859)
31 December 2004	**(859)**
Translation differences:	
– Group	15.192
31 December 2005	**14.333**

The breakdown of the cumulative translation difference by company / subgroup at the 2005 and 2004 year ends is as follows:

	2005	**2004**
Company or subgroup		
CIE Autometal, S.A. (Sub-group)	10.248	(220)
CIE Plasty CZ, s.r.o.	210	113
CIE Unitools Press CZ, a.s.	852	438
CIE Metal CZ, s.r.o.	(8)	-
CIE Celaya, S.A. de C.V.	3.031	(1.190)
	14.333	**(859)**

17. Reserves in companies consolidated using the full consolidation method

A breakdown by company/ subgroup at 31 December 2005 and 2004 of reserves in companies consolidated under the full consolidation method is as follows, including the effects of the adjustments relating to the first conversion to IFRS (Note 5.2.1):

	2005	2004
Company or subgroup		
CIE Automotive, S.A. (*)	5.634	5.634
CIE Azkoitia, S.L.	(7.803)	(7.342)
GSB Acero, S.A.	41.310	32.705
GSB Forja, S.A.	17.802	18.077
GSB Galfor, S.A.	3.678	5.566
CIE Udalbide, S.A.U.	10.414	8.931
CIE Mecauto, S.A.U.	(4.111)	(2.577)
Mecanizaciones del Sur-Mecasur, S.A.	(435)	(280)
Gameko Fabricación de Componentes, S.A.	1.478	(205)
GSB-TBK Automotive Components, S.L.	(76)	(328)
Grupo Componentes Vilanova, S.L.	7.494	7.626
Tarabusi, S.A.	(7.836)	(5.904)
Talleres Matrimold, S.L.	563	(314)
Fabricación de Componentes del Motor, S.L.	143	91
CIE Bérriz, S.L.	(6.093)	(7.039)
Egaña 2, S.L.	3.779	3.469
Inyectametal, S.A.	8.157	7.112
Orbelan Plásticos, S.A.	2.705	2.351
T.M. Norma, S.A.	739	(454)
Autokomp Ingeniería, S.A.	267	110
CIE Celaya, S.A. de C.V.	(4.789)	(2.811)
Plasfil-Plásticos da Figueira, S.A.	(1.770)	(1.184)
CIE Unitools Press CZ, a.s.	2.633	1.039
CIE Plasty CZ, s.r.o.	(262)	(210)
CIE Metal CZ, s.r.o.	-	-
CIE Inversiones e Inmuebles, S.L.U.	1.391	-
CIE Autometal, S.A. (Sub-group)	3.643	(3.426)
Muskaria Inversiones SICAV, S.A.	(413)	(492)
Matxitxako Diversificada SICAV, S.A.	(1.204)	(1.777)
	77.038	**58.368**

(*) Generated on first IFRS conversion.

Reserves and retained earnings pertaining to companies consolidated under the full consolidation method, the distribution of which is subject to legal requirements relate to:

	2005	2004
Legal reserve	14.150	14.053
Reserves for asset restatements	9.601	8.584
	23.751	**22.637**

18. Minority interests

Movements under Minority interests are as follows:

	2005	2004
Opening balance	686	552
Results for the year (Note 15.f)	112	134
Closing balance	**798**	**686**

The distribution by company is set out below:

Company/ subgroup	2005	2004
GSB-TBK Automotive Components, S.L.	632	520
GSB Galfor, S.A.	166	166
	798	**686**

19. Deferred income

The balance breaks down as follows:

	2005	2004
Tax credits in respect of investment deductions (Note 23)	12.693	13.788
Greenhouse gas emission rights (Notes 2.6.b) and 8)	51	-
Capital grants	9.407	12.186
Other deferred income	794	592
	22.945	**26.566**

In 2005 the Group received capital grants amounting to €843k (€5,802k in 2004). These grants have been released to income in the year in an amount of €2,070k (€2,434k in 2004).

The conditions stipulated in the agreements for the capital grants have been complied with.

20. Borrowings

	2005	2004
Non-current		
Bank loans and credit facilities (*)	238.675	121.314
	238.675	121.314
Current		
Bank loans and credit facilities (*)	9.300	95.442
Short-term portion of long-term loans (*)	4.269	23.563
Bills discounted pending maturity (Note 10)	8.206	20.376
Advance payments on exports (Note 10)	44.579	36.192
	66.354	175.573
	305.029	**296.887**

(*) The exposure of the Group's bank borrowings to interest rate fluctuations is as follows:

	Balance at 31 December	At 6 months	At 1 year	At 5 years
At 31 December 2004				
Total borrowings	240.319	225.598	121.314	9.986
Effect of interest rate swaps (Note 9)	(81.714)	(114.176)	(109.802)	(21.907)
Risk	158.605	111.422	11.512	-
At 31 December 2005				
Total borrowings	252.244	251.901	238.675	83.859
Effect of interest rate swaps (Note 9)	(109.802)	(88.945)	(76.032)	(6.867)
Risk	142.442	162.956	162.643	76.992

Non-current borrowings have the following maturities:

	2005	2004
Between 1 and 2 years	10.792	47.835
Between 3 and 5 years	144.024	63.493
More than 5 years	83.859	9.986
	238.675	**121.314**

The effective interest rates at the balance sheet dates were the usual market rates (Euribor + a market mark-up) and there were no significant differences with respect to other companies of a similar size and with similar risks and borrowing levels.

The carrying values and fair values of current and non-current borrowings do not differ significantly since in all cases the amounts owed accrue interest at market rates.

The carrying value of the group's borrowings is denominated in the following currencies:

	2005	2004
Euro	299.674	292.239

Brazilian real	5.355	4.648
	305.029	**296.887**

The Group has the following unused credit lines:

	2005	2004
Variable rate:		
– maturing in less than one year	7.052	22.063
– maturing in more than one year	93.307	3.271
	100.359	**25.334**

On 15 December 1999 CIE Automotive, S.A. arranged with the Santander Central Hispano two credit lines with a limit of €6,010k, each, maturing on 15 December 2004, which may be extended until 15 December 2009 and which are linked to Euribor. In order to secure these credit accounts a pledge was arranged over 862,400 shares in Matxitxako Diversificada SICAV, S.A. (Note 1). At 31 December 2005 the two credit lines in question were cancelled and the pledge over the shares in Matxitxako Diversificada SICAV, S.A. was lifted.

Similarly, on 9 December 1999 Deutsche Bank granted CIE Automotive, S.A. two credit accounts with a joint limit of €11,119k, maturing on 6 December 2004, In 2004 these were replaced by a new credit account with a limit of €10,000k and maturing on 3 December 2005, which may be extended until 3 December 2007 and which is linked to EURIBOR. To guarantee these credit lines 705,083 shares in FIM Edelsthal (Note 9)) and all the shares held in Muskaria Inversiones, SICAV, S.A. were pledged to the bank (Note 1). At 31 December the aforementioned credit account has been cancelled and the pledge over the shares in Muskaria Inversiones, SICAV, S.A. and all the shares in FIM Edelsthal has been lifted.

