2017 FINANCIAL REPORT

LINK SOLUTIONS FOR INDUSTRY

lisi

SUMMARY

1

GENERAL INFORMATION REGARDING THE COMPANY

1 | NAME AND TITLE OF THE PERSON IN CHARGE OF THE ANNUAL REPORT AND STATUTORY AUDITORS

1.1 | NAME AND TITLE OF THE PERSON IN CHARGE OF THE ANNUAL REPORT

Mr. Emmanuel VIELLARD
CEO

1.2 | STATEMENT BY THE PERSON IN CHARGE OF THE ANNUAL REPORT

"I certify, after taking all reasonable measures to that end, that the information contained in this annual report is, to my knowledge, consistent with reality, and includes no omissions likely to alter its meaning or interpretation.

I certify that, to the best of my knowledge, the accounts have been drawn up in accordance with the relevant accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the companies included therein taken as a whole, and the management report in chapter 2 gives a true and fair view of the development of business, the profit or loss of the companies included therein taken as a whole together with a description of the principal risks and uncertainties that it faces. I have secured from our auditors, Ernst & Young et Autres and EXCO et Associés, a completion letter stating that they have verified the information regarding the financial situation and the financial statements provided in the annual report, and that they have read the entire annual report."

Paris, March 28, 2018
Emmanuel VIELLARD
CEO

1.3 | STATUTORY AUDITORS

Regular auditors:

EXCO et Associés, represented by Philippe AUCHET
42 Avenue de la Grande Armée – 75017 PARIS
Appointed April 25, 2017. Mandate to expire during the Ordinary General Meeting ruling on the financial statements for financial year ending December 31, 2022.

Cabinet Ernst & Young et autres, represented by Pierre JOUANNE
Tour First
1, Place des Saisons
TSA 14444
92037 PARIS LA DÉFENSE Cedex
Appointed April 27, 2017. Mandate to expire during the Ordinary General Meeting ruling on the financial statements for financial year ending December 31, 2022

2 | INFORMATION POLICY

2.1 | PERSON IN CHARGE OF THE FINANCIAL INFORMATION

Mr. Emmanuel Viellard
LISI
6 rue Juvénal Viellard
CS 70431 GRANDVILLARS
90008 BELFORT Cedex
Tel.: + 33 (0)3 84 57 00 77/Fax: + 33 (0)3 84 57 02 00
Website: www.lisi-group.com
Email: emmanuel.viellard@lisi-group.com

2.2 | DOCUMENTATION

- Annual report in French and English (paper version)
- Press release

All documents are made available to the shareholders. A copy of these may be requested from the company's registered offices (at the above address) or found on the company's website. Annual reports and quarterly updates, as well as all regulatory information are available to download from the website.

3 | FUNCTIONAL ORGANIZATION CHART

LISI

LISI AEROSPACE

- **Fasteners**
  - **Europe**
    - **Airframe**
      Bangalore (India)*
      Rugby (GB)
      Saint-Ouen-l'Aumône
      Tangiers (Morocco)
      Vignoux-sur-Barangeon
    - **Engines & Critical Parts**
      Izmir (Turkey)
      Saint-Brieuc
      Villefranche-de-Rouergue
  - **USA**
    - **Airframe**
      Torrance (USA)
    - **Engines & Critical Parts**
      Dorval (Canada)
  - **Specialty fasteners**
    City of Industry (USA)
- **Structural components**
  - **Engineered components**
    Marmande
    Sedziszow Malopolski (Poland)
  - **Aerostructure & Aircraft equipment**
    Argenton-sur-Creuse
    Casablanca (Morocco)
  - **Forging**
    Bar-sur-Aube
    Bologne
    Chihuahua (Mexico)*
    Parthenay
  - **Additive manufacturing**
    Ayguemorte-les-Graves
  - **Equipment**
    La Bourdine

LISI MEDICAL

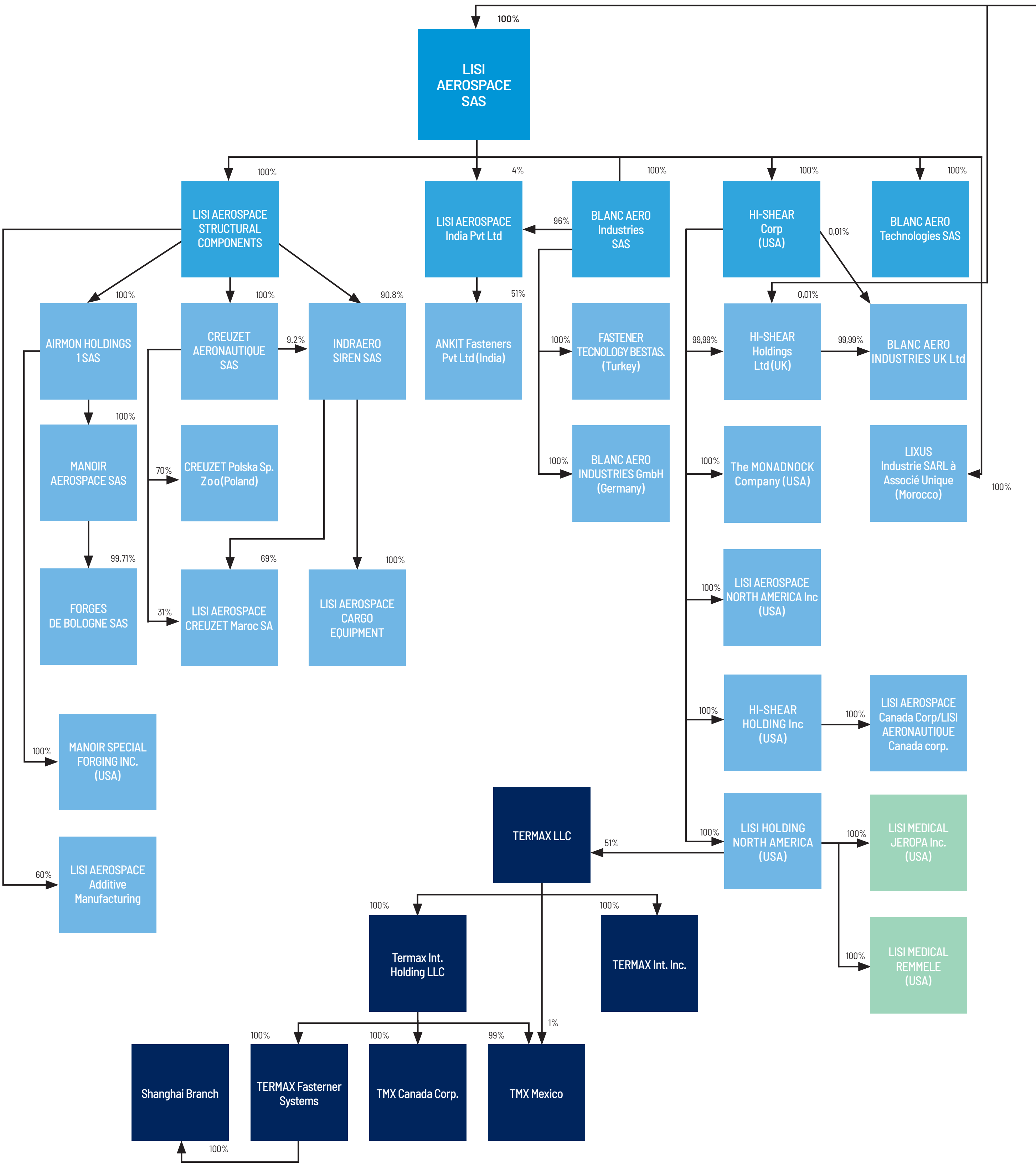
- **Medical Europe**
  Hérouville-Saint-Clair
  Neyron
- **Medical USA**
  Big Lake
  Coon Rapids
  Escondido

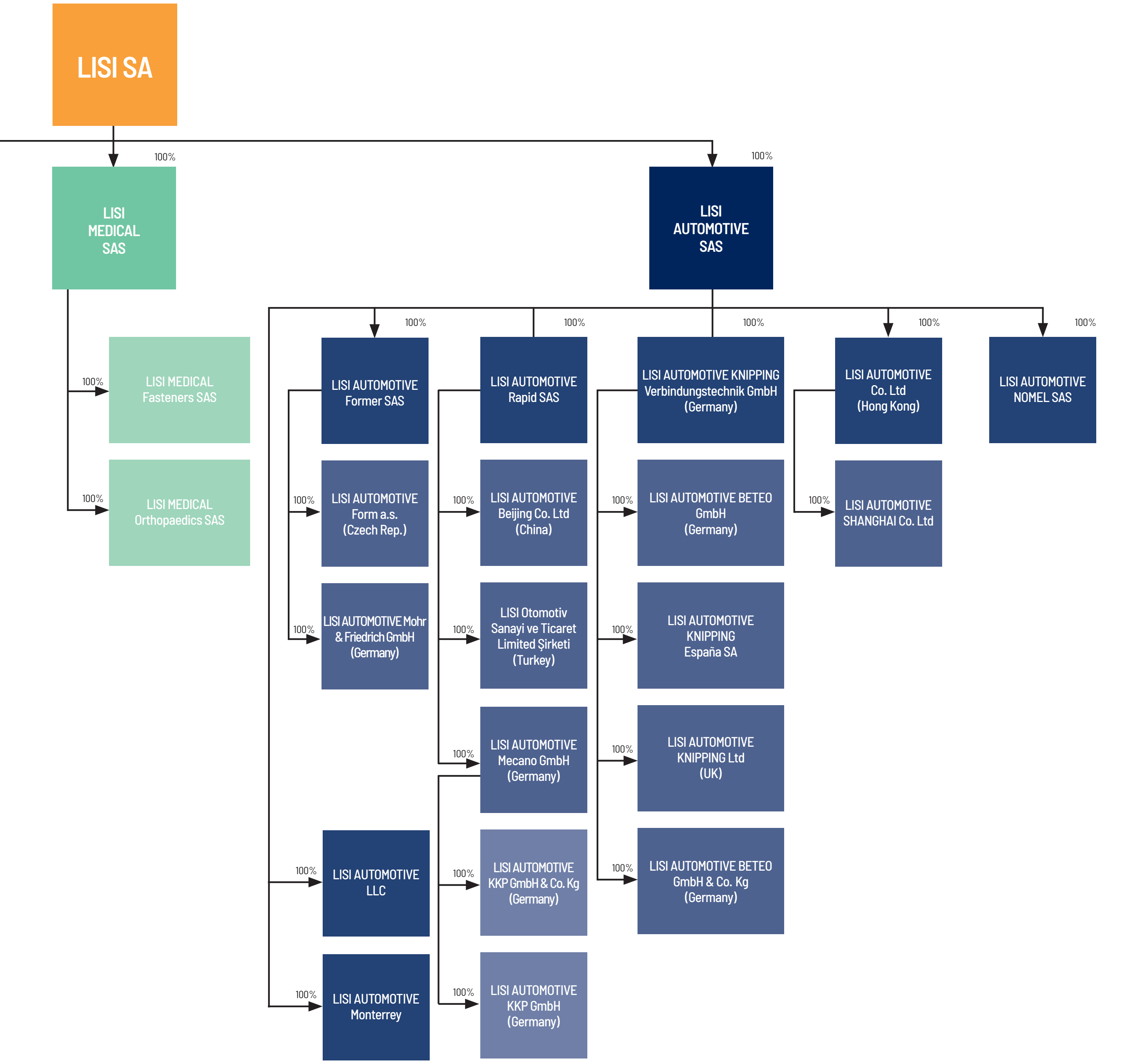
LISI AUTOMOTIVE

- **Threaded fasteners**
  Dasle
  Delle
  Dreux
  Fuenlabrada (Spain)
  Gummersbach (Germany)
  Kierspe (Germany)
  La Ferté Fresnel
  Saint-Florent
  Vöhrenbach (Germany)
- **Clipped solutions**
  Heidelberg (Germany)
  Mellrichstadt (Germany)
  Beijing (China)
  Puiseux
  Monterrey (Mexico)
  Laredo, Texas (USA)
  Lake Zurich (USA)
  Quereittaro (Mexico)
  Suzhou (China)
- **Safety and Mechanical Components**
  Cejc (Czech Rep.)
  Melisey
  Shanghai (China)
- **Support activities**
  Grandvillars
  Lure

* Secondary sites.

4 | LEGAL ORGANIZATION CHART

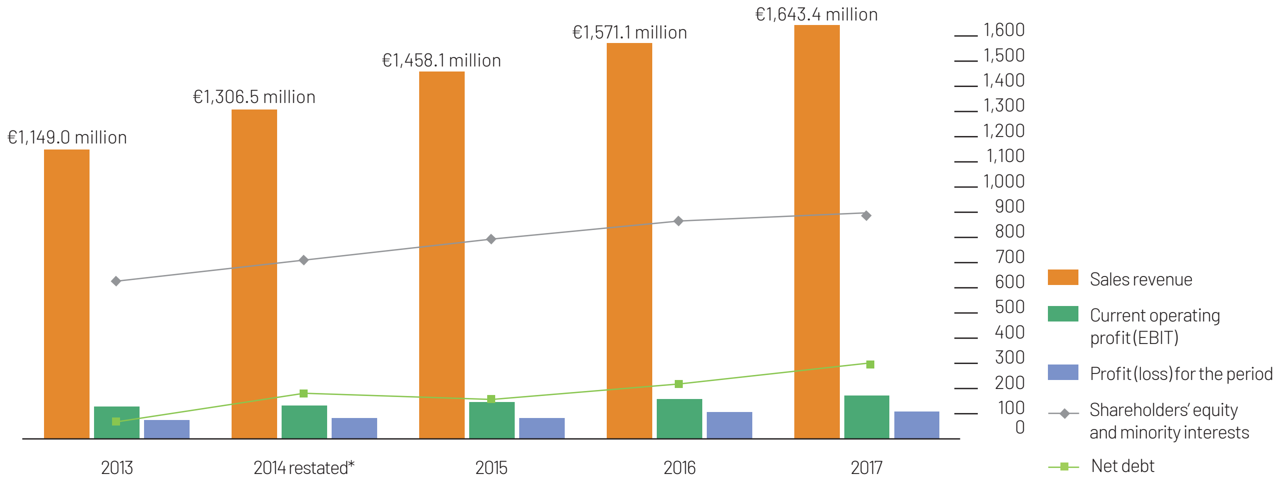



LISI SA
100%
LISI MEDICAL SAS
100%
LISI AUTOMOTIVE SAS
100%
LISI MEDICAL Fasteners SAS
100%
LISI MEDICAL Orthopaedics SAS
100%
LISI AUTOMOTIVE Former SAS
100%
LISI AUTOMOTIVE Rapid SAS
100%
LISI AUTOMOTIVE KNIPPING Verbindungstechnik GmbH (Germany)
100%
LISI AUTOMOTIVE Co. Ltd (Hong Kong)
100%
LISI AUTOMOTIVE NOMEL SAS
100%
LISI AUTOMOTIVE Form a.s. (Czech Rep.)
100%
LISI AUTOMOTIVE Mohr & Friedrich GmbH (Germany)
100%
LISI AUTOMOTIVE Beijing Co. Ltd (China)
100%
LISI Otomotiv Sanayi ve Ticaret Limited Şirketi (Turkey)
100%
LISI AUTOMOTIVE Mecano GmbH (Germany)
100%
LISI AUTOMOTIVE KKP GmbH & Co. Kg (Germany)
100%
LISI AUTOMOTIVE KKP GmbH (Germany)
100%
LISI AUTOMOTIVE BETEO GmbH (Germany)
100%
LISI AUTOMOTIVE KNIPPING España SA
100%
LISI AUTOMOTIVE KNIPPING Ltd (UK)
100%
LISI AUTOMOTIVE BETEO GmbH & Co. Kg (Germany)
100%
LISI AUTOMOTIVE SHANGHAI Co. Ltd
100%
LISI AUTOMOTIVE LLC
100%
LISI AUTOMOTIVE Monterrey

5 | KEY FIGURES

(in millions of euros)	2017	2016	2015	2014 restated*	2013
Sales revenue	1,643.4	1,571.1	1,458.1	1,306.5	1,149.0
Current operating profit (EBIT)	171.4	157.5	146.5	131.8	128.9
Profit (loss) for the period	108.0	107.0	81.9	81.6	74.6
Shareholders' equity and minority interests	897.7	865.2	793.4	710.0	626.4
Net debt	300.2	218.2	156.6	181.2	67.8

* 2014 financial statements restated to account for IFRIC 21.

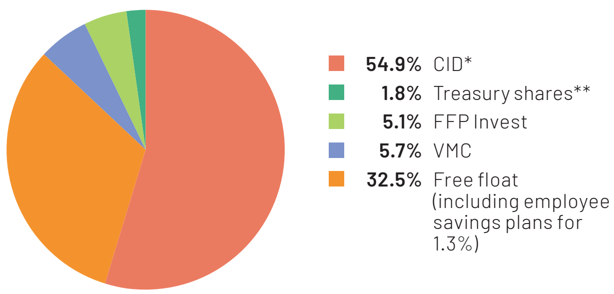


6 | INFORMATION ABOUT THE ISSUER

6.1 | BREAKDOWN OF SHARE CAPITAL

LISI share datasheet

ISIN code: FR 0000050353
Reuters code: GFII.PA
Bloomberg: FII.FP
Compartment: A Eurolist
Stock marketplace: Euronext Paris
Number of shares: 54,023,875
Market capitalization at December 31, 2017: €2,166.4 million
Indices: CAC® AERO&DEF., CAC® All Shares, CAC® Industrials



* Including direct and indirect holdings:
VMC: 20.94%
FFP Invest: 18.94%
CIKO: 16.64%
** Reserved for performance share plans

LIQUIDITY OF THE SHARE

Float capital turnover rate: 42%

Number of shares traded per day on average in 2017: 27,106

Month	Closing price	Highest price	Lowest price	Session average	Transaction volumes	Securities traded during the month
2015						
January	22.00	23.46	20.50	21.98	6,702	304,334
February	27.75	27.77	21.85	24.81	15,372	637,910
March	25.30	27.90	24.65	26.28	9,255	354,366
April	27.49	29.30	25.20	27.25	10,242	371,959
May	27.25	28.55	27.00	27.77	4,641	168,595
June	25.21	27.60	25.20	26.40	6,086	227,766
July	24.60	26.50	23.05	24.78	8,112	324,183
August	25.80	26.97	23.11	25.04	5,164	205,896
September	24.22	26.09	23.74	24.91	6,459	262,289
October	22.20	25.00	21.71	23.36	9,047	388,459
November	25.30	25.30	22.20	23.75	11,164	480,421
December	24.95	25.46	23.30	24.38	5,170	210,567
2016						
January	22.62	25.01	21.50	23.25	3,774	159,863
February	21.21	22.87	19.04	20.96	4,954	237,006
March	23.10	23.50	21.40	22.45	3,204	141,342
April	24.99	25.20	23.00	24.10	3,127	128,180
May	24.95	25.39	23.56	24.47	4,284	174,974
June	22.85	25.00	22.00	23.50	3,878	165,133
July	24.30	24.67	21.40	23.04	4,046	180,532
August	24.50	25.23	24.10	24.67	4,526	183,902
September	24.63	25.08	22.90	23.99	17,102	717,525
October	26.97	27.77	24.62	26.20	9,591	365,158
November	28.36	29.47	26.15	27.81	12,359	436,000
December	30.65	31.30	27.90	29.60	7,799	266,787
2017						
January	33.51	34.00	30.56	32.28	17,631	543,201
February	34.50	36.50	33.25	34.88	21,267	612,710
March	33.90	34.81	32.10	33.46	15,226	456,318
April	36.00	36.30	31.03	33.66	18,451	555,536
May	39.08	40.00	34.92	37.46	19,363	524,822
June	41.71	42.20	37.95	40.08	23,516	587,510
July	40.73	42.30	39.78	41.04	14,822	362,614
August	36.94	41.04	36.70	38.87	18,259	474,025
September	44.34	44.72	36.65	40.68	28,392	700,108
October	39.40	47.58	37.76	42.67	37,490	879,513
November	38.90	40.45	35.08	37.76	24,099	636,938
December	40.10	41.66	38.16	39.91	23,025	578,696
2018						
January	38.80	41.75	37.25	39.50	23,222	579,860
February	36.50	39.45	34.65	37.05	27,925	766,576

Market Maker's Contract

The market-making contract complies with the ethical charter of the AFEI and is carried out by:

ODDO FINANCE CORPORATE
Mr. Eric Bigotteau
Email: ebigotteau@oddo.fr
Tel.: + 33 (0)1 40 17 52 89

6.2 | HISTORY

1777

Frédéric Japy sets up a watch movement factory in Beaucourt, near Montbéliard.

1796

Some years later MIGEON & DOMINE is founded in Morvillars in the Belfort region, later to become VIELLARD MIGEON et Compagnie (VMC). Initially a specialist in the manufacture of wires, the company rapidly integrates processing activities.

1806

JAPY Frères and VIELLARD & MIGEON decide to join forces to launch the industrial manufacture of forged wood screws in France.

1897–99

Foundng in Champagney (Haute-Saône) by the Bohly de la Boulonnerie family; then the Société Industrielle de Delle is founded by the DUBAIL-KOHLER family in the town of Delle, Belfort. The company quickly begins to specialize in the manufacture of machine-turned screws.

1968

The family-run businesses (BOHLY, DUBAIL-KOHLER and VIELLARD) merge to form a company called GFD, thus becoming France's foremost manufacturer of standard and automotive nuts and bolts.

1977

GFD acquires BLANC AERO, which specializes in aerospace parts and in packaging components for the Perfumery sector. This new group is named GFI.
This transaction was made possible thanks to purchase by the Peugeot family of a stake of CID (Compagnie Industrielle de Delle), the controlling shareholder of LISI. Over 40 years later, these three families (KOHLER, PEUGEOT and VIELLARD) are still the Group's key shareholders.

1989

GFI is floated on the Paris Stock Exchange's over-the-counter market and becomes GFI Industries.

1990 / 2000

Throughout the 1990s, GFI Industries continues to strengthen its positions in its various sectors by acquiring over 15 companies throughout Europe and the US.

2002

To better delineate its specialist areas, GFI Industries became LISI, (LInk Solutions for Industry); its three divisions use the same name, adding their core business suffix: LISI AEROSPACE, LISI AUTOMOTIVE and LISI COSMETICS.
The strategy of focusing on Core Business continues:
- sale of non-strategic business lines (GFD, Ars Industries and the production unit at Aillevilliers);
- acquisition of California's MONADNOCK (LISI AEROSPACE).

2004

Acquisition of FORM a.s. in the Czech Republic (LISI AUTOMOTIVE).

2005

Acquisition of KNIPPING in Germany (LISI AUTOMOTIVE). Opening of a factory in Canada (LISI AEROSPACE).
Sale of GRADEL (LISI AUTOMOTIVE).

2007

Sale of the distribution company Eurofast to ANIXTER France (LISI AEROSPACE).
LISI AUTOMOTIVE sells its site at Monistrol-sur-Loire to the PRECITURN group.
Creation of the LISI MEDICAL subdivision, following acquisition of:
- HUGUENY (Lyon), specializing in spinal implants;
- JEROPA (Escondido-USA), specializing in dental implants;
- SEIGNOL and INTERMED Application (Neyron – France) and LIXUS (Tangiers – Morocco), specializing in subcontracting of dental and orthopedic implants.

2008

LISI AUTOMOTIVE grows its presence in China with the creation of a second production site in Shanghai, dedicated to the manufacture of threaded fasteners for automobiles.

2009

On April 1, 2009, the Group sold SDU, a subsidiary of the KNIPPING group, specialized in the distribution of technical products for mines and industry in Germany and Poland.

2010

The Group returned to external growth with two major acquisitions:
- acquisition by LISI AUTOMOTIVE of two French sites from the American group, Acument Global Technologies, specializing in the manufacture of fasteners for the automotive industry;
- purchase by LISI MEDICAL of a site producing hip replacements from the American group, STRYKER Corporation, a leading global provider of medical technologies.

2011

The Group continues the movement to strengthen and build its position in strategic markets started in 2010. The year 2011 was marked by the following transactions:

- LISI COSMETICS was deconsolidated on January 1, 2011 following the sale completed as at April 6, 2011;
- the Creuzet group was purchased and consolidated as of July 1, 2011.

2012

On May 29, LISI AUTOMOTIVE sold its subsidiary KNIPPING UMFORMTECHNIK Gmbh to Gris Invest SAS.
Merger of Indraero Morocco and Creuzet Morocco.

2014

Mainly specializing in the forging of metal parts for aerospace applications, the MANOIR AEROSPACE group has been consolidated since June 5, 2014 into LISI AEROSPACE with the aim of strengthening the Structural Components arm with the integration of complementary technologies.
To a lesser extent, one should note in June 2014, the acquisition of 100% of the control LISI AUTOMOTIVE Shanghai, of which a Chinese partner held 25% previously.

2015

At its meeting on October 21, 2015, the Board of Directors voted to adopt a new structure for its governing bodies that separates the positions of Chairman of the Board of Directors and CEO. Thus, as from March 1, 2016:

- Mr. Gilles Kohler, previously the Chairman and CEO of the company, remains the non-executive Chairman of the Board of Directors. Mr. Emmanuel Viellard, previously Deputy Chairman & CEO, is now in charge of the Group's senior management.
- On December 17, 2015, the LISI Group signed an agreement with POLY-SHAPE to create a joint subsidiary, LISI AEROSPACE ADDITIVE MANUFACTURING, of which 60% will be held by LISI AEROSPACE and 40% will be held by POLY-SHAPE. This company combines the exclusive know-how of the two partners in order to establish a leader in the design and manufacture of mechanical parts for aeronautic and space applications using 3D printing.

2016

On April 11, 2016, the LISI Group acquired 100% of the Remmele Medical Operations securities. This company was acquired by Hi-Shear Corporation, a wholly owned subsidiary of LISI AEROSPACE.

During financial year 2016, the Group increased its equity interests in its subsidiary ANKIT Fasteners Pvt Ltd, enabling it to hold 51% of the share capital.

2017

On October 31, 2017 the LISI Group bought 51% of the shares of TERMAX. This company was acquired by LISI Holding North America, a wholly owned subsidiary of the LISI Group. LISI Holding North America promised to repurchase the remaining 49% of the shares by March 31, 2021.

6.3 | COMPANY NAME – HEAD OFFICE AND LEGISLATION

Company name and head office

LISI S.A. – 6 rue Juvénal Viellard – CS70431 GRANDVILLARS
- 90008 BELFORT Cedex

Legal form of the issuer and applicable legislation

"Société Anonyme" (public limited company) governed by French legislation.

Place and number of registration

- R.C.S.: BELFORT 536 820 269
- NAF Code: 7010 Z

6.4 | INCORPORATION AND TERM – ARTICLES OF ASSOCIATION

Incorporation and term

The company was set up on July 5, 1968. Its term expires on July 4, 2067, excepting early dissolution or renewal.

Purpose

According to article 2 of the by-laws, the company's purpose is:

- the acquisition of equity interests in all types of companies, including commercial, manufacturing, financial, securities and property development companies;
- the manufacture, purchase and sale of all items, especially those relating to screws, nuts and bolts, forging, lathing and machine tooling and building;
- where necessary, all transactions relating to the machine industry and sale of related products;
- the direct or indirect participation in all transactions or business matters that could have an impact on said business purpose or which could help further the interests of the corporation, by any means, including the creation of new companies, subscription contribution, the purchase of shares and rights, etc.;
- and more generally, all commercial, securities and real estate transactions, be they directly or indirectly related to the business purpose or likely to facilitate its expansion or growth.

Financial Year

The company's accounting period begins on January 1 and ends on December 31 of each year.

Specific statutory clauses

Article 17 – Distribution of earnings

- Out of the distributable profit, all amounts the Shareholders' General Meeting shall decide to carry forward to the next year or allocate to the creation of extraordinary, contingency, or other funds, with or without a special allocation. The remainder is distributed between the shareholders, in proportion to the share capital held.
- Each shareholder may be granted the option of receiving payment in cash or in shares under the terms provided for by law, for all or part of the dividend or the advance on the dividend distributed.

Article 15-1 to 15-5 – Shareholders' General Meetings

- Shareholders' General Meetings are held and deliberate in accordance with the applicable legal provisions. They meet at the head office or at any other location specified in the meeting notice.
- The Shareholders' General Meeting is composed of all the shareholders, regardless of the number of shares they own, provided that the shares are fully paid-up. The right to attend in person or to be represented by proxy is subject:
  1. for registered shareholders, to the registration of their shares in a pure or administered personal account at least five days before the date of the Meeting;
  2. for holders of bearer shares, if any exist, to the submission within the same period of time, of a certificate established by the authorized proxy acknowledging the unavailability of the shares registered in the account until the date of the Meeting.

  However, the Board of Directors may, as a general rule, reduce or waive this time period.
- The Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by the oldest Deputy Chairman, or in the absence of a Deputy Chairman, by the most senior director present at the Meeting. Failing this, the Meeting will elect its Chairman.
- Barring any legal or regulatory measures to the contrary, each member of the Shareholders' General Meeting is entitled to as many share votes as he owns or represents, both in his own name and as a proxy, without limitation. However, certain shares have double the voting rights of other shares in view of the proportion of share capital they represent, namely:
  1. all fully paid-up shares registered in the name of the same shareholder for at least four (4) years;
  2. all shares allocated free of charge to shareholders as part of a capital increase carried out through the incorporation of reserves, profits or issue premiums, up to the number of existing shares for which they are entitled to such double voting rights.

  Double-voting rights cease to apply once the shares change hands. However, the aforementioned time period is not interrupted and double voting rights still apply in the event that transfers occur as a result of inheritance, liquidation of community property between spouses or donations inter vivos to a partner or family relation who is entitled to inheritance rights.
- In the event that shareholders vote by proxy, only those proxy votes that have arrived at the company at least three days prior to the date of the Shareholders' General Meeting will be counted.

  Moreover, the attendance of a shareholder at the Shareholders' General Meeting shall consequently render null and void the postal vote and/or the form of proxy which said shareholder may have, where appropriate, sent to the company; the shareholder's presence shall override any other form of participation which he may have previously chosen. If the shareholder is not present at the meeting, his power of attorney is only taken into consideration with respect to the votes cast in his proxy voting form, if one has been submitted.

Article 9 – Disclosure requirements

- Shares are freely tradable in the absence of any legal or regulatory provisions to the contrary.
- Shares are delivered by transfer from one account to another pursuant to the terms and conditions set forth by regulations.
- The company's shares are indivisible.
- If a specific quantity of existing shares is required for a shareholder to exercise rights, or if existing shares are exchanged or issued which grant the right to a new share in return for the redemption of several existing shares, any odd-lot shares or shares that fall short of the minimum number required will not provide shareholders with rights vis-à-vis the company, as it is up to the shareholders to gather the required number of shares and, if possible, to buy or sell the required number of shares.
- Without prejudice to the provisions of Article 356-1 of Law No. 66-537 of July 24, 1966, any person who directly or indirectly holds or comes to hold, within the meaning of Article 356-1, at least 3% the capital is required to declare to the company the total number of shares he or she owns by registered letter with acknowledgment of receipt sent to the registered office within fifteen days from the crossing of that threshold of shareholding.

Shareholders are also required to inform the company within the same time period should their stake dip below the aforementioned thresholds. In the event that beneficial share ownership is not reported in accordance with the aforementioned procedures, the shares that exceed the reporting threshold shall be deprived of voting rights for all Shareholders' Meetings held within a period of up to three months after the date the declaration of beneficial ownership is finally made in accordance with the proper procedures, by one or more shareholders who jointly own at least 5% of share capital, as recorded in the minutes of the Shareholders' General Meeting.

6.5 | CONSULTATION OF CORPORATE DOCUMENTS

The corporate documents pertaining to LISI S.A. (by-laws, Shareholders' General Meeting reports, Auditors' reports and all documents available to shareholders) can be viewed upon request at the corporation's head office at the following address: Société LISI S.A., 6 Rue Juvénal Viellard, CS 70431 GRANDVILLARS, 90008 BELFORT Cedex.

2

FINANCIAL SITUATION

1 | OVERVIEW OF THE MAIN ACTIVITIES

1.1 | LISI AEROSPACE

€1,000.9 million
SALES REVENUE
61% of consolidated sales revenue

7,251
STAFF
61% of Group headcount

€91.4 million
CAPEX
65% of total Group CAPEX

Activity
Fasteners and assembly and structural components for the aerospace industry

Flagship products

Airframe

Structure fasteners, principally of titanium;
HI-LITE™, HI-LOK™, HI-TIGUE™ screws and nuts;
Pull-in™ fasteners,
PULL-STEM™, TAPER-HI-LITE™, STL™ fasteners;
STARLITE™ nuts;
OPTIBLIND™ blind fasteners;
Lockbolts crimped fasteners.

Engine

Engine fasteners (high temperature steels, cobalt or nickel-based alloys, very high resistance superalloys), inserts and studs; shaft nuts.

Special parts

Specialty, non-structural fasteners (clip nuts, quarter turns, spacers, etc.), locks; push-pins, assembly equipment.

Racing

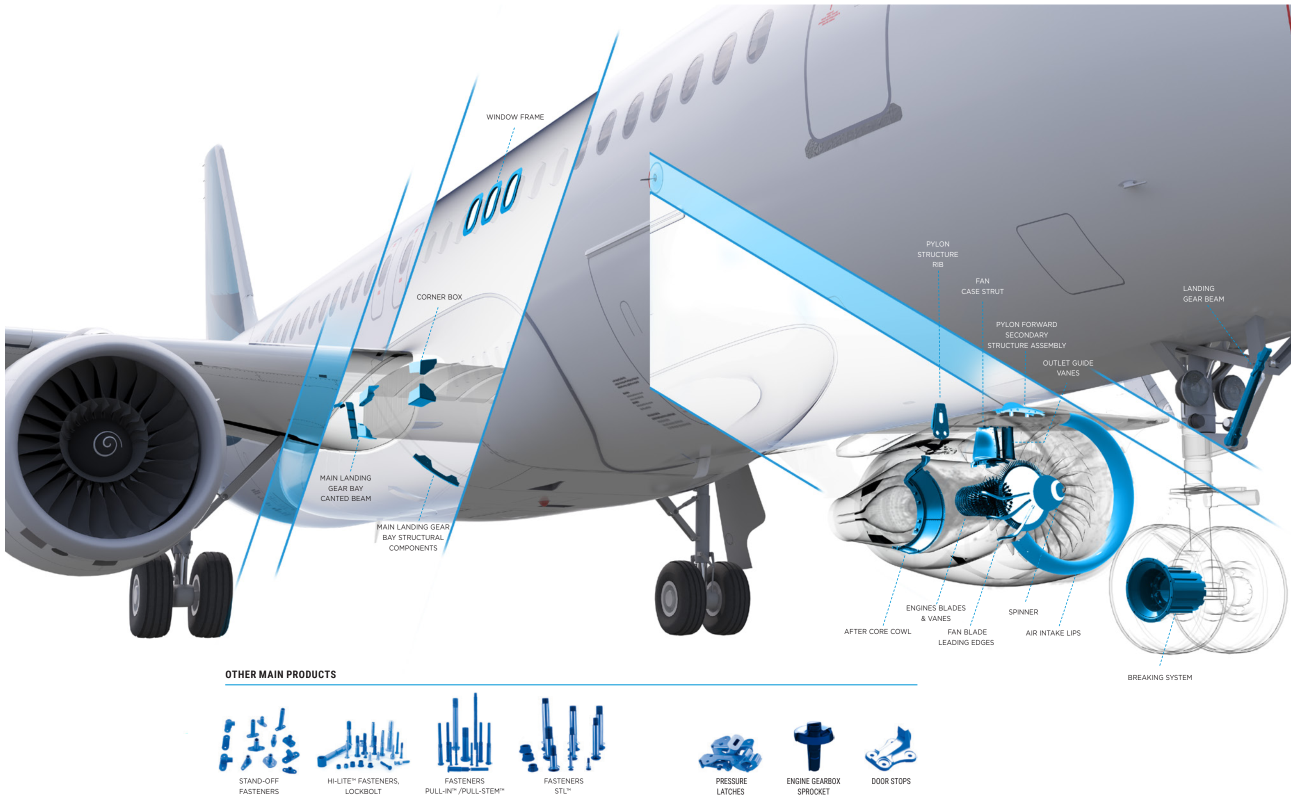
Fasteners and components for motor sports. Other high quality automotive fasteners.

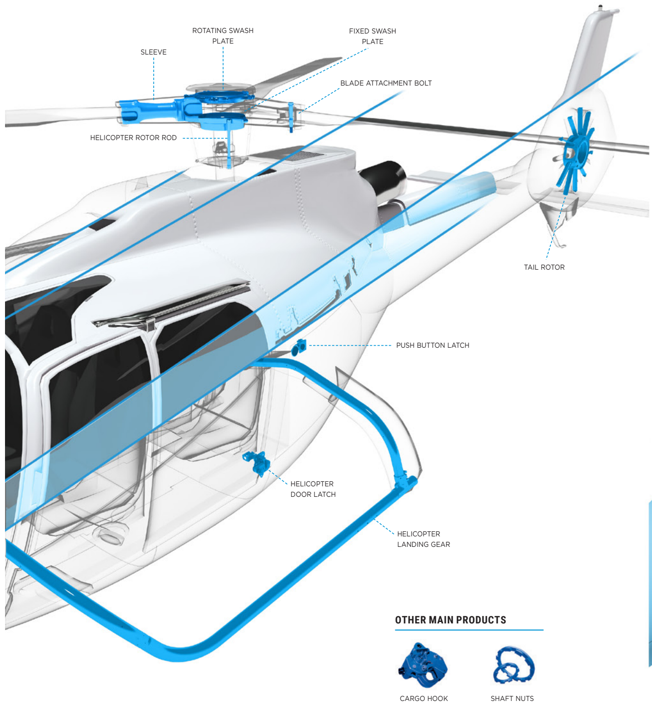
Structural components

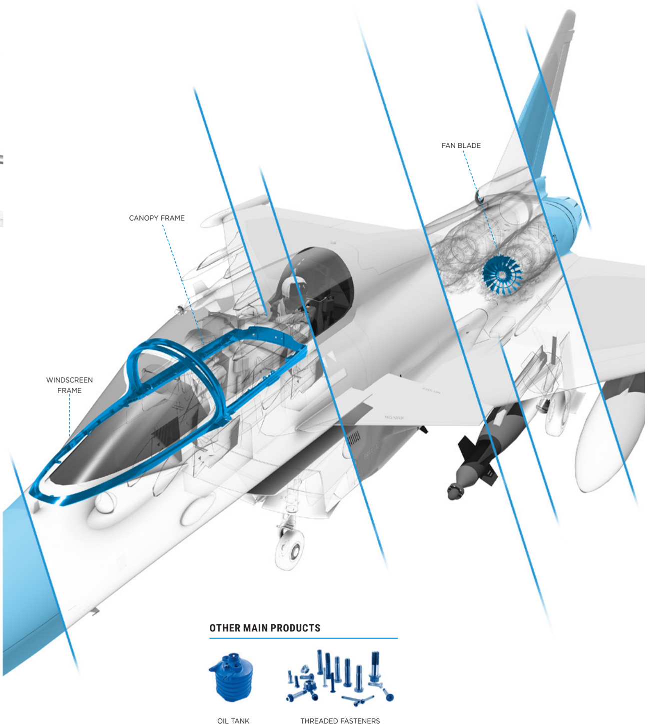
Primary forged, sheet metal and composite structural parts, complex assembled subsets, integrated into the aircraft airframe or engine: blades, leading edges, arms and OGVs, beams, shells, air in take lips, trunk area, drives, gears, door stop, helicopter floor, APU nozzles, etc.
Helicopter unloaders.

Customers
Airbus;
Boeing;
Bombardier;
Dassault;
CFAN;
EADS;
Embraer;
Eurocopter;
Finmeccanica;
GEAE;
Pratt & Whitney;
Rolls Royce;
Safran;
Spirit;
Formula 1 teams.

Competitors
Arconic;
Precision Castpart Corp;
ACB;
BTL;
Figeac Aero;
Potez;
Lauak;
Leistritz;
Mettis;
Otto Fuchs;
On Board;
Breeze Eastern;
Macstarlite;
TECT;
Doncaster;
Alu Menzinken;
MIFA;
Forgital;
Dembiermont;
Carlton-PCC;
Firth Rixon.







LISI AEROSPACE is involved in the design, manufacturing and marketing phases of all above-mentioned products. LISI AEROSPACE is positioned as a 1st and 2nd rank subcontractor depending on customers. The products are manufactured to serve as original or replacement equipment.

The main raw materials used are the following: high temperature steels, cobalt- or nickel-based alloys, very high-resistance superalloys, titanium and inconel.

The main technologies used are: cold stamping, hot stamping, hot or cold forming, tending, forging, extrusion, metal cutting, as well as machining, rolling, tapping, heat treatment, surface treatment, automatic control and assembly.

1.2 | LISI AUTOMOTIVE

€506.0 million
SALES REVENUE
31% of consolidated sales revenue

3,773
STAFF
31% of Group headcount

€37.5 million
CAPEX
27% of total Group CAPEX

Activity
Metal and plastic assembly solutions and security components for the automobile and manufacturing sectors

Flagship products

Threaded fasteners

Fasteners for powertrains;
wheel screws and nuts;
fasteners for indoor and outdoor equipment;
structural screws and nuts;
screws for sheet metal;
self-tapping screws;
screws for soft materials;
spacers and hollow bodies,
PRESSFIX® screws and force-fitting nuts and assembly equipment.

Clipped solutions

Snap-on nuts with tapped drums;
clip assembly systems for tubes, cables, and beams;
rivets and pins;
axis fasteners;
blanking plugs and cable grommets, fasteners for panels;
snap-on nuts with tapped drums;
multifunctional metalloplastic subsets.

Safety Mechanical Components

Torsion bars;
ball studs;
guide pins;
brake fittings;
EPB components (Electrical Parking Brakes);
seat mechanism pinions and linkage;
engine and gear shift components, direction components.

Customers

Carmakers:

BMW;
Daimler;
Dongfeng;
FAW;
Ford;
PSA-Opel;
Renault-Nissan;
SAIC;
VW-Audi

Parts manufacturers:

Autoliv;
Bosch;
CBI;
Faurecia;
Jtekt;
JCI;
Magna;
Plastic Omnium;
TI Automotive;
ZF;
Visteon.

Manufacturing:

AGCO;
Alstom;
Blanco;
BSH;
Franke;
Miele;
Iveco;
Schneider.

Competitors
ABC;
Agrati;
A. Raymond;
Brugola;
Bulten;
Fontana;
ITW;
Kamax;
Nedschroef;
SFS;
Stanley Engineering Fasteners.

LISI AUTOMOTIVE is involved in the design, manufacturing and marketing phases of all above-mentioned products. LISI AUTOMOTIVE is positioned as a 1st and 2nd rank supplier depending on customers. Its products serve the original or replacement markets.

The main raw materials used are the following: steels and plastics.

The main technologies used are cold stamping, hot stamping, metal cutting, rolling, tapping, machining, heat treatment, surface treatment, plastic injection, hot stamping, metal cutting, automatic control and assembly.

1.3 | LISI MEDICAL

€137.0 million
SALES REVENUE
8% of consolidated sales revenue

909
STAFF
8% of Group headcount

€11 million
CAPEX
8% of total Group CAPEX

Activity
Medical implant and auxiliary parts subcontractor

Flagship products

Joint reconstruction:

orthopedic reconstruction implants and instruments (hip, shoulder, knee).

Spine, extremities, trauma and dental:

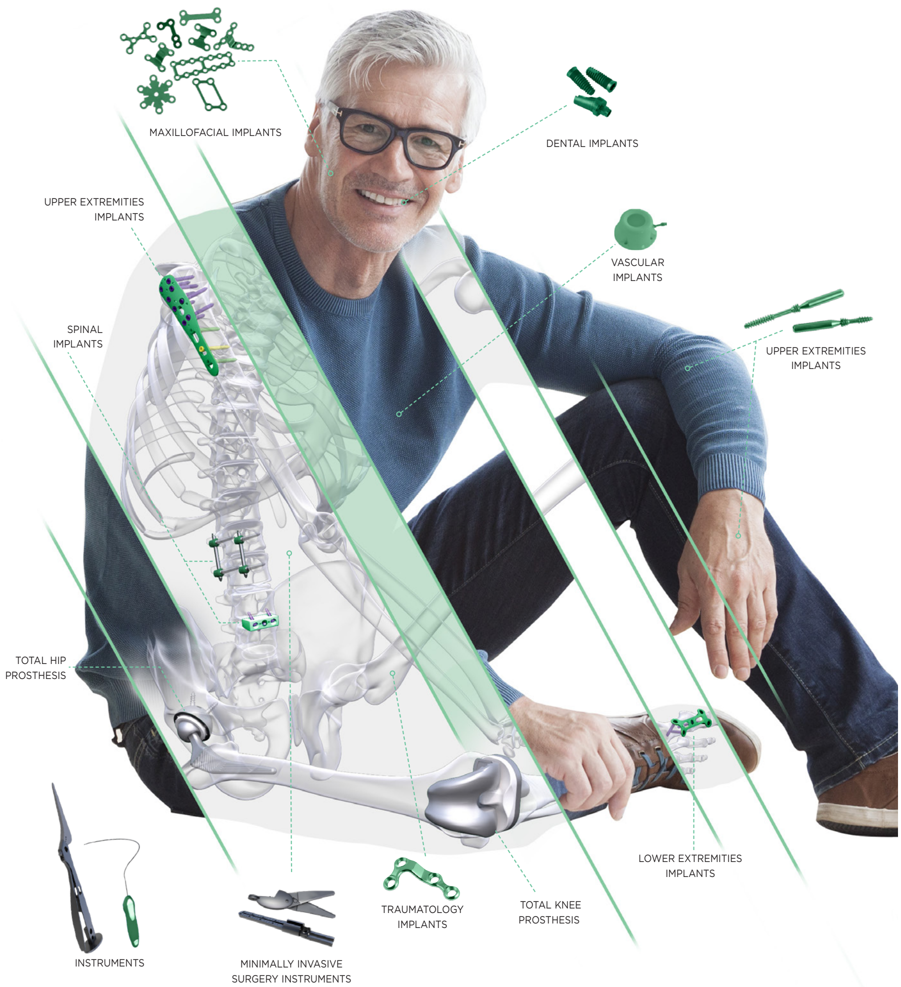
orthopedic implants and instruments, trauma and extremities, spine, maxillofacial and dental.

Mini-invasive single-use instruments:

vascular, gastro intestinal, urology.

Customers
Alphatech;
Ace Surgical;
Boston Scientific;
C2F Implants;
Integra Lifescience;
Intuitive Surgical;
Johnson & Johnson and subsidiaries;
Medacta;
Medicrea;
Medtronic;
Signature Orthopaedics;
Smith & Nephew;
Spineway;
Stryker;
Zimmer-Biomet;
Wright Tornier.

Competitors
Accelent;
Avalign;
CoorsTek;
Integer;
Marle;
Norwood;
Orchid/Sandvik;
Paragon;
Tecomet;
Tegra.



LISI MEDICAL is involved in the design, manufacturing and marketing phases of all above-mentioned products. LISI MEDICAL is positioned as a subcontractor.

The main raw materials used are the following: titanium, chromium, cobalt, plastic (PEEK, PEHT), etc.

The main technologies used are lathing, milling, forging, packaging under sterile conditions, laser marking and special processes.

2 | GROUP ACTIVITY FOR THE FINANCIAL YEAR AND OUTLOOK FOR THE COMING YEAR

2.1 | LISI CONSOLIDATED

At €1,643.4 million consolidated sales for the 2017 financial year were up 4.6% and include the following items:

- a scope effect of €21.7 million corresponding to:
  - a negative impact of -€13.4 million or 0.8% of consolidated sales revenues that reflects the sale of Précimétal Fonderie de Précision (Belgium) on February 2, 2017,
  - the incremental contribution by LISI MEDICAL Remmele (consolidated as of May 1, 2016) for €22.8 million, i.e. 1.4% of the consolidated sales revenue,
  - €12.3 million (0.75% of consolidated sales revenue) contributed by the integration within LISI AUTOMOTIVE of the US company TERMAX, a leading designer and manufacturer of metal and plastic fastening solutions for the automotive industry, effective November 1, 2017;
- a negative currency effect of €10.2 million;
- €60.8 million generated by organic growth.

Comments regarding business

€ million	LISI Consolidated	of which LISI AEROSPACE	of which LISI AUTOMOTIVE	of which LISI MEDICAL
Q1	444.3	277.6	128.9	37.9
Q2	417.4	258.3	123.7	35.6
Organic growth H1 2017/H1 2016	+ 6.1%	+ 7.4%	+ 3.7%	+ 7.1%
Q3	369.7	222.6	116.2	31.1
Q4	412.0	242.4	137.3	32.5
Organic growth H2 2017/H2 2016	+ 1.0%	- 1.1%	+ 9.6%	- 8.6%
2017	1,643.4	1,000.9	506.0	137.0

Expressed at constant scope and exchange rates, the change in sales revenues was +3.6% (+4.6% in 2016).

Analysis by half-year
Organic growth slowed in the second half of the year (+1.0%) after steady growth in the first half (+6.1%), especially in the LISI AEROSPACE and LISI MEDICAL divisions. Trends in the LISI AUTOMOTIVE division are favorable.

Analysis by quarter
Compared with the same period last year, the fourth quarter posted overall organic growth of +2.8% and was mainly driven by "Structural Components" activity in the aerospace sector and the entire LISI AUTOMOTIVE division. The "Fasteners" activities in Aerospace and the Medical Division showed no sign of improvement over the fourth quarter of the previous year.

Analysis by division
On a like-for-like basis and restated for foreign exchange effects, LISI AEROSPACE's consolidated annual sales revenues increased 3.3% and exceeded one billion euros for the first time in its history. The division experienced a decline in the second half of the year (-1.1%) compared to the first (+7.4%). The "Fasteners" activity in Europe suffered not only from the negative effect of the Airbus inventory reductions, but also the accelerated depreciation of the US dollar against the euro. In the United States, "Fasteners" activity picked up steam at Boeing, while the active repositioning of LISI AEROSPACE with the distribution sector was hampered by low activity levels for business and regional aircraft. The "Structural Components" activity had good momentum throughout the year, thanks in particular to the continued ramp-up of new programs, including the LEAP engine.

The LISI AUTOMOTIVE division experienced an acceleration in sales between the first and second half of the year (+3.6% in H1, +9.6% in H2) in a European market that remains solid. The increase in sales revenue is particularly significant in the Clipped Solutions and the Safety Mechanical Components segments, resulting in gains in market shares and the ramp-up of new products. As a result, sales revenues reached the historical level of €506.0 million, up 8.8% compared to 2016, with 6.5% organic growth supported by high order intake for new projects of over 10% of sales revenue.

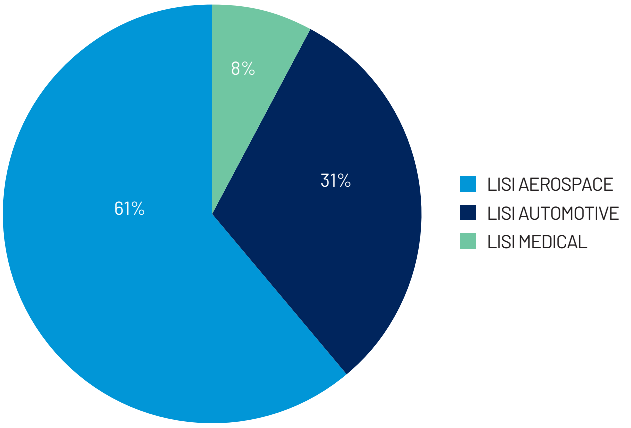
The LISI MEDICAL division benefited from the full-year effect of the integration of LISI MEDICAL Remmele (incremental sales revenue of €22.8 million over the period). At constant scope and exchange rates, sales decreased by 2.3% with the second half-year clearly showing a decrease (-8.6%) compared with the first (+7.1%). LISI MEDICAL Remmele had to cope with a temporary delay in the ramping-up of some of its products in for minimally invasive surgeries and also saw two significant products reassigned to other production processes.

Activity summary at December 31

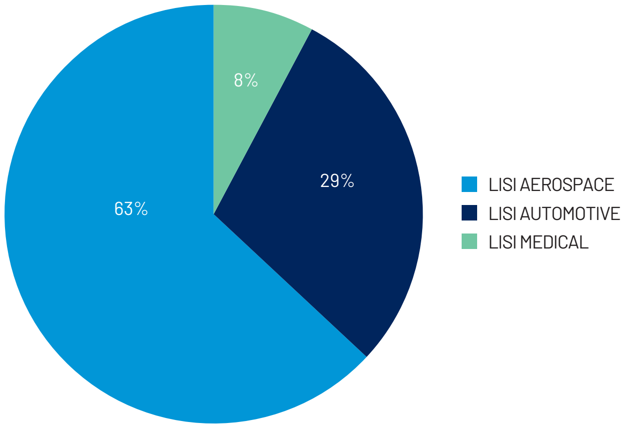
12 months ending December 31		2017	2016	Changes
KEY ELEMENTS OF THE INCOME STATEMENT				
Sales revenue	€ million	1,643.4	1,571.1	+4.6%
EBITDA	€ million	256.2	237.1	+8.0%
EBITDA margin	%	15.6	15.1	+0.5 pt
Current operating profit (EBIT)	€ million	171.4	157.5	+8.9%
Operating margin	%	10.4	10.0	+0.4 pt
Earnings attributable to holders of company equity	€ million	108.0	107.0	+0.9%
Net earnings per share	€	2.04	2.02	+1.0%
KEY ELEMENTS OF THE CASH FLOW STATEMENTS				
Operating cash flow	€ million	203.8	195.8	€8.0 million
Net CAPEX	€ million	(140.1)	(119.6)	€+20.5 million
Free cash flow*	€ million	46.3	73.5	€-27.2 million
KEY ELEMENTS OF THE FINANCIAL STRUCTURE				
Net debt	€ million	300.2	218.2	€+82.0 million
Ratio of net debt to equity		33.4%	25.2%	+8.2 pts

* Free Cash Flow: operating cash flow minus net capital expenditure and changes in working capital requirements.

Breakdown of 2017 sales revenue



Breakdown of 2016 sales revenue



Headcount at the end of December

As at December 31, 2017, the LISI Group employed 11,958 employees, an increase of the total workforce of 371 people (including 452 people at TERMAX), which represents a difference of +3.2% compared to 2016.

	2017	2016	Difference N/N-1	
LISI AEROSPACE	7,251	7,386	-135	-1.8%
LISI AUTOMOTIVE	3,773	3,265	+508	+15.6%
LISI MEDICAL	909	915	-6	-0.7%
LISI Holding	25	21	+4	+19.0%
Group total	11,958	11,587	+ 371	+3.2%
Temporary workers	1,159	1,156		

2017 Financial results

Current operating profit increased by €14 million, bringing the operating margin to 10.4%, an improvement of 0.4 points.

EBITDA was €256.2 million, an increase of +8.0% (€+19.1 million), and represented 15.6% of sales revenue. Current operating profit (EBIT) increased by €13.9 million (+8.9%) to €171.4 million despite an unfavorable currency effect of €-5.3 million. The operating margin reached 10.4%. Its increase of 0.4 points from 2016 is in line with the Group's objectives given the changes in its business mix.

This performance is attributable to an improvement in the operational quality of all of the Group's activities. The contribution of the productivity gains from LEAP (LISI Excellence Achievement Program), the gradual re-orientation of the activities of the automotive division towards product families with a greater margin, and the effects of the industrial investment plan were determining factors. In addition, in accordance with its commitments, the Group reduced the additional costs generated in the steep ramp-up phase of the new programs in the Structural Components activity by one half. It is also worth noting the decrease in launching costs for new products and the positive productivity effects from automation.

2017 also confirms the gradual readjustment of the three divisions. All of them saw their current operating profit increase in value compared to the previous year. While the aerospace division remains the largest contributor to consolidated operating profit (75% of the Group, 78% in 2016), the automotive division improved its profitability by 6.6%. The Medical division posted current operating profit the were up €9.8 million, or 7.1% of sales revenues.

The strongly negative impact of the financial result (€-21.6 million) compared to 2016 (€+13.3 million) can be explained by the following main items:

- financial expenses, which correspond to the cost of long-term net debt, totaled €-5.9 million (€-5.1 million in 2016), an average fixed rate of 2.01% (1.70% in 2016). This rate increase was offset by gains on current cash investments (€+2.8 million, compared to €+0.8 million in 2016);
- the revaluation of debts and receivables denominated mainly in US dollars (€-32.4 million, compared to €+17.5 million in 2016). Receivables and investments in foreign currencies were automatically affected by the sharp decline of that currency against the euro;
- the positive impact of the valuations of the currency hedging instruments (€+13.9 million versus €+0.9 million in 2016).

Non-current costs had a negative effect of €-3.7 million on net earnings (€-10.0 million in 2016) and mainly concern studies of the relocation of the Bologne (Haute-Marne) site.

The tax charge, calculated on the basis of the corporation tax as a percentage of the net income before taxes, reflects an effective average rate of tax of 26.8%, down compared with 2016 (33.7%). The current effective rate would be 31.1% if the one-time items for the year were adjusted (rate change in France and the United States, the additional contribution and the elimination of the 3% contribution on dividends in France, the "transition tax" in the United States).

At €108.0 million, net earnings were thus higher than in 2016 (€107.0 million).

