2018 FINANCIAL REPORT

lisi

SUMMARY

1 GENERAL INFORMATION REGARDING THE COMPANY

1 | 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 for this purpose, 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, 27th March-2019
Emmanuel VIELLARD
CEO

1.3 | Statutory auditors

Regular auditors:
EXCO et Associés represented by Pierre BURNEL
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 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**
    Bangalore (India)*
    Izmir (Turkey)
    Rugby (United Kingdom)
    Saint-Brieuc
    Saint-Ouen-l'Aumône
    Tangiers (Morocco)
    Vignoux-sur-Barangeon
    Villefranche-de-Rouergue
  - **North America**
    City of Industry (USA)
    Dorval (Canada)
    Torrance (USA)
- **Structural components**
  - **Formed structural components**
    Marmande
    Rzeszow (Poland)
  - **Forged structural components**
    Bar-sur-Aube
    Bologne
    Chihuahua (Mexico)*
    Parthenay
  - **Aerostructure & Aircraft equipment**
    Argenton-sur-Creuse
    Casablanca (Morocco)
    Saint Maur
  - **Additive manufacturing**
    Ayguemorte-les-Graves

LISI MEDICAL

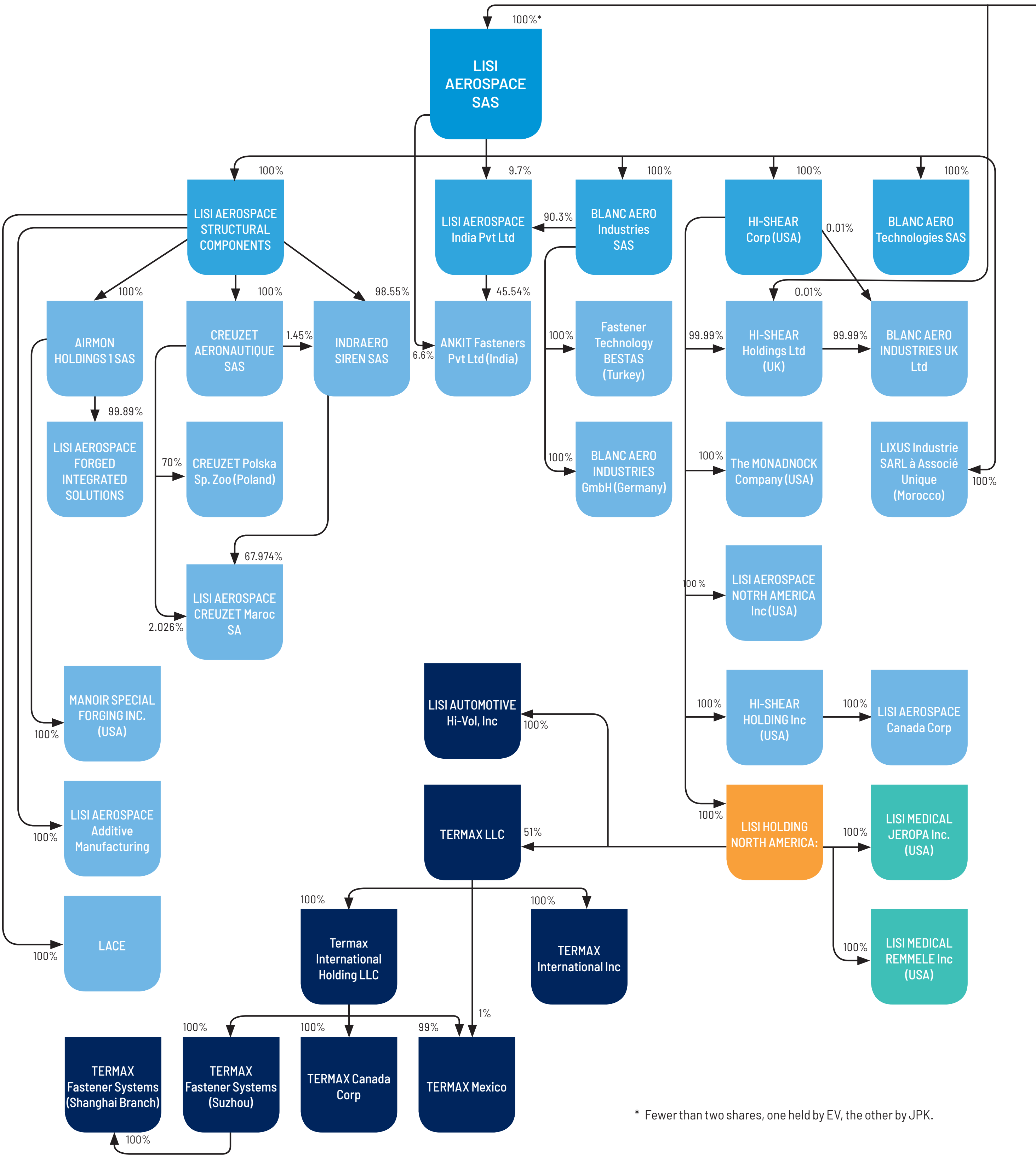
- **Medical Europe**
  Hérouville-Saint-Clair
  Neyron
- **Medical USA**
  Big Lake
  Coon Rapids
  Escondido

LISI AUTOMOTIVE

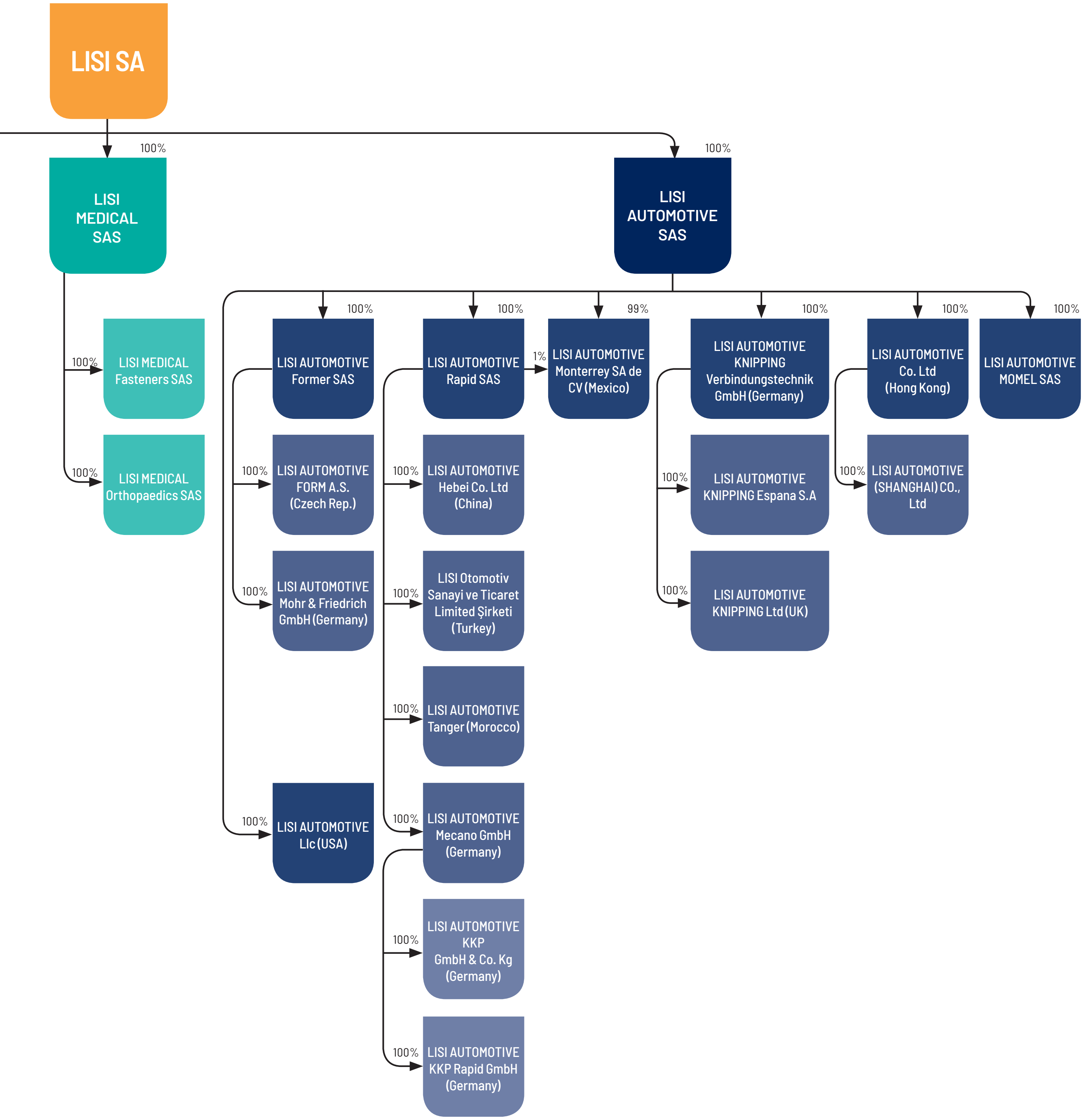
- **Threaded fasteners**
  Dasle
  Delle
  Dreux
  Fuenlabrada (Spain)
  Kierspe (Germany)
  La Ferté Fresnel
  Saint-Florent
  Vöhrenbach (Germany)
- **Clipped solutions**
  Heidelberg (Germany)
  Mellrichstadt (Germany)
  Zhuozhou (China)
  Puiseux
  Monterrey (Mexico)
  Lake Zurich (USA)
  Queretaro (Mexico)
  Suzhou (China)
- **Safety mechanical components**
  Cejc (Czech Rep.)
  Livonia (USA)
  Melisey
  Shanghai (China)
- **Support activities**
  Grandvillars
  Lure

*Secondary sites

4 | Legal organization chart



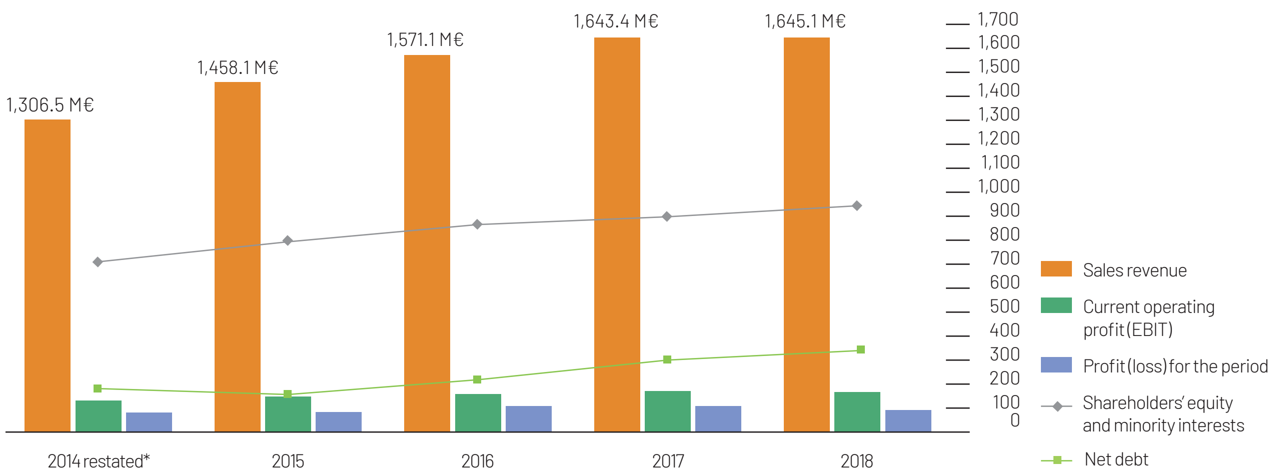
* Fewer than two shares, one held by EV, the other by JPK.


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 FORM A.S. (Czech Rep.)
100%
LISI AUTOMOTIVE Mohr & Friedrich GmbH (Germany)
100%
LISI AUTOMOTIVE Llc (USA)
100%
LISI AUTOMOTIVE Rapid SAS
100%
LISI AUTOMOTIVE Hebei Co. Ltd (China)
100%
LISI Otomotiv Sanayi ve Ticaret Limited Şirketi (Turkey)
100%
LISI AUTOMOTIVE Tanger (Morocco)
100%
LISI AUTOMOTIVE Mecano GmbH (Germany)
100%
LISI AUTOMOTIVE KKP GmbH & Co. Kg (Germany)
100%
LISI AUTOMOTIVE KKP Rapid GmbH (Germany)
1%
99%
LISI AUTOMOTIVE Monterrey SA de CV (Mexico)
100%
LISI AUTOMOTIVE KNIPPING Verbindungstechnik GmbH (Germany)
100%
LISI AUTOMOTIVE KNIPPING Espana S.A
100%
LISI AUTOMOTIVE KNIPPING Ltd (UK)
100%
LISI AUTOMOTIVE Co. Ltd (Hong Kong)
100%
LISI AUTOMOTIVE (SHANGHAI) CO., Ltd
100%
LISI AUTOMOTIVE MOMEL SAS

5 | Key figures

(in millions of euros)	2018	2017	2016	2015	2014 restated*
Sales revenue	1,645.1	1,643.4	1,571.1	1,458.1	1,306.5
Current operating profit (EBIT)	135.6	171.4	157.5	146.5	131.8
Profit (loss) for the period attributable as company shareholders' equity	92.1	108	107	81.9	81.6
Shareholders'equity and minority interests	943.6	897.7	865.2	793.4	710
Net debt	339.3	300.2	218.2	156.6	181.2
Registered Headcount	12,131	11,958	11,587	10,923	10,701

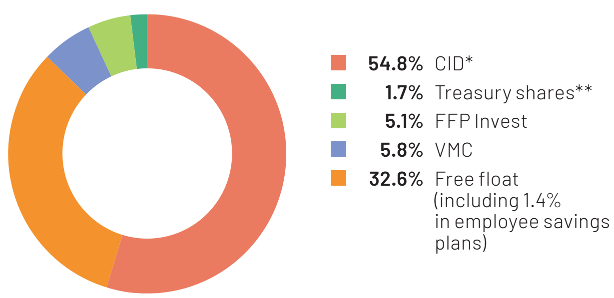
* 2014 financial statements restated to account for IFRIC 21.



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: 54,114,317
Market capitalization at December 31, 2018: €1,109.3 million
Indices: CAC® AERO&DEF., CAC® All Shares, CAC® Industrials



* Including direct and indirect holdings:
VMC: 20.95%
FFP Invest: 18.96%
CIKO: 16.87%
** Reserved for performance share plans

Liquidity of the share

Float capital turnover rate: 44%

Average number of securities traded per day in 2018: 30,390

Month	Closing price	Highest price	Lowest price	Session average	Transaction volumes	Securities traded during the month
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
March	32.70	38.20	32.55	35.38	47,453	1,313,180
April	30.60	36.45	29.55	33.00	42,562	1,283,343
May	33.90	34.00	30.10	32.05	22,999	716,686
June	32.45	36.30	32.25	34.28	25,437	736,226
July	29.65	33.55	29.00	31.28	19,532	626,520
August	35.40	36.40	29.05	32.73	11,130	338,478
September	31.05	35.25	30.95	33.10	10,463	319,656
October	25.75	31.20	25.40	28.30	11,249	404,387
November	27.10	27.10	22.85	24.98	8,334	333,387
December	20.50	28.35	18.80	23.58	7,256	331,198
2019						
January	27.70	27.70	20.20	23.95	7,626	307,914
February	27.00	28.30	24.50	26.40	6,481	247,015

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 integrated 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

Founding 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 found 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

During the 90's, GFI Industries strengthens in its different sectors through the acquisition of more than fifteen companies in Europe and the United States, while the group withdraws from GFD (standard).

2002

To better delineate its specialist areas, GFI Industries becomes LISI, (LInk Solutions for Industry); its three divisions each take on this name and add their main business line:
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).

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;
- LISI MEDICAL purchases a hip implant production site from the US group STRYKER Corporation, one of the world's leading medical technology suppliers, boosting its initial acquisitions of 2007.

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 is purchased and incorporated within the Aerospace division as of July 1, 2011.

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.

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.

The LISI Group expands into 3D printing, with the creation of a subsidiary, LISI AEROSPACE ADDITIVE MANUFACTURING, dedicated to the additive manufacturing of mechanical parts for the aeronautical and space industries.

2016

The LISI Group acquires 100% of the shares of Remmele Medical Operations (USA), which specializes in the manufacture of implants and minimally invasive surgery instruments.

2017

On October 31, 2017, LISI Group bought 51% of the shares of TERMAX (Automobile USA) and committed to purchase the remaining 49% by March 31, 2021.

2018

LISI Group receives ISO 14001 and OHSAS 18001 certification for all of its activities. Previously each LISI site was individually certified, but the Group now has single, multi-site certification.

LISI AUTOMOTIVE confirms the acquisition of the assets of US company Hi-Vol Products, intended to strengthen its global position in the production of safety mechanical components by having a strong technical base in North America.

LISI AUTOMOTIVE sells BETEO GmbH & Co. KG. (€6.9m sales revenue in 2018) specialized in surface technology to the German company BENSELER, with which a subcontracting agreement was signed.

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;
- 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" nominee 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 gifts 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% of 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 minutes, 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

€934.0 million
SALES REVENUE
57% of consolidated sales revenue

7,214
STAFF
59% of Group headcount

€75.6 million
CAPEX
58% of total Group CAPEX

Activity
Fasteners and assembly and structural components for the aerospace industry

Flagship products

Airframe Fasteners

Structural fasteners, mainly titanium;
HI-LITE™, HI-LOK™, HI-TIGUE™ screws and nuts;
PULL-IN™ fasteners, PULL-STEM™, TAPER-HI-LITE™, STL™;
STARLITE™ nuts;
OPTIBLIND™ blind fasteners;
Lockbolts crimped fasteners.

Engine Fasteners

Engine fasteners (high temperature resistance 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

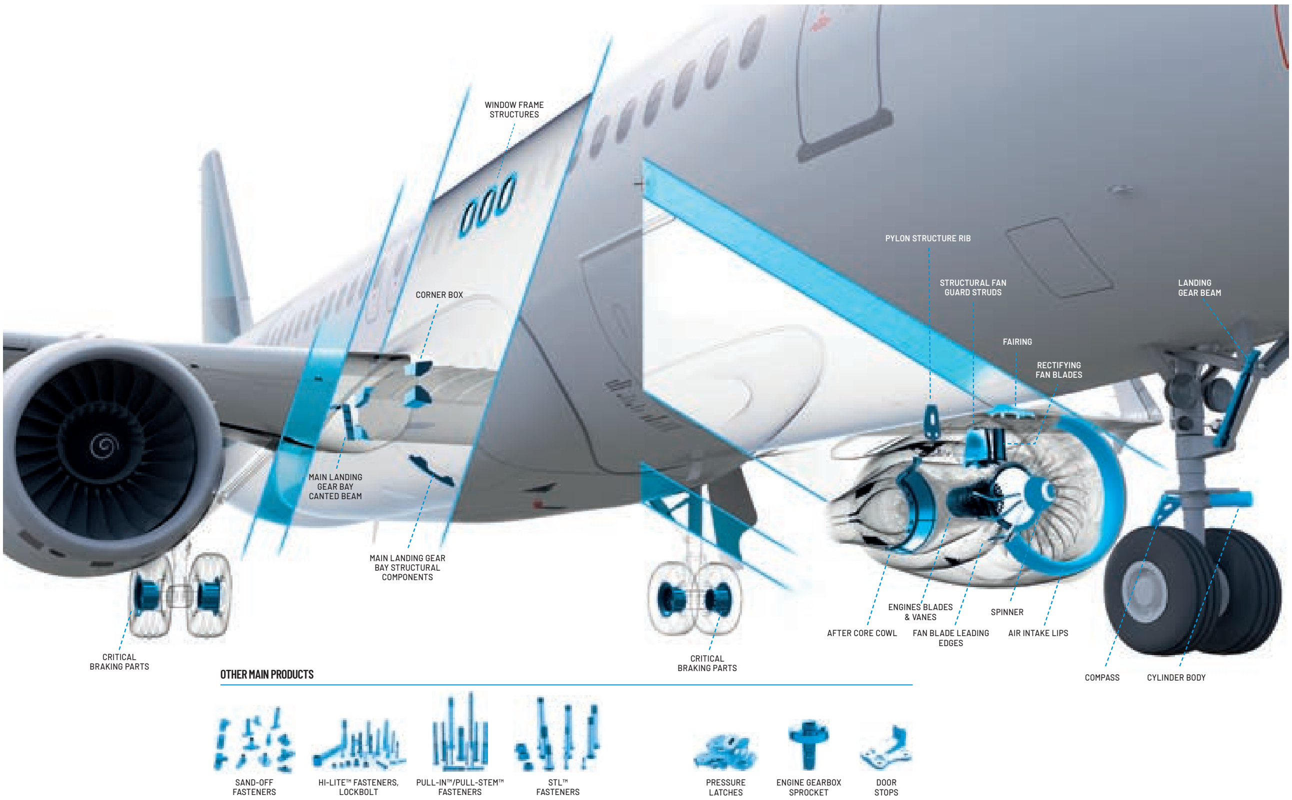
Fasteners and components for motor sports. Other high quality automotive fasteners.

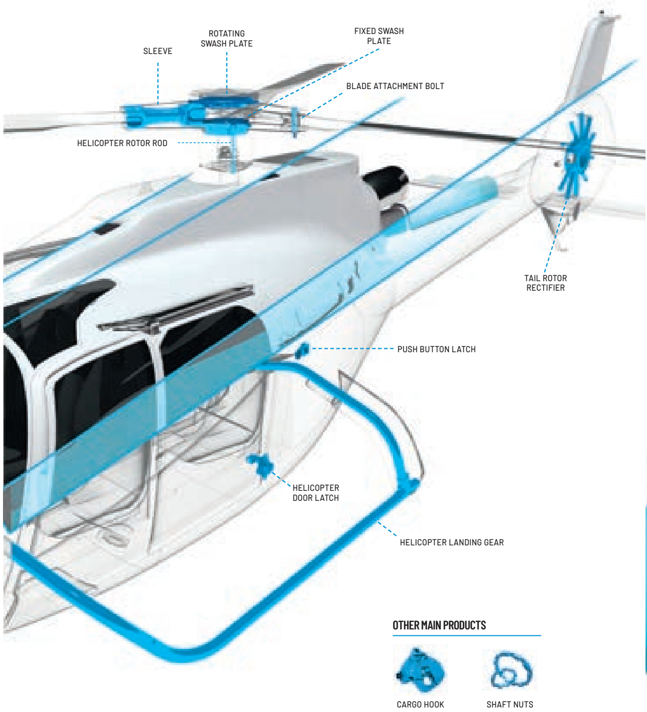
Structural components

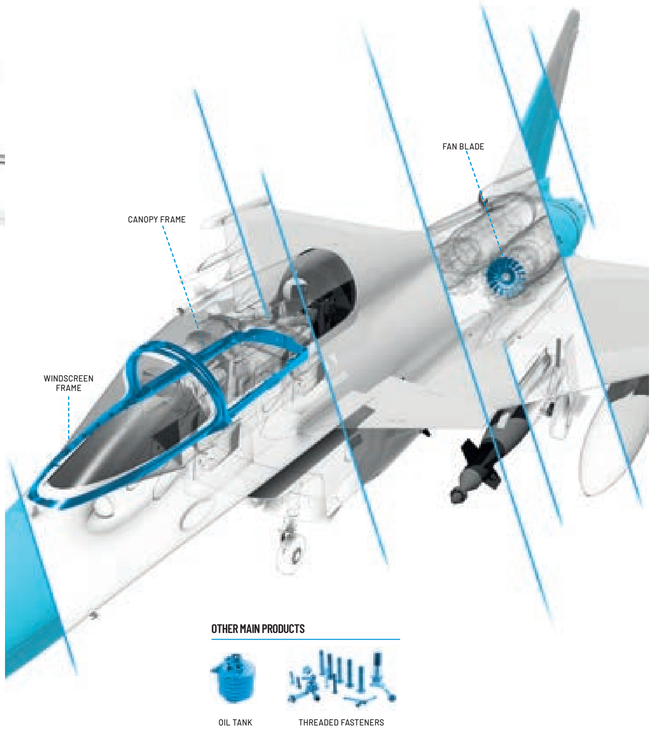
Primary forged, sheet metal and composite structural parts, complex assembled subsets, integrated into the aircraft airframe or engine: blades, leading edges, arms and OGVs, beams, shells, air in take lips, trunk area, drives, gears, door stop, helicopter floor, APU nozzles, etc.
helicopter cargo hook.

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

Competitors
ACB;
Arconic;
Böhler;
BTL;
Doncaster;
Figeac Aero;
Forgital;
Lauak;
Leistritz;
Macstarlite;
Mettis;
Otto Fuchs;
Precision Castpart Corp;
TECT Power;
TriMas Aerospace;
Universal AlloyCorporation.







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

€581.1 million
SALES REVENUE
35% of consolidated sales revenue

3,931
STAFF
32% of Group headcount

€43.6 million
CAPEX
33% 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;
nuts, spacers and hollow bodies, screws and riveting nuts, multi-material fasteners and assembly equipment.

Clipped solutions

snap-on nuts with tapped drums;
clip assembly systems for tubes, cables, and beams;
magnetic assembly solutions;
rivets and pins;
axis fasteners;
blanking plugs and cable grommets, fasteners for panels;
elastic fasteners for panels covering airbags;
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);
parking brake system;
seat mechanism pinions and linkage;
engine and gear shift components, direction components.

Customers

Carmakers:

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

Parts Manufacturers:

Adient;
Autoliv;
Bosch;
CBI;
Faurecia;
Grupo Antolin;
Jtekt;
Magna;
Plastic Omnium;
TI Automotive;
Yangfeng;
ZF;

Manufacturing:

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

Competitors

ABC;
Agrati;
A. Raymond;
Bôllhoff;
Brugola;
Bulten;
Ejot;
Fontana;
Hewit;
ITW;
Kamax;
Nedschroef;
Nifco;
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

€130.7 million
SALES REVENUE
8% of consolidated sales revenue

959
STAFF
8% of Group headcount

€10.6 million
CAPEX
8% of total Group CAPEX

Activity
Medical implant and auxiliary parts subcontractor

Flagship products

Orthopedics and osteosynthesis;

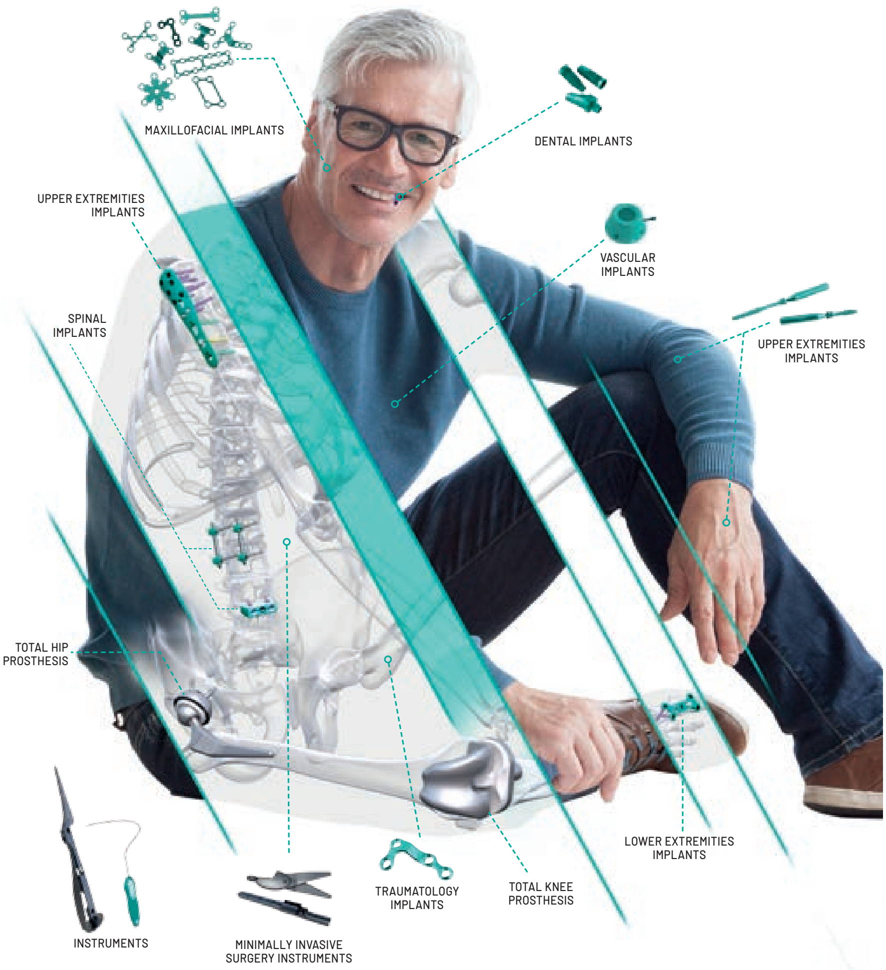
Hip;
Knee;
Shoulder;
Spine;
Trauma;
Extremities;
OMFS;
Orthopedic instruments.

Advanced surgical technologies:

Cardiovascular;
Urology;
Manual and robotic laparoscopy.

Customers
Ace Surgical;
Alphatec;
Argen;
Boston Scientific;
Coloplast;
Integra Lifescience;
Intuitive surgical;
Johnson & Johnson subsidiaries;
Medacta;
Medicrea;
Medtronic;
Meril;
Next Ortho;
Osd;
Osteocentric Technologies;
Smiths;
Stryker;
Wright Medical;
Zimmer-Biomet.

Competitors
Avalign;
CeramTec;
Freudenberg Medical;
Integer;
Marle;
NN Inc;
Norwood;
Orchid;
TE Connectivity (Creganna);
Tecomet;
Viant.



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 turning, milling, forging, packaging under sterile conditions, laser marking and special processes.

2 | Group activity during the financial year and future outlook

Declaration of Extra-Financial Performance (Art. R 225-105 of the French Commercial Code)

The Consolidated Declaration of Non-Financial Performance (DPEF) for the year ended December 31, 2018 is presented in this chapter of the Management Report pursuant to the legal and regulatory provisions of Articles R. 225-105 of the French Commercial Code.

Information related to the DPEF is presented in various chapters of the Annual Report, as indicated in the following correlation table:

DPEF items stipulated by Article R. 225-105 I of the French Commercial Code	DPEF Declaration of the LISI Group
Presentation of the entity's business model	**Chapter 1** General information regarding the Company **Chapter 2** Financial situation
Description of the main risks associated with the entity's business, incorporating the social and environmental spheres, and where applicable, the respect of human rights and the fight against corruption and tax evasion, and including any items that may prove relevant or appropriate, and the risks generated by its business relations, products or services.	**Chapter 5** Risk factors **Chapter 6** Corporate Social Responsibility
Description of the policies applied by the entity including, where applicable, the reasonable due diligence measures implemented to prevent, identify and mitigate the occurrence of these risks. Description of the results of these policies, including the key performance indicators. Information regarding the consequences of climate change on the Company's business and the use of the goods and services it produces, its societal commitments to sustainable development, the circular economy, the fight against food waste and food insecurity, the respect of animal well-being and responsible, fair and sustainable ways of eating, the collective agreements signed within the Company and their impacts on its economic performance as well as on the working conditions of employees, actions aimed at fighting discrimination and promoting diversity and measures implemented for disabled persons. Presentation of data from the previous year, when the entity was subject to the DPEF during the preceding financial year. Mention of the national or international reference document if the entity voluntarily complies with it. Recommendations of said reference as well as methods used to consult it.	**Chapter 6** Corporate Social Responsibility 1. LISI is a Member of the UN Gobal Compact Program 2. LISI Group values 3. Organization and governance 4. Methods used by LISI in shaping its CSR approach 5. LISI's strategic challenges 6. Human Resources 7. Health, Safety and Environment 8. Responsible purchasing 9. Product safety and security 10. Anti-corruption efforts Scope and Exclusions

2.1 | LISI Consolidated

- Sales revenue reached €1,645.1 million, stable when compared to 2017 (+0.1%);
- Current operating profit dropped by nearly 21%;
- Free Cash Flow[(1)] was largely positive at €57.3 million, and improved when compared to 2017 due to the high CAPEX level over the past few years;
- Based on an encouraging 2018 year-end and assuming stability in its main markets, the Group's objectives for 2019 are to return to positive organic growth, surpass its 2018 financial performance, and generate largely positive Free Cash Flow.

Comments regarding business

At €1,645.1 million consolidated sales for the 2018 financial year were up 0.1% and include the following items:

- a scope effect of €70.0 million corresponding to:
  - +€61.2 million incremental contribution of the American company Termax since November 1, 2017;
  - +€10.3 million from the consolidation of the US company Hi-Vol within LISI AUTOMOTIVE effective from October1, 2018;
  - -€1.5 million reflecting the disposal of Précimétal Fonderie de Précision (Belgium) on February 2, 2017.
- an adverse foreign exchange effect of -€21.2 million.

Accordingly, at constant scope and exchange rates[(2)], sales revenue decreased by -€47.1 million, i.e. -2.6% compared to 2017.

(1) Free Cash Flow: operating cash flow minus net capital expenditure and changes in working capital requirements.
(2) The change at constant scope and exchange rates or organic growth is calculated:
- by converting into euros the sales revenue of the companies whose financial statements are denominated in foreign currencies at the average rate of the year N-1 or the month M-1;
- by converting into euros the sales revenue invoiced in currencies other than the local currencies at the average rate of the year N-1 or the month M-1;
- by restating the entries into or exits from the scope in order to once again find a comparable basis.

Change in reported sales revenue by quarter (€ million)

	Q1		Q2		Q3		Q4		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
LISI AEROSPACE	277.5	235.6	258.3	230.1	222.6	221.4	242.4	246.9	**1,000.9**	**934.0**
LISI AUTOMOTIVE	128.9	153.9	123.7	152.1	116.2	131.1	137.3	144.0	**506.0**	**581.1**
LISI MEDICAL	37.9	30.2	35.6	33.6	31.1	34.0	32.5	32.9	**137.0**	**130.7**
LISI Consolidated	**444.3**	**419.5**	**417.4**	**415.6**	**369.7**	**386.3**	**412.0**	**423.7**	**1,643.4**	**1,645.1**

	Q1 2018		Q2 2018		Q3 2018		Q4 2018		Total 2018	
	Δ reported	Δ organic	Δ reported	Δ organic	Δ reported	Δ organic	Δ reported	Δ organic	Δ reported	Δ organic
LISI AEROSPACE	-15,1%	-8,1%	-10,9%	-7,7%	-0,6%	-1,4%	1,9%	0,0%	-6,7%	-4,6%
LISI AUTOMOTIVE	19,4%	5,6%	23,0%	8,2%	12,8%	-2,8%	4,9%	-6,8%	14,8%	0,9%
LISI MEDICAL	-20,3%	-14,9%	-5,5%	-2,8%	9,3%	9,0%	1,5%	-0,4%	-4,6%	-2,9%
LISI Consolidated	-5,6%	-4,4%	-0,4%	-2,6%	4,5%	-1,0%	2,8%	-2,3%	0,1%	-2,6%

Fourth quarter activity

Compared to the same period during the previous year, fourth quarter 2018 sales revenue decreased by -2.3% at constant scope and exchange rates. This difference is due to the steep drop in business in the LISI AUTOMOTIVE division, whereas LISI AEROSPACE continued its recovery and ended the year at the same level as in 2017. The consolidation of Hi-Vol effective October 1, 2018 contributed €10.3 million in additional sales revenue.