On 16 December 2005 CIE Automotive, S.A. signed together with a syndicate of lenders a multi-currency business loan amounting to €250 million, effective for 7 years, i.e., until 16 December 2012 and with a Euribor-linked interest rate for utilisation in euro and Libor-linked interest rate for utilisation in dollars, plus a market mark-up in both cases.

21. Trade and other accounts payable

	2005	**2004**
Trade accounts payable	168.611	142.828
Other accounts payable	27.464	8.299
	196.075	**151.127**

22. Other liabilities

	2005	**2004**
Non-current		
Fixed asset creditors	9.421	8.985
Debts deferred long term with the Public Administrations	10.331	14.655
Other debts deferred long term with the Public Administrations	7.359	7.864

Other long-term debt	8.763	17.383
	35.874	48.887
Current		
Current tax liabilities	14.682	15.000
Debts deferred short term with the Public Administrations	3.726	3.050
Fixed asset creditors	13.820	19.048
Accrued wages and salaries	16.359	15.463
Other short-term debts	-	2.401
Accrual accounts	721	1.884
	49.308	**56.846**

The most significant portion (in 2005 €10,042k long-term and €3,263k short- term, in 2004 €13,904 long- term and €2,575 short-term) of the amounts owed to the tax authorities and Social Security relate to taxes and social security contributions payable and late-payment interest, which were transferred to the company on 12 July 1993 by Patricio Echeverría Aceros, S.A., as part of the restructuring of several companies (in 2004 €13, 904k). In accordance with the payment agreement concluded on 4 July 1994, the public institutions accepted the Company's subrogation to these debts, which gave rise to payment obligations totalling €12,543k and €13,024k, respectively. The terms of the payment agreement call for progressively higher instalments to be paid (from 1% to 15%) on the debt over 15 years, with interest payable annually. The Company records this interest as it accrues and debits it to results using a financial accrual method.

The balances included under "Other long-term debts with the Public Administrations", €7,795k (€7,864k in 2004) reflect debts existing with the Brazilian and Portuguese Administrations in respect of various items (repayable grants, legal deposits and other).

The balance under Other long-term debts includes, inter alia, creditor balances relating to the externalisation of pensions arranged with the insurance company Biharko by various group companies (Note 24). Additionally, this heading includes customer advances amounting to €1,262k (€656k in 2004) and loans for financing investment projects in public financing institutions amounting to €4,953k (€17,162k in 2004).

Other non-current liabilities have the following maturities:

	2005	**2004**
Between 1 and 2 years	26.628	27.961
Between 2 and 5 years	6.102	17.718
More than 5 years	3.144	3.208
	35.874	**48.887**

23. Deferred taxes

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current and deferred tax assets and liabilities with respect to the same tax authorities. Deferred taxes are as follows:

	2005	2004
Deferred tax assets:		
- Deferred tax assets to be recovered in more than 12 months	29.423	29.210
- Deferred tax assets to be recovered in 12 months	3.491	3.334
	32.914	32.544
Deferred tax liabilities:		
- Deferred tax assets to be recovered in more than 12 months	16.624	15.075
- Deferred tax liabilities to be recovered in 12 months	1.599	1.792
	18.223	16.867
Net	**14.691**	**15.677**

The overall movement in the deferred tax account is as follows:

	2005	2004
Opening balance	15.677	11.188
Exchange differences	1.145	-
(Debit) / credit to the income statement	(1.948)	4.442
(Debit) / credit to equity	(183)	47
Closing balance	**14.691**	**15.677**

Movements during the year in deferred assets and liabilities are as follows:

Deferred tax liabilities	Accel. tax depreciation	Fair value gains	Asset restatement	Other	Total
Balance at 1 January 2004	1.673	11.693	2.909	451	16.726
DecDebited / (credited) to results	(99)	40	(488)	735	188
Debited / (credited) to equity	-	(47)	-	-	(47)
Balance at 31 December 2004	1.574	11.686	2.421	1.186	16.867
Debited / (credited) to results	(174)	1.150	(350)	547	1.173
Debited / (credited) to equity	-	183	-	-	183
Balance at 31 December 2005	1.400	13.019	2.071	1.733	18.223

Deferred tax assets	Provisions for assets	Impairment losses	Tax losses	(*) Tax credits	Total
Balance at 1 January 2004	5.079	-	1.378	21.457	27.914
(Debited) / credited to results	(1.744)	-	1.963	4.411	4.630
Balance at 31 December 2004	3.335	-	3.341	25.868	32.544
(Debited) / credited to results	157	-	(456)	(476)	(775)
Exchange differences	-	-	-	1.145	1.145
Balance at 31 December 2005	3.492	-	2.885	26.537	32.914

(*) Includes tax credits in respect of investment and tax losses.

Deferred tax liabilities / (assets) debited / (credited) to equity in the year are as follows:

	2005	2004
Reserves for fair value in equity:		
- Reserve for hedging operations	(350)	(244)
- Available-for-sale financial assets	533	197
	183	**(47)**

Deferred tax assets in respect of tax losses available for offset are recognised insofar as the realisation of the relevant tax benefit through future tax profits is probable. The Group has not recognised deferred tax assets amounting to €6,885k (2004: €7,667k) with respect to losses amounting to €20,642k (2004: €22,740k) to be offset in future years against tax profits.

24. Retirement benefit commitments

	2005	2004
Commitments in the balance sheet in respect of:		
Retirement benefits	2.006	2.267
Charges in the income statement in respect of (Note 28):		
Retirement benefits	84	278

Several group companies have externalised the pension liability relating to certain retired and pre-retired employees (39 people) with the insurance company Biharko. Payments to this company amount to €345k a year. The Company records €1,660k in respect of this item on a long-term basis (Note 22).

a) Retirement benefits

The amounts recognised in the balance sheet have been calculated as follows:

	2005	2004
Present value of the obligations financed	2.598	2.589
Fair value of plan assets	(592)	(322)
Liability in the balance sheet	2.006	2.267

The movement in the liability recognised in the balance sheet is as follows:

	2005	2004
Opening balance	2.267	2.334
Expense debited to the income statement	84	278
Contributions paid	(345)	(345)

Closing balance	**2.006**	**2.267**

The principal actuarial assumptions used are as follows:

	2005	2004
Annual discount rate	3%	4%
Expected annual return on plan assets	3%	4%
Expected annual return on reimbursement recognised as assets	3%	4%
Future annual salary increase	2%	2%

Pension plan assets relate to the amounts contributed to the insurance company with which obligations are externalised.

The real return on plan assets amounted to 2.56% (2.21% in 2004).

