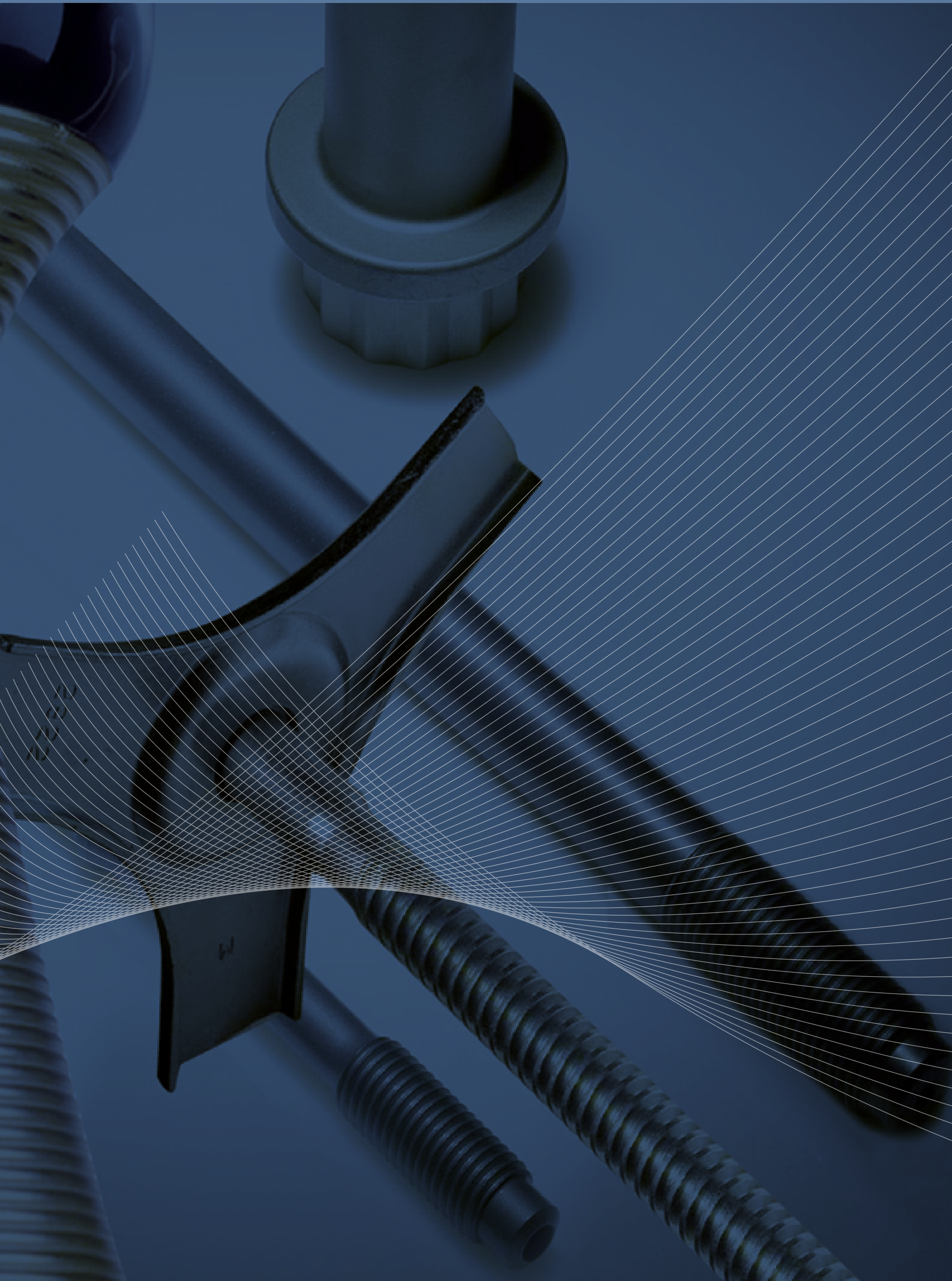
2006 FINANCIAL SECTION



CONTENTS OF THE FINANCIAL SECTION

PERSON RESPONSIBLE FOR THE ANNUAL REPORT

Name and title of the person responsible for the annual report

Emmanuel VIELLARD
Deputy Chairman

Statement by the person responsible for the annual report

"I certify, after taking all reasonable measures to that end, that the information contained in this annual report is, to my knowledge, consistent with reality, and includes no omissions likely to alter its meaning or interpretation. I have secured from our auditors, SALUSTRO REYDEL (a member of KPMG International) and EXCO CAP AUDIT, 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, April 16, 2007..

Emmanuel VIELLARD

Deputy Chairman

Regular auditors:

EXCO CAP AUDIT represented by Pierre BURNEL

2 rue Jules Emile Zingg – BP 9

25409 EXINCOURT Cedex

Appointed April 13, 1993. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

SALUSTRO REYDEL, a member of KPMG International represented by Marie GUILLEMOT

1 cours Valmy

92923 PARIS La Défense Cedex

Appointed March 4, 1999. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

Alternate auditors:

Jean-François CALAME

2 rue Jules Emile Zingg – BP 9

25409 EXINCOURT Cedex

Appointed April 13, 1993. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

Jean-Claude REYDEL

1 cours Valmy

92923 PARIS La Défense Cedex

Appointed March 4, 1999. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

Information policy

Person responsible for the financial information

Emmanuel VIELLARD

LISI

Le Millenium

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BP 431

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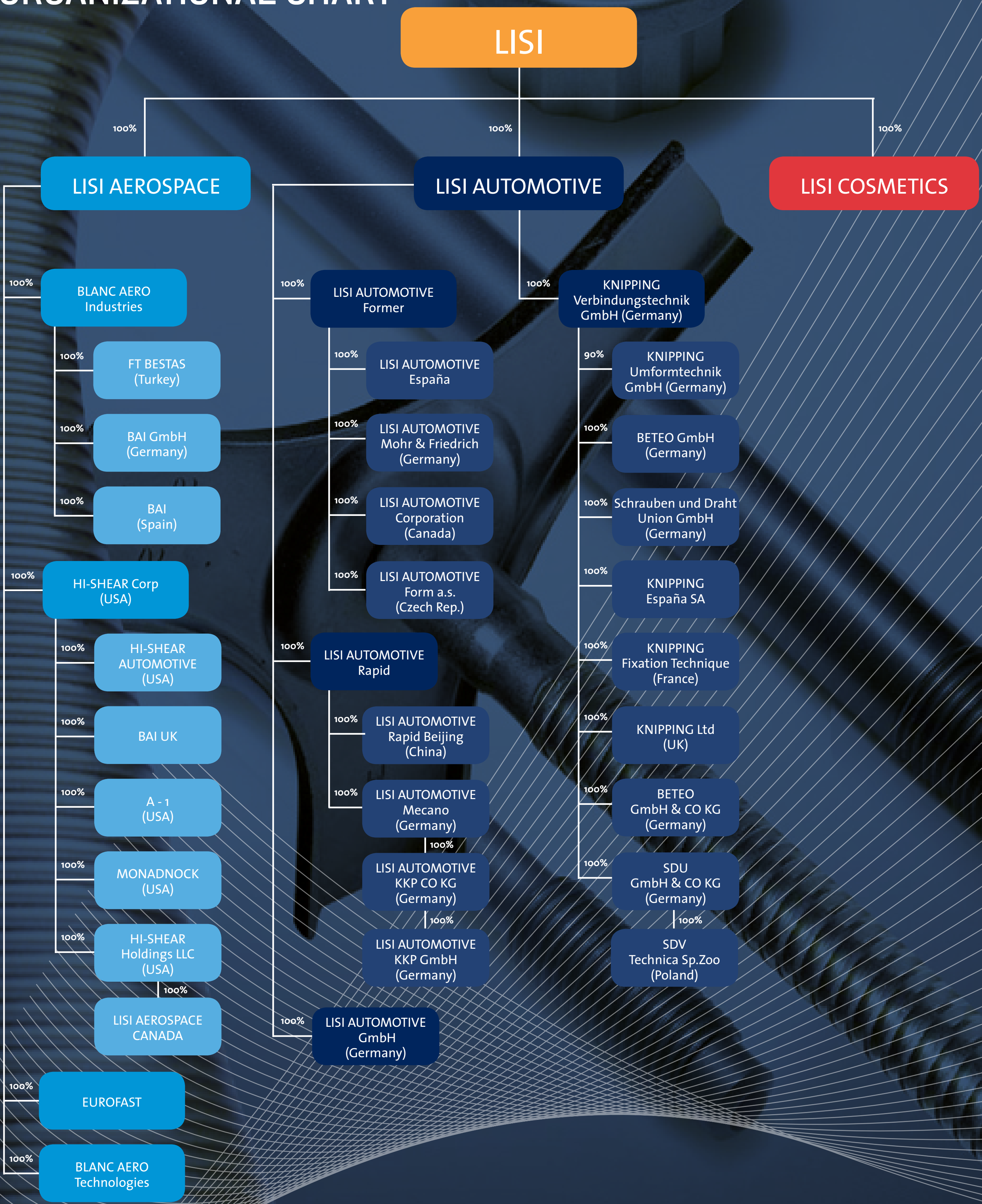
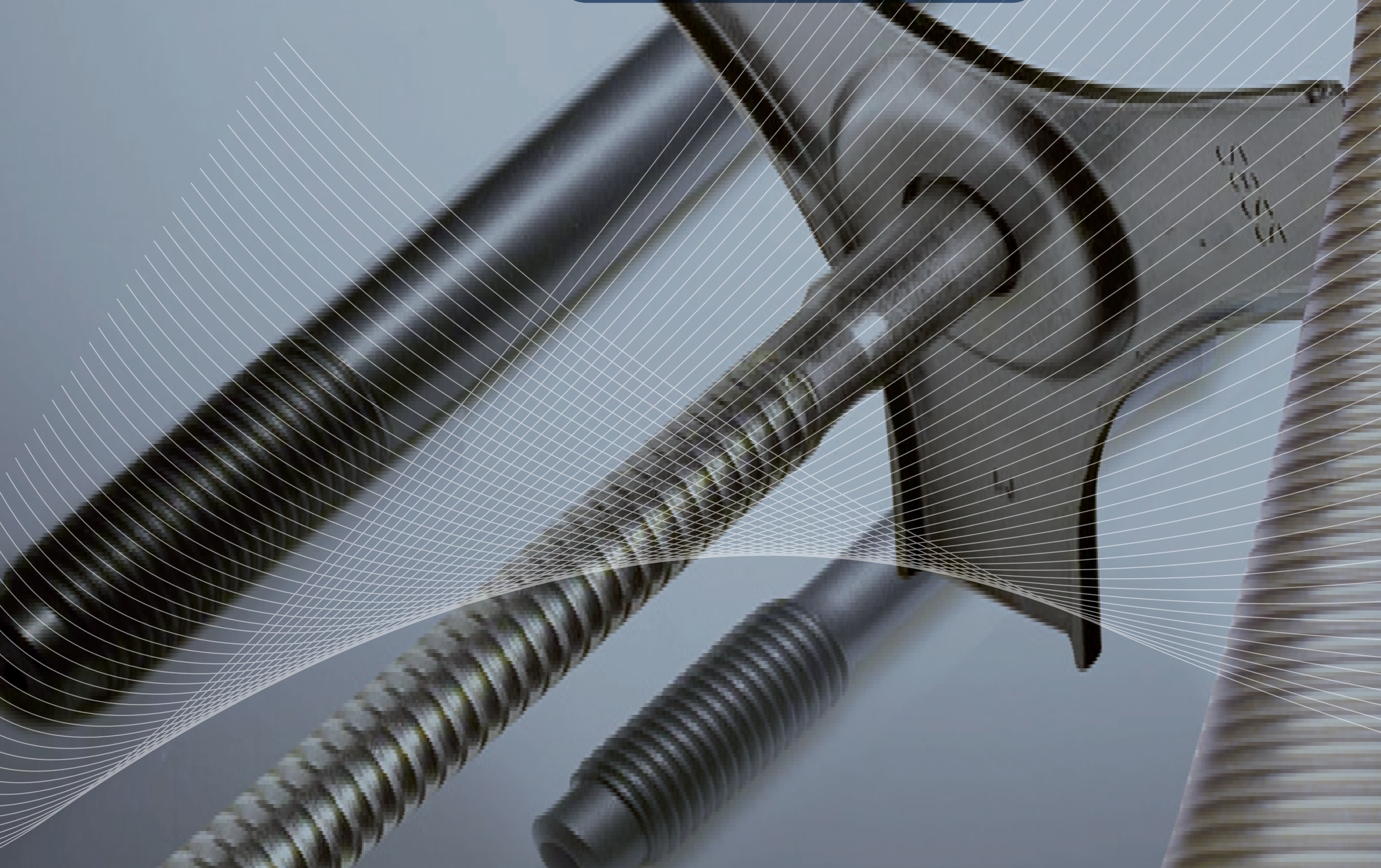
ORGANIZATIONAL CHART