This amounts to €2.04 per share (€2.02 in 2016).

Based upon the results, the Group will seek the approval of the Shareholders' General Meeting to set the dividend at €0.48 per share for the 2017 financial year.

The good level of profitability achieved in 2017 largely financed the record amount of investments while generating an extremely positive free cash flow.

Operating cash flow reached €203.8 million (+€8.0 million, 12.4% of consolidated sales revenues, compared with €195.8 million in 2016).

In an environment of strong growth, the Group managed to reduce its inventories again. Expressed in days in sales revenue, they decreased by seven days compared to the 2016 financial year, a gain of nearly two weeks in two years. Thanks to strict management discipline, customer late payment rates were reduced, thus diminishing the consolidated working capital requirement to 74 days in 2017 (76 days in 2016).

In line with previous years, LISI continued its industrial investment plan in 2017 at a steady pace. Up by more than €20 million, these investments represent 8.5% of sales revenues and were mainly dedicated to:

- breakout technical initiatives in all divisions (automation);
- the beginning of the last phase of the Villefranche-de-Rouergue project;
- the start of operations of the Forge 2020 project (Bologne site);
- an increase in capacities dedicated to the manufacturing of new products.

However, the Group was able to finance the investment programs and generate positive free cash flow of €46.3 million despite an unfavorable currency impact of €-27.4 million.

LISI enters 2018 with a healthy financial structure

In a 2017 marked by an unprecedented amount of investment, LISI maintained the soundness of its financial structure. As a result, the profitability of the capital employed (before tax), which was 15.0% at the end of the year, compared with 15.5% as of December 31, 2016, was proof of a good level of resistance.

The increase in net financial debt, which includes 100% of the acquisition of TERMAX[1], was limited to €82.0 million and totaled €300.2 million as of December 31, 2017. It accounted for 33.4% of shareholders' equity (25.2% in 2016) and 1.2x EBITDA.

OUTLOOK

The year 2018 will be rich in challenges:

- LISI AEROSPACE: the completion of several challenging projects, including the relocation of the Polish site dedicated to blade finishing, the continued reduction of excess industrialization costs, compliance with delivery programs in Structural Components, the downward adjustment of the activity in Fasteners Europe with significant consequences for the first part of the year;
- LISI AUTOMOTIVE: the industrialization of new orders, the extension of the Czech site the specializes in the production of mechanical safety components, the "Delle du Futur" project, the management of the ability to pass on in creases in raw material prices in selling prices;
- LISI MEDICAL: return to overall growth.

The Group is fully committed to achieving double-digit current operating profit, positive free cash flow and a growth in value of its management indicators in an environment of currency volatility. The continuation and deployment of many structuring industrial projects (automation and productivity improvement, innovation) and the launching of the first initiatives to digitize production methods aims to give it a technological

(1) The acquisition of TERMAX was organized in two stages: first, the shareholders of TERMAX Corporation sold 51% of share capital to LISI AUTOMOTIVE for approximately €51 million. Even though the LISI Group is expected to acquire the balance of share capital by 2020, it decided to recognize all corresponding debt (approximately €123 million) as of December 31, 2017.

advance that will consolidate its differentiation in a sustainable manner in very strong markets over time.

2.2 | LISI AEROSPACE

Summary presentation of the LISI AEROSPACE activity:

- sales revenues were above €1 billion for the first time, but with a strong disparity in organic growth between the first half (+7.4%) and the second (-1.1%);
- improvement of all management indicators over the year, with a sharp contrast between the first and second half of the year affected by the temporary adjustment of Airbus inventories and the adverse effect related to the decline of the dollar against the euro;
- positive free cash flow after a strong increase in investment plans (+11.0%);
- a difficult start to 2018 in line with the second half of 2017.

Market

Visibility in the commercial aircraft segment remained very solid in an environment in which global air traffic was experiencing sustained annual growth (+7.7%* in 2017). The other market segments served by LISI AEROSPACE, including military, business aircraft and regional aircraft still show no perceptible signs of recovery. The helicopter market seems to be slowly recovering.

Although Airbus delivered fewer aircraft than Boeing (718 aircraft delivered versus 763 for Boeing), it remains the leader in the number of net orders (1,109 versus 912 at Boeing). The backlog for both aircraft manufacturers is over 13,000 airplanes. As expected, the impact of increases in delivery rates of single-aisles (from 1,035 to 1,087) and of the A350, which accelerated from 49 to 78 deliveries, will continue in 2018.

For its part, Safran continues to benefit from of the steep rise in delivery rates of the LEAP engine (more than 450 engines delivered in 2017, nearly 6 times more than in 2016) with a backlog of more than 14,000 engines. This growth rate is expected to almost triple in 2018.

* Source: IATA.

Activity

In millions of euros	2017	2016	Changes
Sales revenue	1,000.9	987.2	+ 1.4%
Current operating profit (EBIT)	128.1	122.9	+ 4.2%
Operating cash flow	129.9	127.1	+ 2.2%
Net CAPEX	- 91.4	- 82.4	+ 11.0%
Free Cash Flow [1]	61.6	32.3	€+29.3 million
Registered employees at period end	7,251	7,386	- 1.8%
Average full time equivalent headcount [2]	8,223	8,011	+ 2.6%

[1] Free Cash Flow: operating cash flow minus net capital expenditure and changes in working capital requirements.
[2] Including temporary workers.

At €1,001 million, sales revenues reached a historical level, up 1.4% compared to 2016 and 3.3% at constant scope and exchange rates. The "Fasteners Europe" activity was negatively impacted by the Airbus destocking in the second half of the year. As a result, deliveries were down 7.8% in the second half of the year after a very dynamic first part of the year (+13.7% in H1). Airbus adjusted onsite inventory levels after the industrialization and launch phase of the A350 and A320neo (phase-in). The accelerated depreciation of the dollar against the euro also impacted the division's performance negatively. In the United States, "Fasteners" activity picked up steam at Boeing, while the active repositioning of LISI AEROSPACE with the distribution sector was hampered by low activity levels for business and regional aircraft. On the other hand, the "Structural Components" activity had strong sales revenue growth compared to 2016 with the continued ramp-up of new programs, including the LEAP engine.

Results

Current operating profit totaled €128.1 million, up €5.2 million from 2016. At +12.8%, the operating margin increased by 0.4 points compared to the previous financial year.

The production sites for the "Fasteners" activity benefited from a favorable volume effect in the first half of the year. The proper adjustment of production costs in the second half of the year limited the negative impact of lower volumes for Airbus on operating profit. In addition, the improvement in the operational situation of the "Structural Components" activity is underway, and the additional costs generated by the industrial difficulties in the steep acceleration phase for new programs were reduced by half over the year according to the road map that was established.

The current operating profit takes into account the following operating charges in particular:

- €5.5 million of extra costs identified in the "Structural Components" activity (reduced by half from 2016);
- €7.7 million increase in depreciation due to the investment plan.

The financial structure remains solid with operating cash flow of €129.9 million (13.0% of sales revenues), which largely finances an investment plan of €91.4 million. An increase of 11.0% from 2016, these were devoted to improving the productivity of the three activities, including:

- breakout technical initiatives in "Fasteners" Europe and the starting of the last phase of the Villefranche-de-Rouergue site relocation project;
- the operational start-up of the Forge 2020 project in the "Forged Integrated Solution" activity in Bologne;
- the increase in the capacities dedicated to the manufacturing of leading edges and the construction of the new Polish plant in the "Extrusion & Forming activity".

Inventories for the division decreased by €9.1 million for the financial year, corresponding to a reduction of four days in sales revenue.

Taking into account these items and the good control of other working capital requirements, Free Cash Flow reached a record level of €+61.6 million (6.2% of sales revenues, 3.3% in 2016).

The headcount decreased over the financial year with 7,251 persons (7,386 in December 2016).

OUTLOOK

Long-term trends in the aerospace market remain strong, particularly for single-aisles (A320neo, B737MAX) and new programs (A350, B787). In the short term, the downward adjustment of activity in "Fasteners Europe" with significant consequences for the first part of the year will be followed closely. The continued reduction of excess industrialization costs and compliance with delivery programs will remain priorities in 2018 in "Structural Components". The change in the dollar is an additional item of uncertainty for the entire sector.

From an operational standpoint, the Forge 2020 project of the "Forged Integrated Solutions" activity for the plant currently located in Bologne (Haute-Marne) will enter the actual construction phase. The aeronautical division is moreover continuing the modernization of its production resources, by investing in the long-term projects such as the development of the "OPTIBLIND^{TM}" assembly system, the implementation of the "robotization" project or again the development of LISI AEROSPACE Additive Manufacturing.

2.3 | LISI AUTOMOTIVE

Summary presentation of the LISI AUTOMOTIVE activity:

- sales revenue of over €500 million for the first time;
- a further rise in new product order intake and accelerated growth internationally;
- fifth consecutive year of improvement in the operating margin, reflecting the strategy to change the product mix towards more value-added products;
- positive free cash flow for the second year in a row, significantly improved compared to 2016;
- good visibility in financial year 2018 driven by new products and profit on a full-year basis from TERMAX's contribution.

Market

Global automotive markets grew by 2.4%*. The European market is growing more quickly at a rate of +3.3%. The Chinese market experienced more moderate growth of +2.0% and the US market was down -1.9% while remaining at a historically high level.

In Europe, which remains LISI AUTOMOTIVE's main area of involvement, growth is driven by the major markets Italy (+7.9%), Spain (+7.7%) and France (+4.7%), while Germany (+2.7%) did worse than the market and the UK fell sharply (-5.7%).

Among the European manufacturers, customers of LISI AUTOMOTIVE, Renault-Dacia (+6.6%), Daimler (+4.8%) and PSA (+4.8% excluding OPEL) are the most dynamic. Volkswagen (+2.3%) and BMW (+0.9%) were less dynamic than the market.

Orders for new products taken by the division expressed in annualized sales revenue represents 10.6% of sales revenue, i.e. about €52 million, compared with 10.2% in 2016. Growth was particularly noteworthy in the "Safety Mechanical Components" and "Clipped Solutions" Business Groups, reflecting the market share gains strategy in those areas of activity.

* Source: ACEA - *Association des Constructeurs Automobiles Européens.*

Activity

In millions of euros	2017	2016	Changes
Sales revenue	506.0	465.3	+ 8.8%
Current operating profit (EBIT)	33.3	26.3	+ 26.6%
Operating cash flow	53.6	43.8	+ 22.3%
Net CAPEX	- 37.5	- 31.9	+ 17.6%
Free Cash-Flow [1]	+ 13.1	+ 7.9	€+5.2 million
Registered employees at period end	3,773	3,265	+ 15.6%
Average full time equivalent headcount [2]	3,522	3,368	+ 4.6%

[1] Free Cash Flow: operating cash flow minus net capital expenditure and changes in working capital requirements.
[2] Including temporary workers.

The division, which experienced an acceleration in sales between the first and second half of the year (+3.6% in H1, +14.4% in H2), recorded its fourth consecutive year of growth. As a result, sales revenue reached the historical level of €506.0 million, an increase of +8.8% compared to 2016.

At constant scope and exchange rates, the increase was +6.5%, reflecting significant market share gains for new products, especially in high added value areas, in line with the strategy deployed over the last several years.

In addition, the division is continuing its international expansion with encouraging developments, particularly in China (Shanghai and the new Suzhou site) and Mexico (Monterrey), which recorded higher order intake levels. On September 21, 2017, it also announced the acquisition of the US company TERMAX, a leading designer and manufacturer of metal and plastic fastening solutions for the automotive industry.

Results

All of the Business Groups saw their performance increase compared with last year.

As a result, LISI AUTOMOTIVE's operating margin (6.6%) improved for the fifth consecutive year[3]. The strategy of refocusing on products with higher added value that has been in place for several years is paying off.

The recovery efforts of the French sites of the Threaded Fasteners Business Group, and of the Saint-Florent-sur-Cher site more particularly, are continuing. Their profitability is improving, reducing the gap with the Group average.

Free Cash Flow was positive (+€13.1 million) for the second year in a row and significantly improved compared to 2016 (+€7.9 million), thanks in particular to a high level of financing capacity (+€53.6 million) and good control of working capital requirements. The division is still able to finance a sustained CAPEX level (€37.5 million). They involve several multi-year projects, including robotization plans, industrial equipment dedicated to new products or the financing of projects to improve plant operating conditions (the "Delle du Futur" project) and increase production capacities (extension of the Czech site specializing in the manufacture of mechanical safety components).

Most operational indicators are also increasing, especially the logistics and quality indicators, as well as the ones that arose from the deployment of the LISI Excellence Achievement Program (LEAP).

Headcount was greater compared to 2016 with 3,773 employees at December 31, 2017 compared to 3,265 in 2016, an increase of 15.6%. Restated to reflect the inclusion of TERMAX in the scope of consolidation, the number of employees at the end of the period would be 3,321, a limited increase of +1.7%.

OUTLOOK

LISI AUTOMOTIVE has set the objective to continue the progress recorded over the past five financial years and to improve its profitability in the long term thanks to the contributions of the LEAP plan (LISI Excellence Achievement Program) and the high level of productivity investments. The acquisition of TERMAX, which strengthens LISI AUTOMOTIVE's global position in clipped solutions, is fully in line with the strategy of repositioning towards higher value-added products launched in 2016. This movement, which represents a major focus for improving the profitability of the division, will be continued.

Compliance with delivery programs in a context of strong growth in customers' demands giving visibility to the order books, as well as the build-up of new products, will be a point of attention at the beginning of the year. The impact of rising raw material costs on sales prices will also be closely monitored.

LISI AUTOMOTIVE is strengthening its global position to support and meet the needs of its major car and parts manufacturers customers and equipment suppliers in all major world markets. In this perspective, the acquisition of TERMAX now allows it to be present not only in Europe and Asia, but also in North America.

2.4 | LISI MEDICAL

Summary presentation of the LISI MEDICAL activity:

- the division's performance penalized by a very unfavorable volume effect in the second half of the year at LISI MEDICAL Remmele, as well as by the increase in medical coverage expenses;
- the increase in current operating profit in value;
- the new increase in Free Cash Flow in a context in which investments have been doubled compared to 2016;
- continued decline in inventories, which have reached the historically low level of 61 days;
- the gradual ramp-up of new projects expected in 2018.

Market

Driven by long-term demographic and economic factors, the global orthopedic market continues to grow at between 4% and 5% a year. The minimally invasive surgery segment is growing at a higher annual rate, around 6% per year, and many new projects are being developed in general surgery or specialty surgeries.

[3] 5.7% in 2016; 4.0% in 2015; 3.0% in 2014; 2.7% in 2013 and 0.5% in 2012.

Activity

In millions of euros	2017	2016	Changes
Sales revenue	137.0	119.1	+ 15.1%
Current operating profit (EBIT)	9.8	9.3	+ 5.7%
Operating cash flow	14.0	11.8	+ 19.2%
Net CAPEX	- 10.6	- 5.6	+ 89.3%
Free Cash Flow [1]	6.7	3.7	€+3.0 million
Registered employees at period end	909	915	- 0.7%
Average full time equivalent headcount [2]	985	868	+ 13.5%

[1] Free Cash Flow: operating cash flow minus net capital expenditure and changes in working capital requirements.
[2] Including temporary workers.

Sales revenue amounted to €137.0 million, an increase of +15.1%. It benefited from the full-year effect of the integration of LISI MEDICAL Remmele (incremental sales revenue of €22.8 million over the period). At constant scope and exchange rates, sales decreased by 2.3% with the second half-year clearly showing a decrease (-8.6%) compared with the first (+7.1%). LISI MEDICAL Remmele had to cope with a temporary delay in the ramping-up of some of its products in for minimally invasive surgeries and also saw two significant products reassigned to other production processes.

Results

Under these circumstances, the operating margin is 7.1%, close to the 7.8% achieved in 2016. The division's historical sites confirm the operational progress observed over the last few months, whereas LISI MEDICAL Remmele's US sites were penalized by a very unfavorable volume effect in the second half of the year, as well as an increase in medical coverage expenses.

At €10.6 million, investments nearly doubled compared to 2016, in order to accelerate the acquisition of equipment for the development and production of new products. In addition, the production capacity of the LISI MEDICAL Remmele unit has been increased. CAPEX was financed by a very good level of operating cash flow (+€14.0 million).

The levels of inventories expressed as a number of days of sales revenues experienced a further drop to reach the historically low level of 61 days. Consequently, Free Cash Flow improved once again over the financial year to €6.7 million, or 4.9% of sales revenue.

OUTLOOK

The division reinforced its fundamentals and its positioning as benchmark supplier with its major global customers. The integration of LISI MEDICAL Remmele clearly positions the division as a major player capable of providing global solutions to the main contractors in the orthopedics and minimally invasive surgery markets.

The pursuit of continuous improvement efforts, investments in differentiating technologies and the industrialization of new products should help to consolidate the good trends seen over the past four years. The adjustment of LISI MEDICAL Remmele's production costs before the ramp-up of new projects will also be a major focus of attention in the first part of 2018.

2

FINANCIAL SITUATION

3

CONSOLIDATED FINANCIAL STATEMENTS

1 | FINANCIAL STATEMENTS

1.1 | INCOME STATEMENT

(in €'000)	Notes	12/31/2017	12/31/2016
SALES REVENUE	2.6.1	**1,643,356**	**1,571,104**
Changes in stock, finished products and production in progress		(884)	(1,519)
Total production		1,642,472	1,569,585
Other revenues [a]		26,661	23,777
TOTAL OPERATING REVENUES		**1,669,133**	**1,593,362**
Consumed goods	2.6.2	(443,119)	(414,436)
Other purchases and external expenses	2.6.3	(338,332)	(325,957)
Taxes and duties		(12,171)	(11,353)
Personnel expenses (including temporary workers)	2.6.4	(619,333)	(604,484)
EBITDA		**256,178**	**237,132**
Depreciation		(90,132)	(80,872)
Net provisions		5,352	1,200
EBIT		**171,398**	**157,460**
Non-recurring operating expenses	2.6.6	(7,329)	(12,950)
Non-recurring operating revenues	2.6.6	3,649	2,974
OPERATING PROFIT		167,718	**147,483**
Financing expenses and revenue on cash	2.6.7	(2,421)	(4,420)
Revenue on cash	2.6.7	3,445	1,146
Financing expenses	2.6.7	(5,866)	(5,566)
Other interest revenue and expenses	2.6.7	(19,166)	17,770
Other financial items	2.6.7	60,852	55,409
Other interest expenses	2.6.7	(80,018)	(37,639)
Taxes (including CVAE (Tax on Companies' Added Value))	2.6.8	(39,182)	(54,443)
Share of net income of companies accounted for by the equity method		0	0
PROFIT (LOSS) FOR THE PERIOD		**106,951**	**106,390**
Attributable as company shareholders' equity		107,965	107,008
Interest not granting control over the company		(1,014)	(619)
EARNINGS PER SHARE (IN €)	2.6.9	**2.04**	**2.02**
DILUTED EARNINGS PER SHARE (IN €)	2.6.9	**2.02**	**2.00**

a/ In order to provide readers of the financial statements with better information that is in accordance with international standards, in the 2016 financial statements the Company has continued classifying revenues related to CIR (Research tax credit) as "Other Revenues".

STATEMENT OF OVERALL EARNINGS

(in €'000)	12/31/2017	12/31/2016
PROFIT (LOSS) FOR THE PERIOD	**106,951**	**106,390**
Other items of overall income applied to shareholders equity		
Actuarial gains and losses out of employee benefits (gross element)	671	(4,359)
Actuarial gains and losses out of employee benefits (tax impact)	(302)	840
Restatements of treasury shares (gross element)	220	145
Restatements of treasury shares (tax impact)	(64)	(50)
Other items of overall income that will cause a reclassification of income		
Exchange rate differences resulting from foreign business	(19,251)	(2,874)
Hedging instruments (gross element)	25,361	(12,615)
Hedging instruments (tax impact)	(7,085)	3,587
OTHER PORTIONS OF GLOBAL EARNINGS, AFTER TAXES	**(451)**	**(15,326)**
TOTAL OVERALL INCOME FOR THE PERIOD	**106,500**	**91,064**

Hedging instruments consist mainly of foreign exchange hedging instruments and, to a lesser extent, raw material hedging instruments. The positive amount of €25.4 million is due mainly to the decline in the USD, which resulted in a symmetrical increase in the fair value of the hedging instruments put in place to protect against the decline in the USD.

1.2 | STATEMENT OF FINANCIAL POSITION

ASSET (in €'000)	Notes	12/31/2017	12/31/2016
NON-CURRENT ASSETS			
Goodwill	2.5.1.1	321,377	300,426
Other intangible assets	2.5.1.1	30,177	23,822
Tangible assets	2.5.1.2	619,593	570,877
Non-current financial assets	2.5.1.4	9,982	9,481
Deferred tax assets		8,568	19,075
Other Non-current assets	2.5.1.5	429	950
TOTAL NON-CURRENT ASSETS		**990,126**	**924,631**
CURRENT ASSETS			
Inventories	2.5.2.1	337,099	338,986
Taxes - Claim on the state		41,269	6,772
Trade and other receivables	2.5.2.2	261,249	260,416
Cash and cash equivalents	2.5.2.3	197,576	141,719
TOTAL SHORT-TERM ASSETS		**837,193**	**747,894**
TOTAL ASSETS		**1,827,319**	**1,672,525**

TOTAL EQUITY AND LIABILITIES (in €'000)	Notes	12/31/2017	12/31/2016
SHAREHOLDERS' EQUITY			
Share capital	2.5.3	21,610	21,610
Additional paid-in capital	2.5.3	72,584	72,584
Treasury shares	2.5.3	(14,720)	(14,610)
Consolidated reserves	2.5.3	688,882	659,375
Conversion reserves	2.5.3	8,419	27,742
Other income and expenses recorded directly as shareholders' equity	2.5.3	5,261	(13,452)
Profit (loss) for the period	2.5.3	107,965	107,008
TOTAL SHAREHOLDERS' EQUITY - GROUP'S SHARE	2.5.3	**890,001**	**860,258**
Minority interests	2.5.3	7,664	4,964
TOTAL SHAREHOLDERS' EQUITY	2.5.3	**897,665**	**865,222**
NON-CURRENT LIABILITIES			
Non-current provisions	2.5.4	64,995	70,474
Non-current borrowings	2.5.6.1	317,757	253,856
Other Non-current liabilities		11,605	12,392
Deferred tax liabilities		40,747	33,376
TOTAL NON-CURRENT LIABILITIES		**435,104**	**370,098**
SHORT-TERM LIABILITIES			
Short-term provisions	2.5.4	15,156	23,174
Current borrowings [1]	2.5.6.1	179,973	106,037
Trade and other accounts payable		297,109	304,492
Taxes due		2,312	3,503
TOTAL SHORT-TERM LIABILITIES		**494,550**	**437,206**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,827,319**	**1,672,525**
[1] Of which current bank facilities		16,441	15,984

1.3 | LISI GROUP CONSOLIDATED CASH FLOW TABLE

(in €'000)	12/31/2017	12/31/2016
OPERATING ACTIVITIES		
NET EARNINGS	106,951	106,390
ELIMINATION OF THE INCOME OF COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD		
ELIMINATION OF NET EXPENSES NOT AFFECTING CASH FLOWS:		
– Depreciation and non-recurrent financial provisions	89,819	81,232
– Changes in deferred taxes	10,335	6,059
– Income on disposals, provisions for liabilities and others	(1,932)	911
GROSS CASH FLOW MARGIN	205,173	194,592
Net changes in provisions provided by or used for current operations	(1,335)	1,213
OPERATING CASH FLOW	203,838	195,805
Income tax expense (revenue)	28,847	48,385
Elimination of net borrowing costs	5,686	5,782
Effect of changes in inventory on cash	67	2,504
Effect of changes in accounts receivable and accounts payable	17,973	(23,729)
NET CASH PROVIDED BY OR USED FOR OPERATIONS BEFORE TAX	256,411	228,747
Tax paid	(64,298)	(29,807)
CASH PROVIDED BY OR USED FOR OPERATIONS (A)	**192,113**	**198,938**
INVESTMENT ACTIVITIES		
Acquisition of consolidated companies	(51,014)	(92,136)
Cash acquired	2,409	(1,973)
Acquisition of tangible and intangible fixed assets	(141,694)	(132,609)
Acquisition of financial assets		
Change in granted loans and advances	(722)	(746)
Investment subsidies received		
Dividends received		
TOTAL CASH USED FOR INVESTMENT ACTIVITIES	(191,021)	(227,463)
Divested cash	(5,701)	36
Disposal of consolidated companies	13,060	
Disposal of tangible and intangible fixed assets	1,548	12,995
Disposal of financial assets		
TOTAL CASH FROM DISPOSALS	8,907	13,031
CASH PROVIDED BY OR USED FOR INVESTMENT ACTIVITIES (B)	**(182,114)**	**(214,434)**
FINANCING ACTIVITIES		
Capital increase	1,920	32
Net disposal (acquisition) of treasury shares		
Dividends paid to shareholders of the Group	(23,873)	(20,629)
Dividends paid to minority interests of consolidated companies		
TOTAL CASH FROM EQUITY OPERATIONS	(21,954)	(20,598)
Issue of long-term loans	50,913	88,376
Issue of short-term loans	126,640	52,028
Repayment of long-term loans	1,372	(35,309)
Repayment of short-term loans	(102,807)	(45,143)
Net interest expense paid	(5,680)	(5,782)
TOTAL CASH FROM OPERATIONS ON LOANS AND OTHER FINANCIAL LIABILITIES	70,439	54,171
CASH PROVIDED BY OR USED FOR FINANCING ACTIVITIES (C)	**48,485**	**33,573**
Effect of change in foreign exchange rates (D)	(2,976)	(8,149)
Effect of adjustments in treasury shares (D)	(110)	(762)
CHANGES IN NET CASH (A+B+C+D)	55,398	9,166
Cash at January 1 (E)	125,736	116,569
Cash at year-end (A+B+C+D+E)	181,134	125,735
Cash and cash equivalents	197,575	141,719
Short-term banking facilities	(16,440)	(15,984)
CLOSING CASH POSITION	181,135	125,735

1.4 | STATEMENT OF SHAREHOLDERS' EQUITY

(in €'000)	Share capital	Capital-linked premiums (Note 7.3)	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholders' equity	Profit for the period, Group share	Group's share of shareholders' equity	Minority interests	Total shareholders' equity
SHAREHOLDERS' EQUITY AT JANUARY 1, 2016 RESTATED	**21,610**	**72,584**	**(14,740)**	**603,092**	**30,598**	**(2,652)**	**81,764**	**792,257**	**1,189**	**793,445**
Profit (loss) for the period N (A)							107,008	107,008	(619)	106,389
Translation differences (B)					(2,856)			(2,856)	(18)	(2,874)
Payments in shares (C)				1,604				1,604		1,604
Capital increase	0	0						0	3,947	3,947
Restatement of treasury shares (D)			130			95		225		225
Restatement as per IAS19 (G)						(3,519)		(3,519)		(3,519)
Appropriation of N-1 earnings				81,764			(81,764)	0		0
Change in scope								0	512	513
Dividends distributed				(20,629)				(20,629)	0	(20,629)
Reclassifications								0		0
Fair value of hedging instruments (F)						(8,980)		(8,980)	(48)	(9,028)
Various (E)				(4,852)				(4,852)		(4,852)
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2016	**21,610**	**72,584**	**(14,610)**	**660,979**	**27,742**	**(15,056)**	**107,008**	**860,258**	**4,964**	**865,222**
INCLUDING TOTAL REVENUES AND EXPENSES POSTED FOR THE PERIOD (A)+(B)+(C)+(D)+(E)+(F)+(G)					***(2,856)***	***(12,405)***	***107,008***	***91,747***	***(685)***	***91,063***
SHAREHOLDERS' EQUITY AT JANUARY 1, 2017	**21,610**	**72,584**	**(14,610)**	**659,375**	**27,742**	**(13,452)**	**107,008**	**860,258**	**4,964**	**865,222**
Profit (loss) for the period N (A)							107,965	107,965	(1,014)	106,951
Translation differences (B)					(19,324)			(19,324)	73	(19,251)
Payments in shares (C)				2,075				2,075		2,075
Capital increase	0	0						0	2,000	2,000
Restatement of treasury shares (D)			(110)			156		46		46
Restatement as per IAS19 (G)						369		369		369
Appropriation of N-1 earnings				107,008			(107,008)	0		0
Change in scope				(57,244)				(57,244)	0	(57,244)
Dividends distributed				(23,872)				(23,872)	0	(23,872)
Reclassifications								0		0
Fair value of hedging instruments (F)						18,188		18,188	86	18,274
Various (E)				1,540				1,540	1,556	3,096
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2017	**21,610**	**72,584**	**(14,720)**	**688,882**	**8,419**	**5,261**	**107,965**	**890,001**	**7,664**	**897,665**
INCLUDING TOTAL REVENUES AND EXPENSES POSTED FOR THE PERIOD (A)+(B)+(C)+(D)+(E)+(F)+(G)					***(19,324)***	***18,713***	***107,965***	***107,355***	***(855)***	***106,500***

2 | NOTES

2.1 | GROUP ACTIVITY AND HIGHLIGHTS OF THE YEAR

The company LISI S.A. (hereinafter referred to as "the Company") is a *Société Anonyme* (public limited company) under French law, listed on the Paris Stock Exchange, whose head office is at the following address: "6 rue Juvénal Viellard, CS 70431 GRANDVILLARS, 90008 Belfort cedex".

The consolidated financial statements of the Group for the financial year ending December 31, 2017 include the Company, its subsidiaries and affiliates (which are together referred to as "the Group").

The LISI Group's main business activity is the manufacturing of multifunctional fasteners and assembly components for three business sectors: aerospace, automotive, and medical.

Highlights of the year

Integration of Termax

On October 31, 2017, the LISI Group acquired 51% of the shares of TERMAX LLC. This company was acquired by LISI Holding North America, a wholly owned subsidiary of the LISI Group.

Effective October 31, the transaction led the LISI Group to consolidate the companies of the Termax Group starting November 1, 2017. The impacts of this integration on the Group's financial statements over the last two months of the year are not significant.

Sale of Précimétal Fonderie de Précision

On February 2, 2017, the Group sold its Précimétal Fonderie de Précision subsidiary.

2.2 | ACCOUNTING PRINCIPLES AND POLICIES

The financial statements drawn up as at December 31, 2017 were approved by the Board of Directors on February 14, 2018 and will be submitted to the Combined General Meeting on April 24, 2018.

2.2.1 | Background to the preparation of the consolidated financial statements for the 2017 financial year

In accordance with EU regulation 1606/2002 dated July 19, 2002, the LISI Group's consolidated financial statements have been prepared in line with IAS/IFRS international accounting standards as adopted by the European Union on December 31, 2017.

2.2.1.1 Standards, amendments and interpretations adopted by the EU and mandatory for reporting periods beginning on or after January 1, 2017

- Amendments to IAS 12: this text clarifies the general application of IAS 12 with respect to:
  - the consideration of taxable differences to justify the recognition of deferred tax assets if the reversal of those differences is representative of the future taxable profit to which the deductible differences/deficits may be attributed; and
  - the determination of the probable existence of future taxable profits beyond the reversal of taxable differences for which a deferred tax liability was recognized for the recognition of additional deferred tax assets.

These amendments have no impact on the Group's consolidated financial statements as of December 31, 2017.

- Amendments to IAS 7: new information to be given to better understand the changes in debt arising from financing activities by distinguishing the changes corresponding to cash flows (related to the cash flow tables) from the other changes (changes in scope, currency effects, changes in fair value, etc.).

These amendments result in the addition of a note that shows the changes for the period for financial debts that distinguishes changes resulting from cash flows and "non-cash" effects (paragraph 2.5.6.1).

2.2.1.2 New standards and interpretation for later application approved by the European Union

No standard, interpretation or amendment to existing standards was applied in anticipation in the financial statements at December 31, 2017.

The standards and interpretations published and approved by the European Union, but whose application is not yet mandatory, are the following:

a) At the end of May 2014, the IASB published standard IFRS 15, Revenue from contracts with customers. This standard concerns the recognition and valuation of the revenue from ordinary activities from contracts with customers. This standard will replace standards IAS 18, Revenue from ordinary activities and IAS 101, Construction contracts. This standard, not yet adopted by the European Union, should come into force for the financial years starting from January 1, 2018. This standard introduces a single analysis grid regardless of the transactions (sale of goods, sale of services, granting of licenses, etc.) with five successive stages:
   - identification of the contract or contracts;
   - identification of the seller's various contractual obligations (performance obligations);
   - determination of the price of the transaction;
   - allocation of the price of the transaction to the various obligations identified;
   - recognition of the sales revenue.

The analysis of the Group's main contracts was conducted in accordance with IFRS 15 and shows that this standard will not have a significant impact on the Group's financial statements.

b) In July 2014, the IASB published standard IFRS 9, Financial Instruments, intended to replace IAS 32 and IAS 39, the standards currently in force for the presentation, recognition and evaluation of financial instruments. This standard groups the three phases which make up the project: classification and evaluation, impairment and hedging accounting. The modifications made by IFRS 9 concern:
   - the rules for classifying and evaluating the financial assets which reflect the economic model in the context in which they are managed as well as their contractual cash flows;
   - the rules for impairment of receivables, henceforth based on "expected losses" and not on "realized losses";
   - the treatment of the hedging accounting.

This standard, not yet adopted by the European Union, should come into force for the financial years starting from January 1, 2018. The analysis of the impacts of this standard is in progress.

c) In January 2016, the IASB published standard IFRS16, Lease contracts. This standard will lead companies leasing significant assets as part of their activity to recognize an asset and a financial debt corresponding to the lease commitment.

This standard, not yet adopted by the European Union, should come into force for the financial years starting from January 1, 2019. The analysis of the impacts is in progress. The Group has identified several types of leases that will be restated in accordance with IFRS 16. These mainly include industrial property leases for office use and leases of company vehicles and rolling stock. The major impacts expected at the start of 2019 involve net financial debt and EBITDA. With regard to the assessment of restated aggregates used in the calculation of covenants, there should be no breach of covenants.

2.2.2 | Basis for the preparation of the financial statements

Financial statements are given in thousands of euros, except where otherwise indicated.

They are prepared on the basis of historical costs, with the exception of the following assets and liabilities which have been measured at their fair value: financial derivatives, financial instruments held for trading purposes and financial instruments classified as held for sale and liabilities from cash-settled share-based payment transactions.

Non-current assets held for sale are evaluated at the lower of their book value and the fair value less costs of disposal.

According to IFRS standards, certain accounting options involve taking positions based on judgment of assumptions that have an impact on the amounts of assets or liabilities, income or expenses, particularly regarding the following elements:
- durations of depreciation of fixed assets (notes 2.2.7.3 and 2.2.8.4);
- evaluations retained for impairment tests (note 2.2.8.5);
- evaluation of pension provisions and obligations (notes 2.2.13 and 2.2.14);
- valuation of financial assets at fair market value (notes 2.2.6, 2.2.8.6, 2.2.11 and 2.2.12);
- valuation of share-based payments (note 2.2.14.2);
- recognition of deferred tax assets (note 2.2.18.5).

These judgments and assumptions take into account the specific risks of the sectors concerned by LISI's activities, as well as general risks related to the economic context.

Management continuously reviews its estimates and assessments based upon past experience and on factors considered reasonable that form the basis of its assessment for the book values of assets and liabilities. The impact of changes to accounting estimates is recognized during the period of change only where it affects this period or during the period of change and successive periods if these are also impacted by the change.

These assumptions are broken down by division on the basis of information drawn from independent experts (actuaries, etc.).

Identified sensitivities

The main sensitivities identified and tracked by management concern the data and assumptions related to the implementation of the impairment tests. These assumptions are consolidated through a collection process of forecast information from major players in the sector (market assumptions) and actuaries (rate assumptions).

Accounting treatment of the CVAE (Tax on Companies' Added Value)

Following the release of the National Accounting Council of January 14, 2010, the Group decided to qualify the CVAE (contribution of the Added Value of Businesses) as income tax that would fall within the scope of IAS 12. This decision is based on an opinion of the IFRIC issued in 2006 stating that the term 'taxable profit' implies a notion of net rather than gross amount without it being necessarily identical to the accounting result. Moreover, this choice ensures consistency with the accounting treatment applied to similar taxes in other foreign countries.

Treatment of the research tax credit

Revenues related to the research tax credit are classified in the income statement under "Other income".

Treatment of the tax credit for competitiveness and employment ("CICE")

The CICE has been presented in application of IFRS as a deduction from the employment-related expenses for an amount of €11.6 million.

2.2.3 | Consolidation principles

A subsidiary is an entity controlled by its parent company.
In accordance with IFRS 10, an investor controls an investee if and only if all of the following conditions are satisfied:

- it holds power over the investee;
- it is exposed or entitled to variable returns because of its relationship with the investee;
- it has the ability to exercise its power over the investee in such a way as to affect the amount of returns that it obtains.

The list of consolidated companies is provided in note 2.3.4. At December 31, 2017 all the companies are included in the consolidation scope in accordance with the full consolidation method.

2.2.4 | Transactions excluded from the consolidated financial statements

Balance sheet balances, unrealized profits and losses, and income and costs arising from intra-group transactions have been excluded in preparing the consolidated financial statements.

Unrealized losses have been excluded in the same way as unrealized profits, on condition that they do not represent a loss of value.

2.2.5 | Conversion methods for items in foreign currency

2.2.5.1 Transaction in foreign currency

Transactions in foreign currencies are recorded in the books in the operating currency at the rate of exchange on the date of the transaction. At the year-end, the monetary assets and liabilities in foreign currencies are converted into the operating currency at the rate in force at the year end. Exchange rate differences arising from conversions are recognized in income or expenses, with the exception of differences from foreign currency loans that are a hedge on a net investment in a foreign entity, which are recognized in the conversion reserve as a distinct element of shareholders' equity. They appear on the income statement upon the exit of that business.

2.2.5.2 Translating financial statements of consolidated subsidiaries and joint ventures

The financial statements of subsidiaries and affiliates whose operating currency is not the euro have been converted at rates in effect at the close of the period reported for the balance sheet and at the average exchange rate for the earnings and cash flow statements. Exchange rate differences arising from conversions appear in the conversion reserve, as a distinct element of shareholders' equity.

2.2.6 | Financial instruments

2.2.6.1 Non-derivative financial instruments

Non-derivative financial instruments include investments in equity instruments and debt securities, trade and other receivables, cash and cash equivalents, loans and debts, and trade and other payables. Non-derivative financial instruments are recognized in the accounts as indicated in the specific notes below: 2.2.8.6, 2.2.10, 2.2.11, 2.2.12, 2.2.15 and 2.2.16.

2.2.6.2 Financial derivatives

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its cash management policy, LISI S.A. neither holds nor issues derivatives for trading purposes.

However, derivatives that do not meet the hedge criteria are valued and recorded at fair value by earnings. The profit or loss arising from the re-evaluation at fair value is immediately posted to the income statement.

When a derivative is designated as a hedge for cash flow variations of a recognized asset or liability, or of a highly probable, expected transaction, the effective share of change in fair value of the derivative is recognized directly in shareholders' equity. Accumulated, associated profits or losses are taken out of shareholders' equity and included in the income statement of the period(s) during which the covered transaction affects the profit or loss.

2.2.7 | Intangible assets

2.2.7.1 Goodwill

In line with IFRS 3, business combinations are recognized in the accounts using the acquisition method. This method requires that at the first consolidation of any entity over which the Group has direct or indirect control, the assets and liabilities acquired (and any potential liabilities assumed) should be recognized at their acquisition-date fair value. At this point, goodwill is valued at cost, which equates to the difference between the cost of the business combination and LISI's stake in the fair value of the assets and identifiable liabilities.

For acquisitions prior to January 1, 2004, goodwill remains at its presumed cost, i.e. the net amount recognized in the accounts under the previous accounting framework, minus depreciation.

For acquisitions after this date, goodwill is valued at cost, minus the cumulative loss in value. It is allocated to cash-generating units or groups of cash-generating units and is not amortized; instead, it is subject to an impairment test at least once a year following the method described in paragraph 2.2.8.5.

If the goodwill is negative, it is recognized directly as a profit in the income statement.

2.2.7.2 Research and development

Research costs incurred in order to develop scientific knowledge and understanding, or to learn new techniques, are recognized as an expense when they are incurred.

Under the IFRS framework, development costs (i.e., costs incurred by applying the results of research to a plan or model in order to develop new or substantially improved products and processes) are recorded as fixed assets if the Group can demonstrate that future economic benefits are probable. The LISI Group's development costs primarily relate mainly to products which are being developed through very close collaboration with clients, rather than to improvements in processes.

Most expenses incurred do not meet the criteria for capitalization as intangible assets and are therefore recorded as expenses. The Group carries out regular assessments of major projects in order to identify any costs which could be capitalized.

2.2.7.3 Other intangible assets

Concessions, trademarks and software programs are recognized at historic cost and are subject to a depreciation plan. Intangible fixed assets acquired through a business combination are recognized at their acquisition-date fair value. Intangible fixed assets with finite useful lives are subject to depreciation over this period, while intangible fixed assets with indefinite useful lives are subject to an impairment test for every new balance sheet.

Depreciation is recognized as an expense using the straight-line method over the estimated useful life of the intangible fixed assets except when this is indefinite.

Estimated useful lives are as follows:
- Trademarks: 10 years;
- Software programs: 1 – 10 years.

2.2.8 | Tangible assets

2.2.8.1 Assets owned by the LISI Group

Tangible fixed assets are recorded at diminished cost with accumulated depreciations and impairments. The cost of an asset produced by the Group for itself includes the costs of raw materials, direct manpower, and an estimate, if applicable, of costs related to the removal and dismantling of the asset and the repair of the site at which it is located, along with an appropriate share of the general production costs.

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

2.2.8.2 Assets funded through finance leases

Leases which transfer virtually all the risks and benefits relating to the ownership of an asset to the Group are considered as finance leases. Assets funded through finance leases are recognized in the assets side of the balance sheet at the fair value of the goods leased, or the present value of the minimum lease payments if this is lower. These assets are depreciated over the same period as goods of the same type which are owned outright. The corresponding debt is entered on the liabilities side of the balance sheet.

2.2.8.3 Subsequent expenditure

When calculating the book value of a tangible fixed asset, the Group recognizes the cost of replacing a component of this tangible fixed asset at the time when the cost is incurred, if it is likely that future economic benefits associated with this asset will flow to the Group and the cost can be reliably estimated. All ongoing servicing and maintenance costs are recognized as an expense when they are incurred.

2.2.8.4 Depreciation

Depreciation is recognized as an expense using the straight-line method over the estimated useful life for each component of a tangible fixed asset.

Land is not depreciated.

Estimated useful lives are as follows:
- buildings: 20 – 40 years;
- plant and machinery: 10 – 15 years;
- fixtures and fittings: 5 – 15 years;
- transport equipment: 5 years;
- equipment and tools: 10 years;
- office equipment: 5 years;
- office furniture: 10 years;
- IT hardware: 3 years.

2.2.8.5 Impairment of assets

Goodwill and intangible fixed assets of indefinite life-span are submitted to an impairment test at each annual close (see note 2.2.7.1) and each time events or market-changing modifications indicate a risk of impairment. Other intangible assets fixed and tangible fixed assets are also subject to such a test at any time when there is a risk of loss of value.

The method used involves comparing the recoverable value of each of the Group's cash-generating units with the net book value of the corresponding assets (including the goodwill).

The recoverable value is calculated for each asset individually, unless the asset under consideration does not generate cash inflows independently of the cash inflows generated by other assets or groups of assets. In some cases, the recoverable value is calculated for a group of assets.

Recoverable value is defined as: whichever is the higher out of the realizable value (less the costs of disposal) and the value in use. The latter is calculated by discounting future cash flows, using predicted cash flows which are consistent with the most recent budget and business plan approved by the Executive Committee and presented to the Board of Directors. The discount rate applied reflects the market's current assessment of the time value of money and the risks specific to the asset or the group of assets.

The realizable value is defined as the sum which could be obtained by selling the asset or group of assets in conditions of normal competition where all parties are fully informed and consenting, less the costs of disposal. These figures are calculated from market values (comparison with similar listed companies, value of recent deals and stock prices) or failing that, from discounted future cash flows.

If the recoverable value is lower than the net book value for the asset or group of assets tested, the discrepancy is recognized as a loss of value. In the case of a group of assets, it should preferably be classified as a reduction in goodwill.

Losses of value recognized under Goodwill are irreversible.

As from financial year 2016, to carry out impairment tests on goodwill, the Group has selected a strategic combination of Business Units (B.U) that correspond to the segmentation and reporting structure of the LISI Group, namely, the three divisions LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL.

To carry out impairment tests on other intangible and tangible fixed assets, the allocation to the CGUs remains unchanged:

The LISI AEROSPACE division is split into 8 CGUs:
- Europe B.U;
- USA B.U;
- Special products B.U;
- Engines and critical parts Europe B.U;
- Engines and critical parts North America B.U;
- Aerostructure and Aviation equipment B.U;
- Technical components B.U - Extrusion, Forming and Sheet Metal;
- Technical components B.U - Forging and casting.

The LISI AUTOMOTIVE division is split into 3 CGUs:
- Threaded fasteners B.U;
- Safety and Mechanical Components B.U;
- Clipped solutions B.U.

The LISI MEDICAL division is composed of a single CGU.

2.2.8.6 Non-current financial assets

This item mainly includes capitalization contracts relating to US retirement investments and equity method investments. It also includes non-consolidated holdings. These are investments in unlisted companies, for which fair value cannot be reliably estimated. As a last resort, the Group values financial assets at their historic cost less any potential loss of value, when no reliable fair value estimate is possible through an evaluation technique, in the absence of an active market.

2.2.9 | Inventories

Stock is valued at whichever is the lower out of cost and net realizable value.

The cost of materials and merchandise is calculated from their acquisition cost plus the costs incurred to bring them to their current location in their current condition. Finished products and work in progress are valued at actual production cost over the period, including an appropriate portion of general costs based on normal production capacity.

The net realizable value equates to the estimated sales price in the normal course of business, less the estimated cost of completion and estimated costs necessary to make the sale.

Inventories are impaired when their net realization value is less than their cost of production, when they are damaged, obsolete, as well as each time there is a risk that they might not be disposed of under normal conditions, or when there is a risk that they will be disposed of over a period that is longer than what is generally accepted.

2.2.10 | Trade and other receivables

Trade receivables, loans and advances are recorded to the balance sheet at their nominal value. In the event of risk of non-recovery, impairment is fixed on a case-by-case basis using the probable collection flows; this risk takes the age of the transaction into consideration.

2.2.11 | Cash and cash equivalents

Cash and cash equivalents include current bank accounts, cash in hand, on-call deposits, securities and negotiable certificates of deposit held by the Group. Adjustments of value are recognized in the income statement.

2.2.12 | Share capital

2.2.12.1 Treasury shares

The Group implements a policy of buying back its own shares, in accordance with authorizations provided by the Shareholders' General Meeting to the Board of Directors. The main purposes of the share buyback program are:
- to increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the AFEI professional code of ethics recognized by the AMF (the French financial market authority);
- to grant stock options or free shares to employees and corporate officers of the company and/or its Group;
- to retain and use shares as consideration or payment for potential acquisitions;
- to cancel shares purchased, subject to the approval of the Extraordinary General Meeting to be called at a later date.

Repurchased shares are classified as treasury shares and deducted from shareholders' equity.

2.2.12.2 Remunerations in shares (stocks options and conditional award of so-called performance shares)
Refer to note 2.2.14 "Personnel benefits".

2.2.13 | Provisions

A provision is recognized on the balance sheet if the Group has a current, legal commitment or an implicit one arising from a past event and for which it is probable that there will need to be an outflow of resources in order to eliminate the commitment. They are measured at the estimated payment amount. If the effect of capitalizing provisions is not significant, capitalization is not carried out.

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

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

2.2.14 | Personnel benefits

2.2.14.1 Commitments to the personnel
In accordance with the laws and practices of each country in which the Group operates, it offers its employees and former employees, subject to certain conditions of service, the payment of pensions or compensation on retirement. Such benefits can be paid as part of defined contributions plans or defined benefits plans.

Contributions in defined contributions plans are recognized as expenses for the period in which they are incurred.

In respect of defined benefits plans, the Group's commitments to its staff are determined by independent actuaries or in house using the Projected Unit Credit Method in accordance with IAS 19. This method takes into account in particular the probability of keeping staff within the Group until retirement age, future remuneration developments and a discount rate.

Such plans can be financed by investments in various instruments, such as insurance policies, shares or bonds, to the exclusion of debt instruments or shareholders' equity issued by the Group.
The requirements of IFRIC 14 do not fall within the scope of adjustments to be applied by the Group.

In accordance with the revised IAS 19, actuarial gains and losses have been recognized as "Other comprehensive income" since January 1, 2012.

The excess or shortfall of the fair value of assets over the present value of bonds is recognized as assets or liabilities on the balance sheet. However, excess assets are only recognized on the balance sheet if they represent a future economic advantage for the Group.

The LISI Group has no plan opened relating to defined-contribution plans.

2.2.14.2 Share-based payments
The Group has implemented plans for the share-purchase options and a plan for awarding shares as a bonus conditional on performance, for certain employees and directors, whose objective is to create additional incentive to improve the performance of the Group. As part of this scheme, certain employees and managers of foreign subsidiaries will benefit from these same advantages, but will receive their remuneration in the form of a bonus payment for schemes prior to 2016 and in shares as of the 2016 scheme.

The award of share purchase options and the award of shares based on performance do represent a benefit available to such associates, and thus constitute a supplement to their remuneration. The options granted are recognized as personnel expenses based on the fair value of the shares or equity derivatives assigned, on the date of implementation of these plans throughout the vesting period of these options.

In the case of plans for share-purchase options and bonus shares based on performance, these benefits correspond to the fair market value of the instruments issued.
As regards bonus commitments, these are recorded as social liabilities at their fair value at year-end.

This compensation paid in LISI shares is recognized over a 2-year period as from the allocation date, in accordance with the vesting period of the rights given in the payment of the plans, as they concern the allocation of shares based on performance.

A share purchase plan (Group Savings Plan) is also available for Group employees, in which they may purchase LISI shares within the framework of a capital increase reserved for employees or as part of a share buyback program. Shares acquired by employees within the framework of these programs are subject to certain sale and transfer restrictions. In the case of capital increases reserved for employees as part of the Group Savings Plan, the benefit offered to employees is the discount on the subscription price, being the difference between the subscription price of the shares and the share price at the award date (with a maximum of 20% in accordance with French law). This expense is recognized in its entirety at subscription date in the case of the Group Savings Plan.

2.2.15 | Debt

Interest-bearing loans are initially recognized at their fair value less costs attributable to the transaction. They are then measured at depreciated cost; the difference between the cost and the repayment value is recognized in the income statement for the period of the loans, in accordance with the effective rate of interest method.

2.2.16 | Trade and other accounts payable

Trade and other accounts payable are valued at fair value at first recognition, and then at depreciated cost. When the maturity of such financial assets is short, the sums obtained from applying this method are very close to the nominal value of the payables, which is then the value employed.

2.2.17 | Definition of the concepts "current" and "non-current" in the balance sheet

Assets and liabilities whose maturity is less than the operating cycle, which is generally 12 months, are classified as current assets and liabilities. If maturity is later than this, they are classified as non-current assets and liabilities.

2.2.18 | Overview of the income statement

The Group has opted to continue showing the following totals, which are not strictly accounting ones, and whose definitions are as follows:

- current Gross Operating Profit (EBITDA on current transactions) includes operating income from which consumption, other purchases and external expenses, taxes and payroll expenses are deducted. It does not include contributions and write-offs from depreciation and provisions;

- current Operating Profit (EBIT on current transactions) includes Current Gross Operating Profit (EBITDA) as well as contributions and write-offs from depreciation and provisions;

- operating Profit includes EBIT before non-curent transactions and other non-recurring operating income and expenses. These non-recurring items are strictly defined as income and expenses resulting from events or transactions that are clearly distinct from the company's ordinary activities and that are not expected to reoccur on a regular basis, owing to:
  - their unusual nature; and
  - their random occurrence, such as expenses or compensation received for losses, costs resulting from shutdowns, restructurings, or site relocations, goodwill amortization, and capital gains and losses on the sale of non-operating, tangible and intangible assets.

2.2.18.1 Sale of goods and provision of services

Income from the sale of goods is recognized in the income statement when the significant risks and advantages inherent in ownership of the goods have been transferred to the buyer.

Sales revenues are shown after deduction of discounts. Sums from royalties, patent fees and use of trademarks are posted to sales revenues.

2.2.18.2 Payments for operating lease contracts

Payments for operating leases are recognized as expenses on a straight-line basis over the period of the lease.

2.2.18.3 Payments for finance-lease contracts

The minimum payments for finance leases, as described in paragraph 2.2.8.2, are broken down into financial charges and debt repayment. The financial charge is applied for each period covered by the lease so as to have a constant, periodic interest rate to apply to the declining balance.

2.2.18.4 Cost of finance and other financial charges and income

The cost of finance includes:

- interest charges on loans calculated using the effective interest rate method;
- interest charges included in payments made for a finance lease and calculated using the effective interest rate method;
- interest income generated from current investments;
- variations in fair value of financial instruments;
- income from dividends of non-consolidated companies is recognized in the income statement when the Group becomes entitled to receive payments, i.e., in the case of quoted securities, on the coupon date.

Other financial income and expenses mainly include exchange profits and losses.

2.2.18.5 Income taxes

Corporate income tax (debit or credit) includes the tax to pay (the tax credit) in respect of each financial year and the amount of deferred taxation to pay (credit). The tax is recognized as income, except if it relates to items that are directly recognized as equity; in which case it is recognized as equity.

Deferred taxation is calculated using the variable carry forward method for all timing differences at year-end between taxable and accounting values of assets and liabilities on the consolidated balance sheet. Fiscally non-deductible goodwill does not give rise to a declaration of deferred tax.

Deferred tax assets are only recognized if their recovery is probable. Deferred tax debits and credits are measured at the tax rates that will be applicable when the timing differences are settled.

A deferred tax asset on loss carry-forwards is recognized only insofar as it is likely that the relevant subsidiary or its tax consolidation scope will have future taxable profits to which tax loss carryforwards can be attributed.

Regarding French companies, pursuant to the removal of the professional tax and its replacement by the CET and CVAE as of 2010, the Group has decided to consider the CVAE in the context of the IAS 12 standard. This decision will thus lead to the posting of this tax as "Taxes" in the income statement.

The deferred taxes of French companies were revalued to take into account the article of the Finance Act for 2017 for the progressive reduction of corporate income tax.
The deferred taxes of US companies were revalued according to the best estimate to take into account the lowering of the federal tax rate pursuant to the tax reform adopted in 2017 in the United States.

2.2.18.6 Earnings per share
Net earnings per share (before dilution) are calculated on the ratio between the net profit for the period and the weighted number of shares in circulation during the period, after deduction of shares held by the Group (treasury shares). Net diluted earnings per share are calculated by including financial instruments that provide deferred access to the Group's capital (stock options, share warrants, performance shares).

2.2.19 | Segment information

The LISI Group presents its segment information in accordance with the criteria defined by IFRS 8.

An operating segment is a component of an entity:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Group's activities are spread over three business segments, in which the three divisions operate:
- LISI AEROSPACE, which combines all the activities in the aerospace market;
- the LISI AUTOMOTIVE division, which covers all activities in the automotive market;
- LISI MEDICAL, which covers all activities in the medical market.

Other activities mainly include the activities of the Group's main company.

2.2.20 | Indicators

The Group uses the indicators defined below.

Free cash flow: Operating cash flow minus net industrial CAPEX and changes in working capital requirements (see chapter 3 note 2.5.2.3 Cash and cash equivalents).

Return on capital employed (ROCE): Ratio of EBIT to average capital employed (Shareholders' equity + Net debt for years N and N-1).

Return on equity (ROE): Ratio of net earnings to total shareholders' equity.

Gearing: Ratio of Net Debt to the Group share of consolidated equity.

Book to bill: Ratio between the orders taken during the period and the billing during the same period.

Revalued Net Assets (RNA): Average of [(0.95 x Group Sales Revenue) + (6.5 x Group EBITDA) + (10 x Group EBIT)] - Average Group Net Debt for years N and N-1. The indices selected are defined by the management and are identical to 2016.

2.3 | SCOPE OF CONSOLIDATION

2.3.1 | Changes in the consolidation scope in the financial year 2017

- Acquisition of 51% of Termax Group shares on October 31, 2017 with an option to purchase the remaining 49% in 2021.
- Sale of Précimétal Fonderie de Précision on February 2, 2017.

2.3.2 | Impact on the Group indicators of the consolidation of Termax Group, which took place during financial year 2017

	In € million	Impact in % on the Group indicators
Sales revenue from November to December 2017	10.9	0.7%
EBIT November to December 2017	1.6	0.9%

Changes in scope are included in the thresholds recommended by the supervision authorities. We have not established any proforma statements.