25. Provisions

Movements in the Company's provisions in 2004 and 2005 are as follows:

Balance at 1 January 2004	**18.431**
- Inclusion in consolidation (Note 35)	6.967
- Transfers	1.892
- Applications and transfers to short-term	(7.214)
Balance at 31 December 2004	**20.076**
- Transfers	5.958
- Applications and transfers to short-term	(6.300)
Balance at 31 December 2005	**19.734**

This provision mainly includes the following:

- Provision amounting to €12.1 million (€10.2 million in 2004) which basically relates (€12.1 million in 2005, €8.2 million in 2004) to the amount availing itself of tax deductions applied under current tax legislation, the legal provisions for which have been questioned by several jurisdictions.
- Provision amounting to €2.3 million (€5 million in 2005) appropriated to cover risks relating to local tax claims and customer claims in the Brazilian subsidiaries .
- Provision amounting to €1.5 million to carry out the closing and liquidation of the Belgian subsidiary (€1.5 million in 2004) (Note 1), basically in respect of environmental risks. Provision for restructuring and other personnel liabilities amounting to €3.4 million (€1.5 million in 2004).

In 2003 the subsidiary GSB Acero, S.A. (Note 1) embarked on a restructuring plan (approved in 2002) in order to bring the workforce into line with productivity ratios similar to those of companies in the industry. The initially estimated cost of this plan amounted to €9.1 million. At 31 December 2004 the amounts outstanding totalled €4.2 million (of which €2,8 million was recorded under short-term payables). At 31 December 2005 this provision (short-term in its entirety) amounts to €1.1 million.

In 2005 as a result of the fall in sales which will continue in the future and the fact that it is unfeasible to maintain the current workforce structure, the subsidiaries GSB Forja, S.A. and Grupo Componentes Vilanova, S.L. presented in November and October, respectively, business reports to the respective Workers' Committees, reflecting the need to restructure the companies' workforce.

Both companies have prepared proposals for lay-off proceedings which envisage the elimination of a total of 98 jobs, employees having the option to relocate or take voluntary redundancy. Proceedings in Grupo Componentes Vilanova, S.L. have already been approved by the competent authorities while GSB Forja, S.A. is considering filing the official document shortly.

In both cases the costs of these proceedings have been estimated at a total of €3.9 million on the basis of the highest estimate of the number of people who will finally be affected and the fact that redundancy is unlikely. This amount is recorded under short-term since this restructuring is set to end in 2006.

26. Operating revenues

	2005	2004
Net turnover	782.035	669.998
Variation in inventories of finished goods and work in progress	11.445	8.982
Own work capitalised	4.296	3.667
Other operating revenue	8.951	5.445
	806.727	**688.092**

Of revenues from asset sales, the amounts involved in currencies other than the euro are as follows:

	2005	2004
US dollar	29.537	21.441
Polish zloty	4.624	59.301
Czech koruna	7.104	15.038
Pound sterling	10.568	8.461
Mexican peso	17.176	5.171
Brazilian real	116.525	92.238
Other	4.966	4.614
	190.500	**206.264**

27. Other gains / (losses) net

	2005	2004
Profit / (loss) on fixed asset sales	7.864	(253)
Transfer to provisions (Note 25)	(4.250)	(1.500)
Other losses / gains net	(1.367)	(4.318)
Result of asset impairment	(2.167)	-
Net return on portfolio of financial assets at fair value with changes in results	1.885	978
	1.965	**(5.093)**

28. Employee benefit expense

	2005	2004
Wages and salaries, including restructuring expenses amounting to €4,848k (Note 25) and severance indemnities amounting to €683k	150.667	123.631
Social Security expense	38.260	37.325
Other staff welfare expenses	8.119	6.881
Pension cost – defined benefit plans (Note 24)	84	278
	197.130	**168.115**

The average number of group employees by category is as follows:

<u>**Category**</u>	**Number**	
	2005	**2004**
Executives	107	188
University graduates, specialists and administrative employees	943	1.059
Semi-skilled workers	5.475	4.557
	6.525	**5.804**

29. Net financial costs

	2005	2004
Interest expense:		
- Bank loans	(20.760)	(16.423)
Interest income:		
- Other interest and financial income	4.669	1.085
Gains / (losses) net in respect of transactions in foreign currency	961	(1.201)
Gains in fair value of financial instruments:		
- Interest rate swaps: fair value hedges	31	(173)
	(15.099)	**(16.712)**

30. Income tax

	2005	**2004**
Current tax	2.337	7.123
Net variation deferred tax assets (Note 23)	(157)	1.745
Net variation deferred tax liabilities (Note 23)	1.356	141
Net variation tax credits recognised (Note 23)	932	(6.374)
Provision for risks (Note 25)	3.302	1.386
Tax expense	**7.770**	**4.021**

The reconciliation of reported consolidated profit and the aggregate corporate income tax base is as follows:

	2005	**2004**
Consolidated profit	35.138	19.803
Minority shareholdings	112	135
Corporate income tax (without IFRS effect)	7.927	3.252
Consolidated accounting profit for the year before taxes	43.177	23.190
Consolidation adjustments	26.649	27.636
Aggregate profit before taxes in consolidated companies	69.826	50.826
Non-computable revenues (*)	(23.845)	(26.130)
Net temporary differences in individual companies (**)	1.240	(9.473)
Offset of tax losses	(4.377)	(1.219)
Aggregate corporate income tax base	**42.844**	**14.004**

(*) Dividends paid between Group companies.
(**) Net temporary differences in the individual companies basically include adjustments in relation to the restructuring of the workforce and differences between the accounting records and taxes on temporary imports in the appropriation and reversal of provisions.

The Group's income tax differs from the theoretical amount that would have been obtained had the average weighted tax rate applicable to the consolidated companies' profits been used as follows:

	2005	**2004**
Aggregate profit before taxes in consolidated companies	69.826	50.826
Tax calculated at national rates applicable to profits in the relevant countries	12.792	11.553
Tax free results	(10.409)	(11.289)
Non-deductible expenses for tax purposes	6.148	3.786
Utilisation of tax losses not previously recognised	(761)	(29)
Tax expense	**7.770**	**4.021**

The applicable weighted average tax rate stood at 18.32% (2004: 22.73%).

Effective in 2005 and 2004, the parent company is authorised to file a consolidated corporate income tax return together with the following group companies (Note 2.15.a)):

- CIE Azkoitia, S.L.

- CIE Bérriz, S.L.
- CIE Inversiones e Inmuebles, S.L. Sociedad Unipersonal
- Autokomp Ingeniería, S.A.
- CIE Udalbide, S.A., Sociedad Unipersonal
- CIE Udalbide, S.A., Sociedad Unipersonal (until 2004 Stuka, S.A.)
- Egaña 2, S.L.
- Gameko Fabricación de Componentes, S.A.
- GSB Acero, S.A.
- GSB Forja, S.A.
- Inyectametal, S.A.
- Orbelan Plásticos, S.A.
- Transformaciones Metalúrgicas Norma, S.A.
- Udalbide, S.A. (extinguished through merger in 2005)

In general terms, all tax returns for the years that have not lapsed in accordance with the various bodies of tax legislation applicable to each group company are open to inspection.