MANAGEMENT REPORT ON THE CONSOLIDATED STATEMENTS

AS AT DECEMBER 31, 2006



ACTIVITY SUMMARY

in million euros	2006	2005	Changes
Sales revenue	739.7	617.6	+ 19.8%
Of which foreign	456.8	338.8	+ 34.8%
EBITDA	122.3	92.9	+ 31.7%
EBIT	88.6	63.8	+ 38.8%
Net income	48.0	35.6	+ 34.9%
Registered employees at period end	6,161	5,863	+ 5.1%
Net operating cash flow	74.2	41.5	+ 78.8%
Net financial investments	47.6	47.3	+ 0.6%
Equity and minority interests	0.9	26.1	NA
Equity and minority interests	357.0	310.3	+ 15.1%
Net financial debt	105.6	136.4	- 22.6%
Return on capital employed (ROCE)	19.5%	16.8%	
Return on equity (ROE)	14.4%	12.1%	

Sharp growth in the period

For the third year running 2006 showed a sharp increase in sales revenues of almost 20% (of which 13.1% was organic) to €739.7 million, notwithstanding the level of the dollar, which dropped throughout the year. The pace of organic growth has been quite linear from one quarter to the next: Q1: +16.5%; Q2: +10.8%; Q3: +10.3% and Q4: +11.0%.

International operations grew strongly, representing 62% of the total at the end of 2006 as against 55% a year earlier.

Quarterly variations in turnover are summarized in the table below:

in million euros	2006	2005	Changes	
			On a new consolidation perimeter basis	On a constant dollar and like-for-like basis
Q1	192.6	142.1	+ 35.5%	+ 16.5%
Q2	190.8	149.7	+ 27.5%	+ 10.8%
Q3	173.4	159.1	+ 9.0%	+ 10.3%
Q4	182.9	166.7	+ 9.8%	+ 11.0%
TOTAL	**739.7**	**617.6**	**+ 19.8%**	**+ 13.1%**

LISI AEROSPACE posted good performance, with growth up 30.5% on like for like and constant exchange rate basis, with Europe up 31% and the USA 34.1%. Extraordinary orders and new market shares, as well as the anticipation of investments and recruitments generated in 2005 have made it possible to outperform the industry as a whole.

All entities have contributed to that situation, in particular those based in the USA, where Torrance (Hi-Shear) and City of Industry (Monadnock) have increased their capacities significantly. Similarly, in Europe growth came from the Villefranche and Izmir plants, which both deal with motors. Dorval in Canada, set up at the end of 2005, achieved its target of €3.4 million in sales revenues.

LISI AUTOMOTIVE benefited from a full year of consolidation of Knipping, as against 6 months in 2005, which helped sales revenues increase by 12.7%. Restated on the basis of the consolidation scope, the move is similar to that of the overall European output, with a decline limited to -0.7%. In terms of products, we observe that sales of threaded fasteners are declining, but this is being compensated by sales of clipped fasteners and the nice performance results of Knipping products. At the manufacturing sites, continuation of the ACE program has helped counter the inflationary effects of certain cost items, without creating a significant productivity improvement against a background of a sharp drop in volumes in France

.

Improvement of operating performance indicators

In the 2006 financial year EBITDA reached €122.3 million, which was 16.5% of sales revenues, as against 15% in the previous financial year, an increase of 31.7%. The volume effect was a key issue in this growth, together with a healthy level of added value. Moreover, efforts to improve productivity generated profits. Depreciations were up 18.4% to €36.7 million, on account of the heavy investments in 2005 and 2006. Current provisions are marked by heavy write backs of provisions for inventories sold either to customers or to distributors. EBIT was up 38.8% at 12% of sales revenues, being €88 million as against €63.8 million in 2005.

Continuing on from 2005, the 2006 financial year saw the continuation of efforts in production investments. In this connection we can mention in the automotive division the ERP projects, the new production lines for parts for electric handbrakes and various productivity oriented projects; in the aerospace division, investment in capacity at Torrance (nuts unit), at Dorval (new machines) and the doubling of the Saint-Ouen-l'Aumône factory; finally, in the cosmetics division (surface treatment line, environment, capacity and productivity). Investments during the period came to €47.6 million, just above the record amount achieved in 2005. It should be noted that the Group had to bring forward investments that had initially been programmed for 2007, in order to handle increasing demand from certain aerospace customers and to ensure expected logistics rates of service.

Net profits up 35%

Non-recurring charges of €2.8 million, already recognized at June 30 at €1.9 million, are entirely attributable to the current restructuring of the automotive division. These provisions cover the difference between the value of the assets and their possible realization value.

Finance expenses are slightly up at 1.3% of sales revenues. They are, however, well under control on account of the Free Cash Flow generated especially at the year-end. Taxes show a true rate of 35.7% as against 33.3% in 2005, having absorbed all brought forward losses not capitalized in previous periods. This rate is now very close to the rates in those countries where the Group is present.

Having taken all the aforementioned points into account, net profit was €48 million, up 34.9% on the previous period.

This excellent performance is reflected in the cash flow statement

One of the most satisfying matters of the year was the Free Cash Flow generated for the period, which was positive at €26.5 million as against €-5.8 million the previous year, being 3.6% of sales revenues. Cash flow of €86.9 million and full control of working capital requirements (only €-12.7 million for a growth of €81 million in business) facilitated this recovery, notwithstanding heavy investments of €47.6 million.

Cash balance has improved by €14.6 million

Following the payment of €10.5 million in dividends and €14.7 million in loan repayments, net borrowings at the end of the period were down by 22.6% at €105.6 million, being 29.6% of shareholders' equity, which is 1.2 times the cash flow or 0.9 times EBITDA.

Shareholders' equity at year-end was €357 million, notwithstanding the negative impact of exchange rate differences of €-7.5 million on account mainly of the drop in the dollar. Finally, following the conversion of 286,283 warrants issued in May 2004, an increase of €14.6 million was recognized for the period.

Outlook for 2007

Financial 2007 could benefit from the trend of Q4 2006 (+11%) under the effect of an aerospace market that will remain extremely dynamic in the USA and certainly quite high in Europe, a stable automotive market, and an appreciable contribution of the cosmetics division.