2.3.3 | Impact on the Group indicators of the deconsolidation of Précimétal Fonderie de Précision which took place during financial year 2017

	In € million	Impact in % on the Group indicators
Sales revenue January 2017	1.5	0.1%
EBIT January 2017	0.1	NS

2.3.4 | Consolidation scope at year-end

			2017		2016	
Companies	Head office	Country	% of control	% of interests	% of control	% of interests
HOLDING COMPANY						
LISI S.A.	Belfort (90)	France	Parent company		Parent company	
LISI AEROSPACE DIVISION						
PRECIMETAL FONDERIE DE PRECISION	Seneffe	Belgium			100.00	100.00
PRECIMETAL OUTILLAGE DE PRECISION	Seneffe	Belgium			100.00	100.00
BLANC AERO INDUSTRIES GMBH	Hamburg	Germany	100.00	100.00	100.00	100.00
LISI AEROSPACE Canada Corp	Dorval	Canada	100.00	100.00	100.00	100.00
HI-SHEAR CORPORATION	Torrance (California)	USA	100.00	100.00	100.00	100.00
HI-SHEAR Holdings LLC	Torrance (California)	USA	100.00	100.00	100.00	100.00
LISI AEROSPACE North America, Inc	Torrance (California)	USA	100.00	100.00	100.00	100.00
The MONADNOCK Company	City of Industry (California)	USA	100.00	100.00	100.00	100.00
AIRMON HOLDINGS 1 SAS	Paris 12th arrondissement	France	100.00	100.00	100.00	100.00
BLANC AERO INDUSTRIES SAS	Paris 12th arrondissement	France	100.00	100.00	100.00	100.00
BLANC AERO TECHNOLOGIES SAS	Paris 12th arrondissement	France	100.00	100.00	100.00	100.00
CREUZET AERONAUTIQUE SAS	Marmande (47)	France	100.00	100.00	100.00	100.00
FORGES DE BOLOGNE SAS	Bologne (52)	France	100.00	100.00	100.00	100.00
INDRAERO SIREN SAS	Argenton/Creuse (36)	France	100.00	100.00	100.00	100.00
LISI AEROSPACE ADDITIVE MANUFACTURING	Ayguemorte-les-Graves (33)	France	60.00	60.00	60.00	60.00
LISI AEROSPACE STRUCTURAL COMPONENTS	Paris 12th arrondissement	France	100.00	100.00	100.00	100.00
LISI AEROSPACE SAS	Paris 12th arrondissement	France	100.00	100.00	100.00	100.00
MANOIR AEROSPACE SAS	Paris 12th arrondissement	France	100.00	100.00	100.00	100.00
BLANC AERO INDUSTRIES UK Ltd	Rugby	UK	100.00	100.00	100.00	100.00
ANKIT Fasteners Pvt Ltd	Bangalore	India	51.00	51.00	51.00	51.00
LISI AEROSPACE India Pvt Ltd	Bangalore	India	100.00	100.00	100.00	100.00
LISI AEROSPACE Creuzet Maroc	Casablanca	Morocco	100.00	100.00	100.00	100.00
LIXUS Industrie	Tangiers	Morocco	100.00	100.00	100.00	100.00
CREUZET POLSKA Sp. Z o o	Sedziszow Malopolski	Poland	70.00	70.00	70.00	70.00
Fastener Tecnology Bağlantı Elemanları San. Tic. A.Ş.	Izmir	Turkey	100.00	100.00	100.00	100.00
LISI AEROSPACE CARGO EQUIPMENT SAS	Argenton/Creuse (36)	France	100.00	100.00		
LISI AUTOMOTIVE DIVISION						
LISI AUTOMOTIVE BETEO GmbH	Gummersbach	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE BETEO GmbH & CO KG	Gummersbach	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE KKP GmbH	Mellrichstadt	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE KKP GmbH & CO KG	Mellrichstadt	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE KNIPPING Verbindungstechnik GmbH	Kierspe	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Mecano GmbH	Heidelberg	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Mohr und Friedrich GmbH	Vöhrenbach	Germany	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE (BEIJING) CO., Ltd	Beijing	China	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE (SHANGHAI) CO., Ltd	Shanghai	China	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE KNIPPING Espana S.A.	Madrid	Spain	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE LLC	Laredo	USA	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Former SAS	Delle (90)	France	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Nomel SAS	La Ferté Fresnel (61)	France	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Rapid SAS	Puiseux Pontoise (95)	France	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE SAS	Delle (90)	France	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE KNIPPING Ltd	Solihull	UK	100.00	100.00	100.00	100.00
LISI JIEHUA AUTOMOTIVE Co. Ltd	Hong Kong	Hong Kong	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Monterrey SA de CV	Monterrey	Mexico	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Form a.s	Cejc	Czech Republic	100.00	100.00	100.00	100.00
LISI Otomotiv Sanayi ve Ticaret Limited Sirketi	Izmir	Turkey	100.00	100.00	100.00	100.00
Termax Corp.	Lake Zurich	USA	51.00	51.00		
Termax Int. LLC	Lake Zurich	USA	51.00	51.00		
Termax Int. Inc.	Lake Zurich	USA	51.00	51.00		
TMX Canada Corp.	Windsor	Canada	51.00	51.00		
TMX Mexico	Queretaro	Mexico	51.00	51.00		
TMX Fastener Systems	Suzhou	China	51.00	51.00		
Shanghai Branch	Suzhou	China	51.00	51.00		

Companies	Head office	Country	2017 % of control	2017 % of interests	2016 % of control	2016 % of interests
LISI MEDICAL DIVISION						
LISI MEDICAL JEROPA inc.	Escondido (California)	USA	100.00	100.00	100.00	100.00
LISI MEDICAL REMMELE Inc	Minneapolis	USA	100.00	100.00	100.00	100.00
LISI MEDICAL FASTENERS SAS	Neyron (01)	France	100.00	100.00	100.00	100.00
LISI MEDICAL ORTHOPAEDICS SAS	Hérouville Saint-Clair (14)	France	100.00	100.00	100.00	100.00
LISI MEDICAL SAS	Neyron (01)	France	100.00	100.00	100.00	100.00

- The following companies (Termax Group) entered the scope of consolidation on October 31, 2017:
  - Termax Corp.
  - Termax Int. LLC
  - Termax Int. Inc.
  - TMX Canada Corp.
  - TMX Mexico
  - TMX Fastener Systems
  - Shanghai Branch
- Creation of LISI AEROSPACE Cargo Equipment on January 1, 2017;
- On February 2, 2017, the LISI Group sold Précimétal Fonderie de Précision.

2.3.5 | Acquisitions of subsidiaries

In application of standard IFRS 3 on business combinations, the LISI Group has 12 months from the acquisition date to make a final allocation of the acquisition price and a final calculation of the goodwill. Consequently, the amounts recognized at December 31, 2017 in the acquisition of the Termax Group may be reviewed at subsequent closures. These amounts may concern certain assets and provisions.

Details of the impact of this acquisition on the Group consolidated balance sheet are given below:

(in €'000)	Recognized fair value on the acquisition date	Notes
Fixed assets	16,132	2.5.1.2
Other net short-term assets and liabilities	3,865	
Net inventories	9,067	2.5.2.1
Net debt	(3,867)	
Taxes and provisions		
Cash and cash equivalents	2,409	
TOTAL NET SITUATION OF THE INCOMING COMPANY	**27,607**	
% of the assets recovered	51	
SHARE OF THE MINORITIES	13,527	
SHARE OF THE NET SITUATION ACQUIRED BY LISI NORTH AMERICA	14,079	
Acquisition price	54,962	
CONSOLIDATION GOODWILL	40,882	

A financial debt of €71 million was recognized on December 31, 2017 to take into account the two-step structuring of the acquisition (commitment of the LISI Group to buy the remaining 49% by 2021). This amount was offset by €57 million in shareholders' equity, as indicated in Note 2.5.3.

2.4 | FINANCIAL RISK MANAGEMENT

The Group is exposed to the main following risks arising from the use of financial instruments:
- credit risk;
- liquidity risk;
- market risk,
- interest rate risk;
- currency risk;
- raw materials risk.

This note presents the information on the Group's exposure to each of the risks above, its objectives, policy and procedures for measuring and managing risk, and for capital management. Quantitative information is given in other sections of the consolidated financial statements.

The aim of the Group's risk management policy is to identify and analyze the risks to which it is exposed, define the upper and lower risk limits and the controls required to manage risk and ensure compliance with the limits defined.

2.4.1 | Credit risk

Credit risk is the Group's risk of financial loss in the event that a customer or other party in a financial instrument fails to meet their contractual obligations. This risk derives mainly from trade receivables and securities held for sale.

Trade and other receivables

Group exposure to credit risk is mainly influenced by individual customer profiles. The Group has a policy of monitoring trade receivables, allowing it to constantly control its third party risk exposure. The Group believes that the credit risk of write-off of past due receivables is minimal.

At December 31, 2017 the amount of provisions for doubtful debts amounted to €3.7 million, to be compared to total receivables of €204.3 million. The amount of the permanent losses recognized over the year was €1.0 million.

Risk on investment securities

On December 31, 2017, the Group's balance sheet showed cash and cash equivalents of €197.6 million (see §2.6.2.3 Cash and cash equivalents). The cash equivalents are mainly made of marketable securities represented by monetary mutual funds, invested in very short maturity securities and representing no risk in capital, in accordance with the Group's cash management policy. In accordance with accounting principles, these investments are valued at their market price at year-end.

2.4.2 | Liquidity risk

The Group's cash management is centralized: the vast majority of the cash surpluses or financing requirements of its subsidiaries, where local legislation permits, is invested or financed by the parent company on normal market terms. The central cash management team manages the financing of the Group, current and forecast, and ensures its capacity to meet its financial commitments. For that purpose, it maintains a level of the available cash and confirmed credit facilities compatible with its size and the maturities of its debt.

As at December 31, 2017, the LISI Group had available unused bank overdraft lines of €60 million, and net cash of €197.6 million, resulting in a total operating cash flow of €257.6 million, making it insensitive to liquidity risk.

The Groups financing contracts provide for compliance with two main ratio restrictions:

- Net debt/Consolidated shareholders' equity < 1.2;
- Net debt/Consolidated EBITDA < 3.5.

As at December 31, 2017, the former amounted to 0.337 and the latter to 1.1717, compared with 0.254 and 0.9201, respectively, as at December 31, 2016. The Group therefore has a comfortable margin of safety, confirming its low liquidity risk.

(in €'000)	12/31/2017	12/31/2016
Cash and cash equivalents	197,576	141,719
CASH AVAILABLE [A]	197,576	141,719
Current banking facilities [B]	16,440	15,984
NET CASH [A - B]	181,136	125,735
Credits	455,400	315,351
Other financial creditors	25,891	28,559
NET DEBT [C]	481,291	343,910
NET DEBT [D = C + A - B]	300,155	218,175
GROUP EQUITY [E]	890,001	860,258
DEBT RATIO (EXPRESSED AS %) [D / E]	33.7%	25.4%

N.B.: 2015 debt ratio as a %: 19.8%.

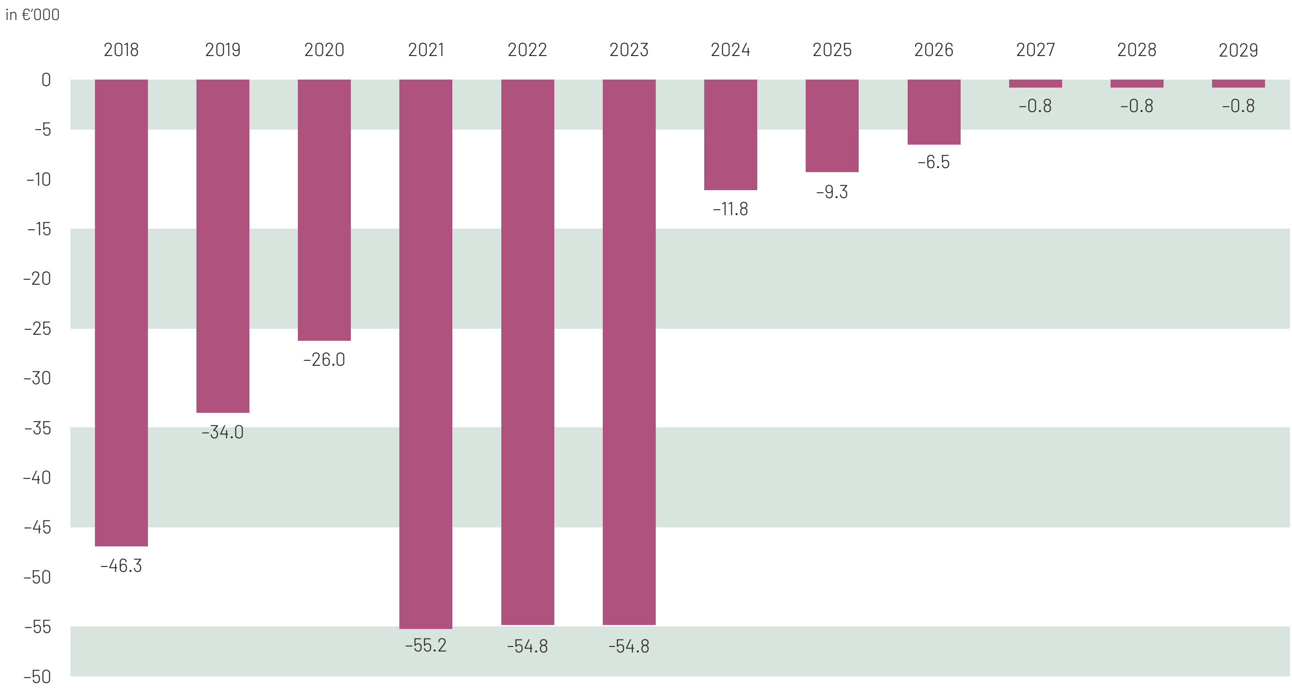
The cash table for all financial liabilities is as follows:

	At 12/31/2017	Breakdown of contractual flows not discounted on due date			
FINANCIAL LIABILITIES RECORDED ON BALANCE SHEET (in thousands of euros)	Net value accounting	At less than 1 year	Between 1 and 5 years	Over 5 years	Total
Non-current borrowings	317,757		260,338	57,419	317,757
Other non-current financial liabilities (excl. PCA)	4,678		4,678		4,678
Current borrowings	179,973	179,973			179,973
Trade and other accounts payable	297,109	297,109			297,109
TOTAL FINANCIAL LIABILITIES	**799,517**	**477,082**	**265,016**	**57,419**	**799,517**

	At 12/31/2016	Breakdown of contractual flows not discounted on due date			
FINANCIAL LIABILITIES RECORDED ON BALANCE SHEET (in thousands of euros)	Net value accounting	At less than 1 year	Between 1 and 5 years	Over 5 years	Total
Non-current borrowings	253,856		92,449	161,407	253,856
Other non-current financial liabilities (excl. PCA)	5,365		5,365		5,365
Current borrowings	106,037	106,037			106,037
Trade and other accounts payable	304,492	304,492			304,492
TOTAL FINANCIAL LIABILITIES	**669,750**	**410,529**	**97,814**	**161,407**	**669,750**

The graph below shows the Group's financial leeway over ten years, giving a total borrowing amount of €272 million. The difference with the current and non-current borrowings shown above (€360 million vs. €272 million) is primarily due to current banking facilities, employee profit-sharing and leasing liabilities that are not included in the graph below:

Debt amortization profite at 12/31/2017



2.4.3 | Market risk

The main risks covered by the Group's financial instruments are the foreign currency risk, raw materials risk and the interest rate risk. The fair value as at December 31, 2017 of the derivatives used in the management of market risks is detailed below:

(in €'000)	12/31/2017 On the assets side	12/31/2017 On the liabilities side	12/31/2016 On the assets side	12/31/2016 On the liabilities side
INTEREST RATE RISK MANAGEMENT				
Variable rate payers swaps		1,309		2,056
CURRENCY RISK MANAGEMENT				
Foreign exchange derivatives		14,750		23,281
RAW MATERIALS MANAGEMENT RISK				
Raw materials derivatives	1,219			145
TOTAL	**1,219**	**16,059**	**0**	**25,482**

Market risk is the risk of variation in market prices, such as interest rates, affecting the Group result or the value of financial instruments held. Managing market risk involves controlling market risk and maintaining it within acceptable limits, whilst optimizing the profitability risk ratio.

The Group buys and sells derivatives and supports financial liabilities in order to manage market risk.

Hedging and market operations on interest rates, exchange rates or securities using futures instruments are recorded in accordance with the provisions of CRBF rules nos. 88-02 and 90-15. Commitments relating to these transactions are posted to off-balance sheet accounts for the nominal value of the contracts. As at December 31, 2017, the sum of these commitments represented the volume of transactions that remained unsettled at year-end.

The accounting principles applied vary according to the nature of the instruments and the operator's initial intentions.

The commitments are detailed in paragraph 2.7.4.1 of chapter 3 of this Annual Report.

2.4.3.1 Interest rate risk

The Group's main exposure in terms of interest rate risk arises from the exposure of its financial assets and liabilities at variable rates to variations in interest rates, which could have an impact on these cash flows.

Within the framework of its overall policy, the Group partly converts its initially variable rate liabilities into fixed rate liabilities, using financial instruments such as interest rate swaps.

These hedging instruments are negotiated on OTC markets with banking counterparts, in a centralized manner by the Group's Financial Department. They are not considered by the Group to be hedging instruments and are recorded at fair value to the income statement.

In 2017, the Group put new hedges in place and the amount of its unexpired instruments at December 31, 2017 covered a nominal amount of €66.8 million. The features of these instruments are presented in note 2.7.4 "Commitments".

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

(in €'000)	12/31/2017	12/31/2016
Loans - variable rates	100,052	133,500
Short-term banking facilities	16,441	15,984
Cash and cash equivalents	(180,174)	(123,314)
NET POSITION PRIOR TO MANAGEMENT	**(63,681)**	**26,170**
Interest rate SWAP	66,797	73,660
HEDGING	**66,797**	**73,660**
NET POSITION AFTER MANAGEMENT	**(130,478)**	**(47,490)**

The approach taken consisted in taking into account as a calculation basis for the sensitivity to rates the net, lending and borrowing positions.

At December 31, 2017, the impact on the unhedged portion of a 100 basis point change in the variable rates was €1,305 thousand.

2.4.3.2 Commodities price fluctuation risk

At December 31, the Group hedged the risk on its future purchases of the raw material nickel. The fair value at December 31, 2017 of the derivatives used (commodity swaps) was +€1,219,000.

More information is provided in chapter 5 paragraph 4.6.1.

2.4.3.3 Currency risk

Overall, the Group is subject to two types of foreign exchange risk:

- Outside the EUR and USD zones, it has production facilities in a dozen countries, in which the majority of the sales of its subsidiaries are denominated in EUR or in USD, whereas their costs are mainly denominated in local currency, which is the GBP, CAD, TRY, CZK and, to a lesser extent, the MAD, CNY, INR and PLN, giving rise to a cash requirement in local currencies. A strengthening of these currencies would affect the business performance of the Group;
- USD ranks second in terms of amount invoiced in that currency by the Group, after the EUR, mainly in LISI AEROSPACE. Invoicing in other currencies is not significant at the Group scale. A weakening of the USD would affect the Group's economic performance.

In order to protect its results, the Group is implementing a hedging policy aimed at reducing the factors of uncertainty affecting its operational profitability and at giving it the time necessary to adapt its costs to any unfavorable monetary environment.

Hedging of the foreign exchange on risk local currencies

The Group has very good visibility over its local currency requirements. Also, its hedging policy is based on managing a portfolio of financial instruments to protect against a rise in local currencies. The hedging horizon is 12 - 24 months.

Hedging of USD currency risk

As indicated above, the generation of USD arises mainly from the Group's Aerospace Division, which benefits from non-current contracts providing for invoicing in this currency. The hedging policy is based on the management of a portfolio of financial instruments to secure a guaranteed average hedging rate. The hedging horizon may extend over up to five years.

Portfolio of foreign exchange derivatives

The main hedging instruments used by the Group as part of its foreign exchange risk management are forward sales, purchases and sales of options and structured products.

The portfolio of foreign exchange derivatives is broken down as follows:

	12/31/2017					12/31/2016				
	Fair value (1)	Notional amount (2)	< 1 year	from 1 to 5 years	more than 5 years	Fair value (1)	Notional amount (2)	< 1 year	from 1 to 5 years	more than 5 years
Long position of GBP against USD	0.1	32.4	25.2	7.2	0.0	(7.2)	35.0	21.8	13.2	0.0
Long position of CAD against USD	1.7	57.6	33.6	24.0	0.0	(1.5)	39.6	33.6	6.0	0.0
Long position of TRY against EUR	(0.6)	32.8	32.8	0.0	0.0	(0.2)	18.7	18.7	0.0	0.0
Long position of PLN against USD	0.1	16.8	16.8	0.0	0.0	(0.3)	20.4	20.4	0.0	0.0
Long position EUR against USD	13.5	214.9	116.0	98.9	0.0	(14.1)	335.2	0.0	335.2	0.0
TOTAL	**14.7**					**(23.3)**				

(1) Fair value amounts are expressed in millions of euros.
(2) Maximum notional amounts are expressed in millions of currencies.

Derivatives and hedging activities that meet the cash flow hedge criteria are accounted for in accordance with the provisions of IAS 39. Hedging instruments are measured at fair value. Changes in value, are recognized in recyclable equity (other comprehensive income – OCI) for the effective portion of the hedge and in income for the ineffective portion. In particular, the hedging activities accounted for as such are subject to formal documentation justifying in particular the hedging relationship, its effectiveness and the objective of the Group's risk management and hedging strategy. Effectiveness tests were carried out as at December 31, 2017 and have demonstrated the effectiveness of the hedging relationship. The changes in the fair value of hedging instruments that do not meet the hedge criteria are recognized directly in income.

The sensitivity of financial instruments to a +/- 10% change in the EUR / USD exchange rate is as follows:

	12/31/2017	
IMPACT (in €'000)	USD	
Exchange rate at the closing date	1.1993	
Euro/dollar exchange rate development assumptions	-10%	+10%
Euro/dollar exchange rate used for the sensitivity analysis	1.0794	1.3192
Impact (before tax)	(33.1)	14.5

2.4.4 | Risk related to the impairment of intangible assets

The net amount of goodwill at December 31, 2017 amounted to €321 million. At December 31, 2016, to carry out impairment tests on goodwill, the Group has selected a strategic combination of Business Units (B.U) that correspond to the segmentation and reporting structure of the LISI Group, namely, the three divisions LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL. This combination was identical as of December 31, 2017.

The results of the impairment tests confirm the soundness of the LISI AEROSPACE Division, and show that the activities of LISI AUTOMOTIVE and LISI MEDICAL divisions have strengthened.

2.5 | DETAIL OF THE BALANCE SHEET ITEMS

2.5.1 | Non-current assets

2.5.1.1 Intangible assets

a) Goodwill

(in €'000)	Goodwill
GROSS GOODWILL AS OF DECEMBER 31, 2016	300,426
Impairment over financial year 2016	0
NET GOODWILL AS OF DECEMBER 31, 2016	300,426
Increase	40,882
Decrease	(5,000)
Changes in foreign exchange rates	(14,933)
GROSS GOODWILL AS OF DECEMBER 31, 2017	321,377
Impairment over financial year 2017	0
NET GOODWILL AS OF DECEMBER 31, 2017	321,377

The increase is attributable to the Termax Group's entry into the Group's scope (€40.9 million).

The decrease is for the deconsolidation of Precimetal Fonderie Precision (€5 million).

Changes in currency exchange rate only concern LISI AEROSPACE and result from translation differences on the dollar.

The net values of the goodwill is divided at December 31, 2017 as follows:

(in €'000)	LISI AEROSPACE division	LISI AUTOMOTIVE Division	LISI MEDICAL Division	LISI total
NET GOODWILL	**136.4**	**97.6**	**87.4**	**321.4**
Intangible fixed assets with an indefinite useful life	None	None	None	None
Trademarks	None	0.8	None	0.8
Result of the impairment test	No sign of impairment	No sign of impairment	No sign of impairment	
KEY ASSUMPTIONS				
Cash flow within one year	Forecasts			
Cash flow within four years	4-year strategic plan	4-year strategic plan	4-year strategic plan	
Discount rate after tax	7.09%	8.15%	5.24%	
Growth rate of flows not covered by the budget and strategic assumptions	2.00%	2.00%	2.00%	

The net values of the goodwill is divided at December 31, 2016 as follows:

(in €'000)	LISI AEROSPACE division	LISI AUTOMOTIVE Division	LISI MEDICAL Division	LISI total
NET GOODWILL	**144.6**	**61.6**	**94.2**	**300.4**
Intangible fixed assets with an indefinite useful life	None	None	None	None
Trademarks	None	1.6	None	1.6
Result of the impairment test	No sign of impairment	No sign of impairment	No sign of impairment	
KEY ASSUMPTIONS				
Cash flow within one year	Forecasts			
Cash flow within four years	4-year strategic plan	4-year strategic plan	4-year strategic plan	
Discount rate after tax	6.66%	8.15%	4.77%	
Growth rate of flows not covered by the budget and strategic assumptions	2.00%	2.00%	1.90%	

In accordance with IAS 36 "Impairment of Assets", goodwill was tested for impairment on December 31, 2017.

These tests, in accordance with Note 2.2.8.5, were conducted for each CGU corresponding to the divisions. The combinations of cash generating units (CGU) are determined in accordance with the operational reporting and their recoverable values on the basis of a calculation of utility value. Each utility value is calculated based on the discounting, at the rates mentioned below, of the forecast operating cash flows after taxes. The projections of cash flow are determined based on budget data and the four-year strategic plans approved by the Board of Directors.

Beyond the fifth year, the terminal value is calculated on the basis of a capitalization to infinity of the cash flows. The key assumptions relate in particular to the evolution of sales based on the order book and the master contracts signed by the Group, if applicable, the operating profit rate, the renewal capex rate, and the determination of factors that may affect the working capital. The assumptions are in particular established on the basis of observations made during previous activity cycles in the various lines of business, as well as in external market surveys and the observation of the sensitivity of the contractual data for the environment of each division. It is specified that these assumptions are the best estimate possible of the market situation at the time they were prepared, and that they take into consideration the market trends for the years 2018 to 2021.

The determination of the infinite growth rate and the discounting rates used on the different combinations of CGUs was carried out by an independent expert.

The discounting rates after taxes were used on the basis of an assessment of the specific risks of these businesses.

	12/31/2017		12/31/2016	
	Perpetual growth rate	Discount rate	Perpetual growth rate	Discount rate
LISI AEROSPACE	2.00%	7.09%	2.00%	6.66%
LISI AUTOMOTIVE	2.00%	8.15%	2.00%	8.15%
LISI MEDICAL	2.00%	5.24%	1.90%	4.77%

Tests of sensitivity to the assumptions made were implemented and concerned the main indicators in the calculations of the valuation tests: discount rate, infinite growth rate, elements contributing to cash flows. These sensitivity tests showed that the limit between the value in use and the net asset is attained for the variation in these calculation parameters:

	12/31/2017						
	Discount rate		Infinite growth rate		Cash flow	EBITDA rate	
	Rate used (as a %)	Increase in the discount rate necessary so that the recoverable amount is equal to the book value (in basis points)	Rate used (as a %)	Decrease in infinite growth rate necessary so that the recoverable amount is equal to the book value (in basis points)	Decrease in cash flows necessary so that the recoverable amount is equal to the book value (in %)	Rate used* (as a %)	Decrease in the EBITDA rate necessary so that the recoverable amount is equal to the book value (in basis points)
LISI AEROSPACE	7.09%	898	2.00%	(1,906)	(65.41%)		(1,088)
LISI AUTOMOTIVE	8.15%	204	2.00%	(342)	(25.92%)		(242)
LISI MEDICAL	5.24%	391	2.00%	(560)	(56.93%)		(725)

* Not provided due to the underlying confidential nature.

	12/31/2016						
	Discount rate		Infinite growth rate		Cash flow	EBITDA rate	
	Rate used (as a %)	Increase in the discount rate necessary so that the recoverable amount is equal to the book value (in basis points)	Rate used (as a %)	Decrease in infinite growth rate necessary so that the recoverable amount is equal to the book value (in basis points)	Decrease in cash flows necessary so that the recoverable amount is equal to the book value (in %)	Rate used* (as a %)	Decrease in the EBITDA rate necessary so that the recoverable amount is equal to the book value (in basis points)
LISI AEROSPACE	6.66%	1,027	2.00%	(2,325)	(70.39%)		(1,153)
LISI AUTOMOTIVE	8.15%	228	2.00%	(397)	(29.21%)		(245)
LISI MEDICAL	4.77%	418	1.90%	(611)	(62.29%)		(680)

* Not provided due to the underlying confidential nature.

b) Other intangible assets

(in €'000)	Concessions, patents and similar rights	Other intangible fixed assets *	TOTAL
GROSS VALUES AT DECEMBER 31, 2016	61,488	29,988	91,476
Other net changes	5,035	(875)	4,160
Acquisitions	4,197	4,711	8,908
Disposals	(597)	(71)	(668)
Scope changes	(604)	26	(578)
EXCHANGE RATE DIFFERENCES	(26)	(767)	(793)
GROSS VALUES AT DECEMBER 31, 2017	**69,493**	**33,012**	**102,505**
DEPRECIATION AT DECEMBER 31, 2016	53,724	13,927	67,651
Depreciation allowance	3,289	2,928	6,217
Depreciation reversals	(637)	368	(1,005)
Scope changes	(432)	–	(432)
EXCHANGE RATE DIFFERENCES	(21)	(82)	(103)
DEPRECIATION AT DECEMBER 31, 2017	55,923	16,405	72,328
NET VALUES DECEMBER 31, 2017	**13,570**	**16,607**	**30,177**

* Including the Rapid brand.

The Rapid brand was valued when the company was acquired in August 2000 at its fair value of €8.3 million, based on an independent valuation. Since 2003, it has been decided to amortize it over a period of 15 years, given the commercial usage period envisaged to date.

The amounts included in changes in scope can be explained by the entry of Termax into the Group's scope on October 31, 2017 and by the sale of Precimetal Fonderie Précision on February 2, 2017.

2.5.1.2 Tangible assets

a) Tangible assets held in full (including evaluation spreads)

(in €'000)	Land	Buildings	Technical facilities, equipment and tools	Other tangible assets	Current assets	TOTAL
GROSS VALUES AT DECEMBER 31, 2016	20,216	207,950	1,001,247	99,756	47,064	1,376,237
Other net changes	1,103	9,502	50,220	(550)	(61,047)	(772)
Acquisitions	140	8,426	43,920	9,583	68,770	130,839
Disposals	(165)	(1,491)	9,553	(1,328)	(3)	(12,540)
Scope changes	(27)	(2,372)	20,009	1,917	121	19,648
EXCHANGE RATE DIFFERENCES	(164)	(3,469)	22,004	(1,212)	(1,493)	(28,342)
GROSS VALUES AT DECEMBER 31, 2017	**21,103**	**218,546**	**1,083,839**	**108,166**	**53,412**	**1,485,073**
DEPRECIATION AT DECEMBER 31, 2016	704	82,795	664,050	63,280	218	811,047
Other net changes	0	(60)	8,319	122	0	8,381
Depreciation allowance	101	10,001	65,669	5,497	0	81,268
Depreciation reversals	(10)	(1,604)	(8,535)	(1,254)	0	(11,403)
Scope changes	0	(2,371)	7,437	1,402	0	6,468
EXCHANGE RATE DIFFERENCES	0	(878)	(11,511)	(990)	(1)	(13,380)
DEPRECIATION AT DECEMBER 31, 2017	**795**	**87,883**	**725,429**	**68,057**	**217**	**882,381**
NET VALUES DECEMBER 31, 2017	**20,308**	**130,663**	**358,411**	**40,110**	**53,196**	**602,683**

The amounts included in changes in scope can be explained by the entry of TERMAX into the Group's scope on October 31, 2017 and by the sale of Precimetal Fonderie Précision on February 2, 2017.

b) Tangible assets held under a finance lease contract

(in €'000)	Land	Buildings	Technical facilities, equipment and tools	TOTAL
GROSS VALUES AT DECEMBER 31, 2016		11,935	28,472	40,407
Other net changes			4,396	4,396
Acquisitions		13		13
Scope changes		2,514		2,514
EXCHANGE RATE DIFFERENCES		(629)	(568)	(1,197)
GROSS VALUES AT DECEMBER 31, 2017		**13,833**	**32,300**	**46,133**
DEPRECIATION AT DECEMBER 31, 2016		4,945	29,773	34,718
Other net changes			(8,318)	(8,318)
Depreciation allowance		268	2,819	3,087
Depreciation reversals				
EXCHANGE RATE DIFFERENCES		(46)	(218)	(265)
DEPRECIATION AT DECEMBER 31, 2017		**5,167**	**24,055**	**29,224**
NET VALUES DECEMBER 31, 2017		**8,666**	**8,245**	**16,910**

Given their immaterial nature, the minimum future payments in respect of rents and their current value are not broken down by maturity.

c) Operating lease agreements

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

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

The total annual expense is approximately €19 million, compared to €18 in 2016.

2.5.1.3 Financial assets and liabilities

Financial assets and liabilities recorded on the balance sheet are broken down into the following accounting categories and classes of financial instruments:

	At 12/31/2017	Breakdown by instrument category					
FINANCIAL ASSETS AND LIABILITIES RECORDED ON BALANCE SHEET (in thousands of euros)	Net value accounting	Fair value	Fair value *via* earnings	Assets available for sale	Loans and receivables	Debt at depreciated cost	Instruments derivatives
Non-current financial assets	9,982	9,982			9,982		
Other Non-current assets	429	429			429		
Trade and other receivables	261,249	261,249			244,674		16,575
Cash and cash equivalents	197,576	197,576	197,576				
TOTAL FINANCIAL ASSETS	**469,236**	**469,236**	**197,576**		**255,085**		**16,575**
Non-current borrowings	317,757	317,757				316,448	1,309
Other non-current financial liabilities (excl. PCA)	4,678	4,678				4,678	
Current borrowings	179,973	179,973				179,973	
Trade and other accounts payable	297,109	297,109				296,504	605
TOTAL FINANCIAL LIABILITIES	**799,517**	**799,517**				**797,603**	**1,914**

	At 12/31/2016		Breakdown by instrument category				
FINANCIAL ASSETS AND LIABILITIES RECORDED ON BALANCE SHEET (in thousands of euros)	Net value accounting	Fair value	Fair value via earnings	Assets available for sale	Loans and receivables	Debt at depreciated cost	Instruments derivatives
Non-current financial assets	9,481	9,481			9,481		
Other Non-current assets	950	950			950		
Trade and other receivables	260,416	260,416			260,416		
Cash and cash equivalents	141,719	141,719	141,719				
TOTAL FINANCIAL ASSETS	**412,566**	**412,566**	**141,719**		**270,847**		
Non-current borrowings	253,856	253,856				251,800	2,056
Other non-current financial liabilities (excl. PCA)	5,365	5,365				5,365	
Current borrowings	106,037	106,037				106,037	
Trade and other accounts payable	304,492	304,492				281,066	23,426
TOTAL FINANCIAL LIABILITIES	**669,750**	**669,750**				**644,268**	**25,482**

The IFRS 7 standard requires the hierarchical ordering of the different valuation techniques used for each of the financial instruments. The categories are defined as follows:

Level 1: direct reference to published prices of a market asset;
Level 2: valuation technique based on measurable data;
Level 3: valuation technique based on non-observable data.

Classification of fair value by hierarchical level:

	12/31/2017		
(in €'000)	Level 1	Level 2	Level 3
Non-current financial assets	9,982		
Other Non-current assets	429		
Trade and other receivables	16,575	244,674	
Cash and cash equivalents	197,576		
TOTAL FINANCIAL ASSETS	**224,562**	**244,674**	
Non-current borrowings	317,757		
Other non-current financial liabilities (excl. PCA)	4,678		
Current borrowings	179,973		
Trade and other accounts payable	605	296,504	
TOTAL FINANCIAL LIABILITIES	**503,013**	**296,504**	

2.5.1.4 Non-current financial assets

(in €'000)	Investments in associates	Other non-current investments	Other financial assets	TOTAL
GROSS VALUES AT DECEMBER 31, 2016	1,509	7,631	1,858	9,489
Other net changes		681		681
Acquisitions		595	221	816
Disposals			(94)	(94)
Scope changes	(1,509)			(1,509)
Exchange rate differences		(922)	(37)	(959)
GROSS VALUES AT DECEMBER 31, 2017		**7,985**	**2,005**	**9,990**
IMPAIRMENT AT DECEMBER 31, 2016		8		8
Other net changes				
Provisions for impairment of assets				
Reversals of impairment provisions				
IMPAIRMENT AT DECEMBER 31, 2017		**8**		**8**
NET VALUES DECEMBER 31, 2017		**7,977**	**2,005**	**9,982**

2.5.1.5 Other non-current assets

(in €'000)	12/31/2017	12/31/2016
Other debtors	429	950
TOTAL OTHER NON-CURRENT FINANCIAL ASSETS	**429**	**950**

The debt on the balance sheet at December 31, 2017 primarily covers a non-current maturity tax asset.

2.5.2 | Current assets

2.5.2.1 Inventories

(in €'000)	Raw materials	Tools and other procurements	Work in progress	Finished and intermediary products	Goods	TOTAL
GROSS VALUES AT DECEMBER 31, 2016	65,692	16,344	161,859	131,855	10,487	386,235
Scope changes	1,798	0	(61)	2,338	1,033	5,108
- of which increases	1,870	0	1,854	4,705	1,033	9,462
- of which decreases	(72)	0	(1,915)	(2,367)	0	(4,354)
Exchange rate differences	(1,240)	(123)	(2,877)	(3,874)	(411)	(8,525)
Changes in inventory	(1,311)	1,150	1,865	(2,748)	978	(66)
Reclassifications	(77)	(53)	1,047	(2,555)	1,126	(512)
GROSS VALUES AT DECEMBER 31, 2017	**64,862**	**17,318**	**161,833**	**125,016**	**13,213**	**382,239**
IMPAIRMENT AT DECEMBER 31, 2016	11,617	1,897	7,002	24,225	2,512	47,253
Scope changes	0	0	0	396	0	396
- of which increases	0	0	0	396	0	396
- of which decreases	0	0	0	0	0	0
Provisions for amortization and depreciation	2,068	570	3,721	6,313	455	13,127
Reversal of provisions for amortization and depreciation	(1,770)	(589)	(3,081)	(8,426)	(366)	(14,232)
Exchange rate differences	(253)	(4)	(158)	(825)	(162)	(1,402)
Reclassifications	46	0	(133)	(1,088)	1,174	(1)
IMPAIRMENT AT DECEMBER 31, 2017	**11,708**	**1,874**	**7,351**	**20,595**	**3,613**	**45,141**
NET VALUES AT DECEMBER 31, 2017	**53,154**	**15,444**	**154,482**	**104,421**	**9,600**	**337,099**

2.5.2.2 Trade and other receivables

(in €'000)	12/31/2017	12/31/2016
Gross debtors and apportioned accounts	204,333	226,235
Impairment of trade and other apportioned accounts	(3,679)	(3,708)
NET DEBTORS AND APPORTIONED ACCOUNTS	*200,654*	*222,527*
STATE - OTHER TAXES AND DUTIES	29,383	24,516
Social entities & workforce services	16	469
Accounts payable - advances, debtors	4,208	3,594
Deferred charges	5,161	4,161
Other	21,827	5,149
OTHER RECEIVABLES	*60,595*	*37,889*
TOTAL TRADE AND OTHER RECEIVABLES	**261,249**	**260,416**

Assignments of receivables amounted, at December 31, 2017, to €73.4 million, compared with €57.7 million at December 31, 2016. The fair value of these transferred assets in accordance with the IFRS 7 definition is equal to their nominal value. These transfers are made in the form of factoring with conventional subrogation, without recourse, thereby removing any exposure to a risk of financial loss. There are four contracts for the sale of receivables, two signed for an indefinite period, the other two for a term of one year renewable automatically. These contracts provide for the opportunity to transfer receivables up to an amount of €82 million.

Overdue receivables not covered by provisions mainly concern major customers with which the Group has annual or pluriannual business agreements. On the basis of historic observations, the Company considers the risk of non-collection marginal, with non-hedged overdue receivables being mainly within less than one year; the share within more than one year being totally immaterial.

The average payment period for financial year 2017 was 45 days compared to 51 days in 2016.

Debt by maturity

	2017					
(in €'000)	TOTAL	< 30 days	30 to 60 days	60 to 90 days	90 to 120 days	> 120 days
Gross debtors	204,333	125,151	74,667	13,648	1,661	(10,794)
Net debtors	200,654	121,472	74,667	13,648	1,661	(10,794)

	2016					
(in €'000)	TOTAL	< 30 days	30 to 60 days	60 to 90 days	90 to 120 days	> 120 days
Gross debtors	226,235	120,284	86,159	18,302	1,424	66
Net debtors	222,527	117,355	85,379	18,302	1,424	66

The more than 120 days amount is a restatement of customer prepayments of over one year.

Late payments

(in €'000)	12/31/2017	12/31/2016
0 to 30 days	19,203	21,274
30 to 60 days	4,995	3,877
60 to 90 days	1,486	1,419
> 90 days	3,171	3,865
TOTAL	**28,854**	**30,434**

2.5.2.3 Cash and cash equivalents

The cash available as at December 31, 2017 stood at €197.6 million, compared to €141.7 million in 2016. This item consists mainly of investment securities held by the Group and in particular monetary Sicav instruments and negotiable security deposits in the amount of €125.3 million and current bank accounts in euros and foreign currencies. The latter are recorded at their fair value, and value adjustments are recorded into the income statement. These positions are not exposed, the main backing instruments guaranteeing the capital.

The impact of the change in working capital on cash is as follows:

(in €'000)	2017	2016
Effect of the change in inventories	67	2,504
Effect of the change in cash flow imbalances of customers and other debtors	7,943	(36,011)
Effect of the change in cash flow imbalances of suppliers and other creditors	10,030	12,282
Effect of the change in cash flow imbalances for taxes	(35,451)	18,578
CHANGE IN WORKING CAPITAL REQUIREMENTS	**(17,411)**	**(2,647)**

The free cash flow broke down as follows:

(in €'000)	2017	2016
Operating cash flow	203,838	195,805
Net CAPEX	(140,146)	(119,614)
Change in working capital requirements	(17,411)	(2,647)
FREE CASH FLOW	**46,281**	**73,544**

2.5.3 | Shareholders' equity

The Group's shareholders' equity stood at €890 million at December 31, 2017, against €860.3 million at December 31, 2016, being an increase of €29.7 million. This change takes into account the following main factors:

CHANGES IN € MILLION	12/31/2017	12/31/2016
Income for the period attributable to equity holders of parent,	108.0	107.0
Distribution of dividends paid in May 2017,	(23.9)	(20.6)
Treasury shares and payments in shares,	2.1	1.8
Actuarial gains and losses on employee benefits,	0.4	(3.5)
Fair value of cash flow hedging instruments,	18.3	(9.0)
Change in consolidation scope	(57.2)	
Miscellaneous restatements,	1.3	(4.9)
Translation differences related to changes in the closing rate, including the revaluation of the dollar	(19.3)	(2.9)
TOTAL	**29.7**	**68.0**

The €57.2 million change in scope can be explained by the recognition of a financial debt of €70.7 million, which was offset by minority interests of €13.5 million and by Group shareholders' equity of €-57.2 million so that the two-stage structuring of the acquisition of the Termax Group could be taken into account.

2.5.3.1 Share capital

Share capital at year-end stands at €21,609,550, broken down into 54,023,875 issued shares with a face value of €0.40.

2.5.3.2 Additional paid-in capital

This is due to the capital increase operation reserved for employees:

BREAKDOWN OF ADDITIONAL PAID-IN CAPITAL (in thousands of euros)	12/31/2017	12/31/2016
Additional paid-in capital	54,843	54,843
Contribution premiums	15,030	15,030
Merger premiums	2,711	2,711
TOTAL	**72,584**	**72,584**

2.5.3.3 Capital management

The Group's policy consists in maintaining robust capital so as to support a highly capitalistic business, preserve the confidence of shareholders and investors, support growth and withstand periods of recession. The Board of Directors is particularly attentive to capital returns and the dividends paid to shareholders.

Instruments which provide access to the company's capital relate to the benefits conferred on managers and employees under certain conditions, as set out in notes 2.7.2 and 2.7.3. They only concern existing own shares.

2.5.3.4 Dividends

The amount of dividends for the 2017 financial year (not recognized) submitted to the Shareholders' General Meeting on April 24, 2018 for approval breaks down as follows:

AMOUNT (in in thousands of euros)	2017	2016
Total net dividend	25.9	23.9

The estimated amount for 2017 is calculated based on the total number of shares, i.e. 54,023,875. The self-held shares at the date of payment of the dividend will not be eligible for the payment of any dividend.

The amount of dividends for the 2017 financial year (not recognized) submitted to the Shareholders' General Meeting on April 24, 2018 for approval breaks down as follows:

DIVIDEND PER SHARE (€)	2017	2016
Dividend per share	0.48	0.45

2.5.4 | Provisions

2.5.4.1 Changes in provisions break down as follows:

(in €'000)	At January 1, 2016	Allowances (net of reversals)	At December 31, 2016	Allowances	Reversals (amounts used)	Reversals (non used amounts)	Actuarial gains/ losses out of shareholders' equity	Reclassifications	Entry into/exit from consolidation scope	Translation differences	At December 31, 2017
Pensions and retirement	37,159	2,313	39,472	2,818	(2,224)	(10)	(10)	0	(130)	(538)	39,378
Long-service medals	4,133	269	4,402	102	(120)	0	(40)		0	0	4,344
Environment-related risks	12,288	(3,804)	8,484	2,060	(4,777)	0		0	0	(304)	5,463
Disputes and other risks	7,111	(636)	6,475	1,639	(2,015)	(500)		(345)	0	(39)	5,216
Guarantees to clients	9,882	(42)	9,840	0	(3)	0		0	(140)	(5)	9,692
For loss on contract	2,700	(900)	1,800	0	(900)	0			0		900
SUB-TOTAL NON-CURRENT PROVISIONS	**73,273**	**(2,800)**	**70,473**	**6,619**	**(10,039)**	**(510)**	**(50)**	**(345)**	**(270)**	**(886)**	**64,993**
Industrial reorganization	340	695	1,035	111	(810)	0		478	0	(48)	766
Restructuring	2,616	(1,469)	1,147	0	(400)	0		0	0	0	747
Environment-related risks	279	(67)	212	12	(26)	(40)			0	0	158
Disputes	659	290	949	392	(504)	(55)		4	(27)	(10)	748
Other risks	10,814	7,962	18,776	7,994	(6,812)	(2,514)		(4,242)	(247)	(219)	12,737
SUBTOTAL CURRENT PROVISIONS	**15,353**	**7,821**	**23,174**	**8,509**	**(8,553)**	**(2,608)**	**0**	**(4,815)**	**(273)**	**(277)**	**15,156**
GRAND TOTAL	**88,626**	**5,021**	**93,647**	**15,128**	**(18,591)**	**(3,118)**	**(50)**	**(5,160)**	**(544)**	**(1,163)**	**80,149**
of which as recurring operating profit				14,510	(15,836)	(2,618)					
of which as non-recurring operating profit				618	(2,755)	(500)					

The main provisions are in respect of:

– *Pensions and retirement:*

Legally-imposed obligations in respect of staff salaries, pension payments or compensation on retirement. Taken into account were assumptions regarding the level of the discount rate, the turnover, and the mortality tables. Some of these commitments are backed with external funds.

In accordance with the revised IAS 19, all actuarial gains and losses are recognized under "Other comprehensive income" as a provision for pensions.

A full analysis of these provisions appears in paragraph 2.5.4.2.

– *Environment:*

Recognition of liabilities links to requirements to uphold environmental standards in the various countries in which the company operates and more specifically with regard to soil pollution on industrial sites. The cost of monitoring and compliance in concert with local authorities makes up a large part of these provisions. The bulk of the provisions relates to the decontamination risk of soils and buildings. Reversals of provisions amounting to €4.8 million are for costs incurred for soil decontamination.

– *Disputes and other risks:*

This covers litigation or disputes with partners and service providers. Risk assessment has been calculated based on the estimated cost of the outcome of any dispute or possible transactions. Assessment of expected returns cannot be calculated as of yet. The bulk of the provisions relates to various quality, tax and wage risks.

– *Industrial reorganization:*

This covers industrial reorganization based on assessments of the cost of redeploying certain sites or entities. The assessment of the sums recognized takes account of specific local regulatory stipulations.

– *Other risks:*

Liabilities recognized under this category take into account risks based on various reports (industrial, regulatory, corporate, customer guarantees and products) and concern both of the Group's main divisions.

This section covers the risks and expenses clearly specified as to their purpose whose maturity remains likely and which will cause an outflow of resources without consideration. The most significant amounts reflect the unfavorable application for the Group of contractual terms, the impact of the streamlining of production structures and litigations with third party partners.

The amounts of provisions and reversals primarily concern quality, customer lead time, qualification of new products, tax and wage risks. The amount of these risks is insignificant individually.

2.5.4.2 Commitments to the personnel

Application of revised IAS 19 as at January 1, 2012

As stated in note 2.2 Accounting principles and policies, the LISI Group has been applying revised IAS 19 from January 1, 2012.

Characteristics

In accordance with the laws and practices of each country in which the Group operates, it offers its employees and former employees, subject to certain conditions of service, the payment of pensions or compensation on retirement. Such benefits can be paid as part of defined contribution plans or defined benefit plans.

Defined benefit plans

General description of the plans.

<u>Retirement benefits (France):</u>

Entitlements to retirement benefits are defined by applicable laws or sectoral agreements when they are more favorable.

<u>England:</u>

BAI UK operates a defined benefit pension plan to which all employees who joined the company before April 2007 are entitled. Plan assets are separate from the assets of the Company and managed by a trust administered by a board of trustees.

The risks to which the plan exposes the company are the following: CAPEX, inflation, retirees' longevity, options, legislation.

<u>USA</u>

Hi Shear Corporation operates a defined benefit pension plan to which all employees who joined the company before February 1991 are entitled. The plan has been closed since that date. Plan assets are separate from the assets of the Company and managed by a trust administered by a board of trustees. The risks to which the plan exposes the company are the following: CAPEX, inflation, retirees' longevity, options, legislation.

The pension plans concerning the majority of the employees was wound up in 2016.

The geographic breakdown of the Group's commitments to staff as at December 31, 2017 for defined benefit plans and the main assumptions employed in their assessment are as follows:

(in €'000)	France	Germany	USA	England	Other
Actuarial debt	28,983	7,882	324	24,121	2,191
Discount rate	1.49%	1.83%	3.25%	2.68%	3.70%
Reference used	I Boxx euro zone 12 years	Extrapolation cased on the ECB 15-year AAA rate curve	Citigroup Pension Discount Curve rate	I Boxx AA-rated 15-year +0.3%	
Inflation - Wage increase	1.30%	1.50%	N/A	3.41%	NA

As per the revised IAS 19 standard, the rate of return on non-current funds is identical to the discount rate for actuarial liability. The rates of return thus employed are equal to 3.25% for American insurance plans and 2.68% for English ones.
At December 31, 2017, the allocation of the plan assets was approximately 52% in equities and 48% in bonds for England. As the US fund concerning the majority of the employees had been wound up in 2016, there were no longer any hedging assets in the USA.
The following table sets out the changes, during financial year 2017, in the actuarial debt and the market value of the hedging assets (in millions of euros):

CHANGE IN ACTUARIAL DEBT	2017	2016
ACTUARIAL DEBT AT YEAR START	**63,117**	**66,303**
Cost of services	2,075	1,782
Cost of accretion	1,414	1,656
Benefits paid	(2,527)	(2,652)
Discounts	0	0
Wind-ups	0	(8,046)
Change in consolidation scope	(130)	76
Translation differences	(1,383)	(3,828)
Actuarial losses (gains)	934	7,826
ACTUARIAL DEBT AT YEAR END	**63,500**	**63,117**

CHANGE IN MARKET VALUE OF HEDGING ASSETS	2017	2016
OPENING VALUE	**23,645**	**29,884**
Contributions paid by the Group	285	304
Benefits withheld from fund	(578)	(428)
Wind-ups	0	(6,453)
Expected yield from assets	670	824
Translation differences	(853)	(3,566)
Actuarial gains (losses)	1,585	3,080
VALUE AT YEAR-END	**24,755**	**23,645**

The amounts given in wind-ups for financial year 2016 concern the part of the Hi Shear Corporation pension plan at the start of the financial year.
The amounts shown as changes in scope in 2017 relate to Precimetal Fonderie de Précision, which was sold in 2017.

The following table shows the reconciliation of amounts recognized in the Group's consolidated financial statements and the above sums:

(in €'000)	12/31/2017	12/31/2016
LIABILITIES RECOGNIZED AT YEAR-END	(38,745)	(39,472)

The expense recognized as operating profit by the Group during the financial year 2017 as defined benefit plans amounted to €2.8 million and is broken down as follows:

(in €'000)	2017	2016
Cost of services	2,075	1,782
Cost of accretion	1,414	1,656
Expected yield from plan assets	(670)	(824)
Discounts/Wind-ups		
EXPENSE (REVENUE) RECOGNIZED	2,818	2,615

2.5.5 | Other non-current liabilities

(in €'000)	12/31/2017	12/31/2016
Deposits and sureties received	92	124
Debt due in more than one year	763	
Employee profit-sharing in the financial year	3,823	5,241
Deferred income	6,927	7,027
TOTAL OTHER NON-CURRENT LIABILITIES	**11,605**	**12,392**

Deferred income corresponds mainly to subsidies received from regional governments as part of the project to build the Villefranche de Rouergue plant.

2.5.6 | Financial debt and financial risk management

The breakdown by accounting category and instrument class for financial liabilities is given in note 2.6.1.3.

2.5.6.1 Debt

a) Breakdown by nature

(in €'000)	12/31/2017	12/31/2016
NON-CURRENT SHARE		
Mid-term loans	296,224	228,926
Debt related to lease agreements	8,878	10,269
Employee profit-sharing (frozen on a current account)	12,656	14,661
SUBTOTAL NON-CURRENT DEBT	*317,757*	*253,856*
CURRENT SHARE		
Banking facilities for operations	16,441	15,984
Mid-term loans	159,176	86,425
Debt related to lease agreements	1,086	3,629
Employee profit-sharing (frozen on a current account)	3,271	
SUBTOTAL CURRENT DEBT	*179,973*	*106,037*
TOTAL DEBT	**497,730**	**359,893**

b) Breakdown by maturity date

(in €'000)	12/31/2017	12/31/2016
BORROWINGS		
due within one year	159,176	86,425
due within two to five years	240,585	68,993
due within over five years	55,639	159,932
SUBTOTAL BORROWINGS	***455,400***	***315,350***
OTHER FINANCIAL CREDITORS		
due within one year	20,798	19,613
due within two to five years	19,754	23,456
due within over five years	1,780	1,475
OTHER DEBT SUBTOTAL	***42,331***	***44,544***
BORROWINGS AND DEBT	**497,730**	**359,893**

c) Breakdown by cash flow category

DEBT AS OF 01/01/2017	359,893
Subtotal changes resulting from cash flow	76,118
Subtotal changes with no cash effect	61,719
DEBT AS OF 12/31/2017	497,730

d) Breakdown by currency

All figures relating to borrowings and debts with credit establishments are given in euros. The Group's bank debts therefore do not expose it to any foreign exchange risk.

e) Breakdown by interest rate category

The table below summarizes loans from credit institutions to the Group as it studies the principal amounts incurred at fixed and variable rates.

ENTITIES	Nature of the loan	Fixed rate	Variable rate	Total amount in €M	Capital remaining due at 12/31/2017 in millions of euros	Maturity date	Existence or not of interest rate or currency hedges	Covenant
LISI S.A	Conventional loan		Euribor 3 months + margin	30.0	9.0	2019	Partly covered by a SWAP	[1]
	Conventional loan		Euribor 3 months + margin	30.0	9.0	2019	Partly covered by a SWAP	[1]
	Conventional loan		Euribor 3 months + margin	30.0	30.0	2021	Partly covered by a SWAP	
	Conventional loan	1.00%		30.0	30.0	2022		[1]
	Conventional loan	0.65%		15.0	13.3	2024		[1]
	Conventional loan	0.65%		15.0	13.4	2024		[1]
	Conventional loan	0.65%		15.0	13.4	2024		[1]
	USPP*	3.64%		56.0	48.0	2023		[2]
	USPP*	1.82%		20.0	20.0	2025		[2]
	USPP*	1.78%		40.0	40.0	2026		[2]
CREUZET AERONAUTIQUE	Conventional loan		Euribor 1 month + margin	3.9	1.3	2020	Covered by a SWAP	[1]
BLANC AERO INDUSTRIES	Conventional loan		Euribor 3 months + margin	11.5	10.2	2031	Covered by a SWAP	[1]
LISI AUTOMOTIVE Former	Conventional loan		Euribor 3 months + margin	6.0	3.3	2021		
				3.0	2.1	2024		
				3.0	2.3	2024		[1]
LISI AUTOMOTIVE KNIPPING Espana S.A	Conventional loan		1-year Euribor + margin	6.5	0.5	2018		
LISI MEDICAL Fasteners	Conventional loan		Euribor 3 months + margin	4.5	2.5	2024	Covered by a SWAP	[1]
			TOTAL	**429.4**	**248.2**			

* USPP: US Private Placement.

2.5.6.2 Related covenants

The Group has no bank facilities based on its credit rating. The contracts entered into include conventional clauses regarding the financial health of the Group or its subsidiaries. The definition and levels of ratios, also called "financial covenants", are set by prospective mutual agreement with the credit institutions. Compliance with these ratios is assessed once a year only, at year end. Failure to comply with these ratios entitles the credit institutions to impose early repayment (total or partial) of the facilities granted.