In 2005 corporate income tax legislation in Bizkaia has been amended as a result of the application of several judgements of the Supreme Court and Supreme Court of the Basque Country that declared the suspension and annulment of certain provisions contained in such provincial tax legislation.

Although appeals have been filed against these judgements by the provincial authorities, in accordance with the pertinent legal decisions, the Provincial Authorities of Bizkaia have issued new regional legislation during the year in order to replace the provisions declared null and suspended by those judgments, including Legislative Provincial Decree 1/2005 of 30 December 2005 that, inter alia, has set the general tax rate applicable to 2005 at 32.6%. After the year end, appeals have been filed by third parties, requesting the suspension or annulment of some of the provisions in force. The outcome of these appeals is not yet known.

The Company's Directors have calculated the amounts associated with this tax for 2005 and those years open to inspection in accordance with provincial legislation in force at each year end on the understanding that the final decision with respect to the appeals filed will not have a significant impact on the annual accounts taken as a whole.

31. Earnings per share

a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of ordinary shares in the year, excluding treasury shares acquired by the Company (Note 14).

	2005	**2004**
Profit attributable to the company's shareholders (€'000)	35.138	19.803
Weighted average number of ordinary shares (thousand)	22.637	22.477
Basic earnings per share (€ per share)	**1,55**	**0,88**

b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares to reflect the conversion of all ordinary shares that may potentially be diluted. The Company has no ordinary shares that may potentially be diluted.

32. Dividends per share

The dividends paid on 15 June 2005 (complementary dividend for 2004) and on 15 December 2004 (on account of 2004) amounted to 0.14 €/ share and 0.10 €/share, respectively, i.e., a total gross dividend of 0.24€/share. During the General Shareholders' Meeting of 2006, a complementary dividend will be proposed by charge to profits for 2005 of 0.25€/ share, which taking into account the interim dividend of 0.20 €/share approved by the Board of Directors on 21 December 2005 (Note 15.e)), will entail a total gross dividend of 0.45 €/share. These consolidated annual accounts do not reflect this complementary dividend.

33. Cash from operations

	2005	2004
Profit for the year	35.250	19.938
Adjustments:		
– Taxes (Note 30)	7.770	4.021
– Deferred taxes - results (Note 23)	(1.173)	(4.922)
– Grants released to income (Note 19)	(2.070)	(2.434)
– Depreciation of property, plant and equipment (Note 7)	52.206	48.223
– Amortisation of intangible assets (Note 8)	2.613	2.156
– Charge in respect of impairment losses on property, plant and equipment (Note 27)	2.167	-
– (Profit) / loss on the sale of property, plant and equipment (see below)	(7.864)	253
- Net movements in provisions (Note 25)	5.958	1.892
– Net (Gains) / losses in fair value of financial derivatives (Note 9)	(448)	503
– Gains in fair value (including gains on disposal) of assets at fair value with changes in results (Note 9)	(447)	(161)
– Interest revenue (Note 29)	(4.669)	(1.085)
– Profit on disposal of financial assets (Note 27)	(1.885)	(978)
– Interest expense (Note 29)	20.760	16.423
– Share in losses / (gains) in associates (Note 1)	(890)	(106)
Variations in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Inventories	(16.608)	(19.617)
– Trade and other accounts receivable	(14.058)	(2.557)
– Other financial assets at fair value with changes in results	7.729	2.037
– Trade and other accounts payable	22.091	13.204
Cash from operations	106.432	76.790

In the cash flow statement, revenues from the sale of property, plant and equipment include:

	2005	2004
Carrying value (Note 7)	6.764	9.946
Gain / (loss) on the sale of property, plant and equipment (Note 27)	7.864	(253)
Amount collected on the sale of property, plant and equipment	14.628	9.693

34. Commitments

Fixed asset purchase commitments

Investments for which there is a commitment on the balance sheet dates but which have not yet been made are as follows:

	2005	2004
Property, plant and equipment	18.526	2.694

These investments will be financed through the generation of cash by the business.

35. Business combinations

On 2 December 2005 the Group acquired 100% of the share capital in Jardim Sistemas Automotivos e Industriais, S.A., which engages in the manufacture of metal parts for the automotive industry and is located in Mauá, in the State of São Paulo, Brazil. The business acquired contributed to the Group revenues and profits amounting to €1,489k and €0, respectively, in the period 2 December 2005 to 31 December 2005. Had the acquisition taken place on 1 January 2005, the Group's revenues would have amounted to €8,496k and profits for the period would have amounted to €210k.

The net assets acquired and goodwill break down as follows:

	(*) 2005
Purchase price paid	7.659
Fair value of the net assets acquired	(267)
Goodwill (Note 8)	7.392

(*) Data in Brazilian real converted to euro at the exchange rate on the transaction date (1 December 2005).

Goodwill is attributable to the high future profitability of the business acquired and the major synergies that are expected to arise following the acquisition by the Group.

The assets and liabilities arising on the acquisition are as follows:

	Carrying value of the company acquired (*)
Cash and cash equivalents	458
Fixed assets (Notes 7 and 8)	448
Inventories	1.319
Accounts receivable	2.800
Accounts payable	(1.364)
Borrowings	(3.394)
Net assets acquired	267
Total cash consideration for the acquisition	7.659
Cash and cash equivalents in the subsidiary acquired	(458)
Outflow of cash on the acquisition	7.201

(*) Amounts in Brazilian real converted to euro at the exchange rate on the transaction date (1 December 2005).

The carrying value of the Company acquired is equal to its fair value.

Additionally, the land connected with the company and valued at €1,450k has been purchased from the company's shareholders together with inventories and fixed assets in another Group company, valued at €1,771k.

Moreover, on 1 March 2004 the Group acquired 100% of the share capital of Autometal SBC Injeção, Pintura e Cromação de Plásticos, Ltda., engaged in the manufacture of plastic components for the automotive industry and located in San Bernardo do Campo, the State of São Paulo, Brazil. The business acquired contributed to the Group revenues and losses amounting to €4,081k and €(418)k in the period 1 March 2004 to 31 December 2004. Had the acquisition taken place on 1 January 2004, the Group's revenues would have amounted to €5,084k and the loss for the period would have amounted to €(523)k.
The net assets acquired and goodwill break down as follows:

	(*) 2005
Purchase price paid	675
Carrying value of the net assets acquired	(4.547)
Negative consolidation differences	(3.872)

(*) Data in Brazilian real converted to euro at the exchange rate on the transaction date (1 March 2004).

The negative difference on consolidation is attributable at the lower value of the fixed assets in the acquired company.