The magnitude of the future growth will be conditioned by LISI AEROSPACE's ability to meet its customers' requirements, particularly in the USA. While remaining sustained, the growth pace is nevertheless expected to slow down as compared to those of the past two years.

Industry-wise, our priorities consist in adjusting the reduction in LISI AUTOMOTIVE's capacities to adapt it to the requirements of the French market and, on the other hand, in increasing LISI AEROSPACE's industrial tool in the USA and Canada.

The Group is further pursuing its growth through acquisitions and organic growth.

LISI AEROSPACE

Aerospace fasteners and assembly components

Key consolidated figures for LISI AEROSPACE

in million euros	Sales revenue	Full time paid Head count*	Current operating profit (EBIT)	Cash flow	Net CAPEX
Financial 2006	315.3	2,850	60.1	49.8	19.6
Financial 2005	243.7	2,469	37.3	32.3	20.9
Changes 2006/2005	+ 29.4%	+ 15.4%	+ 60.9%	+ 54.1%	- 6.2%

* Including temporary employees.

Aerospace markets consolidate in 2006: the dynamism continues

Boosted by a record order book in 2005, overall deliveries increased by 25% in 2006. Despite this sharp increase, average load factors continued their marked improvement: traffic was up 5.9% and capacity increased by 4.6%. Growth in 2006 was certainly lower than in 2005, but it picked up speed towards the end of the period, thereby confirming the fundamentals of the aerospace market. Orders in 2006 allowed Boeing to regain its lead with 1,044 units as against 824 for Airbus. Back orders thus total an impressive 4,988 planes to deliver, which is over 5 years of production at present output. Production should continue to grow in 2007 with over 970 planes to be delivered, including the long-awaited B787 towards year-end.

Our parts manufacturer customers, who are in the lead of developments, confirm this trend, with SNECMA for example, which delivered 1,061 CFM56 engines and expects 1,200 units in 2007 and 1,300 in 2008.

Business in the USA in the pole position

The book to bill ratio in the USA was impressive for the period, where it reached 2. The heavy orders book requires an aggressive approach to increase capacity, following hikes of 34% in 2006 and 30% in 2005. With this background LISI AEROSPACE has continued its major investment policy at the Torrance plant, while the installation of buildings at the new Dorval plant follow initial plans.

Similarly, in Europe growth came from the Villefranche de Rouergue and Izmir (Turkey) plants, which both deal with motors. It should be noted that overheated activity in 2006 created a market for extraordinary, short delivery time orders worth about €9 million, as against €6.4 million in 2005.

Volumes have supported improved margins

The heavy recruiting in 2005, which facilitated a sharp increase in production in 2006, was continued in 2006. In this way LISI AEROSPACE increased its production facilities to the level of its main customers' expectations. Production costs were up €9.1 million and recruitment and training costs increased by €2.7 million. In addition, the start up of the new factory in Canada weighed on margins, with a loss that worsened by €0.5 million. Nevertheless, with the volume effect of additional orders, the operating margin reached 19.1% of sales revenues, up 61% on the previous period. The USA contributed significantly to this improved profit thanks to the strong performance of the Torrance plant.

Another year of heavy investments

At almost €20 million, investments almost reached the record levels of 2005. These investments were spread over all the sites, with the main ones being the doubling of the Saint-Ouen-l'Aumône plant, the actual starting up of Dorval and the complete equipping of the collars unit at Torrance. The cumulative amount invested (investments and inventories) in the Dorval factory has now reached almost €8 million, so that it will have all the means in place to double its business in 2007.

Notwithstanding this high level of investments and growth in business activity, the division generated a largely positive operating cash flow thanks to better stock control, reducing inventories of about €4.5 million in the USA, and a reduction in the production cycle time.

Headed for further growth

The US market will be where the growth is in 2007, the size of which will depend on the teams' ability to increase production, particularly at Torrance. This situation is justified by the debut in production of the B787, which has to quickly get into its industrial stride to meet an impressive order book of 400 units. In Europe we are expecting a let up in growth but at a high level.

Uncertainty concerning raw materials, especially titanium, is a subject of concern and is being discussed with our European customers.

LISI AUTOMOTIVE

Automotive fasteners and assembly components

Key consolidated figures for LISI AUTOMOTIVE

in million euros	Sales revenue	Full time paid Head count*	Current operating profit (EBIT)	Cash flow	Net CAPEX
Financial 2006	382.5	3,025	25.8	33.7	25.1
Financial 2005	339.3	2,902	23.4	32.0	22.4
Changes 2006/2005	+ 12.7%	+ 4.2%	+ 10.6%	+ 5.0%	+ 12.0%

* Including temporary employees.

A flat European market

The major world markets are confirming the basic trends seen in medium-term studies, namely a drop in the North American market (-2.8%) and Japan (-2.2%), the sharp increase in the Chinese market (up 30%), and complete stability in LISI AUTOMOTIVE's biggest market, Europe, up 0.7%.

As the following table shows, it is the German manufacturers who are the least affected:

	2006/2005
PSA (1)	- 2.1%
Renault (2)	- 11.0%
Nissan	- 12.3%
VW	+ 5.3%
BMW	+ 1.8%
DCX	+ 0.8%
GM Europe	- 2.7%
Ford Europe	- 0.7%

(1) Peugeot down 2%, Citroen down 2.1%

(2) Renault down 12.4%

The LISI AUTOMOTIVE division is involved in the European production of the customers below:

In thousands of units	2006	2005	Changes
PSA without 107/C1	2,151	2,341	- 8.1%
Renault without Nissan	1,798	1,979	- 9.1%
Sub-total France	**3,949**	**4,320**	**- 8.6%**
BMW Group	1,194	1,155	+ 3.4%
DCX	1,129	1,195	- 5.6%
VW	3,714	3,492	+ 6.3%
GM Europe	1,848	1,834	+ 0.7%
Ford Europe	2,194	2,149	+ 2.1%
Sub-total Germany	**10,079**	**9,825**	**+ 2.6%**
Analyzed total	**14,028**	**14,145**	**- 0.8%**

Source : JD POWERS (estimated European production).

In this situation, LISI AUTOMOTIVE is fighting back

LISI AUTOMOTIVE's main customers have seen their production be sluggish in 2006, with the market for new registrations going up only very slightly. Despite an increase in exports, inventories have gone down over the period.

In this lifeless context, LISI AUTOMOTIVE posted an increase of 12.7%, thanks to the consolidation of Knipping for a full year. On a like-for-like basis, LISI AUTOMOTIVE mirrored the market with a drop of just 0.7%, thanks to the performance of Germany's and parts manufacturers' sales groups, whereas French sales were down in line with production.

Orders for new products are 15.4% of sales revenues, giving a potential value of €43 million. This is mainly due to the mechanical components B.U, whose products are intended for parts manufacturers worldwide.

and improving its major management indicators

Productivity is a key element of performance. While the ratio of payroll to added value is stable at 0.7 from one year to another, management indicators continue to improve:

- Work accidents are down 41%,
- The quality index was up 18%,
- The number of quality incidents has dropped by 75% since 2001,
- The service rate has reached 94%, and the late delivery level is very low.

On the other hand, consumables have continued their inflationary path, but have been set off by purchasing actions as well as by the results of the ACE productivity plans, now in use at all sites except those of Knipping. Thus, just energy costs, at about €2 million, have put a strain on profitability. The positive impact of new products has compensated for this additional expense and has allowed EBITDA to remain stable in relative terms and to increase 14.2% in absolute terms. Depreciation is up 21% to €22.6 million, almost equivalent to investments for the period at €25.1 million. The major purchase projects of industrial equipment involved mainly the Mélisey plant for €2.8 million (lines for manufacturing components mainly for Bosch), the Brno, Czech Republic, factory for €1.3 million, Puiseux for €2.9 million, Mellrichstadt, Germany, for €1.6 million and €6 million for Knipping (new coining machines and a zinc flake coating line).

Free Cash Flow has remained positive for the entire period despite the negative impact of the month of December, with delays in payments which in turn impacted negatively on working capital requirements.

Outlooks based on action plans

In a difficult market context, our French customers might lower their production even further and our German customers may be affected by new VAT rates. The steps taken by LISI AUTOMOTIVE to handle this situation concentrate on four issues:

- Continuing the aggressive policy of positioning on new products and new platforms,
- Relying on Knipping to strengthen LISI AUTOMOTIVE's presence in Germany,
- Improving productivity by concentrating production at those sites with the required volumes to benefit from productivity improvement actions,
- Continuing geographic expansion by supporting its clients in the strong growth areas such as China, India, Asia and the Czech Republic.

Achieving these objectives will facilitate profitable growth in the automotive sector, which always provides highly interesting outlooks in our business.

LISI COSMETICS

Assembly and packaging components for fragrances and cosmetics

Key consolidated figures for LISI COSMETICS

in million euros	Sales revenue	Full time paid Head count*	Current operating profit (EBIT)	Cash flow	Net CAPEX
Financial 2006	44.1	473	0.8	2.2	2.5
Financial 2005	37.8	469	0.3	0.8	4.2
Changes 2006/2005	+ 16.7%	+ 0.9%	+ 197.8%	+ 164.8%	- 39.6%

* Including temporary employees.

Recovery confirmed

For two consecutive financial years LISI COSMETICS has confirmed its recovery thanks to refound confidence on the part of the major players in the market. In a better oriented market the division has posted good annual performance with 16.7% growth in sales revenues, of which almost 10% tooling concerns new products to come. The main satisfaction of the period is LISI COSMETICS' ability to develop some of the market's major, flagship products, such as the famous "J'Adore" by Dior, the little lipgloss flask and mascara by Chanel etc. The division is also benefiting from a fashion for metal packaging following the success of Shiseido (Issey Myake, JP Gaultier), Carolina Hererra (212 Men), l'Oréal (Acqua di Gio) and Dior (Eau Sauvage).