The foreign exchange effect reverted to positive in the fourth quarter at +€5.6 million.

Analysis by division

LISI AEROSPACE sales revenue totaled €934.0 million in 2018 (-6.7% compared to 2017). The dollar effect remained unfavorable for the year, even if it reverted to being positive during the second half of the year. All division activities saw steady improvement in sales with fourth quarter growth up by 1.9% compared to 2017. In Europe, the "Fasteners" activity is still weighed down by the effects of adjustments in the supply chain of its main European aircraft manufacturer customer. This issue seems to have reached its nadir during the second half of the year. The "Fasteners" activity in the United States experienced a clear recovery during the year (Q4: +16.0%) supported by the market shares gained over the past few years with Boeing, and by the recovery in business and regional aircraft, helicopters, and defense. The "Structural Components" activity continued to display good momentum during the entire year (Q4: +6.2%), particularly thanks to the continued increase in the pace of new programs, including for the LEAP engine. At constant scope and exchange rates, the LISI AEROSPACE Division achieved the same results in Q4 2018 as in Q4 2017. This resulted in a better start to 2019 than 2018.

The LISI AUTOMOTIVE division's sales revenue grew by +14.8% to €581.1 million. This is the result of the division's continued international development (Termax consolidated since November 1, 2017 and Hi-Vol since October 1, 2018) and the significant ramp-up in new products for the "Clipped Solutions" and "Safety Mechanical Components" segments. The optimism generated by good performance was nevertheless dampened by the entry into effect of a new approval procedure for vehicles on September 1: the Worldwide harmonized Light vehicles Test Procedures (WLTP-Euro 6), which is more stringent regarding the discharge of pollutants. Several manufacturers therefore had to stop or delay the sale of certain models that no longer met the requirements, while they adapted their engines. The downturn in the Chinese market during the second half of the year also pushed the division's sales down. At constant scope and exchange rates, sales revenue grew by +0.9%, translating new gains in market shares in a context where the production of LISI AUTOMOTIVE's main customers dropped by -2.6% compared to the prior financial year. However, this slight increase in sales revenue is the result of two extremely volatile half-year periods: the first half was very active at +6.8% and required the use of overtime and temporary workers, while the second half of the year registered a significant downturn in this activity (-4.9%), which became even more pronounced during the fourth quarter (-6.8%).

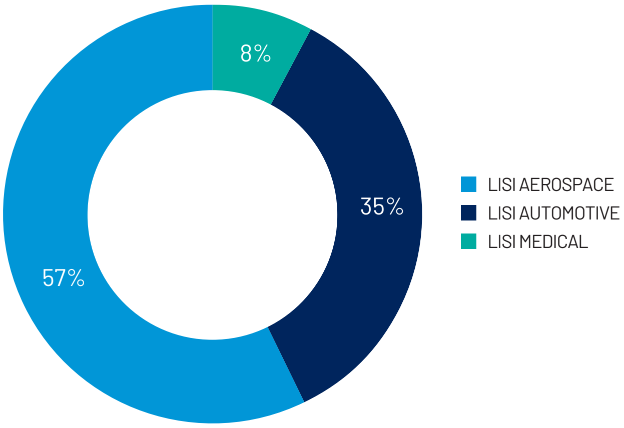
The LISI MEDICAL division benefited from the gradual ramp-up in new products gained in the field of minimally-invasive surgery and orthopedics. Although the division recorded growth between the first and second halves of the year, sales revenue for the year still remained down by -4.6% due to its main customer deferring some orders at the end of the financial year.

Activity summary at December 31

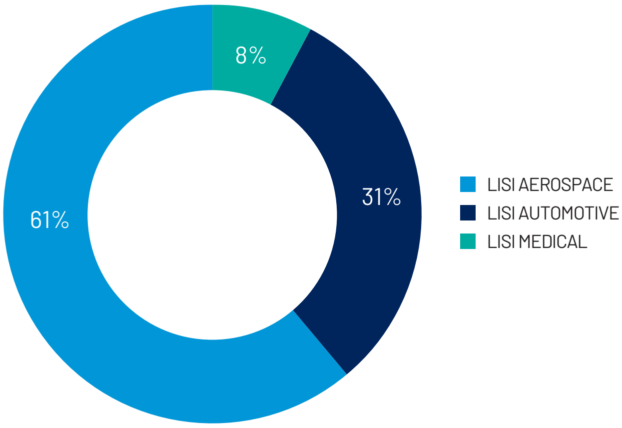
12 months ending December 31		2018	2017	Changes
Key elements of the income statement				
Sales revenue	€ million	1,645.1	1,643.4	+0.1%
EBITDA	€ million	225.4	256.2	-12.0%
EBITDA margin	%	13.7	15.6	-1.9 pt
Current operating profit (EBIT)	€ million	135.6	171.4	-20.9%
Operating margin	%	8.2	10.4	-2.2 pts
Earnings attributable to holders of company equity	€ million	92.1	108.0	-14.7%
Net earnings per share	€	1.73	2.04	-17.9%
Key elements of the cash flow statement				
Operating cash flow	€ million	194.9	203.8	-€8.9 million
Net CAPEX	€ million	-131.3	-140.1	-€8.8 million
Free cash flow*	€ million	57.3	46.3	+€11.0 million
Key elements of the financial structure				
Net debt	€ million	339.3	300.2	+€39.1 million
Ratio of net debt to equity		36.0%	33.4%	+2.6 pts

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

Breakdown of 2018 sales revenue



Breakdown of 2017 sales revenue



Headcount at the end of December

As at December 31, 2018, the LISI Group employed 12,131 employees, an increase of the total workforce of 173 people (including 131 people at Hi-Vol), which represents an increase of +1.4% compared to 2017.

Registered headcount	2018	2017	DIFFERENCE N/N-1	
LISI AEROSPACE	7,214	7,251	-37	-0.5%
LISI AUTOMOTIVE	3,931	3,773	+158	+4.2%
LISI MEDICAL	959	909	+50	+5.2%
LISI Holding	27	25	+2	+7.4%
Group total (excluding temporary workers)	**12,131**	**11,958**	**+173**	**+1.4%**
Temporary workers	746	1,159		

2018 Results

Current operating profit dropped by nearly 21%. The operating margin lost 2.2 points, ending the year at 8.2%.

The adjustment measures aimed at adapting the cost structure to the significant fluctuations in business only began to bear fruit at the end of the year, first in the "Fasteners Europe" activity of the Aerospace division, then in the Automotive division.

The EBITDA thus decreased by 12.0% to €225.4 million (i.e. 13.7% of sales revenue), due to:

- the difference between the increase in payroll over the full year and the adjustment measures established at year-end in response to the drop in activity for "Fasteners Europe" in aerospace, and in an even more pronounced fashion in the automotive division. The ratio of payroll to sales revenue rose by 1.2 points;
- the increase in the cost of raw materials in the Automotive division amounting to €3.5 million.

Depreciation increased by €8.9 million due to significant capital expenditures over the last few years. Provision reversals completed to offset some operating expenses increased by €3.8 million.
Current operating profit (EBIT) decreased by €35.8 million (-20.9%) to €135.6 million. The 8.2% operating margin amounts to a drop of 2.2 points.

The strongly positive impact of the financial result (+€5.3 million) compared to 2017 (-€21.6 million) can be explained by the following main items:

- the revaluation of debts and receivables denominated mainly in US dollars (€-12.7 million, compared to €+32.4 million in 2017);
- the negative impact of the fair value of hedging instruments involving currencies (-€4.1 million compared to +€13.9 million in 2017),
- financial expenses, which correspond to the cost of long-term net debt, totaled -€5.9 million (stable compared to 2017), an average fixed rate of 2.0%. Gains on current cash investments totaled +€3.2 million, compared to +€2.8 million in 2017. Net financial expenses in proportion to net financial debt therefore represents less than 1%.

Non-current expenses weigh down net earnings by -€10.3 million (-€3.7 million in 2017) and mainly involve decreases in the value in use of some assets.

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 25.9%, slightly down compared with 2017 (26.8%).

At €92.1 million, net earnings were lower than in 2017 (€108.0 million) by -14.7%.

This amounts to €1.73 per share (€2.04 in 2017).
Based upon the results, the Board of Directors will seek the approval of the Shareholders' General Meeting to set the dividend at €0.44 per share for the 2018 financial year.

Free Cash Flow is clearly positive at €57.3 million, and is higher than in 2017 (€46.3 million).

Operating cash flow reached €194.9 million (-€8.9 million, 11.8% of consolidated sales revenues), compared with €203.8 million in 2017. Despite the decrease in business, the Group was able to adapt its capital expenditures without compromising the continuation of the differentiating technical initiatives launched over the past several years in all divisions, as well as its innovation projects, harbingers of future growth. The CAPEX ratio thus represents 8.0% of sales revenue at €131.3 million, slightly down in comparison to the high 2017 level (8.5%; i.e. €140.1 million).

The steep decline in business experienced in the automotive division and the additions to inventories, required by the ramp-up of the new "Structural Components" programs in the aerospace division, generated an increase in inventory at 83 days of sales revenue (+4 days compared to 2017). Following the restatement of the consolidation of Hi-Vol, the increase was limited to €5.7 million.

Other WCRs increased following the US company Hi-Vol's entry into the scope of consolidation. The ratio was also significantly affected by the decline in the automotive division's activity and increased by 3 days to 77 days of sales revenue. The delay in tax payments had a positive impact of +€16.1 million.

Stringent management enabled the Group to generate positive Free Cash Flow of €57.3 million (€46.3 million), in line with the stated objectives.

The financial structure remains sound

The increase in net financial debt, which includes 100% of the acquisition of Hi-Vol (€43.4 million), was limited to €39.1 million and totaled €339.3 million as of December 31, 2018. It accounted for 36.0% of shareholders' equity (33.4% in 2017) and 1.5x EBITDA.

On the other hand, return on capital employed (ROCE) dropped by over 4 points at 10.6%, primarily due to the decline in current operating profit (-2.8 points), and to a lesser extent, to the consolidation of Hi-Vol over the end of the year (-0.3 point).

Outlook

Market trends are mostly positive in the United States for all segments in which the aerospace division operates. Boeing will benefit from the launch of the 777-X for which LISI AEROSPACE developed numerous products (fasteners for composite wings, and particularly technologies to withstand lightning strikes, the most advanced temporary and permanent fastener systems).

The division does not expect any significant recovery in Europe as the production pace of the A350 has stabilized at a lower level than expected. With an adjusted cost level in Europe, this activity's contribution should improve over the upcoming financial year as a whole.
The activity level in "Structural Components" should remain strong thanks to the continuing ramp-up in the LEAP engine and the entire engine sector.

The automotive division foresees stable demand compared to the last quarter of 2018. Chinese markets should remain sluggish given the overall context wherein products mixes are still changing. LISI AUTOMOTIVE will continue to develop items with strong added value. Nevertheless, on the raw materials front, the situation seems more stable than in 2018. The division is fully committed to adjusting its capacities and costs to the current level of demand and to strengthening its sales and technical synergies with the US companies Termax and Hi-Vol.

The medical division must rise to the technical challenges associated with the launch of many complex products. During the first half of 2019, LISI MEDICAL's management team will focus on the renewal of the contract with long-standing customer Stryker for the LISI MEDICAL Orthopaedics facility.

The 2019 financial year is beginning auspiciously for the aerospace division, in continuation of the last quarter of 2018. Visibility remains nonetheless limited, particularly concerning the automotive market during the second half of the year. Assuming stability in its main markets, the Group's 2019 objectives are to return to positive organic growth, surpass its 2018 financial performance thanks to already implemented management measures, and to generate largely positive Free Cash Flow.

2.2 | LISI AEROSPACE

- -6.7% drop in sales revenue compared to 2017, with a strong change in mix;
- The fourth quarter of 2018 surpassed the same period in 2017, with an upturn in Europe;
- Trends observed over the end of the period: confirmed recovery in demand on the helicopter and business and regional aircraft market, as well as a clear resurgence in the United States;
- Margin pressure in Europe, impacted by a declining volume effect and an adverse mix effect during the entire year, nonetheless partially offset by the adjustment in production costs at the end of the period;
- Free Cash Flow remains clearly positive;
- Acquisition of all LISI AEROSPACE Additive Manufacturing shares.

Market

Visibility in the commercial aircraft segment remained very solid in an environment in which global air traffic experienced sustained annual growth (+6.6%[1]). The other market segments served by LISI AEROSPACE, notably helicopters, business and regional aircraft, have been showing perceptible signs of recovery since the first half of the year, which solidified during the second half.

The two main aircraft manufacturers in the world delivered more planes than in 2017. Airbus delivered 800 (718 in 2017) and Boeing 806 (763 in 2017). Both companies are benefiting from the ramp-up of the new programs and their solid order books totaling over 13,000 aircraft. As expected, the impact of increases in delivery rates of single-aisles (from 1,087 to 1,226) and of the A350, which accelerated from 78 to 93 deliveries, will continue in 2019.

Engine manufacturers, for their part, continue to benefit from the significant ramp-up in new engine generations such as the LEAP (1,118 engines delivered in 2018 amounting to 2.5 times more than in 2017) with an order book containing over 17,000 engine orders. The technical issues involving the Pratt & Whitney GTF engine seem well on their way to being resolved.

Activity

In millions of euros	2018	2017	Changes
Sales revenue	934.0	1,000.9	-6.7%
Current operating profit (EBIT)	96.8	128.1	-24.4%
Operating cash flow	116.8	129.9	-10.1%
Net CAPEX	-75.6	-91.4	-20.9%
Free cash flow*	29.6	61.6	-€32.0 million
Registered employees at period end	7,214	7,251	-0.5%
Average full time equivalent headcount**	7,979	8,223	-3.1%

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

LISI AEROSPACE sales revenue totaled €934.0 million in 2018 (-6.7% compared to 2017). The dollar effect remained unfavorable for the year, even if it reverted to being positive during the second half of the year. All division activities saw steady improvement in sales with fourth quarter growth up by 1.9% compared to 2017. In Europe, the "Fasteners" activity is still weighed down by the effects of adjustments in the supply chain of its main European aircraft manufacturer customer. This issue seems to have reached its nadir during the second half of the year. The "Fasteners" activity in the United States experienced a clear recovery during the year (Q4: +16.0%) supported by the market shares gained over the past few years with Boeing, and by the recovery in business and regional aircraft, helicopters, and defense. The "Structural Components" activity continued to display good momentum during the whole year (Q4: +6.2%), particularly thanks to the continued increase in the pace of new programs, including for the LEAP engine. At constant scope and exchange rates, the LISI AEROSPACE division achieved the same results in Q4 2018 as in Q4 2017. This resulted in a better start to 2019 than 2018.

Results

At €96.8 million, current operating profit is down by -€31.3 million from 2017. At 10.4%, the operating margin lost -2.4 points from the prior financial year.

The production facilities for the "Fasteners" activity in Europe suffered from a declining volume effect for the entire financial year. The proper adjustment of production costs made it possible to limit adverse effects on operating profit at year-end. The operating profit for the "Fasteners" activity in the United States benefited from the improvement in the activity levels of its main customers at the end of the period. In addition, and in accordance with the established roadmap, the "Structural Components" activity continued to reduce its production cost overruns during the intense ramp-up phase of the new programs, and thus improved its operating margin.

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

- €2.7 million of extra costs identified in the "Structural Components" activity (reduced by half from 2017 and by a factor of four from 2016);
- €3.3 million increase in depreciation due to the investment plan.

(1) Source: IATA

The financial structure remains solid with operating cash flow of €116.8 million (12.5% of sales revenues), which largely finances an investment plan of €75.6 million (-20.9% compared to 2017). New equipment continued to focus on performance improvement and the modernization of production resources ("Usine Vitrine du Futur" label obtained for the Saint-Ouen-l'Aumône facility).

Concurrently, the division reduced its inventories by -€5.7 million during the year. These were nevertheless adversely impacted by the decline in business in Europe and represent 97 days of sales revenue, compared to 93 days in 2017.

Taking all these items into account, Free Cash Flow remains largely positive at €29.6 million (3.2% of the division's sales revenue) and reverted to 2016 levels following a record year in 2017 (€61.6 million).

The headcount decreased over the financial year with 7,214 persons (7,251 in December 2017).

2.3 | LISI AUTOMOTIVE

- Growth of nearly 15% in sales revenue to €581.1 million, supported by the US acquisitions Termax in 2017 and Hi-Vol in 2018;
- Market share gains in "Clipped Solutions" and "Safety Mechanical Components", acceleration in international growth;
- Operating margin affected by the steep decline in business during the second half of the year due to the entry into effect on September 1 of a new approval process for vehicles (Worldwide harmonized Light vehicles Test Procedures - WLTP -); negative impact of increases in raw material costs;
- Annual Free Cash Flow* remains positive;
- Disposal of Beteo (specializing in surface treatment - Germany) on December 31, 2018 (Sales revenue: €6.9 million in 2018).

Market

Worldwide automotive market recorded a drop of -0.5%[1] compared to the previous year, following a dynamic first half (+3.5%). The year can be divided into two periods: growth from January to August, followed by a sudden weakening which started in September with the entry into force of a new approval procedure for vehicles according to the WLTP-Euro 6 standards, more stringent regarding the emission of pollutants.

This procedure forced several manufacturers to stop or delay the sale of certain models that no longer met the requirements while they adapted their engines. The European market bore the full brunt of this change and dropped for four consecutive months falling to -8.7% in December. Over the year as a whole, its stability concealed various changes among the five major national markets: Spain (+7%) and France (+3%) continued to grow, Germany subsided (-0.2%), and Italy (-3.1%) and the United Kingdom (-6.8) dropped noticeably. In total, 15.2 million new passenger cars were sold within the European Union last year, rounding out a fifth year of consecutive growth.

The Chinese market, on the other hand, experienced a downturn for the first time in ten years (-3.1%), with a distinct contraction in the second half of the year (-5.8% in Q3 and -12.9% in Q4). The NAFTA region (Canada, USA and Mexico) displayed more resilience and closed the year at -0.2%, with December 2018 at the same level as December 2017.

Among the main European manufacturers who are LISI AUTOMOTIVE customers, BMW (+4.2%), VW (+1.5%) and Daimler (+13%) outperformed the market, PSA (-3.7%) underperformed and Renault-Dacia remained at the same level (-0.6%).

Activity

In millions of euros	2018	2017	Changes
Sales revenue	581.1	506.0	+14.8%
Current operating profit (EBIT)	34.0	33.3	+2.2%
Operating cash flow	57.6	53.6	+7.5%
Net CAPEX	-43.6	-37.5	+16.3%
Free cash flow*	4.1	13.1	-68.7%
Registered employees at period end	3,931	3,773	+4.2%
Average full time equivalent headcount**	4,067	3,522	+15.4%

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

The LISI AUTOMOTIVE division's sales revenue grew by +14.8% to €581.1 million. This is the result of the division's continued international development (Termax consolidated since November 1, 2017 and Hi-Vol since October 1, 2018) and the significant ramp-up in new products for the "Clipped Solutions" and "Safety Mechanical Components" segments. The optimism generated by good performance was nevertheless dampened by the entry into effect of a new approval procedure for vehicles on September 1: the Worldwide harmonized Light vehicles Test Procedures (WLTP-Euro 6), which is more stringent regarding the discharge of pollutants. The downturn in the Chinese market during the second half of the year also pushed the division's sales down. At constant scope and exchange rates, sales revenue grew by +0.9%, translating new gains in market shares in a context where the production of LISI AUTOMOTIVE's main customers dropped by -2.6% compared to the prior financial year. However, this slight increase in sales revenue is the result of two extremely volatile half-year periods: the first half was very active at +6.8% and required the use of overtime and temporary workers, while the second half of the year registered a significant business downturn (-4.9%), which became even more pronounced during the fourth quarter (-6.8%).

(1) Source ACEA Association des constructeurs Automobiles Européens.

Orders for new products taken by the division expressed in annualized sales revenue represents 15.7% of sales revenue, i.e. about €89 million, compared with 10.6% in 2017. In line with the strategy implemented in recent years, the equipment manufacturers segment is the most dynamic. For the first time, Tier 1 equipment manufacturers achieved higher sales revenue than car manufacturers.

Results

Current operating profit grew slightly, aided by the good performance of the US company Termax. In an operational context marked by the sudden contraction in business during the second half of the year, the operating margin held up well and settled at 5.9%, compared to 6.6% in 2017. Following the example of sales revenue, the operating margin continued to improve during the first half of the year, in line with the growth recorded over the last five years. Nevertheless, the second half of the year was hampered by the steep decline in business. Moreover, the increase in the cost of raw materials had an impact of -€3.5 million on the division's profitability. The measures to adjust costs downward did not bear fruit until right at the end of the period.

The division managed to maintain a positive Free Cash Flow* level (+€4.1 million) for the third year in a row. The adequate level of operating cash flow (9.9% of sales revenue) makes it possible to finance a sustained CAPEX level of €43.6 million. These involve the continuation of numerous multi-year projects, including robotization plans, industrial equipment dedicated to new products (including the start-up of parking brake components in Mexico) or the financing of projects to improve plant operating conditions ("Delle du Futur" project), and increase production capacities (expansion of the Czech plant at Čejč specializing in the manufacture of "Safety Mechanical Components", the new Monterrey site in Mexico dedicated to the manufacture of "Clipped Solutions" and "Safety Mechanical Components").

Headcount was greater compared to 2017 with 3,931 employees at December 31, 2018 compared to 3,773 in 2017, an increase of 4.2%. With the restatement of the entry into the scope of consolidation of the US company Hi-Vol (+131 persons) and the exit of the German company Beteo at December 31, 2018 (-50 persons), the number recorded at the end of the period will be around 3,850, i.e. a limited increase of +2.0%.

The disposal of Beteo, its subsidiary in Germany (surface treatment), highlights LISI AUTOMOTIVE's desire to manage its portfolio of activities in a dynamic manner, within the context of its strategy of transitioning the product mix toward products with significant added value.

2.4 | LISI MEDICAL

- Sales revenue is down by -4.6% compared to 2017;
- Numerous product developments hampering business and profitability.

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. It should be noted that there is definite volatility present in all markets and worldwide and local competition in all CMO (*Contract Manufacturing Operations*) segments.

Activity

In millions of euros	2018	2017	Changes
Sales revenue	130.7	137.0	-4.6%
Current operating profit (EBIT)	5.6	9.8	-42.6%
Operating cash flow	12.0	14.0	-14.5%
Net CAPEX	-10.9	-10.6	+2.8%
Free Cash-Flow(*)	-0.7	6.7	N.a
Registered employees at period end	959	909	+5.2%
Average full time equivalent headcount(**)	1,000	985	+1.5%

(*) Free Cash Flow: operating cash flow minus net capital expenditure and changes in working capital requirements.
(**) Including temporary workers.

As expected, the LISI MEDICAL division benefited from the gradual ramp-up in new products gained in the field of minimally-invasive surgery and orthopedics. Although growth accelerated between the first and second halves of the year, sales revenue for the year still remained down by -4.6% due to its main customer deferring some orders at the end of the financial year.

Results

Under these circumstances, the operating margin was 4.3%, a decrease of 2.8 points compared to 2017. The adaptation of costs (particularly in headcount) was limited in view of the fact that the division needed to ensure the development and manufacturing of new products.

Totaling €10.9 million, CAPEX levels remained sufficient to accelerate the acquisition of equipment intended for developments and the production of new products, as well as the establishment of prototyping cells and small series.

In addition, the production capacity of LISI MEDICAL's Remmele unit in the USA increased thanks to an extension that is now operational. CAPEX was financed by an adequate level of operating cash flow (+€12.0 million, 9.2% of sales revenue).

Nevertheless, inventory levels experienced an increase that the proper management of other items of working capital requirements did not offset. This was prompted by the demand from customers aiming to increase their emergency inventories and to defer year-end orders for deliveries in 2019. Consequently, Free Cash Flow totaled -€0.7 million, a €7.4 million decrease from 2017.

3 CONSOLIDATED FINANCIAL STATEMENTS

1 | Financial statements

1.1 | Income statement

(in thousands of euros)	Notes	12/31/2018	12/31/2017
Sales revenue	**2.6.1**	**1,645,095**	**1,643,356**
Changes in stock, finished products and production in progress		9,251	(884)
Total production		1,654,346	1,642,472
Other revenues(a)		39,641	26,661
Total operating revenues		**1,693,987**	**1,669,133**
Consumed goods	2.6.2	(464,424)	(443,119)
Other purchases and external expenses	2.6.3	(352,485)	(338,332)
Taxes and duties		(11,615)	(12,171)
Personnel expenses (including temporary workers)	2.6.4	(640,048)	(619,333)
EBITDA		**225,416**	**256,178**
Depreciation		(99,025)	(90,132)
Net provisions		9,166	5,352
Current operating profit (EBIT)		**135,558**	**171,398**
Non-recurring operating expenses	2.6.6	(13,693)	(7,329)
Non-recurring operating revenues	2.6.6	3,427	3,649
Operating profit		**125,290**	**167,718**
Financing expenses and revenue on cash	2.6.7	**(2,503)**	**(2,421)**
Revenue on cash	*2.6.7*	*3,462*	*3,445*
Financing expenses	*2.6.7*	*(5,965)*	*(5,866)*
Other interest revenue and expenses	2.6.7	**7,847**	**(19,166)**
Other financial items	*2.6.7*	*42,635*	*60,852*
Other interest expenses	*2.6.7*	*(34,788)*	*(80,018)*
Taxes (including CVAE (Tax on Companies' Added Value))	2.6.8	(33,839)	(39,182)
Profit (loss) for the period		**96,794**	**106,951**
Attributable as company shareholders' equity		92,069	107,965
Interest not granting control over the company		4,725	(1,014)
Earnings per share (in €)	**2.6.9**	**1.73**	**2.04**
Diluted earnings per share (in €)	**2.6.9**	**1.72**	**2.02**

(a) In order to provide readers of the financial statements with better information that is in accordance with international standards, in the 2018 financial statements the Company has continued classifying revenues related to CIR (Research tax credit) as "Other Revenues".

Statement of overall earnings

(in thousands of euros)	12/31/2018	12/31/2017
Profit (loss) for the period	**96,794**	**106,951**
Other items of overall income applied to shareholders equity		
Actuarial gains and losses out of employee benefits (gross element)	(3,986)	671
Actuarial gains and losses out of employee benefits (tax impact)	907	(302)
Restatements of treasury shares (gross element)	(422)	220
Restatements of treasury shares (tax impact)	122	(64)
Other items of overall income that will cause a reclassification of income		
Exchange rate differences resulting from foreign business	3,794	(19,251)
Hedging instruments (gross element)	(12,004)	25,361
Hedging instruments (tax impact)	3,199	(7,085)
Other portions of global earnings, after taxes	**(8,389)**	**(451)**
Total overall income for the period	**88,404**	**106,500**

Hedging instruments consist mainly of foreign exchange hedging instruments and, to a lesser extent, raw material hedging instruments. The negative amount of €12.0 million is due mainly to the rise in the USD, which resulted in a symmetrical decrease in the fair value of the hedging instruments put in place to protect against the fall of the USD.

1.2 | Statement of financial position

ASSET (in €'000)	Notes	12/31/2018	12/31/2017
NON-CURRENT ASSETS			
Goodwill	2.5.1.1	347,787	321,377
Other intangible assets	2.5.1.1	26,975	30,177
Tangible assets	2.5.1.2	676,657	619,593
Non-current financial assets	2.5.1.4	8,923	9,982
Deferred tax assets	2.5.7	11,894	8,568
Other Non-current assets	2.5.1.5	480	429
Total non-current assets		**1,072,716**	**990,126**
CURRENT ASSETS			
Inventories	2.5.2.1	351,009	337,099
Taxes - Claim on the state		22,032	41,269
Trade and other receivables	2.5.2.2	263,141	261,249
Cash and cash equivalents	2.5.2.3	156,879	197,576
Total short-term assets		**793,061**	**837,193**
TOTAL ASSETS		**1,865,775**	**1,827,319**

TOTAL EQUITY AND LIABILITIES (in €'000)	Notes	12/31/2018	12/31/2017
SHAREHOLDERS' EQUITY			
Share capital	2.5.3	21,646	21,610
Additional paid-in capital	2.5.3	75,329	72,584
Treasury shares	2.5.3	(15,175)	(14,720)
Consolidated reserves	2.5.3	757,720	688,882
Conversion reserves	2.5.3	12,339	8,419
Other income and expenses recorded directly as shareholders' equity	2.5.3	(6,918)	5,261
Profit (loss) for the period	2.5.3	92,069	107,965
Total shareholders' equity - Group's share	2.5.3	**937,010**	**890,001**
Minority interests	2.5.3	6,625	7,664
Total shareholders' equity	2.5.3	**943,634**	**897,665**
NON-CURRENT LIABILITIES			
Non-current provisions	2.5.4	65,475	64,995
Non-current borrowings	2.5.6.1	337,354	317,757
Other non-current liabilities	2.5	8,452	11,605
Deferred tax liabilities	2.5.7	37,745	40,747
Total non-current liabilities		**449,025**	**435,104**
SHORT-TERM LIABILITIES			
Current provisions	2.5.4	13,404	15,156
Current borrowings (1)	2.5.6.1	158,831	179,973
Trade and other accounts payable		298,469	297,109
Taxes due		2,411	2,312
Total short-term liabilities		**473,116**	**494,550**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,865,775**	**1,827,319**
(1) Of which banking facilities		*20,480*	*16,441*

1.3 | LISI Group consolidated cash flow statement

(in thousands of euros)	12/31/2018	12/31/2017
Operating activities		
Net earnings	**96,794**	**106,951**
Elimination of net expenses not affecting cash flows:		
- depreciation and provisions	98,634	89,819
- changes in deferred taxes	2,333	10,335
- income on disposals, provisions for liabilities and others	1,393	(1,932)
Gross cash flow margin	**199,154**	**205,173**
Net change in provisions on claims and inventories	(4,303)	(1,335)
Operating cash flow	**194,853**	**203,838**
Income tax expense elimination	31,506	28,847
Elimination of net borrowing costs	5,767	5,686
Effect of changes in inventory on cash	(5,744)	67
Effect of changes in accounts receivable and accounts payable	(16,645)	17,973
Net cash provided by or used for operations before tax	**209,735**	**256,411**
Tax paid	(15,434)	(64,298)
Cash provided by or used for operations (A)	**194,302**	**192,113**
Investment activities		
Acquisition of consolidated companies	(702)	(51,014)
Cash acquired	(43,384)	2,409
Acquisition of tangible and intangible fixed assets	(134,103)	(141,694)
Acquisition of financial assets		
Change in granted loans and advances	(267)	(722)
Investment subsidies received		
Dividends received		
Total cash used for investment activities	**(178,455)**	**(191,021)**
Divested cash	(267)	(5,701)
Disposal of consolidated companies	3,191	13,060
Disposal of tangible and intangible fixed assets	2,822	1,548
Disposal of financial assets		
Total cash from disposals	**5,746**	**8,907**
Cash provided by or used for investment activities (B)	**(172,710)**	**(182,114)**
Financing activities		
Capital increase	3,167	1,920
Net disposal (acquisition) of treasury shares		
Dividends paid to shareholders of the Group	(25,499)	(23,873)
Dividends paid to minority interests of consolidated companies	(1,879)	
Total cash from equity operations	**(24,211)**	**(21,954)**
Issue of non-current loans	30,653	50,913
Issue of short-term loans	102,739	126,640
Repayment of non-current loans	(6,783)	1,372
Repayment of short-term loans	(161,420)	(102,807)
Net interest expense paid	(5,766)	(5,680)
Total cash from operations on loans and other financial liabilities	**(40,576)**	**70,439**
Cash provided by or used for financing activities (c)	**(64,789)**	**48,485**
Effect of change in foreign exchange rates (D)	(1,149)	(2,976)
Effect of adjustments in treasury shares (D)	(390)	(110)
Changes in cash (A+B+C+D)	**(44,736)**	**55,398**
Cash at January 1 (E)	181,135	125,736
Cash at year-end (A+B+C+D+E)	136,400	181,134
Cash and cash equivalents	156,879	197,575
Short-term banking facilities	(20,479)	(16,440)
Closing cash position	**136,400**	**181,135**

1.4 | Statement of shareholders' equity

(in thousands of euros)	**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, 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
Restatement of financial 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 income and expenses reported for the year (a) + (b) + (c) + (d) + (e) + (f)					***(19,324)***	***18,713***	***107,965***	***107,355***	***(855)***	***106,500***
Shareholders' equity at January 1, 2018	**21,610**	**72,584**	**(14,720)**	**688,882**	**8,419**	**5,261**	**107,965**	**890,001**	**7,664**	**897,665**
Profit (loss) for the period N (a)							92,069	92,069	4,725	96,794
Translation differences (b)					3,920			3,920	(126)	3,794
Payments in shares (c)				614				614		614
Capital increase	36	2,745						2,781	470	3,251
Restatement of treasury shares (d)			(455)			(300)		(755)		(755)
Restatement as per IAS19 (g)						(3,079)		(3,079)		(3,079)
Appropriation of N-1 earnings				107,965			(107,965)	0		0
Change in scope				(14,371)				(14,371)	(2,527)	(16,898)
Dividends distributed				(25,499)				(25,499)	(1,879)	(27,378)
Reclassifications								0		0
Restatement of financial instruments (f)						(8,800)		(8,800)	(5)	(8,805)
Various (e)				128				81	(1,698)	(1,570)
Shareholders' equity at December 31, 2018	**21,646**	**75,329**	**(15,175)**	**757,720**	**12,339**	**(6,918)**	**92,069**	**937,010**	**6,625**	**943,634**
including total income and expenses reported for the year (a) + (b) + (c) + (d) + (e) + (f) + (g)					***3,920***	***(12,179)***	***92,069***	***83,810***	***4,594***	***88,404***

2 | Notes

2.1 | Group activity and highlights of the year

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, 2018 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

Purchase of minority stake in the subsidiary LISI AEROSPACE ADDITIVE MANUFACTURING

July 24, 2018, the LISI Group purchased the 40% minority stake in LISI AEROSPACE ADDITIVE MANUFACTURING. The purchase of the minority stake in this company was carried out via LISI AEROSPACE STRUCTURAL COMPONENTS, a wholly owned subsidiary of the LISI Group.

Hi-Vol consolidation

On September 21, 2018, the LISI Group purchased 100% of the assets of Hi-Vol Products LLC. The acquisition of this company, which comprises 135 people and has sales revenue of around $40 million took place via LISI AUTOMOTIVE Hi-Vol Inc and LISI Holding North America, wholly owned LISI subsidiaries.

Disposal of LISI AUTOMOTIVE BETEO GmbH

December 31, 2018, the Group sold its subsidiary LISI AUTOMOTIVE BETEO GmbH. This company generated sales revenue of €6.9 million in 2018.

2.2 | Accounting principles and policies

The financial statements drawn up as at December 31, 2018 were approved by the Board of Directors on February 20, 2019 and will be submitted to the Combined General Meeting on April 26, 2019.

2.2.1 | Background to the preparation of the consolidated financial statements for the 2018 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, 2018.