The assets and liabilities arising on the acquisition are as follows:

	(*) Fair value	Carrying value of the company acquired (*)
Cash and cash equivalents	113	113
Fixed assets (Note 7)	5.070	8.942
Deferred tax assets	3.912	3.912
Inventories	689	689
Accounts receivable	1.171	1.171
Accounts payable	(1.271)	(1.271)
Borrowings	(2.042)	(2.042)
Provisions	(6.967)	(6.967)
Net assets acquired	675	4.547
Total cash consideration for the acquisition	675	675
Cash and cash equivalents in the subsidiary acquired	(113)	(113)
Outflow of cash on the acquisition	562	562

(*) Amounts in Brazilian real converted to euro at the exchange rate on the transaction date (1 March 2004).

36. Related- party transactions

The Group is controlled by "Instituto Sectorial de Promoción y Gestión de Empresas, S.A." (a company set up in 1995), which directly and indirectly holds 72.739% of the Company's shares (Note 1). The remaining 27.261% of the shares is held by other shareholders none of which holds 10% or more of share capital.

The transactions set out below were carried out with related parties:

a) Remuneration not key management personnel and directors

	2005	2004
Salaries and other short-term remuneration	1.713	1.496

b) Balances at the year end (at present value) deriving from other transactions with related parties

	2005	2004
Accounts receivable from related parties (Note 11)	4.933	3.011

c) Remuneration of parent company directors

The members of the parent company's Board of Directors have not been provided with any guarantees, advance payments or loans and are not the beneficiaries of any pension rights. Total remuneration paid to the entire Board of Directors, consisting of wages, per diems and other remuneration during the year was less than 1.2% of the consolidated profit.

d) Article 127.3, paragraph 4, of the Spanish Companies Act

The members of the Parent Company's Board of Directors are not affected by any of the situations mentioned in that Article.

The individual representing the director "Instituto Sectorial de Promoción y Gestión de Empresas, S.A." is indirectly a shareholder and director of "Corporación Gestamp, S.L." and several companies in which this company has a holding. "Corporación Gestamp, S.L." is the parent of an industrial group that largely carries on operations in the iron and steel market and the manufacture and marketing of parts for the automotive industry and the manufacture, transformation and marketing of metal products. The manufacture and marketing of parts for the automotive industry is carried on through a subgroup of companies, the parent of which is "Gestamp Automoción, S.L.", which is 65.00% owned by "Corporación Gestamp, S.L.". "Corporación Gestamp, S.L." is also a shareholder of "Instituto Sectorial de Promoción y Gestión de Empresas, S.A.".

None of the remaining members of the Board of Directors or the relevant individuals representatives and related persons has an interest in the share capital or holds positions or offices in any company that carries out activities in the automotive parts manufacture industry other than CIE Automotive, S.A.

37. Events after the balance sheet date

Business combinations

On 2 February 2006 the CIE Automotive group has restructured its operations in NAFTA and Central American markets and executed the agreements entered into in 2004 and 2005 for the formation, on a 50/50 basis, with its Mexican shareholder DESC Automotriz, S.A. (a company controlled by DESC, S.A.) of a Joint Venture for the manufacture and marketing of parts multi-technology and / or automotive component groups.

The transaction was arranged through capital increases in order to contribute to the joint venture, CIE DESC Automotive, S.A. de C.V. (Note 1, a company which was set up by both shareholders on a 50/50 basis in December 2004 and which in 2005 has carried out technical-marketing activities for the shareholders in the automotive parts market), all shares in the Mexican company Pintura, Estampado y Montaje S.A. de C.V. (until now owned solely by the DESC group) and all shares in the Mexican company CIE Celaya, S.A. de C.V. (until now owned solely by the CIE Automotive group) and an increase in cash amounting to $20 million.

The equity contributed by the CIE Automotive group which amounted to €25.5 million records the equity value of its subsidiary CIE Celaya, S.A. de C.V. and an amount in cash amounting to €16.5 million.

50% of the new group of companies that the Company has received in exchange presents a consolidated net carrying value of €33.2 million.

The transaction has generated goodwill amounting to approximately €9 million which has been assigned in full as an increase in the value of the assets.

38. Other information

a) Fees of the auditors and companies of the group or related companies

The fees charged by PricewaterhouseCoopers Auditores, S.L. for auditing the annual accounts for 2005 total €597k (€471k in 2004). This amount includes the examination of the annual accounts for individual companies and the consolidated annual accounts for 2005.

Other services rendered by PricewaterhouseCoopers Auditores, S.L. totalled €52k (€47k in 2004).

b) Environmental issues

i) The parent company and subsidiaries have adapted their production facilities to meet the requirements of environmental legislation in the countries in which they are located.
ii) Property, plant and equipment record the investments made in assets intended to minimise environmental impact and to protect and improve the environment. In 2004 and 2005 there has been no major environmental expenditure.
iii) This year no significant environmental expenses have been incurred. The amounts incurred during the year basically relate to waste removal expenses.

The Group's property, plant and equipment include facilities aimed at environmental protection and improvement. The Group also carries out work with own employees and external specialist support, as part of the environmental strategic plan which has been implemented to minimise the environmental risks associated with its operations and improve environmental management. The amounts of both the investments made and the expenses accrued in 2005 in relation to environmental protection and improvement have totalled €0.9 million (€0.7 million and €0.2 million in 2004, respectively) and are recorded under the relevant headings in “Property, plant and equipment” under assets in the accompanying balance sheet and “Other operating expenses ” in the accompanying income statement.

With respect to the rights regulated under the National Assignment Plan (Notes 2.6 and 8), the main aspects connected with the group companies are as follows:

a) Rights assigned

The rights assigned gratuitously during the period in which the plan is in force and the annual assignment are as follows:

	Rights assigned (Tonne.)
2005	80.761
2006	80.761
2007	80.761
Total	**242.283**

b) The estimated consumption of emission rights for the period during which the Plan is in effect is as follows:

	Rights (Tonne.)
2005	75.299
2006	80.761
2007	80.761
Total	**236.821**

c) For 2005 the expenses deriving from the consumption of emission rights, recorded as a balancing entry of the relevant provision (Note 22) amounted to €716k.

d) Group management does not expect any type of penalty or contingency to arise from compliance with the requirements established in Law 1/2005.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

DIRECTORS' REPORT FOR 2005

CHANGES IN THE SCOPE OF CONSOLIDATION

During the second half of 2005 the consolidation scope of the CIE Automotive Group increased owing to the acquisition, through the subsidiary CIE Autometal, S.A., of a new company, Jardim Sistemas Automotivos e Industriais, S.A., with registered office in Mauá - São Paulo - Brazil, which focuses operations on the manufacture of automotive parts.

Similarly, in 2005 the following modifications were made to the shareholding structure of the CIE Automotive Group:

New companies

On 28 December 2005 CIE Kataforesis, s.r.o. was set up with registered office in Valašské Mezirící (Czech Republic), and is wholly owned by the CIE Automotive group through the subsidiary CIE Unitools Press CZ, a.s.

Similarly, on 14 September 2005 CIE Automotive Parts (Shanghai), Co.Ltd. was set up with registered office in Shanghai (P.R. of China)and is wholly owned by the CIE Automotive Group through its subsidiary CIE Bérriz, S.L.