Consolidation of results

The many investments in capacity and productivity have allowed the LISI COSMETICS division to sharply improve its productivity and to achieve growth in sales revenues (up 16.7%). However, the heavy billing for tooling weighs heavily on the income statement.

And like in the other divisions, the direction of raw materials costs, subcontracting and energy have also impacted negatively on profitability. Amortization is up €0.2 million following heavy investments in the two previous periods. These additional costs have been compensated for and profits have increased significantly to EBIT of €0.8 million, close to target, yet another step on the way to sustained recovery in this business.

Outlook for 2007

Heavy billing for tooling in 2006 presages many new products to come. The signing of sales contracts with major customers should let LISI COSMETICS achieve the targets of its 2009 strategic plan.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(in thousand euros)	Notes	12/31/06	12/31/05
Net revenues	5.1	**739,733**	**617,597**
Changes in inventory, finished and in process goods		13,781	8,578
Total production		753,513	626,175
Other revenues		6,035	5,033
Total operating revenues		**759,548**	**631,208**
Cost of materials	5.2	(214,236)	(177,350)
Other purchases and external expenses	5.3	(140,870)	(115,141)
Added value		**404,443**	**338,717**
Taxes and duties		(11,886)	(10,778)
Personnel expenses (including temporary personnel)	5.4	(270,231)	(235,061)
EBITDA	2.22	**122,326**	**92,878**
Depreciation		(36,729)	(30,972)
Net provisions		3,023	1,926
EBIT	2.22	**88,620**	**63,832**
Non-recurring operating expenses	5.6	(4,765)	(7,560)
Non-recurring operating revenues	5.6	1,935	3,304
Operating profit	2.22	**85,790**	**59,576**
Cost of finance	5.7	(7,672)	(5,640)
Other financial expenses and revenues	5.7	(1,633)	688
Taxes	5.8	(28,395)	(19,026)
Net profit		**48,090**	**35,598**
Profit attributable to the Group		47,989	35,572
Minority interests		102	26
Earnings per share (in euros):	5.9	**4.93**	**3.70**
Diluted earnings per share (in euros):	5.9	**4.57**	**3.33**

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CONSOLIDATED BALANCE SHEET

ASSETS

(in thousand euros)	Notes	12/31/2006	12/31/2005
NON-CURRENT ASSETS			
Intangible assets	4.1.1	134,105	131,151
Tangible assets	4.1.2	224,165	221,860
Financial assets	4.1.3	5,258	5,100
Deferred taxes	4.7	15,806	16,436
Other non-current assets*	4.1.3	16,522	12,720
Total non-current assets		**395,855**	**387,267**
CURRENT ASSETS			
Inventories	4.2	170,578	149,221
Taxes - Claim on the State		7,456	6,904
Trade and other receivables	4.2	116,443	112,822
Financial assets	4.2	22,801	22,225
Cash and cash equivalents	4.2	27,468	13,045
Total current assets		344,746	304,217
TOTAL ASSETS		**740,601**	**691,484**
* Of which other non current financial assets		16,289	12,720

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SHAREHOLDERS' EQUITY AND LIABILITIES

(in thousand euros)	Notes	12/31/2006	12/31/2005
SHAREHOLDERS' EQUITY			
Capital stock		20,422	19,794
Additional paid-in capital		42,963	28,053
Treasury shares		(5,479)	(6,665)
Consolidated reserves		250,169	224,959
Conversion reserves		(2,325)	5,206
Other income and expenses recorded directly as shareholder's equity		3,087	3,256
Profit for the period		47,989	35,572
Total shareholders' equity – Group's share		**356,826**	**310,175**
Minority interests		224	166
Total shareholders' equity	4.3	**357,050**	**310,341**
LONG-TERM LIABILITIES			
Non-current provisions	4.4.1	34,459	32,638
Financial debt	4.6	110,811	125,847
Other long-term debt	4.5	3,237	2,374
Deferred taxes	4.7	31,077	29,208
Total long-term liabilities		**179,584**	**190,067**
SHORT-TERM LIABILITIES			
Current provisions	4.4.1	3,771	6,868
Financial debt*	4.6	61,320	58,630
Trade and other payables		128,719	125,578
Tax liability		10,159	—
Total short-term liabilities		**203,968**	**191,076**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**740,601**	**691,484**
(*) of which banking facilities		32,417	28,497

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CONSOLIDATED CASH FLOW STATEMENT

(en milliers d'€)	12/31/2006	12/31/2005
Operating activities		
Cash flow after net interest and taxes	86,854	67,630
Elim. of corporate income tax (debit or credit)	26,903	19,681
Elim. of net interest	8,961	5,350
Elim. of proceeds from dividends		
Cash flow before net interest and taxes	**122,718**	**92,661**
Effect of changes in inventory	(22,768)	(15,388)
Effects of changes in accounts receivable and accounts payable	8,663	(6,890)
Taxes paid	(25,498)	(23,539)
Cash provided by or used for operations (A)	**83,115**	**46,844**
Investment activities		
Acquisition of consolidated companies	(165)	(26,171)
Acquired cash		(27,219)
Acquisition of tangible and intangible fixed assets	(48,067)	(48,990)
Acquisition of financial assets	(730)	
Change in granted loans and advances	(51)	
Investment subsidies received		21
Dividends received		
Total cash used for investing activities	**(49,013)**	**(102,359)**
Disposed cash		
Disposal of consolidated companies		
Disposal of tangible and intangible fixed assets	459	1,681
Disposal of financial assets	6	99
Total cash from disposals	**466**	**1,780**
Cash provided by or used for investing activities (B)	**(48,547)**	**(100,579)**
Financing activities		
Capital increase	14,633	
Net disposal (acquisition) of treasury shares	(274)	
Dividends paid to Group shareholders	(10,413)	(8,689)
Dividends paid to minority shareholders of consolidated companies	(43)	(22)
Total cash from equity operations	**3,903**	**(8,711)**
Issue of long term loans	89,566	55,647
Issue of short term loans	14,863	
Repayment of long term loans	(89,011)	(43,090)
Repayment of short term loans	(30,858)	
Net interest paid	(8,243)	(5,350)
Total cash from operations on loans and other financial liabilities	**(23,682)**	**7,207**
Cash provided by or used for financing activities (C)	**(19,779)**	**(1,504)**
Effect of change in foreign exchange rates (D)	(1,328)	1,258
Effect of change in accounting principles (D)	1,186	(4,261)
Changes in net cash (A+B+C+D)	**14,646**	**(58,243)**
Cash at year start (E)	19,493	77,736
Cash at year end (A+B+C+D+E)	34,141	19,493
Financial assets	39,090	34,945
Cash and cash equivalents	27,468	13,045
Banking facilities	(32,417)	(28,497)
Cash at year end	**34,141**	**19,493**

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CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(in thousand euros)	Capital stock	Additional paid-in capital	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholder's equity	Group's share of net income	Equity (Group's share)	Minority Interest	Total Equity
Shareholders' equity as at January 1, 2005	**19,794**	**28,053**	**(6,672)**	**202,053**	**(4,147)**	**2,913**	**31,400**	**273,394**	**395**	**273,789**
Earnings for year N (a)							35,572	35,572	27	35,599
Foreign exchange translation adjustments					9,353			9,353		9,353
Payments in shares (b)						301		301		301
Restatement of treasury shares (c)			7			551		558		558
Appropriation of N-1 earnings				31,909		(509)	(31,400)			
Change in method				(335)				(335)		(335)
Change in consolidation scope									(255)	(255)
Dividends paid				(8,689)				(8,689)	(1)	(8,690)
Miscellaneous				21				21		21
Shareholders' equity as at December 31, 2005	**19,794**	**28,053**	**(6,665)**	**224,959**	**5,206**	**3,256**	**35,572**	**310,175**	**166**	**310,341**
Of which total income and expenses recorded for the period (a) + (b) + (c)					**9,353**	**852**	**35,572**	**45,777**		
Earnings for year N							47,989	47,989	102	48,090
Foreign exchange translation adjustments					(7,531)			(7,531)		(7,531)
Payments in shares (a)		302						302		302
Capital increase	628	14,005						14,633		14,633
Restatement of treasury shares (b)			1,186			139		1,325		1,325
Appropriation of N-1 earnings				35,572			(35,572)			
Change in method				46				46		46
Change in consolidation scope				1				1		1
Dividends paid				(10,413)				(10,413)	(43)	(10,456)
Restatement		603				(603)				
MIscellaneous (c)				4		295		299		299
Shareholders' equity as at December 31, 2005	**20,422**	**42,963**	**(5,479)**	**250,169**	**(2,325)**	**3,087**	**47,989**	**356,826**	**224**	**357,049**
Of which total income and expenses recorded for the period (a) + (b) + (c)					**(7,531)**	**434**	**47,989**	**40,892**		