2.2.1.1 - Standards, amendments and interpretations adopted by the EU and mandatory for reporting periods beginning on or after January 1, 2018

- The company took into account the IFRIC recommendations on the classification of bank overdrafts as components of "net cash" when producing the cash flow statement. In accordance with section 8 of IAS 7, the company's bank overdrafts are components of net cash as they are not subject to authorization agreements preventing the bank from demanding "repayment on sight" of the overdrafts.
- IFRS 9 "Financial instruments"

  IFRS 9 "Financial instruments" adopted by the European Union on November 22, 2016, replaces IAS 39 "Financial instruments" as of January 1, 2018. This standard defines new principles on the classification and valuation of financial instruments, on depreciation for financial asset credit risk and hedge accounting.

  In 2018, the Group analyzed the accounting treatment of its financial instruments according to IFRS 9 procedures. The analysis provided the following conclusions:
  - *Classification and valuation*

    On the assets side, debtors and apportioned accounts, negotiable certificates of deposit, and on the liabilities side bank loans and other borrowings, accounts payable and apportioned accounts were valued at amortized cost under IAS 39. Their accounting treatment remains unchanged under IFRS 9.

    The accounting treatment of monetary SICAV instruments remains unchanged under IFRS 9.
  - *Impairment*

    IFRS 9 introduces a new model called ECL (Expected Credit Loss) for recognizing the impairment of financial assets based on expected credit losses. This new model applies to the assets valued at depreciated cost or financial assets which meet the SPPI (Solely Payments of Principal and Interest) criterion and recognized at fair value by OCI. This model represents a change compared to the IAS 39 model based on actual credit losses.

    For trade receivables, the Group has opted for the simplified IFRS 9 impairment model. The Group uses the information on overdue accounts to determine whether there have been major increases in the credit risk since the initial reporting. Following the analyses, the estimated ECL at December 31, 2018 is not significant.
  - *Hedge accounting*

    The new IFRS 9 model aims to simplify hedge accounting, better align the reporting of hedging relationships on risk management activities and enable hedge accounting to be applied to a wider range of hedging instruments and to the elements that can be considered as hedged elements.

    The Group has reviewed the hedge accounting applicability criteria according to the new IFRS 9 model. The analyses conducted do not show any major impact as at December 31, 2018.
- IFRS 15 "Revenue from ordinary activities from contracts with customers"

  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 11, Construction contracts. 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 obligation);
- determination of the price of the transaction;
- allocation of the price of the transaction to the various obligations identified;
- recognition of the sales revenue.

As most of the subsidiaries consolidated in the LISI Group are industrial production sites, most of the sales revenue comes from the sale of finished products. However, the Group has specifically identified two types of transaction distinct from the one referred to previously: the first is late penalties (on delivery, quality deterioration, etc.) reported against sales revenue; the second relates to the invoicing of machine tooling treated as additional services resulting in the recognition of a sales revenue at the time of acceptance of the machine tooling and the initial samples. These principles which comply with IFRS 15 did not result in any change as regards the transition.

The Group has reviewed its sale agreements and concluded that there was no need to modify the operative event of the sales revenue recognition. The accounting principles and the main contracts were analyzed in light of IFRS 15; the analysis showed that the application of this standard has a non-significant impact on the Group's financial statements.

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, 2018.

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

a) In January 2016, the IASB published standard IFRS 16, 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 is expected to enter into force for the financial years as of January 1 2019. The LISI Group has chosen to apply the modified retrospective model.

The work to identify, analyze and make the data reliable for the leases concerned is being finalized. The Group has identified several types of leases that will be restated in accordance with IFRS 16.

At December 31, 2018 leases were identified as in previous years according to IAS 17 and IFRIC 24.

Capitalization of real estate leases: based on the analysis completed, the group identified leases within the meaning of the standard for buildings leased for production activity and buildings leased for offices. The lease term selected corresponds to the period which cannot be terminated, along with any renewal options which the group is reasonably certain will be exercised. The analysis of the contractual elements and the final calculations will be completed in the first half of 2019.

Recognition of leases for other assets: Based on the analysis conducted at this stage, the main leases identified are for vehicles and other rolling stock. Analysis of leases of other assets will be finalized in the first half of 2019. The period of capitalization of rent on leases corresponds to the period initially envisaged in the agreement. The LISI Group has chosen not to separate the components of services within the lease (for example, the part for maintenance of vehicle lease agreements will not be restated).

Both capitalization exemptions proposed by the standard, i.e. agreements lasting under 12 months and the leasing of goods with a low new value (below €5,000) have been used.

The Group has also opted not to restate leases for intangible assets.

The discount rate used to value the rental debts is the reference rate calculated by actuaries in line with the lease terms and the countries concerned, plus a variable margin necessary to obtain finance on the financial markets. The rate determined in this way makes it possible to take account of the economic environment, the currency and the term of the leases of the Group's entities.

The application of this standard will also result in a change in the way the financial statements are presented as of 2019:

- on the income statement: the rent expense recognized within the EBITDA will, under IFRS 16, be recognized partly as depreciation allowance within the EBIT and partly as interest expenses; this will have a favorable impact on EBITDA for the entire rent amount, partially the EBIT;
- in the cash flow statement: the payment of rents currently presented in cash provided by or used for operations, will be presented under IFRS16 for the part corresponding to interest expenses within cash provided by or used by financing activities. The part corresponding to depreciation will be restated for the cash flow capacity;
- free cash flow will also be favorably impacted in the amount of the portion recognized under depreciation.

To date, most of the numbering has been begun on the real estate rent part, which accounts for most of the Group's leases.

The Group has applied the transitional provisions provided for in IFRS 16. C8 bi) which provides for the determination of the book value as if IFRS 16 had been applied from the date of effect of the lease agreement, but by updating it using its marginal loan rate on the date of first application.

The estimation on this basis shows the following impacts at the start of the 2019 financial year:

Net tangible fixed assets	Increase	7 - 10%
Net debt	Increase	15 - 21%

A 1 point rise or fall in the discount rate would have an impact on the change in EFN and net tangible assets, based on the assumptions selected for our initial estimates of under 1%.

The major impacts expected at the start of 2019 are on net debt and the net value of tangible fixed assets. With regard to the assessment of restated aggregates used in the calculation of covenants, there should be no breach of covenants.

Reconciliation of data provided under IAS17 and the impacts of the application of IFRS 16: The information disclosed previously will not be fully consistent with the IFRS 16 impacts.
The impacts of rents restated under financial leases did not include the discount rates defined by an actuary.
The amount referred to in paragraph 2.5.1.2 c) – "operating lease agreements", made it possible to know the annual real estate lease expense without taking a discount rate into consideration.

b) **IFRIC 23** "Uncertainties surrounding tax treatment": Published by the IASB on June 7, 2017

This interpretation clarifies the accounting and valuation procedures for income taxes when there is uncertainty surrounding the tax treatment applied. The method used must be the one that provides the best forecast as to the outcome of fiscal uncertainty.

The Group does not anticipate any impact from the 1st application of the standard in 2019.

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 €10.2 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, 2018 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.

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 the other intangible and tangible fixed assets, analysis at Business Group (BG) level must be the rule.

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

Inventory 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.
Customer and other debtors are recognized in accordance with the provisions of IFRS 9 (see paragraph 2.2.1.1)

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 (stock 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 “current” and “non-current” concepts 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-current 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 financial leases

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.

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 entity's chief operating decision-maker with a view to making 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 [(1.2 x Group Sales Revenue) + (8 x Group EBITDA) + (12 x Group EBIT)] - Average Group Net Debt for years N and N-1.

2.3 | Scope of consolidation

2.3.1 | Changes in the consolidation scope in the financial year 2018

Purchase of minority stake in the subsidiary LISI AEROSPACE ADDITIVE MANUFACTURING

On July 24, 2018, the LISI Group purchased the 40% minority stake in LISI AEROSPACE ADDITIVE MANUFACTURING. The purchase of the minority stake in this company was carried out via LISI AEROSPACE STRUCTURAL COMPONENTS, a wholly owned subsidiary of the LISI Group. As this subsidiary had been fully consolidated since the beginning, no impact was recorded on the aggregates of the income statement.

Hi-Vol consolidation

On September 21, 2018, the LISI Group purchased 100% of the assets of Hi-Vol Products LLC. The company is acquired through LISI AUTOMOTIVE Hi-Vol Inc, a wholly-owned subsidiary of LISI.

LISI AUTOMOTIVE Beteo GmbH disposal

On December 31, 2018, the Group sold its subsidiary LISI AUTOMOTIVE BETEO GmbH.

2.3.2 | Impact of the LISI AUTOMOTIVE Hi-Vol Inc. scope inclusion which took place in 2018

	In € million	Impact in % on the Group indicators
Sales revenue from October to December 2018	10.3	0.6%
EBIT from October to December 2018	0.0	NA

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

2.3.3 | Impact of the LISI AUTOMOTIVE Beteo GmbH scope exit which took place in 2018

As the exit took place on 12/31/2018, there was no major impact on the Group's income statement.

2.3.4 | Consolidation scope at year-end

Companies	Head office	Country	12/31/2018		12/31/2017	
			% of control	% of interests	% of control	% of interests
Holding company						
LISI S.A.	Grandvillars (90)	France	Parent company		Parent company	
LISI AEROSPACE division						
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
LISI holding North America	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
LISI AEROSPACE FORGED INTEGRATED SOLUTIONS	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	100.00	100.00	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
BLANC AERO INDUSTRIES UK Ltd	Rugby	UK	100.00	100.00	100.00	100.00
ANKIT Fasteners Pvt Ltd	Bangalore	India	52.14	52.14	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	Rzeszow	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	Saint-Maur (36)	France	100.00	100.00	100.00	100.00
LISI AUTOMOTIVE Division						
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

Companies	Head office	Country	12/31/2018 % of control	12/31/2018 % of interests	12/31/2017 % of control	12/31/2017 % of interests
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	51.00	51.00
Termax Int. LLC	Lake Zurich	USA	51.00	51.00	51.00	51.00
Termax Int. Inc.	Lake Zurich	USA	51.00	51.00	51.00	51.00
Termax Canada Corp.	Windsor	Canada	51.00	51.00	51.00	51.00
Termax Mexico	Queretaro	Mexico	51.00	51.00	51.00	51.00
Termax Fasterner Systems	Suzhou	China	51.00	51.00	51.00	51.00
Shanghai Branch	Suzhou	China	51.00	51.00	51.00	51.00
LISI AUTOMOTIVE TANGER	Tangiers	Morocco	100.00	100.00		
LISI AUTOMOTIVE Hi-Vol Inc	Livonia	USA	100.00	100.00		
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

LISI AUTOMOTIVE Hi-Vol Inc entered the scope of consolidation on September 21, 2018.
Creation of LISI AUTOMOTIVE TANGER June 27, 2018.
December 31, 2018, the LISI Group sold LISI AUTOMOTIVE BETEO GmbH.

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. Therefore, the amounts recognized to December 31, 2018 as a result of the acquisition of all of the Hi-Vol Products LLC assets are likely to be reviewed at subsequent year-ends. 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 thousands of euros	Recognized fair value on the acquisition date	Notes
Fixed assets	17,023	2.5.1.2
Other net short-term assets and liabilities	1,098	
Net inventories	3,787	2.5.2.1
Net debt	0	
Taxes and provisions		
Cash and cash equivalents	(6)	
Total net position of the incoming company	**21,904**	
% of the assets recovered	100%	
Share of the minorities	0	
Share of net position acquired by Hi Shear Corp	**21,904**	
Acquisition price	43,378	
Consolidation goodwill	**21,475**	

As the transaction consisted of the acquisition of all assets of Hi-Vol Products LLC, the acquisition amount appears under "cash acquired" in the cash flow statement (see paragraph 1.3)

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, 2018 the amount of provisions for doubtful debts amounted to €3.5 million, to be compared to total receivables of €223.0 million. The amount of the permanent losses recognized over the year was €0.1 million.

Risk on investment securities

On December 31, 2018, the Group's balance sheet showed cash and cash equivalents of €156.9 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, 2018, the LISI Group had available unused bank overdraft lines of €45 million, and net cash of €156.9 million, resulting in a total operating cash flow of €201.9 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, 2018, the former amounted to 0,362 and the latter to 1.1717, compared with 0.337 and 1.5052, respectively, as at December 31, 2017. The Group therefore has a comfortable margin of safety, confirming its low liquidity risk.

(in thousands of euros)	12/31/2018	12/31/2017
Cash and cash equivalents	156,879	197,576
Cash available [A]	**156,879**	**197,576**
Current banking facilities [B]	20,480	16,440
Net cash [A - B]	**136,399**	**181,136**
Credits	449,847	455,400
Other financial creditors	25,859	25,891
NET DEBT [C]	**475,706**	**481,291**
Net debt [D = C + B - A]	**339,307**	**300,155**
Group Equity [E]	**937,010**	**890,001**
Debt ratio (expressed as %) [D / E]	**36.2%**	**33.7%**

N. B.: Reminder - 2016 debt ratio expressed as a percentage: 25.4%

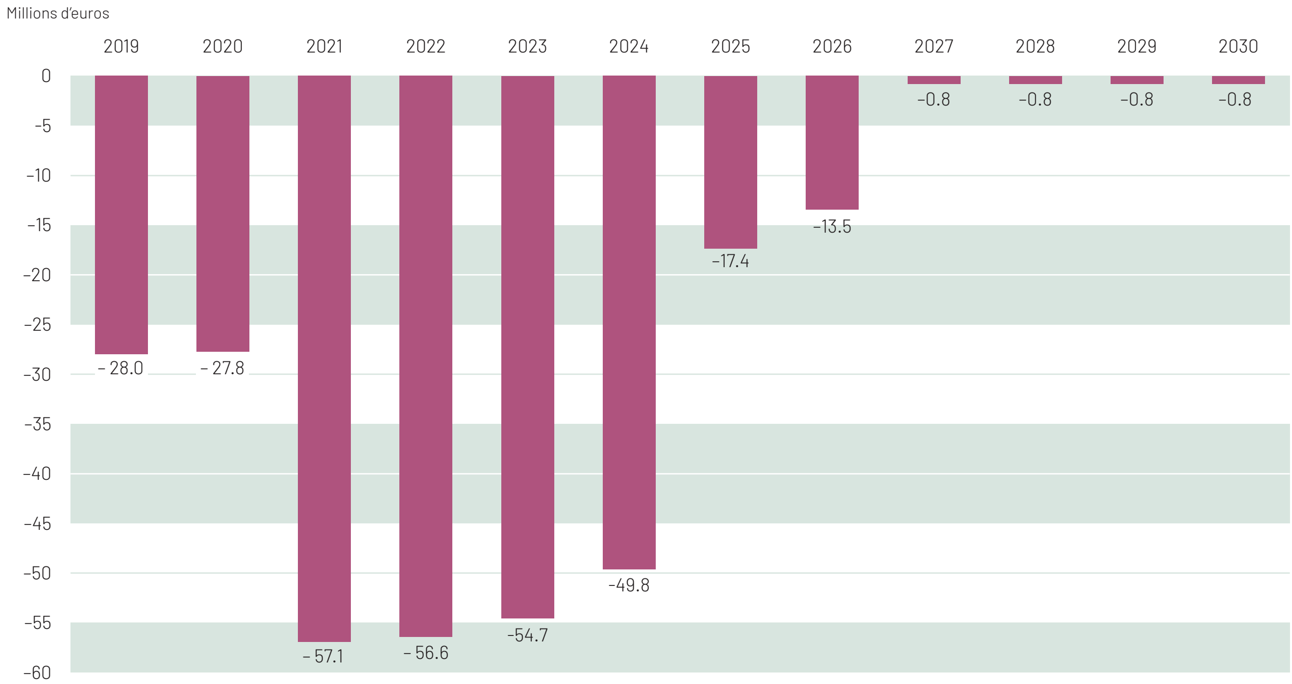
The cash table for all financial liabilities is as follows:

Financial liabilities recorded on balance sheet (in thousands of euros)	At 12/31/2018 Net value accounting	Breakdown of contractual flows not discounted on due date Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Non-current borrowings	337,354		301,595	35,759	337,354
Other non-current liabilities (excluding deferred income)	1,734		1,734		1,734
Current borrowings	158,831	158,831			158,831
Trade and other accounts payable	298,469	298,469			298,469
Total financial liabilities	**796,388**	**457,300**	**303,329**	**35,759**	**796,388**

Financial liabilities recorded on balance sheet (in thousands of euros)	At 12/31/2017 Net value accounting	Breakdown of contractual flows not discounted on due date 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 liabilities (excluding deferred income)	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**

The graph below shows the Group's financial leeway over ten years, giving a total borrowing amount of €306.5 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 profile at 12/31/2018



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, 2018 of the derivatives used in the management of market risks is detailed below:

(in thousands of euros)	12/31/2018 On the assets side	12/31/2018 On the liabilities side	12/31/2017 On the assets side	12/31/2017 On the liabilities side
Interest rate risk management				
Variable rate payers swaps		1,189		1,309
Currency risk management				
Foreign exchange derivatives		168		14,750
Raw materials risk management				
Raw materials derivatives	43		1,219	
Total	**43**	**1,358**	**1,219**	**16,059**

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, 2018, 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.

The Group did not set up any new hedges in 2018. Its instruments in effect at December 31, 2018 relate to an outstanding amount of €61.8 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 thousands of euros)	12/31/2018	12/31/2017
Loans - variable rates	54,800	100,052
Short-term banking facilities	16,441	16,441
Cash and cash equivalents	(143,479)	(180,174)
Net position prior to management	**(72,238)**	**(63,681)**
Interest rate SWAP	46,302	66,797
Hedging	**46,302**	**66,797**
Net position after management	**(118,540)**	**(130,478)**

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, 2018, the impact on the unhedged portion of a 100 basis point change in the variable rates was €1,185 thousand.

2.4.3.2 - Commodities price fluctuation risk

At December 31, the Group hedged the risk on its future purchases of the raw materials nickel and aluminum. The fair value at December 31, 2018 of the derivatives used (commodity swaps) was +€43 thousand. Other raw materials cannot be hedged due to lack of available instruments. 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. 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:

	12/31/2018					12/31/2017				
	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	(2.1)	32.4	20.4	12.0	0.0	0.1	32.4	25.2	7.2	0.0
Long position of CAD against USD	(0.5)	36.0	24.0	12.0	0.0	1.7	57.6	33.6	24.0	0.0
Long position of TRY against EUR	(0.5)	21.4	21.4	0.0	0.0	(0.6)	32.8	32.8	0.0	0.0
Long position of PLN against EUR	0.0	16.8	16.8	0.0	0.0	0.1	16.8	16.8	0.0	0.0
Long position of CZK against EUR	0.1	240.0	240.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long position EUR against USD	2.8	178.9	111.9	67.0	0.0	13.5	214.9	116.0	98.9	0.0
	(0.2)					**14.7**				

(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 IFRS 9. 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, 2018 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:

	12/31/2018	
Impact (in €'000)	USD	
exchange rate at the closing date		1,1450
Euro/dollar exchange rate development assumptions	-10%	+10%
Euro/dollar exchange rate used for the sensitivity analysis	1,0305	1,2595
Impact (before tax)	(16,8)	14,2

2.4.4 | Risk related to the impairment of intangible assets

The net amount of goodwill at December 31, 2018 amounted to €348 million. At December 31, 2017, 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 grouping is identical at December 31, 2018.

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 balance sheet items

2.5.1 | Non-current assets

2.5.1.1 - Intangible assets

a) Goodwill

(in thousands of euros)	Goodwill
Gross goodwill as of December 31, 2017	**321,377**
Impairment over financial year 2017	0
Net goodwill as of December 31, 2017	**321,377**
Increase	23,253
Decrease	(2,273)
Changes in foreign exchange rates	5,431
Gross goodwill as of December 31, 2018	**347,787**
Impairment over financial year 2018	**0**
Net goodwill as of December 31, 2018	**347,787**

The increase is due to the updating of Termax goodwill over the period (+€1.7 million) and the entry of LISI AUTOMOTIVE Hi-Vol Inc into the Group scope (provisional calculation of €21.5 million).

The decrease concerns the exit of LISI AUTOMOTIVE BETEO GmbH (€2.3 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, 2018 as follows:

In millions of euros	LISI AEROSPACE division	LISI AUTOMOTIVE division	LISI MEDICAL division	LISI TOTAL
Net goodwill	**137.5**	**120.6**	**89.7**	**347.8**
Intangible fixed assets				
of indeterminate utility duration	None	None	None	None
Trademarks	None	None	None	None
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	Forecasts	Forecasts	
Cash flow within four years	4-year strategic plan	4-year strategic plan	4-year strategic plan	
Discount rate after tax	7.52%	7.89%	6.80%	
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, 2017 as follows:

In millions of euros	LISI AEROSPACE division	LISI AUTOMOTIVE division	LISI MEDICAL division	LISI TOTAL
Net goodwill	**136.4**	**97.6**	**87.4**	**321.4**
Intangible fixed assets				
of indeterminate utility duration	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%	

In accordance with IAS 36 "Impairment of Assets", goodwill was tested for impairment on December 31, 2018.

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 2019 to 2022.

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.

	December 31, 2018		December 31, 2017	
	Perpetual growth rate	Discount rate	Perpetual growth rate	Discount rate
LISI AEROSPACE	2.00%	7.52%	2.00%	7.09%
LISI AUTOMOTIVE	2.00%	7.89%	2.00%	8.15%
LISI MEDICAL	2.00%	6.80%	2.00%	5.24%

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:

	December 31, 2018							
	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	7.52%	758	2.00%	(1,496)	(58.28%)		(1,003)
LISI AUTOMOTIVE	7.89%	171	2.00%	(275)	(22.93%)		(217)
LISI MEDICAL	6.80%	194	2.00%	(268)	(30.12%)		(401)

* Not provided due to the underlying confidential nature.

	December 31, 2017						
	Discount rate		Infinite growth rate		Cash flow	Discount 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.

b) Other intangible assets

(in thousands of euros)	Concessions, patents and similar rights	Other intangible fixed assets*	TOTAL
Gross values at December 31, 2017	**69,493**	**33,012**	**102,505**
Other changes	1,649 (1)	2,917	4,566
Acquisitions	3,290	3,054	6,344
Disposals	(1,462)	(2,529)	(3,991)
Scope changes	(439)		(439)
Exchange rate differences	2	308	310
Gross values at December 31, 2018	**72,533**	**36,762**	**109,295**
Depreciation at December 31, 2017	**55,923**	**16,405**	**72,328**
Other changes	1,040 (1)	2,779	3,819
Depreciation allowance	4,326	6,415	10,741
Depreciation reversals	(1,499)	(2,992)	(4,491)
Scope changes	(165)		(165)
Exchange rate differences		88	88
Depreciation at December 31, 2018	**59,625**	**22,695**	**82,320**
Net values at December 31, 2018	**12,908**	**14,068**	**26,975**

* 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 brand was fully amortized at 12/31/2018.
(1) Tangible fixed assets were reclassified as intangible fixed assets during the period.

The amounts shown under scope changes are due to the entry of LISI AUTOMOTIVE Hi-Vol Inc into the Group scope on September 21, 2018 and the disposal of LISI AUTOMOTIVE BETEO GmbH on December 31, 2018.

2.5.1.2 - Tangible assets

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

(in thousands of euros)	Land	Buildings	Technical facilities, equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2017	**21,103**	**218,546**	**1,083,839**	**108,166**	**53,412**	**1,485,073**
Other changes	200	13,669	60,245	(5,353)(1)	(73,157)	(4,396)
Acquisitions	160	2,220	43,290	5,004	81,837	132,511
Disposals	(219)	(3,201)	(27,728)	(3,768)	(525)	(35,441)
Scope changes	(11)	0	29,072	(841)	130	28,350
Exchange rate differences	35	1,250	5,645	207	362	7,500
Gross values at December 31, 2018	**21,268**	**232,484**	**1,194,363**	**103,415**	**62,059**	**1,613,597**
Depreciation at December 31, 2017	**795**	**87,883**	**725,429**	**68,057**	**217**	**882,381**
Other changes	0	51	2,035	(3,306)(1)	0	(1,220)
Depreciation allowance	103	11,023	72,371	9,477	0	92,974
Depreciation reversals	0	(1,851)	(28,591)	(3,643)	0	(34,085)
Scope changes	0	0	12,802	(370)	0	12,432
Exchange rate differences	0	339	3,000	211	0	3,550
Depreciation at December 31, 2018	**898**	**97,445**	**787,046**	**70,426**	**217**	**956,032**
Net values at December 31, 2018	**20,370**	**135,039**	**407,317**	**32,989**	**61,842**	**657,558**

(1) Tangible fixed assets were reclassified as intangible fixed assets during the period.

The amounts shown under scope changes are due to the entry of LISI AUTOMOTIVE Hi-Vol Inc into the Group scope on September 21, 2018 and the disposal of LISI AUTOMOTIVE BETEO GmbH on December 31, 2018.

b) Tangible assets held under a finance lease contract

(in thousands of euros)	Land	Buildings	Technical facilities, equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2017		**13,833**	**32,300**			**46,133**
Other changes		160				160
Acquisitions		4,296				4,296
Disposals			(1,493)			(1,493)
Scope changes		278				278
Exchange rate differences		257	358			615
Gross values at December 31, 2018		**18,824**	**31,165**			**49,989**
Depreciation at December 31, 2017		**5,167**	**24,055**			**29,224**
Other changes		20	(1,493)			(1,473)
Depreciation allowance		305	2,497			2,802
Depreciation reversals						
Scope changes		168				168
Exchange rate differences		26	141			167
Depreciation at December 31, 2018		**5,687**	**25,202**			**30,889**
Net values at December 31, 2018		**13,136**	**5,963**			**19,099**

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 are mainly for office equipment and vehicle leases.

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 €21 million, compared to €19 million in 2017.

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 12/31/2018	Breakdown by instrument category					
Financial assets and liabilities on the 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	Derivatives
Non-current financial assets	8,923	8,923			8,923		
Other Non-current assets	480	480			480		
Trade and other receivables	263,141	263,141			260,994		2,147
Cash and cash equivalents	156,879	156,879	156,879				
Total financial assets	**429,423**	**429,423**	**156,879**		**270,397**		**2,147**
Non-current borrowings	337,354	337,354				336,165	1,189
Other non-current financial liabilities (excl. PCA)	1,734	1,734				1,734	
Current borrowings	158,831	158,831				158,831	
Trade and other accounts payable	298,469	298,469				296,197	2,272
Total financial liabilities	**796,388**	**796,388**				**792,927**	**3,461**

Financial assets and liabilities on the balance sheet (in thousands of euros)	At 12/31/2017		Breakdown by instrument category				
	Net value accounting	Fair value	Fair value via earnings	Assets available for sale	Loans and receivables	Debt at depreciated cost	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**

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:

(in thousands of euros)	December 31, 2018		
	Level 1	Level 2	Level 3
Non-current financial assets	8,923		
Other non-current assets	480		
Trade and other receivables	2,147	260,994	
Cash and cash equivalents	156,879		
Total financial assets	**168,429**	**260,994**	
Non-current borrowings	337,354		
Other non-current financial liabilities (excl. PCA)	1,734		
Current borrowings	158,831		
Trade and other accounts payable	2,272	296,197	
Total financial liabilities	**500,191**	**296,197**	

2.5.1.4 - Non-current financial assets

(in thousands of euros)	Other non-current investments	Other financial assets	TOTAL
Gross values at December 31, 2017	**7,985**	**2,005**	**9,990**
Other changes	(1,803)	156	(1,647)
Acquisitions	260	257	517
Disposals		(242)	(242)
Scope changes			
Exchange rate differences	319	(4)	315
Gross values at December 31, 2018	**6,758**	**2,172**	**8,930**
Impairment at December 31, 2017	**8**		**8**
Other changes			
Provisions for impairment			
Reversals of provisions for impairment			
Scope changes			
Exchange rate differences			
Impairment at December 31, 2018	**8**		**8**
Net values at December 31, 2018	**6,750**	**2,172**	**8,923**

2.5.1.5 - Other non-current assets

(in thousands of euros)	12/31/2018	12/31/2017
Other debtors	480	429
Total other non-current financial assets	**480**	**429**

The debt on the balance sheet at December 31, 2018 primarily covers a non-current maturity tax asset.

2.5.2 | Current assets

2.5.2.1 - Inventories

(in thousands of euros)	Raw materials	Tools and other procurements	Work in progress	Finished and intermediary products	Goods	TOTAL
Gross values at December 31, 2017	**64,862**	**17,318**	**161,833**	**125,016**	**13,213**	**382,239**
Scope changes	107	1,515	1,186	601	0	3,409
- of which increases	*496*	*1,518*	*1,216*	*641*	*0*	*3,871*
- of which decreases	*(389)*	*(3)*	*(30)*	*(40)*	*0*	*(462)*
Exchange rate differences	269	52	760	662	19	1,762
Changes in inventory	(3,752)	1,207	10,620	(1,369)	(964)	5,742
Other changes	(17)	17	4	2,339	(3,257)	(914)
Gross values at December 31, 2018	**61,469**	**2,791**	**174,403**	**127,249**	**9,011**	**392,238**
Impairment at December 31, 2017	**11,708**	**1,874**	**7,351**	**20,595**	**3,613**	**45,141**
Scope changes	0	0	0	84	0	84
- of which increases	*0*	*0*	*0*	*84*	*0*	*84*
- of which decreases	*0*	*0*	*0*	*0*	*0*	*0*
Provisions for amortization and depreciation	2,069	1,273	4,280	5,651	444	13,717
Reversal of provisions for amortization and depreciation	(4,011)	(725)	(4,398)	(6,586)	(1,977)	(17,697)
Exchange rate differences	(20)	9	61	30	(14)	66
Other changes	14	0	45	(137)	0	(78)
Impairment at December 31, 2018	**9,760**	**2,431**	**7,339**	**19,637**	**2,066**	**41,233**
Net values at December 31, 2018	**51,709**	**360**	**167,064**	**107,612**	**6,945**	**351,009**

The amounts shown under scope changes are due to the entry of LISI AUTOMOTIVE Hi-Vol Inc into the Group scope on September 21, 2018 and the disposal of LISI AUTOMOTIVE BETEO GmbH on December 31, 2018.

2.5.2.2 - Trade and other receivables

(in thousands of euros)	12/31/2018	12/31/2017
Gross debtors and apportioned accounts	223,005	204,333
Impairment of trade and other apportioned accounts	(3,481)	(3,679)
Net debtors and apportioned accounts	***219,524***	***200,654***
State - other taxes and duties	27,502	29,383
Social entities & workforce services	250	16
Accounts payable - advances, debtors	4,776	4,208
Deferred charges	5,461	5,161
Other	5,629	21,827
Other receivables	***43,617***	***60,595***
Total trade and other receivables	**263,141**	**261,249**

Assignments of receivables amounted, at December 31, 2018, to €69.1 million, compared with €73.4 million at December 31, 2017. 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 to be marginal, with non-hedged overdue receivables dating back mainly to less than one year and the portion exceeding one year being totally insignificant.

The average payment period for financial year 2018 was 49 days compared to 45 days in 2017.

Debt by maturity

	2018					
(in thousands of euros)	TOTAL	< 30 days	30 to 60 days	60 to 90 days	90 to 120 days	> 120 days
Gross debtors	223,005	144,486	77,526	11,851	673	(10,563)
Net debtors	219,524	140,797	77,526	11,851	673	(10,563)

	2017					
(in thousands of euros)	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)

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

Late payments

(in thousands of euros)	12/31/2018	12/31/2017
0 to 30 days	26,700	19,203
30 to 60 days	5,027	4,995
60 to 90 days	1,419	1,486
> 90 days	8,557	3,171
Total	**41,704**	**28,854**

2.5.2.3 - Cash and cash equivalents

The cash available as at December 31, 2018 stood at €156.9 million, compared to €197.6 million in 2017. 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 €95.9 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 thousands of euros)	2018	2017
Effect of the change in inventories	(5,744)	67
Effect of the change in cash flow imbalances of customers and other debtors	(4,614)	7,943
Effect of the change in cash flow imbalances of suppliers and other creditors	(12,031)	10,030
Effect of the change in cash flow imbalances for taxes	16,072	(35,451)
Change in working capital requirements	**(6,317)**	**(17,411)**

The free cash *flow* broke down as follows:

in thousands of euros	2018	2017
Operating cash flow	194,853	203,838
Net CAPEX	(131,282)	(140,146)
Change in working capital requirements	(6,317)	(17,411)
Free cash flow	**57,254**	**46,281**

2.5.3 | Shareholders' equity

The Group's shareholders' equity stood at €937 million at December 31, 2018, against €890 million at December 31, 2017, representing an increase of €47 million. This change takes into account the following main factors:

Changes in € million	12/31/2018	12/31/2017
Income for the period attributable to equity holders of parent	92.1	108.0
Capital increase reserved for employees	2.8	0.0
Distribution of dividends paid in May	(25.5)	(23.9)
Treasury shares and payments in shares	(0.1)	2.1
Actuarial gains and losses on employee benefits	(3.1)	0.4
Change in fair value of cash flow hedging instruments	(8.8)	18.3
Change in consolidation scope	(14.3)	(57.2)
Miscellaneous restatements	0.1	1.3
Translation differences related to changes in the closing rate, including the revaluation of the dollar	3.9	(19.3)
	47.0	**29.7**

The -€14.3 million scope change is due to:

- the declaration of an additional borrowing of €16.1 million for the revaluation of the acquisition liability relating to the minority stake in Termax (put on minority stake);
- the purchase of a minority stake in LISI AEROSPACE Additive Manufacturing for €1.8 million.

2.5.3.1 - Share capital

Share capital at year-end stands at €21,645,726, broken down into 54,114,317 issued shares with a face value of €0.40.

The number of shares in circulation rose by 90,442 following the capital increase reserved for employees.

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)	12/31/2018	12/31/2017
Additional paid-in capital	57,588	54,843
Contribution premiums	15,030	15,030
Merger premiums	2,711	2,711
TOTAL	**75,329**	**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 2018 financial year (not recognized) submitted to the Shareholders' General Meeting on April 26, 2019 for approval breaks down as follows:

Amount (in thousands of euros)	**2018**	2017
Total net dividend	23.8	25.5

The estimated amount for 2018 is calculated based on the total number of shares, i.e. 54,114,317. 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 2018 financial year (not recognized) submitted to the Shareholders' General Meeting on April 26, 2019 for approval breaks down as follows:

Dividend per share (€)	**2018**	2017
Dividend per share	0.44	0.48

2.5.4 | Provisions

2.5.4.1 - Changes in provisions break down as follows:

(in thousands of euros)	At January 1, 2017	Allowances (net of reversals)	**December 31, 2017**	Allowances	Reversals (amounts used)	Reversals (non used amounts)	Actuarial gains/losses out of shareholders' equity	Reclassifications - Other	Entry into/exit from consolidation scope	Translation differences	**At December 31, 2018**
Pensions and retirement	39,472	(94)	39,378	3,683	(2,262)	3	3,423	0	0	(688)	43,537
Long-service medals	4,402	(58)	4,344	247	(181)	0	0		(20)	0	4,389
Environment-related risks	8,484	(3,021)	5,463	0	(2,093)	(324)		(17)	0	43	3,072
Disputes and other risks	6,475	(1,259)	5,216	3,605	(761)	(2,810)		(23)	0	0	5,226
Guarantees to clients	9,840	(148)	9,692	53	0	(500)		0	0	2	9,247
For loss on contract	1,800	(900)	900	0	(900)	0			0		0
Sub-total non-current provisions	**70,473**	**(5,480)**	**64,993**	**7,588**	**(6,198)**	**(3,631)**	**3,424**	**(40)**	**(20)**	**(643)**	**65,475**
Industrial reorganization	1,035	(269)	766	476	(204)	(3,223)		4,702	0	38	2,555
Restructuring	1,147	(400)	747	(128)	(154)	(266)		0	0	0	200
Environment-related risks	212	(54)	158	0	(56)	(27)		915	0	27	1,017
Disputes	949	(201)	748	188	(520)	(60)		0	0	10	366
Other risks	18,776	(6,039)	12,737	4,248	(5,419)	0		(2,315)	0	14	9,266
Subtotal current provisions	**23,174**	**(8,018)**	**15,156**	**4,785**	**(6,352)**	**(3,576)**	**0**	**3,302**	**0**	**90**	**13,404**
Grand Total	**93,647**	**(13,498)**	**80,149**	**12,373**	**(12,550)**	**(7,206)**	**3,424**	**3,261**	**(20)**	**(553)**	**78,880**
of which as recurring operating profit				*11,897*	*(12,346)*	*(3,983)*					
of which as non-recurring operating profit				*476*	*(204)*	*(3,223)*					

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 €2.1 million are for costs incurred for soil decontamination.