Finally, On 24 June 2005 CIE Metal,CZ, s.r.o. was set up with registered office in Valašské Mezirící (Czech Republic), and is wholly owned by the CIE Automotive group through the subsidiary CIE Berriz, S.L.

Company mergers

On 30 June 2005 Stuka, S.A.U. and Udalbide, S.A.U. agreed to merge through the absorption by the former of the latter. On that same date Stuka, S.A.U. changed its name and adopted the name of CIE Udalbide, S.A., Sociedad Unipersonal. This change was entered in the Mercantile Register of Vizcaya in 2005.

Share capital increases

GSB Galfor, S.A., with head office in San Ciprián de Viñas, Ourense (Spain), carried out two capital increases. The first increase, which was approved in December 2004 and paid in January 2005, was fully subscribed and paid in by the shareholder SODIGA GALICIA, S.C.R., S.A., while the second which was approved on 23 June 2005 was fully subscribed and paid in by CIE Automotive through its subsidiary CIE Azkoitia, S.L. Following both capital increases, the CIE Automotive group's interest in GSB Galfor, S.A. at 31 December 2005 amounted to 92.84%.

COMMERCIAL AND FINANCIAL ACTIVITIES

In 2005, on the basis of the same consolidation scope, CIE Automotive's business grew markedly from aggregate sales of €740.7 million to €878.1 million (€782 million in consolidated sales), which is up 19% on the previous year.

This jump in sales has taken place within a relatively stable scenario in the global automotive market where CIE Automotive is growing its share.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

DIRECTORS' REPORT FOR 2005

It should be noted that the CIE group's development has largely been driven by the robust performance of the companies in Brazil, Czech Republic and México which already account for 20.8% of consolidated turnover (17% in 2004) and which are the basis of CIE Automotive's future growth. Similarly, the new projects in the industrialization and launch stage in which the different companies of the Group are involved help to ensure greater market penetration.

In line with CIE Automotive's internationalisation strategy, in December 2005 the Group increased its presence in Brazil, in which it is already the leading company, through the acquisition of 100% of the capital of Jardim Sistemas Automotivos e Industriais, S.A., and in the Czech Republic, through the formation of CIE Metal CZ, s.r.o. and CIE Kataforesis, s.r.o. In any event, the accounting integration of all these companies does not have a significant effect on the consolidated income statement for 2005.

BUSINESS PERFORMANCE (€'000)	2005	2004	VARIA.	% VAR.
Aggregate turnover	878.134	740.714	137.420	19%
Consolidated turnover	782.035	669.998	112.037	17%
Gross operating results – EBITDA	116.395	91.325	25.070	27%
% EBITDA / consolidated turnover	***14,9%***	***13,6%***	**-**	**-**
Net operating results – EBIT	59.009	42.001	17.008	40%
Results before taxes on-going acti. - EBT	43.020	23.959	19.061	80%
Results after taxes on-going acti.	35.250	19.938	15.312	77%
Results for the year	35.250	19.938	15.312	77%
% results / consolidated turnover	***4,5%***	***3,0%***	**-**	**-**
Results attributable to parent company	35.138	19.803	15.335	77%

Improvement of results: EBITDA 27%, EBIT 40%, Results for the year 77%

In line with the positive tendency in 2004, in 2005 the CIE Automotive Group limited the impact of the rise in raw material prices that had a major adverse impact on the 2004 income statement, and significantly improved its results as compared with the same period in the previous year, largely thanks to the measures implemented to contain and cut costs. This has led to an increase of 27% in EBITDA, 40% in EBIT and 77% in Results for the year at December 2005 as compared with December 2004, confirming the positive tendency in the last few years.

This increase in results has been possible thanks to:

- Operational improvements aimed at increasing productivity and customer satisfaction, based on two basic pillars contained in our Operational Excellence Program AVANZA: on-going innovation in operations management (specific on-going improvement programs have been implemented that are generating positive results and investment in capital equipment to improve quality and economic efficiency).

- Policy of saturating existing production means that involves containing investments.

All of these improvements have also driven an increase in the ratio of profits to consolidated sales compared with the previous year while EBITDA has risen from 13.6% to 14.9% and net profits for the year from 3.0% to 4.5%.

Impact of raw materials

The jump in raw material prices is driving a change in the automotive industry with significant effects in the next few years. In this respect, the need to improve costs in order to maintain competitiveness has increased more than what the industry was already accustomed to.

CIE Automotive is in an excellent position to implement costs improvements because of its diversified geographical presence and proven capacity for operational improvement. This is borne out by the growth in turnover overseas of 43% in 2005 compared with 2004.

INDUSTRIAL ACTIVITY

One of the pillars of CIE Automotive's strategy is the search for excellence in the operations of all Group companies. Industrial Innovation is therefore a necessary condition to drive an improvement in business results.

In 2005 a special effort continued to be made by the CIE Automotive group to extend an Operational Excellence program in all Group companies.

The final objective of this management programme called ***AVANZA*** is to obtain maximum customer satisfaction through product and service quality and economic efficiency that allows the Group to be cost competitive.

Within this context, specific on-going improvement programs have been implemented that are having a positive impact and that position CIE Automotive as a leading company in terms of management. CIE Automotive has implemented on-going improvement activities on a large-scale basis in all CIE Automotive plants worldwide as follows:

- The 5S´s: Structurise, Systemise, Sanitise, Standardise and Self-discipline to improve job posts.
- Production management: based on management autonomy in the various production areas, focused on improving quality, cost and service.
- Management of industrialisation projects: with the objective of improving the management of our key process: industrialisation.
- Improving productivity, efficiency and saturation of production means: Reducing change times (SMED), Maintenance management, (TPM), Improving layout of plants and cells, process automation.

Moreover, increases in production capacity and improvements in certain production facilities in the last few years have fuelled substantial improvements in results.

Action taken outside Spain:

- Acquisition of a light pressing, welding, painting and metal assembly plant in Brazil for chassis, braking and engine products.
- Construction and start-up of the new pressing and mechanization plant in the Czech Republic for chassis and steering products.
- Extension of the new plant in the Czech Republic for the manufacture of rear axles for the entire Opel platform (Astra, Zafira, Meriva), including mechanised, welding, assembly and axle painting technologies.
- Commencement of the construction of a cataphoresis metal component painting plant in the Czech Republic to supply the brake and chassis parts market.
- Creation of a plant in the People's Republic of China devoted to pressing and parts subassembly of parts for the Chinese, Japanese and European markets.
- Formation of a purchases centre in the People's Republic of China in order to supply the necessary raw materials and parts for production processes worldwide.
- Start-up of new plastic and chroming injection facilities for interior and exterior products in Brazil.
- Saturation of new stamping, tube configuration and aluminium injection production installations at the CIE Celaya plant in Mexico, which makes brake, steering and engine parts.