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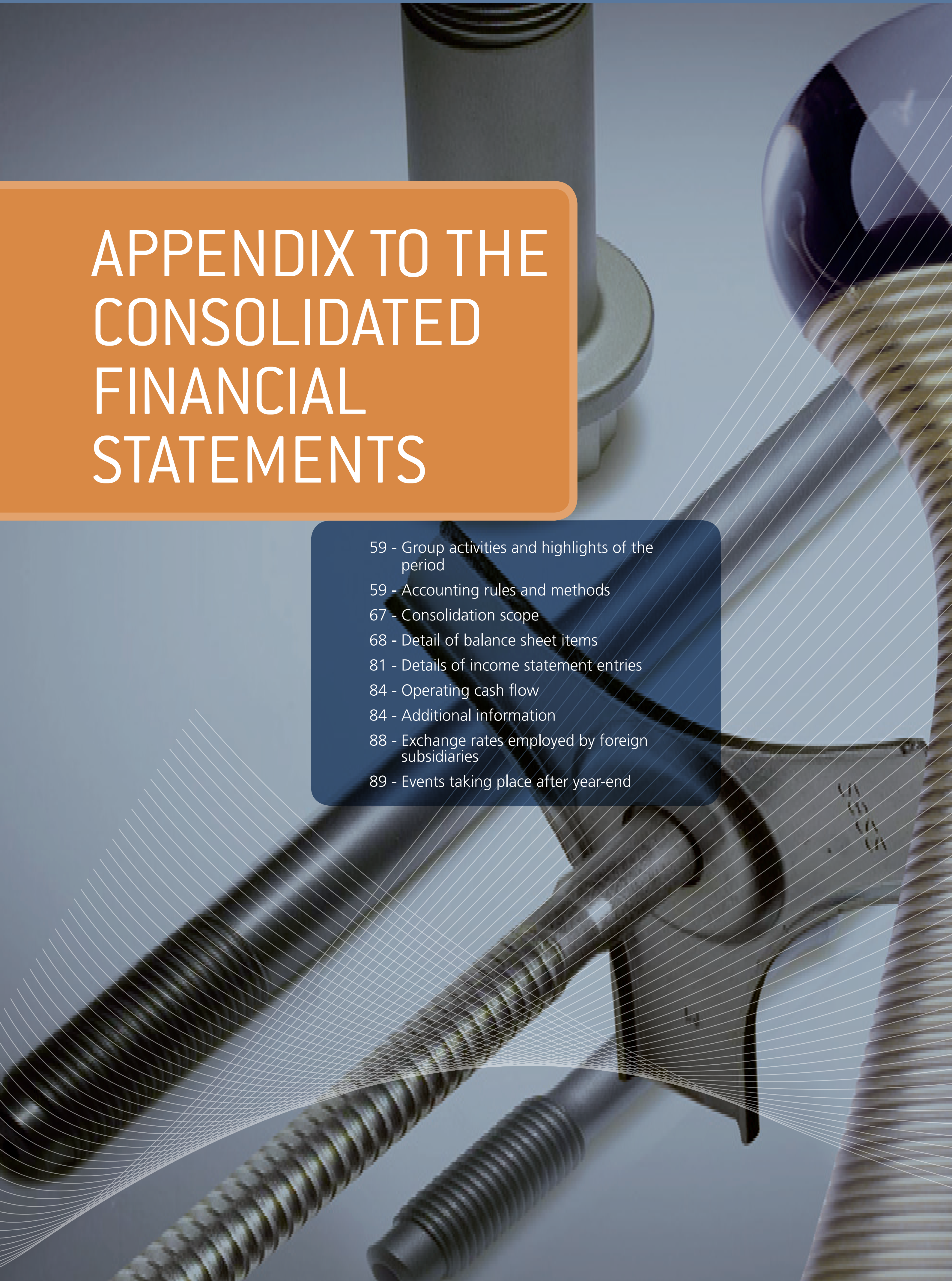
APPENDIX TO THE CONSOLIDATED FINANCIAL STATEMENTS



1. GROUP ACTIVITIES AND HIGHLIGHTS OF THE PERIOD

The main business of the LISI Group is the manufacture of fasteners and multi-functional assembly components intended for three markets: aerospace, automotive and upscale cosmetics.

Highlights of the period were as follows:

- Early depreciation of 2009-2010 Debentures through the repurchase of 95.38% of par of debentures for qualified bearers and through a refund at 100% of par for non-qualified bearers. Warrants stripped since the origin of the debentures remain in circulation.
- Debenture debt has been restructured at the Group's banks in two distinct tranches:
  - A revolving credit that can be used in euros or dollars that is repayable annually for a maximum amount of €35 million,
  - A revolving credit that can be used in euros or dollars repayable at August 7, 2013 for a maximum amount of €35 million,

In 2006 the Company drew down €30 million of these lines of credit, with €40 million remaining available at December 31st.

- Capital increases through the exercise of 286,283 repurchasable share warrants. These warrants were converted, causing the issue of new shares. Capital increase reserved for employees through the creation of 27,666 new shares. These shares, issued at a price of €47 each were fully paid up in cash at subscription. The number of shares outstanding at December 31, 2006 was10,210,783.

2. ACCOUNTING RULES AND METHODS

LISI S.A. is a public limited company under French law, whose registered office is 193 Rue de Bercy, Paris 75012.

The Group's consolidated financial statements for the year ended December 31, 2006 include the Company and its subsidiaries (the whole being referred to as "the Group").

The financial statements at December 31, 2006 were approved by the Board of Directors on February 22, 2007 and will be submitted to the Combined General Meeting on April 27, 2007.

2.1 Context of the preparation of the consolidated financial statements for the 2006 financial year

In accordance with European Regulation 1601/2002 of July 19, 2002, the consolidated financial statements of the LISI Group have been prepared in accordance with the IAS/IFRS international accounting standards as adopted by the European Union on December 31, 2006.

New standards, changes to existing standards and new interpretations were finalized in 2006, and their application became mandatory following December 31, 2006.

As provided in these standards, the Group has not opted for early application in the financial statements for the 2006 financial year. It is now studying the possible impact of these new standards and to date has not identified material differences that might occur in the financial statements.

2.2 Basis for preparation of the financial statements

The financial statements are shown in thousands of euros, unless stated otherwise.

They have been prepared on the basis of historic costs, with the exception of the following assets and liabilities, which have been recognized at fair value: derivatives, financial instruments held for the purpose of trading, and financial instruments categorized as held for sale.

Non-current assets to be sold are recognized at the lower of book value and fair value less costs of sale.

The preparation of financial statements in accordance with IFRS standards requires the exercise of judgment, which involves making estimates and assumptions that will have an impact on the application of the accounting methods, on the values of assets and liabilities, income and costs, especially in respect of the following:

- Depreciation periods for assets,
- The assessment of provisions and retirement commitments,
- Measurements employed for impairment tests,
- The valuation of financial instruments at their fair value,
- The valuation of payments in share.

Management continuously reviews its estimates and assessments based upon its past experience and on factors considered reasonable that represent the basis of its assessment for the book values of assets and liabilities. Actual values may vary significantly from these estimates depending upon assumptions and varying conditions. The impact of changes of estimates is recognized during the period of change if it only affects this period or during the period of change and later periods if such are equally impacted by the change.

Management judgments in respect of IFRS standards that have a significant impact on the financial statements and the estimates that have a major risk of variation during later periods are mainly provisions (notes 2.17 and 4.4.1), deferred tax credits (note 4.7) and impairment tests on assets (note 2.10).

2.3 Consolidation principles

A subsidiary is an entity controlled by its parent company. Control exists when the Group is able to direct either directly or indirectly the financial and operating policies of the entity in order to obtain benefits from its activities. The list of consolidated companies is provided in Note 3.2. At December 31, 2006 there were no proportionately consolidated or equity method consolidated companies.

All the consolidated companies share a financial year ending December 31, 2006 and lasting 12 months.

2.4 Transactions excluded from the consolidated financial statements

Balance sheet balances, unrealized profits and losses, 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.

2.5 Conversion methods for items in foreign currency

2.5.1 Transactions in foreign currencies

Transactions in foreign currencies are recorded in the books in the operating currency at the rate of exchange at date of transaction. At year-end, assets and liabilities recorded in foreign currencies are converted into the operating currency at the rate of exchange at 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 the net investment of a foreign entity, which are recognized in the conversion reserve as a distinct element of shareholders' equity. They appear in the income statement upon the exit of that business.

2.5.2 Conversion of financial statements of consolidated subsidiaries

The financial statements of subsidiaries whose operating currency is not the euro are converted at the exchange rate at year-end for the balance sheet and at the average exchange rate for the income statement and cash flow statement. Exchange rate differences arising from conversions appear in the conversion reserve, as a distinct element of shareholders' equity.

2.6 Derivatives

The Group makes use of derivatives to hedge its exposure to exchange rate and interest rate risks that result from its operating, financial and investment activities. In accordance with its cash management policy, LISI S.A. neither holds nor issues derivatives for transaction purposes.

However, derivatives that do not meet the hedge criteria are recognized as speculative instruments and valued at fair value. 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 profit or loss on the derivative is recognized directly in shareholders' equity. Accumulated, associated profits or losses are taken out of shareholders' capital and included in the income statement of the period/s during which the expected transaction affects the profit or loss.

When a derivative is employed to hedge exposure to exchange rate risk on a financial asset or liability, the hedge is not recognized and the profits or losses on the hedge instrument are posted to the income statement.

2.7 Intangible assets

2.7.1 Goodwill

In accordance with the provisions of IFRS 3, business combinations are recognized using the acquisition method. According to this method, the first time an entity over which the Group has direct or indirect control is consolidated, the assets and liabilities acquired, as well as contingent liabilities, are recognized at their fair value at date of acquisition. At that date Goodwill is valued at cost, being the difference between the cost of the business combination and LISI's share in the fair value of the identifiable assets and liabilities.

For acquisitions prior to January 1, 2004, Goodwill is retained at its presumed cost, which is the amount recorded according to the previous accounting standard.

Goodwill is measured at its cost less accumulated impairments. It is applied to cash generating units or cash generating business combinations and is not amortized, but undergoes an impairment test at least once a year using the method described in paragraph 2-10.