  This item is impacted by €0.9 million due to the allocation of the Termax assets.

- *Disputes and other risks:*

  This covers litigation or disputes with partners and service providers. The risk has been assessed based on the estimated cost of the likely outcome of disputes 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.

- *Restructuring and 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.

  This item is impacted in the amount of €1.5 million due to the final allocation of the Termax acquisition price.

- *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.

  This item is impacted in the amount of €0.9 million due to the final allocation of the Termax acquisition price.

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.

Retirement benefits (France):

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

England:

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 as follows: CAPEX, inflation, retirees' length of service, options, legislation.

USA:

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 as follows: CAPEX, inflation, retirees' length of service, options, legislation.

The geographic breakdown of the Group's commitments to staff as at December 31, 2018 for defined benefit plans and the main assumptions employed in their assessment are as follows:

In thousands of euros	France	Germany	USA	England	Other
Actuarial debt	32,638	7,778	328	23,937	2,189
Discount rate	1.55%	1.80%	4.25%	2.91%	4.00%
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 years +0.3%	
Inflation - Wage increase	2.00%	1.50%	NA	3.44%	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 4.25% for American insurance plans and 2.91% for English ones.

At December 31, 2018, the allocation of the plan assets was approximately 35% in equities and 65% in bonds for England.

The following table sets out the changes, during financial year 2018, in the actuarial debt and the market value of the hedging assets (in millions of euros):

Change in actuarial debt	2018	2017
Actuarial debt at year start	**63,500**	**63,117**
Cost of services	2,139	2,075
Cost of accretion	1,545	1,414
Benefits paid	(2,729)	(2,527)
Past-service costs	658	0
Change in consolidation scope	(3)	(130)
Translation differences	(878)	(1,383)
Actuarial losses (gains)	2,635	934
Actuarial debt at year end	**66,869**	**63,500**

Change in market value of hedging assets	2018	2017
Opening value	**24,755**	**23,645**
Contributions paid by the Group	282	285
Benefits withheld from fund	(752)	(578)
Expected yield from assets	658	670
Translation differences	(190)	(853)
Actuarial gains (losses)	(1,421)	1,585
Value at year-end	**23,332**	**24,755**

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

In thousands of euros	12/31/2018	12/31/2017
Liabilities recognized at year-end	**(43,537)**	**(38,745)**

The expense recognized as operating profit by the Group during the financial year 2018 as defined benefit plans amounted to €3.7 million and is broken down as follows:

(in thousands of euros)	2018	2017
Cost of services	2,139	2,075
Cost of accretion	1,545	1,414
Expected yield from plan assets	(658)	(670)
Past-service cost	658	
Expense (Revenue) recognized	**3,683**	**2,818**

2.5.5 | Other non-current liabilities

(in thousands of euros)	12/31/2018	12/31/2017
Deposits and sureties received	94	92
Debt due in more than one year	799	763
Employee profit-sharing in the financial year	841	3,823
Deferred income	6,717	6,927
Total other non-current liabilities	**8,452**	**11,605**

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 thousands of euros)	12/31/2018	12/31/2017
Non-current share		
Mid-term loans	321,430	296,224
Debt related to lease agreements	4,307	8,878
Employee profit-sharing (frozen on a current account)	11,617	12,656
Non-current debt subtotal	*337,354*	*317,757*
Current share		
Banking facilities for operations	20,480	16,441
Mid-term loans	132,396	159,176
Debt related to lease agreements	2,419	1,086
Employee profit-sharing (frozen on a current account)	3,538	3,271
Subtotal current debt	*158,831*	*179,973*
Total debt	**496,185**	**497,730**

b) Breakdown by maturity date

(in thousands of euros)	12/31/2018	12/31/2017
Borrowings		
due within one year	132,396	159,176
two to five years	286,151	240,585
more than five years	35,279	55,639
Subtotal borrowings	***453,826***	***455,400***
Other financial creditors		
due within one year	26,436	20,798
two to five years	15,444	19,754
more than five years	480	1,780
Subtotal other debts	***42,360***	***42,331***
Borrowings and debt	**496,185**	**497,730**

c) Breakdown by cash flow category

Debt as of 01/01/2018	**497,730**
Subtotal changes resulting from cash flow	(34,811)
Subtotal changes with no cash effect	33,375
Debt as at 12/31/2018	**496,294**

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 12/31/2018 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	3.0	2019	Partly covered by a SWAP	[1]
	Conventional loan		Euribor 3 months + margin	30.0	3.0	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	11.1	2024		[1]
	Conventional loan	0.65%		15.0	11.2	2024		[1]
	Conventional loan	0.65%		15.0	11.3	2024		[1]
	Conventional loan	0.73%		15.0	15.0	2023		[1]
	Conventional loan	0.80%		15.0	15.0	2023		[1]
	USPP *	3.64%		56.0	40.0	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	0.8	2020	Hedged by a swap	[1]
BLANC AERO INDUSTRIES	Conventional loan		Euribor 3 months + margin	11.5	9.6	2031	Hedged by a swap	[1]
LISI AUTOMOTIVE Former	Conventional loan		Euribor 3 months + margin	6.0	2.2	2021		
				3.0	1.8	2024		
				3.0	2.0	2024		[1]
LISI AUTOMOTIVE KNIPPING Espana S.A	Conventional loan		1-year Euribor + margin	6.5	0.2	2018		
LISI MEDICAL Fasteners	Conventional loan		Euribor 3 months + margin	4.5	2.2	2024	Hedged by a swap	[1]
			Total	**349.4**	**248.4**			

* USPP: US Private Placement

2.5.6.2 - Related covenants (see paragraph 2.4.2)

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 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 the French companies were revalued to take into account the article of the Finance Act for 2018 for the progressive reduction of corporation tax to 25%.

(in thousands of euros)	12/31/2018	12/31/2017
Deferred tax assets	11,894	8,568
Deferred tax liabilities	(37,745)	(40,747)
Net deferred taxes	**(25,851)**	**(32,179)**

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, 2018 would generate deferred tax assets of €19.4 million, compared to €17.9 million in 2017.

Deferred tax assets by early recoverability as at December 31, 2018

- 1 year	1 to 5 years	+5 years	Total
5,021	3,650	3,223	11,894

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 2.7.1. "Segment information".

2.6.2 | Consumed goods

(in thousands of euros)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	Total 2018	TOTAL 2017
Consumption of goods	5,295	23,588	3,979	(253)	32,609	30,240
Consumption of raw materials	181,469	115,275	16,283	(2)	313,025	291,158
Tools	35,810	25,447	7,308	(27)	68,538	72,847
Other purchases	29,926	17,790	2,514	22	50,252	48,873
Total consumption	**252,500**	**182,100**	**30,084**	**(260)**	**464,424**	**443,119**

2.6.3 | Other purchases and external expenses

(in thousands of euros)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	Total 2018	TOTAL 2017
Subcontracting	57,315	51,205	8,326	0	116,846	112,383
Maintenance	32,492	25,801	4,806	1,536	64,635	62,880
Freight	9,833	13,628	909	0	24,370	23,893
Energy	16,659	14,561	1,755	13	32,988	34,676
Other purchases and external costs	78,860	33,823	7,321	(6,358)	113,646	104,500
Total other purchases and external costs	**195,159**	**139,018**	**23,117**	**(4,809)**	**352,485**	**338,332**

2.6.4 | Payroll expenses

(in thousands of euros)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	Total 2018	TOTAL 2017
Temporary workers	24,069	10,404	2,617	(269)	36,821	41,527
Salaries and incentives	243,059	141,143	46,371	3,320	433,893	415,212
Layoff pay	2,185	1,276	118	174	3,753	3,085
Social contributions and taxes on salaries	92,661	51,052	17,029	1,151	161,893	154,085
Employee profit-sharing	1,673	247	105	0	2,025	3,814
Pensions and long-service medals	1,013	487	164	0	1,664	1,612
Total payroll expenses	**364,660**	**204,609**	**66,404**	**4,376**	**640,048**	**619,333**

2.6.5 | Research and development expenses

The LISI Group's mission is to carry out intensive research and development activities, to develop new products, the use of new materials and to develop innovative production processes. 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 directly dedicated to R&D represented in 2018 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	2018	2017	2016
Research and Development expenditures	30,9	27,5	26,3
% of sales revenues	1,9%	1,7%	1,7%
Activated projects	2,0	1,3	0

2.6.6 | Non-recurring operating expenses and revenues

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

(in thousands of euros)	12/31/2018	12/31/2017
Non-recurring operating expenses		
Beteo disposal	(419)	
Industrial reorganization costs	(4,768)	(3,944)
Restructuring costs	0	(481)
Other costs	(1,030)	(553)
Reserve allowance for industrial reorganizations	(7,476)	(611)
Total	**(13,693)**	**(5,588)**
Non-recurring operating revenues		
Sale of Précimétal		259
Industrial reorganization plan provision reversals	3,427	1,277
Reversals of provisions allocated to restructuring	0	372
Other revenues	0	
Total	**3,427**	**1,908**
Non-recurring operating expenses and revenues	**(10,266)**	**(3,680)**

The rules for the presentation and definition of non-recurring income and expenses remain unchanged compared to December 31, 2017.

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

A €2.2 million unused provision for industrial reorganization was reversed.

A €7 million was made to cover decreases in the utility value of certain assets.

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 thousands of euros)	12/31/2018	12/31/2017
Financing expenses and revenue on cash		
Revenue on cash	3,263	2,697
Impact of the change in fair value of positive interest rate hedges	199	747
Impact of the change in fair value of negative interest rate hedges	(80)	
Financing expenses	(5,885)	(5,866)
Subtotal income from cash and cash equivalents	***(2,503)***	***(2,421)***
Other interest revenue and expenses		
Foreign exchange gains	42,635	46,980
Foreign exchange losses	(29,966)	(79,390)
Impact of the change in fair value of currency hedges	(4,084)	13,872
Other	(738)	(628)
Subtotal other interest revenue and expenses	***7,846***	***(19,166)***
Financial result (income)	**5,343**	**(21,587)**

The increase in financial income compared to 2017 is mainly due to the rise in the exchange rate income mainly due to the change in the US dollar.

2.6.8 | Corporation tax

2.6.8.1 - Income tax breakdown

Breakdown (in thousands of euros)	Pre-tax earnings	Tax*	Profit (loss) after tax
Current profit (loss)	142,925	(30,750)	112,174
Non-recurring operating expenses and revenues	(10,268)	3,674	(6,595)
Employee profit-sharing	(2,024)	693	(1,331)
Tax credits		(16)	(16)
CVAE (Tax on companies' added value)		(7,441)	(7,441)
Profit (loss) for the period	**130,633**	**(33,840)**	**96,794**

of which taxes due: €-22,343 thousand
of which deferred taxes: €-2,333 thousand
of which withholding tax on profits received from abroad: €-1,701 thousand
of which tax credits: €-16 thousand
of which CVAE (Tax on companies' added value): €-7,441 thousand

2.6.8.2 - Tax proof

Tax proof at 12/31/2018	€ million	%
Earnings attributable to the Group	92.1	
Minority interests	(4.7)	
Recorded income tax (income tax+income tax credit+deferred tax+CVAE)	33.8	
Profit (loss) before income tax	130.6	
Parent company standard rate	34.43%	
Theoretical income tax/rate at 34.43%	44.98	132.92%
Difference		
Share of non-deductible expenses	1.21	3.6%
Withholding tax on foreign dividends	1.71	5.0%
Delta central rate/local rates	(7.94)	(23.5%)
Tax credits	(0.01)	0.0%
Activities not subject to taxation	(5.69)	(16.8%)
Taxable share of foreign dividends	1.32	3.9%
Taxes from prior periods	0.71	2.1%
Unused tax losses	1.80	5.3%
Tax consolidation France	(0.91)	(2.7%)
Foreign tax consolidation	2.76	8.2%
Transition Tax US	(4.06)	(12.0%)
Macron Law increased depreciation and amortization	(2.07)	(6.1%)
CIR	(1.67)	(4.9%)
Tax Credit on wages	(3.50)	(10.4%)
CVAE (Tax on companies' added value)	4.88	14.4%
Permanent differences	0.30	0.9%
Other	0.02	0.1%
Income tax recorded to the income statement (Incl. CVAE)	**33.8**	**100.0%**
Effective tax rate (tax expense in the income statement as a ratio of pre-tax income)	*25.89%*	

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 25.9%, stable compared with 2017 (26.8%).

2.6.8.3 - Tax rates applied by LISI Group companies

	2018	2017
Germany	30.00%	30.00%
England	17.00%	19.00%
Canada	26.90%	26.90%
Spain	25.00%	30.00%
USA	21.00%	35.00%
France *	34.43%	39.32%
Czech Republic	19.00%	19.00%
China	25.00%	25.00%

* Including the exceptional contribution on corporation tax of 15% in 2017.

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.

	12/31/2018		
In thousands of euros	Profit (loss) for the period	Number of shares	Net earnings per share in €
Total shares		54,114,317	
Treasury shares		(914,553)	
Basic earnings per share	**92,069**	**53,199,764**	**1.73**
Restatement of performance shares being awarded		456,270	
Diluted earnings per share	**92,069**	**53,656,034**	**1.72**

	12/31/2017		
In thousands of euros	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**

2.7 | Additional information

2.7.1 | Segment information (see paragraph 2.2.19)

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 thousands of euros)	12/31/2018 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
Income Component					
Sales revenue by business sector	934,011	581,135	130,734	(785)	1,645,095
EBITDA	145,759	64,722	14,925	10	225,416
Depreciation allowance and provisions	48,961	30,683	9,309	906	89,859
Current operating profit (EBIT)	96,798	34,039	5,616	(895)	135,558
Operating profit	84,673	33,536	5,277	1,804	125,290
Profit (loss) for the period	**59,414**	**25,518**	**859**	**11,003**	**96,794**
Balance sheet component					
Working capital requirement	241,845	99,399	24,739	5,748	371,731
Net fixed assets	628,672	366,750	166,772	(101,853)	1,060,341
Acquisitions of fixed assets	**75,873**	**46,131**	**10,914**	**1,185**	**134,103**

(in thousands of euros)	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**

2.7.1.2 - Breakdown by business sector and by country

(in thousands of euros)	12/31/2018 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
Income Component					
Sales revenue by destination area					
European Union	626,433	396,427	62,218	(785)	1,084,293
of which France	411,668	151,360	8,806	(785)	571,049
North American continent	250,745	71,684	64,012		386,441
Other countries	56,833	113,024	4,504		174,361
Total	**934,011**	**581,135**	**130,734**	**(785)**	**1,645,095**
Balance sheet component					
Net fixed assets by destination area					
European Union	386,997	258,974	66,202	(101,853)	610,320
of which France	360,619	161,669	66,202	(101,853)	486,638
North American continent	197,810	99,655	100,570		398,035
Africa	18,263	678			18,941
Asia	25,602	7,443			33,045
Total	**628,672**	**366,750**	**166,772**	**(101,853)**	**1,060,341**
Flows provided by or used for acquisition of fixed assets by destination area					
European Union	60,927	34,996	4,623	1,185	101,731
of which France	56,078	21,472	4,623	1,185	83,358
North American continent	8,145	9,639	6,291		24,075
Africa	2,624	83			2,707
Asia	4,177	1,413			5,590
Total	**75,873**	**46,129**	**10,914**	**1,185**	**134,103**

(in thousands of euros)	12/31/2017 LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
Income Component					
Sales 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)	462,764
of which France	346,437	160,107	60,380	(244,294)	339,089
North American continent	194,040	51,069	95,871	146,973	513,818
Africa	16,816				16,816
Asia	25,102	7,718			33,045
Total	**608,130**	**314,073**	**156,248**	**(97,321)**	**1,027,887**
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	68,572	19,016	2,606	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**

2.7.2 | Share-based payments

2.7.2.1 - Share purchase options

The Company had no stock options plans at December 31, 2018.

2.7.2.2 - Award of performance shares

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on December 17, 2015, 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 2017, 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 2018 at 64% for LISI SA, 64% for the LISI AEROSPACE division, 80% for the LISI AUTOMOTIVE division and 50% for the LISI MEDICAL division. The final cost was allocated to the divisions.

Similar plans were set up in 2016, 2017 and 2018 to the extent that the Board of Directors meetings held on December 20, 2016, December 13, 2017 and December 12, 2018, 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 was reported in 2018 under payroll expenses for €0.3 million against shareholders' equity. 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 thousands of euros)	**2018**	2017	**2018**	2017
Gross current benefits (salaries, bonuses, etc.)	1,205	1,257		
Post-employment benefits (IFC)	32	83	405	373
Other non-current benefits				
Termination benefits				
Equity compensation benefits	(187)	(51)	146	333
Total remuneration	**1,050**	**1,289**	**550**	**706**

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, 2017 and 2018, 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 these plans, the corporate officers shall retain in nominative form 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 thousands of euros	2018	2017
Balance of investment orders	80,386	108,951
Guarantees and deposits	0	0
Commitments made	**80,386**	**108,951**
Rate swap	61,802	66,797
Foreign exchange hedging	235,507	268,350
Reciprocal commitments	**297,309**	**335,147**

Reciprocal commitments:

Reciprocal commitments are interest rate swaps to hedge variable rate loans (see note 2.5.6.1. Financial Debt) taken out to fund external growth.

As at December 31, 2018, the features of the SWAP contracts were as follows:

Notional at 12/31/2018	Nominal value (in €'000)	Departure date	Maturity date	Paying rate	Receiving rate	Market value (NPV) (in €'000)
LISI S.A.	5,000	06/10/2014	06/10/2021	0,9400%	3-month Euribor	21
LISI S.A.	5,000	06/10/2014	06/10/2021	0,9400%	3-month Euribor	20
LISI S.A.	10,000	06/10/2014	06/10/2021	0,9700%	3-month Euribor	45
LISI S.A.	5,000	06/10/2014	06/10/2021	0,9525%	3-month Euribor	22
LISI S.A.	5,000	06/10/2014	06/10/2021	0,9675%	3-month Euribor	21
LISI S.A.	25,000	06/30/2014	05/30/2019	0,4500%	3-month Euribor	43
LISI MEDICAL Fasteners	4,500	09/28/2012	09/30/2024	1,3000%	3-month Euribor	17
BLANC AERO INDUSTRIES	4,983	02/01/2016	01/15/2031	0,8290%	3-month Euribor	(40)
BLANC AERO INDUSTRIES	4,983	02/01/2016	01/15/2031	0,8300%	3-month Euribor	(40)
Creuzet Aéronautique	3,900	07/31/2012	07/31/2020	0,7750%	1-month Euribor	11
					Total	**120**

The currency hedging instruments at December 31, 2018 are as follows:

	Notional at 12/31/2018		Notional at 12/31/2017	
	Currency	EUR	Currency	EUR
GBP	32,400	36,220	32,400	36,518
CAD	36,000	23,070	57,600	38,300
TRY	21,400	6,737	32,785	10,321
PLN	16,800	3,906	16,800	4,022
CZK	240,000	9,330		
USD	178,901	156,245	214,901	179,189
		235,507		**268,350**

2.7.4.2 - Commitment received regarding the acquisition of the Hi-Vol Products LLC assets

As part of the acquisition of the Hi-Vol Products LLC assets by LISI AUTOMOTIVE Hi Vol Inc, the seller, backed by its parent company Arch Global, has committed, via two specific insurance policies, to indemnify the buyer for any harm linked, in particular, to: (i) a fiscal or environmental risk, or a risk relating to welfare plans, up to the acquisition price and (ii) a product non-compliance risk up to USD 10 million subject to a deductible of USD 300,000 (reduced to USD 250,000 as of September 13, 2019).

2.7.4.3 - Commitments made and received as part of the TERMAX acquisition

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 the price of the acquisition of the 51% stake, (ii) a corporate risk of USD 5 million and (iii) a product non-compliance expense of up to USD 10 million.

2.7.4.4 - Commitment received in relation to the acquisition of MANOIR 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.

2.7.4.5 - Guarantees provided as part of the disposal transaction of LISI AUTOMOTIVE Beteo GmbH

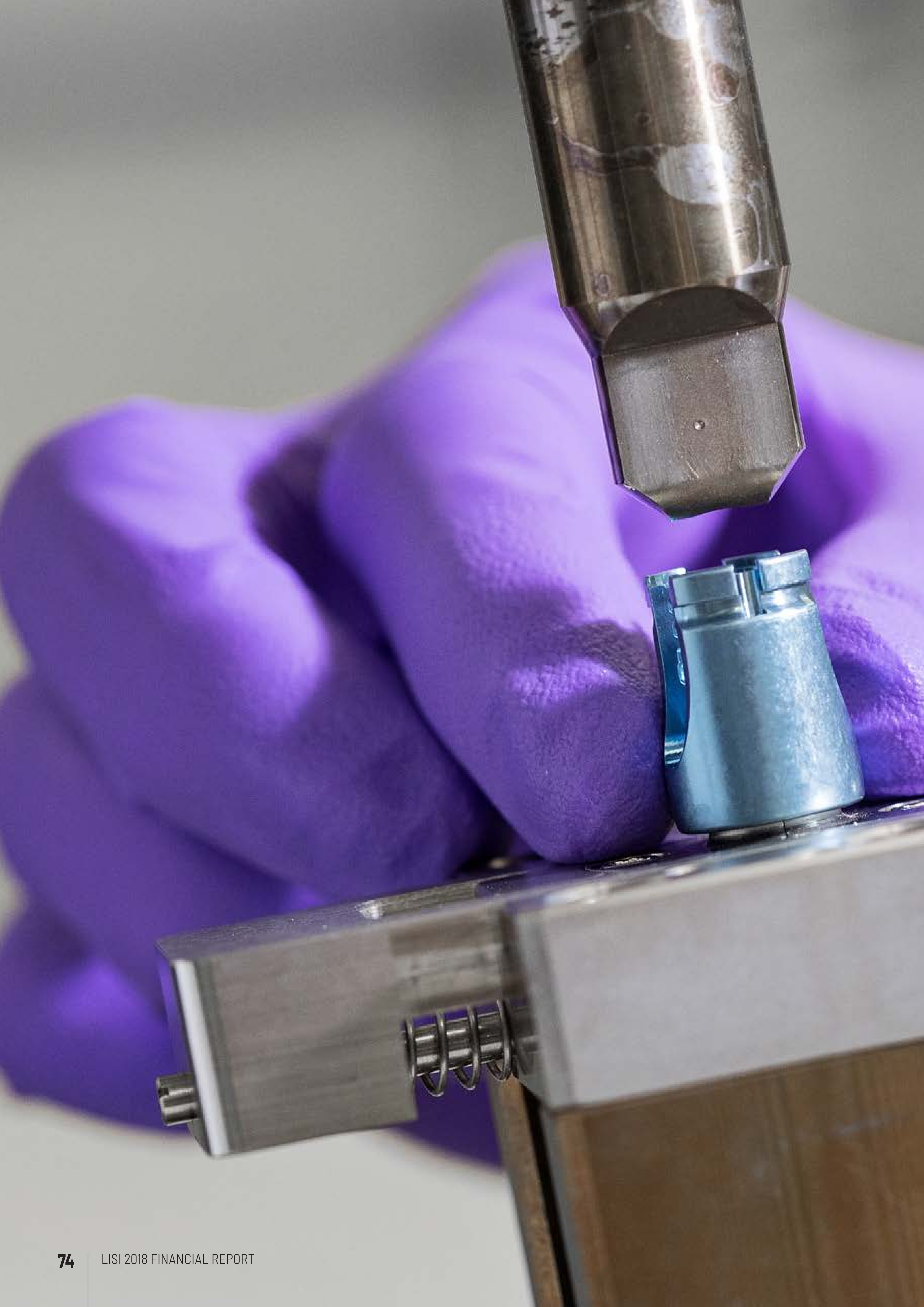
As part of the disposal of LISI AUTOMOTIVE Beteo GmbH, a liability guarantee commitment was made by LISI AUTOMOTIVE KNIPPING Verbindungstechnik GmbH.

2.7.4.6 - 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

		12/31/2018		12/31/2017	
		Closing rate	Average rate	Closing rate	Average rate
US dollar	USD	1,1450	1,1793	1,1993	1,1370
Sterling	GBP	0,8945	0,8860	0,8872	0,8757
Yuan	CNY	7,8751	7,8156	7,8044	7,6557
Canadian dollar	CAD	1,5605	1,5329	1,5039	1,4725
Zloty	PLN	4,3014	4,2684	4,1770	4,2427
Czech crown	CZK	25,7240	25,6784	25,5350	26,2891
Moroccan Dirham	MAD	10,9579	11,0743	11,2218	10,9934
Indian rupee	INR	79,7298	80,6258	76,6055	73,7879
Hong Kong Dollar	HKD	8,9675	9,2438	9,3720	8,8634



4 COMPANY FINANCIAL STATEMENTS

1 | Company activity during the financial year and future outlook

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 and information systems.
- 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".
- Implementation of an overarching communication policy (internal, external, corporate, human resources, financial and marketing) directly linked to the Group's strategy.

Earnings at December 31, 2018
The remarks below relate to the income statement for 2018.

- **In 2018, operating income amounted to €11.2 million, compared with €11.3 million in 2017 and was broken down as follows:**
  - The LISI S.A. sales revenue was €9.7 million, the same as in 2017. 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 2018, with a 10% margin.
  - **Other operating income amounted to** €1.5 million in 2018, compared with €1.6 million in 2017. This item mainly consists of:
    - a provision reversal of €0.7 million on the performance share allocation plans for 2015, for which the shares were vested by the employees in 2018,
    - specific charge-backs to subsidiaries in the amount of €0.6 million.
- **Operating expenses amounted** to €11.2 million in 2018, an increase of 10.4% compared to 2017. This increase mainly comes from remediation costs relating to an industrial site sold in December 2017 for which LISI S.A. committed to cover the expenses of environmental remediation (-€0.8 million).
- As a result of the increased expenses and the stability of income, **operating income changed from** +€1.1 million in 2017 to -€0.1 million in 2018, a decrease of €1.2 million;
  - **Financial income** stood at €41.3 million, compared to €6.0 million in 2017. It is explained by:
  - **Financial proceeds** mainly consisting of dividends collected from LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL for €31.7 million compared to +€28.0 million paid by LISI AEROSPACE and LISI AUTOMOTIVE in 2017, interest earned on Group current accounts in the amount of €5.9 million in 2018 compared to €4.8 million in 2017, net capital gains on investments for +€3.2 million in 2018 compared to +€2.6 million in 2017 and the reversal of the provision for unrealized exchange losses on Group loans in US dollars recorded in 2017 for +€6.4 million.
  - **Interest expenses made** up mostly of interest on borrowings and group current accounts in the amount of -€6.5 million are stable compared to -€6.8 million in 2017. A provision for Group loans in US dollars was also recognized for the amount of €+4.1 million compared with €+6.4 million in 2017.
  - **The foreign exchange** gain was €+5.7 million in 2018, compared to a loss of €16.2 million in 2017, mainly due to the rise in the US dollar at the end of the period. 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 2018.
- **Corporation tax** consists of tax income of €1.3 million, including a €3.5 million tax consolidation gain for 2018 and a corporation tax payment of €1.9 million.
- **Therefore, the net earnings of** LISI S.A. were €+42.3 million in 2018 compared to €+20.1 million in 2017, an increase of €22.2 million, which is mainly due to a positive change in the currency result following the rise in the US dollar.
- **Shareholders**' equity increased from €217.5 million in 2017 to €237.0 million at the end of 2018. It was reduced by the distribution of the dividends paid in May 2018, for an amount of €–25.5 million in respect of the 2017 profit and increased by the year's net earnings of €42.3 million;
  A capital increase reserved for employees also had a positive impact of €2.8 million on shareholders' equity.
- **Available cash excluding current accounts at year-end** amounted to €103.6 million compared to €133.2 million in 2017; this item consists of monetary SICAV instruments and capital-backed investments denominated in euros and USD.
- **Net debt** is €+4.2 million at the end of 2018 compared to €+52.0 million at the end of 2017. This decrease partly comes from the repayment of foreign subsidiaries' current accounts over the period.

1.1 | Appropriation of earnings

We propose that last year's profits of €42,296,468 be allocated as follows:

In €	
profits for the financial year of	42,296,468
plus retained earnings in the amount of	81,619,512
i.e. a distributable profit	123,915,980
which we propose be allocated as follows:	
• to the legal reserve, i.e. the amount of	3,618
• as dividends to shareholders, the amount of €0.44 per share, i.e. to be paid on May 3, 2019 (*)	23,810,299
• remainder to be carried forward, i.e.	100,102,063

(*) 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 €0.44. The value of the dividend eligible for 40% deduction, as referred to in Article 158-3-2° of the French General Tax Code, is €0.44.

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

	Nominal value of the share	Dividends per share
Financial year ended 12/31/15	2.00 €	0.39 €
Financial year ended 12/31/16	2.00 €	0.45 €
Financial year ended 12/31/17	2.00 €	0.48 €

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 2019

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 ensuring that dividends are paid out to 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.

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 2018 with 15 audit tasks completed.

The Group's overall score level was 81%, above our contractual minimum of 80%.

We feel that the stiffening of the internal control requirements caused a loss of about 5 points on the scores achieved in 2018, while the impact of the Chapter "Information Systems" would be approximately 1 point.

A more detailed analysis by division shows that:

- The LISI AEROSPACE score fell 3 points to 79%;
- The LISI AUTOMOTIVE score fell 4 points, but at 81%, remains above the required level;
- The LISI MEDICAL score also fell 2 points but, at 84%, remains above the required level.

Furthermore, a process-level analysis shows that, with the exception of the "Information Systems" cycle, all the other processes are close to or above our contractual standard of 80%.

Special work took place in 2018 following the acquisition of TERMAX: its aim was to determine the level of internal control. This support work enabled operational teams to prepare their roadmaps to attain the level of internal control required by 2021.

Lastly, in 2018, the Internal Audit Department continued its good practices efforts through the promotion of ICCs (Internal Control Committees). These committees bring together the internal control referents in the divisions. This work pools operational and financial internal control compliance ideas, resulting in Group procedures being updated: they are adapted in response to changes in processes and are designed to reduce the risks detected during the audits. This dynamic of continued improvement will continue in 2019.

Risk mapping

- The main risks identified under the medium-term budget and strategic plan fall under several areas of action:

1. Market risks to be anticipated as accurately as possible within all divisions
   a. Possible effects of over-stocking based on the current contracts,
   b. Flexibility to be ensured to cope with major temporary crises,
   c. Absorption of fixed costs to offset the effects of the fall in industrial markets,
   d. Industrial activities for which the panel of players remains restricted and highly competitive.
2. Industrial challenges
   a. 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,
   b. Technology challenges key to remaining competitive,
   c. Customer requirements that are increasingly difficult to meet.
3. Risks of securing assets detected on some sites: flooding, fire detection and fire prevention, for which site relocation projects are under study and or underway.

Fraud

The LISI Group is a regular target of fraud attempts. Most of these are by identity theft, but new attempts were identified in 2018, such as fraud attempts by false invoices, falsifications of electronic or paper checks fraud via changes to bank details. The whistleblowing procedure in place since 2013 is still active and advice is provided about the correct behaviors to adopt. It is also circulated if necessary more widely depending on the declared attempts. A communication plan has been prepared in partnership with the Group Head of Information Systems Departments: this plan, to be rolled out in 2019, aims to raise awareness and warn all users of the dangers of cybercrime and fraud.

CONCLUSION

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

In 2019, LISI will focus on continuing its internal control strategy to:

- Respond to the Group's growth and bring all Group entities into line with the COS (Controlling Operating System) and audit standards as quickly as possible;
- Raise the internal audit ratings of sites whose scores are below the Group standard of 80%;
- Manage the risks approach using a standard methodology, and harmonize its process with all of the strategic and operational action plans,
- Continue its compliance drive in areas linked to CSR issues (see Chap.6 of the Annual Report).

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 S.A. operating invoices:

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

	Article D. 4411.-1: ***Received*** and unpaid invoices at year-end which are overdue						Article D. 4411.-2: ***Issued*** and unpaid invoices at year-end which are overdue					
		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			0.24	0.59	21.81	22.64		136.83	97.2			234.03
Percentage of the total amount of purchases excl. VAT for the year			0.004%	0.01%	0.44%	0.45%						
Percentage of sales revenue excl. VAT for the period								2.9%	1%			3.9%
(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					

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		305.89	379.46	237.48	97.29	1,020.1		317.63	3.80			321.43
Percentage of the total amount excl. VAT of invoices received during the year		6.11%	7.58%	4.75%	1.94%	20.4%						
Percentage of the total amount excl. VAT of invoices issued during the year								3.28%	0.04%			3.31%
(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					

Additional information

- Deductible expenses for tax purposes are made up of depreciation and rental of passenger vehicles totaling €31,793.
- LISI S.A. has, through a market maker's contract with an independent service provider, purchased 522,330 LISI shares for €17.5 million and has sold 491,119 shares for a sum of €17.1 million. At December 31, 2018, the number of LISI shares held through the market maker's contract was 50,500.
- Treasury shares held at December 31, 2018 totaled 914,553 shares, including those related to the market maker's contract.