Action taken in Spain:

- Extension and start-up of stamping and assembly facilities for the kinematic manufacture of convertible roofs at the CIE Egaña plant.
- Industrialisation of engine component automatic aluminium and mechanized aluminium injection lines.
- Start-up of the automated engine and steering components line at CIE Mecauto in Vitoria.
- A significant number of production processes have been automated and / or robotized, with major productivity improvements.

HUMAN RESOURCES

The workforce at CIE Automotive Group has been adjusted to production needs and the Group ended 2005 with an average number of 6,525 employees.

The main activities carried out in this area are:

- Prevention of occupational hazards: Occupational safety is a major concern for CIE Automotive. The Group's Prevention Departments continue to carry out activities with the ultimate aim of eradicating occupational accidents and continuously improving working conditions.

In addition to the specific actions that have enabled us to reduce accident rates markedly, we have started up, in collaboration with Osalan, the deployment of a new assessment system through a systematic analysis of all positions, that will help us to detect more accurately all potential risks and their elimination. As support for this tool in SAP, a prevention module has been implemented that will enable the on-going upgrade of our risk assessment system.

- The Competence-based Management Model, which has been extended throughout the group. This takes the form of an upgrade of the Professional Development Program (PDP), on the basis of which career plans are designed and areas for the improvement of managers and collaborators are detected.
- Development of a training plan at group company level, devoting an average of 1.5% of total working hours to training.
- Consolidation of the Management Learning Center, CIE Automotive's corporate training school, where, in addition to the Finance, Quality and Prevention Management Development and Project Management Module, the first Higher Management Course has been launched, which is an authentic post-graduate program tailored to CIE Automotive's reality. The Management Learning Center has reasserted its objective of ensuring that the participants in its various training programs have a common business culture based on values and are committed to CIE Automotive's objectives.
- Consolidation of the program for winning new graduates (Ulysses program) aimed at the hiring of potential future managers with an international vocation.

Undoubtedly the improvement of results in 2005 has been possible thanks to the employees of CIE Automotive.

QUALITY AND ENVIRONMENT

In keeping with our commitment to quality, prevention and the environment, the following activities were carried out in 2005:

With respect to quality and on the basis of our management model, the relevant review was performed under ISO/TS 16949 ed standards: 2002, with the collaboration of Lloyd's Register.

On CIE's intranet and as support for our management model, a document manager has been implemented. This manager enables those procedures and instructions needed for the performance of our activity to be simply and efficiently deployed.

With respect to the environment, we have obtained certifications for the plants of CIE Gameko, CIE Plasty and CIE Norma, 80% of our plants having obtained that certification.

R&D ACTIVITIES

During the year the Group continued to deploy its R&D plan while the projects started up in previous years were completed. Similarly, new projects were launched, giving rise to R&D activities in the following areas:

1. Ensuring that current processes are leveraged to the extent possible, improving material processes and sub-processes connected with CIE Automotive technologies.

2. Offer innovative and greater value solutions in the products defined in the plan as strategic and further consolidating the advantage of offering solutions not confined to a single process.

3. Position CIE Automotive as a leading organisation in processes and emerging technologies.

4. Turnver turn threats to new propulsion systems and new market situations into business opportunities, leveraging internal strengths.

In 2005 we have positioned ourselves in the different groups that lead the commitment to regional innovation through specialisation in defining regional R&D agendas and, on a European level, with active participation in the platforms formed under the 7th European framework program for materials, manufacture and road transport. Particularly noteworthy are our research, development and innovation efforts which have focused on both the materials environment (steel, new aluminium alloys, reinforced plastics etc) and products (alternative material components, component multi-functionality etc.) and processes (automation, selective laser repairs, artificial vision etc.)

ECONOMIC AND FINANCIAL RISK MANAGEMENT

The CIE Automotive group's management of the economic-financial risks that it faces aims to control:

- The incidents generated by exchange and interest rate variations.
- The maintenance of cash and availability of financing.
- Customer credit.

Such risk management is extensively discussed in note 3 to the accompanying accounts.

ACQUISITION OF TREASURY SHARES

At 31 December 2004 CIE Automotive, S.A. held 68,989 treasury shares. In 2005 the Company purchased 201,214 shares for €2,554,426.93 and sold 218,528 shares for €3,076,703.61 obtaining a capital gain on the sale of €487,145.81, of which €176,408.91 has been recorded for accounting purposes as a profit for 2005 and the remainder, €310,736.90, as deferred income that will be released to income over the next 8 years. Conversely, in 2005 deferred income obtained in respect of this item in 2004 was taken to income in an amount of €120,455.88. Treasury shares of CIE Automotive, S.A. at the 2005 year end recorded a balance of 51,675 shares, representing 0.227% of share capital, recorded at a cost of €692,709.78 and with a share price at 31 December 2005 of €857,805.00.

Similarly, the mandate conferred by the General Shareholders' Meeting of 12 May 2005 is in effect until 12 November 2006, whereby the Company's Board of Directors is empowered to buy at any time and as often as is considered appropriate shares in CIE Automotive, S.A., through any legal means, including profits for the year and / or freely available reserves, and to subsequently dispose of or redeem such shares, in accordance with Article 75 et seq. of the Spanish Companies Act.

EVENTS AFTER THE BALANCE SHEET DATE

On 2 February 2006 the CIE Automotive group restructured its operations in NAFTA and Central American markets and executed the agreements entered into in 2004 and 2005 for the formation on a 50/50 basis with its Mexican shareholder DESC Automotriz, S.A. (a company controlled by DESC, S.A.) of a Joint Venture for the manufacture and marketing of parts multi- technology and / or automotive component groups.

The transaction was arranged through capital increases in order to contribute to the joint venture, CIE DESC Automotive, S.A. de C.V. , a company which was set up by both shareholders on a 50/50 basis in December 2004 and which in 2005 has carried out technical-marketing activities for the shareholders in the automotive parts market), all shares in the Mexican company Pintura, Estampado y Montaje S.A. de C.V. (until now owned solely by the DESC group) and all shares in the Mexican company CIE Celaya, S.A. de C.V. (until now owned solely by the CIE Automotive group) and an increase in cash amounting to $20 million.

ANNUAL REPORT ON THE AUDIT AND COMPLIANCE COMMITTEE'S ACTIONS FOR 2004

In accordance with the provisions of Article 31 bis of the Company's bylaws (included in accordance with the amendment to the bylaws approved by the General Shareholders' Meeting of 24 June 2003), the Company's Board of Directors relies on the Audit and Compliance Committee (with respect to the functions set out in Article 31 bis of the Company's bylaws and Article 3 of the Regulations on the Audit and Compliance Committee). This Committee has been arranged to serve the Board of Directors.

Accordingly, the Board of Directors of CIE Automotive, S.A. approved the Regulations of the Audit and Compliance Committee and designated its members in the meeting of 24 June 2003.

The Audit and Compliance Committee has met on 5 occasions during 2005 and on one occasion in 2006 (22 February 2006) before the preparation of the annual accounts for 2005.