If the Goodwill is negative, it is posted directly to profit in the income statement.

2.7.2 Other intangible assets

Concessions, patents and software are recognized at cost and are subject to a depreciation plan. Intangible assets acquired through a business combination are recognized at their fair value at date of acquisition. Intangible assets with a fixed useful life are depreciated over that period, whereas intangible assets without a fixed useful life are subject to an impairment test at least once a year.

If applicable, later expenses in respect of intangible assets are only capitalized if they add to future economic benefits associated with the specific assets in question. Other expenses are posted to expenses as they are incurred.

Depreciation is recorded in expenses according to the straight-line method for the estimated useful life of the intangible assets unless it cannot be estimated.

The periods of estimated useful life are as follows:

Trademarks: 10 - 20 years

Software programs: 1 – 5 years

For intangible assets without a fixed, useful life, an impairment test is carried out at every year-end.

2.8 Research and development

Research costs incurred to obtain scientific understanding or knowledge or new techniques are recognized as expenses as they are incurred.

According to IFRS, development costs, namely those arising from application of the results of research for a plan or model with a view to the production of new or substantially improved products and processes are recognized as assets if the Group can demonstrate in particular the existence of probable, future economic advantages.

Because of the nature of the research and development costs incurred by the Group, most do not meet the criteria to be capitalized as intangible assets. In fact, most industrial products undergo a fairly short development period. The Group periodically assesses major projects to identify possible costs for capitalization. At 31st December 2006, no project displayed such characteristics, except for expenses regarding the development or joint development of tools, which are activated as tangible fixed assets or inventories, depending on the development conditions agreed upon with the customer.

2.9 Tangible assets

2.9.1 Assets owned by the Group

Tangible fixed assets are recognized at cost less aggregate depreciations and impairments without the costs of finance incurred prior to becoming operative. The cost of an asset produced by the Group for itself includes the costs of raw materials, of direct labor, the estimation, if applicable, of costs necessary for destroying and disposing of the asset, and the refurbishing of the site on which it is situated, and an appropriate share of production sundries.

When various items of property, plant & equipment have different useful lives, they are recognized separately.

2.9.2 Assets financed by leasing

Leasing contracts that transfer to the Group almost all the risks and benefits inherent in the ownership of an asset are categorized as financial leasing contracts. Assets financed by financial leasing are recognized in assets in the sum of the fair value of the leased asset, or, if lower, the discounted value of the minimum payments for the lease, and are depreciated over a period as for assets of the same type that would have been purchased outright. The matching expense is recognized as a liability in the balance sheet.

2.9.3 Later expenses

Within the book value of a tangible fixed asset, the Group recognizes the replacement cost of a component of such tangible asset at the time the cost is incurred if it is probable that future economic advantages in respect of this asset will accrue to the Group and if its cost can be reliably assessed. All current maintenance costs are recognized in expenses at the time they are incurred.

2.9.4 Depreciation

Depreciation is recognized on a straight-line basis in expenses for the estimated useful life of each component of a tangible fixed asset.

Land is not depreciated. The periods of estimated useful life are as follows:

- buildings: 20 – 40 years
- installations and equipment: 10 – 15 years
- fittings: 5 – 15 years
- transport equipment : 5 years
- equipment and tools: 10 years
- office equipment: 5 years
- office furnishings: 10 years
- computer equipment: 3 years

2.10 Impairment of assets

Goodwill and intangible fixed assets without a fixed, useful life are subjected to an impairment test at the end of each financial year and each time events or changes of market environment indicate a risk of loss of value. Other intangible fixed assets and tangible fixed assets are also subject to such a test each time there is an indication of loss of value.

The method used is to compare the recoverable value of each of the Group's operating units at the net book value of matching assets (including goodwill).

Recoverable value is defined as being the higher of the realizable value (less costs of disposal) and the value in use. The latter is determined by discounting the future expected cash flow.

Recoverable value is determined for each asset taken individually, unless the asset in question does not generate cash inflows substantially independent of cash inflows from other assets or groups of assets. If applicable, recoverable value is determined for a group of assets.

The value in use is determined by making use of the forecast cash flows that are in line with the most recent budget and business plan approved by Management and submitted to the Board of Directors. The discount rate employed reflects current assessments by players in the market of the time value of the money and the specific risks to the asset or group of assets.

The realizable value is the sum that might be obtained from the sale of the asset or group of assets under normal competitive conditions between well informed, consenting parties, less costs of disposal. These values are determined based upon market elements (comparison with similar, listed companies, values attributed in recent transactions and share prices), or failing such, using discounted cash flows.

If the recoverable value is lower than the net book value of the asset or group of assets tested, a loss of value is recognized for the difference. In the case of a group of assets, a reduction in goodwill is first applied.

Losses of value recorded for tangible and intangible fixed assets (excluding Goodwill) can be clawed back at a later stage if the recoverable value again becomes greater than the net book value, up to the limit of the loss in value originally recognized. On the other hand, losses of value recognized for Goodwill cannot be reversed.

The Group uses the strategic combination of the Business Units (B.U) as the definition of cash generating units (CGU).

The Automotive Division combines 5 CGUs:
- Threaded Fasteners B.U,
- Mechanical Components B.U,
- Clipped Fasteners B.U,
- International Operations B.U,
- Knipping B.U.

The Aerospace Division is divided into 5 CGUs:
- Airframe Europe B.U,
- Airframe USA B.U,
- Engines and Critical parts B.U,
- Specialty Fasteners B.U,
- Racing B.U.

The Cosmetics Division is made up of a single CGU.

An impairment test was carried out on December 31, 2006 on all assets in the CGU and did not show up a loss of value.

2.11 Long-term financial assets

This item includes non-consolidated holdings and financial assets bringing together capitalization contracts. These holdings are shares in non-quoted companies, whose measurement at fair value poses some uncertainty. In the last resort, the Group measures financial assets at historic costs after deduction of any possible future loss, when no reliable assessment of fair value can be made using an assessment technique, when there is no active market.

2.12 Inventories

Inventory is valued at the lower of cost and the net realizable value.

The cost of material and merchandise is their purchase price and costs incurred in bringing them to the place and in the condition in which they find themselves. Finished products and work in progress are valued at actual production costs for the period including the applicable share of overheads based upon the standard production output.

Net realizable value is the normal, estimated sales price in the normal course of business, less estimated costs for completion and estimated required costs to make the sale.

Inventories are depreciated when their net realizable value is lower than their cost price, if they are damaged, obsolete and each time they show risks of remaining unsold under normal conditions.

2.13 Trade and other receivables

Trade receivables, loans and advances are recognized in the balance sheet at depreciated cost at the effective rate of interest. 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 receivables, which is then the value employed. In the event of risk of non-recovery, depreciation is fixed on a case-by-case basis using the probable collection flows.

2.14 Current financial assets

Current financial assets include marketable securities held by the Group that do not meet the definition of cash equivalents. These financial assets are recognized at fair value and offset against the income statement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-call deposits. Adjustments of value are recognized in the income statement.

2.16 Share capital

2.16.1 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:

- Stimulation of the share's market by an investments service provider by way of a liquidity contract in accordance with the Code of Practice of the Association of French Investment Companies (AFEI) as recognized by the French Securities & Exchange Commission (AMF).
- To award share options to employees and directors of the Company and/or its Group,
- To retain and discount shares for exchange or payment as part of possible operations for external growth,
- To cancel shares purchased, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

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

2.16.2 Remuneration in shares (Stock options)

See Note 2,18, "Employee benefits".

2.16.3 Dividends

Dividends not yet paid are recognized as current debt for the period for which distribution has been voted.

2.17 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 that represent economic advantages 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.

2.17.1 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 include provisions for environmental risks and provisions for pension commitments.

2.17.2 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 made up mainly of provisions for lateness penalties, dismissals, other risks connected with operations and industrial reorganization.

2.18 Employee benefits

2.18.1 Commitments to employees

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 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.

Actuarial profits and losses are posted to the income statement in accordance with the "corridor" method: the amount recognized in expenses (income) for the period is equal to the deferred, actuarial losses (profits) on the balance sheet that exceeds 10% of the value of the commitment or the fair value of the plan's assets, if it is higher, divided by the average, remaining length of service of current employees.

The excess or shortfall of the fair value of the assets vis-à-vis the discounted value of the commitments is recognized as an asset or liability to the balance sheet, following deduction of deferred actuarial differences to the balance sheet as well as the cost of past services that have not yet been recognized. However, excess assets are only recognized on the balance sheet if they represent a future economic advantage for the Group.

At December 31, 2006 there no longer existed an open plan in respect of defined benefits plans, these having generally been replaced by defined contributions plans.

2.18.2 Share-based payments

The Group has set up share option plans for certain employees and managers, whose purpose is to provide additional incentive to improve Group performance.

Share purchase plans (Group Provident Plan) are also offered to group employees, with the possibility of acquiring LISI shares as part of increases in reserved capital or repurchase of shares. Shares acquired by employees as part of these plans are subject to certain restrictions on sale or transfer.

The award of stock options and participation by the employee in the Group Provident Plan represent benefits offered employees, and are accordingly a supplement to remuneration and are recognized at the fair value of the awarded shares or derivatives thereof.

In the case of stock options plans, this benefit is the value of the option at the award date, valued using the binomial model. In the case of capital increases reserved for employees as part of the Group Provident Plan, it 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 remuneration paid in LISI shares or share derivatives is recognized as a staff expense, with on the other hand an increase by the same amount in shareholders' equity. This expense is recognized:

- In its entirety at subscription date in the case of the Group Provident Plan;
- Over a period of 4 years from award date, in accordance with the regulation governing stock options plans.