2 | Financial statements

2.1 | Income statement at 12/31/2018

(in thousands of euros)	Notes	2018	2017	2016
Pre-tax sales		**9,697**	**9,717**	**9,364**
Operating income		**11,176**	**11,312**	**10,639**
External costs		(5,026)	(4,480)	(3,941)
Taxes and duties		(474)	(541)	(566)
Personnel expenses		(4,944)	(4,201)	(4,312)
Other charges		(204)	(174)	(261)
Depreciation, provisions		(581)	(777)	(1,029)
Operating profit		**(53)**	**1,139**	**529**
Financial earnings				
- from equity interests	3.3.1	37,634	32,658	26,336
- interest and similar expenses		136	50	19
- positive exchange differences		25,915	13,148	25,475
- from disposal of marketable securities		3,055	2,573	745
- reversals of provisions	3.2.5	6,410	443	0
Interest expenses				
- other interest and similar expenses		(6,598)	(6,805)	(6,854)
- negative exchange rate differences		(20,243)	(29,340)	(11,712)
- from disposal of marketable securities		(787)	(312)	(175)
- provisions allowance	3.2.5	(4,222)	(6,415)	(443)
Financial result (income)		**41,300**	**6,000**	**33,390**
Current profit before tax		**41,247**	**7,138**	**33,919**
Extraordinary earnings				
- on capital transactions			489	100
- on management transactions		583	867	663
- reversal of provisions		29	17	12
Extraordinary charges				
- on capital transactions		(118)	(88)	(39)
- on management transactions		(700)	(1,044)	(806)
- provisions allowance			(43)	(5)
Non operating profit (loss)		**(206)**	**198**	**(75)**
Income tax	3.3.2	1,256	12,775	(822)
NET EARNINGS		**42,296**	**20,111**	**33,022**

2.2 | Company balance sheet as at 12/31/2018

ASSET (in thousands of euros)	Notes	2018	2017	2016
Fixed assets				
Intangible fixed assets	3.2.1	482	475	474
Tangible fixed assets	3.2.1	2,303	2,754	1,648
Financial assets	3.2.3	228,097	252,761	215,733
Amortization and depreciation	3.2.2/3.2.4	(846)	(1,458)	(1,684)
Total net fixed assets		**230,036**	**254,531**	**216,171**
Current assets				
Customers and apportioned accounts	3.2.5	2,317	2,158	1,754
Other debtors	3.2.5	5,848	1,889	923
Subsidiaries' current accounts	3.2.5	481,950	395,058	399,705
Impairment of receivables				
Tax credit	3.2.5	16,989	30,807	
Marketable securities	3.2.6.1	103,505	133,188	101,350
Cash	3.2.6.2	14,314	42,500	22,453
Provisions for write-down of marketable securities	3.2.7			
Total current assets		**624,923**	**605,600**	**526,185**
Deferred charges		97	157	123
Deferred expenses				
Translation differences assets		4,117	6,410	443
Total accruals		**4,214**	**6,567**	**566**
TOTAL ASSETS		**859,173**	**866,698**	**742,922**

LIABILITIES (in thousands of euros)	Notes	2018	2017	2016
Shareholders' equity				
Share capital		21,646	21,610	21,610
Issue, merger, and contribution premiums		71,822	69,077	69,077
Reserves		19,598	19,598	19,598
of which legal reserve		2,161	2,161	2,161
Balance carried forward		81,620	87,008	77,857
Profit (loss) for the period		42,296	20,111	33,022
Regulated provisions		56	84	58
Total equity	**1.4**	**237,038**	**217,488**	**221,223**
Provisions for risks and charges	**3.2.8**	**4,704**	**7,489**	**1,709**
Debt				
Sundry loans and financial debts (*)	3.2.5	343,108	352,016	286,748
Subsidiaries' current accounts	3.2.5	249,880	270,781	220,007
Taxes due				
Accounts payable	3.2.5	1,940	2,233	1,970
Tax and statutory payments	3.2.5	1,897	1,864	2,908
Other creditors	3.2.5	18,642	14,827	7,843
Total debt		**615,467**	**641,721**	**519,475**
Deferred income				
Translation differences liabilities		1,964	1	516
Total accruals		**1,964**	**1**	**516**
TOTAL LIABILITIES		**859,173**	**866,698**	**742,922**
(*) of which banking facilities		*(11,092)*		

2.3 | Cash flow statement at 12/31/2018

(in thousands of euros)	2018	2017	2016
Operating activities			
Operating cash flow	39,900	25,622	33,630
Effect of changes in inventory on cash			
Effect of changes in accounts receivable and accounts payable	14,046	(32,546)	17,433
Cash provided by or used for operations (A)	**53,946**	**(6,924)**	**51,063**
Investment operations			
Cash used to acquire tangible and intangible fixed assets	(1,185)	(1,474)	(205)
Cash received from the disposal of tangible and intangible fixed assets		489	100
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	28,921	(48,938)	(45,455)
Cash provided by or used for investing activities (B)	**27,736**	**(49,923)**	**(45,560)**
Financing operations			
Cash received from shareholders as part of a capital increase	2,781		
Dividends paid to shareholders of the parent company	(25,499)	(23,872)	(20,629)
Cash received from new loans	30,811	119,836	129,323
Repayment of loans	(50,814)	(42,671)	(70,026)
Cash provided by or used for financing activities (C)	**(42,721)**	**53,293**	**38,668**
Effect of change in foreign exchange rates (D)			
Changes in cash (A+B+C+D) *	**38,961**	**(3,554)**	**44,171**
Cash at January 1 (E)	299,947	303,501	259,330
Cash at December 31 (A+B+C+D+E)	338,908	299,947	303,501
Marketable securities	103,616	133,194	101,350
Cash, subsidiaries' current accounts	496,264	437,558	422,158
Banking facilities, subsidiaries' current accounts	(260,972)	(270,805)	(220,007)
Closing cash position **	**338,908**	**299,947**	**303,501**

* 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 at 12/31/2018

(in thousands of euros)	
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**
Profit (loss) for the period	42,296
Capital increase	2,781
Dividends paid	(25,499)
Accelerated depreciation	(29)
At 12/31/2018	**237,037**

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 €21,645,726 representing 54,114,317 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, 2018 was €859,172,705. The annual income statement showed a profit of €42,296,469.

The financial year runs over twelve (12) months, from January 1, 2018 to December 31, 2018.

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

3.1 | Accounting principles and policies

The financial statements for 2018 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 2018 were drawn up are identical to those for 2017.

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	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

When fitting out the new offices at the head office, LISI applied the component-based approach. Eight components have been defined to reflect the nature of the constituent parts of these fixtures and fittings. The straight-line method was selected and the terms were adapted to the nature of the components, depending on whether they are 3 to 10 years.

b) Financial 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 shares

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.

ANC Regulation 2015-05, effective since 01/01/2017, had no impact on LISI's financial statements.

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 balance sheet items

3.2.1 | Gross tangible and intangible fixed assets

(in thousands of euros)	At 12/31/2017	Acquisitions	Disposals/ Deconsolidations	At 12/31/2018
Start-up and development costs				
Other intangible fixed asset items	475	16	8	482
Total 1 Intangible assets	**475**	**16**	**8**	**482**
Land	38			38
Buildings on freehold land	76			76
Buildings on non-freehold land				
Buildings, installations, fixtures and fittings				
General installations, fixtures and fittings	531	1,381	529	1,383
Office and IT equipment, furniture	503	668	387	783
Total 2 Tangible assets	**1,148**	**2,049**	**916**	**2,280**
Tangible assets in progress	1,606	23	1,606	23
Total 3 Tangible assets in progress	1,606	23	1,606	23
TOTAL	**3,229**	**2,088**	**2,530**	**2,787**

The movements recorded over the period relate to the installations, fixtures and fittings and sundry investments following the relocation of the head office and the exit of the fixed assets of the former head office.

3.2.2 | Amortization and depreciation of the tangible and intangible fixed assets

(in thousands of euros)	At 12/31/2017	Allowances	Decreases or reversals	At 12/31/2018
Start-up and development costs				
Other intangible fixed assets	383	47	8	422
Total 1	**383**	**47**	**8**	**422**
Land				
Buildings	74	1		75
General installations, fixtures and fittings	451	137	449	139
Transport equipment				
Office and IT equipment, furniture	433	119	350	202
Total 2	**958**	**257**	**799**	**416**
TOTAL	**1,341**	**304**	**807**	**838**

3.2.3 | Financial assets

Figures in euros	Gross value 12/31/2017	Acquisitions and transfers from item to item	Disposals and transfers from item to item	Gross value 12/31/2018
Equity interests valued by the equity accounting method				
Equity interests and related receivables	252,730	3,000	27,644	228,087
- of which Hi Shear Corporation loan	*45,563*		*26,659*	*18,904*
- of which Hi Shear Corporation interest incurred	*753*	*465*	*753*	*465*
- of which LISI Holding North America loan	*48,362*	*2,293*		*50,655*
- of which LISI Holding North America accrued interest	*215*	*225*	*215*	*225*
Other non-current investments	10			10
Borrowings and other debts	21		20	0
TOTAL	**252,761**	**3,000**	**27,664**	**228,097**

The decrease in financial assets mainly comes from the early repayment of part of the loan relating to our subsidiary, HI SHEAR CORPORATION.

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

(in thousands of euros)	At 12/31/2017	Allowances	Reversals	At 12/31/2018
Provisions on intangible fixed assets				
Provisions on tangible fixed assets	108		108	
Provisions on equity method investments				
Provisions on equity interests				
Provisions other financial assets	8			8
TOTAL	**116**		**108**	**8**

3.2.5 | Maturity dates for receivables and debts

RECEIVABLES (in thousands of euros)	Gross amount year-end	Less than one year	1 to 5 years	More than 5 years
Customers	2,317	2,317		
Income tax	16,989	16,989		
Tax integration current accounts	2,488	2,488		
Subsidiaries' current accounts	481,950	481,950		
Other debtors	3,360	3,360		
TOTAL	**507,104**	**507,104**	**0**	**0**

DEBT (in thousands of euros)	Gross amount year-end	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	11,120	11,120		
at more than 1 year when contracted	230,486	24,550	181,995	23,941
Sundry loans and financial debts	101,502	101,502		
Accounts payable and apportioned accounts	1,880	1,880		
Debt on fixed assets and apportioned accounts	61	61		
Tax and statutory payments	1,897	1,897		
Income tax				
Tax integration current accounts	18,642	18,642		
Subsidiaries' current accounts	249,880	249,880		
Other creditors				
TOTAL	**615,468**	**409,532**	**181,995**	**23,941**

On December 31, 2018, 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 €40 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, 2018, 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 €101 million.

3.2.6 | Marketable securities and cash

3.2.6.1 - Marketable securities

As at December 31, 2018, marketable securities were as follows:

(in thousands of euros)	
914,553 LISI shares*	7,676
SICAV and deposit certificates	95,940
Giving a gross total of	**103,616**

* 914,553 shares held, under the delegation for the purpose of buying back the Company's own shares up to a limit of 10%, including those held under the market-making contract.

The item "Marketable securities" essentially comprises money market funds for €82.5 million and guaranteed-capital investments for €13.4 million.

The total net asset value of marketable securities stood at €82.5 million as at December 31, 2018.

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)	2018	2017	2016
Subsidiaries' current accounts	481,950	395,058	399,705
Marketable securities	103,616	133,194	101,350
Cash	14,314	42,500	22,453
Cash available [A]	**599,880**	**570,752**	**523,508**
Subsidiaries' current accounts [B]	249,880	270,781	220,007
Banking facilities for operations [B]	11,092	24	
Net cash [A - B]	**338,908**	**299,947**	**303,501**
Borrowings and debt	343,108	352,016	286,748
Debt [C]	**343,108**	**352,016**	**352,016**
Net debt [D = C + B - A]	**4,200**	**52,069**	**(16,753)**

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	7,676	111	7,565
SICAV and deposit certificates	95,940	-	95,940
Total marketable securities	**103,616**	**111**	**103,505**

3.2.7 | Provisions for impairment of current assets

No provisions for impairment of current assets were recorded at December 31, 2018.

3.2.8 | Provisions for risks and charges

(in thousands of euros)	At 12/31/2017	Allowances	Reversals	**At 12/31/2018**
Provision for long service medals	13	2		15
Provisions for charges	50		50	
Provision for stock options and the allocation of free shares	1,016	276	720	572
Provisions for fines				
Provisions for exchange losses	6,410	4,117	6,410	4,117
TOTAL	**7,489**	**4,395**	**7,180**	**4,704**

3.3 | Detail of main income statement items

3.3.1 | Financial income from investments

(in thousands of euros)	Amount
Dividends received from subsidiaries	31,738
Dividends received outside the Group	
Interest from loans to subsidiaries	5,896
TOTAL	**37,634**

3.3.2 | Breakdown of corporation tax

(in thousands of euros)	Current profit (loss)	Non operating profit (loss)	Accounting result
Pre-tax earnings	41,247	(206)	41,041
Income tax	(1,995)	71	(1,924)
Tax credits, IFA & miscellaneous	20		20
Additional contribution to corporation tax on the distributed amounts	(291)		(291)
Tax integration taxes	3,451		3,451
Net earnings	**42,432**	**(135)**	**42,296**

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 corporation tax at December 31, 2018 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.

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, 2018 are as follows:

	12/31/2018					12/31/2017				
	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	-2.1	32.4	20.4	12.0	0.0	0.1	32.4	25.2	7.2	0.0
Long position of CAD against USD	-0.5	36.0	24.0	12.0	0.0	1.7	57.6	33.6	24.0	0.0
Long position of TRY against EUR	-0.5	21.4	21.4	0.0	0.0	-0.6	32.8	32.8	0.0	0.0
Long position of PLN against USD	0.0	16.8	16.8	0.0	0.0	0.1	16.8	16.8	0.0	0.0
Long position of CZK against EUR	0.1	240.0	240.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long position EUR against USD	2.8	178.9	111.9	67.0	0.0	13.5	214.9	116.0	98.9	0.0
	-0.2					14.7				

(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, 2018 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	2,500	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

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	70,250	-
Debtors and apportioned accounts	2,317	-
Cash advances to subsidiaries	481,950	-
Tax integration current account	0	-
LIABILITIES:		
Receivables related to equity holdings	0	-
Subsidiaries' financial assistance	249,880	-
Tax integration current account	18,642	-
Suppliers	220	-
INCOME STATEMENT:		
IT maintenance	41	-
Reserves for equity interests	2,309	-
Service and management fees invoices	9,669	-
Rental invoices	20	-
Miscellaneous chargebacks	1,149	-
Revenues from subsidiaries' loans and current accounts	5,896	-
Revenues from equity interest	31,738	-

3.5.2 | Subsidiaries and holdings (company data in €)

Companies	Share capital	Shareholders' equity and minority interests	Share of capital held (as a %)	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 AUTOMOTIVE	31,690,000	107,338,331	100.00%	93,636,481		93,636,481	57,810,577			28,165,594	3,592,090	9,998,195
LISI AEROSPACE	2,475,200	107,169,130	100.00%	30,863,816		30,863,816	63,963,288			311,561,644	14,270,749	20,028,337
LISI MEDICAL	26,737,000	32,016,594	100.00%	33,337,000		33,337,000	25,260,614			4,651,994	4,421,279	1,711,168

3.6 | Identity of the consolidating company

Compagnie Industrielle de Delle (CID)

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

Head office: 6 rue Juvenal Viellard– 90600 GRANDVILLARS

The Compagnie Industrielle de Delle held, on December 31, 2018, 54.78% of the LISI S.A. capital

3.7 | Award of performance shares

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on October 17, 2015, 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 2016, 2017 and 2018 to the extent that at the meetings of December 20, 2016, December 13, 2017 and December 12, 2018, the Board of Directors renewed the opening of new plans subject to similar conditions.

The 2015 plan vested in 2018.

The fair value of the benefits granted and recorded in 2018 as provision in the amount of €0.6 million for French and foreign employees. 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 2015 plan in May 2018 resulted in a provision reversal of €0.5 million.

Plans that impacted LISI S.A.'s financial statements in 2018:

	Plan for 2015	Plan for 2016	Plan for 2017	**Plan for 2018**	**Total**
Allocation date	12/17/2015	12/20/2016	12/13/2017	12/12/2018	
Acquisition date	February 2018	February 2019	February 2020	February 2021	
Value in thousands of euros as at 12/31/2018	-	251	224	97	**572**
Net expenses in thousands of euros on the income statement of LISI S.A. at 12/31/2018 (excluding social security contributions)	541	179	(178)	(97)	**445**
Total number of shares assigned (for an assignment with 100% of the conditions)	-	161,170	138,510	156,590	**456,270**

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 €1,048,270 for 2018 (compensation net of social security contributions, including the variable element and directors' fees).
- The overall compensation paid to the 5 highest-paid individuals totaled €1,853,371.
- Headcount as of December 31, 2018 was 26 individuals.
- Retirement commitments are not specified as the amount is insignificant.
- The Company does not have any financial leasing agreements.
- The fees recognized for the year ended December 31, 2018 for our statutory auditors, Ernst & Young and EXCO & Associés amount to €56,460.

4 | Financial results of LISI S.A. over the last five years

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

NATURE OF THE INDICATIONS (in €)	2014	2015	2016	2017	2018
Financial position at year-end					
Share capital	21,609,550	21,609,550	21,609,550	21,609,550	21,645,726
Number of shares issued*	54,023,875	54,023,875	54,023,875	54,023,875	54,114,317
Total result of actual operations					
Pre-tax sales	8,725,852	8,456,734	9,363,861	9,716,967	9,696,638
Earnings before tax, depreciation and provisions	19,809,178	17,605,395	34,453,039	13,247,345	13,247,345
Income tax	4,349,384	11,797,426	(821,916)	12,774,597	1,255,673
Employee profit-sharing					
Profit after tax, depreciation and provisions	24,037,035	30,037,487	33,022,189	20,110,606	42,296,468
Distributed profit**	19,467,388	20,629,268	23,871,741	25,498,854	23,810,299
Result of operations per share					
Profit after tax, but before depreciation and provisions	0.29	0.11	0.65	0.48	0.74
Profit after tax, depreciation and provisions	0.44	0.56	0.61	0.37	0.61
Dividends allocated per share (net)	0.37	0.39	0.45	0.48	0.44
Personnel					
Average headcount	19	21	21	25	24
Payroll	(2,869,313)	(3,032,271)	(3,148,301)	(3,036,686)	(3,528,399)
Benefits paid (social security, benefits, etc.)	(1,608,451)	(1,073,216)	(1,163,753)	(1,164,620)	(1,415,436)

* The nominal value of the share was divided by five in September 2014.
** After deducting the dividend relating to the treasury shares held by the Company for the years 2014 to 2017.

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 our 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. On some of its sites, the Group has had to carry out construction work or install major prevention systems to limit the potential for incidents as much as possible. This initiative of ongoing progress improves the Group's prevention policy, avoids major incidents and optimizes insurance premiums.

1.3 | Drawing up action plans

The safety/environment/prevention action plans drawn up within the Group ensure a consistent approach to risk identification, risk prevention, asset preservation and control of operations. 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;
- 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 (48), 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, the joint venture company in India, which is 51% owned, and a temporary situation with Termax, which is 51% owned (purchase of the remaining 49% scheduled for 2021), the Group holds all these units with at least a very significant majority, and fully owns most of them.

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. The Group updates the monitoring of these risks every quarter.

2.3 | Environmental risks

These are identified and ranked by priority as part of the Corporate Social Responsibility approach, which is covered in detail in Chapter 6 of this document. It is also subject to a regular monitoring action plan or processing.

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) that may have or have recently had significant effects on the Group's financial situation or profitability have been reported. The amount of provisions for legal risks found at December 31, 2018 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.

The cybercrime risk was evaluated as part of the LISI risk mapping process, in the same manner as all the other risks. It covers any risk of large-scale attacks harming the operation of the organization, taking over control of the means of production, hacking of data, ransomware[1] or fraud.

Due to its BtoB activity[2], the Group is exposed to a risk of large-scale indiscriminate attacks with potential impacts on the whole IT infrastructure.

LISI has therefore implemented measures to reduce the risk level by dealing with the root cause. A raft of tailored technical measures is being rolled out across the Group. Cyber-security governance completes this system. It is headed up by the Information Systems Departments of the three divisions and is coordinated by the LISI Head of Strategy, Organization and Information Systems.

A training plan is envisaged to enable employees to use the technical tools at their disposal. All of these measures also make it possible to significantly reduce other risks, such as leaks of industrial or personal data and risks of fraud.

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 does not believe that such price increases are likely to have a major negative impact on its results over the long term. Some commercial contracts include price-revision formulae which allow selling prices to be adjusted in response to changes to raw material costs, or involve a negotiation period before raw material cost rises can be reflected in selling prices. Suppliers work to limited time frames based on guaranteed-price contacts. At December 31, 2018, LISI Group used financial instruments to manage its long-term exposure to nickel and aluminum price changes. 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.

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 at the Group's 48 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 2018, only three clients accounted for more than 5% of the LISI Group's consolidated sales. The 10 largest customers account for 56% of total sales; this list includes customer accounts of the three divisions: LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL. 41 customers account for 70% of sales. Figures for our three largest customers have evolved as follows:

	2018	2017	2016
Customer A	15.6%	14.1%	11.7%
Customer B	15.2%	20.1%	17.1%
Customer C	5.4%	5.9%	5.9%

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 sales revenue.

(1) Ransomware: malware which threatens to publish personal or business data or perpetually block access to it unless a ransom is paid
(2) BtoB (Business to Business): business activity between companies i.e. business in which its customers are companies

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 2018, the various operations outsourced by the Group's sites represented approximately 7.1% of consolidated sales revenue.
The volume distribution of the main suppliers is as follows:

	2018	2017	2016
First supplier	4.4%	5.7%	5.1%
First five suppliers	14.2%	15.4%	15.1%
First ten suppliers	19.3%	21.0%	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 this 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 most of the risk of interest rate rises on its borrowings, by converting the variable loans to fixed-rate loans, or by borrowing at a fixed rate in the first instance. The details of the interest rate risk and of the instruments used to mitigate it are described in Chapter 3, paragraph 2.5.3.1. "Interest rate risk".

2.6.9 | Geopolitical risks

The Group is exposed to the "Brexit" risk due to its business relationships with the United Kingdom. The geopolitical situation of this country exposes the LISI Group to a financial risk, but also to a limited operational risk. The Group has an aircraft production site in Rugby (United Kingdom) which mostly serves the Airbus UK customer. This site may encounter an operational continuity issue if its main customer were to relocate its operations.
The level of exposure to sales flows is estimated 15 days of inventories of finished products and is mainly focused on the LISI AEROSPACE division. As regards purchasing flows, the risk remains low compared to the total Group supplier sales revenue volume.
The regulatory and technical impact could lead to additional costs linked to customs and declarative formalities, particularly as regards VAT. The operational teams have already drawn up action plans to anticipate as much as possible the likely transition phase over the second quarter of 2019.

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, 2018, 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 €1,651,857,642 for buildings and equipment, €293,391,240 for merchandise and €846,353,854 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

This insurance policy covers the liability of corporate officers of all of the Group's subsidiaries up to €20 million per year.

3.4 | CYBER insurance

This insurance policy covers all of the Group's subsidiaries for cyber attacks up to €10 million per year.

3.5 | Transported goods insurance

This insurance policy covers goods (or machines) transported up to €5 million per incident and/or event, including all types of damage.

3.6 | Fraud insurance

The Group is covered for fraud, embezzlement of funds and/or misappropriation of goods whether internal (Group) or external (committed by a third party) up to €4 million per event.

6 CORPORATE SOCIAL RESPONSIBILITY

PREAMBLE

Sustainable development is often linked to ecological issues, however the economic and corporate aspects are just as important.
It is important to consider sustainable development as a systemic process. It is a process of continuous improvement which is transparent and voluntary, and takes into account complexity and the long term in order to chart a path for the future.

LISI is one of the leading global manufacturers of industrial fasteners and assembly and structural components.
Its origins, which date back to the end of the 18th century, its development which combines internal and external growth, its international presence in 13 countries (in Europe, North America and Asia) and the family and public nature of its capital structure, are all testament to the Group's commitment to a long-term vision for its development.
Within its organization and managerial culture, the Group prioritizes a significant level of autonomous management in its three operational divisions, which define their own strategic direction prior to LISI validating, monitoring and consolidating them.

- LISI AEROSPACE is a major player in the global Aerospace Supply Chain. The division supplies high-tech fasteners and components to its main customers, which are manufacturers of aircraft, engines and equipment, basing its development on operational excellence and innovation.
- LISI AUTOMOTIVE is a partner to OEMs and equipment manufacturers in the automotive industry for threaded fasteners, clipped solutions and safety components to meet the assembly requirements for all vehicle parts and systems.
- LISI MEDICAL is an international subcontractor specializing in the industrial manufacturing of orthopedic, traumatology, spinal and dental implants and orthopedic instruments for the largest and most innovative players in the medical industry.

The areas concerning CSR are implicit but well integrated into the strategic visions of the divisions. LISI holds dear the ideas of partnership, trust and sustainable development in particular.

LISI's longevity shows that the Group has successfully adapted to social, corporate and environmental changes. Consideration of sustainable development is in its DNA.

However, in today's world, rigor and a methodical approach are required to respond to problems which are constantly changing.
LISI has therefore created a methodical program (based on ISO 26000) with a view to continuing to adapt to society and the economic world and to better understand the impacts that its decisions might have.

By means of this approach, LISI hopes to:

- Gain a better understanding of the non-financial risks which include health and safety, the environment, image, and human resources, for example;
- Engage collectively and individually in a process of continuous improvement;
- Create value for the LISI Group, its suppliers and customers; promote best practices and have a positive economic, social and environmental impact;
- Develop in a sustainable manner with its partners while respecting people and cultures.

Remain pragmatic by adopting realistic solutions which are tailored to LISI's values and size.

Due diligence:

The law on due diligence of companies requires them to:

- Create and implement a vigilance plan;
- Identify and prevent serious abuses of human rights and fundamental freedoms, health and safety of people and the environment;
- Publish a vigilance plan from financial year 2017 and a report from financial year 2018 included in the management report.

Five due diligence measures must be implemented:

1. a risk mapping;
2. regular evaluation procedures;
3. mitigation actions;
4. an alert and alert collection system;
5. a system for monitoring the measures implemented and for evaluating their effectiveness.

The LISI Group has created a methodological approach to comply with this law.
All of the measures relating to this system are detailed in Chapter 6 - CSR.

LISI GROUP CORPORATE SOCIAL RESPONSIBILITY

1 | LISI is a member of the Global Compact Program

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.

LISI's commitment:

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

- **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.
- **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.
- **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.
- **Anti-corruption**

  LISI has undertaken to:
  - Fight corruption in all its forms, including extortion and bribery.

2 | LISI Group Values

A Company's values have a cultural influence on its behavior as well as its decisions and strategies.

LISI decided to formally set out its values in order to share them with its customers, employees and other partners. These values, which form the Group's identity, are based on the following key words:

- **Sustainability:**

LISI, which has remained a family-owned company for more than 200 years, has always looked to move with the times. Today, we are committed to continuing the work of the generations of men and women who have made LISI into the international, sustainable and successful company it is today. Aware of our impact on society and the environment, we prioritize the long term and seek to reduce our environmental footprint on our sites in line with our strategic development plan.

- **Integrity and transparency:**

We act with honesty, consciousness and sincerity and in compliance with regulations in all that we do.

We expect our employees and partners to act in an exemplary fashion. We create transparent and lasting relationships with our customers and suppliers, regularly informing them of our commitments and results.

- **Innovation:**

We anticipate the changes and risks associated with our businesses in order to propose the best solutions to our stakeholders. Innovation thrives off technology and creativity. We create products and services that are environment-friendly and take into account their entire life cycle.

- **Industrial excellence and pragmatism:**

We make every effort to offer products and services that are competitive and of good quality, to meet the highest standards and excellence expected by our stakeholders. We continually measure our performance and are constantly looking at how we can improve. The satisfaction of our customers is the main way of guaranteeing our sustainability. We are individually and collectively fully committed and involved, have a positive attitude and take pride in good quality work. Our actions aim to be practical and concise.

- **People at the heart of our development:**

The talents of the men and women who work for LISI are our most important capital and we therefore ensure that we promote and develop their skills. We look after their health, safety and well-being and we apply a policy of non-discrimination and diversity at all stages of the human resources management process.

3 | Organization and Governance

In order to implement the CSR strategy, the LISI Group has a CSR Steering Committee.

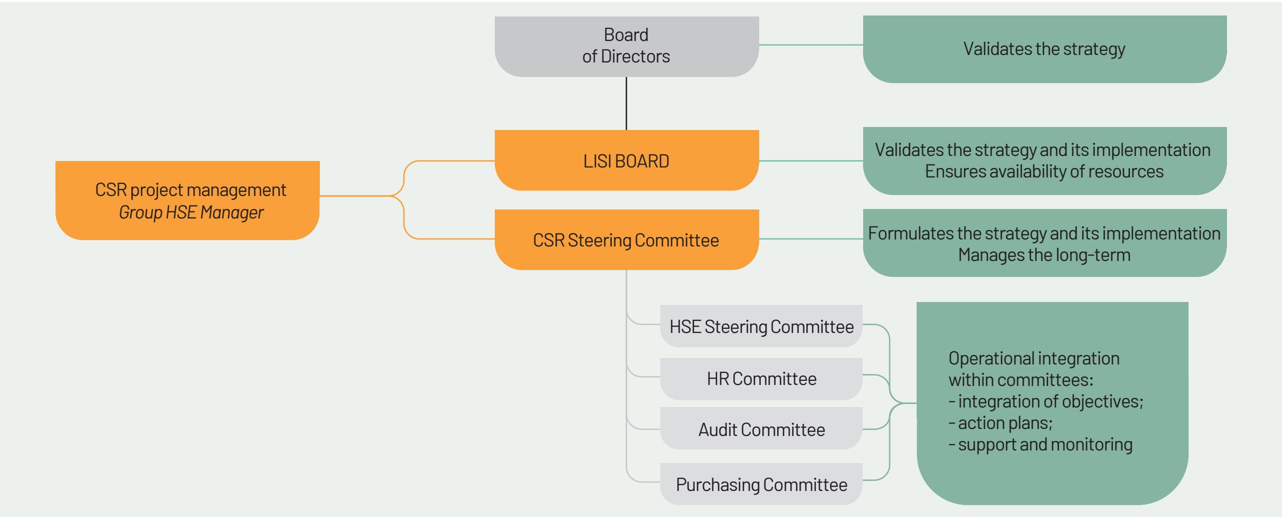
The duties of the CSR Steering Committee are:

- Prepare and formalize the CSR strategy and submit it for the validation of the Management Committee;
- Manage the deployment of the CSR policy operationally;
- Draft the action plan and monitor deployments on site.

The CSR Steering Committee has eight permanent members which include representatives of each division. It is chaired by the Deputy CEO who is also a member of the Management Committee and the Board of Directors. Leadership of this committee is entrusted to the Group's CSR Manager, who is in charge of steering the CSR Project.

The different operational committees, which already exist, are in charge of the operational integration of the different CSR issues that concern them:

- The CSR Steering Committee is responsible for issues relating to health, safety and the environment;
- The HR Committee is responsible for human resources issues;
- Issues relating to the supply chain fall within the remit of the Purchasing Committee and;
- issues relating to anti-corruption and due diligence are the responsibility of the Audit Committee.



CSR governance structure

4 | Method Used By LISI In Creating Its CSR Policy

Since November 2016, LISI AEROSPACE's site in Saint-Ouen-l'Aumône has been a pilot site for the implementation of the CSR policy in accordance with ISO 26000.

LISI decided to use the methodology implemented on this site to then draft its CSR strategy, which will subsequently be deployed across the whole Group.

The Group's sites are certified according to different standards (IATF 16949 for sites within the LISI AUTOMOTIVE division, EN 9100 for sites which belong to the LISI AEROSPACE division, ISO 13485 for sites within the LISI MEDICAL division and ISO 14001 & OHSAS 18001 for the Group as a whole). These standards already require that bodies reflect on their management system, according to the context in which they operate and the expectations of their stakeholders; thus, the CSR policy can use these principles which are already known and applied within the Group's entities.

LISI's policy is an iterative one. It requires the regular review of the challenges and relevant expectations of the stakeholders.

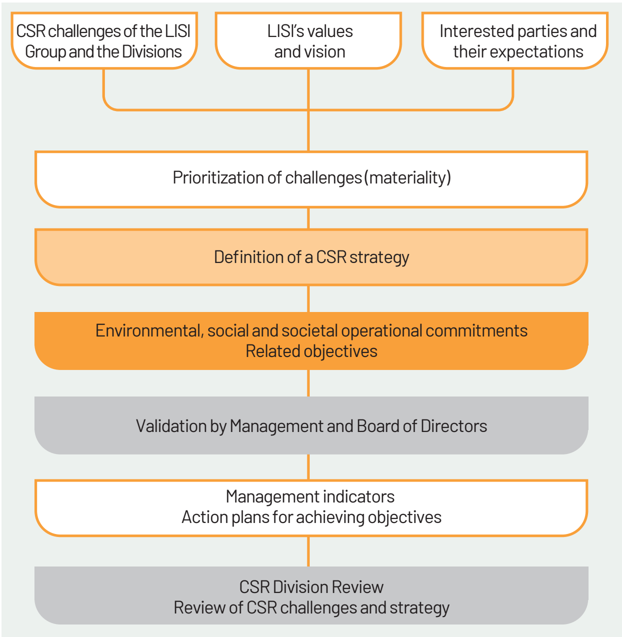


Diagram of the principle of the methodology

5 | LISI's Strategic Challenges

In 2018, the LISI Group worked to create the CSR policy according to the following model:

- formalize its values;
- define the CSR challenges for the Group and its divisions;
- identify stakeholders;
- perform an initial assessment of the expectations of stakeholders.

As a result of this work, which was performed by the CSR Steering Committee, the challenges were ranked using an initial materiality matrix and a comprehensive strategy was created for CSR issues.

LISI has defined four strategic priorities in relation to CSR:

1. Manage the supply chain in an ethical and responsible manner.
   This involves identifying the non-financial risks linked to suppliers and subcontractors.
2. Improve the attractiveness of the businesses and retain skilled employees.
   LISI wants to offer its employees a stimulating work environment, and develop skills and employability. LISI also wants to anticipate and respond to social changes.
3. Improve the environmental footprint of our activities and products.
   In this respect, LISI intends to control the environmental risks linked to our activities, to use natural resources more efficiently and to improve the recovery of waste produced.
4. Achieve excellence in Health and Safety at work.
   Guaranteeing a healthy and safe work environment is one of the Group's main priorities.

These strategic priorities are fully in line with the commitments undertaken by LISI under the Global Compact.

Currently, the global initiative "Challenges - Politics - Objectives - Action plan - Results and corrective measures" has been completed for the "Health, Safety and Environment" and "Anti-corruption" aspects.
With regards to "Human Resources", the specific objectives still need to be defined and formalized, and then implemented in 2019.

This entire CSR program will be presented to the Board of Directors on June 5, 2019.

6 | Human Resources

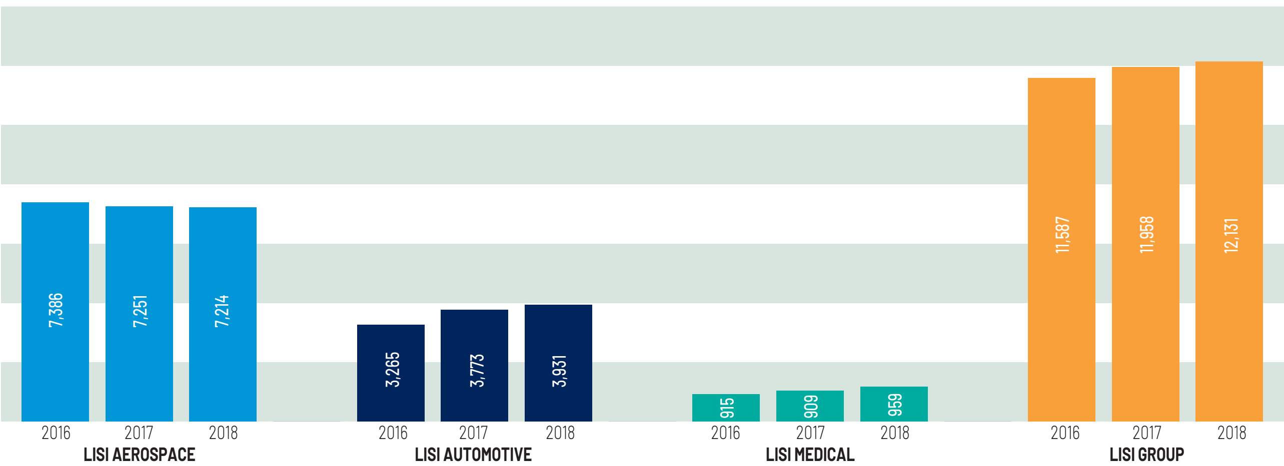
6.1 | People at the heart of our developments

Present on four continents and 13 countries, over 12,131 men and women contributed to the growth of the LISI Group in 2018.