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

[1]
- Consolidated gearing ratio < 1.2 (Net debt/Shareholders' equity).
- Consolidated Leverage ratio < 3.5 (Net debt/EBITDA).

[2]
- Consolidated gearing ratio < 1.2 (Net debt/Shareholders' equity)
- Consolidated Leverage ratio < 3.5 (Net debt/EBITDA).
- Coverage ratio of consolidated interest expense < 4.5 (Net interest expense/EBITDA).

As at the year-end, covenants were respected.

2.5.7 | Deferred taxes

The deferred taxes of French companies were revalued to take into account the article of the Finance Act for 2018 for the progressive reduction of corporate income tax to 25%.

(in €'000)	12/31/2017	12/31/2016
Deferred tax assets	8,568	19,075
Deferred tax liabilities	(40,747)	(33,376)
NET DEFERRED TAXES	**(32,179)**	**(14,301)**

Non-recognized deferred tax assets:
The Company does not recognize its deferred tax assets whenever it has no sufficient assurance that it will recover carried forward deficits and tax credits. Deferred tax assets are only recognized if their recovery is probable. The losses brought forward that were not recognized in the balance sheet as of December 31, 2017 would generate deferred tax assets of €17.9 million, compared to €18.9 million in 2016.

Deferred tax assets by early recoverability horizon as at December 31, 2017

- 1 year	1 to 5 years	+5 years	Total
1,498	2,929	4,141	8,568

2.6 | DETAIL OF MAIN INCOME STATEMENT ITEMS

2.6.1 | Sales revenue

The breakdown of sales revenues by business segment and country is shown in note 2.8.1. "Segment information".

2.6.2 | Consumed goods

(in €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL 2017	TOTAL 2016
Consumption of goods	6,361	20,399	3,836	(356)	30,240	28,928
Consumption of raw materials	187,692	86,197	17,269	0	291,158	274,416
Tools	41,725	23,484	7,661	(23)	72,847	64,949
Other purchases	29,055	16,832	2,965	20	48,873	46,143
TOTAL CONSUMPTION	**264,833**	**146,912**	**31,731**	**(359)**	**443,119**	**414,436**

2.6.3 | Other purchases and external expenses

(in €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL 2017	TOTAL 2016
Subcontracting	62,009	42,563	7,815	(4)	112,383	107,763
Maintenance	36,088	21,331	4,656	805	62,880	60,516
Transport	11,742	11,114	1,037	0	23,893	23,019
Energy	18,011	14,818	1,836	12	34,676	34,506
Other purchases and external costs	75,284	27,095	7,334	(5,212)	104,500	100,154
TOTAL OTHER PURCHASES AND EXTERNAL COSTS	**203,134**	**116,921**	**22,678**	**(4,399)**	**338,332**	**325,957**

2.6.4 | Payroll expenses

(in €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	Total 2017	Total 2016
Temporary workers	30,375	8,418	3,015	(281)	41,527	38,398
Salaries and incentives	243,048	123,033	46,215	2,916	415,212	403,510
Layoff pay	1,769	1,043	273	0	3,085	2,780
Social contributions and taxes on salaries	92,637	42,384	16,261	2,803	154,085	152,777
Employee profit-sharing	3,697	0	117	0	3,814	5,241
Pensions and long-service medals	885	572	155	0	1,612	1,779
TOTAL PAYROLL EXPENSES	**372,411**	**175,450**	**66,036**	**5,438**	**619,333**	**604,484**

2.6.5 | Research and development expenses

The LISI Group's mission is to carry out intensive research and development activities, both in developing new products and in using new materials. This research and development activity is carried out at various levels: either as part of a co-operative venture between research and design departments within our own divisions and those of our customers, or to develop or improve certain components or industrial processes. These are mainly comprised of personnel expenses dedicated to R&D services. Staff dedicated to R&D represent in 2017 some 2.2% of the Group's employees.

The expenses incurred for the last three financial years are shown in the table below:

In millions of euros	2017	2016	2015
Research and Development expenditures	27.5	26.3	23.8
% of sales revenues	1.7%	1.7%	1.6%
Activated projects	1.3	0	0

2.6.6 | Non-recurring operating expenses and revenues

Non-recurring operating expenses and revenues break down as follows:

(in €'000)	12/31/2017	12/31/2016
NON-RECURRING OPERATING EXPENSES		
Industrial reorganization costs	(3,944)	(7,732)
Restructuring costs	(481)	
Other costs	(553)	(248)
Reserve allowance for industrial reorganizations	(611)	(4,970)
TOTAL	**(5,588)**	**(12,950)**
Non-recurring operating revenues		
Sale of Précimétal	259	
Industrial reorganization plan provision reversals	1,277	2,222
Reversals of provisions allocated to restructuring	372	
Other revenues		752
TOTAL	**1,908**	**2,974**
NON-RECURRING REVENUE AND EXPENSES FROM OPERATIONS	(3,680)	(9,976)

The rules for the presentation and definition of non-recurring income and expenses remain unchanged compared to December 31, 2016.

The non-recurring income comes mainly from studies on the relocation of the Bologne (Haute-Marne) site.

To the Company's knowledge, there are no other litigation, arbitration or non-recurrent events that have, or have had, a significant impact on the financial situation, earnings, business or assets of the LISI Group.

2.6.7 | Financial result (income)

(in €'000)	12/31/2017	12/31/2016
FINANCING EXPENSES AND REVENUE ON CASH		
Revenue on cash	2,697	813
Impact of the change in fair value of positive interest rate hedges	747	333
Impact of the change in fair value of negative interest rate hedges	0	(501)
Financing expenses	(5,866)	(5,065)
SUBTOTAL INCOME FROM CASH AND CASH EQUIVALENTS	**(2,421)**	**(4,420)**
OTHER INTEREST REVENUE AND EXPENSES		
Foreign exchange gains	46,980	54,490
Foreign exchange losses	(79,390)	(37,000)
Impact of the change in fair value of positive LISI SA currency hedges	13,872	919
Other	(628)	(639)
FINANCIAL INCOME AND EXPENSES	**(19,166)**	**17,770**
FINANCIAL RESULT (INCOME)	**(21,587)**	**13,350**

The strongly negative impact of the financial result (-€21.6 million) compared to 2016 (€+13.3 million) can be explained by the following main items:

- financial expenses, which correspond to the cost of long-term net debt, totaled €-5.9 million (€-5.1 million in 2016), an average fixed rate of 2.01% (1.70% in 2016). This rate increase was offset by gains on current cash investments (€+2.8 million versus €+0.8 million in 2016);
- the revaluation of debts and receivables denominated mainly in US dollars (€-32.4 million, compared to €+17.5 million in 2016). Receivables and investments in foreign currencies were automatically affected by the sharp decline of that currency against the euro;
- the positive impact of the valuations of the currency hedging instruments (€+13.9 million versus €+0.9 million in 2016).

2.6.8 | Income tax

2.6.8.1 Income tax breakdown

BREAKDOWN (in €'000)	Pre-tax earnings	Tax*	Profit (loss) after tax
Current profit (loss)	153,627	(34,392)	119,234
Non-recurring operating expenses and revenues	(3,680)	1,258	(2,423)
Employee profit-sharing	(3,814)	1,312	(2,502)
Tax credits		85	85
CVAE (Tax on companies' added value)		(7,445)	(7,445)
PROFIT (LOSS) FOR THE PERIOD	**146,133**	**(39,182)**	**106,951**

* of which taxes due: €-19,471 thousand
of which deferred taxes: €-10,334 thousand
of which withholding tax on profits received from abroad: €-2,016 thousand
of which tax credits: €+85 thousand
of which CVAE (Tax on companies' added value) : €-7,445 thousand

2.6.8.2 Proof of tax

PROOF OF TAX AT 12/31/2017	€ million	%
Earnings attributable to the Group	108.0	
Minority interests	1.0	
Recorded income tax (income tax+income tax credit+deferred tax+CVAE)	39.2	
Profit (loss) before income tax	146.1	
Parent company standard rate	39.32%	
Theoretic income tax/rate at 39.32%	57.46	146.65%
DIFFERENCE		
Share of non-deductible expenses	1.73	4.4%
Withholding tax on foreign dividends	2.02	5.1%
Delta central rate/local rates	(13.07)	(33.4%)
Tax credits	(0.03)	(0.1%)
Activities not subject to taxation	(3.15)	(8.0%)
Taxes from prior periods	0.15	0.4%
Unused tax losses	2.45	6.3%
Variable carry forward	(9.01)	(23.0%)
Tax consolidation France	1.72	4.4%
Foreign tax consolidation	2.71	6.9%
Macron Law increased depreciation and amortization	(1.98)	(5.1%)
CIR	(1.82)	(4.6%)
Credit	(4.54)	(11.6%)
CVAE (Tax on companies' added value)	4.91	12.5%
3% tax on LISI SA dividends	(2.18)	(5.6%)
Permanent differences	1.77	4.5%
Other	0.05	0.1 %
INCOME TAX RECORDED TO THE INCOME STATEMENT (INCL. CVAE)	**39.2**	100.0 %
Effective tax rate (tax expense in the income statement as a ratio of pre-tax income)	26.82 %	

The tax charge, calculated on the basis of the corporation tax as a percentage of the net income before taxes, reflects an effective average rate of tax of 26.8%, slightly down compared with 2016 (33.7%). The current effective rate would be 31.1% if the one-time items for the year were adjusted (impact at the start of the year of the rate change in France and the United States for €-9 million, the additional tax contribution of 15% in France for €+1.1 million, claiming of the 3% contribution on dividends for €-2.1 million and the transitional tax on the undistributed reserves of foreign subsidiaries of US companies for €3.8 million).

2.6.8.3 Tax rates applied by LISI Group companies

	2017	2016
Germany	30.00%	30.00%
England	19.00%	20.00%
Belgium	34.00%	34.00%
Canada	26.90%	26.90%
Spain	30.00%	28.00%
USA	35.00%	40.00%
France *	39.32%	36.10%
Czech Republic	19.00%	19.00%
China	25.00%	25.00%

* Including the exceptional contribution on income tax of 15%.

2.6.9 | Earnings per share

Earnings per share calculations are shown in paragraph 2.2.1.8.6.

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

	12/31/2017		
(in €'000)	Profit (loss) for the period	Number of shares	Net earnings per share in €
Total shares		54,023,875	
Treasury shares		(976,887)	
BASIC EARNINGS PER SHARE	107,965	53,046,988	2.04
Restatement of performance shares being awarded		454,250	
DILUTED EARNINGS PER SHARE	**107,965**	**53,501,238**	**2.02**

	12/31/2016		
(in €'000)	Profit (loss) for the period	Number of shares	Net earnings per share in €
Total shares		54,023,875	
Treasury shares		(1,119,422)	
BASIC EARNINGS PER SHARE	107,008	52,904,453	2.02
Restatement of performance shares being awarded		473,210	
DILUTED EARNINGS PER SHARE	**107,008**	**53,377,663**	**2.00**

2.7 | ADDITIONAL INFORMATION

2.7.1 | Segment information

The Group's business is broken down between three markets that include the following three operational sectors (divisions):

- The LISI AEROSPACE division, which brings together all activities in the aerospace market,
- The LISI AUTOMOTIVE division, which brings together all activities in the automotive market,
- The LISI MEDICAL division, which brings together all activities in the medical market.

The "Others" heading mainly consists of the holding company LISI S.A. and disposals.

2.7.1.1 Breakdown by business line

(in €'000)	12/31/2017 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
INCOME COMPONENT					
Sales revenue by business sector	1,000,891	506,002	137,021	(558)	1,643,356
EBITDA	175,810	63,903	17,128	(662)	256,179
Depreciation allowance and provisions	47,712	30,590	7,348	(871)	84,779
Current operating profit (EBIT)	128,099	33,314	9,781	204	171,398
Operating profit	125,176	33,173	9,164	205	167,718
PROFIT (LOSS) FOR THE PERIOD	**73,842**	**25,717**	**5,575**	**1,817**	**106,951**
BALANCE SHEET COMPONENT					
Working capital requirement	237,947	87,824	22,658	29,090	377,519
Net fixed assets	608,130	314,073	156,248	(97,319)	981,129
ACQUISITIONS OF FIXED ASSETS	**91,704**	**37,923**	**10,896**	**1,171**	**141,694**

(in €'000)	12/31/2016 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
Income component					
Sales revenue by business sector	987,198	465,269	119,091	(454)	1,571,104
EBITDA	169,643	53,370	15,306	(1,187)	237,132
Depreciation allowance and provisions	46,751	27,049	6,056	(184)	79,672
Current operating profit (EBIT)	122,892	26,321	9,250	(1,003)	157,460
Operating profit	114,212	25,725	9,250	(1,704)	147,483
PROFIT (LOSS) FOR THE PERIOD	**74,762**	**17,769**	**4,890**	**8,968**	**106,390**
Balance sheet component					
Working capital requirement	260,724	71,848	29,618	(25,287)	336,903
Net fixed assets	497,189	254,700	164,472	(11,752)	904,606
ACQUISITIONS OF FIXED ASSETS	**94,324**	**32,715**	**5,859**	**(289)**	**132,609**

2.7.1.2 Breakdown by business sector and by country

(in €'000)	12/31/2017 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
INCOME COMPONENT					
REVENUE BY DESTINATION AREA					
European Union	670,062	407,031	58,213	(558)	1,134,748
of which France	*415,977*	*159,453*	*10,158*	*(688)*	*584,900*
North American continent	250,623	35,574	73,873		360,070
Other countries	80,206	63,397	4,935		148,538
TOTAL	**1,000,891**	**506,002**	**137,021**	**(558)**	**1,643,356**
BALANCE SHEET COMPONENT					
NET FIXED ASSETS BY DESTINATION AREA					
European Union	372,172	255,286	60,377	(244,294)	443,541
of which France	*346,437*	*160,107*	*60,380*	*(244,294)*	*322,630*
North American continent	194,040	51,069	95,871	146,973	487,953
Africa	16,816				16,816
Asia	25,102	7,718			32,820
TOTAL	**608,130**	**314,073**	**156,248**	**(97,321)**	**981,127**
FLOWS PROVIDED BY OR USED FOR ACQUISITION OF FIXED ASSETS BY DESTINATION AREA					
European Union	75,427	34,231	2,606	1,171	113,435
of which France	*66,572*	*19,016*	*2,607*	*1,171*	*89,366*
North American continent	10,478	1,526	8,289		20,293
Africa	3,037				3,037
Asia	2,763	2,167			4,930
TOTAL	**91,705**	**37,922**	**10,895**	**1,171**	**141,695**

(in €'000)	12/31/2016 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
INCOME COMPONENT					
REVENUE BY DESTINATION AREA					
European Union	648,872	382,282	100,083	(454)	1,130,783
of which France	*403,074*	*154,763*	*10,158*	*(112)*	*567,883*
North American continent	249,615	10,229	15,873		275,717
Other countries	88,711	72,758	3,135		164,604
TOTAL	**987,198**	**465,269**	**119,091**	**(454)**	**1,571,104**
BALANCE SHEET COMPONENT					
NET FIXED ASSETS BY DESTINATION AREA					
European Union	335,444	247,011	61,096	(11,752)	631,799
of which France	*312,030*	*160,154*	*61,096*	*(11,752)*	*521,528*
North American continent	108,206	1,240	103,376		212,822
Africa	15,656				15,656
Asia	37,883	6,449			44,332
TOTAL	**497,189**	**254,700**	**164,472**	**(11,752)**	**904,606**
FLOWS PROVIDED BY OR USED FOR ACQUISITION OF FIXED ASSETS BY DESTINATION AREA					
European Union	77,391	29,565	2,148	(289)	108,815
of which France	*71,320*	*22,386*	*2,149*	*(289)*	*95,566*
North American continent	10,576	915	3,711		15,202
Africa	2,131				2,131
Asia	4,226	2,237			6,463
TOTAL	**94,324**	**32,715**	**5,859**	**(289)**	**132,609**

2.7.2 | Share-based payments

2.7.2.1 Share purchase options

The Company had no stock options plans at December 31, 2017.

2.7.2.2 Award of performance shares

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on October 23, 2014, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting certain performance targets. The fulfillment of these criteria at the end of 2016, namely the Group RNA and the division RNA (see definition in paragraph 2.2.20 "Indicators" in this chapter), led to this plan being achieved during financial year 2017 at 90% for LISI SA, 90% for the LISI AEROSPACE division, 90% for the LISI AUTOMOTIVE division and 80% for the LISI MEDICAL division. The final cost was allocated to the divisions.

Similar plans were set up in 2015, 2016 and 2017 to the extent that the Board of Directors meeting on October 17, 2015, December 20, 2016 and December 13, 2017, renewed the start of a new plan under similar terms.
The fair value of these benefits is recognized in the income statement linearly over the vesting period.

The fair value of the benefits thus granted is recognized in 2017 in Payroll expenses for €2.4 million for the employees of the French companies, against shareholders' equity, and for €0.4 million for the employees of foreign companies, against social liabilities. This cost was not allocated to divisions, and remains an expense at the LISI S.A. level until the definitive realization of the plan.

2.7.3 | Related-party information/Remuneration of members of management bodies

2.7.3.1 Related-party information

Related parties include the parent company, company managers, directors and Board members. There is no other jointly-owned entity or entity recognized by equity method, or joint shareholder, or business under joint control or significant influence with which the LISI Group may have carried out transactions worthy of investigation.

The only relationship of the Group with its parent company (CID) is through the capital holding. On the other hand, LISI S.A. provides support to its subsidiaries in the fields of accounting, finance, strategy and law.

2.7.3.2 Remuneration of managers and directors

	Expenses for the period		Liabilities	
(in €'000)	2017	2016	2017	2016
Gross current benefits (salaries, bonuses, etc.)	1,257	1,068		
Post-employment benefits (IFC)	83	86	373	290
Other non-current benefits				
Termination benefits				
Equity compensation benefits	(51)	159	333	384
TOTAL REMUNERATION	**1,289**	**1,313**	**706**	**674**

The main directors will receive remuneration in the form of current benefits, post-employment benefits and share-based payments. With regard to this category, in 2016 and 2017, both directors of LISI S.A. received performance shares in accordance with the same terms and conditions as other members of the divisional Executive Committees. With regard to the 2015 plan, two additional conditions are imposed upon them, namely, to acquire 500 Company shares at the end of the vesting period, and to keep in registered form a portion of shares that were granted free (500 shares) up until the end of their term of office. With regard to the 2016 and 2017 plans, the corporate officers shall retain 20% of any performance shares which may have been allocated to them until the termination of their employment.

Concerning the retirement gratuities, no specific benefit is contractually agreed upon, apart from the benefits retirement.

2.7.4 | Commitments

The Group draws up annually a detailed list of all contractual commitments, financial and commercial commitments, and contingent liabilities to which LISI S.A. and/or its subsidiaries are party or exposed. This list is regularly updated by the departments concerned and reviewed by Group Management. In order to ensure that the information on this list is complete, accurate and consistent, special control procedures have been implemented, including in particular:

- the regular examination of the minutes of Shareholders' General Meetings, Board Meetings, associated Committees that deal with contractual commitments, disputes and authorizations for the purchase or disposal of assets;

- review of sureties and guarantees as well as loan agreements and any other banking commitments, in conjunction with the banks and financial institutions;
- review, together with both internal and external legal counsels, of dispute and legal proceedings before the courts, environmental questions, and the measurement of liabilities that might arise;
- examination of tax inspectors' reports and reassessment notices from previous financial years;
- examination, together with those in charge of risk management, insurance brokers and agents of the insurance companies with which the Group has taken out its insurance policies to cover risks in respect of contingent liabilities;
- examination of transactions with related parties in respect of guarantees or other commitments given or received;
- in general, review of all contracts and contractual commitments.

2.7.4.1 Commitments given in the context of ordinary operations

In addition to the operating leases whose annual charges are presented in note 2.6.1.2, commitments provided as part of current activities are as follows:

(in €'000)	2017	2016
Balance of investment orders	108,951	109,962
Guarantees and deposits	0	0
COMMITMENTS MADE	**108,951**	**109,962**
Rate swap	66,797	73,660
Foreign exchange hedging	268,350	397,213
RECIPROCAL COMMITMENTS	**335,147**	**470,873**

Reciprocal commitments:

Reciprocal commitments are interest rate swaps to hedge variable rate loans (see note 2.6.6.1. Financial Debt) taken out to fund external growth.

As at December 31, 2017, the features of the SWAP contracts were as follows:

Notional at 12/31/2017	Nominal value (in €'000)	Departure date	Maturity date	Paying rate	Receiving rate	Market value (NPV) (in €'000)
LISI S.A.	15,000	5/31/2012	5/31/2017	1.070%	2-month Euribor	70
LISI S.A.	9,500	6/29/2012	3/31/2017	1.0750%	3-month Euribor	2
LISI S.A.	5,000	6/10/2014	6/10/2021	0.940%	3-month Euribor	77
LISI S.A.	5,000	6/10/2014	6/10/2021	0.940%	3-month Euribor	77
LISI S.A.	10,000	6/10/2014	6/10/2021	0.970%	3-month Euribor	156
LISI S.A.	5,000	6/10/2014	6/10/2021	0.9525%	3-month Euribor	80
LISI S.A.	5,000	6/10/2014	6/10/2021	0.9675%	3-month Euribor	74
LISI S.A.	25,000	6/30/2014	5/30/2019	0.450%	3-month Euribor	77
LISI AUTOMOTIVE Former	7,000	12/31/2010	12/29/2017	1.745%	3-month Euribor	13
LISI MEDICAL Fasteners	4,500	9/28/2012	9/30/2024	1.300%	3-month Euribor	52
BLANC AERO INDUSTRIES	4,983	2/1/2016	1/15/2031	0.829%	3-month Euribor	26
BLANC AERO INDUSTRIES	4,983	2/1/2016	1/15/2031	0.830%	3-month Euribor	25
Creuzet Aéronautique	3,900	7/31/2012	7/31/2020	0.775%	1-month Euribor	18
					TOTAL	**747**

The currency hedging instruments at December 31, 2017 are as follows:

	Notional at 12/31/2017		Notional at 12/31/2016	
	Currency	EUR	Currency	EUR
GBP	32,400	36,518	34,980	40,856
CAD	57,600	38,300	39,600	27,911
TRY	32,785	10,321	18,650	5,871
PLN	16,800	4,022	20,400	4,626
USD	214,901	179,189	335,151	317,950
TOTAL		**268,350**		**397,213**

2.7.4.2 Commitments received as part of acquisitions of companies

LISI HOLDING NORTH AMERICA:
As part of the acquisition of TERMAX LLC, LISI HOLDING NORTH AMERICA agreed to purchase the remaining 49% of the shares by March 31, 2021.

For their part, the sellers agreed to indemnify LISI subject to an overall deductible of USD 200,000 for any prejudice that would be related in particular to (i) an environmental and tax risk of up to USD 5 million for the price of the acquisition of the 51% stake, (ii) a social risk of USD 5 million and (iii) a product non-compliance expense of up to USD 10 million.

LISI AUTOMOTIVE:
In the context of the takeover of the sites of Acument La Ferté Fresnel, LISI AUTOMOTIVE was awarded by TEXTRON a guarantee to cover environmental risks likely to threaten a site with no industrial activity to date.

LISI AEROSPACE:
In the context of the acquisition of the Manoir Aerospace group in June 2014, LISI AEROSPACE received a commitment from the seller to provide €3 million of cover for risks with regard to HSE compliance up to 2019. This commitment is covered by an escrow account for the same amount managed by a third party.
Additionally, the company received a guarantee of €5 million to cover potential tax liabilities and labor-related risks up until 2019.

2.7.4.3 Guarantees given under the terms of the transaction for the divestiture of LISI COSMETICS

As part of the divestiture of LISI COSMETICS, a commitment for compensation was granted in favor of the buyer concerning any reassessments from the tax or environmental authorities, subject to a deductible of €500,000, to exceeding a minimum threshold of €35 k and to an upper limit of €6 million.

2.7.4.4 Other commitments

Other commitments relate to loan agreements that provide for early repayment in the event of non-compliance with financial covenants. The details of these loans appear in paragraphs 2.5.6.1 and 2.5.6.2.

2.8 | CURRENCY EXCHANGE RATES APPLIED BY FOREIGN SUBSIDIARIES

		12/31/2017		12/31/2016	
		Closing rate	Average rate	Closing rate	Average rate
US dollar	USD	1.1993	1.1370	1.0541	1.1032
Sterling	GBP	0.8872	0.8757	0.8562	0.8227
Yuan	CNY	7.8044	7.6557	7.3202	7.3415
Canadian dollar	CAD	1.5039	1.4725	1.4188	1.4589
Zloty	PLN	4.1770	4.2427	4.4103	4.3744
Czech crown	CZK	25.5350	26.2891	27.0210	27.0423
Moroccan Dirham	MAD	11.2218	10.9934	10.6566	10.8485
Indian rupee	INR	76.6055	73.7879	71.5935	74.2001
Hong Kong Dollar	HKD	9.3720	8.8634	8.1751	8.5626

4

COMPANY FINANCIAL STATEMENTS

1 | COMPANY ACTIVITY FOR THE FINANCIAL YEAR AND OUTLOOK FOR THE COMING YEAR

The key role of LISI S.A., the parent company of the LISI Group, is to oversee projects of general interest and co-ordinate Company activity. More specifically, LISI manages the following services for its subsidiaries:

- strategic plan validation, external growth procedure, action plans, resource allocation;
- outlining strategy in an annual budget plan;
- financial control and internal audit (stemming from the COS program);
- financial and fiscal consolidation;
- financial optimization, centralized cash management for the Group, management of investments and financial liabilities, hedging of foreign currencies and interest rates;
- insurance coordination, procurement, quality, research and development;
- general policy and audit on health, safety and environment; (E-HSE), human resources and CAPEX as well as industrial progress plans (LEAP);
- management of strategic projects and implementation of the "LISI SYSTEM".

Earnings at December 31, 2017

The remarks below relate to the income statement for 2017.

- **In 2017, operating income amounted to €11.1 million, compared with €10.6 million in 2016 and was broken down as follows:**
  - **the sales revenues** of LISI S.A. amounted to €9.7 million compared with €9.4 million in 2016, an increase of 3.8%. They are essentially made up of services invoiced to the subsidiaries of LISI S.A. in respect of assistance, control and coordination of activities. These invoices pass on the operating expenses of LISI S.A. to the subsidiaries in 2017, with a 10% margin;
  - **other operating** income amounted to €1.6 million in 2017, compared with €1.3 million in 2016. This item mainly consists of:
    - a provision reversal of €0.9 million on the performance share allocation plans for 2014, for which the shares were vested by the employees in 2017,
    - specific charge-backs to subsidiaries in the amount of €0.6 million;
- **operating expenses** amounted to €10.2 million in 2017, an increase of 0.6% compared to 2016;
- as a result of the increased income and the stability of expenses, operating income rose from +€0.5 million in 2016 to +€1.1 million in 2017, an increase of +€0.6 million;
- **financial income** stood at €6.0 million, compared to €33.4 million in 2016. It is explained by:
  - **revenues** consisting primarily of dividends received from LISI AEROSPACE and LISI AUTOMOTIVE for €+28.0 million compared to €22 million paid by LISI AEROSPACE in 2016, interest on group current accounts for €+4.8 million in 2017 compared to €4.3 million in 2016 and net investment capital gains of €+2.6 million in 2017 compared to €0.7 million in 2016;
  - **interest expenses** made up mostly of interest on borrowings and group current accounts in the amount of €–6.8 million are stable compared to 2016. A provision for unrealized exchange losses on Group loans in US dollars was also recorded for €6.4 million;
  - **the foreign exchange loss** was €-16.2 million in 2017, compared to a gain of €+13.8 million in 2016, mainly due to the decline in the US dollar. It is essentially the result of changes in currency rates for investments in US dollars and the current accounts of foreign subsidiaries also denominated in that currency;
- **non operating profit** amounted to €0.2 million for the year 2017;
- **corporate income tax** comprises a tax income of +€12.8 million consisting of:
  - tax income of €2.2 million following the claim of the 3% contribution on dividends paid;
  - a tax integration gain of €+10.6 million for fiscal year 2017, which includes the exceptional contribution of 15% paid in December 2017 that negatively impacts that gain by €1.1 million;
- **consequently, the net earnings** of LISI S.A. were €+20.1 million in 2017, compared to €+33.0 million in 2016, a decrease of €12.9 million, which can be explained entirely by the impact of losses in connection with the decline of the US dollar over the period;
- **shareholders' equity increased** from €221.2 million in 2016 to €217.5 million at the end of 2017. It was reduced by the distribution of the dividends paid in May 2017, for an amount of €–23.9 million in respect of the 2016 profit and increased by the year's net earnings of €20.1 million;
- **cash available excluding current accounts at year-end** amounted to €133.2 million, compared to €101.3 million in 2016: this item consists of monetary SICAV instruments and guaranteed capital investments denominated in euros and USD (including $129.4 million in short-term SICAVs);
- **net debt** totaled €+52.0 million at the end of 2017 compared to €-16.8 million at the end of 2016 due to the decrease in the cash position in USD and the increase in financial debts following the drawdown of additional commercial paper.

1.1 | APPROPRIATION OF EARNINGS

We propose that last year's profits of €20,110,606 be allocated as follows:

In €	
profits for the financial year of	20,110,606
plus retained earnings in the amount of	87,007,760
i.e. a distributable profit	107,118,366
which we propose be allocated as follows:	
• as dividends to shareholders €0.48 per share, to be paid on May 4, 2018 (*)	25,931,460
• remainder to be carried forward, for a total of	81,186,906

(*) From this amount will be deducted the dividend for the shares held by the Company as treasury shares.

The dividend for each share amounts to €0.48. The value of the dividend eligible for 40% deduction, as covered by Article 158-3-2° of the French General Tax Code, is €0.48.

We also note that the dividend payouts per share, in euros, were as follows:

	Nominal value of the share	Dividend per share
Financial year ended 12/31/14	€2.00	€0.37
Financial year ended 12/31/15	€2.00	€0.39
Financial year ended 12/31/16	€2.00	€0.45

Please note that dividends are paid out nine months after year end, and the time limit after which dividend entitlement lapses is five years, effective from the date when dividends were agreed.

Outlook for 2018

Upstream dividend payments from our various subsidiaries and the maintenance of Group royalties should allow LISI S.A. to continue its policy of supporting its divisions and freeing up dividend distribution capacities for its shareholders.

Financial risks related to the effects of climate change

LISI analyzed its processes to determine which of them made the greatest contribution to emissions of Greenhouse Gas (GHG). It turned out that the main source of emission of Greenhouse Gas (GHG) is linked to energy consumption.

This confirms LISI's general action to reduce its carbon footprint through its energy consumption.

During 2017, LISI undertook an Assessment of the Greenhouse Gas (GHG) generated by its activities. This assessment was prepared with the help of GREENBIRDIE, a firm specializing in this field, and certified by ADEME.

The main activities generating greenhouse gas (GHG) are the consumption of raw materials, the consumption of energy, the use of refrigeration units and air-conditioners and the movement of people and goods. As a result, all of LISI's activities generated the following consumed goods:

Organization	Scope	Indicators	2017
LISI	Scope 1	GHG Natural Gas [kg GHG]	40,813,838
		GHG Domestic heating fuel [kg GHG]	58
		GHG Heating network [kg GHG]	–
		GES LPG [kg GHG]	1,726,242
		GHG Vehicles owned [kg GHG]	731,746
		GHG Private vehicles under lease [kg GHG]	2,154
		GHG Fugitive emissions from refrigerants [kg GHG]	1,195,156
		Total GHG Scope 1 [kg GHG]	**44,469,194**
	Scope 2	GHG Electricity [kg GHG]	72,303,279
		Total GHG Scope 2 [kg GHG]	**72,303,279**
	Scope 3	Transport to/from (2016 data) [kg GHG]	12,890,640
		Consumption of raw materials [kg GHG]	385,589,180
		Total GHG Scope 3 [kg GHG]	**398,479,820**
	TOTAL	TOTAL GHG [KG GHG]	**515,252,293**

Accordingly, to fight against global warming, LISI works primarily to reduce its energy consumption through the introduction of an action plan for energy consumption reduction at each site.

Supplier and customer terms of payment

In the tables below, you will find details of the terms of payment for suppliers and customers concerning LISI SA operating invoices:

Invoices received and issued at year-end that are past due (amounts in thousands of euros):

	Article D.4411.-1°: Invoices ***received*** and not paid at the end of the financial year that are past due						Article D.4411.- 2": Invoices ***issued*** and not paid at the end of the financial year that are past due					
		1 to 30 days	31 to 60 days	60 to 90 days	91 days and over	Total (1 day and over)		1 to 30 days	31 to 60 days	60 to 90 days	91 days and over	Total (1 day and over)
(A) Late payment periods												
Number of invoices affected												
Total amount of invoices affected excl. VAT		2.39	82.66	3.80	1.28	90.12		1,630.48		0.56	3.29	1,634.33
Percentage of the total amount of purchases excl. VAT for the year		0.05%	1.85%	0.08%	0.03%	2.01%						
Percentage of sales revenue excl. VAT for the year								16.78%			0.03%	16.82%
(B) Invoices excluded from (A) relating to disputed and unrecorded payables and receivables												
Number of invoices excluded												
Total amount of excluded invoices												
(C) Reference terms of payment used (contractual or statutory period - Article L.441-6 or Article L.443-1 of the French Commercial Code)												
Terms of payment used to calculate late payments	■ Statutory terms: 30 days end of month +15						■ Statutory terms: 30 days end of month +15					

Invoices received and issued that were paid late during the year (amounts in thousands of euros):

	Article D.441 - II.: Invoices ***received*** that were paid late during the year						Article D.441 - II.: Invoices ***issued*** that were paid late during the year					
		1 to 30 days	31 to 60 days	60 to 90 days	91 days and over	Total (1 day and over)		1 to 30 days	31 to 60 days	60 to 90 days	91 days and over	Total (1 day and over)
(A) Late payment periods												
Cumulative number of invoices affected												
Cumulative amount of invoices affected excl. VAT		82.29	123.47			205.76		7.92				7.92
Percentage of the total amount excl. VAT of invoices received during the year		1.84%	2.76%			4.59%						
Percentage of the total amount excl. VAT of invoices issued during the year								0.08%				0.08%
(B) Invoices excluded from (A) relating to disputed and unrecorded debts and receivables												
Number of invoices excluded												
Total amount of excluded invoices												
(C) Reference terms of payment used (contractual or statutory period - Article L.441-6 or Article L.443-1 of the French Commercial Code)												
Terms of payment used to calculate late payments	■ Statutory terms: 30 days end of month +15						■ Statutory terms: 30 days end of month +15					

Main features of the internal control and risk management procedures put in place by LISI SA relating to the preparation and processing of accounting and financial information

Internal audit repository

The Internal Control Department developed a new Internal Audit Repository in 2011 based on a Questionnaire of 134 questions that cover all of the Internal Control Manual processes: Purchasing, Capital Expenditures, Sales, Inventories, Cash, and Human Resources.

In 2015, this questionnaire was reviewed in order to improve internal control standards. Accordingly, an additional process comprising 24 questions was introduced for the control of our IT systems. It was revised in October 2017 in coordination with the IT Departments of the three divisions. The number of questions was reduced to 22.

Audits have been used since 2012 to validate (or invalidate) the level of internal audit achieved in each of the business units; they have continued throughout the whole of 2017 with 12 audit tasks completed.

The Group's overall score level remained stable at 84% and above our conventional minimum of 80%.

We feel that the stiffening of the internal control requirements caused a loss of about 6 points on the scores achieved in 2017, while the impact of the Chapter "Information Systems" would be approximately 1 point.

A more detailed analysis by division shows that:

- LISI AEROSPACE maintained its score of 82% from last year;
- LISI AUTOMOTIVE's score fell by 2 points but still remains good at 85%;
- LISI MEDICAL's score increased by 5 points to 86%.

Finally, a process analysis indicates that, with the exception of the IT Systems cycle, all other processes have now achieved above our conventional 80% standard.

Lastly, in 2017, the Internal Audit Department continued its good practices efforts through the promotion of ICCS (Internal Control Committees). These CCIs bring the internal audit referents in the divisions together with the Managers concerned depending on the topics addressed: HR, IS, Inventories etc. This work will of course be continued in 2018 with the development of processes for the SAPIN 2 law, due diligence and the GDPR (protection of personal data).

Risk mapping

The main risks identified in the context of the budget and strategic planning in the medium term belong to four categories:

- market risks to be anticipated as accurately as possible within all divisions:
- possible effects of over-stocking based on the current contracts;
- strong downward pressure on non-contractual prices;
- missed opportunities on major new markets;
- marginalization due to insufficient size in a context of market player concentration.

Industrial challenges:

- essential productivity programs to be carried out to sustain certain industrial processes and maintain competitiveness in high cost areas, sometimes accompanied by reconversion in the more attractive segments of the business;
- launches of new products which are technically very challenging;
- customer requirements that are impossible to achieve;
- security risks regarding assets on certain sites: flooding, fire detection and fire prevention, for which relocation projects are under study and or underway;
- installations deemed critical for which prevention and security plans must be initiated.

Fraud

The LISI Group is regularly the subject of attempted fraud, in the majority by identity theft. The alert procedure established in 2013 is still in force.

Profitability assessment of major investments

As part of the procedure for investment commitments described in the internal audit manual, audits for measuring the achievement of criteria (Payback and ROI) are routinely performed on a polling basis within two years after the completion of major projects for the Group.

CONCLUSION

The Group finds the standard of internal audit appropriate to the size and typology of the risks identified.

In 2018, the Group will focus on continuing its internal control strategy to:

- respond to the Group's growth and quickly bring all Group entities into line with the COS (Controlling Operating System) and audit standards;
- raise the internal audit ratings of sites whose scores are below the Group standard of 80%;
- deploy a risk-based approach via the software solution set up, and harmonize its processes with all strategic and operational action plans;
- implement anti-corruption measures in accordance with the Sapin Law, along with its associated alert measures, and comply with due diligence and management of personal data.

Additional information

- Deductible expenses for tax purposes are made up of depreciation and rental of passenger vehicles totaling €22,252.
- LISI S.A. has, through a market maker's contract with an independent service provider, purchased 597,181 LISI shares for €22.6 million and has sold 600,570 shares for a sum of €22.5 million. At December 31, 2017, the number of shares held through the market maker's contract was 19,289.
- Treasury shares held at December 31, 2017 totaled 976,887 shares, including those related to the market maker's contract.
- Accounts payable amounted to €1,397 and 90% of suppliers, excluding fixed asset suppliers, were paid in cash.

2 | FINANCIAL STATEMENTS

2.1 | INCOME STATEMENT

(in millions of euros)

	Notes	2017	2016	2015
Pre-tax sales		**9,717**	**9,364**	**8,457**
Operating income		**11,312**	**10,639**	**10,529**
External costs		(4,480)	(3,941)	(2,048)
Taxes and duties		(541)	(566)	(791)
Personnel expenses		(4,201)	(4,312)	(4,105)
Other charges		(174)	(261)	(228)
Depreciation, provisions		(777)	(1,029)	(954)
Operating profit		**1,139**	**529**	**2,402**
Financial earnings				
– from equity interests	3.3.1	32,658	26,336	25,139
– interest and similar expenses		50	19	
– positive exchange differences		13,148	25,475	12,317
– from disposal of marketable securities		2,573	745	753
– reversals of provisions	3.2.5	443	0	1
Interest expenses				
– interest and similar expenses		(6,805)	(6,854)	(6,700)
– negative exchange rate differences		(29,340)	(11,712)	(15,283)
– from disposal of marketable securities		(312)	(175)	(204)
– provisions allowance	3.2.5	(6,415)	(443)	0
Financial result (income)		**6,000**	**33,390**	**16,024**
Current profit before tax		**7,138**	**33,919**	**18,426**
Extraordinary earnings				
– on capital transactions		489	100	32
– on management transactions		867	663	1,189
– reversal of provisions		17	12	4
Extraordinary charges				
– on capital transactions		(88)	(39)	
– on management transactions		(1,044)	(806)	(1,402)
– provisions allowance		(43)	(5)	(9)
Non operating profit (loss)		**198**	**(75)**	**(186)**
Income tax	3.3.2	12,775	(822)	11,797
NET EARNINGS		**20,111**	**33,022**	**30,037**

2.2 | COMPANY BALANCE SHEET

(in thousands of euros)

ASSETS	Notes	2017	2016	2015
Fixed assets				
Other intangible fixed assets	3.2.1	475	474	402
Tangible fixed assets	3.2.1	2,754	1,648	1,553
Financial assets	3.2.3	252,761	215,733	158,368
Amortization and depreciation	3.2.2 / 3.2.4	(1,458)	(1,684)	(1,431)
Total net fixed assets		**254,531**	**216,171**	**158,892**
Current assets				
Clients and apportioned accounts	3.2.5	2,158	1,754	1,624
Other debtors	3.2.5	1,889	923	162
Subsidiaries' current accounts	3.2.5	395,058	399,705	411,313
Impairment of receivables				
Tax credit	3.2.5	30,807		17,301
Marketable securities	3.2.6.1	133,188	101,350	75,859
Cash	3.2.6.2	42,500	22,453	27,644
Provisions for write-down of marketable securities	3.2.7			
Total current assets		**605,600**	**526,185**	**533,903**
Deferred charges		157	123	133
Deferred expenses				
Translation differences assets		6,410	443	0
Total accruals		**6,567**	**566**	**133**
Total assets		**866,698**	**742,922**	**692,928**

LIABILITIES	Notes	2017	2016	2015
Shareholders' equity				
Share capital		21,610	21,610	21,610
Issue, merger, and contribution premiums		69,077	69,077	69,077
Reserves		19,598	19,598	19,595
of which legal reserve		*2,161*	*2,161*	*2,157*
Balance carried forward		87,008	77,857	68,453
Profit (loss) for the period		20,111	33,022	30,037
Regulated provisions		84	58	65
Total equity	**1.4**	**217,488**	**221,223**	**208,837**
Provisions for risks and charges	3.2.8	**7,489**	**1,709**	**1,346**
Debt				
Sundry loans and financial debts (*)	3.2.5	352,016	286,748	215,558
Subsidiaries' current accounts	3.2.5	270,781	220,007	255,476
Taxes due				
Accounts payable	3.2.5	2,233	1,970	1,146
Tax and statutory payments	3.2.5	1,864	2,908	2,276
Other creditors	3.2.5	14,827	7,843	8,287
Total debt		**641,721**	**519,475**	**482,743**
Deferred income				
Translation differences liabilities		1	516	3
Total accruals		**1**	**516**	**3**
Total liabilities		**866,698**	**742,922**	**692,928**
(*) of which banking facilities.		*(24)*		*(10)*

2.3 | STATEMENT OF CASH FLOWS

(in thousands of euros)	2017	2016	2015
Operating activities			
Operating cash flow	25,622	33,630	29,402
Effect of changes in inventory on cash			
Effect of changes in accounts receivable and accounts payable	(32,546)	17,433	(10,765)
Cash provided by or used for operations (A)	**(6,924)**	**51,063**	**18,638**
Investment operations			
Cash used to acquire tangible and intangible fixed assets	(1,474)	(205)	(147)
Cash received from the disposal of tangible and intangible fixed assets	489	100	32
Cash used to acquire financial assets			
Cash received from the disposal of financial assets			
Net cash used for acquisitions and disposals of subsidiaries			
Cash payments and collections from loans to subsidiaries	(48,938)	(45,455)	2,000
Cash provided by or used for investing activities (B)	(49,923)	(45,560)	1,885
Financing operations			
Cash received from shareholders as part of a capital increase			
Dividends paid to shareholders of the parent company	(23,872)	(20,629)	(19,467)
Cash received from new loans	119,836	129,323	40,526
Repayment of loans	(42,671)	(70,026)	(46,434)
Cash provided by or used for financing activities (C)	**53,293**	**38,668**	**(25,375)**
Effect of change in foreign exchange rates (D)			
Changes in cash (A+B+C+D)*	**(3,554)**	**44,171**	**(4,853)**
Cash at January 1 (E)	303,501	259,330	264,183
Cash at December 31 (A+B+C+D+E)	299,947	303,501	259,330
Marketable securities	133,194	101,350	75,859
Cash, subsidiaries' current accounts	437,558	422,158	438,957
Banking facilities, subsidiaries' current accounts	(270,805)	(220,007)	(255,486)
Closing cash position**	**299,947**	**303,501**	**259,330**

* The overall change in cash position corresponds to the total of net cash flows generated by the various categories: operations, CAPEX, and financing.
** The cash position is the algebraic sum of the balance sheet assets and liabilities.

2.4 | CHANGE IN SHAREHOLDERS' EQUITY

(in thousands of euros)

At 12/31/2015	198,261
Profit (loss) for the period	30,037
Capital increase	
Dividends paid	(19,467)
Accelerated depreciation	5
At 12/31/2016	221,223
Profit (loss) for the period	20,111
Capital increase	
Dividends paid	(23,872)
Accelerated depreciation	(26)
At 12/31/2017	217,488

3 | NOTES TO THE COMPANY FINANCIAL STATEMENTS

LISI S.A. is a *Société Anonyme* (public limited company) with a Board of Directors, with capital of €21,609,550 representing 54,023,875 shares with a nominal value of €0.40. It is registered at the Belfort trade registry, under no. 536,820,269. Its head office is based at 6 rue Juvénal Viellard, Grandvillars, France.

The final annual balance at December 31, 2017 was €886,698,376. The annual income statement showed a profit of €20,110,606.

The financial year runs over twelve (12) months, from January 1, 2017 to December 31, 2017.

The notes and tables below form an integral part of the Company financial statements.

3.1 | ACCOUNTING PRINCIPLES AND POLICIES

The financial statements for 2017 are drawn up in line with current French accounting regulations. The accounting principles and policies have been applied in line with the prudence principle and with underlying assumptions which aim to provide an accurate picture of the Company:

- the continuity of operations;
- the comparability of accounting policies;
- the independence of financial years.

Items listed on the balance sheet are, depending on the item, valued at historic cost, transfer value, or net asset value.

The accounting principles on which the Company financial statements for 2017 were drawn up are identical to those for 2016.

The preparation of financial statements requires LISI to make estimates and speculative forecasts which are liable to impact on both its assets and liabilities as well as those of its subsidiaries and holdings.

The latter are exposed both to specific, industry-related risks as well as risks relating to the wider international environment.

In LISI S.A.'s financial statements, the estimates and forecasts involved in implementing accounting policies particularly affect equity investments, as valuations (see note b, below) are based on affiliates' forecast data.

a) Tangible fixed assets

Tangible assets are valued at their historical cost (price of purchase and related expenses), and depreciation is calculated using the straight line or diminishing balance method, in accordance with their expected useful life:

	Economic depreciation	Fiscal depreciation
Software programs	3 years straight line	3 years straight line
Buildings	33.33 years straight line	20 years straight line
Transport equipment	5 years straight line	3 years diminishing balance
Office equipment	3-5 years straight line	3-5 years diminishing balance
Office furniture	5-10 years straight line	5-10 years straight line

LISI S.A. does not calculate depreciation of individual elements: fixed assets that would require such restatement are not of a significant nature.

b) Financial fixed assets

Participating shares and other financial fixed assets are valued at their purchase price, excluding the costs incurred in their acquisition. If these values are higher than the value in use, a provision for depreciation is recorded to account for the discrepancy.

The value in use is calculated from each line of investment, based on the profitability and performance outlook for the companies concerned; on developments in the economic sectors in which they operate; and on their positions within these sectors.

The inventory value has been brought into line with the value in use calculated for the impairment tests, which did not show any loss in value.

c) Marketable securities

Marketable securities are valued at their purchase price, excluding the costs incurred in their acquisition. They may be depreciated in line with the average price or the year-end price.

d) Treasury stock

Treasury stock is held as marketable securities. These latter are valued at their lowest acquisition price or market value (average stock market price for December) for treasury stocks purchased under price regulation or equity not allocated to staff stock option or share allocation plans. For shares allocated to plans, CNC notice no. 2008-17 applies.

e) Free shares and options

Where an outflow of resources relating to share purchase options and free share awards on the basis of performance is probable, the amount of the future expense is provisioned in proportion to the rights acquired since the allocation date. Where relevant, provisions thus provided for take into account whether or not treasury shares are allocated to share options or relevant free allocations.

The impact of the expenses relating to the awards of free performance shares is included in the payroll expenses for employees of LISI S.A. only.

f) Loans and receivables

Receivables are valued at their face value. A depreciation provision is recorded when the recoverable value is less than the book value.

g) Provisions for risks and charges

Provisions for risks and charges are recognized in line with the CRC regulation 2000-06 on liabilities, dated December 7, 2000.

This regulation stipulates that a liability is recognized when a company has an obligation to a third party and it is probable or certain that this obligation will necessitate an outflow of resources to the third party, with no equivalent or larger payment in return. The obligation must exist at the closing of accounts in order to be recognized.

Provisions are calculated with help from the Group's lawyers and consultants, based on current protocol and an assessment of the risks at the date of closing of accounts.

h) Financial instruments

Results relating to financial instruments used in hedging operations are calculated and recognized in such a way as to balance the income and expenses relating to the hedged elements.

i) Income tax

LISI S.A. benefits from the tax integration regime enacted by the law of December 31, 1987. This regime allows the taxable results of profit-making companies to be offset by the deficits of other companies, under certain conditions.

Each company covered by the tax integration regime calculates and recognizes its tax payable as if it were taxed individually.

LISI S.A. recognizes the savings or additional tax burden resulting from the difference between the tax owed by the subsidiaries covered by the regime, and the tax resulting from the calculation of the joint result.

The tax integration agreement stipulates that tax gains generated by loss-making subsidiaries should be retained at the parent company level.

3.2 | DETAIL OF THE BALANCE SHEET ITEMS

3.2.1 Gross tangible and intangible fixed assets

(in thousands of euros)	At 12/31/2016	Acquisitions	Disposals/ Deconsolidations	At 12/31/2017
Start-up and development costs				
Other intangible fixed asset items	474	46	45	475
Total 1 Intangible assets	**474**	**46**	**45**	**475**
Land	117		79	38
Buildings on freehold land	364		288	76
Buildings on non-freehold land				
Buildings, installations, fixtures and fittings				
General installations, fixtures and fittings	531			531
Office and IT equipment, furniture	501	2		503
Total 2 Tangible assets	**1,513**	**2**	**367**	**1,148**
Tangible assets in progress	134	1,472	0	1,606
Total 3 Tangible assets in progress	**134**	**1,472**	**0**	**1,606**
TOTAL	**2,121**	**1,520**	**412**	**3,229**

The item "Tangible assets in progress" is comprised of expenses committed to the future relocation of the LISI S.A. head office.

3.2.2 Amortization and depreciation of the tangible and intangible fixed assets

(in thousands of euros)	At 12/31/2016	Allowances	Decreases or reversals	At 12/31/2017
Start-up and development costs				
Other intangible fixed assets	379	49	45	383
Total 1	**379**	**49**	**45**	**383**
Land				
Buildings	351	3	280	74
General installations, fixtures and fittings	433	18		451
Transport equipment				
Office and IT equipment, furniture	405	28	0	433
Total 2	**1,189**	**49**	**280**	**958**
TOTAL	**1,568**	**98**	**325**	**1,341**

3.2.3 Financial assets

Figures in euros	Gross value 12/31/2016	Acquisitions and transfers from item to item	Disposals and transfers from item to item	Gross value 12/31/2017
Equity interests valued by the equity accounting method				
Equity interests and related receivables	215,703	49,330	12,302	252,730
– of which Hi Shear Corporation loan	*56,920*		*11,357*	*45,563*
– of which Hi Shear Corporation interest incurred	*945*	*753*	*945*	*753*
– of which LISI Holding North America loan		*48,362*		*48,362*
- of which LISI Holding North America accrued interest		*215*		*215*
Other non-current investments	10			10
Borrowings and other debts	21			21
TOTAL	**215,734**	**49,330**	**12,302**	**252,761**

The increase in financial assets stems from the setting up of an intragroup loan to our US subsidiary LISI Holding North America, and the decrease corresponds to the repayment of the annuity of the group loan to HI SHEAR CORPORATION of €5,539,000 and to the unrealized loss on foreign exchange differences of €5,818,000 for that loan.

3.2.4 Provisions for depreciation of the tangible fixed assets and financial assets

(in thousands of euros)	At 12/31/2016	Allowances	Reversals	At 12/31/2017
Provisions on intangible fixed assets				
Provisions on tangible fixed assets	108			108
Provisions on equity method investments				
Provisions on equity interests				
Provisions on other financial assets	8			8
TOTAL	**116**			**116**

The provision for depreciation on tangible fixed assets in an amount of €108,000 is for the forthcoming relocation of the LISI S.A. head office.

3.2.5 Maturity dates for receivables and payables

RECEIVABLES (in thousands of euros)	Gross amount end year	Less than one year	1 to 5 years	More than 5 years
Customers	2,158	2,158		
Income tax	30,807	30,807		
Tax integration current accounts				
Subsidiaries' current accounts	395,058	395,058		
Other debtors	1,887	1,887		
TOTAL	**429,912**	**429,912**	**0**	**0**

DEBT (in thousands of euros)	Gross amount end year	At less than 1 year	1 to 5 years	More than 5 years
Loans and debts from credit institutions:				
at a maximum of 1 year when contracted	24	24		
at more than 1 year when contracted	226,988	27,313	152,617	47,059
Sundry loans and financial debts	125,004	125,004		
Accounts payable and apportioned accounts	1,492	1,492		
Debt on fixed assets and apportioned accounts	741	741		
Tax and statutory payments	1,864	1,864		
Income tax				
Tax integration current accounts	14,826	14,826		
Subsidiaries' current accounts	270,781	270,781		
Other creditors	0	0		
TOTAL	**641,720**	**442,045**	**152,617**	**47,059**

On December 31, 2017, the item "Loans and debts from credit institutions" includes the issuance of unsecured notes on the US private placement market (USPP: US private placement) on October 17, 2013 for an amount of €48 million, on March 20, 2015 for an amount of €20 million and on March 4, 2016 for an amount of €40 million.

"Financial covenants" related to this debt are:

- consolidated gearing ratio < 1.2 (Net debt/Shareholders' equity);
- consolidated Leverage ratio < 3.5 (Net debt/EBITDA);
- coverage ratio of consolidated interest expense < 4.5 (Net interest expense/EBITDA).

As of December 31, 2017, the balance of the item "Borrowings and debt" includes the drawdown of commercial paper (NEU CP) issued on the debt money market for an amount of €125 million.

3.2.6 Marketable securities and cash

3.2.6.1 Marketable securities

As at December 31, 2017, marketable securities were as follows:

(in thousands of euros)	
976,887 LISI shares*	7,919
SICAV and deposit certificates	125,275
Giving a gross total of	**133,194**

* 976,887 shares held, under the delegation for the purpose of buying back the Company's own shares up to a limit of 10% of which those held under the market-making contract.

The item "Marketable securities" essentially comprises money market funds for €107.9 million and guaranteed-capital investments for €17.4 million.

The total net asset value of marketable securities stood at €107.9 million as at December 31, 2017.

3.2.6.2 Cash

This item is solely composed of bank balances.

3.2.6.3 Cash and Net debt

(in thousands of euros)	2017	2016	2015
Subsidiaries' current accounts	395,058	399,705	411,313
Marketable securities	133,194	101,350	75,859
Cash	42,500	22,453	27,644
Cash available [A]	**570,752**	**523,508**	**514,816**
Subsidiaries' current accounts [B]	270,781	220,007	255,476
Banking facilities for operations [B]	24		10
Net cash [A - B]	**299,947**	**303,501**	**259,330**
Borrowings and debt	352,016	286,748	215,548
Debt [C]	**352,016**	**286,748**	**215,548**
Net debt [D = C + B - A]	**52,069**	**(16,753)**	**(43,782)**

The decrease in the cash position in USD and the increase in financial debts following the drawdown of additional commercial paper are the consequence of the change in net debt between 2016 and 2017.

3.2.6.4 Inventory of marketable securities

a) Shares

(in thousands of euros)	Gross book values	Provisions	Net book values
Equity interests			
French companies	157,837		157,837
Foreign companies	–	–	–
Total equity interests	**157,837**		**157,837**
Securities held for sale			
French companies	10	8	1
Foreign companies	–	–	–
Total marketable securities	**10**	**8**	**1**

b) Marketable securities

(in thousands of euros)	Gross book values	Provisions	Net book values
Treasury stock	7,919	6	7,913
SICAV and deposit certificates	125,275	–	125,275
Total marketable securities	**133,194**	**6**	**133,188**

3.2.7 Provisions for impairment of current assets

No provision for impairment of current assets was recorded at December 31, 2017.

3.2.8 Provisions for risks and charges

(in thousands of euros)	At 12/31/2016	Allowances	Reversals	At 12/31/2017
Provision for long service medals	11	2		13
Provisions for charges		50		50
Provision for stock options and the allocation of free shares	1,254	627	864	1,017
Provisions for fines				
Provisions for exchange losses	443	6,410	443	6,410
TOTAL	**1,709**	**7,088**	**1,308**	**7,489**

3.3 | DETAIL OF MAIN INCOME STATEMENT ITEMS

3.3.1 Financial income from investments

(in thousands of euros)	Amount
Dividends received from subsidiaries	28,003
Dividends received outside the Group	
Interest from loans to subsidiaries	4,655
Total	**32,658**

3.3.2 Breakdown of corporation tax

(in thousands of euros)	Current profit (loss)	Non operating profit (loss)	Accounting result
Pre-tax earnings	7,138	198	7,336
Income tax			
Tax credits, IFA & miscellaneous	25		25
Additional contribution to the corporate income tax on the amount distributed	2,178		2,178
Tax integration taxes	10,572		10,572
Net earnings	**19,913**	**198**	**20,111**

The LISI Group benefits from the tax integration regime, which covers all its French subsidiaries. The tax integration agreement stipulates that tax gains should be retained at the parent company level. The overall amount of corporate income tax at December 31, 2017 is a tax income.