In respect of transactions settled by delivery of shareholders' equity instruments, the Group has selected the option in IFRS 2, whereby it only recognizes plans prior to November 7, 2002 and whose rights are not vested until January 1, 2004.

2.19. Debts

2.19.1 Interest-bearing borrowings

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.

2.20 Suppliers and other creditors

Trade payables and other creditors are valued at fair value at first recognition, and then at depreciated cost. When the maturity of such liabilities 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.

2.21 Definition of the concepts: "current" and "non-current" in the balance sheet

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

2.22 Presentation of the income statement

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

Current Gross Operating Profit (EBITDA) includes added value, administrative and sales expenses, costs of pensions including contributions to provisions for pension commitments and the cost of remuneration in shares. It does not include other contributions and write-offs from depreciation and provisions.

Current Operating Profit (EBIT) includes Current Gross Operating Profit (EBITDA) as well as other contributions and write-offs to depreciation and provisions.

Operating Profit includes EBIT, other non-recurring operating income and expenses that restrictively include costs or compensation received in respect of claims, costs in connection with closures, restructuring and moving of locations, depreciation of goodwill, and the profits and losses on the disposal of non-current tangible and intangible assets.

These non-recurrent items are defined as the income and expenses that result from events or transactions that are clearly distinct from recurrent activities and it is assumed will not repeat themselves frequently or regularly, on account of:

- 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-recurring, tangible and intangible assets.

2.23 Sales 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.

2.24 Payments for operating lease contracts

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

2.25 Payments for finance lease contracts

The minimum payments for finance leases, as described in paragraph 2.9.2, 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.

2.26 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 short-term investments,
- Variations in fair value of financial instruments,

-Income from dividends is recognized in the income statement when the Group becomes entitled to receive payments, in the case of quoted securities being the coupon date.

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

2.27 Income tax

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 recorded in the income statement, except if it relates to items that are directly recorded as shareholders' equity, in which case it is recorded as shareholders' 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. The following items do not cause deferred taxation:

– Goodwill that cannot be deducted for tax,
– Timing differences on holdings in subsidiaries, provided that they would not be reversed in the foreseeable future.

Deferred tax credits 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.

The examination of the recoverability of brought forward losses is subject to particular scrutiny and shall only be recoverable if the subsidiary in question or its scope of consolidation makes profits in the future.

2.28 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).

Treasury shares are deducted from the weighted average number of shares in circulation, which acts as a basis on which to calculate the net earnings per share (before and after dilution).

2.29 Cash flow statement

The Group has opted to present its consolidated cash flow statement in accordance with the IFRS model. Net cash flows from operations are taken from the adjusted net result of non-monetary operations, from items related to net cash flow linked to investment and financing activities, and from the variation in working capital requirements.

2.30 Segment information

A segment is a distinct component of the Group that is involved either in the supply of related products or services (business segment), being the supply of products or services in a particular economic context (geographical area) and that is exposed to different risks and profitability than other segments.

The Group's activities are spread over three business segments, in which the three divisions operate:

– The AEROSPACE Division, which brings together all activities in the aerospace market,
– The AUTOMOTIVE Division, which brings together all activities in the automotive market,
– The COSMETICS Division, which brings together perfume and cosmetics activities.

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

2.31 Applicable new IFRS standards

IFRS 7, "Financial Instruments: Disclosures" and the Amendment to IAS 1, "Presentation of financial statements – disclosures in respect of capital".

On August 18, 2005 the IASB issued IFRS 7, "Financial instruments: Disclosures" and the Amendment to IAS 1, "Presentation of financial statements – disclosures in respect of capital". The purpose of IFRS 7 is to bring together within a new standard, having redefined them, the rules for the presentation of financial information in respect of financial instruments, as defined by IAS 32, "Financial Instruments: Disclosures and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement". The Amendment to IAS 1 provides for the presentation of qualitative information on the objectives, principles and processes of transactions affecting corporate capital, and the presentation of quantitative information on the components of a company's capital. This standard and its amendment must obligatorily be applied as of January 1, 2007.

3. CONSOLIDATION SCOPE

3.1 Changes in the consolidation scope

There was no significant change in the scope of consolidation during the 2006 financial year.

On the other hand, the accounts of Knipping and its subsidiaries, acquired in July 2005, have been included for a full 12 months, as against 6 months in 2005.

3.2 Consolidation scope

Company	Head office	Country	% control	% interests
Financial				
LISI S.A.	Paris 12e (75)	France	Parent company	
AEROSPACE division				
LISI AEROSPACE	Paris 12e (75)	France	100.00	100.00
BLANC AERO INDUSTRIES (BAI)	Paris 12e (75)	France	100.00	100.00
BAI GmbH	Hambourg	Germany	100.00	100.00
FT BESTAS	Izmir	Turkey	100.00	100.00
BLANC AERO TECHNOLOGIES (BAT)	Paris 12e (75)	France	100.00	100.00
EUROFAST	Paris 12e (75)	France	100.00	100.00
BAI Espagne	Madrid	Spain	100.00	100.00
HI-SHEAR CORPORATION (HSC)	Torrance (Californie)	United States	100.00	100.00
HI-SHEAR AUTOMOTIVE CORPORATION	Torrance (Californie)	United States	100.00	100.00
MONADNOCK	City of Industry (Californie)	United States	100.00	100.00
BAI UK	Rugby	Great Britain	100.00	100.00
A 1	Paramount (Californie)	United States	100.00	100.00
LISI AEROSPACE Canada	Dorval	Canada	100.00	100.00
HI-SHEAR Holdings LLC	Torrance (Californie)	Etats-Unis	100.00	100.00
AUTOMOTIVE division				
LISI AUTOMOTIVE	Belfort (90)	France	100.00	100.00
LISI AUTOMOTIVE Former	Delle (90)	France	100.00	100.00
LISI AUTOMOTIVE Espana	Madrid	Spain	100.00	100.00
LISI AUTOMOTIVE Mohr und Friedrich	Vöhrenbach	Germany	100.00	100.00
LISI AUTOMOTIVE CORP	Mississauga (Ontario)	Canada	100.00	100.00
LISI AUTOMOTIVE Rapid	Puiseux Pontoise (95)	France	100.00	100.00
LISI AUTOMOTIVE Mecano	Heidelberg	Germany	100.00	100.00
LISI AUTOMOTIVE KKP GmbH	Mellrichstadt	Germany	100.00	100.00
LISI AUTOMOTIVE KKP GmbH & CO KG	Mellrichstadt	Germany	100.00	100.00
LISI AUTOMOTIVE Rapid Beijing	Beijing	China	100.00	100.00
LISI AUTOMOTIVE Form a.s	Brno	Czech Republic	100.00	100.00
LISI AUTOMOTIVE GmbH	Schwetzingen	Germany	100.00	100.00
KNIPPING Verbindungstechnik GmbH	Kierspe	Germany	100.00	100.00
KNIPPING Umformtechnik GmbH	Herscheid	Germany	100.00	90.00
BETEO GmbH	Gummersbach	Germany	100.00	100.00
KNIPPING Espana SA	Madrid	Spain	100.00	100.00
KNIPPING LTD	Solihull	Great Britain	100.00	100.00
KNIPPING Fixations Techniques SARL	Plaisir (78)	France	100.00	100.00
Schrauben und Draht Union GmbH	Bochum	Germany	100.00	100.00
BETEO GmbH & CO KG	Gummersbach	Germany	100.00	100.00
SDU GmbH & CO KG	Bochum	Germany	100.00	100.00
SDV Technica Sp. Zoo (A)	Dabrowa Gornicza	Poland	100.00	100.00
COSMETICS division				
LISI COSMETICS	Paris 12e (75)	France	100.00	100.00

(A) This company was incorporated in November 2006

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4. DETAIL OF BALANCE SHEET ITEMS

4.1 Non-current assets

4.1.1 Intangible assets

a) Intangible assets: Goodwill

(in thousand euros)	TOTAL
Gross values at December 31, 2005	**151,530**
Change in scope	
- Increases	163
- Reductions	
Other net changes	(2,016)
Gross values at December 31, 2006	**149,677**
Depreciation and impairment at December 31, 2005	**33,659**
Change in scope	
- Increases	
- Reductions	
Other net changes	(2,016)
Depreciation and impairment at December 31, 2006	**31,643**
Net values at December 31, 2006	**118,034**

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Net values for Goodwill at December 31, 2006 broke down as follows:

- AEROSPACE Division: €30.9 million
- AUTOMOTIVE Division: €79.8 million
- PACKAGING Division: €7.3 million

The increase in the gross value of goodwill is related to a surplus in the Knipping transaction.

Impairment tests, carried out at the level of each CGU considered either individually or grouped together at the level of attribution of goodwill, have not led to the recognition of impairment of goodwill.

The recoverable value of CGUs is determined as the sum of future, discounted cash flows of each of them based upon a rate combining an element of ROI expected by shareholders and the cost of external financing. The discount rate employed for 2006 is 7.5%.

Of which goodwill allocation:

The element of goodwill that might be impacted is posted to the corresponding balance sheet items and is amortized according to the same methods as for similar assets.

(in thousand euros)	Concessions, patents	Trademarks	Land	Buildings	Technical facilities equipment and tools	TOTAL
Gross values at December 31, 2005	**152**	**8,385**	**3,837**	**4,000**	**2,262**	**18,636**
Change in scope						
- Increases						
- Reductions						
Other net changes						
Gross values at December 31, 2006	**152**	**8,385**	**3,837**	**4,000**	**2,262**	**18,636**
Depreciation and impairment at December 31, 2005	**152**	**756**		**1,761**	**2,262**	**4,931**
Change in scope						
- Increases		335		175		510
- Reductions						
Other net changes						
Depreciation and impairment at December 31, 2006	**152**	**1,091**		**1,936**	**2,262**	**5,441**
Net values at December 31, 2006		**7,294**	**3,837**	**2,064**		**13,195**

Allocations for the amortization of changes in value for the year totaled €510,000.