During the year the Audit and Compliance Committee's mainly focused, without prejudice to its ordinary activities, on the follow-up of the internal control plan started up by the Company late 2003 and the verification of the implementation of the recommendations concerning the processes analysed in 2003 and 2004.

The Audit and Compliance Committee has carried out all its functions and during the meetings held this year addressed the issues set out below. The table sets out the articles of the Audit and Compliance Committee's Regulations which contain the functions performed by it:

Issues (Committee's functions)	Art.	Dates of meetings				
Preparation of annual accounts	3(vi)	21/02/2005	22/02/2006			
Corporate Governance annual report	3(x)	21/02/2005	22/02/2006			
Operations Committee Report	3(ix)	21/02/2005	22/02/2006			
Internal risk control plan	3(iv)	21/02/2005	26/04/2005	26/07/2005	25/10/2005	20/12/2005
Control and internal conduct monitoring	3(vii)	21/02/2005	22/02/2006			
Conflicts of interests	3(viii)	21/02/2005	22/02/2006			
IPP Markets	3(vi)	21/02/2005	26/04/2005	26/07/2005	25/10/2005	22/02/2006
Audit of accounts	3(v)	21/02/2005	20/12/2005	22/02/2006		

As may be observed, the Audit and Compliance Committee's main actions in relation to the year ended 31 December 2005 were as follows:

(a) Analysis of Regular Public Reporting, prior to its sending to the National Securities Market Commission and the governing companies of the Bilbao and Madrid Stock Exchanges for the second half of 2004 (meeting of 21 February 2005), first quarter of 2005 (26 April 2005), first half of 2005 (26 July 2006), and third quarter of 2005 (25 October 2005).

Following the analysis performed, and in all instances, the Audit and Compliance Committee approved the mandatory report relating to Regular Public Reporting which was at all times submitted to the Board of Directors together with the aforementioned information for approval and reporting to the Stock Markets.

On 22 February 2006 the Committee similarly analysed the information for the second half of 2005.

(b) Analysis of the annual accounts (balance sheet, income statement and notes) and Directors' report of CIE Automotive, S.A. and its consolidated group for the year ended 31 December 2004 (meeting of 21 February 2005), and the proposed distribution of results.

Following the analysis performed, the Audit and Compliance Committee approved the mandatory report relating to said annual accounts (balance sheet, income statement and notes) and Directors' Report which was submitted to the Board of Directors prior to their preparation.

During their first meeting of 2006 the Commission analysed the annual accounts for the year ended 31 December 2005 and issued the mandatory report on them.

(c) Follow-up of external audit procedures: Meetings have been held with the external auditors of CIE Automotive, S.A. and subsidiaries in order to cover the planning and analysis of procedures and results (both preliminary and definitive) of the external audit for the year ended 31 December 2004, and the planning and analysis of the procedure and preliminary results of the external audit for the year ended 31 December 2005. Similarly, the Audit and Compliance Committee has reviewed the external auditor's recommendations in relation to the accounting issues and situation of the financial reporting and management systems and procedures in each company of the CIE Automotive group.

Similarly, external auditors have been designated in various subsidiaries, their fees approved and their independence safeguarded.

(d) Analysis and follow-up of the internal audit processes through the supervision of the multiyear internal control plan prepared by the Company (the "Multi-year Internal Control Plan") and its inclusion in the specific internal control plan for 2005, which was implemented in its entirety during the year.

In this respect, the Audit and Compliance Committee has verified the implementation of the recommendations deriving from the Multiyear Internal Control Plan indicated in 2003 and 2004 and has developed a plan to visit different production facilities of the CIE Automotive Group in order to complete the relevant checks.

During their meeting of 20 December 2005 the Audit and Compliance Committee supervised the specific work plan for 2006 proposed by the Company and asked the Company to prepare a working document in the form of an open proposal concerning the methodological approach under the Internal Control Plan which should be completed in the first quarter of 2006.

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED DIRECTORS' REPORT FOR 2005

In compliance with the provisions of Article 171.1 of the current Spanish Companies Act ("Ley de Sociedades Anónimas"), the Directors forming part of the Board of Directors of CIE AUTOMOTIVE, S.A. and SUBSIDIARIES have prepared the consolidated annual accounts and the consolidated Directors' Report for CIE AUTOMOTIVE, S.A. and SUBSIDIARIES for 2005, consisting of and identified as follows:

- The content of the commentaries which is printed on government fiscal paper, class 8, numbers OH2412832 and OH2412833.
- The Balance sheet which is printed on government fiscal paper, class 8, numbers OH2412834 and OH2412835.
- The income statement which is printed on government fiscal paper, Class 8, number OH2412836.
- The Statement of Changes in Equity which is printed on government fiscal paper, Class 8, numbers OH2412837 and OH2412838.
- The Cash flow statement which is printed on government fiscal paper, Class 8, number 0H2412839.
- The notes to the annual accounts which are printed on government fiscal paper, class 8, numbers OH2412840 to OH2412906.
- The Directors' Report which is printed on government fiscal paper, class 8, numbers 0H2412907 to 0H241915.
- In compliance with the provisions of Article 171.2, the Directors declare that they have signed each of the above-mentioned sheets and signed these sheets of government fiscal paper, class 8, numbers OH2412916 and OH2412917.

In Bilbao, on 23 February 2006

SIGNATORIES:

Mr. Antonio María Pradera Jáuregui *(Chairman)* ____________________________

ELIDOZA PROMOCIÓN DE EMPRESAS, S.L., represented by
Ms Goizalde Egaña Garitagoitia ***(Deputy Chairman)*** ____________________________

Mr Ignacio Martín San Vicente
(Managing Director) ____________________________

Mr Fermín del Río Sanz de Acedo
(Director) ____________________________

GLOBAL DOMINION ACEESS, S.A., represented by Mr
Pedro del Corro García-Lomas ***(Director)*** ____________________________

CIE AUTOMOTIVE, S.A. AND SUBSIDIARIES

PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED DIRECTORS' REPORT FOR 2005

IBERSUIZAS PARTICIPADAS, S.A., represented by
Mr Juan Luis Ramírez Belaustegui ***(Director)*** __________________________

INSTITUTO SECTORIAL DE PROMOCIÓN Y GESTIÓN DE
EMPRESAS, S.A., represented by
Mr Francisco José Riberas Mera ***(Director)*** __________________________

POOLBACK, S.A., represented by
Mr Miguel Angel Planas Segurado ***(Director)*** __________________________

QMC DIRECTORSHIPS, S.L., represented by
Mr Jacobo Llanza Figueroa ***(Director)*** __________________________

SALTEC, S.L., represented by
Mr Roberto José Alonso Ruiz ***(Director)*** __________________________

SALTEC, S.L. PARTICIPADAS, S.L, represented by
Mr Bernardino Díaz-Andreu García ***(Director)*** __________________________