3.4 | FINANCIAL COMMITMENTS

Financial guarantees given:

LISI S.A. has signed letters of intent with banks relating to the commitments made by some of the Group's subsidiaries. Moreover, its agreements with some partners require compliance with financial covenants.

Commitments given under the terms of the transaction for the divestiture of LISI COSMETICS:

Commitment for compensation granted in favor of the buyer concerning any reassessments from the tax or environmental authorities, subject to a deductible of €500,000, to exceeding a minimum threshold of €35,000 and to an upper limit of €6 million.

Financial derivatives:

LISI S.A. uses derivative financial instruments to hedge its exposure to foreign exchange risk, and occasionally to hedge its interest rate risks resulting from its financial activities. In accordance with its cash management policy, LISI S.A. neither holds nor issues derivatives for trading purposes.

The currency hedges are underwritten by LISI S.A. to cover all of the LISI Group's needs.

The details at December 31, 2017 are as follows:

	12/31/2017					12/31/2016				
	Fair value (1)	Notional amount (2)	< 1 year	between 1 and 5 years	more than 5 years	Fair value (1)	Notional amount (2)	< 1 year	between 1 and 5 years	more than 5 years
Long position of GBP against USD	0.1	32.4	25.2	7.2	0.0	(7.2)	35.0	21.8	13.2	0.0
Long position of CAD against USD	1.7	57.6	33.6	24.0	0.0	(1.5)	39.6	33.6	6.0	0.0
Long position of TRY against EUR	(0.6)	32.8	32.8	0.0	0.0	(0.2)	18.7	18.7	0.0	0.0
Long position of PLN against USD	0.1	16.8	16.8	0.0	0.0	(0.3)	20.4	20.4	0.0	0.0
Long position EUR against USD	13.5	214.9	116.0	98.9	0.0	(14.1)	335.2	0.0	335.2	0.0
	14.7					(23.3)				

(1) Fair value amounts are expressed in millions of euros.
(2) Maximum notional amounts are expressed in millions of currencies.

Reciprocal commitments corresponding to interest rate swaps:

LISI S.A. has contracted interest rate swaps intended to hedge it against an increase in interest rates on variable rate loans. The details at December 31, 2017 are as follows:

	Face value (in thousands of euros)	Capital remaining due (in thousands of euros)	Fixed rate	Maturity date
Variable rate vs. fixed rate	5,000	5,000	0.9400%	June-21
Variable rate vs. fixed rate	5,000	5,000	0.9400%	June-21
Variable rate vs. fixed rate	25,000	7,500	0.4500%	June-19
Variable rate vs. fixed rate	10,000	10,000	0.9700%	June-21
Variable rate vs. fixed rate	5,000	5,000	0.9525%	June-21
Variable rate vs. fixed rate	5,000	5,000	0.9675%	June-21

Financial Instruments ANC Regulation 2015-05 respecting Financial Futures and Hedging

The new 2015-05 ANC Regulation, which came into force on January 1, 2017, applies to forward financial instruments, imposes at the level of hedging transactions the symmetrical recognition in the income statement of the hedged risk and the effects of hedging, and recognition of the fair value of unrecognized derivatives in the balance sheet, except where necessary to ensure symmetry of transactions or to reflect a risk taken by the company. Accordingly, the symmetric recognition rules in the income statement for the effects of hedging and hedged risk remain unchanged for simple non-speculative transactions.

In French accounting rules, there is a presumption that derivatives are underwritten for hedging purposes. Recognition of the fair value of derivatives is therefore not necessary, except to allow the symmetrical recognition of the impacts of the hedged risk and the effects of the hedge or to reflect the negative effect of the risks taken by the company.

In LISI SA's financial statements, this regulation has no impact as LISI SA does not subscribe to speculative instruments and does not have a hedging agreement with symmetry in the income statement. In fact, hedges are subscribed as part of the centralization of cash on behalf of its subsidiaries.

3.5 | SUBSIDIARIES AND HOLDINGS

3.5.1 Elements regarding related companies and holdings

(in thousands of euros)	Amount concerning related companies	
	companies	with which the company has equity interests
ASSETS:		
Receivables related to equity holdings	94,893	-
Debtors and apportioned accounts	1,127	-
Cash advances to subsidiaries	395,058	-
Tax integration current account	0	-
LIABILITIES:		
Receivables related to equity holdings	0	-
Subsidiaries' financial assistance	270,781	-
Tax integration current account	14,826	-
Suppliers	216	-
INCOME STATEMENT:		
IT maintenance	35	-
Reserves for equity interests	2,100	-
Service and management fees invoices	9,518	-
Rental invoices	192	-
Miscellaneous chargebacks	1,471	-
Revenues from subsidiaries' loans and current accounts	4,655	-
Revenues from equity interest	28,003	-

3.5.2 Subsidiaries and holdings (company data in €)

Companies	Share capital	Shareholders' equity and minority interests	Share of capital held (%)	Gross book value of securities held	Provisions on securities held	Net book value of securities held	Loans, advances granted by the company not yet repaid	Loans, advances received by the company not yet repaid	Amount of guarantees given by the company	Sales revenues excl. VAT of the last financial year	Net income or net loss of the last financial year	Dividends received by the parent company during the last financial year
Subsidiaries:												
LISI AEROSPACE	2,475,200	112,870,255	100,00%	30,863,816		30,863,816	44,286,575			390,154,867	25,711,946	24,003,887
LISI AUTOMOTIVE	31,690,000	114,459,791	100,00%	93,636,481		93,636,481	45,964,021			28,010,387	11,549,282	3,999,278
LISI MEDICAL	33,337,000	29,306,483	100,00%	33,337,000		33,337,000	25,572,262			4,075,187	1,824,434	

3.6 | IDENTITY OF THE CONSOLIDATING COMPANY

Compagnie Industrielle de Delle (CID)

Limited company with share capital of €3,189,900

Head Office: 28 Faubourg de Belfort – BP 19 – 90101 DELLE Cedex

Compagnie Industrielle de Delle held 54.87% of the capital of LISI S.A. as at December 31, 2017.

3.7 | AWARD OF PERFORMANCE SHARES

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on October 23, 2014, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting certain performance targets. This was also the case for 2015, 2016 and 2017 to the extent that at the meetings of December 17, 2015, December 20, 2016 and December 13, 2017, the Board of Directors renewed the opening of new plans subject to similar conditions.

The 2014 plan vested in 2017.

The fair value of the benefits thus granted is recognized in 2017 as provision for an amount of €1.0 million for the employees of the French companies for the 2015 plan and for the French and foreign employees for the 2016 and 2017 plans. This cost was not allocated to divisions, and remains an expense at the LISI S.A. level until the definitive realization of the plan. The impact of the expenses relating to the awards of free performance shares is included in the payroll expenses for employees of LISI S.A. only.

The maturity of the 2014 plan in May 2017 resulted in a provision reversal of €0.9 million.

Plans that impacted LISI S.A.'s financial statements in 2017:

	Plan for 2014	Plan for 2015	Plan for 2016	Plan for 2017	**Total**
Allocation date	10/23/2014	12/17/2015	12/20/2016	12/13/2017	
Vesting date	February 2017	February 2018	February 2019	February 2020	
Value in thousands of euros as at 12/31/2017	-	541	430	46	**1,017**
Net expenses in thousands of euros on the income statement of LISI S.A. at 12/31/2017 (excluding social security contributions)	864	(197)	(384)	(46)	**237**
Number of allocated shares remaining at 12/31/2017	-	129,200	170,440	154,610	

Since 2016, it was decided also to allocate performance shares to foreign employees of the LISI Group. Previously, they benefited from this advantage, meeting the same criteria for the allocation of performance shares to the French employees, in the form of a bonus payment directly recognized in the financial statements of the foreign subsidiaries.

3.8 | MISCELLANEOUS INFORMATION

- The Company directors and executives have not been given any advances or credits.
- Compensation of executives stood at €1,035,614 for 2017 (compensation net of social security contributions, including the variable element).
- The overall compensation paid to the 5 highest-paid individuals totaled €1,645,598.
- Headcount as of December 31, 2017 was 25 individuals.
- Retirement commitments are not specified as the amount is insignificant.
- The Company does not have any financial leasing agreements.
- Fees recognized for the year ended December 31, 2017 concerning our statutory auditors, Ernst & Young and EXCO and Associés amounted to €68,187 for the certification of the financial statements and €19,867 for other due diligence.

4 | FINANCIAL RESULTS FOR LISI S.A. OVER THE PAST FIVE YEARS

(Articles 133, 135 and 148 of the Decree on Commercial Companies)

NATURE OF THE INDICATIONS (in €)	2013	2014	2015	2016	2017
FINANCIAL POSITION AT YEAR-END					
Share capital	21,572,988	21,609,550	21,609,550	21,609,550	21,609,550
Number of shares issued*	10,786,494	54,023,875	54,023,875	54,023,875	54,023,875
TOTAL RESULT OF ACTUAL OPERATIONS					
Pre-tax sales	8,569,903	8,725,852	8,456,734	9,363,861	9,716,967
Earnings before tax, depreciation and provisions	13,571,588	19,809,178	17,605,395	34,453,039	13,247,345
Income tax	8,584,787	4,349,384	11,797,426	(821,916)	12,774,597
Employee profit-sharing					
Profit after tax, depreciation and provisions	20,550,519	24,037,035	30,037,487	33,022,189	20,110,606
Distributed profit**	17,819,630	19,467,388	20,629,268	23,871,741	25,931,460
RESULT OF OPERATIONS PER SHARE					
Profit after tax, but before depreciation and provisions	0.46	0.29	0.11	0.65	0.48
Profit after tax, depreciation and provisions	1.91	0.44	0.56	0.61	0.37
Dividends allocated per share (net)	1.70	0.37	0.39	0.45	0.48
PERSONNEL					
Average head count	18	19	21	21	25
Payroll	(2,786,748)	(2,869,313)	(3,032,271)	(3,148,301)	(3,036,686)
Benefits paid (social security, benefits, etc.)	(1,870,596)	(1,608,451)	(1,073,216)	(1,163,753)	(1,164,620)

* The nominal value of the share was divided by 5 in September 2014.
** After deducting the dividend relating to the treasury shares held by the Company for the years 2013 to 2016.

5

RISK FACTORS

1 | RISK MANAGEMENT

1.1 | FOLLOWING COSO GUIDELINES

Since 2004, the Group has been mapping risks in line with COSO guidelines. More recently it has also been drawing upon the provisions of Article L.225-37 of the French Commercial Code on financial security and the recommendations of the French financial market authority, the AMF. Having identified and listed risks at the level of each individual unit (production or distribution sites) the Group consolidated all of the risks to which it is exposed in a matrix showing occurrence probability and severity rate. A "top down" approach is then used to prioritize risks. A periodically reviewed action plan is set up for each substantial risk identified and, where needed or at the same time, a proactive preventive approach, insurance, accounting provision or an operating decision.

1.2 | CLOSE COOPERATION WITH INSURERS

The consistency of the relationship with insurers and risk classification has helped to structure the Group's prevention approach. Thus, all of the insurers' recommendations regarding damage to property are included in the Environmental Safety Improvement Plans and are subject to periodic monitoring by the Risk Monitoring Committee. Our insurers revisit a number of sites each year, looking both at damage to assets and environmental risks, and then present their recommendations which enhance our action plan. Since 2002, all the significant sites were audited several times. This ongoing improvement initiative is improving our prevention policy and enables us to optimize our insurance premiums. As such, no major damage has been observed for years and the loss ratio has been improving significantly regarding the property damage policy.

1.3 | DRAWING UP ACTION PLANS

The action plans for safety/environment/prevention identified within the Group allow for a synthesis of hazard identification on the one hand, the preventive approach on the other, and finally asset preservation and control of operations within the Group. The program is coordinated by the head company of the LISI Group in the areas of HSE, internal controls, finance and cash flow management.

2 | INFORMATION ON ISSUER RISKS

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

- operating risks;
- strategic risks;
- environmental risks;
- legal risks;
- IT-related risks;
- credit, liquidity, market and currency risks (see note 2.4);
- other risks.

LISI is not exposed to any risk linked to the sovereign debt crisis in certain countries that display contrasting growth prospects.

2.1 | OPERATING RISKS

2.1.1 Exposure to risks of natural disaster or industrial action

Like any other company, the LISI Group could be disrupted by industrial strike action or natural disasters such as earthquakes, flooding, or even pandemics. Such events could negatively affect Group sales revenue or cause a substantial increase in expenses required to cover system maintenance or repair. However, thanks to the diversity of these sites (47), no more than 10% of the LISI Group's overall activity can be exposed given that the dispersion of the geographic footprint shows that the destruction of the largest site could not concern more than 10% of the Group's total sales revenue and margin.

2.1.2 Acquisitions

In order to manage any risks related to the integration of newly-acquired companies and to ensure the transferal of Group management principles, the LISI Group's policy is to acquire a total or at least strong majority controlling stake in the capital of any potential acquisitions. Any substantial acquisition or sale plan is subject to approval by the Board of Directors. All the Group's acquisitions are the subject of an in-depth audit of the risk areas at the target company. Generally speaking, the Group sets up mixed teams with internal and external experts. With the exception of "Ankit", a joint venture partner in India, the Group has a very large majority holding in all these units and 100% in the majority.

2.2 | STRATEGIC RISKS

These risks are identified as major risks likely to compromise durably the completion of the strategic plan as described in paragraph 1.1. All identified risks which are classified in the "HIGH RISK" category of occurrence are the subject of insurance coverage (cf. paragraph 3) or of a corrective action plan and are treated as a priority by the managements of the various divisions.

2.3 | ENVIRONMENTAL RISKS

The LISI Group is committed to protecting the environment while manufacturing its products. Any negative impact resulting from its activities is minimal, and specific attention is paid to water, energy and waste management.

Its industrial and environmental policy aims to manage its major risks, which are:

- the risk of fire and its potential impact on affected sites or their environment;
- the risk of soil or water table pollution.

This risk management policy involves:

- the ongoing improvement of the fire protection of the sites, which are subject to annual monitoring and visits;
- investment in protection, with the installation of sprinkler systems or upgrading of existing systems;
- pollution risk prevention: the Group is implementing an appropriate prevention policy.

As part of the manufacturing sites' compliance program, and in the absence of any ongoing legal disputes, the Group has made provisions for an overall sum of €5.6 million. To prevent soil pollution on old sites, monitoring activities are carried out in concert with the local authorities, on the one hand, and implementing retrofitting work, on the other hand.

A provision of €1.5 million has been recorded for the assessed cost of decontaminating the Torrance site (California – USA) which suffered TCE (solvent) pollution several years ago (before 1975). The process that is currently in progress involves pumping and filtering underground water downstream from the site. This treatment has been used to treat more than 41 tons of solvents (TCE equivalents). The estimated amount at December 31, 2017 facilitates handling of treatment in accordance with the techniques recommended by our advisors. Liaison with the authorities has led to the swift closure of the soils file and to the acceptance of measures taken with regard to the deepest waters.

Furthermore, provisions for soil and building remediation were recorded on the French sites of LISI AEROSPACE (€1.6 million) and LISI AUTOMOTIVE (€1.3 million).

As part of the Social and Environmental Responsibilities requirements, LISI AUTOMOTIVE undertakes to reduce the impact of its activities on the environment and to ensure healthy, safe working conditions for all its employees and service providers, as part of the Global Compact*. Commitment No. 7 states that "businesses are encouraged to apply the precautionary approach to environmental challenges". Commitment No. 8 plans to undertake "initiatives to promote greater environmental responsibility".

Finally, Commitment No. 9 promotes "the development and dissemination of environmentally friendly technologies". To comply with this commitment, LISI AUTOMOTIVE has set up three specific measures: standardization of practices and defining of indicators, risk management organized around the COSO benchmark and implementation of action plans for environmental safety.

The environmental preventive measures are described in Chapter 6, paragraphs 2 and 4.

2.4 | LEGAL RISKS

The Group is involved in a limited number of legal proceedings with third parties (not customers). All these disputes have been reviewed with our Auditors and the most significant were appreciated by the Audit Committee. Generally speaking, all legal positions are determined and reviewed by third-party and in-house specialists.

Except for the disputes referred to above, for a period covering at least the last 12 months, no governmental, legal, or arbitration proceedings (including any proceedings of which the Group is aware, which is pending or of which it is threatened) are to be reported that may have or have recently had significant effects on the Group's financial situation or profitability. The amount of provisions for legal risks found at December 31, 2017 is not material.

2.5 | IT-RELATED RISKS

For each of its divisions, the Group has identified an IT safeguard action plan likely to be implemented in the event of a serious failure. In addition, the Group has insured risks of interruptions and malfunctions, or forced use, of its IT systems with a specific policy.

2.6 | OTHER RISKS

2.6.1 Raw materials risks

The LISI Group is potentially exposed to changes in the costs of the raw materials (steel, alloys, plastics, aluminum, and titanium) used in the course of its business activities. Nevertheless, the Group estimates that such price increases are unlikely to impact negatively on its profit margins. Indeed, some commercial contracts include price-revision formulae which allow selling prices to be varied in accordance with changes to raw material costs. Suppliers work to limited time frames based on guaranteed-price contacts. At December 31, 2017, the LISI Group used financial instruments to manage its future exposure to changes in the price of Nickel. The amounts hedged are not significant. It can also benefit from agreements with suppliers to hedge against annual or multi-year periods to limit the impact of fluctuations in certain ore prices.

* LISI joined the Global Compact at the end of 2017. See chapter 6.1.

2.6.2 Energy-related risks

To cover its energy costs, the Group entered into a supply contract with electricity company EDF for its French sites (due to expire at the end of 2019). For foreign sites, similar contracts have also been entered into, particularly in Germany and the UK.

2.6.3 Commercial risks

For the record, the Group manufactures thousands of different items using various raw materials (steels, alloys, aluminum, various plastics, titanium, etc.) and employing a wide range of technologies (cold and hot forging, forming, machining, die trimming and stamping, plastic injection, heat and surface treatment). Business risk, representing the risk of loss of contracts related to a product, is thus spread over a considerable number of products manufactured in the Group's 47 global sites. The main product families are developed in collaboration with customers, and the proportion of sales revenue from patented products plays only a secondary role in total consolidated sales.

2.6.4 Customer-related risks

Looking at the figures for 2017, only three clients accounted for more than 5% of the LISI Group's consolidated sales. The 10 leading customers account for 52% of all sales; this list includes the customer accounts of the three divisions, LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL. 80% of sales are generated with 52 customers. Figures for our three largest customers have evolved as follows:

	2017	2016	2015
Customer A	**17.0%**	17.1%	15.0%
Customer B	**6.9%**	6.1%	8.0%
Customer C	**5.9%**	5.9%	5.5%

2.6.5 Product-related risks

The LISI Group is exposed to the risk of actions for liability or to enforce a guarantee by its customers regarding products sold. It is also subject to liability actions in the event of product fault leading to injury or damages. To protect itself against such risks, as described in paragraph 3 below, the LISI Group has third party liability cover for use of its products after delivery. The LISI Group's liability is often limited to compliance with the original product specifications or customer-defined specifications; it cannot be extended to the ways in which products are used. However, it is possible that the insurance policy taken out may not be sufficient to cover every possible financial consequence linked to such claims, particularly in the USA. This is why the LISI AEROSPACE division has set up an additional provision for product liability in the amount of 1% of the "Fasteners" division's sales revenue.

2.6.6 Supplier-related risks

As a general rule and in view of the nature of its manufacturing activities, the Company does not rely exclusively on any one supplier or strategic subcontractor. The Group's main suppliers are those that provide it with raw materials. Outsourcing is confined mainly to technical applications, primarily specific heat treatment and finishing operations (surface treatment and assembly), since most of the Group's activities are integrated. For 2017, the various operations outsourced by the Group's sites represented approximately 6.8% of consolidated sales revenue.

The volume distribution of the main suppliers is as follows:

	2017	2016	2015
First supplier	5.7%	5.1%	6.6%
First five suppliers	15.4%	15.1%	15.0%
First ten suppliers	21.0%	20.6%	20.6%

2.6.7 Currency risks

The Group is exposed to the fluctuations of currencies such as the US dollar against the euro, and to a lesser extent to changes in the Canadian dollar, the British pound, the Turkish lira, the Czech crown or the Polish zloty. To reduce this level of risk, the LISI Group hedges the currency risk through financial instruments for an estimated amount corresponding to its final exposure.

The detail of such currency risk hedging is described in Chapter 3, paragraph 2.5.3.3 "Currency risks", as well as the hedging strategy in place.

2.6.8 Interest rate risk

The Group has hedged a significant part of the interest rate risk on its loans by swapping variable rates for fixed rates. The details of such interest rate risk and of the instruments used to mitigate are described in Chapter 3, paragraph 2.5.3.1. "Interest rate risk".

3 | INSURANCE POLICY

The LISI Group has several insurance policies, which mainly cover the following risks:

3.1 | PROPERTY DAMAGE INSURANCE

As of January 1, 2017, this policy covered own and others' installations, as well as operating losses in the event of a claim. The deductible is stated by claim and amounts to €0.1 million for a maximum coverage amount of €1,596,628,121 for buildings and equipment, €288,020,924 for merchandise and €884,380,085 for operating losses.

3.2 | THIRD-PARTY LIABILITY INSURANCE

This covers personal, physical and intangible damage that might occur during operations, as well as damages that occur after delivery, to the sum of €80 million per claim and per annum in primary coverage.

LISI AEROSPACE signed an insurance contract covering its liability for injury, property damage and consequential damage and flight disruptions due to its delivered aerospace products. The sum insured for all subsidiaries, per loss and per insurance year is €500 million.

3.3 | CORPORATE OFFICERS' LIABILITY INSURANCE

The Group is covered by a directors' liability insurance policy for all its subsidiaries up to €20 million per annum.

3.4 | CYBER INSURANCE

The Group has taken out an insurance policy that provides coverage for of all its subsidiaries of up to €20 million per year in the event of a cyber attack.

5

RISK FACTORS

6

CORPORATE SOCIAL RESPONSIBILITY

1 | LISI MEMBER OF THE UN GLOBAL COMPACT PROGRAM

1.1 | DESCRIPTION OF THE PROGRAM

The Global Compact is a United Nations initiative launched in 2000 aimed at encouraging businesses worldwide to adopt a socially responsible attitude by committing to uphold and promote a number of principles relating to Human Rights, international labor standards, and anti-corruption. Although it is mainly aimed at the corporate world, the Global Compact also encourages participation by civil society, labor groups, governments, UN agencies, universities and any other organization.

The signature of the Global Compact is a voluntary initiative by the company. Member companies undertake to improve every year in each of the four areas of the Global Compact and are required to submit an annual report called Communication on Progress (COP) explaining the progress made.

1.2 | LISI'S UNDERTAKING TO UPHOLD THE TEN PRINCIPLES

LISI has formalized its long-standing commitment to sustainable development by joining the Global Compact, and by upholding its ten principles.

1.2.1 | Human Rights

LISI has undertaken to:

- support and respect the protection of internationally proclaimed Human Rights;
- make sure that it is not accomplice of human right violations.

1.2.2 | International labor standards

LISI has undertaken to:

- uphold the freedom of association and the effective recognition of the right to collective bargaining;
- contribute to the elimination of all forms of forced and compulsory labor;
- contribute to the effective abolition of child labor;
- contribute to the elimination of discrimination in respect of employment and occupation.

1.2.3 | Environment

LISI has undertaken to:

- support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility;
- encourage the development and diffusion of environmentally friendly technologies.

1.2.4 | Anti-corruption

LISI has undertaken to fight corruption in all its forms, including extortion and bribery.

2 | HUMAN RESOURCES

2.1 | PUTTING PEOPLE AT THE HEART OF OUR DEVELOPMENT

Present on four continents and 13 countries, over 12,000 men and women contributed to the growth of the LISI Group in 2017.

2017 was marked by two major events:
- the disposal of PRECIMETAL FONDERIE DE PRECISION (122 employees) in February 2017;
- the acquisition of 51% of the shares of TERMAX LCC (over 400 employees) in October 2017.

TERMAX is a leading designer and manufacturer of metal and plastic clipped fasteners for the automotive industry.
TERMAX has a production and development site in Lake Zurich (Illinois, USA), another one in Suzhou (China) and a distribution platform in Queretaro (Mexico).

LISI is thus pursuing its growth on the American continent: 19.1% of its employees are based in the USA, Canada and Mexico in 2017 compared with 16.8% in 2016.

2.1.1 | Attracting talent

The identification and recruitment of talented people are key to LISI Group's short, medium and long term success. 1,675 new recruits have joined us, sharing our values based on continuous improvement, team work, personal commitment and an interest in technology. We pay particular attention to the integration process so that people fit in quickly and settle within our organization.

For example, in 2017, LISI AEROSPACE deployed its co-optation program which allows employees to contribute to the recruitment of the most talented people in the company by recommending a person from their network for a job specifically open to co-optation. A reward in the form of bonus is paid after successful completion and approval of the probation period of the co-opted recruit.

In 2017, there were 1,596 departures, including 236 redundancies representing 15% of the total.

A number of the Group's sites are historically located at their respective sites and are major players in the development of employment in their respective regions. Since many years, the Groupe has maintained close ties with schools, universities, employment agencies and training institutions, enhancing its image among young students and getting them to discover the key businesses and their prospects.

In France, LISI has participated in actions in the following schools: ENIM, ENSAM, INSA LYON, IUT in Troyes, UTBM, UTT.

In the USA, LISI MEDICAL Remmele is a partner of North Dakota State University, and the University of Minnesota.

In 2017, LISI welcomed 573 interns and 237 trainees across all the sites of its three divisions.

On the occasion of the 52th Le Bourget Paris International Air Show, LISI AEROSPACE participated in the third edition of "*L'avion des métiers* (The Careers Plane)", which was dedicated to technological excellence.

It is a special moment during which each company gets the opportunity to present its know-how and expertise to the general public. This year, our teams presented the forging trades to expose students and young graduates to the special features of these trades which are constantly changing.

The plants at Bar-sur-Aube, Bologne, City of Industry, Marmande, Parthenay, Saint-Brieuc, Saint-Ouen-l'Aumône and Villefranche de Rouergue were the proud representatives of LISI AEROSPACE.

The key attraction of our stand was a "mini forging demonstration". The objective was to present the principle of forging using polymer modelling clay, tools and a stamp with the LISI logo - specially designed for this event. Operatives could thus "forge" a screw and each one could leave with a souvenir key-ring.

2.1.2 | Promoting internal mobility

The Group has made internal mobility, both geographic and functional, one of the linchpins of its human resource policy. The diversity of business sectors and careers and its international dimension allow employees to design customized career paths. All employees can become the actors of their own development thanks to the "Job Forum" accessible on the Group's intranet.

Furthermore, during annual reviews, line managers discuss how their staff would like to develop their careers.

The magazine CAPITAL of February 2018 presented the results of a survey of companies assessed by their employees and those of the industry.
LISI comes out as one of the best employers in France.
LISI AEROSPACE is ranked as the 14th best employer in the Aerospace, Automotive and shipbuilding sectors.
In the Automotive sector, LISI AUTOMOTIVE is ranked among the most attractive companies alongside major players (18th).

2.1.3 | Adapting the Organization of working time to the needs of the Group

Working time is adjusted to better meet the needs of our customers in compliance with legal work periods, which vary by country, from 35 to 50 hours per week.

In the production services, across all the sites, the work is organized in shifts (2 or 3 shifts). Depending on the site, substitution shifts may be arranged on weekends. Furthermore, nightshift working was carried out in certain sectors in order to respond to specific workload requirements.
Overtime represented 4.3% of the number of hours worked in 2017.

2.1.4 | Increasing the involvement of the personnel under the LEAP program

Since 2011, the LISI Group has introduced an operational improvement program called LEAP (LISI Excellence Achievement Program).

To support the development of employees in this initiative, tools were designed in 2017 and put at the disposal of the plants:
- putting in place the human organization for production;
- developing supervisors;
- developing gap leaders;
- training on workstation and versatility.

2.2 | COMPENSATION AND CHANGES: REWARDING PERFORMANCE AND RETAINING TALENT

The Group has decided to link compensation to the company's performance and to individual and team achievements.

Our compensation system includes all financial components and benefits to which each employee is entitled. It is designed to reconcile the recognition of individual performance with the search for internal equity, while taking into account the local economic environment.

French employees have the right to invest in the company through an employee savings plan and, in this way, become a LISI shareholder. An attractive matching contribution from the employer goes together with this Group Savings Plan. 35% of French employees are LISI shareholders.

In France, the LISI Group employees receive a supplementary defined contribution pension scheme (the so-called "Article 83").

The employer pays a monthly fee on a mutual fund open to employees to enable them to build up retirement savings. Employees may make voluntary payments or allocate days off to increase the amount of these savings. Upon retirement, the resulting savings are converted into an annuity. Employees then receive additional income throughout their retirement.

Making talented people involved and loyal is a major challenge for the LISI Group. As such, executives or holders of key positions in the organization receive an international share award program conditional on the medium-term performance of the Company. This method of variable remuneration enables them to partner closely with the Company's performance results over several years.

Breakdown of personnel expenses (in thousands of euros)	
Temporary workers	41,527
Salaries and incentives	415,212
Layoff pay	3,085
Social contributions and taxes on salaries	154,085
Employee profit-sharing	3,814
Pensions and long-service medals	1,612
Total payroll expenses	**619,333**

2.3 | PROMOTING QUALITY OF LIFE AT WORK AND IMPROVING THE HEALTH OF OUR EMPLOYEES

LISI considers that the health and safety of persons is one of its major responsibilities.

In 2017, all LISI AUTOMOTIVE sites and French sites of LISI AEROSPACE launched a survey on the quality of life at work. The results of the survey are analyzed and enable working groups to be organized on the topics that emerge and to establish improvement action plans by site.

Furthermore, an increasing number of sites are offering services such as:

- relaxation (La Ferté plant);
- massages (Dasle, Melisey, Neyron, Villefranche de Rouergue and Saint-Ouen-l'Aumône plants);
- sports (German and US plants);
- and warm-up sessions at the workstation (plants of City Of Industry, Villefranche de Rouergue, Marmande).

Support programs were also launched to overcome tobacco addiction (plants of Bar-sur-Aube, City Of Industry, Grandvillars, Fuenlabrada, Saint-Ouen-l'Aumône), and to fight against diabetes (USA).

Regular information is provided to employees on good practices for a healthy lifestyle (German and US plants).

A thorough ergonomic work is carried out during the reorganization of workstations, relocation of machines in order to reduce the risks of MSD[1] and to take on board or maintain in employment, employees with major impaired skills or with disabilities.

The quality and design of buildings is also an important factor that LISI considers as and when its sites are built or renovated. Sites based in the Czech Republic, China and Morocco worked hard on the improvement of work spaces in 2017.

In France, employees of the LISI Group benefit from the services of Réhalto, in order to prevent any psychosocial risks, regardless of their origin, work-related or personal.

This listening and support platform, composed of psychologists available 24/7, allows any employee of the Group to obtain the assistance of a qualified professional to overcome their problems and find a solution to their difficulties, be they of a personal, professional, family or addiction-related nature.

A simple phone call, on a totally confidential basis, puts the employee in touch with a psychosocial health worker in his/ her region, who is therefore able to provide a diagnosis. The employee can benefit from up to 12 hours of paid consultations.

Lastly, a wonderful initiative was launched by LISI MEDICAL in Herouville. In June 2017, it signed a specific agreement to support employees who have a relative requiring an enhanced presence.

These different measures have contributed to improving the absenteeism rate which declined by 0.3 point from 3.8% in 2016 to 3.5% in 2017.

(1) Musculoskeletal disorders.

2.4 | MAINTAINING ETHICAL STANDARDS AND PREVENTING ANY DISCRIMINATION

For LISI, diversity is a performance and innovation driver. It is in this context that sustainable actions are carried out to promote equal opportunities and combat all forms of discrimination.

2.4.1 | Encouraging professional gender equality

Since a number of years, LISI has undertaken to promote the employment of both men and women and equal employment opportunities among its employees.

We strive to fill jobs by seeking to recruit the necessary skills regardless of the person's age, nationality, religion or gender.

Internally, agreements on gender equality have been signed by most Group companies. In practice, these take the form of concrete actions in favor of equal pay and career progression.

In 2017, women accounted for over 21% of the total group headcount, unchanged from 2016.

2.4.2 | Maintaining in employment and promoting the employment and inclusion of people with disabilities

Support to the inclusion and employment of people with disabilities underpins the corporate social responsibility initiative.

LISI works with entities supporting young people with disabilities through training and entities promoting social and professional inclusion.

Situations relating to maintenance in employment are generally handled on a case-by-case basis. The sites strive to offer solutions to protect the job of disabled employees, either by adapting their workplace or by supporting them to get a change of duty.

LISI AEROSPACE has developed partnerships with:

- HANVOL Insertion since 2016 for support in the recruitment of disabled workers. HANVOL is an association that looks for motivated candidates for varied businesses under work-study contracts. During the year 2017, LISI presented its activities and businesses to students of this association;
- France Intégration Handicap: a communication campaign was launched in the second half of 2017.

The results of this campaign are positive: 13 RQTH[2] cases were filed.

In 2017, the rate of employment of persons with disabilities in the Group was 3%.

(2) Official recognition of a person's status as a worker with a disability.

2.4.3 | Compliance with the provisions of ILO fundamental conventions

Aware of their responsibilities vis-à-vis the fundamental conventions of the ILO, LISI oversee their application at each of the Group entities worldwide.

Respect for freedom of association and for the right to collective bargaining, the elimination of discrimination in respect of employment and occupation, forced or compulsory labor and the effective abolition of child labor, are issues that are monitored during the site audits and to which management gives a great amount of attention.

2.4.4 | Labor relations

In addition to strict compliance with applicable law, the Group pays attention to social dialogue with the employees' representatives, altogether during meetings of the works committee (or the single employees' delegation) on each of the sites which has such a body, the Central Works Committee (Blanc Aéro Industries and Former), the Group Committee and the European Committee of LISI.

More generally, LISI ensures that the employees of the Group receive and have access to high-quality information. Hence, various means of communication have been put in place at the different sites of the Group, such as:

- video screens in workshops;
- internal newsletters;
- flash notes in workshops on recent news;
- Information meetings by site or by team.

Furthermore, specific committees made up of representatives of the employees and members of the Management meet regularly to hold discussions and make progress on various issues for which they were set up in the following areas:

- training;
- gender equality;
- employment of young people, seniors and the inter-generation element;
- health insurance fund;
- accommodation.

List of collective agreements signed in 2017

NAME OF PLANT OR HOLDING COMPANY	Agreements signed in 2017	Date of signature
ARGENTON	NAO agreement	April-17
	Incentive agreement	April-17
	GPEC (human resource planning)	April-17
	Quality of life at work	July-17
BAR SUR AUBE	Agreement on Saturday/Sunday working	January-17
	On-call agreements	January-17
	On-call agreements	July-17
	NAO agreement	March-17
	Rider to the incentive agreement	June-17
	Gender equality and quality of life at work	February-17
BOLOGNE	NAO agreement	March-17
	Amendment of the Rules of Procedure	June-17
	Rider to the incentive agreement	March-17
	Agreement on Saturday/Sunday working	October-17
CASABLANCA	Agreement on the introduction of the 13th month over 3 years	April-17
CEJC	2017-2019 Collective agreement	December-16
	2018-2019 Rider to the collective agreement	December-17
FORMER	PV NAO	April-17
	Agreement on GPEC (human resource planning)	April-17
	Agreement on quality of life at work and gender equality	April-17
	Agreement on GÉNÉRATION contract	April-17
HOLDING LISI AEROSPACE	Profit-sharing agreement	June-17
HOLDING LISI AUTOMOTIVE	FY 2016 Supplementary incentive agreement	June-17
HOLDING LISI MEDICAL	Incentive agreement	May-17
HEIDELBERG	Long weekends of 26 May and 16 June 2017	February-17

NAME OF PLANT OR HOLDING COMPANY	Agreements signed in 2017	Date of signature
HEROUVILLE	Health insurance fund	January-17
	Leave sharing	June-17
	Incentive agreement	June-17
	Renewal Saturday/Sunday work	June-17
IZMIR	TIS 2017-2018	April-17
KIERSPE	Use of MOVEX	September-17
LA FERTE FRESNEL	2017 pre-electoral protocol	July-17
	Agreement on working hours	May-17
	Minutes of disagreement on salaries and AV	May-17
	Incentive agreement	February-17
MARMANDE	NAO agreement	April-17
MONTERREY	2017 Pay policy	February-17
NEYRON	Agreement on the introduction of a half-yearly bonus	April-17
	Agreement on the adoption of Sunday work	June-17
PARTHENAY	Paid leave	February-17
	Solidarity	February-17
	NAO agreement	March-17
	Incentive agreement	March-17
PUISEUX	2017 pre-electoral protocol	February 17
SAINT BRIEUC	NAO agreement	June-17
	Agreement on the employment of young people, seniors and the inter-generation element	June-17
	Agreement on gender equality and quality of life at work	February 17
SAINT-OUEN-L'AUMONE	NAO agreement	June-17
	Incentive agreement	June-17
	Revision of the MOU - Committee on the establishment of the 3rd electoral college of Engineers and Managers	October-17
TANGER	NAO agreement	May-17
VIGNOUX-SUR-BARANGEON	Incentive agreement	June-17
VILLEFRANCHE DE ROUERGUE	Terms for taking paid leave and Rest times	November-17
	NAO agreement	June-17
	Incentive agreement	June-17
VÖHRENBACH	Increase of hours worked to 37.5	May-17
	Sick leave	April-17
	Travelling cost policy	July-17

2.5 | DEVELOPING EMPLOYEES' SKILLS AND MAINTAINING THEIR EMPLOYABILITY

Giving every Group employee the opportunity to develop his/her skills is essentiel to the sustainable growth of our organization.

To address the changes in our businesses and technologies, initiatives specific to each sites have been launched:for example, at the Saint-Brieuc site, the skills set for the positions of setter-operator and machinist has been finalized. At the Hérouville site, a comprehensive initiative was launched in 2017 based on the following priorities:

- developing the integration process and tutoring;
- drawing up baselines of careers, career datasheet and multi-skill matrix;
- protecting critical skills;
- upskilling employees.

In 2017, LISI AEROPSACE designed a working methodology called the "GPEC BOX". It covers 15 areas (e.g.: Forecasts of changes in jobs, Protection of Know-how, Training Plan, Annual Maintenance, etc.). The GPEC BOX offers concrete actions to the sites to improve their maturity level on the subject.

2.5.1 | Training

LISI has made skills development through training one of the major focuses of its Human Resources policy. It enables its staff to remain at the highest skills level, on a market subject to rapid technological changes and strong competition. **LISI ensures that all employees, regardless of their age or position, have access throughout their career to the training courses necessary for the construction of their career path and their adaptation to changes in the businesses.**

In 2017, 244,419 training hours were provided. In 2017, investment in training by companies of the Group worldwide stood at €8,705,468.

The LEAP[(1)] and SCP training programs to attain excellence

- Since 2011, LISI has undertaken an extensive training program on the fundamentals of LEAP: the LEAP Basics training is mandatory for any new employee. Since 2015, training sessions dedicated to advanced LEAP tools (LEAP Intermediate, LEAP Advanced, LEAP Manager, Experience Plan, Advanced Statistics, etc.) are organized as part of the company university, LISI Knowledge Institute (LKI), taking care to combine learners from all divisions of the Group.
- In 2017, LISI continued the implementation of its major LISI Excellence HSE tool, the Safety Culture Program (SCP), at all its sites. The aim of this program is to address behavior-related causes of occupational accidents by providing managers with the keys to understand hazardous behaviors and giving them the levers to correct them. This program also aims to develop a Safety Culture among employees through the deployment of a structured and regular communication campaign. Thanks to a shared culture of prudence, encouraging each employee to make his/her working environment more safe, our sites have registered improvements in terms of safety, with the Group reaching its lowest accident rate in 2017.

(1) LISI Excellence Achievement Program.

2.5.2 | Development of the training offer from LKI university

The company university, LISI Knowledge Institute (LKI), has established itself not only as a pillar in the employee skills development strategy but also as a major tool for the retention of talents and the attraction of candidates with strong potential:

- customized training programs in the following Fields: Technique/Businesses, Personal Development, Management & Leadership, to maintain and enhance skills and support change;
- sharing a global vision, a common managerial culture;
- exchanging experiences and good practices across the board: multi-sites, multi-countries, multi-businesses, multi-divisions.

Key figures 2017:

- 112 training sessions organized;
- 1,187 of training leave;
- Satisfaction of participants 4.46/5.

Two new training programs at LKI were introduced in 2017:

- **JUMP:** this training course was jointly developed with the *Ecole Nationale Supérieure Arts et Métiers* (ENSAM) and is intended for employees working as technicians/supervisors to whom LISI wants to provide a solid skills and knowledge base, rather general in nature, geared to Mechanical aspects and Control of manufacturing processes, with the objective of training them for positions with broader responsibilities in the short or medium term (People and/or Project management, Sales and Marketing).

The educational objective is to give employees demonstrating good potential for progress, the opportunity to acquire academic and practical foundations similar to those of the initial training program of an Engineering school;

- **management for Supervisors:** as part of the LEAP culture, the objective of this training program is to make learners aware of their role as Supervisor, adopt the attitude of a manager and acquire the appropriate practices. It is planned to offer this program at the international level. In 2017, it was rolled out at the Morocco and France plants.

2.5.3 | Career paths in France

Since several years, LISI develops specific career paths, based on our strategic businesses: cold stamping, heat treatment, machining, rolling, laminating, automatic control, surface treatment.

In 2017, **68 CQPM/CQPI qualifications were obtained:**

- three stampers at the La Ferté Fresnel plant obtained the "Operator of Industrial Equipment" certification (CQPI), endorsing their career as stamper specialized in "Twolock screws";

- at Melisey, six machinists obtained the "Operator – Controller of high-precision digital machine-tool" certification (CQPM);
- three operators at La Ferté Fresnel obtained the "Operator of Industrial Equipment" certification (CQPI), and six operators (two at Delle and four at Melisey) obtained the "Autonomous team member in industrial production" certification (CQPM), endorsing their career in Sorting/Packaging;
- six employees at the Saint-Florent plant obtained the "Autonomous Team Coordinator in Production" certification (CQPM);
- four employees at the Saint-Brieuc plant obtained the Machinist certification (CQPM);
- three employees at the Bologne plant and one employee at the Bar sur Aube plant received the additional endorsement Forging;
- between 2016 and 2017, 36 work experience contracts leading to the "Autonomous Team Coordinator in Production" certification (CQPM) were implemented up at the Marmande site;
- at the Argenton plant, five employees were given the opportunity to retrain in-house thanks to the CQPM certifcates: two persons for Machining Technicien CQPM and three persons for aircraft welding CQPM.

3 | HSE ISSUES

3.1 | ISSUES IN THE FIELD OF HSE

For several years, the LISI Group was fully engaged in placing health, safety and environmental issues at the heart of its corporate culture in order to turn them into intrinsic values.

The LISI Group Senior Management became seriously involved at its highest levels in the areas of Health, Safety and the Environment.

For LISI, the objective is to address the concerns of its stakeholders, such as:

- meeting the relevant demands and expectations of LISI's stakeholders including customers, investors, LISI employees, neighbors, sub-contractors, etc.);
- complying with increasing regulatory requirements;
- enabling the reduction of HSE-related costs such as those relating to energy and water consumption, elimination of waste, taxes and contributions for workplace accidents or occupational diseases;
- ensuring that the new generation of talents develop professionally in a secure environment and in line with their values in terms of environment protection.

These issues form an integral part of the LISI Group's strategy and are monitored at the highest level of its organization.

3.2 | HSE POLICY

In 2017, the LISI Group crossed a new milestone in its determination to improve in the field of HSE. The Group's sites were previously individually certified ISO 14001, an international standard related to environmental management, and OHSAS 18001, an international standard for occupational health and safety management systems. In 2017, the LISI Group decided to obtain certification Group-wide and no longer on a site by site basis, still in accordance with these two families of standards. LISI thus got itself audited in order to ascertain compliance with these standards. These audits led to the grant of the ISO 14001 certificate and the OHSAS 18001[1] certificate.

LISI has adopted an HSE policy which embodies its expectations and its vision of Operational Excellence in the field of Health-safety and the Environment.

(1) Scope: excluding China sites which are individually certified, excluding sites in which the interest is less than 60% and recent sites (Big Lake, Coon Rapids, Monterrey).

For the LISI Group, its legal and moral obligations in the field of HSE involve:

- everyone coming home after work in good health;
- improvement in working conditions;
- implementation of environmentally responsible processes;
- compliance with its obligations relating to safety and the environment.

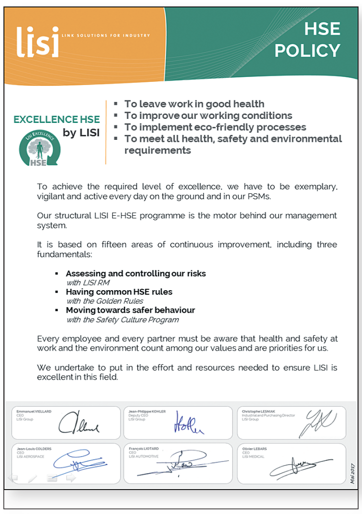
To meet this level of excellence, LISI's Management Committee has undertaken to be an example, be vigilant and be proactive on the field on a daily basis.

LISI also adopted a structuring program, LISI Excellence HSE, which is the engine of its management system.

This program hinges on fifteen areas of continuous improvement, three of which are the fundamental:

- assessing and managing our risks;
- having HSE rules common to all;
- changing to safer behaviors.

LISI makes it clear that health, safety at work and environment protection are among the values that it promotes and that are its priority.


lisi LINK SOLUTIONS FOR INDUSTRY

HSE POLICY

EXCELLENCE HSE by LISI

- To leave work in good health
- To improve our working conditions
- To implement eco-friendly processes
- To meet all health, safety and environmental requirements

To achieve the required level of excellence, we have to be exemplary, vigilant and active every day on the ground and in our PSMs.

Our structural LISI E-HSE programme is the motor behind our management system.

It is based on fifteen areas of continuous improvement, including three fundamentals:

- **Assessing and controlling our risks** *with LISI RM*
- **Having common HSE rules** *with the Golden Rules*
- **Moving towards safer behaviour** *with the Safety Culture Program*

Every employee and every partner must be aware that health and safety at work and the environment count among our values and are priorities for us.

We undertake to put in the effort and resources needed to ensure LISI is excellent in this field.

Emmanuel VIELLARD, CEO, LISI Group
Jean-Philippe KOHLER, Deputy CEO, LISI Group
Christophe LESNIAK, Industrial and Purchasing Director, LISI Group
Jean-Louis COLDERS, CEO, LISI AEROSPACE
François LIOTARD, CEO, LISI AUTOMOTIVE
Olivier LEBARS, CEO, LISI MEDICAL

Mai 2017

To manage its HSE Policy, the LISI Group leverages a robust organization structure.

3.2.1 | The HSE Steering Committee

This committee is made up of two representatives of the Senior Management of LISI, the Group HSE Manager, HSE Managers from each division, and the insurance broker.

Every quarter, this HSE Steering Committee defines and monitors the Group's HSE strategy and checks on the progress of strategic actions in this field.

The CEO of LISI and the CEOs of the divisions of the Group take part in the September Steering Committee.

3.2.2 | The Steering Committee of the LISI Excellence HSE program

The mission of this Steering Committee is to chart out and approve the direction of the LISI Excellence HSE program. This highly operational committee defines the tools to be deployed to meet the HSE targets set out by Senior Management. Following this Steering Committee, a program containing details of the working groups is defined and approved by Senior Management.

3.2.3 | HSE Experts

HSE Experts meet every month to take stock of the progress of the program that the Steering Committee has defined in order to identify any difficulties encountered and decide on how to overcome them.

3.3 | LISI'S HSE OBJECTIVES FOR 2020

Keen to attain Operational Excellence in this field, the LISI Group has determined ambitious targets for 2020.
It is not LISI's intention to limit itself solely to the requirements of the ISO 14001 and OHSAS 18001 standards. It has defined increasing levels of requirements - "Bronze", "Silver", "Gold". Thus each site of the group must comply with a number of requirements of the "Bronze" level of its LISI Excellence HSE program.

3.3.1 | Health-Safety objectives

Furthermore, in the field of Health and Safety at work, LISI has set as target that each site should have an accident rate of less than eight workplace accidents per million of hours worked (whether with or without lost time and whether they involve LISI employees or temporary workers working for it).

To achieve this, LISI has set two other targets which will contribute to reducing the accident rate.

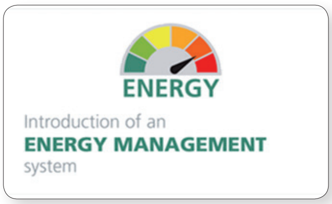
First of all, LISI's intention is to secure its working equipment, by working on the compliance of its machines, in particular those that are the most hazardous.

LISI has defined as target that 100% of machines identified as the most hazardous should be 100% compliant.

The safety of persons working for LISI or under its control also requires the development of a safety culture on a everyday basis.

LISI has thus developed its own safe behaviour development program: SCP (Safety Culture Program). The first step consists in training sessions for all managers of the Group so that they can conduct the 18 training modules of the SCP program. Secondly, during 15-minute sessions, these same managers will systematically reiterate the prevention messages aimed at improving the safe behaviour of each and every one. LISI aims at rolling out all the modules to all employees of the Group by 2020.

3.3.2 | Environmental objectives



Concerned about the impact of its activities on climate change, LISI wishes to develop and implement an energy management system in order to reduce its energy and carbon footprints.

Furthermore, LISI carried out an analysis of its environmental impacts in 2017, following which the Group wishes to reduce its most significant impacts by 2020.

Targets and measurable indicators will be established in the course of 2018.

3.4 | INTERIM OBJECTIVES FOR 2017

With the objective of meeting the targets set for 2020, LISI had already defined interim milestones for 2017.

3.4.1 | Health-Safety:

- Each site should achieve a TF1 (number of workplace accidents with or without lost time for LISI employees and temporary workers per million of hours worked) of less than ten.
- Each workplace accident with or without lost time, for LISI employees and temporary workers, must be analyzed in a rigorous manner based on the 8D methodology.
- The SCP safety culture program is expected to be launched at each site, in particular with the training of all managers of the Group.

3.4.2 | Environment:

- each site had to have rolled out an energy consumption reduction plan;
- each site had to have identified its most significant environmental aspects and defined an action plan to reduce the number of such impacts.

3.5 | 2017 HSE RESULTS

3.5.1 | Health Safety

The adoption of a safety culture on a daily basis and the uncompromising stand in the face of each workplace accident are paying off.
The results achieved by the Group are very encouraging since LISI's performances in 2017 are better than ever. They confirm the relevance and effectiveness of efforts by all employees and the Group intends to carry on with them thus proving that accidents are by no means unavoidable.

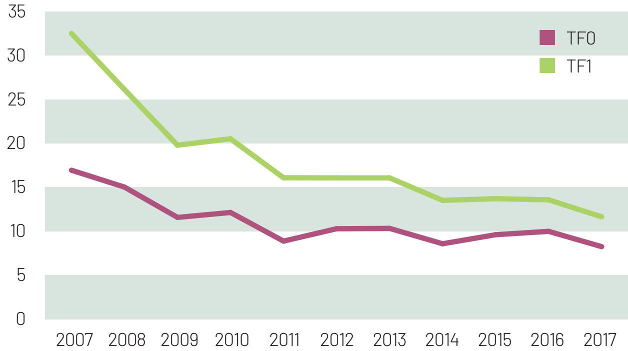
To measure its performances, LISI monitors the accident rate of its employees as well as that of temporary workers working for it.

Thus the accident frequency rate with lost time of LISI employees (TF0) declined by 56% in ten years to 7.43 accidents per million of hours worked at end-2017.

The accident frequency rate, with or without lost time (TF1), declined by 69% in ten years for LISI employees, and by 64% for LISI employees and temporary workers taken together. This frequency rate is 10.12 accidents with or without lost time per million of hours worked for LISI employees and 11.61 for LISI employees and temporary workers taken together. Furthermore, the frequency rate for temporary workers alone, which reached 25.19 in 2017, has improved by 10% in five years thanks to the overhaul of their onboarding process.

The severity rate (TG0), which represents the number of days lost as a result of workplace accidents per thousand hours worked, remained at a relatively low level at 0.25 days lost per thousand hours worked.

Indicators	2017	10-year trend	5-year trend
TF0 LISI	7,43	(56%)	(22%)
TF0 LISI + temporary workers	8,21	(51%)	(20%)
TF1 LISI	10,12	(69%)	(33%)
TF1 Temporary workers	25,19		(10%)
TF1 LISI + temporary workers	11,61	(64%)	(28%)
TG0 LISI	0,26	(61%)	19%
TG0 LISI + temporary workers	0,25	(63%)	10%



Furthermore, because LISI believes that each accident could have been avoided, a process for the detailed analysis of the causes of accidents has been implemented to determine the root causes of workplace accidents, with or without lost time. The objective is to ensure non recurrence of the most serious incidents. Thus, in 2017, 94% of accidents were analyzed in detail.

As regards production sites, over half (57%) record an accident frequency rate with or without lost time of less than ten accidents per million of hours worked.

Furthermore, the results of 55% of LISI's sites are improving compared with last year and 12% did not witness any accident in 2017.

It is to be noted that at "Historical sites", i.e. those owned by the LISI Group for more than ten years, this improvement is ever more marked: thus, their frequency rate of TF1 (workplace accidents with or without lost time) declined by 70% and the gravity rate by 74% in ten years. This shows that changing the safety culture requires work over a long period.

Across all of the Group's production sites, 55 occupational diseases were reported in 2017.

They relate mainly to joint disorders caused by certain working gestures and positions. However, all sites are working towards a reduction of physical constraints through better ergonomic layout of workstations and by limiting the weight of containers.

3.5.2 | Environment

3.5.2.1 Water consumption

In 2017, LISI consumed 866,303 m^3 of water. To link it to production, LISI looks at the ratio of consumption to added value. Thus between 2016 and 2017, this ratio declined by 13%, from 1.074 MWh/€k (AV) to 1.231 MWh/€k (AV).
Water is mainly consumed at two of the Group's production sites (Bologne and La Ferté Fresnel/Dreux) for the cooling of the process. These two sites also account for 52% of the Group's total consumption. Although this water is primarily returned to the natural environment, works carried out, such as the repair of leakages on ageing underground pipes, have led to a savings of 50,147 m^3 (5.5%).

Furthermore, the Forge 2020 project aims at relocating the activities of the Bologne site a few kilometers away from its historical location, in new premises which are more suitable for our activities. Environmental aspects are fully taken into account in this project in order to reduce impacts inherent to our processes. Hence, as regards water consumption, it is planned to recycle rain water and to have less water-intensive surface treatment systems.

3.5.2.2 Energy consumption

The energy consumption of the LISI Group is 492,065 MWh in 2017.
It is strongly linked with the business but also with weather conditions. However, to take on board the impacts of the production activity, LISI monitors the ratio of consumption to added value. Thus between 2016 and 2017, this ratio declined by 4%, from 0.636 MWh/€k (AV) to 0.610 MWh/€k (AV).

Energy is mainly consumed at production sites which have a heat treatment process, in particular Bologne, but also at Marmande, Delle, Bars/ Aube, Kierspe and Torrance.

These six sites also account for 44% of the Group's total consumption. The Bologne site has the highest energy consumption, all forms of energy taken together, with 13% of the Group's total energy. The Forge 2020 project will reduce this consumption through better insulation of the building, recovery of energy used in the process to heat the buildings and the installation of LED for the lighting of workshops and offices. The results are expected in 2021.

3.5.2.3 Waste production

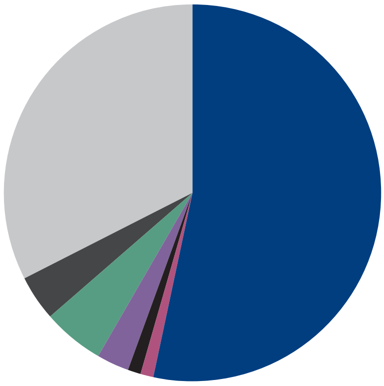
In 2017, waste production was 56.1 kg of waste for €1,000 of added value, or a decline of 3% compared with 2016.

Moreover, the share of sorted waste is still high at 95.7%, a stable percentage compared with 2016. The remaining portion concerns domestic waste generated by production-related activities (toilets, cafeterias, etc.).

The production plants principally generate metallic waste (53% of the total quantity of waste produced). These are sold for recycling. Dangerous waste sorted, which represents 32% of the total quantity of waste, is removed via authorized channels that abide strictly by applicable regulations.

Metal, plastic, wood/paper/cardboard and oil waste are either recycled or used to produce energy.

In 2017, the proportion of recyclable waste stood at 63.1% or the same level of 2016. The remaining portion is made up of hazardous waste and household waste.