6.1.1 | Registered employees at period end by division

	2018	2017	2016	Changes N/N-1
LISI AEROSPACE	7,214	7,251	7,386	-0.5%
LISI AUTOMOTIVE	3,931	3,773	3,265	+4.2%
LISI MEDICAL	959	909	915	+5.5%
Holding company	27	25	21	+8.0%
Total	**12,131**	**11,958**	**11,587**	**+1.4%**
Temporary workers engaged	746	1,159	1,156	-35.6%

Change in workforce



6.1.2 | Registered employees at period end by category

	12/31/2018	12/31/2017	12/31/2016	Changes N/N-1
Management	1,286	1,258	1,174	+2.2%
Supervisors	968	953	895	+1.6%
Staff and workers	9,877	9,747	9,518	+1.3%
Total	**12,131**	**11,958**	**11,587**	**+1.4%**

Two major events marked 2018 for the LISI AUTOMOTIVE division:

- The acquisition of assets in the Hi-Vol Products company (131 employees) in Livonia, USA,
- The sale of the Beteo company (51 employees) in Gummersbach, Germany on December 31, 2018.

As a result of the acquisition of Hi-Vol Products, LISI AUTOMOTIVE can:

- Accelerate its development by adding cold forging and machining capacities in the United States,
- Strengthen its position on the profitable screw fitting market,
- Provide access to a new family of safety components with a view to possible development in Europe and China.

LISI is therefore continuing its growth in the American continent: 21% of employees were based in the United States, Canada and Mexico in 2018 compared to 19% in 2017 and 17% in 2016.

6.1.3 | Geographic distribution of the headcount

Country	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	LISI SA	TOTAL 2018	Distribution 2018	Changes in headcount between 2017 and 2018
Germany	8	883			891	7%	-1.2%
Canada	345	10			355	3%	+8.6%
China		263			263	2%	-3.7%
Spain		178			178	1%	+2.3%
France	4,137	1,759	522	27	6,445	53%	-0.2%
India	136				136	1%	-17.6%
Morocco	332	2			334	3%	-6.2%
Mexico		122			122	1%	+29.8%
Poland	294				294	2%	+50.8%
Czech Republic		209			209	2%	+5.0%
United Kingdom	329	2			331	3%	-16.4%
Turkey	549				549	5%	-1.4%
USA	1,084	503	437		2,024	17%	+8.5%
TOTAL	**7,214**	**3,931**	**959**	**27**	**12,131**	**100%**	**+1.4%**

6.1.4 | Attracting talent

The identification and recruitment of talented people are key to LISI Group's short, medium and long term success. 1,695 new recruits have joined us, sharing our values based on sustainability, integrity and transparency, innovation, industrial excellence and pragmatism, as well as the development of our human capital. We pay particular attention to the integration process so that people fit in quickly and settle within our organization.

The number of dismissals is low: 196 dismissals in 2018, compared to 236 in 2017, representing 11% dismissals.

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. For many **years, the Group has maintained close ties with schools, universities, employment agencies and training** institutions, enhancing its image among young students and helping them to discover the key businesses and their prospects.

For example, in 2018, LISI MEDICAL's sites at Hérouville Saint-Clair and Neyron worked to raise awareness of their businesses among college and high school students by means of trade shows and company visits. In the United Kingdom, the Rugby site has set up a partnership with the University of Cambridge to welcome groups of students throughout the year and have them work on industrial and innovative projects for the site.

In 2018, LISI welcomed 541 interns and 324 trainees across all the sites of its three divisions. Although the intern placements have decreased by 6% between 2017 and 2018, the number of apprentices increased by 15%.

6.1.5 | 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 the activities and business lines, as well as the international dimension, allows employees to follow individual professional careers. All of our employees can become agents of their own development thanks to the "Job Forum" which is accessible on the Group Intranet.

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

The magazine CAPITAL of February 2019 presented the results of a survey of companies assessed by their employees and those of the industry.
LISI AEROSPACE is ranked as the 17th best employer in the Aerospace, Rail and Shipbuilding sectors.

6.1.6 | Adapting The Organization 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 2018.

A significant degree of flexibility was required by the sites in 2018. Indeed, in the first half of the year there was an increase in activity followed by a decline in the last quarter of 2018. In order to respond to this increased activity, several parallel actions were conducted: overtime was increased, the use of temporary workers with the implementation of a temporary implant in Melissey and Marmande allowing for better reactivity and optimized mass management, and, of course, recruitment campaigns.

The fourth quarter required a readjustment of resources and actions particularly within LISI AUTOMOTIVE (decrease of 6.8% in activity at constant scope) and LISI AEROSPACE Fasteners: termination of temporary workers on sites with a lighter load, mass holiday leave and mandatory closures, deferred training to limit costs, and a freeze on new hires.

6.2 | Reward Performance and Retain Talent

At LISI, **compensation is initially linked to the company's performance and collective and individual 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.

6.2.1 | 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):

2018	2017	2016
2.0	3.8	5.2

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)

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. 36% of French employees were LISI shareholders in 2018.

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 2018 in capital increases reserved for employees in the sums of €1.47 million, €0.8 million, €1.18 million, €0.9 million and €2.8 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, 2018, the "LISI en actions" plan consisted entirely of LISI shares, for a total of 758,000 shares, and had 2,545 members.

c) Employee shareholding

The percentage of share capital held by the Group's employees stood at 1.4% as at December 31, 2018.

6.2.2 | Supplementary Defined Contribution Pension Scheme

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.

6.2.3 | Share-based compensation

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.

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 18, 2018, with the permission of the Extraordinary Shareholders' General Meeting of December 1, 2015, decided to allocate 4,000 LISI shares to two employees, freely and without conditions.

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 to 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 2016 plan:

Group RNA = Average of [(0.95*Group net sales) + (6.5* Group EBITDA) + (10* Group EBIT)] – Net debt Group average for that year and the previous year.

For the 2017 and 2018 plans:

Group RNA = Average of [(1.2*Group net sales) + (8* Group EBITDA) + (12* Group EBIT)] – Net debt 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 debt	is the Net debt of the Group as recognized in this annual report.

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.

In its meeting of February 20, 2019, the Board of Directors, after having deliberated, unanimously and observing the fall in value between 2015 and 2018, validated the proposals of the Compensation Committee and decided to not allocate shares under this 16C18 plan.

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.

With respect to the corporate officers, the Board of Directors decided that the corporate officers should retain in registered form 20% of the free shares that may have been allocated to them, i.e. 920 shares, until the end of their employment.

2018 plan:

On December 18, 2018, 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 €1,767 million at December 31, 2020. If the Net Asset Value is between €1,767 million and €1,999 million, the shares would be allocated in part. If the Net Asset Value is higher than €2,000 million, the shares would be allocated in full. The maximum allocated number of shares is 156,590 shares and concerns 240 employees in France and abroad.

With respect to the corporate officers, the Board of Directors decided that the corporate officers should retain in registered form 20% of the free shares that may have been allocated to them, i.e. 920 shares, until the end of their employment.

c) Information on the award of performance shares as at December 31, 2018

The following table details the award of performance shares outstanding as at December 31, 2018:

	Number
Options outstanding at year start	**454,300**
Options allocated during the period	156,590
Options cancelled during the period	(61,075)
Options exercised during the year	(93,545)
Options that reached maturity during the period	0
Options outstanding at year end	**456,270**

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, 2018:

Allotment date of options	Exercise price in €	Number of options outstanding at December 31, 2018	Residual contractual term
12/20/2016	None	161,170	February 2019
12/13/2017	None	138,510	February 2020
12/18/2018	None	152,590	February 2021
12/18/2018	None	4,000	February 2021
Total		**456,270**	

d) Plans in place as at December 31, 2018:

Date of Shareholders' General Meeting Board of Directors	Category Plan number	Number of shares assigned	Of which corporate officers	Of which members of the Executive Committee	Of which 10 top employees	Residual number of beneficiaries	Exercise period	Subscription or purchase price	Options exercised at 01/01/2018	Options exercised in 2018	Options cancelled	Options remaining at 12/31/2018
Authorization of 12.20.2016												
12.20.2016	G Plan No. 13	185,260	10,000	25,600	20,350	202	*	None	0	0	24,090	161,170
Authorization of 12.13.2017												
12.13.2017	G Plan No. 14	154,660	9,200	24,950	23,350	214	**	None	0	0	16,150	138,510
Authorization of 12.18.2018												
12.13.2017	G Plan No. 14	152,590	9,200	22,200	24,750	240	***	None	0	0	0	154,660
12.13.2017	G Plan No. 14 B	4,000	0	2	2	2	***	None	0	0	0	4,000

* 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).
*** Beginning on the date of the Board of Directors meeting that approves the 2020 results (February 2021).
G = Free

6.3 | 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.

6.3.1 | Encouraging professional gender equality

For 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.

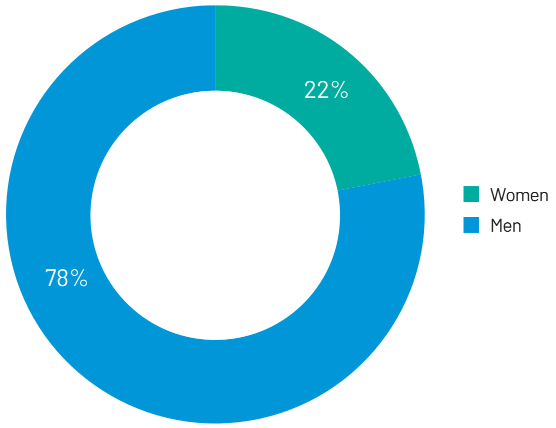
Internally, agreements on gender equality have been signed by most Group companies.
Within the LISI AEROSPACE division, the sites at Marmande, Saint-Ouen l'Aumône and Argenton signed a Gender Equality Agreement in 2018. In practice, these agreements take the form of concrete actions in favor of equal pay, career progression and internal training.

In the United Kingdom, the Rugby site published the differences in men and women's salaries for the first time in 2018. The reported gap is 3.81% compared to a national average of 18.4%.

Within LISI AUTOMOTIVE, the French company FORMER has also implemented its own Gender Equality Agreement to enable it to achieve a pay gap of less than 3% for non-management salaries based on comparable factors.

In 2018, women represented 22% of the Group's global headcount.

Distribution by gender



The percentage of women within the company remained the same as that of 2017.
LISI has set an objective to work on diversity in 2020.

6.3.2 | 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.
In 2018, the LISI AEROSPACE division continued its disability campaign.
In 2018, the rate of employment of persons with disabilities in the Group remained at 3%, unchanged from 2017.

6.3.3 | 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.
LISI is also a signatory of the United Nations Global Compact Program, which encompasses these themes.

6.3.4 | 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.

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.

6.3.5 | Code of Conduct

In 2018, LISI created its anti-corruption code of conduct, which it applies in all sites, both in France and abroad.
The LISI AUTOMOTIVE division has shown its strong commitment in this area by creating its own code of conduct. It incorporates the values of the NGO and the Group as well as LISI's anti-corruption code of conduct. It also covers broader commitments with regards to relations with suppliers and customers, respect for individuals and health, safety and the environment.

6.4 | Developing Employee's Skills and Maintaining Their Employability

LISI has made skills development one of the major areas of focus 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 2018, more than 221,000 training hours were provided. Thus, training investment in 2018 for all of the Group's companies worldwide amounted to more than €8 million (2% of payroll).

6.4.1 | Adapting Training To Employee Profiles

In response to the specific nature of these businesses, the LISI Group is developing more and more internal training schools. When recruiting operators, our main focus is on the skills and motivation of the candidates. The candidates hired will subsequently benefit from internal training to teach them about our businesses. This is the case for example in Morocco and in Torrance in the United States. At the Puiseux site, the creation and launch of a machining training school in partnership with AFORP (CQPM Tool & Die Maker 609 hrs over a 14-month period) started in October 2018 following several months spent preparing and looking for the rights profiles (in partnership with the Pôle Emploi [national job search organization] and the GIM [metalworking industry group]).

6.4.2 | Helping employees adapt to changes in the working environment towards digital transformation and new developments in the businesses

The working environment is changing faster and faster due to progress in the automation and robotization of production tools.

It is important that employees are supported when there are changes in their workstations and environment. **The role of managers is extremely important with regard to providing the best support to the teams.**
The Management training program for supervisors, which started in 2017, continued in 2018 in France, Germany, Morocco and in the Czech Republic. In 2018, this Management Program was enriched thanks to the addition of an HSE aspect, the aims of which are to ensure managers:

- Are aware of their HSE duties as a manager.
- Learn best practices for "at risk" situations.
- Learn how to observe and identify situations that could lead to a work accident.

Moreover, in 2018 LISI launched its Learning Management System, allowing it to offer e-learning training. As a result, training courses concerning the code of conduct and performance reviews have been deployed on a very large scale.

Focus on the Rugby site

Supervisors have completed the "Management and Involvement in the plant 4.0" training. The objective: understand their role as a manager in the digital transformation and develop team spirit and the contribution of every person.

Another innovation involves making tablets available at workstations: work videos, presentations and instructions so that the skills required for workstations can be learned in a digital and interactive manner.

Increase its flexibility by versatility
As with all companies, LISI faces periods of movement, and new sources of growth must be found to preserve their share of the market. It is therefore vital for the company to be able to reinvent itself, and this is made possible by ensuring its versatility. Demonstrating versatility allows the company to achieve its objectives and benefit from a large degree of flexibility among employees. With respect to employees, thanks to versatility, they have the **possibility to develop new professional** skills and the opportunity to learn new practices.

The plants in Great Britain and the United States strongly favor cross training which allows employees to develop their versatility and adaptability.

In 2018, LISI AEROSPACE's French sites continued the work started in 2017 on the mapping of the businesses and on skills charts.
In 2018, LISI AUTOMOTIVE France overhauled career paths, launched the "wire drawing and tapping" career path and in particular validated an intermediate level recognizing versatility for several types of stamping machines.

In 2018, close to 6,000 hours were spent on these career paths and 26 CQPM/CQPI were obtained:

- Ten stampers (four in Delle, four in Dasle, two in Melisey) obtained **the "Operator of cold-stamping machine**" certification (CQPM);
- Two stampers at La Ferté-Fresnel plant obtained **the "Operator of Industrial Equipment" certification (**CQPI), endorsing their career as stamper specialized in "Twolock screws";
- Two machinists (one in Dasle and one in Melisey) obtained **the "Operator – Controller of High-Precision Digital Machine-Tool**" certification (CQPM);
- Two operators at La Ferté Fresnel obtained the "Operator - **Industrial Equipment" certification (CQPI), and** five operators (two at Delle and three 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**);** two operators at Dasle obtained the "Automated Production Pilot" certification (CQPM).

6.4.3 | 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 2018:

- 128 training sessions organized.
- 1,014 interns and 634 employees.

Since January 1, 2018, the LISI Group has assigned all of the administrative and logistics management processes to an external partner. The aim was to optimize the management of LKI training delivered in the three divisions and capitalize on the development of this business university.
In 2018, the partner managed 16,000 hours' training.

6.4.4 | The LEAP 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 dedicated to the advanced LEAP tools (LEAP Intermediate, LEAP Advanced, LEAP Manager, Experience plan, Advanced statistics) have been organized as part of the LKI business university offering, ensuring that learners from all LISI Group divisions are mixed together.

In 2018, as 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 recorded improvement in terms of safety.

6.5 | Maintaining Employee Satisfaction

Committing to quality of life at work and improving working conditions improves employee satisfaction. This is a major focus for retaining talent and to ensure that each person gives their very best to their work.

6.5.1 | Providing A Pleasant Working Environment

For several years the LISI Group has ensured that sites launch a **survey on the quality of their** life at work, creating improvement action plans and deploying them.

In 2018, the LISI AEROSPACE sites and LISI AUTOMOTIVE's foreign sites launched this survey. With respect to LISI AUTOMOTIVE'S French sites, the surveys will be conducted in 2019 however action plans to help improve the wellbeing of employees resulting from the 2017 surveys are still in progress.

- Recognizing long-service medals, professional careers and diplomas.
- Presence of a social service assistant in the company once a month from September 2018.
- Study of all requests for part-time work or change in working hours.

A number of these actions are also conducted abroad such as at the Fuenlabrada site in Spain which strives to create a balance between family life and work life by adapting working shift hours if possible.

In terms of hygiene, the sites are also working to make the work environment more pleasant. For example, at LISI AUTOMOTIVE's Shanghai site, significant enhancements were made in 2018 concerning the reduction of fumes, the loss of oil from machines and to improve the cloakrooms.

6.5.2 | Preventing Risks Linked To Employees' Physical And Mental Health

In 2018, the LISI Group monitored the health of its employees through the following actions:

- Heating at the start of shift for employees who want it at the sites at Villefranche de Rouergue, Marmande and La Ferté;
- Vaccination campaign: Izmir, Marmande, Fuenlabrada;
- Health check-ups at Gummersbach, and at all American sites (Jeropa, City of Industry, Torrance and Minneapolis);
- On-site osteopath at Neyron and Monterey and massages at Mellrichstadt;
- Continuation of Netwing processes at Dasle and Melisey with the support of a physiotherapist;
- To fight against addiction, LISI AUTOMOTIVE France has introduced "zero alcohol" measures into the internal rules "at risk" workstations and has introduced anti-drug saliva testing. The Materials Preparation site at Grandvillars has implemented an action to support employees wishing to stop smoking with the help of a doctor specializing in addiction;
- Regular information is provided to employees on good practices for a healthy lifestyle (German and US plants);
- In 2018, the LISI AEROSPACE head office introduced a fruit basket program. This initiative is still implemented at the LISI AUTOMOTIVE site at Heidelberg.

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.

The Rugby site also offers this type of support to help fight psychological risks.

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

6.5.3 | Developing Communication And Exchanges

The Group hopes to develop actions to communicate the company's results and projects and to create opportunities for exchanges in order to improve employee satisfaction.

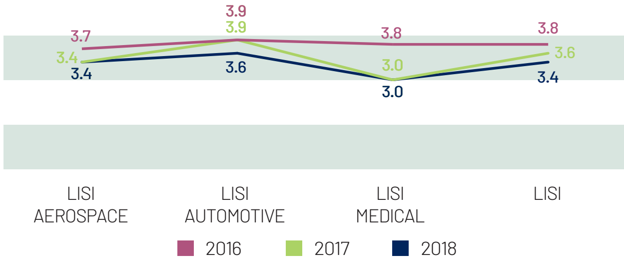
The orientations and strategies of each division are shared with employees at site meetings.
Regular meetings are also held during the year such as at Villefranche de Rouergue or Bar sur Aube.

At the Puiseux site, the launch of a plant project in 2018, with the aim of developing the culture of standards and improving quality results also provided an opportunity to create multidisciplinary working groups in the and everyday concerns of employees. These multidisciplinary working groups provided daily meetings (1 hr/day) with volunteer employees to find solutions to these concerns.

In 2018, internal communication actions covering all sites were deployed for all employees by means of daily bulletins called "LISI&You".
In addition to these professional exchanges, a number of sites aimed to create moments of conviviality and to help teams get to know one another better outside the working environment: birthday parties in Monterey, sports events such as in Zhuozhou, Saint Florent and friendly meals as in Minneapolis and Neyron; Dasle, Grandvillars.

Certain sites have also installed screens in the workshops or reception to provide an overview of life on the site for all of the employees and make communication more dynamic such as La Ferté or Melisey.

Decline in absenteeism since 2016



Each site works hard to minimize absenteeism: attendance bonuses, indicators in the incentives agreements, introduction of a return-to-work interview, help to return to work, vaccination training/detection, and improvements in working conditions.

Company-wide agreements within the Group in 2018:

SITE	Agreements signed in 2018	Date of signature
LISI SA	Incentive agreement	06/19/2018
LISI AEROSPACE SAS	Profit-sharing agreement	06/27/2018
	Incentive agreement	06/27/2018
Saint-Ouen-L'Aumone	Compulsory Annual Negotiations 2018	07/17/2018
	Agreement relating to leave for parents of a seriously ill child	07/23/2018
Vignoux sur Barageon	NAO	05/15/2018
	Extension of mandates	06/19/2018
Villefranche-de-Rouergue	Attendance agreement	01/10/2018
	2018 NAO agreement	09/07/2018
	Amendment to the incentive agreement	06/26/2018
Saint-Brieuc	NAO	05/29/2018
	Agreement on introduction of a *Comité Social et Economique* (CSE) [Employee Representative Committee]	07/24/2018
	Protocol for the CSE elections agreement	10/26/2018
LASC	Incentive agreement	06/28/2018
Argenton-sur-Creuse	NAO	05/18/2018
	Incentives	05/18/2018
	QVT	07/25/2018
Marmande	NAO	04/04/2018
	QVT and Gender Equality	12/10/2018
	Non-manager welfare	12/10/2018
Bar-sur-Aube	Amendment to the incentive agreement for the Manoir Aerospace company of 06/30/2016	06/29/2018
	Report amendment	09/03/2018
	NAO agreement	03/07/2018
	On-call agreements	01/18/2018
	Agreement on Saturday/Sunday working	01/18/2018
	On-call agreements	12/06/2018
	Agreement on Saturday/Sunday working	12/06/2018
	Agreement on the extension of mandates	07/24/2018
	Agreement on the extension of mandates	12/06/2018
Bologne	Incentives	03/12/2018
	Extension of the mandates of employee representatives	07/23/2018
	Implementation of Saturday/Sunday working	09/14/2018

SITE	Agreements signed in 2018	Date of signature
Parthenay	Paid leave	02/28/2018
	NAO	03/07/2018
	Solidarity Days	01/31/2018
	Incentives	03/28/2018
	Extension of mandate	07/20/2018
	Extension of mandate	10/10/2018
	Extension of mandate	12/31/2018
Puiseux	Company savings plan agreement	30/05/3018
	Profit-sharing agreement	30/05/3018
La Ferté	Appendix incentives target values 2018	01/31/2018
	Agreement on working hours	02/19/2018
	Collective agreement on gender equality and quality of life at work	06/15/2018
	Minutes of disagreement on salaries	05/02/2018
FORMER	PV NAO	04/19/2018
	Agreement on the extension of mandates	10/29/2018
	Agreement on introduction of a *(Comité Social et Economique Central)*(CSEC) [Central Employee Representative Committee] and *Comité Social et Economique* (CSE) [Plant Employee Representative Committee]	12/21/2018
Heidelberg	Code of Conduct	10/01/2018
	Long weekends 2018	01/30/2018
	Long weekends 2019	09/10/2018
Fuenlabrada	Global work contract 2018-2019	04/25/2018
Vöhrenbach	Agreement on recording of working time	03/26/2018
	Agreement on the performance of overtime during the week	03/28/2018 05/04/2018
	Agreement on working hours for hot forging and machine tooling	03/28/2018
	Agreement on the indicators in place for productivity bonuses	03/28/2018
	Agreement on working hours for production, upkeep and maintenance	06/08/2018
	Agreement on the temporary work extensions	08/01/2018
	Code of Conduct	09/18/2018
Čejč	Amendment to the work convention	11/01/2018
	Work regulations	03/19/2018
Kierspe	Code of Conduct	12/14/2018
Mellrichstadt	Agreement on shifts	01/19/2018
	Agreement on flexible working hours	01/19/2018
	Agreement on temporary workers	01/19/2018
	Agreement on bonuses	01/19/2018
Monterrey	Agreement on salaries	08/20/2018
Neyron	Incentive agreement	06/18/2018
	NAO	04/01/2018
	Charter on the right of disconnection	09/21/2018
	Gender equality	IN PROGRESS
Hérouville-Saint-Clair	NAO	02/19/2018
	Agreement on working hours method	06/19/2018

7 | Health, Safety and Environment

7.1 | The challenges

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 such as its customers, investors, people working for or on behalf of LISI, neighbors, subcontractors, insurers, 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.

7.2 | HSE Policy

The LISI Group is certified at Group level to international standards ISO 14001 & OHSAS 18001. ISO 14001 is an international standard relating to environmental management, and OHSAS 18001, an international standard for occupational health and safety management systems.
In 2018, the follow-up audit confirmed that the Group had matured with respect to health and safety and the environment.
When the certification was renewed in 2020, LISI decided to request certification to ISO 45001, a new international standard relating to occupational health and safety management systems referenced by the International Standard Organisation (ISO).

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.
For the LISI Group, its legal and moral obligations in the field of HSE involve:

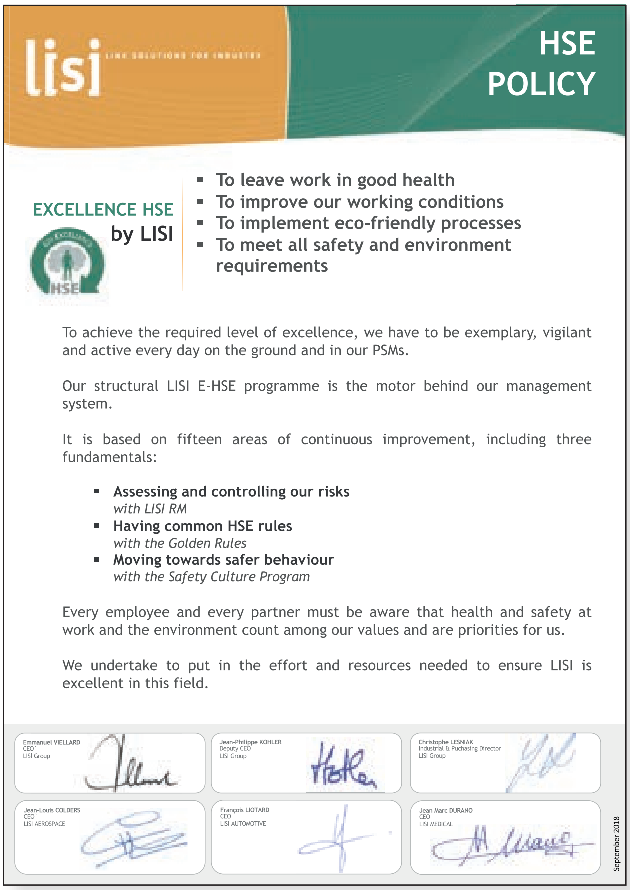
- Everyone coming home after work in good health;
- Improvement in working conditions;
- Implementation of environmentally responsible processes;
- Compliance with its obligations relating to safety and the environment.

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 safety and environment 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 & Puchasing Director, LISI Group
Jean-Louis COLDERS, CEO`, LISI AEROSPACE
François LIOTARD, CEO, LISI AUTOMOTIVE
Jean Marc DURANO, CEO, LISI MEDICAL

September 2018

7.3 | The objectives

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", and "Gold". Thus each of the Group's sites must comply with a number of requirements corresponding to the "Bronze" level of its LISI Excellence HSE program.

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).

This development must be implemented in intervals and for 2020, the target for the frequency rate is 8.

ACCIDENT RATE

TF1 under 8 FOR

- Each site
- Each BG
- Each division
- The Group

To achieve this, LISI has set two other targets which will contribute to reducing the accident rate.

100% MACHINES NON CONFORMITIES *LEVEL 1* SOLVED

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.

All the modules have been presented To all employees

The safety of persons working for LISI or under its control also requires the development of a safety culture on an everyday basis.
LISI has thus developed its own safe behavior 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, these same managers must, in 15-minute sessions, communicate the prevention messages defined in relation to safe behavior. LISI aims to roll out all of the modules to all Group employees by 2020.

Environmental objectives:

Reduction of the **energy consumption** by **3%** between 2018 and 2020

Reduction of the **water consumption** by **4%** between 2018 and 2020

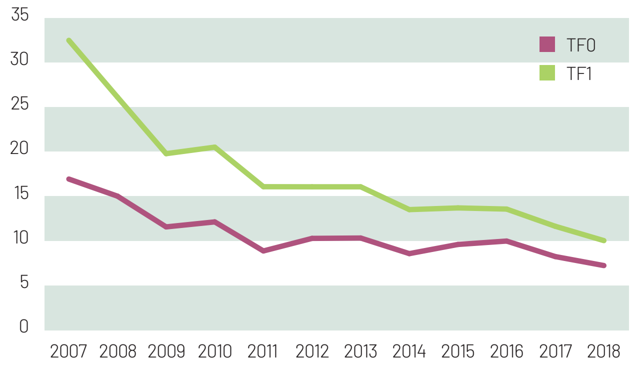
Concerned about the impact of its activities on climate change, LISI aims to reduce its energy consumption by 3% between 2018 and 2020. The assessment of greenhouse gas conducted in 2017 showed that LISI's impact on climate change is primarily linked to energy consumption.
Access to water is also a growing problem. LISI is therefore committed to reducing water consumption by 4% over the same period.

7.4 | Health and Safety Performance

The tools of LISI's E-HSE program are bearing their fruit. The involvement of all of the Group's employees and managers and their unrelenting resolve when faced with a work accident has resulted in a very encouraging result today.
To measure its performance, LISI monitors the accidentology of its employees but also of temporary workers working on its behalf and for the eighth consecutive year, the Group's results are improving.
The rate for accident frequency with employee being on sick leave, for LISI employees (TF0) dropped by 56% in ten years to 6.63 accidents per million of hours worked at end-2018.
The accident frequency rate, with or without sick leave, declined by 65% in ten years for LISI employees, and by 61% for LISI employees and temporary workers taken together. This frequency rate, referred to as TF1, is 9.11 accidents, with or without lost time, per millions of hours worked for LISI employees. For the first time, this rate has fallen below the symbolic threshold of 10 accidents per million of hours worked.
Note that for employees and temporary workers combined, this rate is 10.11. The frequency rate for temporary workers alone, which is 20.9 in 2018, has improved by 39% over five years thanks to better facilities for newcomers, among other measures.
With respect to production sites, 66% have a frequency rate, with or without sick leave, below 10 accidents per million of hours worked, which is the objective set for 2018.

Further, 24% have not had an accident in 2018.

Indicators	2018	Change over 5 years	Change over 10 years
TF0 LISI	6.63	-29%	-56%
TF0 LISI + temporary workers	7.30	-29%	-51%
TF1 LISI	9.11	-38%	-65%
TF1 Temporary workers	20.90	-39%	
TF1 LISI + temporary workers	10.11	-37%	-61%
TG0 LISI	0.21	-18%	-48%
TG0 LISI + temporary workers	0.22	-21%	-47%



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 0.21 days lost per thousand hours worked.

However, behind each figure and each objective, there are men and women who have been injured and LISI is fully aware of this fact. It is above all for this reason, and not just to improve indicators, that LISI is investing in health and safety.

Across all of the Group's production sites, 28 occupational diseases were reported in 2018.
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.

7.5 | Environmental Performance

Water consumption

In 2018, LISI consumed 827,668 m^3 of water, i.e. a saving of 7.5% in water consumption in absolute terms. To link it to production, LISI looks at the ratio of consumption to added value. Thus between 2017 and 2018, this ratio declined by 1.9%, from 1.110 m^3/€k (AV) to 1.089 m^3/€k (AV).
The work performed by Bologne on the repair of the water network has been successful in mending a number of leaks and saving approximately 56,000 m^3 (i.e. 6.7% of the Group's consumption) in 2018.
The LISI Group aims to continue the actions taken to reduce water consumption by 4% between 2018 and 2020.

Energy consumption and climate impact

The energy consumption of the LISI Group is 502,360 MWh in 2018.
Energy consumption is closely linked to the activity but also to climatic variations. However, to take on board the impacts of the production activity, LISI monitors the ratio of consumption to added value. Thus between 2017 and 2018, this ratio increased by 7%, from 0.617 MWh/€k (AV) to 0.661 MWh/€k (AV) in one year.
Energy is mainly consumed at production sites which have a heat treatment process, in particular Bologne, but also at Marmande, Delle, Bar s/ Aube, Kierspe and Torrance.
The Bologne site has the highest energy consumption, all forms of energy taken together, with 11.7% 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.

Waste production and the circular economy

In 2018, waste production was 58.67 kg of waste for €1,000 of added value, or an increase of 3.4% compared to 2017.
The share of sorted waste is still very high, at 92.5%, stable compared to the previous year. The remaining portion concerns domestic waste generated by production-related activities (toilets, cafeterias, etc.).
The production plants principally generate metallic waste (52% of the total quantity of waste produced). These are sold for recycling. Sorted dangerous waste, which represents 30% of the total quantity of waste, is removed via authorized companies that strictly adhere to regulations - a decline of 3% compared to 2017.
Metal, plastic, wood/paper/cardboard and oil waste are either recycled or used to produce energy.
In 2018, the share of recyclable waste is stable compared to 2017; 62.3% of waste is recyclable. The remaining portion is made up of hazardous waste and household waste.

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.
Thus, the sites received six formal notices or official letters from the authorities: one in Fuenlabrada, two in Torrance and three in Vöhrenbach.
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.

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 9 environmental incidents in 2018:

- Two air pollution incidents (one accidental release and one crossing of the authorized threshold).
- Six water pollution incidents (five accidental spills entering sewers and one accidental crossing of the water consumption threshold).
- One incident for crossing of groundwater monitoring threshold.

7.6 | Action plan

The LISI HSE Excellence Program

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 for 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 HSE Excellence 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: 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.

Resources

The consolidated amount of HSE expenditures by division is as follows:

Division	HSE expenditures in 2018 – in thousands of euros	Total expenditures - in thousands of euros	% of expenditures devoted to HSE
LISI AEROSPACE	2,593	78,161	3.3%
LISI AUTOMOTIVE	5,062	49,020	10.3%
LISI MEDICAL	111	11,053	1.0%
Total LISI	7,766	138,234	5.6%

Notable investments include:

- Separate sewer system - Marmande - €250,000
- Fume extraction and filtering - Dasle - €565,000
- Building insulation - St Florent - €250,000
- VOC treatment system - China - €40,000

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. In fact, as in 2017, 0.32% of hours worked were dedicated to HSE training in 2018.

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.

Provisions for environmental risk

The consolidated amount of environmental risk provisions by division is as follows:

Division	Amount of Environment provisions 2018
LISI AEROSPACE	€2,619 thousand
LISI AUTOMOTIVE	€40 thousand
LISI MEDICAL	€75 thousand
LISI Holding	€500 thousand
LISI total	€3,234 thousand

Bronze sites of the LISI E-HSE program:

The LISI GSE Excellence program evaluates the sites according to four maturity levels as part of the internal HSE audit program.

- The Standard level corresponds to strict compliance with ISO 14001 and OHSAS 18001 standards;
- The Bronze level goes well beyond merely respecting standards with specific measures to respect which requires, globally, the involvement of the HSE Manager and the Site Director.
- The Silver level requires respect of the Bronze level as well as other more demanding criteria. This requires the involvement of the site's entire Management Committee.
- The Gold level, which is the highest level, requires, in addition to the Silver level, respect of the criteria which show the implementation of a HSE Culture for all site employees.