3.5.2.4 Greenhouse Gas (GHG)

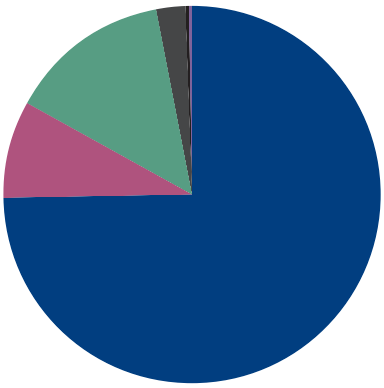
During the year 2017, LISI undertook an Assessment of the Greenhouse Gas (GHG) generated by its activities for Scopes 1, 2, and 3.

The main activities generating greenhouse gas (GHG) are the consumption of raw materials, the consumption of energy, the use of refrigeration units and air-conditioners and the movement of people and goods. All activities of LISI taken together generated 515,252 tons of CO_2.

Their breakdown is the following:

Scope	Indicators	2017
Scope 1	GHG Natural Gas [kg GHG]	40,813,838
	GHG Domestic heating fuel [kg GHG]	58
	GHG Heating network [kg GHG]	-
	GES LPG [kg GHG]	1,726,242
	GHG Vehicles owned [kg GHG]	731,746
	GHG Private vehicles under lease [kg GHG]	2,154
	GHG Fugitive emissions from refrigerants [kg GHG]	1,195,156
	Total GHG Scope 1 [kg GHG]	44,469,194
Scope 2	GHG Electricity [kg GHG]	72,303,279
	Total GHG Scope 2 [kg GHG]	72,303,279
Scope 3	Transport to/from (2016 data) [kg GHG]	12,890,640
	Consumption of raw materials [kg GHG]	385,589,180
	Total GHG Scope 3 [kg GHG]	398,479,820
TOTAL	**TOTAL GHG [kg GHG]**	**515,252,293**

GHG emissions by source



Hence, to combat climate change, LISI works mainly on the following:
- reduction of waste and optimization of raw materials (mainly deformation which generates low losses);
- reduction of energy consumption, through the introduction of an action plan for energy consumption reduction at each site.

3.5.3 | Complaints and formal notices

The LISI Group's sites follow and record all complaints whether comments, formal or informal, official or not issued by stakeholders.

In 2017, the sites received four formal notices or official letters from authorities: Dasle, La Ferté Fresnel (France), Fuenlabrada (Spain), and Escondido (USA).

Moreover, nine complaints were received by Group entities and concern mainly complaints from neighbors about the noise generated by our activities.

Each complaint or official letter receives a reply, written or otherwise, sent to the party concerned.

3.5.4 | Pollution prevention

LISI is particularly attentive to the potential impacts of its activities on the environment.

Each environmental incident, whether handled internally or requiring the intervention of external rescue services, must be processed and analyzed.

The sites thus reported 23 environmental incidents in 2017:
- 16 incidents for which the impact was managed internally (mainly accidental spills with no impact on the environment);
- 5 air pollution incidents (crossing of authorized thresholds);
- 1 water pollution incident (crossing of authorized thresholds);
- 1 incident for crossing of groundwater monitoring threshold.

3.6 | ACTION PLAN

3.6.1 | The LISI E-HSE program and its tools

In order to meet its ambitious targets, LISI has introduced an original program: LISI Excellence HSE.

The aim of this ambitious program is to commit each staff member to a common objective, namely to aim at and to achieve excellence on all the focuses in the company's HSE strategy.

Devised to accelerate the emergence of a common culture, the LISI Excellence HSE program lays down solid foundations to encourage abiding by the fundamentals, such as fulfilling compliance obligations regardless of whether or not they are regulatory, and also the continuous improvement of our performances and organizations.

The LISI Group possesses the tools essential for achieving these objectives:
- LISI RM: software for controlling our HSE risks;
- golden Rules: HSE rules common to all LISI sites;
- SCP[(1)]: the program aimed at developing the Safety Culture for all employees in the Group;
- other operating tools in the LISI Excellence HSE program aiming at providing a response to the problems targeted by the excellence focuses.

(1) Safety Culture Program.

3.6.2 | Resources

3.6.2.1 HSE CAPEX

The consolidated amount of HSE expenditures by division is as follows:

DIVISION	HSE expenditures in 2017 – in thousands of euros	Total expenditures - in thousands of euros	% of expenditures devoted to HSE
LISI AEROSPACE	4,710	88,958	5.3%
LISI AUTOMOTIVE	3,156	36,875	8.6%
LISI MEDICAL	83	13,156	0.6%
LISI	7,949	138,989	5.7%

Notable investments include:
- LED lighting at Escondido (€11 thousand);
- improvement of the energy performance of processes at Mellrichstadt (€268 thousand);
- improvement of air treatment at Melisey (€354 thousand);
- improvement of effluent treatment at St Ouen l'Aumône (€110 thousand).

3.6.2.2 Training hours

The LISI Group relies heavily on the skills of all employees to achieve excellence in Health - Safety at Work and Environment. Only each individual behavior can help it build a genuine enterprise HSE culture .

That is why LISI has decided to continue investing in Human Beings. Thus in 2017, 0.32% of hours worked were dedicated to training in the field of HSE, compared with 0.25% in 2016.

Actually, the men and women that make up a company are its key ambassadors in all areas, and their dedication to the Company's operations is an asset on which LISI intends to capitalize.

3.6.2.3 Provisions - Environment

The consolidated amount of HSE risk provisions by division is as follows:

Division	Amount of 2017 HSE provisions
LISI AEROSPACE	€3,847 thousand
LISI AUTOMOTIVE	€475 thousand
LISI MEDICAL	€158 thousand
LISI	€1,276 thousand
TOTAL	**€5,756 THOUSAND**

3.6.3 | Bronze sites of the LISI E-HSE program:

The LISI Excellence HSE program assesses the sites in accordance with 4 maturity levels:

- the first level, Standard, corresponds to strict compliance with ISO 14001 and OHSAS 18001 standards;
- the following three levels "Bronze, Silver and Gold" aim at achieving, in phases, the adoption of a Health - Safety and Environment Culture for all employees and sites of the Group.

At end-2017, 2 sites were classified "Bronze". All sites of the Group must comply with the requirements of this level by end-2020.

4 | SOCIETY-RELATED ISSUES

4.1 | TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE COMPANY'S BUSINESS

The LISI Group is firmly rooted in France, particularly in Franche Comté. Indeed, of the Group's 47 production sites, 21 are located in France (45%) of which five in Franche-Comté, the Company's birthplace. These 21 French sites represent 54% of the workforce.

At foreign sites, the vast majority of employees come from the local population, thus contributing to the development of the local economic and social fabric.

4.2 | RELATIONSHIPS WITH PERSONS OR ORGANIZATIONS INTERESTED IN THE COMPANY'S BUSINESS

4.2.1 | Conditions for dialogue with those persons and organizations

The international standards ISO 14001 and OHSAS 18001 have as one of their basic principles, dialogue with the Interested Parties. LISI has founded its system of environmental, health, and safety management on these standards.

Thus, individuals and/or main organizations interested in the Company's business have been identified by the sites, as well as their expectations.

All their requests receive an answer from the site.

4.2.2 | Partnership and sponsorship activities

The LISI Group is a major economic player in all areas where it operates. It thus contributes to local employment and to local and regional development. A significant number of employees also contribute to the dynamism of associations, clubs, clusters, networks and other professional organizations. The sites are the favored partners to encourage teaching of technical and other skills, through the apprentices they take in via the training courses leading to CQPM qualifications developed by with the help of the UIMM's Training Centers.

Such professional organizations include the GIFAS (the Group of French aerospace industries) for LISI AEROSPACE, AFFIX (Association of manufacturers of mechanical fasteners) and DSV (Deutsche Schraubenverband) for LISI AUTOMOTIVE and SNITEM (National union of the industry of medical technology) for LISI MEDICAL.

LISI also regularly intervenes in networks to help second and third tier suppliers in their development by sharing best practices in industrial excellence, such as with the Pôle Véhicule du Futur cluster (automotive cluster) and the Club des Chefs d'entreprises du Sud Territoire.

In addition, LISI encourages local partnerships and exchanges, particularly the development of close relationships with schools, universities and the top colleges (Engineering, Management, etc.) in order to anticipate, for each division, the future requirements in terms of employment and skills.

More specifically in France, the sites collaborate closely with the Training Centers of UIMM and with the local ADEFIMs in order to optimize the financing of the training actions, and with Pôle Emploi (Job search national organization) to implement Operational Preparation for Employment processes.

4.3 | SUBCONTRACTORS AND SUPPLIERS

The LISI Group is part of a "win-win" sustainable partnership with its suppliers and subcontractors to ensure mutual, long-term success.

Aside from economic considerations (quality, competitiveness and continuous improvement), the Suppliers Charter established by the Group dictates the terms of partnership in accordance with the principles of ISO 14001, which are addressed during audits for selecting new suppliers.

Approval and application of the ten principles of the UN Global Compact program are also part of this Suppliers Charter.

The Group Purchasing Policy includes ethical, sustainable development and corporate social responsibility aspects with the application of the Global Compact principles and the principles of ISO 14001 and OHSAS 18001 standards, that need to be complied with, in particular by our subcontractors and strategic Suppliers.

5 | ANTI-CORRUPTION

5.1 | GENERAL POLICY ADOPTED BY THE LISI GROUP TO PREVENT AND FIGHT CORRUPTION

The LISI Group has built its growth on compliance with laws and best practices. Each division is responsible vis-à-vis the Group's Senior Management for the proper performance of its subsidiaries and employees. The LISI Group is intensifying its policy on the prevention of and fight against corruption: thus in 2017, its actions were inspired by its membership of the Global Compact and are also in keeping with the new French legal framework set out by the Sapin II Law. This is in keeping with the values that the LISI Group upholds.

5.2 | ACTIONS CARRIED OUT IN 2017 AND ROLL-OUTS SCHEDULED IN 2018

5.2.1 | Development of the anti-corruption code of conduct:

The LISI Group has deployed a detailed action plan led by the Group Legal, Human Resources and internal audit teams. One of the main actions of the LISI Group relates in particular to the development of a new "anti-corruption and influence peddling" code of conduct. It underpins the conduct of its business relations. It is intended for corporate officers, members of Executive and Management Committees as well as all employees of the LISI Group. It sets forth the principles that each employee of the Group must apply in the conduct of their work. It complements the rules, procedures ad standards defined in each country and to which employees must continue to refer. Any person acting on behalf of LISI is required to comply with this code of conduct, regardless of the place and nature of his/her work. The LISI Group also ensures that its partners share these values. The LISI Group places a high importance on behaving in a flawless manner with its stakeholders. This code of conduct will apply from 2018 after consultation, for the concerned subsidiaries, with employee representative bodies.

5.2.2 | Method of deployment of the whistleblowing system

The LISI Group is finalizing the development of its alert system which will also apply from 2018, like its code of conduct. The method of deployment chosen is a collection of alerts through internal management: it meets the legal requiremens since it is a secure system which protects the whistleblower. The management of alerts will be under the responsibility of the Compliance Committee. This Committee is made up of three departments: the Group Legal Director, the Group Human Resources Manager and the Internal Audit Manager. It is chaired by the Group Deputy CEO, who is also a member of the Audit Committee. The employment contracts of this team will be amended to provide for an enhanced confidentiality clause. In early 2018, the Compliance Committee will follow a training course on the management of alerts in order to acquire the necessary expertise: the training will be provided by two members of the NGO Transparency International (TI), who are expert in the collection of alerts.

5.2.3 | Work initiated on the identification of the risk level associated with corruption

In the last quarter of 2017, the LISI Group initiated work identification of the risk level associated with corruption. This work will continue in 2018 through the assessment of risks on two levels: firstly, exposure by country (TI framework) where the LISI Group conducts business; secondly, the nature of business relations maintained by the LISI Group.

5.2.4 | Consideration of the training models to roll out

The LISI Group implements its system to fight corruption by giving information to its employees through a communication kit which will be distributed as soon as its code of conduct is applied. Employees most exposed to possible corruption practices will follow training under e-learning as from 2018. The number of employees concerned by this training module is estimated at around 800.

5.2.5 | Other preventive actions already undertaken

The LISI Group has undertaken a number of preventive actions to fight corruption Relationships with third parties are dictated by the Group's scoping procedures, which are implemented by the divisions through the dissemination of division-specific procedures. For example, LISI disseminates and updates a Purchasing and Supplier Relations procedure, which specifies in particular the limits and authorization thresholds for donations and gifts. Compliance with these procedures is ascertained during three-yearly management and financial audits that the Group conducts in its subsidiaries and its sites: if weaknesses are identified, an action plan is then requested from the concerned subsidiaries in order to address them.

The documents that bind the LISI Group and its stakeholders, internal or external, are being updated and will be finalized at the beginning of 2018 in coordination with the application of the tools mentioned in the above paragraph. Examples of these documents are: the Supplier Charter (external stakeholders), the Group Purchasing Policy (internal stakeholders), the Terms of Purchase and Sale, Supplier and Customer Contracts, and any other document relating to those already mentioned.

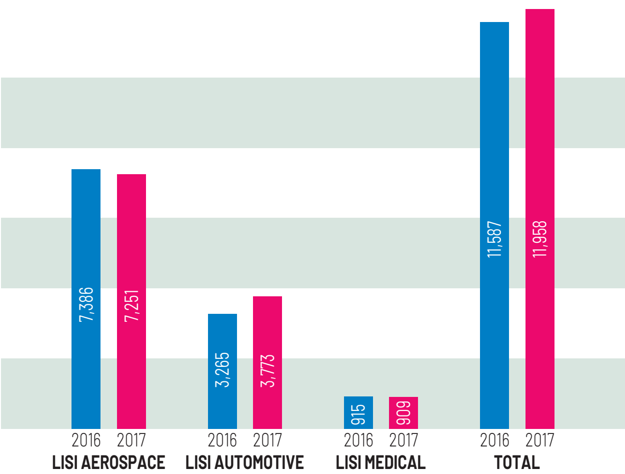
KEY FIGURES

Human Resources

	2017	2016	DIFFERENCE N/N-1
LISI AEROSPACE	7,251	7,386	(1.8%)
LISI AUTOMOTIVE	3,773	3,265	15.6%
LISI MEDICAL	909	915	(0.7%)
Holding company	25	21	19.0%
GROUP TOTAL	**11,958***	**11,587**	**3.2%**

* Termax LCC is included in the calculation.

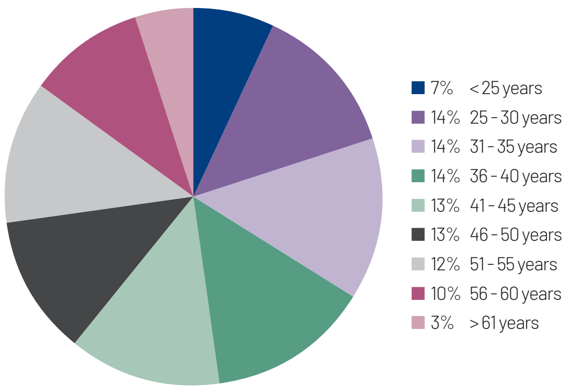
11,958 EMPLOYEES UNDER AN EMPLOYMENT CONTRACT AT 12/31/2017



REGISTERED HEADCOUNT 31/12/2017	LISI AEROSPACE	LISI AUTOMOTIVE*	LISI MEDICAL	Holding company	TOTAL	%
Germany	8	894	,	,	902	8%
Canada	322	5	,	,	327	3%
China	,	273	,	,	273	2%
Spain	,	174	,	,	174	1%
USA	1,069	383	413	,	1,865	16%
France	4,185	1,749	496	25	6,455	54%
India	165	,	,	,	165	1%
Morocco	356	,	,	,	356	3%
Mexico	,	94	,	,	94	1%
Poland	195	,	,	,	195	2%
Czech Republic	,	199	,	,	199	2%
United Kingdom	394	2	,	,	396	3%
Turkey	557	,	,	,	557	5%
Total	**7,251**	**3,773**	**909**	**25**	**11,958**	**100%**

* Termax LCC is included in the calculation.

Breakdown by age*



* Termax LCC is not included in the calculation.

Decline in absenteeism rate in 2017 compared with 2016

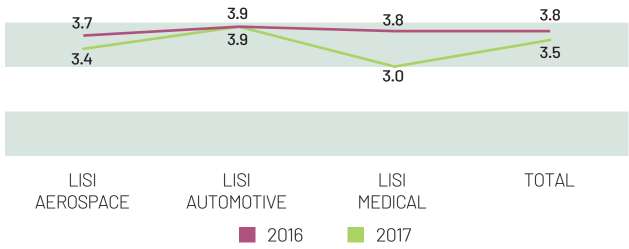


Table of Health Safety Environment indicators

	INDICATORS (January 1 to December 31)	Definition	Unit	2016	2017	Difference 2017 vs. 2016
Energy	Municipal water	Volume of water from the city's distribution network consumed by the consumption production site	m^3	435,079	517,600	82,521
	Consumption of water drawn directly from the natural environment	Volume of water drawn by the production site from the rivers, lakes and groundwater	m^3	481,371	348,703	-132,668
	Electricity consumption	Electrical power from the city grid or self-generated, consumed by the production site	MWh	292,421	310,339	17,918
	Natural gas consumption	Heat energy from the volume of natural gas consumed by the production site	MWh	172,555	172,652	97
	Liquefied petroleum gas (butane - propane) consumption	Heat energy from the volume of LPG consumed by the production site	kWh	5,717,292	6,716,896	999,604
	Domestic fuel consumption	Volume of heating oil consumed by the production site for industrial and heating purposes	m^3	195	181	-14
	Consumption of other energies	Other energies (steam, etc.)	kWh	578,407	558,080	-20,327
Hazardous products	Consumption of products with permanent harmful effects for humans	Quantity consumed of all products belonging to the list of products with harmful and permanent effects for humans (all products classified as carcinogenic, mutagenic or toxic for reproduction as defined by local national regulations). Oil for forklifts can be found in this category	kg	234,437	272,454	38,017
Wastes	Sorted metal	Total amount of metal discharged and sorted as waste according to national regulations	T	23,090	24,060	971
	Paper - Sorted cardboard	Total amount of paper and cardboard discharged and sorted as waste according to national regulations	T	522	609	87
	Sorted plastic	Total amount of plastic discharged and sorted as waste according to national regulations	T	211	284	73
	Sorted wood	Total amount of wood discharged and sorted as waste according to national regulations	T	1,145	1,215	70
	Oil (soluble + whole + whole and water)	Total amount of oil discharged and sorted as waste according to national regulations	T	2,076	2,398	322
	Other household waste (non-hazardous) or non-sorted household waste	Amount of unsorted non-hazardous waste or household waste (as per national regulations) discharged from the site	T	1,846	2,024	178
	Hazardous wastes (without oil)	Amount of hazardous waste (as per national regulations) excluding oil waste discharged from the site	T	13,778	14,649	871

	INDICATORS (January 1 to December 31)	Definition	Unit	2016	2017	Difference 2017 vs. 2016
Workplace accidents	TF0 at end of December	The TF0 is the frequency rate of workplace accidents with lost time over 12 rolling months TF0 = Number of WA with lost time of the last 12 months × 1,000,000/Number hours worked of the last 12 months	unit	9,95	8,21	-1,74
	TF1 at end of December	The TF1 is the frequency rate of workplace accidents with and without lost time over 12 rolling months: TF1 = Number of WA with and without lost time of the last 12 months × 1,000,000/ Number hours worked of the last 12 months	unit	13,54	11,61	-1,94
	TG0 at end of December	The TG0 is the gravity rate of workplace accidents with lost time over 12 rolling months: TG0 = Number of workplace accidents with lost time over 12 rolling months × 1,000/Number of hours worked over the 12 months elapsed	unit	0,27	0,25	-0,02
	Number of occupational diseases	Number of occupational diseases reported on the production site that generated a work stoppage	unit	39	55	16
Incidents and complaints	Number of outbreaks of fire	Number of outbreaks of fire requiring the use of firefighting means (fire extinguishers, fire hose station, sprinkler, other) reported on the production site	unit	77	93	16
	Number of incidents requiring the intervention of outside help	Number of incidents occurring on the production site (fire, pollution, natural disasters, hazardous events) requiring the intervention of firefighters or civil security services	unit	8	9	1
	Formal notice sent by the authorities	"Official" request originating from or addressed to a competent authority in terms of health, safety, environment or public safety, requesting that the industrial site put a final stop to a nuisance or a hazard, or comply with a regulatory requirement	unit	7	5	-2
	Number of complaints issued by stakeholders	Informal note that any third party (neighbors, organizations, etc.) may use directly with the site when subjected to any nuisance, e.g.: mail, written recordings of telephone complaints, etc.	unit	11	9	-2
HSE training	Number of HSE training hours completed	The courses listed cover all internal and external training to develop the HSE skills or knowledge of all LISI staff. These do not include the HSE training hours for newcomers	hours	45,530	59,453	13,923

6 | SCOPE AND EXCLUSIONS

Scope

For Human Resources and Environment issues, the reporting scope does not include the Chihuahua site, as the buildings do not belong to LISI and LISI personnel are not concerned.

For the Health – Safety – Environment issues, the reporting scope does not include the Bangalore site (Ankit – India) in which majority shareholding is recent.

Termax, a recently acquired company, is not included in the Health – Safety – Environment reporting scope.

The difference between data published for financial year 2016 and the 2016 data published for comparative purposes for financial year 2017 is due to the inclusion of the sites of Coon Rapids and Big Lake (Minnesota) as well as corrections of the 2016 data, which were at the time measured for some sites and indicators.

Exclusions

The 42 themes mentioned in the decree have been treated as transparently as possible. Certain items have not been the subject of reporting for the following reasons:

- utilization of land: the land area of the buildings occupied by the Group is optimized, changes little and LISI does not have any activities involving extraction of resources present in the ground;
- protection of biodiversity and adaptation to climate change: we have not identified any specific risks or challenges in these areas related to our activities;
- food waste: LISI's activity has no impact on food waste.

7

INFORMATION REGARDING THE COMPANY AND CORPORATE GOVERNANCE

1. | COMPANY INFORMATION

1.1 | SHARE CAPITAL

1.1.1 Share capital

Share capital taken up by shareholders and fully paid-up, as at December 31, 2017, amounted to €21,609,550 divided into 54,023,875 shares with a nominal value of €0.40 of the same category.

1.1.2 Changes in share capital over the past five years

Date of Shareholders' General Meeting	Date of Board Meeting	Nature of the transactions	Increase Nominal increase (reduction) in capital	Increase (reduction) in capital inc. premium	Number of shares created (cancelled)	Nominal value of shares	Total number of shares after issue	Capital after transaction
Capital at 12/31/2017: €21,609,550 divided into 54,023,875 shares with €0.40 face value								
04/25/13	07/24/14	Division by five of the face value of the share	-	-		€0.40	54,023,875	€21,609,550
04/25/13	02/20/14	Capital increase reserved for employees	€36,518	€1,781,301	18,650	€2	10,804,775	€21,609,550
02/10/04	07/28/10	Capital increase by conversion of warrants	€3,616	€81,360	1,808	€2	10,786,494	€21,572,988
04/29/09	04/28/10	Capital increase reserved for employees	€61,650	€868,649	30,825	€2	10,784,686	€21,569,372
02/10/04	02/20/08*	Capital increase by conversion of warrants	€299,588	€6,740,730	149,794	€2	10,753,861	€21,507,722
02/10/04	12/21/07	Capital increase by conversion of warrants	€169,592	€3,815,820	84,796	€2	10,604,067	€21,208,134
02/10/04	08/29/07	Capital increase by conversion of warrants	€255,292	€5,744,070	127,646	€2	10,519,271	€21,038,542
02/10/04	06/27/07	Capital increase by conversion of warrants	€361,684	€8,137,890	180,842	€2	10,391,625	€20,783,250
02/10/04	02/22/07	Capital increase by conversion of warrants	€30,000	€675,000	15,000	€2	10,210,783	€20,421,566
02/10/04	12/20/06	Capital increase by conversion of warrants	€498,926	€11,225,835	249,463	€2	10,195,783	€20,391,566
02/10/04	06/23/06	Capital increase by conversion of warrants	€43,640	€981,900	21,820	€2	9,952,166	€19,892,640
02/10/04	06/23/06	Capital increase reserved for employees	€55,332	€1,122,686.58	27,666	€2	9,924,500	€19,849,000

* Conversion of warrants at end December 2007.

1.1.3 Share capital authorized but not issued

On April 25, 2017, the Extraordinary Shareholders' General Meeting authorized the Board of Directors to issue, in one or more stages, new shares in cash reserved for the Group's employees who are members of the company's mutual fund, for a total maximum amount of €2,000,000, issue premium included, within a period of 26 months from the date of that Meeting.

1.1.4 Potential capital securities

At December 31, 2017, there are no warrants providing access to capital.

1.1.5 Dividend distribution policy for the past five years – Dividend prescription period

The distributable profit is at the disposal of the Shareholders' General Meeting, which determines its allocation.

In the past five years, dividends paid out per share have been as follows:

	Net dividend in €
2011	1.30
2012	1.40
2013	1.70
2014*	0.37
2015	0.39
2016	0.45
2017 (1)	0.48

* Unit value of the dividend following the 5-stock split.

(1) Subject to the decision of the Ordinary General Meeting of April 24, 2018. The dividend payment date was set at May 4, 2018.

The timeframe for paying dividends is nine months as of the year-end date. Unclaimed dividends are waived to the State after a period of five years counting from the payment date.

1.2 | SHARE BUYBACK PROGRAM

1.2.1 In place at December 31, 2017

On April 25, 2017, the Combined General Meeting authorized the Company to repurchase up to 10% of its own shares in the open market for a period of 18 months, i.e. up until October 25, 2018.

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

- to increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the professional code of ethics recognized by the AMF (the French financial market authority);
- to grant stock options or free shares to employees and corporate officers of the Company and/or its Group;
- to retain and use shares as consideration or payment for potential acquisitions;
- to cancel shares purchased, subject to the approval of the Extraordinary General Meeting to be called at a later date.

The following terms apply to this authorization:

- the Company may not repurchase its own shares for more than €60 per share, not including transaction fees.

The highest figure that LISI S.A. would pay if it purchased shares at the ceiling price set by the Shareholders' General Meeting, i.e. €60, is €256,977,900.

Under the above-mentioned share repurchase program, LISI S.A. acquired 597,181 treasury shares in 2017, i.e. 1.1% of the total number of shares issued.

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

	Number of shares	Average weighted price in €
Securities held at 1/1/2017	**1,119,422**	**7.94**
Shares acquired in 2017	597,181	37.81
Shares awarded in 2017	(139,146)	7.46
Shares disposed of in 2017	(600,570)	37.41
Securities held at 12/31/2017	**976,887**	**8.11**
Of which shares allocated to remuneration in shares	*957,598*	
Of which available shares	*19,289*	

Shares have been purchased and sold within the scope of the market-making contract with Oddo Corporate Finance. The market-making contract complies with the ethical charter of the AFEI.

1.2.2 New share buyback program

The next Shareholders' General Meeting will be offered to renew its program to repurchase LISI S.A. shares, in accordance with the new rules applicable since the entry into force of European Rules No. 2273/2003 of December 22, 2003. LISI S.A. offers to acquire a number of shares representing up to 10% of the number of shares that make up its capital stock, except for the acquisition of shares meant to be kept and the delivery of shares against or as payment for external growth operations, if applicable, whose total number will be limited to 5% of the equity, i.e. 2,701,193 shares.

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

The new stock repurchase program provides that the stock purchased will serve the following purposes, in decreasing order of importance:

- to increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the professional code of ethics recognized by the AMF (the French financial market authority);
- to grant stock options or free shares to employees and corporate officers of the company and/or its Group;
- to retain and use shares as consideration or payment for potential acquisitions;
- to cancel shares purchased, subject to the approval of the Extraordinary General Meeting to be called at a later date.

The maximum purchase price may not exceed €60 per share.

The highest figure that LISI S.A. would pay if it purchased shares at the ceiling price set by the Shareholders' General Meeting, i.e. €60, is €318,281,928.

Should derivative products be used, LISI S.A. will ensure that the price of its shares is not made more volatile as a result.

1.3 | BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS – SHAREHOLDERS' AGREEMENT

1.3.1 Breakdown of share capital and voting rights over the past three years

1.3.1.1 Breakdown of share capital and voting rights

	2017			2016		
	as a % of share capital	as a % of voting rights	in number of shares	as a % of share capital	as a % of voting rights	in number of shares
CID	54.9	66.9	29,643,620	54.9	67.0	29,643,620
VMC	5.7	6.6	3,070,860	5.7	6.6	3,070,835
Other corporate officers	0.3	0.3	189,145	0.3	0.3	175,195
TOTAL CORPORATE OFFICERS	**60.9**	**73.8**	**32,904,225**	**60.9**	**73.9**	**32,889,650**
of which directors	0.2	0.2	105,815	0.2	0.2	97,265
FFP INVEST	5.1	6.2	2,750,000	5.1	6.2	2,750,000
Treasury shares	1.8		976,887	2.1		1,119,422
Employees	1.3	0.8	715,000	1.3	0.8	720,000
Public	30.9	19.1	16,677,763	30.6	19.0	16,544,803
GRAND TOTAL	**100.0**	**100.0**	**54,023,875**	**100.0**	**100.0**	**54,023,875**

Shareholders or group of shareholders controlling more than 3% of share capital:

- the sole activity of CID, a company based at 28 faubourg de Belfort 90100 DELLE, is the ownership of LISI shares. As at December 31, 2017, it held 54.9% of share capital and 66.9% of voting rights. CID's capital is held in almost equal proportion by three family shareholder groups through family holdings (Family KOHLER through CIKO, Family PEUGEOT through FFP Invest, Family VIELLARD through VMC). While family ties exist between shareholders, they are not directly related.

At December 31, 2017, the capital of CID broke down as follows:

- CIKO for 30%;
- FFP Invest for 25%;
- VMC for 28% of the capital;
- Others for 17%.

■ The sole activity of CIKO, based at 28 Faubourg de Belfort 90100 DELLE is the ownership of LISI and CID shares. As at December 31, 2017, it held 0.1% of share capital and 0.1% of voting rights. At the same date, it held indirectly 16.5% of the capital of LISI S.A., i.e. in total 16.6% of the capital.

■ FFP Invest, a company based at 66, avenue Charles de Gaulle 92522 Neuilly sur Seine Cedex, directly owns 5.1% of the share capital and 6.2% of voting rights as of December 31, 2017. At the same date, it held indirectly 13.8% of the capital of LISI S.A., i.e. in total 18.9% of the capital.

■ As at December 31, 2017, VMC, a company based at route des Forges 90120 MORVILLARS, held 5.7% of the capital of LISI and 6.6% of voting rights. At the same date, it held indirectly 15.3% of the capital of LISI S.A., i.e. in total 21% of the capital.

To the Company's knowledge, no other shareholders hold more than 3% of share capital or voting rights, be it directly or jointly (see also 1.3.2).

The percentage of share capital held by staff members is not significant (1.3% of the share capital).

1.3.1.2 Shareholders' agreement - concerted actions

There is no shareholders' agreement within LISI S.A. other than that mentioned in paragraph 1.3.1.4, and no shareholders (other than those listed in the above table) have reported that they have breached the threshold of between 3% and 5%, as provided for in the bylaws.

To the best of LISI's knowledge, on the date on which this document was drafted, there exists no action in concert, as defined in Articles L.233-10 and L.233-11 of the French Commercial Code.

1.3.1.3 Pledging

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

1.3.1.4 Collective commitments to retain shares

"Dutreil" agreement (Article 885 I bis of the French General Tax Code) regarding LISI S.A. securities.

Under Article 885 I bis of the French General Tax Code ("CGI"), a commitment to retain shares was subscribed for a period of two years and one day from December 17, 2010 by Compagnie Industrielle de Delle ("CID"), Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard. This commitment is renewed by tacit consent from one year to another as of December 19, 2012. This commitment involves 29,645,625 shares and 59,289,245 LISI S.A. voting rights, broken down as follows:

	Shares	% capital	Voting rights	% voting rights
CID	29,643,620	55.0%	59,287,240	69.60%
Mr. Gilles Kohler	1,000	< 0.01%	1,000	< 0.01%
Mr. Jean-Philippe Kohler	5	< 0.01%	5	< 0.01%
Mr. Emmanuel Viellard	1,000	< 0.01%	1,000	< 0.01%
TOTAL	**29,645,625**	**55.0%**	**59 289 245**	**69.60%**

So as to be able to benefit from the tax break as regards Solidarity Tax on Wealth, the Compagnie Industrielle de Delle, Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard have individually made a commitment to keep their shares in LISI S.A. for a period of four years, on the expiry of the two-year retention period stipulated in the collective commitment.

"Jacob" agreement (article 787 B of the French General Tax Code) regarding LISI S.A. securities.

Under Article 787 B of the French General Tax Code ("CGI"), a commitment to retain shares was subscribed for a period of two years and one day from July 5, 2016 by Compagnie Industrielle de Delle ("CID"), Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard. The term of this commitment is firm and will therefore mature on July 4, 2018. This commitment involves 29,646,620 shares and 59,291,240 LISI S.A. voting rights, broken down as follows:

	Shares	% capital	Voting rights	% voting rights
CID	29,643,620	55.0%	59,287,240	69.60%
Mr. Gilles Kohler	1,000	< 0.01%	1,000	< 0.01%
Mr. Jean-Philippe Kohler	1,000	< 0.01%	1,000	< 0.01%
Mr. Emmanuel Viellard	1,000	< 0.01%	1,000	< 0.01%
TOTAL	**29,646,620**	**55.0%**	**59,291,240**	**69.60%**

So as to be able to benefit from the tax break as regards inheritance and gift tax, the Compagnie Industrielle de Delle, Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard have individually made a commitment to keep their shares in LISI S.A. for a period of two years.

On the date of this document, these commitments made under Article 885 I bis and Article 787 B of the French General Tax Code have been kept.

It is also stated that CIKO holds 48,120 CID shares for a total value amounting to 159,495 shares at December 31, 2017.

1.3.2 LISI S.A. shareholding

The latest TPI analysis ("Identifiable bearer security"), conducted on February 13, 2017 enabled 4,174 shareholders to be identified.
Their breakdown is the following:

- reference shareholders: 68.1% of the share capital;
- floating capital: 31.9% of the share capital of which 31.4% corresponding to 3,920 identified shareholders broken down as follows:
  - french institutional investors: 207 holding 11.6% of the share capital;
  - international institutional investors: 61 holding 16.8% of the share capital;
  - french and international individual shareholders: 3,652 holding 1.7% of the share capital;
- "LISI en actions" Group Savings Plan (PEG): 1.3% of the share capital (representing 2,260 members).

1.3.3 LISI S.A. treasury shares

As at December 31, 2017, LISI S.A. held 976,887 of its own shares, or 1.8% of the share capital. No shares were cancelled. These shares are primarily intended to be used in the form of performance shares, as described in paragraph 2.7.2.2.

1.4 | RELATIONSHIP BETWEEN THE COMPANY AND ITS SUBSIDIARIES

LISI S.A. operates as a holding and support company for its subsidiaries. It manages its portfolio of interests, the funding of its operations and those of its subsidiaries, as well as exchange rate, interest rate and liquidity risks. If necessary, it can also grant loans to its subsidiaries and centralize the Group's cash flow surpluses, within the scope of a cash management agreement. These operations are charged at the market price plus a margin.

In France, LISI S.A. is the parent company of a Group consolidated for fiscal purposes. In accordance with the express provisions of the French Fiscal Consolidation Agreement, tax credit is retained by the parent company, and companies are not entitled to compensation should they leave the consolidation perimeter.

LISI S.A. offers its subsidiaries a number of services and skills relating to central functions, such as legal and fiscal support, financial support, management controls, procedures and audits, insurance management and assistance with human resources, health, safety, and environmental matters. The three divisions pay LISI S.A. a normal level of compensation for these services, based on the operating expenses incurred for the period, multiplied by a coefficient; these charge-backs are broken down proportionally to each division's added value.

Data with related companies are as follows:

(in thousands of euros)	Amount concerning related companies	
	companies	with which the company has equity interests
ASSETS:		
Receivables related to equity holdings	94,893	-
Debtors and apportioned accounts	1,127	-
Cash advances to subsidiaries	395,058	-
Tax integration current account	0	-
LIABILITIES:		
Receivables related to equity holdings	0	-
Subsidiaries' financial assistance	270,781	-
Tax integration current account	14,826	-
Suppliers	216	-
INCOME STATEMENT:		
IT maintenance	35	-
Reserves for equity interests	2,100	-
Service and management fees invoices	9,518	-
Rental invoices	192	-
Miscellaneous chargebacks	1,471	-
Revenues from subsidiaries' loans and current accounts	4,655	-
Revenues from equity interest	28,003	-

Significant intra-group items include:

- On the assets side:
  - receivables related to equity holdings:
  - LISI S.A. advanced, as a medium-term loan, USD 60 million to its subsidiary Hi Shear Corporation due for repayment on May 2, 2026, to enable it to fund part of the acquisition in May 2016 of the subsidiary LISI MEDICAL Remmele: the capital outstanding at December 31, 2017 was USD 54.6 million, i.e. €45.7 million,
  - LISI S.A. advanced, as a medium-term loan, the sum of USD 58 million to its subsidiary LISI Holding North America due for repayment on October 27, 2030, which enabled it to fund part of the acquisition in October 2017 of the TERMAX Group: the capital outstanding at December 31, 2017 was USD 58 million, i.e. €48.4 million. The share capital will begin to be repaid on October 27, 2021,
  - cash advances to Group subsidiaries as part of the Group's cash agreement.
- On the liabilities side:
  - cash granted to Group subsidiaries within the Group cash management agreement,
  - the current accounts for the fiscal integration of tax receivables of the companies integrated within the Group.
- On the income statement:
  - invoices for services and management fees from LISI S.A. to its various subsidiaries,
  - the rents from the buildings leased to our subsidiary LISI AUTOMOTIVE Former,
  - dividends received by LISI S.A. for the financial year 2017.

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

1.5 | AUDITORS' FEES

The table below lists the fees paid to the Auditors appointed for certifying the Group's separate and consolidated financial statements. These are the fees paid for services rendered and recognized for the year 2017 in the financial statements of LISI S.A. and its subsidiaries, whose income statements for the year and balance sheets are fully consolidated.

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

	Ernst & Young		Exco Cap Audit		Foreign auditors	
	Amount		Amount		Amount	
(in thousands of euros)	Year N	-1 year	Year N	-1 year	Year N	-1 year
AUDIT						
Auditors, certification, review of individual and consolidated financial statements						
– Holding company	31	31	31	31		
– Fully consolidated subsidiaries	883	689	310	274	37	47
Other due diligence and services						
– Holding company	16	33		13		
– Fully consolidated subsidiaries	3	23	7	13	25	0
Sub-total	933	777	349	331	63	47
OTHER SERVICES RENDERED BY THE NETWORKS TO THE FULLY CONSOLIDATED SUBSIDIARIES						
Legal, tax, and social						
Miscellaneous services						
Sub-total						
TOTAL	**933**	**777**	**349**	**331**	**63**	**47**

Amounts included in Other due diligence and services are for the examination of consolidated social, environmental and societal information.

2. | CORPORATE GOVERNANCE

LISI is a *société anonyme* (limited company) with a Board of Directors, governed by French law, in particular the provisions of Book II of the Commercial Code, and a number of provisions of the regulatory section of the French Commercial Code. The company has put in place measures to comply with local recommendations regarding corporate governance principles (see, in particular, the report on corporate governance).

The LISI Group is a member of the AFEP-MEDEF corporate governance code, whose recommendations it meets, except for those set out in paragraph 2.10 of this chapter, in accordance with the "Apply or explain" rule of the AFEP-MEDEF Code. Such membership has been confirmed by the Board of Directors.

2.1 | RULES OF PROCEDURE

ARTICLE 1 – PURPOSE OF THE RULES OF PROCEDURES

1.1 The members of the Board of Directors are subject to the laws and regulations in force and to the bylaws of the Company.

1.2 These rules of procedure are intended, in the interest of the members of the Board of Directors of the Company and its shareholders:

- to remind the members of the Board of their different duties;
- to complete the legal and regulatory rules and by-law provisions, in order to clarify the operating procedures of the Board of Directors.

1.3 These rules of procedure shall be binding on all members of the Board of Directors.

If a member of the Board is a legal person, the provisions of these rules of procedure shall apply to its permanent representative as if he/she was a member of the Board in his/her own name, without prejudice to the obligation for the legal entity he/she represents to comply with the obligations set out in these rules of procedure.

1.4 All members of the Board are deemed, upon taking office, to adhere to these rules of procedure and shall abide by all of their provisions.

1.5 A copy of these Board of Directors' rules of procedure shall be given to each director, Chief Executive Officer and, if applicable, to each Deputy CEO at the time of their appointment.

TITLE I - COMPOSITION OF THE BOARD OF DIRECTORS

ARTICLE 2 – COMPOSITION OF THE BOARD OF DIRECTORS

2.1 The Board of Directors is composed of at least three members and at most 18 members, to which can be added, if applicable, employee representatives appointed in accordance with legal provisions.

2.2 The directors may be:

- natural persons; or
- legal entities. In this case, they must, upon appointment, designate a permanent representative, subject to the same conditions and obligations and who shall have the same responsibilities as if he/she were a director in his/her own name, without prejudice to the joint liability of the legal entity he/she represents.

2.3 At least one third of directors must be independent members.

In general, is considered independent any director who has no relationship of any kind with the Company, the Group or its senior management, that could compromise the exercise of his freedom of judgment.

2.4 A director is considered independent when he/she meets all of the following conditions:

- he/she was not, in the five years preceding his/her first appointment as a corporate officer of the Company, an employee or officer of the Company or a Group company and was not, at the time of his/her appointment, an employee of the Company or an employee or officer of a Group company;
- he/she is not a corporate officer of a company in which the Company directly or indirectly holds a directorship or is a member of the supervisory board;
- he/she is not a major client, supplier, investment banker or financial banker significant for the Company or its Group, or for whom the Company or its Group represents a major portion of business;
- in respect of the directors exercising functions in one or several banks, they should not have participated (i) in the preparation or solicitation of service offerings by one of the banks from the Company or a Group company (ii) in the work of one of these banks in case of execution of a mandate given to the bank by the Company or a Group company or (iii) in a vote on any resolution concerning a project in which the bank concerned would or could be concerned as an advisor;
- he/she has no close family ties with a corporate officer of the Company or a Group company;
- he/she has not been auditor of the Company over the last five years;
- he/she has not been a member of the Company's Board for over 12 years, provided that the loss of independent membership will intervene only after the expiry of the term during which the period of 12 years has been exceeded;
- he/she is not a major shareholder of the Company.

The Board of Directors may, however, consider that a director, although not fulfilling any of the above criteria, can still be classified as independent given his/her particular circumstances. In this case, the Board will explain its decision in the annual report presented to the meeting of shareholders.

2.5 Each year the independent status of each director shall be discussed by the Nominations Committee and considered on a case by case basis by the Board of Directors in light of the above criteria.

The independent status shall also be discussed at the appointment of a new director and on the reappointment of directors.

The findings of the review of the classification as independent by the Board of Directors are made available to shareholders in the report of the Chairman of the Board at the annual general meeting of the Company.

2.6 The Board of Directors chooses among the independent directors one lead independent director. His task is to serve as interface between the Management of the Company and all the independent directors. He ensures the proper operation of the governance bodies of the Company.

TITLE II - POWERS OF THE BOARD OF DIRECTORS, THE CEO AND THE DEPUTY CEO - OPERATIONS SUBJECT TO PRIOR APPROVAL OF THE BOARD OF DIRECTORS

ARTICLE 3 – POWERS OF THE BOARD OF DIRECTORS RESULTING FROM LEGISLATIVE AND REGULATORY PROVISIONS IN FORCE

3.1 The Board of Directors determines the Company's business orientations and ensures their implementation. Subject to the authority explicitly granted to Shareholders' General Meetings and within the limits of the corporate objective, it rules over any issue regarding the proper operation of the Company and deliberates to solve the issues that concern it.

3.2 In particular and without this list being exhaustive, the Board of Directors in accordance with laws and regulations in force and under the conditions and in the manner determined appropriate by the present rules of procedure of the Board:

- is competent to convene the Shareholders' General Meeting of the Company and set its agenda;
- approves the strategic plan and annual budget of the Group presented by senior management and any amendment to the budget;
- prepares the separate and consolidated financial statements and establishes the annual management report;
- authorizes the agreements referred to in Article L.225-38 of the French Commercial Code;
- selects the means of exercising the senior management of the Company, in accordance with Article 13 of the bylaws;
- appoints or dismisses:
  - the Chairman of the Board of Directors;
  - where applicable, the Vice-chairman of the Board;
  - the CEO; and
  - if applicable, on the proposal of the CEO, the Deputy CEO(s);
- determines the powers of the CEO and, where appropriate, in agreement with the latter, those of the deputy CEO(s);
- can co-opt a director;
- sets the remuneration of the Chairman of the Board, the CEO and, if applicable, the Deputy CEO(s);
- appoints the members of the committees established in accordance with the law, the Company bylaws and these rules of procedure;
- divides the directors' fees among the directors in accordance with these rules of procedure;
- approves the report of the Chairman of the Board regarding the operation of the Board, internal control and risk management;
- may decide on the issuance of debt securities not convertible into shares;
- authorizes the CEO of the Company, with powers to sub delegate, to provide guarantees and endorsements by fixing, for each year, an overall cap, and if necessary, a maximum amount per transaction.

3.3 Besides, the Board of Directors carries out any controls or checks that it deems necessary. It verifies that each director receives all necessary information and any documents that it considers useful or necessary for the accomplishment of his/her duties.

3.4 Generally, the Board:

- is kept informed by its Chairman, the CEO of the Company or, if available, the Deputy CEO(s) of the Company and the committees of the Board, of all significant events concerning the business performance of the Company and the Group;
- ensures that the shareholders receive the proper information, in particular through its verification of the information provided to it by the management of the Company; and
- ensures that the Company has the required procedures for identifying, evaluating and monitoring its commitments and risks, including off-balance sheet commitments, and adequate internal control.

ARTICLE 4 – TRANSACTIONS SUBJECT TO PRIOR APPROVAL OF THE BOARD OF DIRECTORS AS PART OF THE INTERNAL ORGANIZATION OF THE COMPANY AND THE GROUP

4.1 In addition to legislative and regulatory requirements for prior authorization of the Board and as part of the internal organization of the Company and the Group, the following transactions shall be subject to prior express approval of the Board before being taken by the CEO of the Company or, if appropriate, by a Deputy CEO:

- decisions to take or transfer all significant interests in any existing or future companies, to create any company, group or organization, to subscribe to any issue of shares, stocks or bonds, excluding cash transactions;
- decisions on a significant presence in France or outside France;
- directly by creating a site, a branch, a direct or indirect subsidiary, or
- indirectly through equity interests;
- and decisions to close such sites in France or outside France;
- significant transactions that may affect the Group's strategy and modify its financial structure or scope of activity.

4.2 Similarly, any significant industrial or commercial project shall be subject to the express prior approval of the Board before being initiated by the CEO of the Company or, if appropriate, by a Deputy CEO.

4.3 The transactions referred to in the above two paragraphs (4.1 and 4.2) are deemed "significant" when they exceed the unitary amount of €15 million.

Before being submitted to the approval of the Board, any project of such a "significant" nature must have been presented to the Strategic Committee for opinion.

4.4 The Board is also systematically asked to approve explicitly beforehand each of the following decisions and, provided it is, for the Company or for one of the Group companies, in an amount equal or greater than €50 million:

- grant or take out any loans, borrowings, credit and advances;
- acquire or dispose of any receivables, by any means whatsoever.

4.5 Requests for prior, explicit approvals are:

- listed on the agenda of the Board meeting during which they will be addressed; and
- handled during the meeting of the Company's Board of Directors;
- recorded in the minutes of Board deliberations.

ARTICLE 5 – POWERS OF THE CEO AND, IF ANY, OF THE DEPUTY CEOS – SPECIFIC LIMITATIONS PLACED BY THE BOARD OF DIRECTORS ON THE POWERS OF THE CEO AND, IF NECESSARY, ON THOSE OF THE DEPUTY CEOS

5.1 The powers that are, under the laws and regulations in force and the bylaws of the Company and the present rules of the Board:

- neither reserved to the Board;
- nor reserved to the Shareholders' General Meetings of the Company;

are vested in the CEO of the Company and, if applicable, the Deputy CEOs.

When deciding to appoint the CEO or, if applicable, a Deputy CEO, specific limits may eventually be set by the Board of Directors to the powers of the CEO of the Company or, if applicable, the Deputy CEO.

This section of the rules of procedure of the Board of Directors is updated on the date of the Board's decision to integrate said specific limits.

The Board of Directors may further limit for a particular transaction, the scope of the powers of the CEO or a Deputy CEO. If necessary, these limits shall be set in the minutes of the Board authorizing the transaction.

TITLE III - OPERATION OF THE BOARD

ARTICLE 6 – ROLE OF THE CHAIRMAN OF THE BOARD

6.1 The Chairman of the Board of Directors or, if applicable, the Vice Chairman of the Board, organizes and directs the work of the Board and reports to the Company's Shareholders' General Meeting.

6.2 The Chairman of the Board of Directors proposes to the Board of Directors to appoint the Secretary of the Board.

The Secretary of the Board is not required to be a member of the Board. If the Secretary is not a member of the Board, he/she is nevertheless subject to the same confidentiality obligations as the members of the Board of Directors.

6.3 The Chairman of the Board ensures the proper operation of the Company's bodies, particularly the committees of the Board.

6.4 The Chairman of the Board ensures that the members of the Board are able to fulfill their duties, especially in committees.

6.5 The Chairman of the Board is at every opportunity available to the members of the Board who may submit any question about their duties.

6.6 The Chairman of the Board ensures that its members devote the time necessary to issues relating to the Company and the Group.

6.7 The Chairman of the Board is the only individual who can speak on behalf of the Board.

6.8 In accordance with the laws and regulations in force, the Chairman of the Board reports in a report to the Shareholders' General Meeting of the Company:

- the composition of the Board;
- the conditions applicable to the preparation and organization of the Board's work;
- the internal control and risk management procedures in place, detailing notably the procedures relating to the preparation and processing of accounting and financial information for the Company's separate and consolidated financial statements.

ARTICLE 7 – FREQUENCY OF THE BOARD MEETINGS

7.1 The Board of Directors meets at least five times a year and as often as the interests of the Company require.

7.2 The number of Board meetings and meetings of Board committees held during the year must be indicated in the report of the Chairman of the Board to the Shareholders' General Meeting, which must also give shareholders all material information regarding the participation of members of the Board in these sessions and meetings.

7.3 Once a year at least, the directors meet without the presence of the executive members of the Company. At this meeting, they may request the presence of the auditors or any other person to collect the information necessary for the proper performance of their duties.

ARTICLE 8 – NOTICES OF BOARD OF DIRECTORS' MEETINGS AND RIGHT TO INFORMATION

8.1 The Board is convened by the Chairman of the Board or, in his absence, the Vice-Chairman.

8.2 At least one third of the directors may ask the Chairman to convene the Board on a specific agenda if the Board has not met for more than three months.

The CEO or, where appropriate, a Deputy CEO, may also ask the Chairman to convene the Board of Directors on a specific agenda.

In both cases, the Chairman of the Board is bound by the requests made to him/her and has to convene the Board within seven days of the request. This period may be shortened in case of emergency.

8.3 Meetings are called by any written means. The deadline for convening the Board of Directors is 15 calendar days. This period may be shortened in case of justified emergency.

The Board may deliberate in the absence of notice if at least three-quarters of its members are present or represented.

8.4 Except in case of emergency, the members of the Board receive the agenda of the session of the Board with the notice and the elements of information then available.

The entire documentation necessary for enlightening the directors and enabling them to make an informed decision about the items on the agenda will be supplied at least three days before the relevant meeting, except for the July meeting devoted to the review of interim financial statements, where the deadline is shortened to two days because of the particularly short deadlines provided that month to close the said accounts.

Thus, any director may object to the review of an item that has not been documented beforehand, except in urgent cases as indicated above.

ARTICLE 9 – VENUE OF THE MEETINGS

Meetings of the Board of Directors take place, preferably, in the administrative offices of the Company or in any other venue specified in the notice.

Periodically, a meeting shall be organized in a Group production unit so that the directors can understand what the manufacturing conditions are and what capital expenditures are to be made.

ARTICLE 10 – AGENDA

10.1 The Board of Directors is convened on a specific agenda.

10.2 Each director has the freedom and responsibility to ask the Chairman of the Board to include in the draft agenda certain items if he/she believes that they are the responsibility of the Board.

10.3 Once a year at least, the Board is invited by the Chairman to conduct a review of its procedures.

ARTICLE 11 – PARTICIPATION OF THE BOARD MEMBERS IN BOARD MEETINGS

11.1 Each director has the opportunity to be represented at Board meetings by another administrator.

Each director may only represent one director during the same session of the Board.

The proxy must be in writing, by letter, fax or email, the signed proxy being in such a case attached to the said email.

ARTICLE 12 – USE OF MEANS OF VIDEO-CONFERENCE AND TELECOMMUNICATIONS

12.1 The members of the Board may attend the Board meeting by videoconference or telecommunications.

12.2 In accordance with the laws and regulations in force, this mode of participation is not applicable when preparing the separate and consolidated financial statements or when establishing the annual and interim separate and consolidated management reports.

12.3 This method of participation is not applicable for the adoption of the following decisions:

- the appointment and dismissal of the Chairman and Vice-Chairman of the Board of Directors;
- the appointment and dismissal of the CEO and, where applicable, of the Deputy CEO(s).

12.4 The means used should enable the identification of participants and ensure their effective participation in the meeting of the Board, that is to say at least transmit the participants' voice and meet the technical requirements for continuous retransmission and simultaneous deliberations.

12.5 The members of the Board who wish to participate in a Board meeting by videoconference or by telecommunications should specify it in writing to the Chairman at least 24 hours before the date of the Board meeting.

12.6 The Board members participating in the meeting by videoconference or telecommunications are deemed present for the quorum and majority.

12.7 The necessary steps must be taken to allow the identification of each speaker and the verification of the quorum.

12.8 In accordance with the laws and regulations in force the minutes of deliberations mentions the participation of members of the Board by videoconference or telecommunications. It must also state the possible occurrence of a technical problem relating to the videoconference or telecommunications if ever such an incident disrupted or interrupted the course of the session.

In case of occurrence of such an incident, the items processed after the disruption or the interruption of the transmission will be ruled upon again.

12.9 The Board members participating by videoconference or telecommunications shall sign the minutes of the deliberations at the next session.

ARTICLE 13 – RULES RELATING TO THE ADOPTION OF DECISIONS

13.1 Voting

- Voting is by a show of hands.
- If a Director so requests, the Board shall organize a recorded vote or a secret ballot.
- If requests for a recorded vote and a secret ballot are submitted for the same item, secret ballot voting takes priority.

13.2 Majority requirements

- Decisions are taken by a majority of the members present or represented at the vote. In case of a tie vote, the Chairman has the casting vote.
- Pursuant to Article 11 of the bylaws, resolutions shall be taken by a three-fourths majority vote of the members present or represented, as regards the following questions:
  - calculation of amortization and depreciation expenses and of provisions, notably for the calculation of provisions for impairment in value of acquisitions;
  - proposals to be made at the Ordinary Shareholders' General Meeting for the appropriation of the results of the past year;
  - text of resolutions to be submitted to an Extraordinary General Meeting;
  - replacement of a deceased or resigning director.

ARTICLE 14 – THIRD PARTY PARTICIPATION IN BOARD MEETINGS

Invitations

14.1 Depending on the issues on the agenda, the Chairman of the Board may decide, in particular on a proposal a Board member, to invite any person he/she deems useful, whether or not an employee of the Company, to present a case or to inform the preparatory discussions prior to the deliberations.

Auditors

14.2 The auditors are mandatorily invited to all Board meetings during which are reviewed the annual or interim financial statements, whether consolidated or not.

14.3 The auditors may be invited to any Board meeting.

14.4 The auditors are convened at the same time as the members of the Board, but their notice is sent by registered letter with acknowledgement of receipt when their participation is mandatory.

Confidentiality obligation

14.5 In case a third party who is not a member of the Board is invited to a Board meeting or to the preparatory work for such a meeting, the Chairman of the Board shall remind him of his obligations of confidentiality relating to the information gathered at the Board meeting or prior to it.

ARTICLE 15 – ATTENDANCE RECORD – MINUTES

15.1 An attendance record is held which is signed by the members of the Board attending the meeting of the Board.

15.2 The draft of the minutes of the previous deliberations of the Board are sent or provided to all members of the Board at the latest together with the notice convening the next meeting.

ARTICLE 16 – DIRECTORS' FEES PAID TO MEMBERS OF THE BOARD

16.1 In accordance with legal and regulatory provisions and the provisions of the bylaws of the Company, the Shareholders' General Meeting may allocate to the members of the Board, as remuneration for their activity, as attendance fees, an overall annual sum. This amount is proposed by the Compensation Committee and submitted to the Shareholders' General Meeting by the Board.

16.2 An equivalent amount of attendance fees is set for each Board or Committee meeting. This amount is allocated to the directors based on their attendance at meetings of the board or the committees to which they belong.

TITLE IV – COMMITTEES OF THE BOARD OF DIRECTORS

ARTICLE 17 – STANDING COMMITTEES

17.1 The Board of Directors establishes four standing committees:

- an Audit Committee;
- a Compensation Committee;
- a Nominations Committee;
- a Strategic Committee.

17.2 The Board may, if necessary, subsequently establish other committees of the Board. In this case, these rules will be amended in order to specify the duties, resources, composition and rules of operation of these new committees.

ARTICLE 18 – RULES COMMON TO ALL STANDING COMMITTEES

18.1 The task of the committee is to provide in-depth analysis and reflection through thorough discussions of the Board and to assist in the preparation of decisions of the latter.

The committees have no power of decision and the opinions, proposals and recommendations that the committees submit to the Board are not binding on it in any way.

18.2 The committee members must be directors and are appointed personally by the Board.

A permanent representative of a legal entity that is also a director may be designated as a member of a committee, provided that the change of the permanent representative causes immediate loss of membership of a committee.

18.3 The committee members may be reappointed.

18.4 A person may be a member of several committees.

18.5 Directors who would be appointed to one or more committees shall be appointed for the term of their directorship.

18.6 The Board may dismiss ad nutum each member of a committee, without the need to justify such dismissal.

18.7 The Board shall appoint from among the members of a committee the person who will serve as chairman of such committee.

18.8 Each committee determines the frequency of its meetings, which are held at the place indicated in the notice, and may meet at any time at the request of its Chairman, of a majority of its members, the Chairman of the Board or one third of the directors.

18.9 The author of the notice sets the agenda of the meeting.

18.10 A committee may meet only if more than half of its members are present, by any means permitted by the laws or regulations in force, by the provisions of the bylaws or by those of the present rules of procedure for the participation of Board members at its meetings.

18.11 The opinions, proposals and recommendations of each committee will be adopted by a majority of members of this committee who are present.

The chairman of each committee shall have a casting vote in case of a tie.

18.12 The Chairman of a committee may invite all directors to attend one or more sessions of the Committee and any other person whose presence is useful or necessary to debate items on the agenda of the session of the committee concerned.

Only members of a committee take part in its deliberations.

18.13 Each committee shall draw up minutes of its meetings.

These minutes are transmitted to all members of the committee.

18.14 In its field of competence, each committee issues proposals, recommendations or opinions. To this end, it may propose to the Board of Directors to cause to conduct, at the expense of the Company, any internal or external surveys that can inform the deliberations of the Board.

It can also hear one or more members of the senior management of the Company, including the CEO or, if applicable, the Deputy CEOs.

It reports to the Board of Directors, through the voice of its Chairman or, in his absence thereof of any other member designated for this purpose, its work at each meeting of the Board of Directors.

18.15 Each committee rules as necessary on its other operating procedures.

Each committee periodically ensures that its rules and operating procedures allow it to assist the Board of Directors to deliberate validly on the issues of its competence.

AUDIT COMMITTEE

ARTICLE 19 – DUTIES OF THE AUDIT COMMITTEE

19.1 The Audit Committee's primary duties include reviewing the accounts and monitoring the issues relating to the preparation and control of accounting and financial information.

As such, it is responsible for:

- reviewing the draft separate and consolidated financial statements, interim and annual, before submission to the Board, including ensuring the relevance and consistency of the accounting policies adopted to prepare the separate and consolidated financial statements and examining any difficulties encountered in the application of the accounting policies;
- reviewing the financial documents issued by the Company upon closing the annual and interim financial statements;
- assessing the reliability of the systems and procedures that contribute to the preparation of financial statements and the validity of decisions taken to handle significant transactions;
- monitoring the legal verification of the annual financial statements and consolidated financial statements by the auditors.

19.2 The Audit Committee also has the task of verifying the effectiveness of the Company's internal control and risk management systems.

As such, it is responsible for:

- reviewing, with the heads of the Group's internal audit, the organization of internal control, its functioning and the procedures in place;
- examining, with the heads of the Group's internal audit:
  - the recommendations and objectives regarding internal control;
  - the monitoring of interventions and actions by the officials concerned within the Group;
- reviewing the results of the internal audit;
- checking that the procedures used by the internal audit that contribute to the Company's financial statements accurately reflect the reality of the Company and comply with its accounting principles;
- reviewing the adequacy of the analytical and risk monitoring procedures, ensuring the establishment of a process of identification, quantification and prevention of major risks arising from the Group's activities;
- reviewing internal control and risk management procedures.

19.3 The Audit Committee is also responsible for checking the effectiveness of the external control of the Company.

As such, it is responsible for:

- issuing a recommendation on the auditors proposed for appointment by the Shareholders' General Meeting of the Company;
- ensuring the independence of the Company's auditors;
- ensuring the adequacy of the remuneration of the auditors of the Company for the actual accomplishment of their task, a remuneration that should be sufficient so as not to undermine their independence and objectivity;
- reviewing each year, with the auditors, their intervention plans, the conclusions of their interventions, their recommendations, and the way they are adhered to.

19.4 The Audit Committee regularly reports to the Board of Directors on the performance of its duties and informs it promptly of any difficulties encountered. These reports are the subject of records provided to directors at the relevant meetings of the Board of Directors.

ARTICLE 20 – MEANS AVAILABLE TO THE AUDIT COMMITTEE

20.1 In accordance with applicable laws and regulations and the provisions of the bylaws and these rules, the Audit Committee in general and each of its members in particular may request copies of information they find relevant, useful or necessary for the performance of their tasks.

20.2 In accordance with applicable laws and regulations and the provisions of these rules, the Audit Committee may request to proceed with the hearing of the auditors or hear players of the Company including members of the senior management, and in particular the CFO. These hearings may be held, if necessary, without the presence of members of senior management.

20.3 In accordance with applicable laws and regulations, the Audit Committee may, if it deems necessary, engage into an independent investigation.

20.4 In general, the Audit Committee will be informed by senior management of the Company and the auditors of any event that may expose the Company, the Group or any of the Group entities, to significant risk.

The appreciation of the significance of the risk shall be the task of senior management of the Company or the auditors, under their own responsibility.

ARTICLE 21 – COMPOSITION OF THE AUDIT COMMITTEE

21.1 The Audit Committee is composed of at least three members, including its chairman.

21.2 The Chairman of the Board of Directors and, in the event that the CEO's functions would be exercised by a director other than the Chairman of the Board, the CEO, cannot be members of the Audit Committee.

21.3 The majority of members of the Audit Committee, including its Chairman, must be independent directors, in accordance with the criteria defined in paragraph 2.4.

The members of the Audit Committee are chosen for their expertise in financial matters.

ARTICLE 22 – OPERATION OF THE AUDIT COMMITTEE

22.1 The Audit Committee meets at least twice a year prior to the closing of the annual and interim financial statements.

22.2 The Audit Committee may also meet whenever a Board decision is necessary and within the competence of the Committee.

22.3 The operation of the Audit Committee is governed by the laws and regulations in force as well as the provisions of the bylaws and rules of procedure and in particular Article 18.

COMPENSATION COMMITTEE

ARTICLE 23 – TASKS OF THE COMPENSATION COMMITTEE

23.1 The Compensation Committee has the task of formulating to the Board of Directors the recommendations and proposals for members of the Board who would be beneficiaries:

- the allocation of directors' fees;
- all elements of remuneration of senior management of the Company, including the conditions applicable at the end of their mandate;
- changes or potential changes to the pension and benefit plans covering members of senior management of the Company;
- benefits in kind and other pecuniary rights;

23.2 The Compensation Committee is also tasked with formulating to the Board recommendations, the performance criteria to apply - if any -when granting or exercising any share subscription or purchase options, as well as when allocating free shares at Group level.

23.3 The Compensation Committee may also issue to the senior management of the Group opinions or recommendations on:

- the executive remuneration policy;
- all incentive mechanisms in favor of the Group companies' executive staff.

ARTICLE 24 – COMPOSITION OF THE COMPENSATION COMMITTEE

24.1 The Compensation Committee is composed of at least three members, including its chairman.

24.2 The Chairman of the Board of Directors and, in the event that the CEO's functions would be exercised by a director other than the Chairman of the Board, the CEO, cannot be members of the Compensation Committee.

24.3 The majority of members of the Compensation Committee, including its Chairman, must be independent directors, in accordance with the criteria defined in paragraph 2.4.

ARTICLE 25 – OPERATION OF THE COMPENSATION COMMITTEE

25.1 The Compensation Committee meets at least once a year to establish all the components of the remuneration of senior management of the Company to submit for the approval of the Board.

25.2 The Compensation Committee may also meet whenever a Board decision is necessary and within the competence of the Committee.

25.3 The operation of the Compensation Committee is governed by the laws and regulations in force as well as the provisions of the bylaws and rules of procedure and in particular Article 18.

NOMINATIONS COMMITTEE

ARTICLE 26 – TASKS OF THE NOMINATIONS COMMITTEE

The Nominations Committee has the following missions:

- to assist the Board in selecting members of the Board of Directors, members of the Board's committees and the Chairman, the CEO and, if appropriate, the Deputy CEOs;
- to select potential members of the Board who meet the independence criteria and to submit the list to the Board;
- to prepare the succession of members of senior management of the Company;

ARTICLE 27 – COMPOSITION OF THE NOMINATIONS COMMITTEE

27.1 The Nominations Committee is composed of at least three members, including its chairman.

27.2 The Chairman of the Board of Directors and, in the event that the CEO's functions would be exercised by a director other than the Chairman of the Board, the CEO, cannot be members of the Nominations Committee.

ARTICLE 28 – OPERATION OF THE NOMINATIONS COMMITTEE

28.1 The Nominations Committee may also meet whenever a Board decision is necessary and within the competence of the Committee.

28.2 The operation of the Nominations Committee is governed by the laws and regulations in force as well as the provisions of the bylaws and rules of procedure and in particular Article 18.

STRATEGIC COMMITTEE

ARTICLE 29 – TASKS OF THE STRATEGIC COMMITTEE

29.1 The Strategic Committee ponders and expresses its opinion on:
- the strategic direction of the Company and the Group;
- the Group's development policy.

29.2 The Strategic Committee reviews and examines:
- draft strategic agreements and partnership projects;
- the acquisitions and the growth transactions affecting the Group's structures, including proposed acquisitions of significant assets; significant presence in France or overseas projects; projects to create significant subsidiaries; the planned investments or disposals of significant shareholdings and generally any significant project of any nature whatsoever.

A project presented by senior management is material when the financial exposure of the Company or the Group exceeds the sum of €15 million.

29.3 In general, the Strategic Committee gives its opinion on any other strategic issues the Board of Directors submits it.

ARTICLE 30 – COMPOSITION OF THE STRATEGIC COMMITTEE

The Strategic Committee is composed of at least three members, including its chairman.
The senior management of the Group is part of the Strategic Committee.

ARTICLE 31 – OPERATION OF THE STRATEGIC COMMITTEE

31.1 The Strategic Committee meets at least once a year to establish all the components of the strategy of the Company to submit for the approval of the Board.

31.2 The Strategic Committee may also meet whenever a Council decision is necessary and within the competence of the Committee.

31.3 The operation of the Strategic Committee is governed by the laws and regulations in force as well as the provisions of the bylaws and rules of procedure and in particular Article 18.

TITLE V – ADAPTATION AND AMENDMENT OF THE RULES OF PROCEDURE

ARTICLE 32 – ADAPTATION AND AMENDMENT OF THE RULES OF PROCEDURE

These rules of procedure may be adapted and modified by decision of the Board taken by a simple majority of directors present or represented at the meeting of the Board, it being specified, however, that the provisions of these rules that describe certain statutory provisions can only be changed as long as the corresponding provisions of the articles have been previously modified by the Extraordinary General Meeting of the Company.

APPENDIX – DIRECTORS' CHARTER

PREAMBLE

LISI directors undertake to adhere to the guidelines contained in this Charter and to implement them.

This charter is established to allow directors to fully exercise their skills and ensure the full effectiveness of the contribution of each of them to the work of the Board of Directors, while abiding by the rules of independence, ethics and integrity that bind them.

Article 1 – Corporate administration and interests

The director shall act at all times in the corporate interests of the Company and regardless of his/her mode of designation, see himself/herself as representing all shareholders.

Article 2 – Compliance with legal requirements and the Company's bylaws

The director must take the full measure of his/her rights and obligations. He/She must know and respect the laws and regulations relating to his/her function, and the rules applicable to the Company resulting from its bylaws and the rules of procedure of the Board.

Article 3 – Exercise of functions: guidelines

The Director shall fulfill his/her duties with independence, loyalty and professionalism.

Article 4 – Independence, conflict of interest and duty to speak

The Director shall preserve in all circumstances his/her independence of analysis, judgment, decision and action. It is forbidden to be influenced by any element foreign to the corporate interests he/she seeks to uphold.

The director tries to avoid conflicts that may exist between his/ her moral and material interests and those of the Company. He/She informs the Board of any conflict of interest in which he/she may be directly or indirectly involved. In cases where he/she cannot avoid being in a conflict of interest, he/she will refrain from participating in discussions and any decision on the matters concerned.

He/She has a duty to clearly express his/her questions and his/ her opinions and strives to convince the Board of the relevance of his/her positions. In case of disagreement, he/she ensures that the latter are explicitly recorded in the minutes of the Board meetings.

Regarding employee directors ceasing to serve on the Board, they are committed to taking the necessary steps to ensure their independence and ensuring professional development in line with their skills.

Article 5 – Loyalty, good faith and reserve
The Director acts in good faith in all circumstances.

He/She does not take any initiative which might harm the interests of the Company and he/she alerts the Board on any item he/she is aware of that may appear to him/her likely to affect such interests.

He/She is committed to fully respect his/her duty of confidentiality in respect of information and debates in which he/she participates and respects the confidentiality of all information provided to him/her in connection with his/her functions, as indicated in the rules of procedure.

He/She shall not use any inside information to which he/she may have access for personal gain or for the benefit of anyone. In particular, where he/she holds non-public information regarding the Company where he/she exercises his/her term of office, he/she refrains from using it to deal or cause a third party to deal in the securities thereof.

Article 6 – Professionalism and involvement
Directors undertake to devote the necessary time and attention to their duties.

They inquire about the jobs and the specifics of the Company, its challenges and its values, including by questioning its leaders and strive to obtain in a timely manner the elements they consider essential to be informed and able to deliberate knowingly on the board.

They take part in Board Meetings regularly and diligently and attend, to the extent possible, the Shareholders' General Meetings.

To assist them in their task, the Company, upon appointment, offers them an integration program allowing them to better understand the various lines of business of the Group, its organization, its commercial and technical issues and industrial processes.
This program may include in particular the visit of a production site.

Article 7 – Participation in the work of the Board
The directors contribute to the collegiality and efficiency of the work of the Board and the Board Committees. They make any recommendation they find likely to improve the working methods thereof, especially during the periodic evaluation of the Board.

They accept the evaluation of their own actions on the Board.

They ensure, along with the other Board members, that the inspection tasks are completed effectively and without hindrance. In particular, they ensure that procedures are in place in the company's procedures for monitoring compliance with laws and regulations in letter and spirit.

They ensure that the positions adopted by the Board, particularly as regards the approval of the accounts, the strategic plan, the budget, the resolutions to be submitted to the Shareholders' General Meeting and the important issues concerning corporate life, are the subject of formal decisions, properly motivated and transcribed in the minutes of its meetings.

Article 8 – Obligations regarding the holding of Company securities
As part of these rules and to comply with the governance rules established by AFEP-MEDEF, each director, other than employee representatives, agrees to acquire a number of shares corresponding to a year's attendance fees and retain them in registered form.

In accordance with the laws and regulations in force, each member of the Board of Directors:
- undertakes to comply with the reporting obligations vis-à-vis the AMF;
- also undertakes to immediately inform the Company of any acquisition, sale, subscription or exchange of shares of the Company as well as of related financial instruments, whether the operation is carried out directly or indirectly, by persons closely associated with members of the Board of Directors in accordance with laws and regulations in force.

In addition, members of the Board and persons related to them under applicable laws and regulations should not trade in the securities of the Company:
- during the 30 calendar days preceding the date of publication of annual and interim consolidated results; and
- during the 15 calendar days preceding the date of publication of quarterly revenue.

2.2 | ACTIVITIES OF THE BOARD AND COMMITTEES DURING THE YEAR

2.2.1 Activities of the Board in 2017

The Board met five times during financial year 2017 and the rate of meeting attendance of its members was 86%.

The Board discussed the key topics and took the major decisions listed below:

- at the meeting of February 21, 2017, during which the non-executive directors were able to meet in the absence of operational executive directors, the Board signed off on the LISI Group's separate and consolidated financial statements for financial year 2016. It set the amount of the bonuses on targets awarded to LISI executives for 2016, as well as their fixed remuneration for 2017; it also decided on the final allocation of the performance shares awarded to Group Managers in accordance with the initial rules laid down at the Board meeting of October 23, 2014.

During that meeting, the Board noted that the term of office of Pascal LEBARD expired at the 2017 Shareholders' General Meeting that approved the 2016 financial statements and that at the end of that term, Pascal LEBARD reached the limit of twelve years of his term of office within the Company, thus making him ineligible to be defined as an independent director according to the AFEP-MEDEF Code to which the Company refers. Nevertheless, in view of the experience and recognized expertise of Pascal LEBARD, the Board unanimously decided to submit the renewal of that mandate to a vote of said Meeting.

As part of its measures for a better balance in the representation of women and men on boards of directors, the LISI Board decided to submit the candidacy of Emmanuelle GAUTIER to a vote of the same 2017 meeting that approved the 2016 financial statements, thus increasing the representation rate of women from 31% at the end of 2016 to 36% by the end of 2017.

- During the April 26, 2017 meeting held at the Villefranche de Rouergue (Aveyron) site, the Board examined in detail the progress of the Strategic and Operational Action Plans for the 2017 fiscal year, giving special focus to three of them: the operational turnaround of struggling sites ("Restore Success" plans), the reduction of inventory in all divisions of the Group and the progress of the FORGE 2020 project concerning the construction of the new Forges de Bologne plant. The directors then visited the new Villefranche de Rouergue site, which specializes in fasteners for aerospace engine manufacturers;
- at the July 26, 2017 meeting, the Board reviewed the separate and consolidated financial statements of the LISI Group for the first half-year; it took note of the information provided by the senior management on external growth issues studied by the automotive division and agreed in principle to continue negotiations with the Seller parties.
  At the same meeting, the Board examined the draft "Dividend Premium" plan for individual shareholders and noted the interest in taking on the subject of CSR (Corporate Social Responsibility);
- at the October 25, 2017 meeting, the Board reviewed all corporate governance issues facing the Company. It also discussed the new anti-corruption obligations introduced by the Sapin II Law as well as the extra-financial information requirements to be addressed in the Annual Report. The Board then reviewed the integration process of the US automotive fasteners company TERMAX, which was acquired effective the following October 31. Finally, it duly noted the relocation of the Company's head office to the renovated historic buildings of the Forges de Grandvillars Group (Territoire de Belfort);
- the last meeting in the year, held on December 13, 2017, was reserved for the presentation of the Company's budget for the coming year and the annual strategic review. The Board reviewed the various focuses of the new 2017-2021 strategic plan presented by the Group's Senior Management, major objectives that the Company set for the end of the plan and the budgetary outlook for 2018, all of which it approved in their entirety. Finally, the Board set up a new performance share allocation plan called 17C19 and laid down the rules applicable to it including the precise performance criteria.

2.2.2 Committee activities in 2017

Board Committees met five times during the financial year 2017 and the rate of meeting attendance of its members was 100%.

- **Audit Committee:** the Committee met twice in 2017.
  It heard the Auditors report on the performance of their task and was informed by the Company's Internal Control Manager. Information relating to the consolidation perimeter and to the off-balance sheet risks described in the appendix to the consolidated financial statements was sent to the Audit Committee, which submitted a report on its work to the Board of Directors. The Committee also reviewed the impairment tests, the control of the Group's major investments and the risk of competing technological developments.
- **Compensation Committee:** the Committee met twice in 2017.
  It presented its recommendations to the Board on the rules and terms for compensation for the members of the Senior Management of LISI S.A., set as variables. The Committee also submitted to the Board its proposals for the implementation and awarding of the 2014 and 2017 performance share plans.

- **Strategic Committee:** the Committee met once in 2017. It reviewed the Group's 2017-2021 strategic plan presented by the senior management of LISI, together with the leaders of the Aerospace, Automotive and Medical divisions and approved the strategic orientations that were exposed to it in detail as well as the key figures in this plan. It also took note of the key issues that derived and that senior management intends to address during financial year 2018.

- **Nominations Committee:** the Committee did not meet in 2017.

2.3 | EMPLOYEES

2.3.1 Headcount

2.3.1.1 Registered employees at period end by category

The table below shows the breakdown of Group staff by category:

	12/31/2017	12/31/2016	DIFFERENCE N/N-1
Management	1,258	1,174	7.2%
Supervisors	953	895	6.5%
Staff and workers	9,747	9,518	2.4%
TOTAL	**11,958**	**11,587**	**3.2%**

2.3.1.2 Registered employees at period end by division

The table below shows a breakdown of Group staff by business activity:

	2017	2016	DIFFERENCE N/N-1
LISI AEROSPACE	7,251	7,386	(1.8%)
LISI AUTOMOTIVE	3,773	3,265	15.6%
LISI MEDICAL	909	915	(0.7%)
Holding company	25	21	19.0%
TOTAL	**11,958**	**11,587**	**3.2%**
Temporary workers engaged	1,159	1,156	0.3%

2.3.1.3 Geographic distribution of the headcount

The table below shows the breakdown of staff by geographic area:

	2017	as a %	2016	as a %
Africa	356	3.0%	354	3.1%
Asia	995	8.3%	945	8.2%
North American continent	2,192	18.3%	1,916	16.5%
Europe (excl. France)	1,866	15.6%	1,978	17.1%
France	6,455	54.0%	6,359	54.9%
Mexico	94	0.8%	35	0.3%
TOTAL	**11,958**	**100.0%**	**11,587**	**100.0%**

2.3.1.4 2017 Consolidated turnover

EFTAW*	Voluntary departures	Turnover rate
12,752	674	5.64%

* Equivalent full-time average wage.

2.3.2 Profit-sharing, incentive and share-based compensation

2.3.2.1 Employee incentive

a) Profit-sharing and incentive plan

Profit-sharing

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

2017	2016	2015
3.8	5.2	4.8

Incentive plan

Most of the companies within the Group have an incentive system allowing employees to participate actively in the Group's performance. The methods for calculating the sums involved depend on the criteria of each company.

b) Group Savings Plan (PEG)

In 2001, the LISI Group created a Group Savings Plan dubbed "LISI en actions" for its French companies. This plan facilitated participation in 2001, 2004, 2006, 2010 and 2014 in capital increases reserved for employees in the sums of €1.47 million, €0.8 million, €1.18 million, €0.9 million and €1.8 million, respectively.

For other years, the PEG was renewed in the form of a repurchase of shares.

The levels of voluntary contributions by employees, the profit-sharing and the extent of profit-sharing plans are set by the Company in accordance with a schedule.

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

As at December 31, 2017, the "LISI en actions" plan consisted entirely of LISI shares, for a total of 715,000 shares, and had 2,261 members.

c) Employee shareholding

The percentage of share capital held by the Group's employees stood at 1.3% as at December 31, 2017.

2.3.2.2 Share-based compensation

a) Free shares granting plan

As a reward to several employees who have spent the majority of their working lives employed within the LISI Group, and who have actively contributed to its development, the Board of Directors, in its meeting of December 17, 2015, with the permission of the Extraordinary Shareholders' General Meeting of December 1, 2015, decided to allocate 5,030 LISI shares to Gilles Kohler freely and without condition.

The plan stipulates that shares thus allocated shall be held for two years, during which period they may not be sold on.

b) Performance shares plan

The plans described below refer to the NAV criterion do measure the Group's performance. Group NAV refers to the Net Asset Value of the LISI Group as defined by the following calculation:

For the 2015 and 2016 plans:
Group RNA = Average of [(0.95*Group net sales) + (6.5* Group EBITDA) + (10* Group EBIT)] – EFN Group average for that year and the previous year.

For the 2017 plan:
Group RNA = Average of [(1.2*Group net sales) + (8* Group EBITDA) + (12* Group EBIT)] – EFN Group average for that year and the previous year.

And where:

Group sales revenue	is the consolidated sales revenue exclusive of VAT as stated in the "Income Statement" of the "Consolidated financial statements" in this annual report.
Group EBITDA	is the Gross Current Operating Profit as stated in the "Income Statement" of the "Consolidated financial statements" in this annual report.
Group EBIT	is the Current Operating Profit as stated in the "Income Statement" of the "Consolidated financial statements" in this annual report.
Group Net Borrowings	is the Net Borrowings of the Group as recognized in this financial report.

2015 plan:
On December 17, 2015, on the proposal of the Compensation Committee, and under the authorization of the Extraordinary General Meeting of December 1, 2015, LISI's Board decided to award performance shares to the members of the Executive Committee and to the members of the main Management Committees of the LISI Group's three divisions, subject to the achievement of all or part of the following performance criteria: Net Asset Value (NAV) of at least €1,147 million at December 31, 2017. If the Net Asset Value is between €1,147 million and €1,610 million, the shares would be allocated in part. If the Net Asset Value is higher than €1,610 million, the shares would be allocated in full. The maximum allocated number of shares is 137,770 shares and concerns 207 employees in France.
As far as the corporate officers are concerned, the Board of Directors decided:
1) In order to receive at maturity all or part of the performance shares to which they are entitled, each of the corporate officer directors shall, at the end of the acquisition period, acquire 600 Company shares.
2) The corporate officers shall retain 500 of any free shares that may have been allocated to them registered in their own name, and until the termination of their employment.

52 employees outside of France will benefit from bonuses based on the principles and conditions, but in the form of pay and salaries.

2016 plan:
On December 20, 2016, on the proposal of the Compensation Committee, and under the authorization of the Extraordinary General Meeting of December 1, 2015, LISI's Board decided to award performance shares to the members of the Executive Committee and to the members of the main Management Committees of the LISI Group's three divisions, subject to the achievement of all or part of the following performance criteria: Net Asset Value (NAV) of at least €1,416 million at December 31, 2018. If the Net Asset Value is between €1,416 million and €1,730 million, the shares would be allocated in part. If the Net Asset Value is higher than €1,730 million, the shares would be allocated in full. The maximum allocated number of shares is 185,260 shares and concerns 233 employees in France and abroad.

As far as the corporate officers are concerned, the Board of Directors decided that:
- the corporate officer directors shall retain 20% of any free shares which may have been allocated to them, i.e. 1,000 shares, registered in their own name, and until the termination of their employment.

2017 plan:
On December 13, 2017, on the proposal of the Compensation Committee, and under the authorization of the Extraordinary General Meeting of December 1, 2015, LISI's Board decided to award performance shares to the members of the Executive Committee and to the members of the main Management Committees of the LISI Group's three divisions, subject to the achievement of all or part of the following performance criteria: Net Asset Value (NAV) of at least €1,701 million at December 31, 2019. If the Net Asset Value is between €1,701 million and €2,307 million, the shares would be allocated in part. If the Net Asset Value is higher than €2,307 million, the shares would be allocated in full. The maximum allocated number of shares is 154,660 shares and concerns 230 employees in France and abroad.

As far as the corporate officers are concerned, the Board of Directors decided that:

- the corporate officers shall retain 20% of any free shares which may have been allocated to them, i.e. 920 shares, registered in their own name, and until the termination of their employment.

c) Information on the award of performance shares as at December 31, 2017

The following table details the award of performance shares outstanding as at December 31, 2017:

	Number
Options outstanding at year start	**473,210**
Options allocated during the period	154,660
Options cancelled during the period	(34,424)
Options exercised during the year	(139,146)
Options that reached maturity during the period	0
Options outstanding at year end	**454,300**

Options granted to date were taken from treasury shares without giving rise to the issue of new shares.

The following table presents the breakdown by date of allocation of stock options outstanding as at December 31, 2017:

ALLOTMENT DATE OF OPTIONS	Exercise price (in euros)	Number of options outstanding at December 31, 2017	Residual contractual term
12/17/2015	None	124,170	February 2018
12/17/2015	None	5,030	February 2018
12/20/2016	None	170,440	February 2019
12/13/2017	None	154,660	February 2020
TOTAL		**454,300**	

d) Plans in place as at December 31, 2017:

Date of Shareholders' General Meeting Board of Directors Meeting	Category Plan number	Number of shares assigned	Of which corporate officers	Of which members of the Management Committee	Of which 10 top employees	Residual number of beneficiaries	Exercise period	Subscription or purchase price	Options exercised at 1/1/2017	Options exercised in 2017	Options cancelled	Options remaining at 12/31/2017
Authorization of 12.17.2015												
12.17.2015	G Plan No. 12	137,770	5,030	25,600	31,775	146	*	None	0	0	13,600	124,170
12.17.2015	G Plan No. 12 B	5,030	5,030	0	0	1	*	None	0	0	0	5,030
Authorization of 12.20.2016												
12.20.2016	G Plan No. 13	185,260	10,000	25,600	20,350	233	**	None	0	0	14,820	170,440
Authorization of 12.13.2017												
12.13.2017	G Plan No. 14	154,660	9,200	24,950	23,350	230	***	None	0	0	0	154,660

G = free.
* Beginning on the date of the Board of Directors meeting that approves the 2017 results (February 2018).
** Beginning on the date of the Board of Directors meeting that approves the 2018 results (February 2019).
*** Beginning on the date of the Board of Directors meeting that approves the 2019 results (February 2020).

2.4| ADMINISTRATIVE BODIES

2.4.1 Composition of the Board of Directors and the specialized Committees

As of December 31, 2017, the Group's Board of Directors consisted of 14 members.

- Among its members, the Board has nine family group directors, three "independent" directors as strictly defined by the AFEP-MEDEF Code used by the Company and two "qualified person" directors who have been directors of LISI for more than 12 years and thus no longer enjoy the status of independent directors.

The representation rate for these three groups is therefore as follows: 64% for Family Directors, 14% for Qualified Persons and 22% for Independent Directors. This distribution corresponds globally to the capital structure of the Company, with the family groups holding nearly 66% of the share capital of LISI as of December 31, 2017.

- Similarly, the Board is composed of five women and nine men, and the proportion of women members of the Board is therefore 36%. To comply with the provisions of the AFEP-MEDEF Code and with the Copé-Zimmermann Act, the Board of Directors will press ahead with its initiative, undertaken since a number of years now, for gender equality within the Board of Directors (see also 2.6).

Composition at December 31, 2017		Independent director	Date of appointment	Term of office expires
BOARD OF DIRECTORS				
Member of the Board of Directors	Gilles KOHLER		1985	OGM 2019 [2]
Chairman of the Board of Directors	Gilles KOHLER		1999	OGM 2019 [2]
Members of the Board of Directors:	Éric ANDRÉ		2002	OGM 2018 [1]
	Isabelle CARRÈRE		2014	OGM 2018 [1]
	Patrick DAHER	X	2009	OGM 2019 [2]
	Emmanuelle GAUTIER	X	2017	OGM 2021 [3]
	Capucine KOHLER		2014	OGM 2018 [1]
	SAS CIKO represented by Jean-Philippe KOHLER [5]		2002	OGM 2019 [2]
	Pascal LEBARD		2005	OGM 2021 [3]
	Lise NOBRE	X	2008	OGM 2018 [1]
	Christian PEUGEOT		2003	OGM 2019 [2]
	Compagnie Industrielle de Delle represented by Thierry PEUGEOT [4]		1977	OGM 2019 [2]
	Marie-Hélène PEUGEOT-RONCORONI		2014	OGM 2018 [1]
	VIELLARD MIGEON & Cie represented by Cyrille VIELLARD [6]		1977	OGM 2019 [2]
	Emmanuel VIELLARD		2000	OGM 2019 [2]
Secretary of the Board of Directors	Maître Olivier PERRET (Fiscalité sociétés)			
AUDIT COMMITTEE				
Member of the Audit Committee: Chairman of the Audit Committee	Lise NOBRE	X		
Members of the Audit Committee:	Éric ANDRÉ			
	Cyrille VIELLARD			
COMPENSATION COMMITTEE				
Members of the Compensation Committee Chairman of the Compensation Committee	Patrick DAHER	X		
Members of the Compensation Committee	Thierry PEUGEOT			
	Lise NOBRE	X		

Composition at December 31, 2017		Independent director	Date of appointment	Term of office expires
STRATEGIC COMMITTEE				
Members of the Strategic Committee Chairman of the Strategic Committee	Gilles KOHLER			
Members of the Strategic Committee	Jean-Philippe KOHLER			
	Emmanuel VIELLARD			
	Pascal LEBARD			
	Lise NOBRE	X		
NOMINATIONS COMMITTEE				
Members of the Nominations Committee Chairman of the Nominations Committee	Thierry PEUGEOT			
Members of the Nominations Committee	Gilles KOHLER			
	Emmanuel VIELLARD			
	Patrick DAHER	X		

[1] Ordinary General Meeting called to rule in 2018 on the financial statements for the period ended December 31, 2017.
[2] Ordinary General Meeting called to rule in 2019 on the financial statements for the period ended December 31, 2018.
[3] Ordinary General Meeting called to rule in 2021 on the financial statements for the period ended December 31, 2020.
[4] Appointment date of Thierry Peugeot, permanent representative of CID: 2000.
[5] Appointment date of Jean-Philippe Kohler, permanent representative of CIKO: 2002.
[6] Appointment date of Cyrille Viellard, permanent representative of VIELLARD MIGEON & Cie: 2013.

2.4.2 Information regarding the members of the Board of Directors

The following information was provided by the members of the Board of Directors. They were reminded of the rules governing the holding of multiple offices, rules which they claim to abide by.

2.4.2.1 Members of the Board of Directors

Gilles Kohler, age 64, French citizen
Chairman of LISI's Board of Directors
He chairs LISI's Board of Directors, chairs and sits on the Strategic Committee and chairs the Nominations Committee.

Gilles Kohler exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - none.
- Outside the LISI Group (in France and abroad):
  - Chairman of the Board of Directors of Compagnie Industrielle de Delle;
  - Chairman of CIKO;
  - Chairman of UIMM Franche-Comté.

Éric ANDRÉ, age 69, French citizen
Senior advisor Banque HOTTINGUER
Director of LISI
He sits on LISI's Board of Directors and Audit Committee.

Éric André exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - none.
- Outside the LISI Group (in France and abroad):
  - Director of TIPIAK S.A.

Isabelle Carrère, age 54, French citizen
Executive Officer of the Company ALBA & Co.
Director of LISI
She sits on LISI's Board of Directors.

Isabelle Carrère exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - none.
- Outside the LISI Group (in France and abroad):
  - Manager of ALBA & Co;
  - Permanent representative of ALBA & Co. on the Board of FIL;
  - Director of SOLIDAR'MONDE SA;
  - Manager of Perspective Autonomie;
  - Manager of Société Civile HARAS DE TURAN.

Patrick DAHER, age 68, French citizen
Chairman of the Board of Directors of DAHER Group
Director of LISI
He sits on LISI's Board of Directors and Nominations Committee and chairs the Compensation Committee.

Patrick Daher exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - None.

- Outside the LISI Group (in France and abroad):
  - Chairman of the Board of Directors of the company DAHER;
  - Managing General Partner of SOGEMARCO-DAHER;
  - Deputy Director of DAHER INTERNATIONAL DEVELOPMENT (Luxembourg);
  - Member of the Supervisory Board of ZODIAC AEROSPACE, Chairman of the Compensation Committee and a member of the Strategic Committee;
  - Chairman of the GEAD (Groupe des Equipements Aéronautiques et de Défense) ;
  - Vice-Chairman of the GIFAS (Groupement des Industries Françaises Aéronautiques et Spatiales).

Emmanuelle Gautier, age 47, French citizen
Chairman of the consulting firm Stop & Go International
Independent director of LISI.
She sits on the Board of Directors

Emmanuelle Gautier exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - None.

- Outside the LISI Group (in France and abroad):
  - Chairman of Stop & Go International;
  - Independent director of the Fournier Group;
  - Director of Lakanal;
  - Senior Advisor at Grant Thornton Executive.

Capucine Kohler, age 38, French citizen
Sales Account Manager at ZF (UK)
Director of LISI
She sits on LISI's Board of Directors.

Capucine Kohler exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - None.

- Outside the LISI Group (in France and abroad):
  - Director of Compagnie Industrielle de Delle.

Jean-Philippe Kohler, age 57, French citizen
Deputy CEO of the LISI Group
Permanent representative of CIKO on LISI's Board of Directors
He sits on LISI's Board of Directors and Strategic Committee

Jean-Philippe Kohler exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
  - Director of LISI AUTOMOTIVE SA,
  - Director of LISI AEROSPACE SA,
  - Member of the Management Committee of LISI AUTOMOTIVE Former SAS;
  - Member of the Management Committee of LISI AUTOMOTIVE Rapid SAS;
  - Member of the Management Committee of LISI AUTOMOTIVE Nomel SAS;
  - Member of the Management Committee of LISI AEROSPACE STRUCTURAL COMPONENTS SAS;
  - Member of the Management Committee of LISI AEROSPACE CARGO EQUIPMENT SAS;
  - Member of the Management Committee of CREUZET AERONAUTIQUE SAS;
  - Member of the Management Committee of INDRAERO SIREN SAS;
  - Member of the Management Committee of BLANC AERO Industries SAS;
  - Member of the Management Committee of BLANC AERO Technologies SAS;
  - Member of the Management Committee of Forges de Bologne SAS;
  - Member of the Management Committee of MANOIR AEROSPACE SAS;
  - Member of the Management Committee of AIRMON HOLDING 1 SAS;
  - Member of the Management Committee of LISI MEDICAL SAS.

- Outside the LISI Group (in France and abroad):
  - CEO and director of Compagnie Industrielle de Delle;
  - CEO of CIKO SAS;
  - Chairman and CEO of Société Immeubles de Franche-Comté.

Pascal Lebard, age 55, French citizen
Chairman and CEO of SEQUANA;
Director of LISI
He sits on LISI's Board of Directors and Strategic Committee

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

- Related to the LISI Group (in France and abroad):
  - None.

- Outside the LISI Group (in France and abroad):
  - Director – Chairman and CEO of SEQUANA;
  - Chairman of Arjowiggins SAS;
  - Chairman of the Board of Directors of Antalis International;
  - Chairman of Arjowiggins Security;
  - Chairman of Arjobex;
  - Chairman of Boccafin SAS;
  - Director of Arjowiggins HKK 1 Ltd (Hong Kong);
  - Chairman of DLMD SAS;
  - Chairman of Pascal Lebard Invest SAS;
  - Director of Bureau Veritas;

- Director of CEPI (Confederation of European Paper Industries) Belgium;
- Permanent Representative of Oaktree Luxembourg Flandre Anchor Sarl on the Board of Directors of Novartex (Vivarte).

Lise Nobre, age 52, French citizen
Chairwoman of LUMEN EQUITY - Chairwoman of PARVILLA
Vice-Chairwoman and Director of LISI
She sits on the Board of Directors, the Strategic Committee, the Compensation Committee, the Nominations Committee and chairs the Audit Committee.

Lise Nobre exercised the other mandates and functions listed below:

■ Related to the LISI Group (in France and abroad):
- None.

■ Outside the LISI Group (in France and abroad):
- Director of the Company DAHER.

Christian Peugeot, age 64, French citizen
Chairman of the CCFA (Committee of French Car Manufacturers)
Director of LISI
He sits on LISI's Board of Directors.

Christian Peugeot exercises the other mandates and functions listed below:

■ Related to the LISI Group (in France and abroad):
- none.

■ Outside the LISI Group (in France and abroad):
- Vice-Chairman OF ETABLISSEMENTS Peugeot Frères;
- Director of FFP;
- Director of Compagnie Industrielle de Delle;
- Director of the PSP Group;
- Manager of BP GESTION;
- Manager of SC LAROCHE;
- Chairman of UNIFAB (Union des Fabricants).

Thierry Peugeot, age 60, French citizen
Permanent representative of Compagnie Industrielle de Delle at LISI's Board of Directors.
He sits on the Board of Directors, on the Compensation Committee and the Nominations Committee.

Thierry Peugeot exercises the other mandates and functions listed below:

■ Related to the LISI Group (in France and abroad):
- None.

■ Outside the LISI Group (in France and abroad):
- Vice-Chairman and director of Etablissements PEUGEOT Frères and Chairman of the Audit Committee;
- Director of Société Anonyme de Participations (SAPAR),
- Director of Compagnie Industrielle de Delle (CID),
- Director of L'Air Liquide S.A. and member of the Audit Committee;
- Honorary Chairman of the National Association of Joint Stock Companies (ANSA).

Marie-Hélène Peugeot-Roncoroni, age 57, French citizen
Permanent representative of EPF (ETABLISSEMENTS Peugeot Frères) on the Supervisory Board of Peugeot SA and Vice-Chairwoman of the Supervisory Board. Member of the Nominations Committee and of the Asia Committee.
Director of LISI
She participates in the Board of Directors.

Marie-Hélène Peugeot-Roncoroni exercises the other mandates and functions listed below:

■ Related to the LISI Group (in France and abroad):
- None.

■ Outside the LISI Group (in France and abroad):
- Director and Vice-Chairwoman of FFP;
- Permanent representative of EPF on the Supervisory Board of PEUGEOT SA;
- Director of Etablissements PEUGEOT Frères and Deputy CEO;
- Director of SAPAR, Deputy CEO;
- Director of ESSO SAF (France);
- Director of Fondation PSA PEUGEOT CITROEN and Vice-Chairwoman of the Board of Directors of Fondation PSA PEUGEOT CITROEN;
- Director of Assurances Mutuelles de France (Mutuelle);
- Director of the Diderot Institute as representative of Assurances Mutuelle de France.

Cyrille Viellard, age 40, French citizen
Market Intelligence & Business Development Director and member of the Executive Committee of Rapala VMC Oyj Group
Permanent representative of VMC on LISI's Board of Directors.
He sits on LISI's Board of Directors and Audit Committee.

Cyrille Viellard holds the following other offices:

■ Related to the LISI Group (in France and abroad):
- None.

■ Outside the LISI Group (in France and abroad):
- Director of Viellard Migeon & Cie SA;
- Director of FSH Welding Group SA;
- Member of the Management Committee of Ets REBOUD ROCHE SAS;
- Member of the Management Committee of SELECTARC WELDING SAS;
- Director of Normark Polska Sp. z.o.o.;
- Diector of Normark Hungary Zrt.;
- Director of Compagnie Industrielle de Delle SA.

Emmanuel Viellard, age 54, French citizen

CEO and director of LISI.

He sits on LISI's Board of Directors, on the Strategic Committee and the Nominations Committee.

Emmanuel Viellard exercises the other mandates and functions listed below:

- Related to the LISI Group (in France and abroad):
- Chairman of the Board of LISI AEROSPACE SA;
- Chairman of the Board of LISI AUTOMOTIVE SA;
- Chairman of LISI AEROSPACE STRUCTURAL COMPONENTS SAS;
- Chairman of AIRMON HOLDING 1 SAS;
- Chairman of LISI MEDICAL SAS;
- Director of HI-SHEAR Corporation (USA);
- Director of TERMAX LLC (USA),
- Member of the Management Committee of LISI AUTOMOTIVE Former SAS;
- Member of the Management Committee of LISI AUTOMOTIVE Rapid SAS;
- Member of the Management Committee of LISI AUTOMOTIVE Nomel SAS;
- Member of the Management Committee of BLANC AERO Industries SAS;
- Member of the Management Committee of BLANC AERO Technologies SAS;
- Member of the Management Committee of CREUZET AERONAUTIQUE SAS,
- Member of the Management Committee of INDRAERO SIREN SAS;
- Member of the Management Committee of Forges de Bologne SAS;
- Member of the Management Committee of MANOIR AEROSPACE SAS;
- Member of the Management Committee of LISI AEROSPACE CARGO EQUIPMENT SAS;
- Member of the Management Committee of LISI MEDICAL Orthopaedics SAS;
- Member of the Management Committee of LISI MEDICAL Fasteners SAS.

- Outside the LISI Group (in France and abroad):
- Chairman of Financière VIELLARD SAS;
- Chairman and CEO of VIELLARD MIGEON & Cie SA;
- Chairman of the Board of Directors of FSH WELDING GROUP;
- Member of the Management Committee of VMC PECHE SAS;
- Director of Compagnie Industrielle de Delle;
- Director of FSH WELDING India (India);
- Director of RAPALA-VMC OYJ (Finland);
- Permanent representative of VMC on the Management Committee of:
  - Ets REBOUD ROCHE SAS;
  - SELECTARC WELDING SAS;
  - De PRUINES Industries SAS;
- Chairman of Groupe des Equipements Aéronautiques et de Défense,
- Honorary Chairman of GIFAS;
- Chairman of the VIELLARD Family Association.

2.4.2.2 Family ties

The only direct family ties between the aforementioned individuals are the following:

- Gilles Kohler and Jean-Philippe Kohler are brothers;
- Thierry Peugeot et Marie-Hélène Peugeot-Roncoroni are siblings.
- Capucine Kohler is the daughter of Gilles Kohler.

2.4.2.3 No conflicts of interest

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

2.4.2.4 No condemnation for fraud, involvement in bankruptcy or incrimination and/or public sanction

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

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

2.5 | COMPENSATION AND INTERESTS OF CORPORATE OFFICERS

2.5.1 Directors' fees

The Shareholders' General Meeting, held on April 27, 2016, set the annual directors' fees for members of the Board of Directors at €300,000 from the start of the financial year started January 1, 2016.

The directors' duties are compensated in the form of directors' fees at meetings of the Board of Directors and other Committees of which they are members. The directors' attendance fees are paid to directors at the beginning of each half-year according to their participation in the meetings of the Board and Committees during the previous half-year. They amount to €3,000 per meeting of the Board or Committees. The attendance fees paid to directors in 2017 amounted to €183,000, the fees earned for 2017 amounted to €174,000 and the attendance rate was 86%.

The table below shows the attendance fees paid to directors and acquired by the directors for the period:

BOARD MEMBERS	Directors' fees paid in 2016 by LISI S.A. (in euros)	Directors' fees paid in 2017 by LISI S.A. (in euros)	Directors' fees payable in respect of 2016 (in euros)	Directors' fees payable in respect of 2017 (in euros)
Capucine KOHLER	18,000	12,000	21,000	12,000
Éric ANDRÉ	27,000	18,000	27,000	18,000
Isabelle CARRÈRE	21,000	15,000	21,000	15,000
Patrick DAHER	24,000	24,000	27,000	18,000
Emmanuelle GAUTIER		3,000		12,000
Gilles KOHLER				
Jean-Philippe KOHLER				
Pascal LEBARD	21,000	18,000	27,000	15,000
Lise NOBRE	45,000	33,000	45,000	30,000
Christian PEUGEOT	15,000	6,000	18,000	9,000
Thierry PEUGEOT	27,000	24,000	30,000	18,000
Marie Hélène PEUGEOT-RONCORONI	15,000	12,000	18,000	9,000
Cyrille VIELLARD	27,000	18,000	27,000	18,000
Emmanuel VIELLARD				
TOTAL	**240,000**	**183,000**	**261,000**	**174,000**

The directors other than Messrs. Kohler and Viellard did not receive any compensation other than the directors' fees mentioned above from LISI, its subsidiaries and the controlling company CID.

2.5.2 Shares held by corporate officers

In accordance with the Company's bylaws, the minimum number of LISI shares that each director may hold is one share.

The table below shows the number of shares held by the corporate officers as at December 31, 2017:

CORPORATE OFFICERS	Number of LISI shares held directly	Number of LISI shares held indirectly
Gilles KOHLER	79,925	
Emmanuel VIELLARD	34,360	
Christian PEUGEOT	5	
Cyrille VIELLARD (permanent representative of VMC)		3,070,860
Jean-Philippe KOHLER (permanent representative of CIKO)	71,455	
Thierry PEUGEOT (permanent representative of CID)	125	29,643,620
Pascal LEBARD	50	
Éric ANDRÉ	25	
Patrick DAHER	1,000	
Lise NOBRE	850	
Capucine KOHLER	600	
Isabelle CARRÈRE	750	
Marie-Hélène PEUGEOT-RONCORONI	600	
TOTAL	**189,745**	**32,714,480**

2.5.3 Compensation of managers

	Employment Contract		Supplementary pension plan		Allowances or benefits due or likely to be due as a result of the cessation or change of functions		Compensation under a non-compete clause	
CORPORATE OFFICER MANAGER	Yes	No	Yes	No	Yes	No	Yes	No
Gilles KOHLER Function: Chairman of the Board of Directors Term of office start: 1999 Term of office end: 2018		X		X		X		X
MANAGER CORPORATE OFFICER MANAGERS								
Emmanuel VIELLARD Function: CEO Term of office start: 2016 Term of office end: 2018		X		X		X		X
Jean-Philippe KOHLER Function: Deputy CEO Term of office start: 2016 Term of office end: 2018		X		X		X		X

The terms for the salary of the Chairman and Chief Executive Officer and for the Deputy CEO are approved by the Board of Directors on the advice of the Compensation Committee.

Compensation of the Chairman of the Board of Directors

The compensation of Mr. Gilles Kohler in his capacity as Chairman of the Board of Directors was set on the advice of the Compensation Committee. It includes a fixed amount for the corporate mandate. Mr. Gilles Kohler does not have any variable compensation, or directors' fees and free performance-based shares. He has a company car.

GILLES KOHLER CHAIRMAN OF BOARD OF DIRECTORS OF LISI S.A.	2017	2016
Remuneration due for the period	152,041	531,438
Valuation of the options granted during the financial year	None	None
Valuation of the performance shares granted during the financial year	None	None
Valuation of the shares granted during the financial year	None	None
TOTAL	**152,041**	**531,438**

The tables summarizing the compensation of the Chairman of the LISI S.A. Board of Directors are as follows in euros:

GILLES KOHLER CHAIRMAN OF BOARD OF DIRECTORS OF LISI S.A.	Amounts for financial 2017		Amounts for financial 2016	
	due	paid	due	paid
Fixed remuneration	150,000	150,000	265,399	337,948
Variable compensation	None	None	None	194,000
Incentives	None	17,809	17,530	24,264
Compensation on retirement	None	None	246,028	246,028
Exceptional remuneration	None	None	None	None
Benefits in kind*	2,041	2,041	2,480	2,524
TOTAL	**152,041**	**169,850**	**531,438**	**804,764**

* Benefits in kind: company car.

Compensation of the CEO and the Deputy CEO

In 2017, the variable portion of executive compensation is capped at 65% of the fixed remuneration. The allocation formula for the criteria used to determine the variable portion is as follows:

- operating margin representing 25% of the fixed remuneration;
- free Cash Flow rate representing 15% of the fixed remuneration;
- rate of achievement of strategic objectives representing 25% of the fixed remuneration.

The expected level of achievement of the above objectives has been established precisely but is not released for confidentiality reasons.

The tables summarizing the compensation and options and shares allocated to each corporate officer director of LISI S.A. are as follows in euros:

EMMANUEL VIELLARD CEO OF LISI S.A.	2017	2016
Remuneration due for the period	606,365	588,824
Valuation of the options granted during the financial year	None	None
Valuation of the performance shares granted during the financial year*	179,492	146,225
TOTAL	**785,857**	**735,049**

* Valuation at the share price prevailing on the date of the Board of Directors meeting which approved the plan, i.e. €29.25 for the 2016 plan and €39.02 for the 2017 plan.

JEAN PHILIPPE KOHLER DEPUTY CEO OF LISI S.A.	2017	2016
Remuneration due for the period	546,480	494,297
Valuation of the options granted during the financial year	None	None
Valuation of the performance shares granted during the financial year*	179,492	146,225
TOTAL	**725,972**	**640,522**

* Valuation at the share price prevailing on the date of the Board of Directors meeting which approved the plan, i.e. €29.25 for the 2016 plan and €39.02 for the 2017 plan.

The tables summarizing the compensation of each corporate officer manager of LISI S.A. are as follows in euros:

EMMANUEL VIELLARD CEO OF LISI S.A.	Amounts for financial 2017		Amounts for financial 2016	
	due	paid	due	paid
Fixed remuneration	367,200	405,437	358,021	363,955
Variable compensation	220,000	210,000	210,000	176,000
Incentives	15,892	17,809	17,530	24,264
Exceptional remuneration	None	None	None	None
Benefits in kind*	3,273	3,273	3,273	3,273
TOTAL	**606,365**	**636,520**	**588,824**	**567,492**

* Benefits in kind: company car.

JEAN PHILIPPE KOHLER DEPUTY CEO OF LISI S.A.	Amounts for financial 2017		Amounts for financial 2016	
	due	paid	due	paid
Fixed remuneration	330,000	357,971	296,179	301,517
Variable compensation	198,000	178,000	178,000	123,000
Incentives	15,892	17,809	17,530	24,264
Exceptional remuneration	None	None	None	None
Benefits in kind*	2,588	2,588	2,588	2,588
TOTAL	**546,480**	**556,368**	**494,297**	**451,369**

* Benefits in kind: company car.

The remuneration presented correspond to all those that have been paid by LISI, no remuneration was paid by its subsidiaries or the control company CID.

LISI S.A. has not committed itself to these corporate officers to pay compensation, indemnities, or benefits, due or likely to be due as a result of such corporate officers taking on, resigning from, or changing functions.

2.5.4 Benefits in kind granted to the managers

In 2017, Gilles Kohler, Emmanuel Viellard et Jean-Philippe Kohler benefited from a company car.

2.5.5 Stock subscription or purchase options allocated during the period to each corporate officer manager

No stock subscription or purchase options were allocated during financial year 2017.

2.5.6 Stock subscription or purchase options exercised during the period by each corporate officer manager

In 2017, the corporate officers did not exercise any options.

2.5.7 Performance shares allocated to each corporate officer manager

The allocated plans outstanding at December 31, 2017 are listed in the following table:

Performance shares granted by the Shareholders' General Meeting during the financial year, to each corporate officer, by the issuer and for all Group companies	Plan number and date	Number of shares awarded during the financial year	Valuation of shares in accordance with the method used for the consolidated financial statements (in euros)	Acquisition date	Date of availability	Minimum performance conditions required to achieve 50% allocation
Gilles KOHLER Function: Chairman of the Board of Directors	No. 12 Date: 12/17/2015	5,030	123,889	Feb. 2018	Feb. 2018	Plan No. 12 NAV (Net Asset Value) of at least €1,328 million Plan No. 13 NAV (Net Asset Value) of at least €1,416 million Plan No. 14 NAV (Net Asset Value) of at least €1,701 million
	No. 13 Date: 12/20/2016	None	None			
	No. 14 Date: 12/13/2017	None	None			
TOTAL		**5,030**	**123,889**			
Emmanuel VIELLARD Function: CEO	No. 12 Date: 12/17/2015	5,030	81,750	Feb. 2018	Feb. 2018	
	No. 13 Date: 12/20/2016	5,000	114,056	Feb. 2019	Feb. 2019	
	No. 14 Date: 12/13/2017	4,600	179,492	Feb. 2020	Feb. 2020	
TOTAL		**14,630**	**375,298**			
Jean-Philippe KOHLER Function: Deputy CEO	No. 12 Date: 12/17/2015	5,030	81,750	Feb. 2018	Feb. 2018	
	No. 13 Date: 12/20/2016	5,000	114,056	Feb. 2019	Feb. 2019	
	No. 14 Date: 12/13/2017	4,600	179,492	Feb. 2020	Feb. 2020	
TOTAL		**14,630**	**375,298**			

At its meeting of December 17, 2015, the Board decided to unconditionally award 5,030 shares to Gilles Kohler, pursuant to the termination of his office as CEO.

2.5.8 Performance shares that became available during the financial year for each corporate officer manager

	Plan number and allocation date	Number of shares that became available during the period	Acquisition date	Date of availability	Conditions
Gilles KOHLER Function: Chairman of the Board of Directors	No. 11 Date: 10/23/2014	4,200	02/21/2017	02/21/2017	600 shares were vested at the time of the award and 600 shares must be held in registered form until the termination of the function of CEO
Emmanuel VIELLARD Function: CEO	No. 11 Date: 10/23/2014	4,095	02/21/2017	02/21/2017	600 shares were acquired at the time of the award and 600 shares must be held in registered form until the termination of the function of CEO
Jean-Philippe KOHLER Function: Deputy CEO	No. 11 Date: 10/23/2014	2,555	02/21/2017	02/21/2017	The corporate mandate of Jean-Philippe Kohler started on March 1, 2016

2.6 | IMPLEMENTATION OF THE “APPLY OR EXPLAIN” RULE OF THE AFEP-MEDEF CODE

Provisions of the AFEP-MEDEF code not complied with	Explanations
NUMBER OF INDEPENDENT MEMBERS ON THE BOARD	
Art 8.3: the proportion of independent directors in the companies controlled should be at least one third.	According to the criteria of the AFEP-MEDEF Code referred to by the company, Eric André and Pascal Lebard, who have been directors for over 12 years, no longer enjoy the status of independent directors. Consequently, the rule according to which the Board should comprise one third of independent directors is no longer respected. They are considered "qualified persons". The change in the number of directors resulting from the vote on the resolutions submitted to the Shareholders' General Meeting of April 24, 2018 would increase the ratio of independent directors from 21% to 23% (31% if the "qualified person" director is included). It should also be noted that this change would increase the proportion of women on the Board from 36% to 38%.
COMPOSITION OF THE AUDIT COMMITTEE	
Art 15.1: the proportion of independent directors in the Audit Committee should be at least two thirds.	At the end of the Shareholders' General Meeting of April 24, 2018, the Audit Committee will consist of two independent directors out of the three members composing it.
LISI SHARES TO BE HELD BY DIRECTORS	
Art 20: unless otherwise required by law, each director must personally own a relatively significant number of shares in relation to the attendance fees received: Directors who do not have the required number of shares when they take up office shall use their attendance fees to acquire them.	Directors who do not yet comply with this recommendation shall rectify the situation at the earliest possible date.