At the end of 2018, 10 sites were classed "Bronze". All sites of the Group must comply with the requirements of this level by end-2020.

8 | Responsible Purchasing

This is one of the material risks identified by LISI.

Risk control is part of the LISI culture and therefore securing the supply chain is completely natural for the Purchasing Department.

Through its values, LISI has always considered ethical criteria when choosing suppliers and regularly works, both internally and externally, to communicate the importance of corporate responsibility to the company.

In 2018, LISI:

- Updated its Purchasing Policy, intended for all LISI employees working in purchasing, reinforcing the importance of considering the CSR position when choosing suppliers and the need for compliance with LISI's anti-corruption code of conduct;
- Updated and sent the Group's supplier charter to all suppliers, reminding them of their corporate responsibility and LISI's consideration of the CSR position when choosing partners;
- Included a Responsible Purchasing section in the CSR strategy.

Nevertheless, today LISI wants to take this even further by integrating CSR criteria into its supplier audits.

Thus, in the forthcoming years, the Group wishes to remind its suppliers of how important CSR is to LISI.

One of the essential steps is to identify "at risk" suppliers.

For 2019, LISI has decided to introduce the tools required to measure the non-financial risk of each of our suppliers and the possible consequences for our company. This will allow us to work, as a priority, with suppliers who are most at risk and to create an audit system monitoring CSR criteria. This measure will support the measure already in place in particular in the Quality Department.

9 | Product Safety And Security

LISI and its divisions work as an industrial subcontractor. In this respect, LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL do not design products: our customers are responsible for designing.
Nevertheless, the different activities are subject to a high number of audits to verify the processes, the production process and product quality.
Management of the quality of the products is the responsibility of the divisions which each have their own policy, management system and KPIs.

- LISI AEROSPACE is certified to EN 9100, required by our customers in the aerospace industry.
- LISI AUTOMOTIVE is certified to ISO/TS 16949, required by our customers in the automotive industry.
- LISI MEDICAL is certified to ISO 13485, required by our customers in the medical industry.

Moreover, our entities are often the subject of targeted audits by our customers to ensure compliance with procedures that they have established.

10 | Anti-Corruption Efforts

10.1 | General Policy Adopted By LISI To Prevent And Fight Corruption

The LISI Group has built its growth on compliance with laws and best practices. Through the values that it defends by developing its CSR policy and its membership of the Global Compact, the Group is committed to the fight against corruption in all its forms. The LISI Group places a high importance on behaving in a flawless manner with its stakeholders. In order to guarantee this commitment, since 2017 the Group has been intensifying its actions guided by the legislation established by the Sapin II Law.

10.2 | Work Carried Out In 2018

Summary of the status of the action plan at end-2017:
In 2017, LISI deployed an action plan steered by the Group's legal, human resources and internal audit teams.

At the end of 2017, the Group had launched the following actions to be continued in 2018:

- Drafting of its anti-corruption code of conduct;
- Creation of the Compliance Committee;
- Launch of the development of its alert system;
- Start of the process of identifying the risk linked to corruption;
- Consideration of the training models to roll out.

10.3 | Deployment Of The Anti-Corruption Code Of Conduct

The anti-corruption code of conduct was deployed gradually in 2018: after consulting the Employee Representative Bodies, it was made available online on the LISI website and is applicable from April 1, 2018 in the French entities. Gradually throughout the year, it was translated into eight languages for deployment in the other regions in which LISI is present. The Automotive division drafted its own code of conduct covering areas extending far beyond that of corruption.

LISI's anti-corruption code of conduct is intended for corporate officers, members of the executive and management committees, and all LISI Group employees. It sets forth the principles that each employee of the Group must apply when performing their duties. 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 is committed to ensuring that all its partners share the same values.

10.4 | Management of the Alert System

Compliance Committee: the committee is chaired by the Group's Deputy CEO and is comprised of representatives of three departments: the Group Legal Director, the Group Human Resources Manager and the Group Internal Audit Manager. The purpose of the Committee is to manage the alerts raised by the system in place. The employment contracts of this team have been amended to provide for an enhanced confidentiality clause. In accordance with the commitments announced in 2017, in March 2018, the Compliance Committee completed a new training module dedicated to the management of alerts and organized by two members of the NGO Transparency International (TI), experts in alert collection.

The alert system (Ethic Line) was put in place on April 1, 2018 on the LISI Group's website in a dedicated section called "Ethics". This system, which is open to all of the Group's internal and external partners, is available in nine different languages. The alerts which may be raised by this system may arise from problems linked to anti-corruption but also to the duty of care. To facilitate its use, an alert collection procedure has been created. An effectiveness test was performed, without warning, as part of the IATF certification (Automotive activity): it was found that it complied with the requirements. This system, which is completely managed internally, meets the legal requirements since it is a secure system which protects the whistleblower.

10.5 | Identification Of The Risk Level Linked To Corruption

The risk linked to corruption was assessed in 2018 according to two priorities:

- On the one hand, the exposure per country in which LISI pursues its activity: this focus is based on the standard which classes 180 countries by the degree of exposure to corruption risk according to the NGO Transparency International;
- On the other hand, the nature of the business relationships maintained by LISI: identification of the nature of transactions that could involve LISI as part of its activities.

Through the values defended by the Group, LISI is committed to presenting the importance of this theme in particular at all levels of its organization:

- By demystifying the nature of this risk so that it is considered in the same manner as all other risks;
- Creating a group dynamic to fuel the debate;
- By evaluating the corruption risk in completely transparent manner so that, if such a risk exists, it can be minimized or even eliminated;
- By relying on the experience of the local teams to identify the nature of the relationships exposed to corruption.

The sensitive nature of this issue led LISI to conduct a review at Group level with the operational teams: the process took the form of brainstorming sessions. The aim was to determine the most relevant methodology for evaluating the corruption risk. The focus was initially on those countries which were more at risk: with the teams from Izmir (LISI AEROSPACE), Morocco (LISI AEROSPACE and LISI AUTOMOTIVE), India (LISI AEROSPACE), China (LISI AUTOMOTIVE), Poland (LISI AEROSPACE) and Mexico (LISI AEROSPACE and LISI AUTOMOTIVE). Up to three brainstorming sessions per entity were required to determine the risk zones. Each brainstorming session brought together representative from several Departments, in particular the Plant Manager, Purchasing Manager, Human Resources Manager and Financial Controller. A number of ideas were collected together in a standardized dashboard: each issue was dealt with in order to evaluate the existing risk in the industrial environment in the country in question. Then, in accordance with the procedures and controls in place, the risk was evaluated again to determine the level of risk to which LISI is exposed.
The initial results showed that LISI was relatively exposed due to the nature of its activity but also thanks to control measures, the procedures in place and the policy followed by its employees.

10.6 | Third-Party Evaluation Procedures

In 2018, a review was conducted among the Group's HR, HSE and Internal Audit teams to define a common basis dedicated to CSR issues: this would then be included in the supplier evaluation questionnaires which are already in place and used in the three divisions. This action was slowed down so that it could be incorporated into the overall approach defined in the CSR strategy which LISI wishes to develop. As a result, at the end of 2018, the process had the same status.

10.7 | Control Procedures

The documents that bind the LISI Group and its stakeholders, internal or external, were updated in coordination with the measures described above. The Supplier Charter (external stakeholders) and the Supplier Policy (internal stakeholders) were thus updated to be officially distributed at the start of 2019 to all stakeholders. They were then translated into nine languages. As a result of this updating, the General Purchasing Conditions were updated. Finally, the General Conditions of Sale also include an anti-corruption and duty of care section.

10.8 | Training Plan

LISI wished to develop its anti-corruption system by ensuring that employees were informed by means of a communication kit distributed at the same time as the code of conduct is applied. The employees of LISI S.A., LISI AEROSPACE and LISI MEDICAL received an e-learning module to complete. This training module, based on e-learning developed by the OECD (Organisation for Economic Co-operation and Development), is intended for employees who are most likely to be exposed to corruption. In 2018, a total of 300 employees were assigned to follow this training. The LISI AUTOMOTIVE employees will undertake this module for a second time as a module specifically tailored to the division was deployed on issues covering their own code of conduct which is more extensive than that of anti-corruption only. The module will also be followed by each new management-level employee.

10.9 | Outlook for 2019

The implementation of a SAPIN II LAW program forms part of a medium-term project. In order to do this, in 2019 the Group will continue the work already undertaken up to now.

The main priorities of the work will be:
- Finalizing the corruption level risk at Group level then include this risk assessment in the annual mapping.
- Continue the process to develop evaluation procedures for third parties in line with the CSR strategy to be deployed.
- Finalize the training process by means of e-learning.
- Confirm the organization of the Compliance committee by formalizing this by means of an operating procedure.

APPENDICES - HSE

	Indicators (from January 1 to December 31)	Unit	2017	2018	Changes 2018 vs. 2017	Changes 2018 vs. 2017
Energy	Municipal water	m^3	545,002	461,289	-83,713	-15.4%
	Consumption of water drawn directly from the natural environment	m^3	350,250	366,379	+16,129	+4.6%
	Electricity consumption	MWh	314,721	320,201	+5,480	+1.7%
	Natural gas consumption	MWh	173,607	170,986	-2,621	-1.5%
	Liquefied petroleum gas (butane - propane) consumption	kWh	6,711,803	5,940,774	-771,029	-11.5%
	Domestic fuel consumption	m^3	181	168	-13	-7.2%
	Consumption of other energies	kWh	557,638	560,006	+2,368	+0.4%
Hazardous products	Consumption of products with permanent harmful effects for humans	kg	272,454	240,796	-31,658	-11.6%
Wastes	Sorted metal	T	24,168	23,476	-692	-2.9%
	Paper - Sorted cardboard	T	631	571	-60	-9.5%
	Sorted plastic	T	289	344	+55	+19.1%
	Sorted wood	T	1,248	1,125	-123	-9.9%
	Oil (soluble + whole + whole and water)	T	2,447	2,477	+30	+1.2%
	Other household waste (non-hazardous) or non-sorted household waste	T	2,053	3,031	+978	+47.6%
	Hazardous wastes (without oil)	T	14,917	13,554	-1,363	-9.1%
Workplace accidents	TF0 LISI		7.43	6.58	-0.85	-11.5%
	TF0 LISI + temporary workers		8.21	7.30	-0.91	-11.0%
	TF1 LISI		10.12	9.11	-1.01	-10.0%
	TF1 Temporary workers		25.19	20.90	-4.29	-17.0%
	TF1 LISI + temporary workers	unit	11.61	10.11	-1.50	-12.9%
	TG0 LISI	unit	0.26	0.21	-0.04	-17.1%
	TG0 LISI + temporary workers	unit	0.25	0.22	-0.03	-12.4%
	Number of occupational diseases	unit	55	28	-27	-49.1%
Incidents and complaints	Number of outbreaks of fire	unit	93	132	+39	+41.9%
	Number of incidents requiring the intervention of outside help	unit	9	7	-2	-22.2%
	Formal notice sent by the authorities	unit	5	6	+1	+20.0%
	Number of complaints issued by stakeholders	unit	9	20	+11	+122.2%
HSE training	Number of HSE training hours completed	hours	59,453	58,875	-578	-1.0%

SCOPE & EXCLUSIONS

Scope:

Social aspect: note the acquisition of assets of the Hi-Vol Products Company (131 employees) in Livonia, USA and the sale of the Beteo company (51 employees) in Gummersbach, Germany on December 31, 2018.

The other indicators will fall within LISI's scope excluding the Hi-Vol Products and with the Beteo Company.

With respect to the environment, the reporting scope does not include the Chihuahua site, since the buildings do not belong to LISI and the staffs are not LISI employees. The Gummersbach site was sold in December 2018 and is therefore not consolidated in the 2018 data.

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 differences between the data published for financial year 2017 and the 2017 data published for comparative purposes for 2018 are due to corrections made to the 2017 data, which were at the time measured for certain sites and indicators.

Note:

Respect for Human Rights is dealt with in the preamble and the paragraph on LISI's commitment to the Global Compact.

The fight against corruption is dealt with in a paragraph entitled "Identification of the level of risk linked to corruption".

The fight against climate change mainly takes the form of reducing energy consumption but also adapting to climate change can be performed by means of the divisions' strategies by integrating new modes of transport (see electric cars).

The circular economy is dealt with in the paragraph on waste and its recyclability in particular.

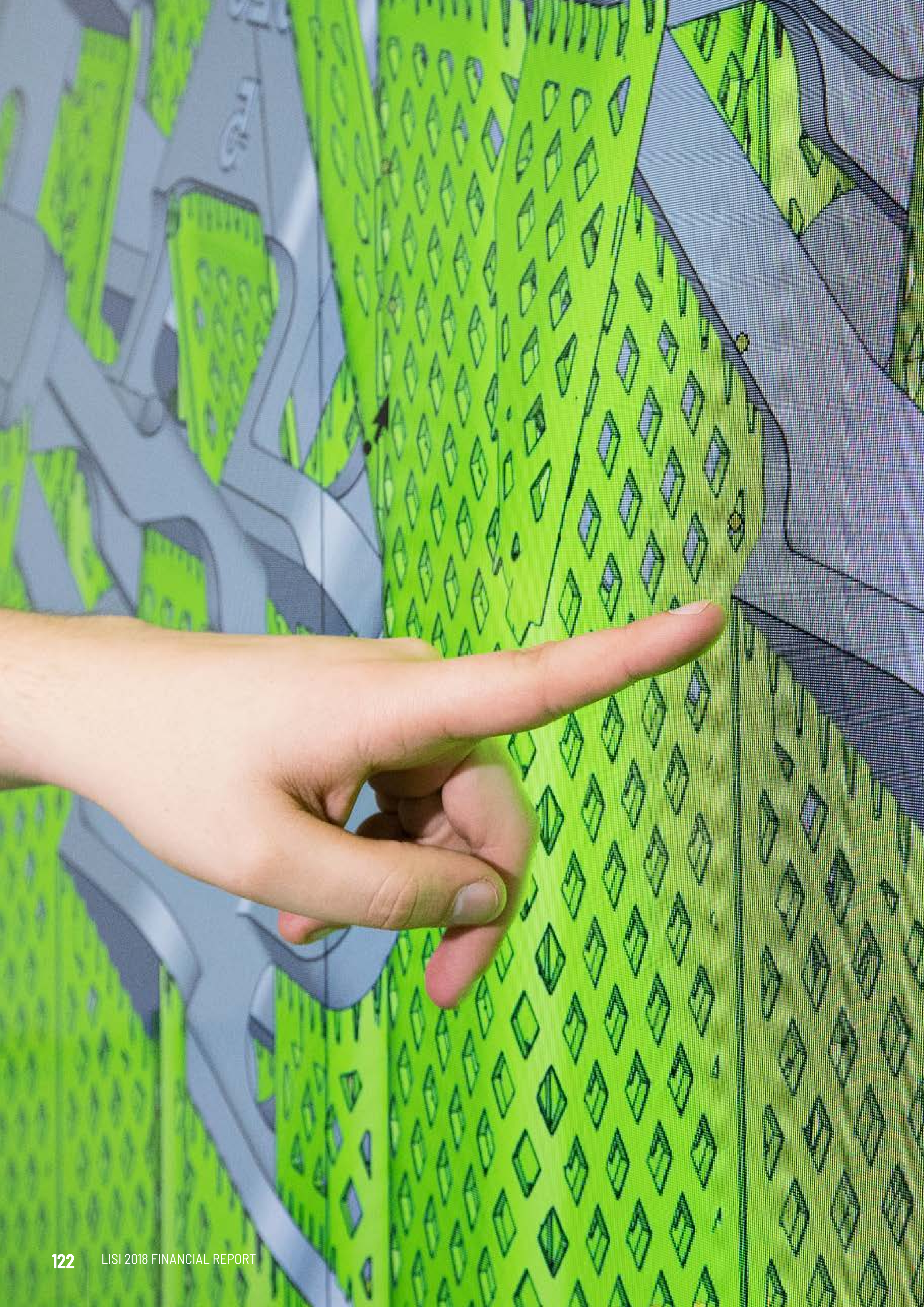
The collective agreements and their impacts are listed in the HR section, as well as the fight against discrimination and the promotion of diversity.

Exclusions:

Given the nature of our activity, we believe that the following issues (food waste, fight against animal precariousness, respect for animal welfare, responsible, fair and sustainable food choices) do not form part of our main CSR risks and thus do not warrant mentioning in this annual report.

With regard to Anti-Corruption, only the Hi-Vol site, LISI's latest acquisition, is not included with respect to 2018. It is also to be noted that the code of conduct is still pending validation by the Employee Representative Bodies for one site within the LISI AUTOMOTIVE division in Germany.

Given the late publication of the laws (October 23 and 30, 2018) we have not been able to include the issue concerning the fight against tax evasion in our CSR risk analysis and/or deal with these issues. Should these issues present a significant risk, they will be dealt with during the subsequent financial year.



7 INFORMATION REGARDING THE COMPANY AND CORPORATE GOVERNANCE

1 | Company information

1.1 | Capital stock

1.1.1 | Share capital

Share capital taken up by shareholders and fully paid-up, as at December 31, 2018, amounted to €21,645,726 divided into 54,114,317 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 (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 12/31/2018: €21,645,726 divided into 54,114,317 shares with €0.40 face value								
04/25/17	02/14/18	Capital increase reserved for employees	36,177 €	2,744,915 €	90,442	0.40 €	54,114,317	21,645,726 €
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	36,562 €	1,781,301 €	18,281	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, 2018, 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 €
2013	1.70
2014*	0.37
2015	0.39
2016	0.45
2017	0.48
2018(1)	0.44

* Unit value of the dividend following the 5-stock split.
(1) Subject to the decision of the Ordinary General Meeting of April 26, 2019. The dividend payment date was set at May 3, 2019.

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, 2018

On April 24, 2018, the Combined General Meeting authorized the Company to repurchase up to 10% of its treasury shares in the open market for a period of 18 months, i.e. up until October 24, 2019.

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 €265,530,000.

Under the above-mentioned share repurchase program, LISI S.A. acquired 522,330 treasury shares in 2018, i.e. 1.0% 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 01/01/2018	**976,887**	**8.11**
Shares acquired in 2018	522,330	33.52
Shares awarded in 2018	(93,545)	7.46
Shares disposed of in 2018	(491,119)	34.72
Securities held at 12/31/2018	**914,553**	**8.39**
Of which shares allocated to remuneration in shares	*864,053*	
Of which available shares	*50,500*	

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. 2,705,716 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 €269,812,680.

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

	2018			2017		
	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	54.8	66.8	29,643,620	54.9	66.9	29,643,620
VMC	5.8	6.6	3,112,793	5.7	6.6	3,070,860
Other corporate officers	0.4	0.4	200,375	0.3	0.3	189,145
TOTAL CORPORATE OFFICERS	**60.9**	**73.8**	**32,956,788**	**60.9**	**73.8**	**32,903,625**
of which directors	*0.2*	*0.2*	*111,440*	*0.2*	*0.2*	*105,815*
FFP INVEST	5.1	6.2	2,750,000	5.1	6.2	2,750,000
Treasury shares	1.7		914,553	1.8		976,887
Employees	1.4	0.9	758,000	1.3	0.8	715,000
Public	30.9	19.0	16,734,976	30.9	19.1	16,678,363
GRAND TOTAL	**100.0**	**100.0**	**54,114,317**	**100.0**	**100.0**	**54,023,875**

Shareholders or group of shareholders controlling more than 3% of share capital:

- the sole activity of CID, 6 Rue Juvénal Viellard, CS 70431, 90008 BELFORT Cedex is holding LISI securities. As at December 31, 2018, it held 54.8% of share capital and 66.8% of voting rights. CID's capital is held in almost equal proportions by three family shareholder groups through family holding companies (KOHLER family through CIKO, PEUGEOT family through FFP Invest, and VIELLARD family through VMC). While family ties exist between shareholders, they are not directly related.

At December 31, 2018, the capital of CID broke down as follows:

- CIKO for 31%;
- FFP Invest for 25%;
- VMC for 28% of the capital;
- others for 16%.

- The sole activity of CIKO, 6 Rue Juvénal Viellard, CS 70431, 90008 BELFORT Cedex is holding LISI and CID securities. As at December 31, 2018, it held 0.1% of share capital and 0.1% of voting rights. At the same date, it held indirectly 16.7% of the capital of LISI S.A., i.e. in total 16.9% 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, 2018. At the same date, it held indirectly 13.9% of the capital of LISI S.A., i.e. in total 19.0% of the capital.
- As at December 31, 2018, VMC, a company based at route des Forges 90120 MORVILLARS, held 5.8% 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 (1.4% of the share capital).

1.3.1.2 - Shareholders' agreement - concerted actions

There is no shareholders' agreement at LISI S.A. level and no shareholder (other than those shown in the table above) declared that they had crossed any thresholds 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.

1.3.2 | 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, 2018, LISI S.A. held 914,553 of its treasury shares, or 1.7% of the share capital. No shares were cancelled. Most of these shares are destined to be allocated as performance shares.

1.4 | Relations 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	70,250	-
Debtors and apportioned accounts	2,317	-
Cash advances to subsidiaries	481,950	-
Tax integration current account	0	-
LIABILITIES:		
Receivables related to equity holdings	0	-
Subsidiaries' financial assistance	249,880	-
Tax integration current account	18,642	-
Suppliers	220	-
INCOME STATEMENT:		
IT maintenance	41	-
Reserves for equity interests	2,309	-
Service and management fees invoices	9,669	-
Rental invoices	20	-
Miscellaneous chargebacks	1,149	-
Revenues from subsidiaries' loans and current accounts	5,896	-
Revenues from equity interest	31,738	-

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, 2018 was USD 21.6 million, i.e. €18.9 million. Hi Shear Corporation repaid part of the loan early during 2018;
  - 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 2018 of the TERMAX Group: the capital outstanding at December 31, 2017 was USD 58 million, i.e. €50.7 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 2018.

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		Foreign auditors	
	Amount		Amount		Amount	
In thousands of euros	N	- 1 year	N	- 1 year	N	- 1 year
Audit						
Auditors, certification, review of individual and consolidated financial statements						
- Holding company	25	31	31	31		
- Fully consolidated subsidiaries	843	883	279	310	0	37
Other due diligence and services						
- Holding company	30	16	23			
- Fully consolidated subsidiaries	79	3	49	7	6	25
Sub-total	**977**	**933**	**330**	**349**	**6**	**63**
Other services rendered by the networks to the fully consolidated subsidiaries						
Legal, tax, and social						
Miscellaneous services						
Sub-total						
TOTAL	**977**	**933**	**382**	**349**	**6**	**63**

Amounts included in other due diligence and services are for the examination of consolidated social, environmental and societal information.

2 | Report on 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.
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 PROCEDURE

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 entity, 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, the 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 no more than 18 members, to which can be added, if applicable, employee representatives appointed in accordance with the 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 status of independent membership is lost 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 Ordinary Shareholders' 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, CEO and the Deputy CEOs - transactions subject to the 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 specified 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 Furthermore, 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 its 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 meetings.

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 these Rules of Procedure 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 meeting authorizing the transaction.

Title III - Operation of the Board of Directors

ARTICLE 6 - ROLE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

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 Board members are able to fulfill their duties, especially in committees.

6.5 The Chairman of the Board will make himself, at all times, available for 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 notifies 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 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 past 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 members 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 the event of an 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 the event of a justified emergency.

The Board may conduct business even if no notice of meeting was not sent to members if at least three-quarters of its members are present or represented.

8.4 Except in the event of emergency, the members of the Board receive the agenda of the session of the Board with the notice of meeting and the information available at that day.

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 - LOCATION OF 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 of meeting.

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 fall within the remit 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 AT 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 meeting 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 video-conference 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 forward the participants' voting intentions 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 video-conference or by telecommunications should specify this 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 video-conference or telecommunications are deemed present for the purposes of calculating 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 video-conference or telecommunications shall sign the minutes of the meeting at the following meeting.

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 business being conducted.

Auditors

14.2 The auditors must be invited to attend all Board meetings during which the annual or interim financial statements are reviewed, whether they are 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 of meeting is sent by registered letter with acknowledgement of receipt when their participation is mandatory.

Confidentiality obligation

14.5 In the event of a third party who is not a member of the Board being invited to a Board meeting or to the preparatory work for such a meeting, the Chairman of the Board shall remind him of his confidentiality obligation 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 Board meeting.

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 the 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 directors' 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 by means of thorough discussions by the Board and to assist in the preparation of decisions of the latter.

The committees have no decision-making power and the opinions, proposals and recommendations that the committees submit to the Board are not binding on it in any way whatsoever.

18.2 The committee members must be directors and are appointed on a personal basis 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 said committee.

18.8 Each committee determines the frequency of its meetings, which are held at the place indicated in the notice of meeting, and may meet at all times 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 only meet 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 these Rules of Procedure for the participation of members of the Board 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 have conducted, 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 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 in respect of which it is competent.

Audit Committee

ARTICLE 19 - WORK 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 financial statements of the Company 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;
- examining the draft report by the Chairman of the Board of Directors on the internal control procedures and risk management.

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 of the duties of the CEO being 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 - WORK 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 - WORK OF THE NOMINATIONS COMMITTEE

26.1 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 of the duties of the CEO being 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 - WORK 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 to 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 provisions of the bylaws can only be changed as long as the corresponding provisions of the bylaws have been previously amended 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 33 - 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 34 - 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 35 - Performing duties: guidelines

The Director shall fulfill his/her duties with independence, loyalty and professionalism.

ARTICLE 36 - 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 37 - 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 38 - 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 39 - 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 recommendations they think 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 40 - 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 the 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 2018

The Committee met six times in 2018. With the exception of one meeting at which one of its members was absent, Board meetings took place in 2018 in the presence of all directors. Therefore, the meeting attendance rate of its members was over 98% during the period.

The Board discussed the key topics and took the major decisions listed below:

- at the meeting of February 14, 2018, during which the non-executive directors were able to meet in the absence of operational executive directors, the Board signed off the LISI Group's separate and consolidated financial statements for financial year 2017 and the allocation of earnings to be put to the vote of the Meeting on April 24, 2018. It also set the target related bonuses for 2017 and the variable compensation for 2018 for the LISI operational directors; then determined the final allocation of performance shares (15C17 plan) for Group managers in line with the initial rules determined at the Board meeting of December 17, 2015; the Board reviewed the various ongoing projects relating to changes in the Group's scope; it determined the principle and procedure of a capital increase reserved for employees of the French companies of the Group and decided to put to the following Shareholders' General Meeting a higher dividend for registered holders of LISI shares who have held them for over two years.

  During this same meeting, the Board noted that the mandates as director of five of its members were due to expire at the Shareholders' General Meeting of 2018 held to approve the financial statements for 2017. In its attempt to secure a better gender balance on the Boards of Directors, the LISI Board decided to put to the vote of this following Meeting the renewal of the mandates of Ms. Capucine Allerton-kohler, Ms. Isabelle Carrere, Ms. Lise Nobre and Ms. Marie-Hélène Roncoroni-Peugeot as directors for a period of four years; then to seek a candidate to replace Mr. Eric ANDRE whose mandate had exceeded the twelve-year term limit for the independence criterion. In this new configuration, 6 of the 14 Board members are women; the percentage of women is expected to rise from 36% at the end of 2017 to 43% at the end of 2018,
- at the meeting of April 25, 2018, the Board examined in detail the Group's activity and results in the 1st quarter, which were affected by the weakness of the Fasteners Europe Division; it also took note of the revised annual forecasts and the progress of the Strategic and Operational Action Plans for 2018. When analyzing these figures and the annual results outlook, the Board defined the wording of a press release indicating that the Group's main economic and financial targets for 2018 would not be achieved;
- at the meeting of June 13, 2018, the Board debated the application of Ms. Véronique Saubot as an independent director. In light of her professional experience, expertise and skills she has displayed in positions with a high level of responsibility in international groups and smaller companies, and her familiarity with family companies, the Board, unanimously and on the recommendation of the Nominations Committee, decided to submit this application at an ordinary shareholders' general meeting called for this purpose,
  Moreover, the Board provided a further update on the current projects regarding changes to the Group's scope;
- at the meeting of July 25, 2018, the Board produced the interim Company financial statements and the consolidated financial statements for the LISI Group. It took note of the information provided by Senior Management on current projects regarding changes to the Group's scope and gave its agreement in principle for the finalization of the negotiation of an acquisition in the Automotive Fastener sector under the conditions presented to it, at this same meeting, the Board noted the subscription to the capital increase reserved for employees of the Group's French companies who have signed up to the "LISI en action" Group savings plan in the amount of €2,781,092 representing 90,442 shares; then approved the actual performance of this capital increase;

- at the meeting of October 24, 2018, the Board noted the Group's activity and results for the first nine months of the year and the end-of-year forecasts. It then turned to the Company's governance issues which were the main focus of the meeting by examining a specific "Governance" dossier prepared and presented with the assistance of a specialist consultant;

  Four main conclusions are drawn from this dossier:
  - the practices which do not comply with the new rules of the AFEP-MEDEF Code reviewed in June 2018 which must be dealt with in the coming year;
  - Directors' expectations, particularly as regards strategy and corporate governance highlighted in the results of the recent self-assessment questionnaire; a summary was provided at the meeting by the Company's Vice-Chairwoman and the Senior Independent Director of the Company;
  - a project for a new mode of operation for the Board and its committees put forward by the Company's Chairman;
  - a proposal for compensation of members of the Board and its committees to bring the Company's compensation practices into line with those of comparable benchmarked companies;
- The last meeting in the year, held on December 12, 2018, was reserved for the presentation of the Company's budget for the coming year and the annual strategic review.

  The Board noted the different orientations of the new 2018-2022 strategic plan presented by the Group's Senior Management, the major priorities the Group has determined based on this plan and the strategic issues to be dealt with in 2019. On this last point, the Board requested the Strategic Committee to meet early the following year to develop a methodological approach enabling the Board members to deal with the most pressing strategic issues. It then noted the budget outlook for 2019 and approved all of the data submitted to it.

  Lastly, the Board set up a new performance share allocation plan called 18C20 and laid down the rules applicable to it including the precise performance criteria.

2.2.2 | Committee activities in 2018

Board Committees met six times during the financial year 2018 and the meeting attendance rate of its members was 100%.

- **Audit Committee:** the Committee met twice in the financial year 2018. 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 scope of consolidation and to the off-balance sheet risks described in the notes 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.
- **Nominations Committee:** the Committee met once in the financial year 2018.

  As regards the composition of the Board and its committees, the Nominations Committee examined the application of a new director which it had selected and decided to submit to the Board for approval.
- **Compensation Committee:** the Committee met twice in 2018.

  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 2015 (15C17 plan) and 2018 (18C20) performance share plans.
- **Strategic Committee:** the Committee met once in 2018.

  It reviewed the Group's 2018-2022 strategic plan presented by the LISI senior management, 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 referred to in plan and which senior management intends to address during financial year 2019.

2.2.3 | Board of Directors' assessment

For several years now, the LISI Board of Directors has been assessing itself and intends to continue and deepen this approach. Therefore, during 2018, the Board assessed its operation in accordance with the provisions of the AFEP/MEDEF Code.

A questionnaire, based on the previous questionnaire and developed with input from a specialized consultant, was published in order to assess the efficiency of the Company governance, its suitability with regard to the standards to which the Board refers in this matter and the expectations of the Board members, was sent to each director. It covered the role, operation and quality of the work conducted by the Board and the specialized committees and paved the way for discussion about the evaluation of the individual contribution of its members.

The results were presented at the Board meeting on October 24, 2018. The directors expressed an overall satisfaction rating of 87% concerning the themes tackled.

- Key priorities were the operating procedures of the Board and its committees, relations with the Company's senior management and the Board's knowledge of the Group's risk analysis and management.
- The specific areas for improvement concerned the new chapters opened up by the AFEP-MEDEF Code which was revised in June 2018, particularly Board information about the way the Group deals with corporate social responsibility issues, the corruption prevention and detection system and the Company's diversity policy as applied within its governing bodies. The Board as a whole also wants to deepen the strategic thinking ("more time spent on analysis and debate") and, in this connection, the information necessary to such thinking ("more detailed information on the different markets in which the Group operates, its competitive environment and technology progress and, lastly, on the key people of the divisions in charge of the Group's strategic development").

The Board asked its Chairman and the Group's operational management to draw up an action plan concerning these different topics, to be implemented in 2019.
A governance review is scheduled during a Board meeting in the 4th quarter of 2019.

2.3 | The administrative bodies

2.3.1 | Composition of the Board of Directors and the specialized Committees

As of December 31, 2018, the Group's Board of Directors consisted of 14 members.

- Among its members, the Board has nine family group directors, four "independent" directors as strictly defined by the AFEP-MEDEF Code used by the Company and one "qualified person" director who has been a director of LISI for more than 12 years and thus no longer enjoys the status of independent director.
The representation rate for these three groups is therefore as follows: 64% for Family Directors, 29% for Qualified Persons and 7% 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, 2018.
- Similarly, the Board is composed of six women and eight men, and the proportion of women members of the Board is therefore 43%.
- To be in strict compliance with the provisions of the AFEP-MEDEF Code, the Board will continue its strategy to reach the formal rate of a third of independent directors.

Composition at December 31, 2018		Independent director	Date of appointment	Term of office expires
Board of Directors				
Member of the Board of Directors	Gilles KOHLER		1985	OGM 2019 [1]
Chairman of the Board of Directors			1999	
Members of the Board of Directors:	Isabelle CARRÈRE		2014	OGM 2022 [3]
	Patrick DAHER	X	2009	OGM 2019 [1]
	Emmanuelle GAUTIER	X	2017	OGM 2021 [2]
	Capucine KOHLER		2014	OGM 2022 [3]
	SAS CIKO represented by Jean- Philippe KOHLER [5]		2002	OGM 2019 [1]
	Pascal LEBARD		2005	OGM 2021 [2]
	Lise NOBRE	X	2008	OGM 2022 [3]
	Christian PEUGEOT		2003	OGM 2019 [1]
	Compagnie Industrielle de Delle represented by Thierry PEUGEOT [4]		1977	OGM 2019 [1]
	Marie-Hélène PEUGEOT-RONCORONI		2014	OGM 2022 [3]
	Véronique SAUBOT	X	2018	OGM 2022 [3]
	Viellard Migeon & Cie represented by Cyrille VIELLARD [6]		1977	OGM 2019 [1]
	Emmanuel VIELLARD		2000	OGM 2019 [1]
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:	Emmanuelle GAUTIER	X		
	Cyrille VIELLARD			
Compensation Committee				
Member of the Compensation Committee Chairman of the Compensation Committee	Patrick DAHER	X		
Members of the Compensation Committee	Lise NOBRE	X		
	Thierry PEUGEOT			

Composition at December 31, 2018		Independent director	Date of appointment	Term of office expires
Strategic Committee				
Member of the Strategic Committee Chairman of the Strategic Committee	Gilles KOHLER			
Members of the Strategic Committee	Jean-Philippe KOHLER			
	Pascal LEBARD			
	Lise NOBRE	X		
	Emmanuel VIELLARD			
Nominations Committee				
Member of the Nominations Committee Chairman of the Nominations Committee	Thierry PEUGEOT			
Members of the Nominations Committee	Patrick DAHER	X		
	Gilles KOHLER			
	Emmanuel VIELLARD			

[1] Ordinary Shareholders' General Meeting called in 2019 to approve the financial statements for the period ended December 31, 2018.
[2] Ordinary Shareholders' General Meeting called in 2021 to approve the financial statements for the period ended December 31, 2020.
[3] Ordinary Shareholders' General Meeting called in 2022 to approve the financial statements for the period ended December 31, 2021.
[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

2.3.2 | 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.