3. | INTERNAL CONTROL OF THE COMPANY

Description of the internal control environment

3.1 | GENERAL DESCRIPTION

The wider internal control environment is based on a decentralized organization within each division. An Executive Committee is responsible for ratifying a global policy, which must then be channeled down to each individual department.

The Group has set out a number of procedures, summarized in an Internal Group Control manual, which is available to all relevant Group staff via an intranet site. This manual is supplemented by a Group accounting procedures manual. In addition, the Group has deployed a uniform reporting and information system in each division using an identical procedure each time.

The specificities of the LISI Group's activities require that precise quality control be carried out on operational processes in the following areas:
- production, stock, flow management;
- quality;
- health, safety and environment;
- personnel, payroll;
- accounting, management control and cash flow;
- purchasing and investments;
- sales.

Action is taken within the Group on a continual basis to ensure that these mechanisms are effective. This action is regularly assessed using performance tables.

3.2 | SUPERVISORY BODIES

- The Group's Board of Directors is the most senior decision-making entity. The Group's Executive Committee channels the information to the divisions, which are themselves organized in such a way that enables their management to carry out the Group's decisions at individual department level.

- The Audit Committee, which includes an independent administrator, is acquainted, in concert with the external auditors and the internal audit manager, with the senior management and risk management environment at the time of publication of each financial statement.

- The internal audit unit comprises the Group internal audit manager assisted by an auditor. Depending on the scale and nature of the task to be performed, internal and external partners may be co-opted to round off the team.

- Coordination with the external auditors is particularly close in order to direct controls specifically towards areas that have been identified as being high-risk and to allocate sufficient time to the task.

- Certain functions considered to be critical are monitored in the Group in a cross-departmental manner: financial management, cash management, consolidation, legal services, hedging, insurance cover, security policy, environmental policy, purchasing policy and human resource management.

3.3 | GROUP BASELINE

- Each division has set up a value charter based on a common set of values.

- An internal control procedures manual is in circulation and is supplemented by an accounting and consolidation procedures manual. These procedures are made available to all the individuals involved and are regularly updated in electronic form via a dedicated Internet portal.

- Each division and each operational unit is responsible for ensuring that these procedures are followed and adapted to their country's specific context.

- Each manager receives notification of new levels of responsibility in the form of delegation letters.

3.4 | RISK-MAPPING AND MONITORING PROCESSES

- The Group is engaged in a convergent risk-mapping process. This methodology is currently employed throughout the Group and down to the level of the basic Management Units. It is subject to a complete and systematic review once a year. The priority action plans for the main risks identified in each division are validated within the budget of the following year.

- The Health, Safety and Environmental Risks Committee, set up in 2001, identifies and indexes the inherent risks, then initiates the necessary corrective actions.

3.5 | INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES IN PLACE, RELATING TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

- The Group carries out an annual review of the four/five-year strategic plan and defines a priority action plan accordingly. The budget for the coming financial year falls within the scope of this plan for a 12-month period. The planning process is approved first by the Executive Committee and then by the Board of Directors. Progress on preparation of the budget is assessed monthly at all levels: business units (B.U.), Divisions and Group-level teams.

- The monthly consolidation of management indicators, the income statement, the balance sheet and the funding table allow a precise measure to be obtained within a short time of year-end. This facilitates the decision-making process.

- The purchasing and investment process falls within the scope of the strategic and budgetary mechanism. Any purchasing or investment commitment that deviates from the budget authorizations must have prior approval at the appropriate level.

- The sales and contract process is carefully reviewed by the local teams, BUs, divisions or Group-level teams, depending on the materiality level, before the actual commitment is made..

- The Cash Flow-Finance process also involves specific commitments. So, for instance, all financial investments are managed at Group level.

- The pay process is managed at operational unit level and is regularly reviewed both by the internal audit team and by external auditors.

- The Health, Safety, and Environment (HSE) process involves a monthly review of management indicators (industrial accident rates, non-compliances, etc.). and of the resulting main corrective action plans.

8

DOCUMENTS SPECIFIC TO THE SHAREHOLDERS' GENERAL MEETING

1. | 2017 CORPORATE GOVERNANCE REPORT

In accordance with Order No. 2017-1162 of July 12, 2017 and Decree No. 2017-1174 of July 18, 2017, this report sets out the composition of the Board and the principle of equal representation of men and women, the conditions governing the preparation and organization of the Board of Directors' work, limitations to the Chief Executive Officer's power, the principles and rules governing the setting of the remuneration and benefits in kind granted to corporate officers as well as internal audit procedures implemented within the Group.
LISI refers to the corporate governance code for listed companies of the AFEP-MEDEF in its November 2016 version, available on the MEDEF website (www.medef.com). Such membership has been confirmed by the Board of Directors.

In order not to overload this report, the invariant part of the elements referred to in Order No. 2017-1162 and Decree No. 2017-1174 relating to corporate governance and internal audit is described in Chapter 7 of the Annual Report filed with the AMF. Such Chapter 7 sets out the principles, the statutory provisions, those of the internal rules of the Board and committee charters that define the tasks, composition and rules of operation of the Board and its specialist committees.
This report describes the changes and events that occurred during the 2017 financial year that are subject to the legal provisions mentioned above.
This report was submitted to, and approved by, the Board of Directors on February 14, 2018.

1.1 | TOTAL MANDATES AND FUNCTIONS OF CORPORATE OFFICERS

The list of all mandates and functions exercised in any company by each corporate officer during the financial year is provided in Chapter 7 paragraph 2.4.2.

1.2 | AGREEMENTS

In respect of financial year 2017, no agreement has been entered into, either directly or through an intermediary, between, on the one hand, one of the corporate officers or one of the shareholders having more than 10% of the voting rights of a company and, on the other hand, another company in which the first company directly or indirectly owns more than half of the share capital, except for agreements entered into in the ordinary course of business and on arms' length terms. Similarly, there was no continuation of previously authorized agreements.

1.3 | CURRENT DELEGATION OF POWERS GRANTED BY THE SHAREHOLDERS' GENERAL MEETING FOR THE PURPOSE OF CAPITAL INCREASES

Authorization for the Board of Directors to issue shares for cash up to a limit of €2 million (nominal + premium); without any preferential subscription right	The Shareholders' General Meeting authorizes the Board of Directors, under the provisions of Articles L.225-19-6 and L. 225-138 et seq. of the French Commercial Code and L.3332-18 *et seq.* of the French Labor Code, to issue new shares for cash, on one or more occasions, solely at its discretion, reserved for Group employees who are members of the Company's mutual fund. The period during which the Board of Directors shall be authorized to issue these shares is twenty-six months as of April 25, 2017.

1.4 | MEANS OF EXERCISING THE SENIOR MANAGEMENT OF THE COMPANY, IN ACCORDANCE WITH ARTICLE L.225-51-1

At its meeting of October 21, 2015, the Board of Directors decided to separate the function of Board Chairman from that of Chief Executive Officer; as of March 1, 2016, the role of Chairman was assumed by Gilles Kohler, while that of CEO was assumed by Emmanuel Viellard , with the assistance of Jean-Philippe Kohler as Deputy CEO.

1.5 | COMPOSITION, CONDITIONS OF PREPARATION AND ORGANIZATION OF THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors defines the Company's strategy and business policies and ensures that they are followed. The Board of Directors also carries out any audits or checks that it deems necessary.

1.5.1 | Organization

Four special committees were set up within the LISI Board of Directors: the Audit Committee, the Compensation Committee, the Strategic Committee as well as the Nominations Committee – the first three tasked with supervising the work carried out by the Senior Management in each of these three areas. Each committee will submit a report on their work to the Board of Directors. The role and composition of these Committees are described in Chapter 7 of the Annual Report on Governance of the Company.

1.5.2 | Composition

The Board of Directors represents the shareholders of the Company; its composition aims to comply with the various balances of interests. The members were chosen for their skills and knowledge of the various markets in which the Group operates.
Since the Shareholders' General Meeting of April 25, 2017, the Board of Directors has comprised 14 members, nine of whom belong to the majority family groups, three of whom are independent under the terms of the AFEP-MEDEF Code (of corporate governance), with the

other two members, having been directors of the Company for more than 12 years at the 2017 year-end, no longer deemed independent.
The Board is currently comprised of five women and nine men. The proportion of women Board members is 36% compared with 31% the previous year.
A Vice-Chairman, acting as Senior Director, was appointed at the Board meeting of February 17, 2016. The Vice-Chairman's role is to assist the Chairman in corporate governance issues and liaise between the Company's senior management and the independent directors. The Vice-Chairman, who was chosen among the independent directors, is Lise Nobre.

1.5.3 | Application of the principle of gender equality within the Board of Directors

The Company intends to continue the "feminization" of its Board of Directors; To comply with the provisions of the AFEP-MEDEF Code and with the Copé-Zimmermann Act, the Board of Directors will press ahead with its initiative, undertaken since a number of years now, for gender equality within the Board of Directors.

1.5.4 | Preparation of tasks

Prior to each Board meeting, participants receive a file that has been duly documented so that they may adequately prepare for the meeting. As part of the continuous improvement of the Board's operating methods, these documents must be submitted to the directors at least three days before the meeting.
Meetings on the subject of remuneration are accompanied by a presentation by the Compensation Committee. This Committee met twice in 2017, with an attendance rate of 100% of its members.
Meetings relative to the approval of annual and half-yearly financial statements are accompanied by a presentation by the Audit Committee. This Committee met twice in 2017, with an attendance rate of 100% of its members.
Meetings dealing with strategic issues are accompanied by a presentation by the Strategic Committee. This Committee met once in 2017, with an attendance rate of 100% of its members.
Meetings dealing with subjects concerning the composition of the Board of Directors are accompanied by a presentation by the Nominations Committee. This Committee did not meet in 2017.

1.5.5 | Decision making process

There has been no addition to the Board's decision-making process during the 2017 financial year, the specific rules of such process being described in Chapter 7 of the Annual Report.

1.5.6 | Board assessment

In accordance with the practices recommended in the AFEP-MEDEF Code, the Board conducts a formal self-assessment process every three years to ensure it meets the expectations of shareholders that have appointed it to manage the Company. This self-assessment, which had been conducted for 2011 and 2012, was reviewed at the Board meeting of December 17, 2015 through a new questionnaire filled in by each director.
No further assessment was made during 2017.

1.6 | LIMITATION OF THE AUTHORITY OF THE SENIOR MANAGEMENT

The senior management has the broadest powers to manage the Company within the limits of those conferred by law and the bylaws to the Board of Directors.

1.7 | IMPLEMENTATION OF THE "APPLY OR EXPLAIN" RULE OF THE AFEP-MEDEF CODE

The list of the different provisions of the AFEP MEDEF code which have been ruled out and the reasons why, are presented in Part 2.6 of Chapter 7.

1.8 | SPECIAL CONDITIONS APPLICABLE TO THE PARTICIPATION OF SHAREHOLDERS IN THE SHAREHOLDERS' GENERAL MEETING

Shareholders wishing to physically attend the Shareholders' General Meeting may request an admission card as follows:

- **for registered shareholders:** on the day of the Shareholders' General Meeting, go directly to the counter specially provided for this purpose with proof of identity or ask for an admission card from BNP PARIBAS Securities Services, – CTS Assemblées Générales – Les Grands Moulins de Pantin 9, rue du Débarcadère – 93761 Pantin Cedex, by registered letter with acknowledgment of receipt;
- **for bearer shareholders:** ask the authorized intermediary who manages their securities account for an admission card to be sent to them.
  Shareholders not personally attending this General Meeting and wishing to vote by correspondence or to be represented by giving a proxy to the Chairman of the General Meeting, to their spouse or partner with whom they have signed a civil solidarity pact or to another person may:
- **for registered shareholders:** return the single postal or proxy voting form, to the following address: BNP PARIBAS Securities Services, – CTS Assemblées Générales – Les Grands Moulins de Pantin – 9, rue du Débarcadère – 93761 Pantin Cedex;
- **for bearer shareholders:** ask for this form from the intermediary who manages his/her securities, from the date the General Meeting is convened. The single postal or proxy voting form should be accompanied by a participation certificate issued by the financial intermediary and sent to the following address: BNP PARIBAS Securities Services, – CTS Assemblées Générales – Les Grands Moulins de Pantin – 9, rue du Débarcadère – 93761 Pantin Cedex.
  To be accepted, the postal voting forms should be received by the Company or the Assemblées Générales Department of BNP Paribas Securities Services, at the latest three days prior to the General Meeting.

  The shareholders may obtain, within the legal time limits, the documents provided for in Articles R. 225-81 and R. 225.83 of the French Commercial Code by request sent to BNP PARIBAS Securities Services, – CTS Assemblées Générales – Les Grands Moulins de Pantin – 9, rue du Débarcadère – 93761 Pantin Cedex.

Pursuant to the provisions of Article R.225-79 of the French Commercial Code, the notification of the appointment and the withdrawal of a proxy may also be made by electronic means, as follows:

- for pure registered shareholders: by sending an email with an electronic signature obtained from an authorized third-party certifier to the following electronic address: paris.bp2s.france.cts.mandats@bnpparibas.com stating the Name of the Company concerned, the date of the Shareholders' General Meeting, their surname, first name, address and BNP PARIBAS Securities Services user name as well as the surname and first name of the appointed or withdrawn proxy;
- **for administered registered or bearer shareholders:** by sending an email with an electronic signature obtained from an authorized third-party certifier to the following electronic address: paris.bp2s.france.cts.mandats@bnpparibas.com stating the Name of the Company concerned, the date of the Shareholders' General Meeting, their surname, first name, address and full banking references as well as the surname and first name of the designated or withdrawn authorized representative; then, by asking their authorized intermediary who manages their securities account to send a written confirmation to BNP PARIBAS Securities Services – CTS, Assemblées Générales – Les Grands Moulins de Pantin 9, rue du Débarcadère – 93761 Pantin Cedex.

So that the proxy appointments or withdrawals expressed by electronic means can be validly taken into consideration, the confirmations should be received, at the latest, on the day before the meeting at 3.00 p.m. (Paris time). The appoints or withdrawals of proxies expressed in printed form should be received at the latest two calendar days prior to the date of the Shareholders' General Meeting.

Furthermore, only notifications of proxy appointments or withdrawals may be sent to the aforementioned electronic address; any other application or notification on another subject cannot be taken into consideration and/or processed.

1.9 | REMUNERATIONS AND BENEFITS IN KIND

The principles and rules governing corporate officers' remuneration, which are submitted and suggested to the Board by the Compensation Committee each year, are detailed in Chapter 7 of the Annual Report, which deals with the corporate governance policy. It describes in particular the information referred to in Article L.225-100-3 of the French Commercial Code and the tables prescribed by the AFEP-MEDEF Code.

1.10 | FACTORS LIKELY TO HAVE AN IMPACT IN THE EVENT OF A PUBLIC OFFER FOR PURCHASE OR EXCHANGE

There is, to the company's knowledge, no factor likely to have an impact in the event of a public offer for purchase or exchange.

1.11 | DRAFT RESOLUTIONS RELATING TO THE PRINCIPLES AND CRITERIA FOR THE DETERMINATION OF THE REMUNERATION AND BENEFITS OF CORPORATE OFFICERS

Chairman's remuneration

The compensation of Mr. Gilles Kohler in his capacity as Chairman of the Board of Directors was set on the advice of the Compensation Committee. It includes a fixed amount for the corporate mandate. Mr. Gilles Kohler does not have any variable compensation, or directors' fees and free performance-based shares. He has a company car.

Compensation of the CEO and the Deputy CEO

The variable portion of executive compensation is capped at 65% of the fixed remuneration. The allocation formula for the criteria used to determine the variable portion is as follows:

1) Operating margin representing 25% of the fixed remuneration,
2) Free Cash Flow rate representing 15% of the fixed remuneration,
3) Rate of achievement of strategic objectives representing 25% of the fixed remuneration.

The expected level of achievement of the above objectives has been established precisely but is not released for confidentiality reasons.

In accordance with the provisions of Article L.225-37-2 of the French Commercial Code, a resolution is submitted for each corporate officer so that the Shareholders' General Meeting approves the principles and criteria for the determination, breakdown and allocation of the fixed, variable and long-term components comprising the total compensation and benefits in kind.

Similarly, the Shareholders' General Meeting will be called to consider and approve the amounts of the fixed, variable and long-term components comprising the total compensation and benefits in kind allocated to corporate officers in respect of the year ended and in accordance with the provisions of Article L.225-110 II of the French Commercial Code.

2. | AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS - FINANCIAL YEAR ENDED DECEMBER 31, 2017

To the Shareholders' General Meeting of LISI,

In our capacity as Auditors of your Company, we will now present out report on regulated agreements and commitments.

It is our responsibility to inform you, based on the information provided to us, of the essential features and conditions applicable to the agreements and commitments of which we have been informed or which we would have discovered in the context of our assignment, and the evidence of their benefit for the Company, without having to express an opinion as to their usefulness or appropriateness, nor investigate the existence of other such agreements or commitments. It is for you to assess the relevance involved in the conclusion of these agreements and commitments prior to their approval, as per the terms of Article R.225-31 of the French Commercial Code.

Besides, it is up to us, if applicable, to provide you with the information provided for in Article R.225-31 of the French Commercial Code regarding the enforcement, in the year elapsed, of the agreements and commitments already approved by the Shareholders' General Meeting.

We have implemented the due diligence measures deemed necessary for this mission as outlined by France's national audit regulatory body, the Compagnie Nationale des Commissaires aux Comptes.

Agreements and commitments subjected to the approval of the Shareholders' General Meeting

We hereby inform you that we have not been informed of any agreement or any commitment authorized and entered into during the year ended to be submitted for the approval of the Shareholders' General Meeting pursuant to the provisions of Article L.225-38 of the French Commercial Code.

Agreements and commitments already approved by the Shareholders' General Meeting

We inform you that we have not been informed of any agreement or commitment already approved by the Shareholders' General Meeting whose implementation would have been continued during the period elapsed.

Paris and Paris-La Défense, March 23, 2018

The Auditors

EXCO ET ASSOCIÉS	ERNST & YOUNG et Autres
Philippe Auchet	Pierre Jouanne

3. | AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS - FINANCIAL YEAR ENDED DECEMBER 31, 2017

To the Shareholders' General Meeting of LISI,

Opinion

In accordance with the terms of our appointment by your Shareholders' General Meeting, we have conducted the audit of the accompanying consolidated financial statements of LISI for the financial year ended December 31, 2017.

We certify that the consolidated financial statements for the period are, in respect of the IFRS standard as adopted in the European Union, correct and genuine and give a true and fair view of the earnings derived from the Company's activity during the year, as well as the financial position and the assets and liabilities at the end of the financial year, of all consolidated companies of the consolidated group.

The opinion expressed above is consistent with the content of our report to the Audit Committee.

Basis of our opinion

Audit repository

We have carried out our audit in accordance with the professional standards in use in France. We consider that the items we have gathered form both a sufficient and an appropriate basis for our opinion.

Our responsibilities under these standards are specified in the section "Responsibilities of Auditors relating to the audit of the consolidated financial statements" of this report.

Independence

We have carried out our audit in compliance with the rules of independence applicable to us, for the period running from January 1, 2017 to the date of issue of this report, and in particular, we have not provided services prohibited under Article 5, paragraph 1, of Regulation (EU) No. 537/2014 or under the French Code of Ethics for Auditors.

Justification of our assessments - Key audit matters

Pursuant to the provisions of Articles L.823-9 and R.823-7 of the French Commercial Code on the justification of our assessments, we inform you of the key audit matters relating to the risk of material misstatements which, in our professional judgment, have been more significant for the audit of the consolidated financial statements of the financial year, and how we tackled these risks.

These assessments form part of our task as Auditors of the consolidated financial statements, taken as a whole, and have helped us to form our opinion, as it is described above. We do not express an opinion on elements of these consolidated financial statements taken separately.

Goodwill - impairment test

Risk identified

At December 31, 2017, goodwill stood at €321,377 thousand for a balance sheet total of €1,827,319 thousand. These goodwill amounts correspond to differences recognized between the cost of business combinations and LISI's share of the fair value, at the acquisition date, of assets and liabilities relating to these companies, as detailed in Note 2.2.7.1 to the consolidated financial statements.

Goodwill is subject to an impairment test at least once a year and each time that a risk of impairment is identified. Note 2.2.8.5 describes the methods used and the assumptions made for this test; where necessary, an impairment loss of the net carrying amount is recognized to reduce it to the recoverable amount. The recoverable amount is defined as the higher of the realizable value and the value in use.

For the purposes of these tests, described in Note 2.2.8.5 to the consolidated financial statements, goodwill is allocated to each group of Cash Generating Units (CGU) which, for the LISI Group, correspond to the three divisions: Aerospace, Automotive and Medical. The combinations of cash generating units (CGU) are determined in accordance with the operational reporting.

We deemed the goodwill amount to be a key audit matter considering their importance in the Group's consolidated financial statements and because the determination of their value in use, used in the impairment tests, calls for the use of estimates and assumptions requiring significant judgment by management, in particular as regards assumptions of the growth of sales, future cash flows and the discount rate.

How we tackled it

As part of our work, we reviewed the process for preparation and approval of estimates and assumptions made by management for the purposes of impairment tests. Our work consisted in particular in:

- appraising the discount rate used by management, by comparing it to our own estimate of this rate, established with the help of our valuation experts, and by analyzing the different constituent elements;
- examining, using sample testing techniques, the future cash flows used, with regard to the budget figures approved by the Board of Directors, the historical results, as well as the economic and financial environment in which the Group operates;
- checking, using sample testing techniques, the mathematical correctness of the impairment tests performed by management;
- assessing whether the disclosure in Note 2.5.1.1.a) to the consolidated financial statements, in particular as regards the key assumptions and sensitivity analysis carried out, are adequately presented.

Provisions for industrial risks

Risk identified

The Group is exposed to the environmental and industrial risks inherent to each of its Aerospace, Automotive and Medical activities carried out worldwide within complex and constantly changing regulatory frameworks. In this context, the Group then adopts a prudent approach to protect itself against the above risks.

As specified in Notes 2.2.13 and 2.5.4 to the consolidated financial statements, the Group exercised its judgment on a case-by-case basis when assessing the risks incurred, and recognized a provision whenever it expected a probable outflow of resources to settle the obligation.

We have deemed this issue to be a key audit matter considering the amounts involved and the level of judgment required for determining these provisions against the backdrop of multiple and constantly changing regulatory frameworks.

How we tackled it

As part of our audit of the consolidated financial statements, our work consisted in particular in:

- examining the procedures implemented by the Group to identify and record all the risks;
- reviewing the risk assessment carried out by the Group, the related documentation and, where applicable, written consultations of external consultants;
- assessing the main risks identified and examining the assumptions used by Management to estimate the amount of these provisions;
- examining the disclosure on these risks contained in the Notes to the consolidated financial statements.

Verification of information on the Group provided in the management report

We have also, in accordance with the professional standards applicable in France, specifically verified, as required by law, the information on the Group, provided in the management report of the Board of Directors.

We have no comments to make on their sincerity and consistency with the consolidated financial statements.

Disclosures arising from other legal and regulatory obligations

Auditors appointment

We were appointed as Auditors of LISI by your Shareholders' General Meeting in 1993 for Exco et Associés and of April 27, 2011 for Ernst & Young et Autres.

At December 31, 2017, Exco et Associés was in the 25th year of its engagement and Ernst & Young et Autres in its 7th year.

Responsibilities of management and of those charged with corporate governance in relation to the consolidated financial statements

It is management's responsibility to draw up the consolidated financial statements giving a true and fair view in accordance with the International Financial Reporting Standards (IFRS), as adopted in the European Union, and to put in place the internal control that it deems necessary for drawing up the consolidated financial statements free of material misstatements, whether due to fraud or error.

When drawing up the consolidated financial statements, it is the responsibility of management to assess the company's capacity to continue its operations, to present in these financial statements, if applicable, the necessary information on the going concern assumption and to apply the going concern principle, unless it is planned to wind up the company or discontinue its operation.

It is the responsibility of the Audit Committee to monitor the process for preparation of the financial information and the effectiveness of internal control and risk management systems, and, if applicable, the internal audit systems, as regards the procedures relating to the preparation and processing of accounting and financial information.

The consolidated financial statements have been approved by the Board of Directors.

Responsibilities of Auditors relating to the audit of the consolidated financial statements

Audit objective and approach

It is our responsibility to prepare a report on the consolidated financial statements. Our objective is to obtain a reasonable assurance that the consolidated financial statements, taken as a whole, are free of material misstatements. Reasonable assurance is a high level of assurance, without however guaranteeing that an audit conducted in accordance with professional standards systematically ensures that any material misstatement is detected. Misstatements may be due to frauds or errors and are considered as material where it is reasonable to expect that they can, taken separately or together, influence the economic decisions that users of the financial statements take based on them.

As set out in Article L.823-10-1 of the French Commercial Code, our task of certifying the financial statements does not consist in guaranteeing the viability or the quality of the management of your company.

As part of our audit conducted in accordance with the professional standards applicable in France, the Auditor exercises his professional judgment throughout this audit. Furthermore:

- the Auditor identifies and assesses the risks that the consolidated financial statements contain material misstatements, whether due to fraud or error, defines and implements audit procedures to tackle these risks, and gathers the information that he/she deems sufficient and relevant to form his/her opinion. The risk of non-detection of a material misstatement arising from a fraud is higher than that of a material misstatement arising from an error, since fraud may involve collusion, forgery, deliberate omissions, misrepresentations or the circumvention of internal control;
- he/she reviews the internal control relevant to the audit in order to define appropriate audit procedures in the circumstances, and not with the objective of expressing an opinion on the effectiveness of the internal control;
- he/she assesses the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as the disclosures provided in the consolidated financial statements;
- he/she assesses the appropriateness of the application by management of the accounting principle of going concern and, based on the information gathered, the existence or non-existence of a significant uncertainty relating to events or circumstances likely to undermine the company's ability to continue its operation. This assessment is based on information compiled up to the date of his report, it being specified however that subsequent circumstances or events may undermine the company's ability to continue as a going concern. If he/she concludes that there is a significant uncertainty, he/she draws the attention of readers of his report on the information provided in the consolidated financial statements regarding this uncertainty or, if such information is not provided or is not relevant, he/she issues a qualified opinion or refuses to certify;
- he/she assesses the overall presentation of the consolidated financial statements and appraises whether the consolidated financial statements reflect the underlying transactions and events such as to give a true and fair view;
- as regards the financial information of companies included in the scope of consolidation, he/she gathers the information that he/she deems sufficient and relevant to express an opinion on the consolidated financial statements. He/she is responsible for the management, supervision and conduct of the audit of the consolidated financial statements and of the opinion expressed on these financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee presenting the scope of the audit work and the program of work implemented, as well as the findings following from our work. We also inform the Committee, where applicable, of significant weaknesses in internal control that we have identified as regards procedures relating to the preparation and processing of accounting and financial information.

The report to the Audit Committee includes information on the risks of material misstatements that we deemed to have been the most important for the audit of the consolidated financial statements of the financial year and which constitute the key audit matters that we have to describe in this report.

We also submit to the Audit Committee the declaration set out in Article 6 of Regulation (EU) No. 537-2014 confirming our independence, within the meaning of the rules applicable in France as they are set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Auditors. Where necessary, we discuss with the Audit Committee the risks to our independence and the safeguard measures applied.

Paris and Paris-La Défense, March 23, 2018

The Auditors

EXCO ET ASSOCIÉS	ERNST & YOUNG et Autres
Philippe Auchet	Pierre Jouanne

4. | AUDITORS' REPORT ON THE COMPANY FINANCIAL STATEMENTS - FINANCIAL YEAR ENDED DECEMBER 31, 2017

To the Shareholders' General Meeting of LISI,

Opinion

In accordance with the terms of our appointment by your Shareholders' General Meeting, we have conducted the audit of the accompanying Company financial statements of LISI for the financial year ended December 31, 2017.

We certify that the Company financial statements comply with French accounting rules and principles and provide a true and fair view of the earnings derived from the Company's activity during the year, as well as the financial situation and net worth at the end of the financial year.

The opinion expressed above is consistent with the content of our report to the Audit Committee.

Basis of our opinion

Audit standard

We have carried out our audit in accordance with the professional standards in use in France. We consider that the items we have gathered form both a sufficient and an appropriate basis for our opinion.

Our responsibilities under these standards are specified in the section "Responsibilities of Auditors relating to the audit of the Company financial statements" of this report.

Independence

We have carried out our audit in compliance with the rules of independence applicable to us, for the period running from January 1, 2017 to the date of issue of this report, and in particular, we have not provided services prohibited under Article 5, paragraph 1, of Regulation (EU) No. 537/2014 or under the French Code of Ethics for Auditors.

Justification of our assessments - Key audit matters

Pursuant to the provisions of Articles L.823-9 and R.823-7 of the French Commercial Code on the justification of our assessments, we inform you of the key audit matters relating to the risk of material misstatements which, in our professional judgment, have been more significant for the audit of the Company financial statements of the financial year, and how we tackled these risks.

These assessments form part of our task as Auditors of the Company financial statements, taken as a whole, and have helped us to form our opinion, as it is described above. We do not express an opinion on elements of these Company financial statements taken separately.

Risk identified: Valuation of equity interests

Equity interests, shown in the Assets at December 31, 2017 for a net amount of €252,761 thousand, is the largest item of the balance sheet.

As specified in Note 3.1.b, they are measured at the cost at which they were acquired, excluding the costs incurred for their acquisition or, if applicable, their value in use. The value in use is appraised based on a number of criteria including net assets and the profitability outlook.

Considering the weight of equity interests in the balance sheet and their sensitivity to variations in data and in the assumptions on which are based estimates of the profitability outlook, we have considered the measurement of the value in use of equity interests as a key audit matter.

How we tackled it

To appraise the estimate of the value in use of equity interests, based on information provided to us, our work included:

- analyzing, based on information provided to us, whether the estimate of these values by management is based on an appropriate justification of the valuation method and the figures used;
- comparing the data used for performing the tests of impairment of equity interests with source data by entity and with the results of audit work on these subsidiaries;
- checking, using sample testing techniques, the mathematical correctness of the calculation of values in use used by the company.

Review of the management report and other documents sent to shareholders

We have also carried out verifications specifically required by law, in accordance with French professional regulations.

The information provided in the management report and in other documents sent to shareholders on the financial situation and the Company financial statements.

We have no comments to make on the sincerity and consistency with the consolidated financial statements of the information provided in the management report of the Board or the documents sent to the shareholders on the financial position and the financial statements.

Report on corporate governance

We certify the existence, in the report of the Board of Directors on corporate governance, of the information required under Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

With regard to the information supplied in application on the provisions of Article L.225-37-3 of the French Commercial Code on payments and bonuses paid to corporate officers as well as on commitments approved in their favor, we have checked their consistency with the accounts or with the data used in the drawing-up of these accounts, and, where relevant, with the items gathered by your Company from companies controlling or controlled by your Company. On the basis of our work, we vouch for the precision and honesty of this information.

Additional information
Pursuant to the law, we have ensured that the information on the identity of holders of the capital or of voting rights have been provided to you in the management report.

Disclosures arising from other legal and regulatory obligations

Auditors appointment
We were appointed as Auditors of LISI by your Shareholders' General Meeting in 1993 for Exco et Associés and of April 27, 2011 for Ernst & Young et Autres.

At December 31, 2017, Exco et Associés was in the 25th year of its engagement and Ernst & Young et Autres in its 7th year.

Responsibilities of management and of those charged with corporate governance in relation to the Company financial statements
It is management's responsibility to draw up the Company financial statements giving a true and fair view in accordance with the French accounting rules and principles and to put in place the internal control that it deems necessary for drawing up the Company financial statements free of material misstatements, whether due to fraud or error.

When drawing up the Company financial statements, it is the responsibility of management to assess the company's capacity to continue its operations, to present in these financial statements, if applicable, the necessary information on the going concern assumption and to apply the going concern principle, unless it is planned to wind up the company or discontinue its operation.

It is the responsibility of the Audit Committee to monitor the process for preparation of the financial information and the effectiveness of internal control and risk management systems, and, if applicable, the internal audit systems, as regards the procedures relating to the preparation and processing of accounting and financial information.

The financial statements were approved by the Board of Directors.

Responsibilities of Auditors relating to the audit of the Company financial statements

Audit objective and approach
It is our responsibility to prepare a report on the Company financial statements. Our objective is to obtain a reasonable assurance that the Company financial statements, taken as a whole, are free of material misstatements. Reasonable assurance is a high level of assurance, without however guaranteeing that an audit conducted in accordance with professional standards systematically ensures that any material misstatement is detected. Misstatements may be due to frauds or errors and are considered as material where it is reasonable to expect that they can, taken separately or together, influence the economic decisions that users of the financial statements take based on them.

As set out in Article L.823-10-1 of the French Commercial Code, our task of certifying the financial statements does not consist in guaranteeing the viability or the quality of the management of your company.

As part of our audit conducted in accordance with the professional standards applicable in France, the Auditor exercises his professional judgment throughout this audit. Furthermore:

- The Auditor identifies and assesses the risks that the Company financial statements contain material misstatements, whether due to fraud or error, defines and implements audit procedures to tackle these risks, and gathers the information that he deems sufficient and relevant to form his/her opinion. The risk of non-detection of a material misstatement arising from a fraud is higher than that of a material misstatement arising from an error, since fraud may involve collusion, forgery, deliberate omissions, misrepresentations or the circumvention of internal control;
- he/she reviews the internal control relevant to the audit in order to define appropriate audit procedures in the circumstances, and not with the objective of expressing an opinion on the effectiveness of the internal control;
- he/she assesses the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as the disclosures provided in the Company financial statements;
- he/she assesses the appropriateness of the application by management of the accounting principle of going concern and, based on the information gathered, the existence or non-existence of a significant uncertainty relating to events or circumstances likely to undermine the company's ability to continue its operation. This assessment is based on information compiled up to the date of his/her report, it being specified however that subsequent circumstances or events may undermine the company's ability to continue as a going concern. If he/she concludes that there is a significant uncertainty, he/she draws the attention of readers of his/her report on the information provided in the Company financial statements regarding this uncertainty or, if such information is not provided or is not relevant, he/she issues a qualified opinion or refuses to certify;
- he/she assesses the overall presentation of the Company financial statements and appraises whether the Company financial statements reflect the underlying transactions and events such as to give a true and fair view;

Report to the Audit Committee
We submit a report to the Audit Committee presenting the scope of the audit work and the program of work implemented, as well as the findings following from our work. We also inform the Committee, where applicable, of significant weaknesses in internal control that we have identified as regards procedures relating to the preparation and processing of accounting and financial information.

The report to the Audit Committee includes information on the risks of material misstatements that we deemed to have been the most important for the audit of the Company financial statements of the financial year and which constitute the key audit matters that we have to describe in this report.

We also submit to the Audit Committee the declaration set out in Article 6 of Regulation (EU) No. 537-2014 confirming our independence, within the meaning of the rules applicable in France as they are set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Auditors. Where necessary, we discuss with the Audit Committee the risks to our independence and the safeguard measures applied.

Paris and Paris-La Défense, March 23, 2018

The Auditors

EXCO ET ASSOCIÉS	ERNST & YOUNG et Autres
Philippe Auchet	Pierre Jouanne

5. | REPORT BY THE INDEPENDENT THIRD PARTY ORGANIZATION ON THE CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION CONTAINED IN THE MANAGEMENT REPORT

Financial year ended December 31, 2017

Dear Shareholders,
As an independent third party body accredited by COFRAC[(1)] under No. 3-1050 and a member of the network of one of the auditors of the LISI Group, we present our report on the consolidated social, environmental and societal information for the period ended December 31, 2017, presented in the management report, subsequently referred to as the "CSR information" under the provisions of Article L.225-102-1 of the French Commercial Code.

Corporate responsibility
It is for the Board of Directors to prepare a management report including the CSR information provided for in Article R.225-105-1 of the French Commercial Code, in accordance with the standards used by the Company (hereinafter the "Repositories"), a summary of which is available in the management report and available upon request at the Company's headquarters.

Independence and quality control
Our independence is defined in the regulations, the Profession's Code of Ethics, as well as the provisions of Article L.822-11-3 of the French Commercial Code. In addition, we have implemented a quality control system that includes documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent third party organization
It is for us, based on our work, to:
- certify that the CSR required information is present in the management report or if it is omitted, is subject to an explanation in accordance with the third paragraph of Article R.225-105 of the French Commercial Code (CSR information presence certificate);express a moderate conclusion of assurance on the fact that all significant aspects of the CSR information, taken overall, are presented sincerely, in compliance with the Repositories (reasoned opinion on the fairness of the CSR information).

Six competent persons were involved in this work which was carried out between November 2017 and February 2018 over a total working period of about five weeks.
We conducted the work described below in accordance with professional standards applicable in France and the Order of May 13, 2013 determining the conditions under which the independent third party organization conducts its task and on the reasoned opinion of fairness, as per the international standard ISAE 3000[(2)].

1. CSR information presence certificate
Nature and scope of work
We have read, based on interviews with the heads of departments concerned, the presentation of guidelines for sustainable development, based on the social and environmental consequences of the Company's activities and of its social commitments and, where appropriate, of the resulting actions or programs.

We compared the CSR information presented in the management report with the list provided for in Article R.225-105-1 of the French Commercial Code.

Where some of the consolidated information is not provided, we verified that explanations were provided in accordance with Article R.225-105, paragraph 3 of the French Commercial Code.

We have verified that the CSR information covered the consolidation scope, namely the Company as well as its subsidiaries within the meaning of Article L.233-1 of the French Commercial Code, the companies it controls within the meaning of Article L.233-3 of the same code, with the limits laid down in the introduction to Chapter 6 of the annual report, namely that the environment indicators do not include information on the Chihuahua site, where the buildings do not belong to LISI and on Termax, which was acquired in 2017.

Conclusion
Based on this work and taking the aforementioned limits into account, we confirm the presence of the required CSR information in our management report.

2. Reasoned opinion on the fairness of the CSR Information

Nature and scope of work
We conducted several interviews with the individuals responsible for preparing the CSR information from the departments in charge of gathering information and, where appropriate, in charge of the internal audit and risk management procedures in order to:
- assess the appropriateness of the Repositories in terms of their relevance, completeness, reliability, neutrality and understandability, taking into account, where appropriate, the industry's best practices;
- verify the implementation of a process for collecting, compiling, processing and controlling the completeness and consistency of the CSR information and for gaining an understanding of the internal audit and risk management procedures relating to the elaboration of the CSR information.

(1) Scope of accreditation available at www.cofrac.fr
(2) ISAE – Assurance engagements other than audits or reviews of historical information.

We determined the nature and extent of our tests and inspections depending on the nature and importance of the CSR information in relation to the characteristics of the Company, the social and environmental challenges of its business, its guidelines on sustainable development and good industry practices.

For the CSR information we judged most important[1]:

- with respect to the parent Company, we reviewed the documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, based on polls, the calculations and consolidation of the data and verified their consistency with the other information contained in the management report;
- with respect to a sample representative of entities[2] we selected based on their activity, their contribution to the consolidated indicators, their location, and a risk analysis, we conducted interviews to verify the proper application of procedures and implemented detailed tests on the basis of samples, that consisted in verifying the calculations and reconciling the data from the supporting documents. On average, the sample thus selected represented 10% of the headcount and 15% of electricity consumption.

With respect to the other consolidated CSR information, we noted their consistency with our knowledge of the Company.

Finally, we assessed the relevance of the explanations regarding, if any, the total or partial absence of certain elements of information.

We believe that the sampling methods and sample sizes we chose by exercising our professional judgment allow us to draw a moderate assurance conclusion; a higher level of assurance would have required a more extensive review. Due to the use of sampling techniques as well as to the other limitations inherent to the operation of any information and internal control system, the risk of not detecting a material misstatement in the CSR information cannot be completely ruled out.

Conclusion

Based on our work and subject to this reservation, we did not identify any material anomalies likely to call into question the fact that the CSR information, as a whole, are presented in a fair manner, in accordance with the Repositories.

Paris-La Défense, March 10, 2018

Independent Third Party Organization
ERNST & YOUNG et Associés

Christophe Schmeitzky
Sustainable Development Partner

Bruno Perrin
Partner

(1) **Social information:** employment (total headcount and distribution, new recruitments and redundancies), organization of work (absenteeism), health and safety (occupational health and safety measures, work related accidents, particularly their frequency and severity), training (training policies in place, total training time).
Environmental and society-related information: the general policy concerning the environment (Company organization), pollution and waste management (measures for the prevention, recycling and elimination of waste), use of sustainable resources and climate change (energy consumption), significant items of greenhouse gas emissions generated by the company's activity.

(2) The sites of Marmande (LISI AEROSPACE), Mélisey and Grandvillars (LISI AUTOMOTIVE).

6. | DRAFT RESOLUTIONS

ORDINARY SHAREHOLDERS' GENERAL MEETING OF APRIL 24, 2018

of the competence of the Ordinary Shareholders' General Meeting

- Review and approval of the Company financial statements for the period ended December 31, 2017.
- Approval of consolidated financial statements for the period ended December 31, 2017.
- Approval of the agreements set out in Articles L.225-38 *et seq.* of the French Commercial Code.
- Discharge to the Directors and Auditors.
- Appropriation of earnings.
- Non-renewal of a director's term of office.
- Renewal of directors term of office.
- Approval of the compensation to the Chairman of the Board of Directors, the CEO and the Deputy CEO in respect of financial year ended December 31, 2017.
- Approval of the principles and criteria for the determination, breakdown and allocation of the components of the compensation of the Chairman of the Board of Directors, the CEO and the Deputy CEO.
- Authorization for the Company to repurchase its own shares.
- Approval of the transfer of the head office.

of the competence of the extraordinary Shareholders' General Meeting

- Introduction of a dividend premium and consequential amendment of the Articles of Association.
- Powers.
- Miscellaneous questions.

DRAFT RESOLUTIONS

First resolution – Approval of corporate financial statements

Having listened to the reading of the Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves the Company financial statements established as at December 31, 2017, as they are presented, with profits of €20,110,606 as well as the transactions described in these financial statements or summarized in these reports.

In particular, the Shareholders' General Meeting approves the spending carried out over the last year in relation to the transactions covered by Article 39-4 of the French General Tax Code, which amounts to a total of €22,252.

Second resolution – Approval of consolidated financial statements

Having listened to the reading of Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves, as they are presented, the consolidated financial statements set out in accordance with Article L.233-16 *et seq.* of the French Commercial Code as at December 31, 2017, showing profits of €107,965,404.

Third Resolution – Approval of the agreements set out in Article L.225-38 of the French Commercial Code

Having listened to the reading of the Auditors' special report on the conventions covered by Articles L. 225-38 of the French Commercial Code, the Shareholders' General Meeting approves the sections indicated in this report.

Fourth resolution – Discharge to the Directors

The Shareholders' General Meeting gives full discharge to the Directors for their work for the financial year 2017, and to the Auditors for their term of office.

Fifth resolution – Earnings appropriation

Acting on the proposal of the Board of Directors, the Shareholders' General Meeting has decided to allocate last year's profits as follows:

profits for the financial year of	€20,110,606
plus retained earnings in the amount of	€87,007,760
To give a total of	**€107,118,366**

constituting the distributable profit, which the Board of Directors proposes to allocate as follows:

as dividends to shareholders **€0.48** per share,	
i.e. the sum of	€25,931,460
to be paid on May 4, 2018	
remainder to be carried forward, for a total of	€81,186,906
it being understood that this amount will be increased by the sum of the dividends payable on the shares owned by the Company as of the ex-dividend date.	

The dividend for each share amounts to €0.48. The portion of the dividend eligible for the tax rebate of 40% under Article 158-3-2° of the French General Tax Code is €0.48.

In addition, the Shareholders' General Meeting acknowledges that it has been apprised that the dividend payouts per share for the last three years were as follows:

Financial year ending	Dividend paid eligible for the 40% rebate
December 31, 2014	€0.37
December 31, 2015	€0.39
December 31, 2016	€0.45

Sixth resolution – Non-renewal of a director's term of office

The Shareholders' General Meeting duly notes the decision of Mr. Éric André not to ask the Board of Directors to propose the renewal of his term of office as Director expiring with this Shareholders' General Meeting.

Seventh resolution – Renewal of a director's term of office

The Shareholders' General Meeting, on a proposal by the Board of Directors, renews the term of office as Director of Mrs. Lise Nobre for a period of four years which shall expire following the Ordinary General Meeting of 2022 to approve the financial statements for the financial year ending on December 31, 2021.

Eighth resolution – Renewal of a director's term of office

The Shareholders' General Meeting, on a proposal by the Board of Directors, renews the term of office as Director of Mrs. Capucine Kohler for a period of four years which shall expire following the Ordinary General Meeting of 2022 to approve the financial statements for the financial year ending on December 31, 2021.

Ninth resolution – Renewal of a director's term of office

The Shareholders' General Meeting, on a proposal by the Board of Directors, renews the term of office as Director of Mrs. Marie-Hélène Peugeot - Roncoroni for a period of four years which shall expire following the Ordinary General Meeting of 2022 to approve the financial statements for the financial year ending on December 31, 2021.

Tenth resolution – Renewal of a director's term of office

The Shareholders' General Meeting, on a proposal by the Board of Directors, renews the term of office as Director of Mrs. Isabelle Carrere for a period of four years which shall expire following the Ordinary General Meeting of 2022 to approve the financial statements for the financial year ending on December 31, 2021.

Eleventh resolution – Opinion on the compensation allocated to the Chairman of the Board of Directors in respect of the financial year ended December 31, 2017

The Shareholders' General Meeting, in accordance with the provisions of Article L.225-110 II of the French Commercial Code, approves the amounts of the fixed components comprising the total compensation and benefits in kind allocated to Mr. Gilles Kohler in his capacity as Chairman of the Board of Directors, as described in the report appended to the management report prepared by the Board of Directors.

Twelfth resolution – Opinion on the compensation allocated to the CEO in respect of the financial year ended December 31, 2017

The Shareholders' General Meeting, in accordance with the provisions of Article L.225-110 II of the French Commercial Code, approves the amounts of the fixed, variable and long-term components comprising the total compensation and benefits in kind allocated to Mr. Emmanuel Viellard in his capacity as the CEO, as described in the report appended to the management report prepared by the Board of Directors.

Thirteenth resolution – Opinion on the compensation allocated to the Deputy CEO in respect of the financial year ended December 31, 2017

The Shareholders' General Meeting, in accordance with the provisions of Article L.225-110 II of the French Commercial Code, approves the amounts of the fixed, variable and long-term components comprising the total compensation and benefits in kind allocated to Mr. Jean-Philippe Kohler in his capacity as the Deputy CEO, as described in the report appended to the management report prepared by the Board of Directors.

Fourteenth resolution – Approval of the principles and criteria for the determination, breakdown and allocation of the components of the compensation of the Chairman of the Board of Directors in respect of financial year 2018

The Shareholders' General Meeting, in accordance with the provisions of Article L.225-37-2 of the French Commercial Code, approves the fixed components comprising the total compensation and benefits in kind allocated to Mr. Gilles Kohler in his capacity as Chairman of the Board of Directors, as described in the report appended to the management report prepared by the Board of Directors and presenting this draft resolution.

Fifteenth resolution – Approval of the principles and criteria for the determination, breakdown and allocation of the components of the compensation of the CEO in respect of financial year 2018

Shareholders' General Meeting, pursuant to the provisions of Article L.225-37-2 of the French Commercial Code, approves the principles and criteria for the determination, breakdown and allocation of the fixed, variable and long-term components comprising the total compensation and benefits in kind paid and allocated to Emmanuel Viellard in his capacity as CEO, as described in the report appended to the management report prepared by the Board of Directors and presenting this draft resolution.

Sixteenth resolution – Approval of the principles and criteria for the determination, breakdown and allocation of the components of the compensation of the Deputy CEO in respect of financial year 2018

The Shareholders' General Meeting, pursuant to the provisions of Article L.225-37-2 of the French Commercial Code, approves the principles and criteria for the determination, breakdown and allocation of the fixed, variable and long-term components making up the total compensation and benefits in kind paid and allocated to Jean-Philippe Kohler in his capacity as Deputy CEO, as described in the report appended to the management report prepared by the Board of Directors and presenting this draft resolution.

Seventeenth resolution – Share buyback program

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

- cancels the purchase authorization given on April 26, 2017;

- gives its authorization, in accordance with Articles L.225-209 et seq. of the French Commercial Code, to the Board of Directors, to proceed, by whatever means it deems appropriate, to buy back its own shares, representing up to 10% of the Company's share capital, corresponding to 5,402,387 shares, except for the acquisition of shares meant to be retained and the delivery of shares to be used as consideration or payment for external growth operations whose total will be limited to 5% of the share capital or 2,701,193 shares;
- decides that the acquired shares will be used as follows:
  - to increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the professional Code of Ethics recognized by the AMF (the French financial market authority);
  - to grant stock options or free shares to employees and corporate officers of the Company and/or its Group;
  - to retain and use shares as consideration or payment for potential acquisitions;
  - to cancel shares purchased, subject to the approval of the Extraordinary General Meeting to be called at a later date.

Shares can be acquired or sold by any means and at any time, in accordance with the regulations in force, on or off the market, including through the use of derivatives traded on a regulated market or by private contract.

The Company undertakes to remain at all times within the limits set by Article L.225-209 of the French Commercial Code.

The following terms apply to this authorization:

- the Company may not repurchase its own shares for more than €60, not including transaction fees.

The highest figure that LISI SA would pay if it purchased shares at the ceiling price set by the Shareholders' General Meeting, i.e. €60 is €265,530,000.

This authorization is valid for a period of 18 months from the date of this Shareholders' General Meeting.

- Assigns full powers to the Board of Directors, which may choose to delegate them, within the limitations detailed above, to put in stock market orders, to negotiate agreements in the aim of carrying out all formalities and all declarations to all organizations, to carry out all other formalities and, as a general rule, to do all that is necessary.

Eighteenth resolution - Approval of the transfer of the head office

The Shareholders' General Meeting approves the decision taken by the Board of Directors, at its meeting of October 25, 2017, to transfer the head office from Le Millenium – 18 rue Albert Camus – 90000 BELFORT to 6 rue Juvénal VIELLARD – 90600 GRANDVILLARS as from January 1, 2018.

Therefore, it also approves the amendment to the Articles of Association made by the said Board of Directors to complete the legal formalities.

OF THE COMPETENCE OF THE EXTRAORDINARY SHAREHOLDERS' GENERAL MEETING

Nineteenth resolution – Introduction of a dividend premium - Amendment of the Articles of Association

The Shareholders' General Meeting, having listened to the reading of Board of Directors' report decides to add in the Articles of Association the allocation of a dividend premium to shareholders meeting the conditions set out at Article L. 232-14 of the French Commercial Code. Therefore, the Shareholders' General Meeting decides to amend the Article "Appropriation of earnings" of the Articles of Association, as follows:

Article 17 – Distribution of earnings

The following paragraphs are added:

A dividend premium of 10% is allocated to any shareholder who, at the financial year-end, has held registered shares for at least two years and still holds them at the date of the dividend payout.

As long as the company's shares are admitted for trading on a regulated market, the number of shares eligible for this dividend premium cannot exceed, for one and the same shareholder, 0.5% of the company's share capital.

The same premium may be allocated under the same conditions in the event of distribution of free shares.

The rest of the article remains unchanged.

Twentieth resolution - Formalities

The Shareholders' General Meeting assigns all rights to the bearer of an original, a copy or extracts of the minutes of its deliberations for the purpose of accomplishing all formalities, as well as all legally required filings and publications.

A) Formalities to be accomplished in order to participate in the Shareholders' General Meeting

The Shareholders' General Meeting is composed of all the shareholders, regardless of the number of shares they own.

Shareholders wishing to participate in the Shareholders' General Meeting, be represented or vote by correspondence, must provide proof of ownership of their shares on the second working day preceding the Shareholders' General Meeting at midnight Paris time (or April 20, 2018, midnight Paris time) by the registration in an account of their shares in their name, in accordance with the conditions set out in Article R.225-85 of the French Commercial Code.

B) Method for participating in the Shareholders' General Meeting

1. Shareholders wishing to personally attend the Shareholders' General Meeting may:
   - **for registered shareholders:**
     - on the day of the Shareholders' General Meeting, go directly to the counter specially provided for this purpose with proof of identity,

- or ask for an admission card from BNP PARIBAS Securities Services, – CTS Assemblées Générales – Les Grands Moulins de Pantin 9, rue du Débarcadère – 93761 Pantin Cedex;
- **for holders of bearer shares:** ask the authorized intermediary who manages their securities account for an admission card to be sent to them.

2. Shareholders not attending the Shareholders' General Meeting in person and wishing to vote by correspondence or to be represented by giving a proxy to the Chairman of the General Meeting, or to any other person, may:
- **for registered shareholders:** return the single postal or proxy voting form provided with the notice of meeting, to the following address: BNP PARIBAS Securities Services, – CTS Assemblées Générales – Les Grands Moulins de Pantin – 9, rue du Débarcadère – 93761 Pantin Cedex.
- **for holders of bearer shares:** ask for this single postal or proxy voting from the intermediary who manages his/her securities, from the date the Shareholders' General Meeting is convened. The said single voting form must be accompanied by a participation certificate issued by the financial intermediary and sent to the following address: BNP Paribas Securities Services - CTS Assemblées Générales – Les Grands Moulins de Pantin 9, rue du Débarcadère – 93761 Pantin Cedex.
  To be accepted, postal voting forms must be received by the issuer or the Assemblées Générales Department of BNP Paribas Securities Services, at the latest three days prior to the General Meeting.
  The shareholders may obtain, within the legal time limits, the documents provided for in Articles R.225-81 and R. 225-83 of the French Commercial Code by request sent to BNP PARIBAS Securities Services, – CTO Assemblées Générales – Les Grands Moulins de Pantin – 9, rue du Débarcadère – 93761 Pantin Cedex.

3. Pursuant to the provisions of Article R.225-79 of the French Commercial Code, the notification of the appointment and the withdrawal of a proxy may also be made by electronic means, as follows:
- **for pure registered shareholders:** the shareholder must send an email with an electronic signature obtained from an authorized third-party certifier to the following electronic address: paris.bp2s.france.cts.mandats@bnpparibas.com stating the name of the concerned issuer, the date of the Shareholders' General Meeting, their surname, first name, address and BNP Paribas Securities Services user name as well as the surname, first name and address of the proxy;
- **for bearer or administered registered shareholders:** the shareholder must send an email with an electronic signature obtained by him from an authorized third-party certifier to the following electronic address: paris.bp2s.france.cts.mandats@bnpparibas.com stating the name of the concerned issuer, the date of the Shareholders' General Meeting, their surname, first name, address and full banking references as well as the surname, first name and address of the proxy.

It is mandatory for shareholders to ask their authorized intermediary who manages their securities account to send a written confirmation to BNP Paribas Securities Services – CTS, Assemblées Générales – Les Grands Moulins de Pantin 9, rue du Débarcadère – 93761 Pantin Cedex.

So that the proxy appointments or withdrawals expressed by electronic means can be validly taken into consideration, the confirmations should be received, at the latest, on the day before the meeting at 3.00 p.m. (Paris time). The appointment or withdrawal of proxies expressed in printed form should be received at the latest three calendar days prior to the date of the Shareholders' General Meeting.

Only notifications of proxy appointments or withdrawals may be sent to the aforementioned electronic address; any other application or notification on another subject cannot be taken into consideration.

C) Applications for draft resolutions or items by shareholders and written questions

1. Applications for items or draft resolutions to be entered on the agenda by shareholders meeting the conditions laid down in Article R.225-71 of the French Commercial Code must be received at the head office, by registered letter with request for acknowledgment of receipt, at the following address: LISI SA, 6 Rue Juvénal VIELLARD – CS70431 GRANDVILLARS - 90008 Belfort Cedex, within 25 (calendar) days prior to the date Shareholders' General Meeting, in accordance with Article R.225-73 of the French Commercial Code. The applications must be accompanied by a certificate of registration.

Each application must be accompanied, as per the case, by the draft resolutions proposed, to which may be attached a brief explanatory statement. Furthermore, consideration by the Shareholders' General Meeting of the draft resolutions and the items submitted by shareholders is subject to the authors' maintenance of the shares registered in their name on the second working day preceding the Shareholders' General Meeting at midnight Paris time.

2. In accordance with Article R.225-84 of the French Commercial Code, each shareholder has the right to send the Board of Directors, which will reply at the meeting, the questions they choose.
Questions must be sent by registered letter with request for acknowledgment of receipt to the following address: LISI SA, 6 Rue Juvénal VIELLARD – CS70431 GRANDVILLARS - 90008 Belfort Cedex.
They must be sent at the latest four working days prior to the date of the Shareholders' General Meeting.

D) Shareholders' right of communication

All the documents and information laid down in Article R.225-73-1 of the French Commercial Code may be consulted on the Company's site: https://www.lisi-group.com from the twenty-first day preceding the Shareholders' General Meeting.

The Board of Directors

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