At the meeting of October 24, 2018, the Board determined a new plan for the operation of the Board and its Committees which will be implemented in 2019.

2.3.2.1 - Members of the Board of Directors

Gilles Kohler, age 65, French citizen

Chairman of LISI's Board of Directors.
He chairs the Board of Directors and the Strategic Committee, and sits on 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;

Isabelle Carrère, age 55, 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 FIBI;
- Director of SOLIDAR'MONDE SA;
- Manager of Perspective Autonomie;
- Manager of Société Civile HARAS DE TURAN.

Patrick Daher, age 69, French citizen

Chairman of the Board of Directors of DAHER Group
Director of LISI.
He sits on the Board of Directors and the 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 DAHER SA;
- Deputy Director of DAHER INTERNATIONAL DEVELOPMENT (Luxembourg);
- Managing General Partner of SOGEMARCO-DAHER SCA;
- Chairman of the Supervisory Board of FIDAP SAS;
- Chairman of GEAD within the GIFAS (Grouping of French Aircraft and Aerospace Companies);
- Vice-Chairman of the GIFAS;
- Chairman of the SIAE and Chief Commissioner of the Paris Air Show.

Emmanuelle Gautier, age 48, French citizen

Chairman of the consulting firm Stop & Go International
Independent director of LISI.
She sits on the Board of Directors and Audit Committee

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):
- CEO of the Altifort Group;
- Chairman of Stop & Go International;
- Independent director of the Fournier Group;
- Director of Lakanal;
- Senior Advisor at Grant Thornton Executive.

Capucine Kohler, age 39, French citizen

Sales Account Manager at ZF (UK).
Director of LISI.
She sits on the LISI 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 58, French citizen

Deputy CEO of the LISI Group
Permanent representative of CIKO on LISI's Board of Directors
He sits on the 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 LISI AEROSPACE FORGED INTEGRATED SOLUTIONS SAS Management Committee;
- 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;
- Manager of the real estate company PYKO.

Pascal LEBARD, age 56, French citizen

Chairman and CEO of SEQUANA;
Director of LISI.
He sits on the LISI Board of Directors and Strategic Committee.

Pascal LEBARD 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 – Chairman and CEO of SEQUANA;
- Chairman of Arjowiggins SAS;
- Chairman of the Board of Directors of Antalis;
- Chairman of Arjobex;
- Chairman of Arjobex Holding;
- Director of Arjowiggins HKK 1 Ltd (Hong Kong);
- Chairman of DLMD SAS;
- Chairman of Pascal Lebard Invest SAS;
- Director, Chairman of the Nominations and Compensation Committee and member of the Bureau Veritas Strategic Committee;
- Permanent representative of Oaktree Luxembourg Flandre Anchor Sarl on the Board of Directors of Novartex (Vivarte), Chairman of the Audit Committee and Member of the Nominations and Compensation Committee.

Lisa LOBRE, age 53, French citizen

Chairwoman of PARVILLA
Chairwoman of LUMEN EQUITY
Vice-Chairwoman and Senior Independent Director of LISI
She sits on the Board of Directors, the Strategic Committee, the Compensation 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,
- Director of Roquette Frères,
- Member of the Beirat de Kama (Germany).

Christian Peugeot, age 65, French citizen

Chairman of the CCFA (Committee of French Car Manufacturers)
Director of LISI
He sits on the LISI 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 Établissements PEUGEOT Frères, Chairman of the Ethics Committee, Governance;
- Director of FFP, member of the Financial and Audit Committee;
- Director of Compagnie Industrielle de Delle;
- Director of the PSP Group;
- Manager of BP GESTION;
- Manager of SC LAROCHE;
- Chairman of AMC Promotion SA;
- Chairman of AAA DATA SAS;
- Chairman of OICA;
- Chairman of UNIFAB (Union des Fabricants).

Thierry PEUGEOT, age 61, 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;
- CEO of the Société Anonyme de Participations (SAPAR);

- Director of Compagnie Industrielle de Delle (CID);
- Director of Air Liquide S.A. and member of the Audit Committee;
- Chairman-Director of CITP;
- Chairman-Director of SIV;
- Chairman-Director of SID;
- Honorary Chairman of the National Association of Joint Stock Companies (ANSA).

Marie-Hélène PEUGEOT-RONCORONI, age 58, 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 sits 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):
- Chairwoman and Director of SAPAR;
- Chairwoman of Saint – Co SAS;
- Director and Vice-Chairwoman of FFP;
- Director of Etablissements PEUGEOT Frères and Deputy CEO;
- Permanent representative of EPF on the Supervisory Board of PEUGEOT SA;
- Director of ESSO SAF (France);
- Director of Fondation PSA PEUGEOT CITROEN and Vice-Chairwoman of the Board of Directors of Fondation PSA PEUGEOT CITROEN;
- Chairwoman of SICAV ARMENE.

Véronique Saubot age 53, French citizen

Chairwoman of TYKYA
Director of LISI
She sits in the Board of Directors.

Ms. Véronique Saubot exercises the other mandates and functions below:

■ Related to the LISI Group (in France and abroad):
- None.

■ Outside the LISI Group (in France and abroad):
- Chairwoman of TYKYA;
- Director of Groupe LA POSTE, mail, parcels and home service branch;
- member of the FORCEFEMMES Board of Directors- association which helps women return to work. Chairwoman since July 2016.

Cyrille Viellard, age 41, 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.;
- Director of Normark Hungary Zrt.;
- Director of Compagnie Industrielle de Delle SA.

Emmanuel Viellard, age 55, French citizen

CEO and director of LISI.
He sits on the Board of Directors, 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);
- Director of LISI AUTOMOTIVE Hi-Vol Inc.(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 LISI AEROSPACE FORGED INTEGRATED SOLUTIONS SAS Management Committee;
- 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,
- Honorary Chairman of GIFAS;
- Chairman of the VIELLARD Family Association.

2.3.2.2 - 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.

2.3.2.3 - 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 Rules of Procedure 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."

2.3.2.4 - 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.

2.4 | Compensation and interests of corporate officers

2.4.1 | 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. Directors' fees paid in 2018 amounted to €315,000 (including €111,000 in respect of 2017 and €204,000 in respect of 2018); the fees earned for 2018 amounted to €240,000 and the attendance rate was 99%.

The table below shows the attendance fees paid to directors and acquired by the directors for the period:

Board Members	Directors' fees paid in 2017 by LISI S.A. (in euros)	**Directors' fees paid in 2018 by LISI S.A. (in euros)**	Directors' fees due in respect of 2017 (in euros)	**Directors' fees payable in respect of 2018 (in euros)**
Capucine Kohler	12,000	24,000	12,000	18,000
Éric André	18,000	18,000	18,000	6,000
Isabelle Carrère	15,000	24,000	15,000	18,000
Patrick Daher	24,000	30,000	18,000	27,000
Emmanuelle Gautier	3,000	27,000	12,000	21,000
Gilles Kohler				
Jean-Philippe Kohler				
Pascal Lebard	18,000	27,000	15,000	21,000
Lise Nobre	33,000	48,000	30,000	33,000
Christian Peugeot	6,000	21,000	9,000	15,000
Thierry Peugeot	24,000	30,000	18,000	27,000
Marie-Hélène Peugeot-Roncoroni	12,000	21,000	9,000	18,000
Véronique Saubot		12,000		12,000
Cyrille Viellard	18,000	33,000	18,000	24,000
Emmanuel Viellard				
Total	**183,000**	**315,000**	**174,000**	**240,000**

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.

2.4.2 | 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, 2018:

Corporate officers	Number of LISI shares held directly	Number of LISI shares held indirectly
Gilles Kohler	84,955	
Emmanuel Viellard	37,579	
Christian Peugeot	5	
Cyrille Viellard (permanent representative of VMC)		3,112,793
Jean-Philippe Kohler (permanent representative of CIKO)	73,861	
Thierry Peugeot (permanent representative of CID)	125	29,643,620
Pascal Lebard	50	
Véronique Saubot	0	
Emmanuelle Gautier	0	
Patrick Daher	1,000	
Lise Nobre	850	
Capucine Kohler	600	
Isabelle Carrère	750	
Marie-Hélène Peugeot-Roncoroni	600	
Total	**200,375**	**32,756,413**

2.4.3 | 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
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: 1999 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 the Board of Directors of LISI S.A.	**2018**	2017
Remuneration due for the period	152,096	152,041
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	**152,096**	**152,041**

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 the Board of Directors of LISI S.A.	**Amounts for financial year 2018**		Amounts for financial 2017	
	due	paid	due	paid
Fixed remuneration	150,000	150,000	150,000	150,000
Variable compensation	None.	None.	None.	None.
Incentives	None.	None.	None.	17,809
Compensation on retirement	None.	None.	None.	None.
Exceptional remuneration	None.	None.	None.	None.
Benefits in kind *	2,096	2,087	2,041	2,041
Total	**152,096**	**152,087**	**152,041**	**169,850**

* Benefits in kind: company car.

Compensation of the CEO and the Deputy CEO

In 2018, 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.	**2018**	2017
Remuneration due for the period	509,579	606,365
Valuation of the options granted during the financial year*	None.	None.
Valuation of the performance shares granted during the financial year*	102,120	179,492
Total	**609,899**	**785,857**

* Valuation at the share price prevailing on the date of the Board of Directors meeting which approved the plan, i.e. €39.02 for the 2017 plan and €22.20 for the 2018 plan.

Jean-Philippe Kohler Deputy CEO of LISI S.A.	**2018**	2017
Remuneration due for the period	460,060	546,480
Valuation of the options granted during the financial year*	None.	None.
Valuation of the performance shares granted during the financial year*	102,120	179,492
Total	**560,380**	**725,972**

* Valuation at the share price prevailing on the date of the Board of Directors meeting which approved the plan, i.e. €39.02 for the 2017 plan and €22.20 for the 2018 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 2018		Amounts for financial 2017	
	due	paid	due	paid
Fixed remuneration	367,200	367,200	367,200	405,437
Variable compensation	122,000	220,000	220,000	210,000
Incentives	13,163	15,687	15,892	17,809
Exceptional remuneration	None.	None.	None.	None.
Directors' fees	None.	None.	None.	None.
Benefits in kind *	2,892	2,956	3,273	3,273
Total	**505,255**	**605,843**	**606,365**	**636,520**

* Benefits in kind: company car.

Jean-Philippe Kohler Deputy CEO of LISI S.A.	Amounts for financial 2018		Amounts for financial 2017	
	due	paid	due	paid
Fixed remuneration	330,000	330,000	330,000	357,971
Variable compensation	110,000	198,000	198,000	178,000
Incentives	13,163	15,687	15,892	17,809
Exceptional remuneration	None.	None.	None.	None.
Directors' fees	None.	None.	None.	None.
Benefits in kind *	2,575	2,575	2,588	2,588
Total	**455,736**	**546,262**	**546,480**	**556,368**

* 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.

2.4.4 | Benefits in kind granted to the managers

In 2018, Gilles Kohler, Emmanuel Viellard and Jean-Philippe Kohler benefited from a company car.

2.4.5 | 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 2018.

2.4.6 | Stock subscription or purchase options exercised during the period by each corporate officer manager

In 2018, the corporate officers did not exercise any options.

2.4.7 | Performance shares allocated to each corporate officer manager

The allocated plans outstanding at December 31, 2018 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.: 13 Date: 12/20/2016	None	None			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	Plan No. 14 NAV (Net Asset Value) of at least €1,767 million
	No.: 14 Date: 12/13/2017	None	None					
	No.: 15 Date: 12/18/2018	None	None					
Total		**None**	**None**					
Emmanuel Viellard Function: CEO	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			
	No.: 15 Date: 12/18/2018	4,600	102,120	Feb. 2021	Feb. 2021			
Total		**14,200**	**395,668**					
Jean-Philippe Kohler Function: Deputy CEO	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			
	No.: 15 Date: 12/18/2018	4,600	102,120	Feb. 2021	Feb. 2021			
Total		**14,200**	**395,668**					

2.4.8 | 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	N° 12bis Date: 12/17/2015	5,030	02/14/2018	02/14/2018	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. 12 Date: 12/17/2015	3,219	02/14/2018	02/14/2018	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
Jean-Philippe Kohler Function: Deputy CEO	No. 12 Date: 12/17/2015	2,406	02/14/2018	02/14/2018	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

2.5 | 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, Pascal Lebard, who has been a director for over 12 years, no longer enjoys the status of independent director. Consequently, the rule according to which the Board should comprise one third of independent directors is no longer respected. He is considered a "qualified person". There are five non-Group* directors, i.e. 36% of the Board members.
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.

* Independent directors and qualified persons

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 specific features of the LISI Group's activities require precise quality control to 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;
- IT systems.

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.

Note that to date, Corporate Social Responsibility issues, such as the fight against corruption and some matters relating to the vigilance duty, are not fully included in the current quality checks. The plan for developing these two themes is outlined in Chapter 6 – Topic 8.

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 two independent directors, 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.
- Since the end of 2017, a continuous improvement approach has been in place. The internal audit cell holds quarterly internal control committee meetings: the internal controllers of each division are invited, to build synergies as regards operational and financial internal control compliance. These results in Group procedures being updated: they are adapted according to the changes in processes to reduce the risks detected during audits.
- 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. Action plans for the main risks identified in each division are approved as part of the medium-term budget and strategy planning.
- Note that the risks are updated according to the risk areas identified: for example, in 2018, the cyber crime risk was included.
- The Health, Safety and Environmental Steering Committee, set up in 2001, identifies and indexes the inherent risks, then initiates the necessary corrective actions.

3.5 | Main internal Control Procedures regarding the preparation and processing of the accounting and financial information

- The Group carries out an annual review of the 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, financial investments are mostly 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.
- All of the processes described in paragraph 3.1 are audited by the Finance/Operational internal audit cell or HSE. The financial and operational audits are conducted based on a questionnaire which is the same for all Group entities audited: it has 156 questions. The audits are assessed by giving a score based on the total non-compliance examples detected: the contractual minimum required is 80%. The audit work results in an action plan that the operational teams are recommended to follow to mitigate the risks identified during the internal audits. This action plan is monitored one year after the audit for entities audited with a level of internal control below the Group's requirements.

8 DOCUMENTS SPECIFIC TO THE SHAREHOLDER'S GENERAL MEETING

1 | Auditors' Special Report On Regulated Agreements And Commitments - Financial Year Ended December 31, 2018

To the Shareholders' General Meeting of LISI,

In our capacity as Auditors of your Company, we will now present our 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 27, 2019

The Auditors

EXCO ET ASSOCIES	ERNST & YOUNG et Autres
Pierre Burnel	Pierre Jouanne

2 | Auditors' Special Report On The Consolidated Financial Statement - Financial Year Ended December 31, 2018

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, 2018.

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, 2018 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-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	How we tackled it
At December 31, 2018, the net value of goodwill stood at €347,787,000 for a balance sheet total of €1,865,775,000. 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 each year-end and each time that a risk of impairment is identified. Notes 2.2.8.5 and 2.5.1.1.a) of the Notes to the Consolidated Financial Statements describe the methods used and the assumptions made for this test. For the purposes of these tests, goodwill is allocated to each group of Cash Generating Units (CGU) which, for the LISI Group, corresponds to the three divisions: LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL. The recoverable value of each of the Group's CGUs is compared to the net book value of the corresponding assets. The recoverable amount is defined as the higher of the realizable value and the value in use. If the recoverable value is lower than the net book value of the CGU tested, the discrepancy is recognized as a loss of value.	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.

Provisions for industrial and environmental risks

Risk identified	How we tackled it
The Group is exposed to the environmental and industrial risks inherent to each of its LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL activities carried out worldwide within complex and constantly changing regulatory frameworks. 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.	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.

Specific verifications

We have also, in accordance with the professional standards applicable in France, specifically verified, as required by the laws and regulations in force, the information relating to 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.

We certify that the consolidated extra-financial declaration pursuant to Article L. 225-102-1 of the French Commercial Code is included in the information relating to the Group contained in the Management Report, it being understood that, in accordance with the provisions of Article L. 823-10 of this code, we have not verified the truthfulness of the information contained in this declaration nor have we checked their concordance with the consolidated financial statements and thus these should be the subject of a report by an independent third party organization.

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 ASSOCIES and of April 27, 2011 for ERNST & YOUNG et Autres.

At December 31, 2018, the firm EXCO ET ASSOCIES was in the 26th year of its engagement, without interruption, and ERNST & YOUNG et Autres in its eighth 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-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/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 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 27, 2019

The Auditors

EXCO ET ASSOCIES	ERNST & YOUNG et Autres
Pierre Burnel	Pierre Jouanne

3 | Auditors' Report On The Consolidated Financial Statements - Financial Year Ended December 31, 2018

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, 2018.

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 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 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, 2018 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 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.

Valuation of Equity Interests

Risk identified	How we tackled it
Equity interests, shown in the assets at December 31, 2018 for a net amount of €228,097,000 are the largest item of the balance sheet. As specified in Note 3.1.b of the Notes to the Financial Statements, 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 estimates of the profitability outlook are based, we have considered the measurement of the value in use of equity interests as a key audit matter.	To appraise the estimate of the value in use of equity interests, based on information provided to us, our work included: • analyzing, based on the information provided to us, the justification provided by management of the valuation method and the figures used to determine these values; • compare for a sample the data taken into account for the impairment testing of equity interests with source data by entity, taking into consideration the results of the audit of the significant subsidiaries held; • checking, using sample testing techniques, the mathematical correctness of the calculation of values in use used by the company.

Specific verifications

We have also carried out, in accordance with French professional regulations, the specific verifications specifically required by the laws and regulations in force.

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 concerning 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.

We certify the truthfulness of the information and its consistency with the annual financial statements relating to the terms of payment mentioned in Article D. 441-4 of the French Commercial Code.

Information regarding corporate governance

We certify the existence, in the section of the Board of Directors' Management Report dedicated to Corporate Governance, of the information required by Article L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

With regard to the information supplied in application of 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.

With respect to the information relating to the factors that your company consider likely to have an impact in the event of a public offer for purchase or exchange, provided in application of the provisions of Article L. 225-37-5 of the French Commercial Code, we have verified their conformity with the document from which they were extracted and which was provided to us. On the basis of this work, we have no comments to make regarding 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 ASSOCIES and of April 27, 2011 for ERNST & YOUNG et Autres.

At December 31, 2018, the firm EXCO ET ASSOCIES was in the 26th year of its engagement, without interruption, and ERNST & YOUNG et Autres in its eighth 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-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 27, 2019

The Auditors

EXCO ET ASSOCIES	ERNST & YOUNG et Autres
Pierre Burnel	Pierre Jouanne

4 | 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, 2018

Report by the Independent Third-Party Organization On the Consolidated Extra-Financial Performance Statement Included In The Management Report

Dear Shareholders General Meeting,

As an independent third party organization, accredited by COFRAC under number 3-1050 (scope of accreditation available on the website www.cofrac.fr) and member of the network of one of the auditors of your company (hereafter the entity), we present our report on the consolidated extra-financial performance relating to the financial year ended December 31, 2018 (hereafter the "Declaration"), presented in the Management Report in application of the legal and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code.

Responsibility of the Entity

It is the responsibility of the Board of Directors to prepare a Declaration that complies with the legal and regulatory provisions, including a presentation of the business model, a description of the main extra-financial risks, a presentation of the policies applied to these risks and the results of these policies, including the key performance indicators.

The Declaration was prepared by applying the entity's procedures (hereafter the "Guidelines") of which the most important elements are presented in the Declaration and available on request at the entity's head office.

Independence and quality control

Our independence is defined by the provisions outlined in Article L. 822-11-3 of the French Commercial Code and the Profession's Code of Ethics. 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 our responsibility, based on the work performed, to provide a reasoned opinion expressing a moderate assurance on:

- the compliance of the Declaration pursuant to Article R.225-105 of the French Commercial Code;
- he sincerity of the information provided in accordance with 3° of I and II of Article R. 225-105 of the French Commercial Code, i.e. the results of the policies, including the key performance indicators, and the actions, relating to the main risks, hereafter the main risks, hereinafter the "Information".

It is not our responsibility, however, to comment on:

- the entity's compliance with the other legal and regulatory provisions applicable, in particular with regards to the vigilance, anti-corruption and anti-tax evasion plan;
- the conformity of the products and services with the applicable regulations.

Nature and scope of work

The work described hereafter has been performed in accordance with the provisions of articles A. 225-1 et seq. of the French Commercial Code determining the conditions under which the independent third-party organization conducts its task and in accordance with professional standards and international standard ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information.

Our work has allowed us to evaluate the conformity of the Declaration to the regulatory provisions and the sincerity of the information:

- we have taken note of the entity's activity, of the exposure to the main social and environmental risks linked to this activity and, where applicable, their effects in terms of respect of human rights and the fight against corruption as well as the resulting policies and their results;
- we have evaluated the appropriateness of the Repositories with regards to their relevance, completeness, reliability, neutrality and understandability, taking into account, where appropriate, the industry's best practices;
- we have verified that the Declaration covers each category of information provided for in III of Article L. 225-102-1 in social and environmental issues as well as the respect of human rights and anti-corruption;
- we have verified that the Declaration includes an explanation of the reasons justifying the absence of the information required under the second paragraph of III of Article L. 225-102-1;
- we have verified that the Declaration presents the business model and the main risks linked to the entity's activity, including when relevant and appropriate, the risks created by its business relationships, its products or its services as well as the policies, actions and the results, including key performance indicators;
- we have verified, when relevant in terms of the main risks or policies presented, that the Declaration presents the information required by II of Article R. 225-105;
- we have verified the process for selecting and validating the main risks;
- we inquired about whether the entity had put in place procedures for the internal control and management of the risks;
- we evaluated the coherence of the results and key performance indicators used with regard to the principal risks and policies presented;
- we evaluated the collection process implemented by the entity with regards to the completeness and sincerity of the Information;
- for the key performance indicators and other quantitative results that we considered to be the most important presented in Appendix 1, we implemented:
  - analytical procedures consisting of verifying the proper consolidation of the data collected as well as the coherence in their changes;
  - detailed tests based on surveys, consisting of verifying the proper application of the definitions and procedures and reconciling the data contained in the supporting documents. These tests were conducted on a selection of contributing entities listed below: Villefranche-de-Rouergue, Saint-Ouen l'Aumône and Delle which represent 11% of the consolidated headcount and 26% of the Group's energy consumption.

- we have consulted the documentary sources and conducted interviews to corroborate the qualitative information which we considered to be the most important presented in Appendix 1;
- we evaluated the coherence of the entire Declaration with respect to our knowledge of the entity.

We believe that the work that we have performed exercising our professional judgment allows us to reach a conclusion of moderate assurance; a higher level of assurance would have required more extensive verification work.

Means and resources

Six competent persons were involved in this work which was carried out between July 2018 and February 2019 over a total working period of approximately seven weeks.

We held five interviews with the persons responsible for drafting the Declaration representing in particular the Group's Industrial and Purchasing, Human Resources and HSE departments.

Conclusion

Based on our work, we did not identify any material anomalies likely to call into question the non-financial performance declaration and the fact that the Information, as a whole, is presented in a fair manner, in accordance with the Repositories.

Comments

Without qualifying the conclusion expressed above and in accordance with the provisions of Article A. 225-3 of the French Commercial Code, we make the following comments:

- the policies presented do not completely cover all of the risks linked to the development of human capital and talent management, which have however been identified among the principal risks;
- we identified improvements required to establish or control the Information, in particular with regards to the data relating to the headcount which have completed training.

Paris-La Défense, March 15, 2019

The Independent Third-Party Organization ERNST & YOUNG et Associés

Christophe Schmeitzky
Sustainable Development Partner

Jean-François Bélorgey
Partner

Appendix 1: Information considered to be the most important

Social information	
Quantitative information (including key performance indicators)	***Qualitative information (actions or results)***
Registered headcount	Organization of work (absenteeism)
New hires	Training
Dismissals	
Hours worked	
Compressible hours of absence	
Training hours	
Environmental information	
Quantitative information (including key performance indicators)	***Qualitative information (actions or results)***
Water consumption compared to added value in m^3/€k (AV)	The results of the environmental/energy policy
Energy consumption compared to added value in MWh/€k (AV)	The circular economy (waste management)
Waste production per €1000 of added value	Water management
Share of hazardous waste compared to total waste production (%)	
Share of recyclable waste compared to total waste production (%)	
Health and safety information	
Quantitative information (including key performance indicators)	***Qualitative information (actions or results)***
Work accident frequency rate	Results of the policy in terms of occupational health and safety
Work accident severity rate	
Societal information	
Quantitative information (including key performance indicators)	***Qualitative information (actions or results)***
Number of employees trained in anti-corruption (compared to the exposed population)	Actions undertaken to prevent corruption
	Subcontracting and suppliers (social challenges, responsible purchasing)

5 | Draft resolutions

COMBINED GENERAL MEETING OF APRIL 26, 2019

OF THE COMPETENCE OF THE EXTRAORDINARY SHAREHOLDERS' GENERAL MEETING

- Review and approval of the Company financial statements for the period ended December 31, 2018;
- Approval of consolidated financial statements for the period ended December 31, 2018;
- Approval of the agreements set out in Articles L225-38 et seq. of the French Commercial Code;
- Discharge to the Directors and Auditors;
- Appropriation of earnings;
- Renewal of directors' term of office;
- Appointment of a new director to replace a director whose mandate had not been renewed;
- 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, 2018;
- 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;
- Setting of directors' fees;

OF THE COMPETENCE OF THE EXTRAORDINARY SHAREHOLDERS' GENERAL MEETING

- Free allocation of shares to employees and corporate officers; authorization to the Board of Directors for the purpose of granting this free allocation of shares;
- Modification of the age limit for holding office as Chairman of the Board of Directors; necessary amendments to the bylaws;
- Powers;
- Miscellaneous questions.

DRAFT RESOLUTIONS

OF THE COMPETENCE OF THE EXTRAORDINARY SHAREHOLDERS' GENERAL MEETING

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, 2018, as they are presented, with profits of €42,296,468 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 €31,793.

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, 2018, showing profits of €92,069,225.

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 2018 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	42,296,468 €
plus retained earnings in the amount of	81,619,512 €
To give a total of	**123,915,980 €**

constituting the distributable profit, which the Board of Directors proposes to allocate as follows:

to the legal reserve, i.e. the amount of	€3,618
the sum of €0.44 per share, i.e. the amount of to be paid on May 3, 2019	23,810,299 €
remainder to be carried forward, for a total of	100,102,063 €
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 €0.44. The portion of the dividend eligible for the tax rebate of 40% for shareholders under Article 158-3-2° of the French General Tax Code is €0.44.

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	Dividend paid eligible for the 40% rebate
December 31, 2015	0.39 €
December 31, 2016	0.45 €
December 31, 2017	0.48 €

Sixth 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 Mr. Gilles Kohler for a period of four years which shall expire following the Ordinary General Meeting to approve the financial statements for the financial year ending on December 31, 2022.

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 Mr. Emmanuel Viellard for a period of four years which shall expire following the Ordinary General Meeting to approve the financial statements for the financial year ending on December 31, 2022.

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 Mr. Patrick Daher for a period of four years which shall expire following the Ordinary General Meeting to approve the financial statements for the financial year ending on December 31, 2022.

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 the company COMPAGNIE INDUSTRIELLE DE DELLE represented by Mr. Thierry Peugeot for a period of four years which shall expire following the Ordinary General Meeting to approve the financial statements for the financial year ending December 31, 2022.

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 the company VIELLARD MIGEON ET CIE represented by Mr. Cyrille Viellard for a period of four years which shall expire following the Ordinary General Meeting to approve the financial statements for the financial year ending December 31, 2022.

Eleventh 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 the company CIKO represented by Mr. Jean-Philippe KOHLER for a period of four years which shall expire following the Ordinary General Meeting to approve the financial statements for the financial year ending December 31, 2022.

Twelfth resolution – Non-Renewal of a Director's term of office

The Shareholders' General Meeting, on a proposal by the Board of Directors decides not to renew the term of office as Director of Mr. Christian PEUGEOT.

Thirteenth resolution - Appointment of a new Director

The Shareholders' General Meeting, on a proposal by the Board of Directors, decides to appoint as a director, to replace Mr. Christian PEUGEOT:

The FFP Invest Company
Whose head office is at
66 avenue Charles De Gaulle – 92500 NEULLY SUR SEINE
RCS NANTERRE 535 360 564
Represented by Mr. Christian Peugeot

for a period of four years, which shall expire following the Ordinary General Meeting of 2023 to approve the financial statements for the financial year ending December 31, 2022.

The FFP Invest company has accepted this appointment in advance and has declared that there is no impediment prohibiting it from exercising this function.

Fourteenth resolution – Opinion on the compensation allocated to the Chairman of the Board Of Directors in respect of the financial year ended December 31, 2018

The Shareholders' General Meeting, in accordance with the provisions of Article L.225-100 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.

Fifteenth resolution – Opinion on the compensation allocated to the Deputy CEO in respect of the financial year ended December 31, 2018

The Shareholders' General Meeting, in accordance with the provisions of Article L. 225-100 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.

Sixteenth resolution – Opinion on the compensation allocated to the Deputy CEO in respect of the financial year ended December 31, 2018

The Shareholders' General Meeting, in accordance with the provisions of Article L.225-100 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.

Seventeenth 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 2019

The Shareholders' General Meeting, in accordance with Article L. 225-37-2 of the French Commercial Code, approves the components comprising the total compensation paid exclusively as directors fees to Mr. Gilles Kohler in his capacity as Chairman of the Board of Directors, as described in the report attached to the management report prepared by the Board of Directors and presenting the draft version of this resolution.

Eighteenth 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 2019

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 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 the draft version of this resolution.

Nineteenth 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 2019

The Shareholders' General Meeting, pursuant to the provisions of Article L225-37-2 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 the draft version of this resolution.

Twentieth 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 24, 2018;
- gives its authorization, in accordance with Articles L225-209 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 capital stock, corresponding to 5,411,432 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 capital stock or 2,705,716 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 L225-209 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 S.A. would pay if it purchased shares at the ceiling price set by the Shareholders' General Meeting, i.e. €60 is €269,812,680.

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.

Twenty-first resolution - Setting the amount of Directors' fees

The Shareholders' General Meeting sets the annual amount of directors' fees to be distributed among the directors at €500,000.

This amount will remain applicable as from 2019 and until a decision to the contrary by the Shareholders' General Meeting.

OF THE COMPETENCE OF THE EXTRAORDINARY SHAREHOLDERS' GENERAL MEETING

Twenty-second resolution - Authorization to the Board of Directors to proceed with a free allocation of shares

The Shareholders' General Meeting, having read the report by the Board of Directors and the Auditors' special report, in accordance with Articles L. 225-197-1 et seq. of the French Commercial Code:

- authorizes the Board of Directors, to allocate free shares in the company, on one or several occasions, to beneficiaries belonging to the category that it determines among its employees and corporate officers mentioned in Article L. 225-197-1, II° of the French Commercial Code as well as employees and corporate officers of listed companies in accordance with the provisions of Article L. 225-197-2 of the French Commercial Code;

- decides that the Board of Directors will determine the number of free shares likely to be granted to beneficiaries, as well as the conditions and, where appropriate, the criteria for allocating these shares;

- decides that the total number of free shares allocated cannot exceed 1,000,000 shares, i.e. 1.85% of the company share capital on this date, subject to any adjustments that may be made to maintain the rights of the beneficiaries, but without exceeding the overall limit of 10% of the company's capital on this date;

- decides that the allocation of said shares to their beneficiaries will become definitive, subject to the fulfillment of any conditions or criteria that may be established by the Board of Directors, at the end of a vesting period of at least two years; during this period, the beneficiaries will not be the holders of these shares allocated to them and the rights resulting from this allocation will be non-transferable;

- decides that in the event of the death of the beneficiaries during this two-year period, the heirs of the deceased beneficiaries can request that they benefit from the allocation of free shares within six months of their death; the shares will not be definitively acquired by them and will only be definitively allocated at the end of the vesting period and subject to fulfillment of any conditions of allocation set by the Board of Directors;

- decides that in the event that free shares are granted to corporate officers or employees of the listed companies and these companies cease to be linked to LISI S.A. during this two-year period, LISI S.A.'s Board of Directors can decide, at its own discretion, to maintain the beneficiaries allocation rights at the end of the vesting period subject to the fulfillment of other conditions;

- decides that during this two-year period, in the event of dismissal or resignation, removal from office for corporate officers, the beneficiaries lose their rights to the allocation of free shares; in the event of retirement or invalidity requiring them to leave their functions within the company or the linked company, the beneficiaries will retain the right to the allocation of free shares on the vesting date set by the Board of Directors subject to the fulfillment of the other conditions;

- takes note that at the end of the vesting period defined above and subject to the fulfillment of the conditions or criteria that may be set by the Board of Directors, the allocation of free shares will be completed by means of existing shares that the company will have acquired for this purpose according to the provisions of Article L. 225-208 of the French Commercial Code;

- decides that at the end of this two-year period, the shares will be definitively allocated to their beneficiaries, and will become immediately transferable by the beneficiaries subject to compliance with the periods mentioned in Article L.225-197-1 I° 7th paragraph of the French Commercial Code;

- delegates all powers to the Board of Directors, with the option to sub-delegate under legal conditions, to implement the present authorization and in general do everything necessary, in particular with regards to the implementation of measures aimed at maintaining the rights of the beneficiaries by adjusting the number of free shares allocated in accordance with any transactions affecting the Company's capital that would take place during the vesting period, to decide whether the corporate officers may sell the shares they have thus received prior to the end of their office or to set the number of registered shares that they must keep until the end of their office;

- sets at thirty-eight months, counting from today, the validity period of this present authorization.

Twenty-third resolution - Change to the age limit for the office of Chairman of the Board

The Extraordinary Shareholders' General Meeting, after having heard the report of the Board of Directors, decides to set the age limit for the office of Chairman of the Board at 70.

Thus, the Extraordinary Shareholders' Meeting decides to amend as follows point 2 of Article 10 of the bylaws:

2° - Chairmanship
The following is added:

- the Chairman of the Board should be under 70 years old. When the Chairman reaches this age, he is deemed to have resigned.

Twenty-fourth 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.

The board of Directors

6 | AMF Concordance table

This table facilitates the identification of the information to be included in the annual report filed as a reference document.

6.1 | Incorporation by reference of the 2016 and 2017 accounts

The following information is included by reference in the present Annual Report:

- the consolidated financial statements prepared according to IFRS standards and the Company's condensed financial statements prepared according to French standards with respect to the financial year ending December 31, 2016, as well as the corresponding Auditors' reports included in the Annual Report filed with the AMF (The French financial market authority) on March 29, 2017 (D17-0253);
- the consolidated financial statements prepared according to IFRS standards and the Company's condensed financial statements prepared according to French standards with respect to the financial year ending December 31, 2017, as well as the corresponding Auditors' reports included in the Annual Report filed with the AMF (The French financial market authority) on March 29, 2018 (D18-0200).

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