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b) Other intangible assets

(in thousand euros)	Concessions, patents, and similar rights*	Other intangible assets	TOTAL
Gross values at December 31, 2005	**13,353**	**8,792**	**22,145**
Change in scope			
- Increases	7,835	292	8,127
- Reductions	(797)		(797)
Changes in foreign exchange rates	(2)	(11)	(13)
Other net changes		(1)	(1)
Gross values at December 31, 2006	**20,389**	**9,072**	**29,461**
Depreciation and impairment at December 31, 2005	**11,623**	**383**	**12,006**
Change in scope			
- Increases	1,973	24	1,997
- Reductions	(859)		(859)
Changes in foreign exchange rates		(2)	(2)
Other net changes	240	9	249
Depreciation and impairment at December 31, 2006	**12,978**	**413**	**13,391**
Net values at December 31, 2006	**7,411**	**8,659**	**16,070**

* Including the brand Rapid

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The RAPID brand was valued when the company was acquired in August 2000 at its fair value of €8,300,000, based on an independent valuation. Since 2003 it has been decided to amortize it over a period of 15 years, taking into account the expected useful commercial life.

Increases in the item "Concessions, patents and similar rights" in 2006 refers mainly to the installation of a software package in the AUTOMOTIVE Division.

4.1.2 Tangible assets

a) Fully-owned tangible assets

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Fixed assets in progress	TOTAL
Gross values at December 31, 2005	**12,429**	**80,611**	**347,294**	**41,491**	**13,037**	**494,862**
Change in scope						
- Increases	156	2,454	19,954	6,730	18,684	47,978
- Reductions	(120)	(829)	(5,644)	(2,693)		(9,287)
Changes in foreign exchange rates	4	(75)	(3,937)	(329)	(77)	(4,415)
Other net changes		1,981	11,725	3,827	(26,026)	(8,493)
Changes in foreign exchange rates	**12,469**	**84,141**	**369,391**	**49,025**	**5,619**	**520,645**
Depreciation and impairment at December 31, 2005	**797**	**30,718**	**218,266**	**27,737**		**277,518**
Change in scope						
- Increases	150	2,963	29,145	3,480		35,737
- Reductions	(53)		(5,706)	(3,287)		(9,046)
Changes in foreign exchange rates		73	(1,683)	(173)		(1,783)
Other net changes		(1,958)	437	460		(1,062)
Depreciation and impairment at December 31, 2006	**894**	**31,796**	**240,459**	**28,216**		**301,363**
Net values at December 31, 2006	**11,575**	**52,345**	**128,932**	**20,809**	**5,619**	**219,283**

Télécharger

b) Tangible assets under financial leases

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Fixed assets in progress	TOTAL
Gross values at December 31, 2005		**4,796**	**7,867**			**12,663**
Change in scope						
- Increases		717	3			720
- Reductions						
Changes in foreign exchange rates			18			18
Other net changes						
Gross values at December 31, 2006		**5,513**	**7,888**			**13,401**
Depreciation and impairment at December 31, 2005		**2,797**	**5,351**			**8,148**
Change in scope						
- Increases		85	283			368
- Reductions						
Changes in foreign exchange rates			4			4
Other net changes						
Depreciation and impairment at December 31, 2006		**2,882**	**5,638**			**8,521**
Net values at December 31, 2006		**2,631**	**2,249**			**4,880**

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c) Operating leases

The main assets required for operations that are not owned by the Group and its subsidiaries are industrial buildings and office premises (head office). Other leasing contracts are mainly for office equipment.

In total the annual expense is about €3.5 million.

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

4.1.3 Financial assets

a) Financial assets

(in thousand euros)	Non consolidated equity interests	Other interests	Loans granted	Other financial assets	TOTAL
Gross values at December 31, 2005	**8**	**36**	**37**	**5,024**	**5,105**
Change in scope					
- Increases		730		58	788
- Reductions		(8)		(35)	(43)
Changes in foreign exchange rates		(216)		(304)	(520)
Other net changes		4,373	(37)	(4,409)	(73)
Gross values at December 31, 2006	**8**	**4,915**		**333**	**5,257**
Depreciation and impairment at December 31, 2005	**1**	**4**			**5**
Change in scope					
- Increases					
- Reductions	(1)	(4)			(5)
Changes in foreign exchange rates					
Other net changes					
Depreciation and impairment at December 31, 2006					
Net values at December 31, 2006	**8**	**4,915**		**333**	**5,257**

Other financial assets are mainly made up of payments made in respect of life insurance policies of the US companies in the sum of €4.9 million. Payments of deposits and guarantees amounted to €0.3 million.

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b) Other non current assets

(in thousand euros)	2006	2005
Long-term financial assets [(1)]	16,289	12,720
Other assets	233	–
Total other non current assets	**16,522**	**12,720**

(1) The financial assets held by the Group are recognized at fair value, with changes in value being recognized in the income statement.

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4.2 Current assets

a) Inventories

(in thousand euros)	Raw materials and other supplies	Tools	Supplies	Components	Packagings	Other procurements	Work in process	Finished and intermediary products	Goods	TOTAL
Gross values at December 31, 2005	**31,585**	**3,319**	**357**			**1,617**	**54,104**	**60,964**	**22,940**	**174,886**
Change in scope										
- of which increases										
- of which reductions										
Changes in foreign exchange rates	(1,001)	(66)				(1)	(1,354)	(1,151)	(6)	(3 579)
Inventories changes	8,267	(223)	1,075	444	256	(1,020)	13,499	281	2,567	25,146
Reclassifications & changes in method	(553)	71					(257)	(3,155)	(47)	(3,941)
Gross values at December 31, 2006	**38,299**	**3,100**	**1,432**	**444**	**256**	**596**	**65,992**	**56,939**	**25,455**	**192,512**
Depreciation and impairment at December 31, 2005	**3,595**	**384**				**297**	**2,669**	**15,681**	**3,039**	**25,665**
Change in scope										
- of which increases										
- of which reductions										
Reserve allocations	455	255	3	5		72	2,782	4,025	220	7,818
Provision reversals	(752)	(384)	(41)	(27)	(2)	(161)	(789)	(7,654)	(718)	(10,529)
Changes in foreign exchange rates	(76)						(130)	(373)	7	(573)
Reclassifications & changes in method	175		106	28	2	(136)	(440)	(215)	32	(449)
Depreciation and impairment at December 31, 2006	**3,396**	**255**	**68**	**6**		**73**	**4,092**	**11,463**	**2,580**	**21,933**
Net values at December 31, 2006	**34,902**	**2,845**	**1,364**	**439**	**256**	**523**	**61,900**	**45,476**	**22,875**	**170,578**

The calculation of value losses on inventories of finished products and works in progress is based on an approach that takes into account article turnover and completion times.

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b) Trade and other receivables

(in thousand euros)	2006	2005
Gross accounts receivable	104,828	100,623
Depreciation of trade and other receivables	(4,276)	(3,421)
Net accounts receivable	**100,552**	**97,202**
State – Other taxes and duties	5,686	8,017
Social charges & employees	454	186
Accounts payable - advances, debtors	1,550	954
Translation differential assets		288
Deferred expenses	2,793	2,342
Other	5,407	3,832
Other receivables	**15,892**	**15,620**
Total trade and other receivables	**116,443**	**112,822**

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The aforementioned trade receivables have gone down in the previous period under the effect of the sale of debts, which was €55.8 million at December 31, 2006 as against €52 million at December 31, 2005.

These sales took the form of factoring with non-recourse, contractual subrogation.

c) Current financial assets

These include marketable securities held by the Group in the sum of €22.8 million, the realizable value being the same at 12/31/2006. The latter are recorded at their fair value, and value adjustments are recorded into the income statement.

d) Cash and cash equivalents

The cash available as at December 31, 2006 stood at €27.5 million. It was mainly comprised of current bank accounts in euros and currencies.

4.3 Shareholders' equity

The Group's shareholders' equity stood at €310.2 million as at December 31, 2005, and at €356.8 million as at December 31, 2006, up €46.6 million.

This change takes into account the following main factors:

- Plus €48.0 million of Group's share of net profit,
- Less €7.5 million in exchange rate differences, related in particular to the drop in the closing rate of the dollar,
- Less €10.4 million in distribution of dividends paid in May 2006,
- Plus €14.6 million in capital increase, in part on account of conversion of warrants,
- Plus €1.6 million of restatement of treasury shares and payment-in-shares.

The amount of dividends (not recognized) for the 2006 financial year submitted to the Shareholders' General Meeting on April 27, 2007 for approval and the amounts per share break down as follows:

Total net dividend paid to each share	2006	2005
Amount distributed in millions of euros	13.3*	10.4
Per share in euros	1.30	1.08

* Estimate based on shares that entitled their holders to dividends on the date of the Board held February 22, 2007, or 10,210,783 shares.

Télécharger

4.4 Provisions

4.4.1 Changes in provisions break down as follows:

(in thousand euros)	At January 1, 2005	Provisions (net of reversals)	At December 31, 2005	Provisions	Reversals (used amounts)	Reversals (unused amounts)	Restatements	Entry into / Exit from consolidation scope	Foreign exchange translation adjustments	At December 31, 2006
Pensions and retirement	18,411	2,269	20,680	1,017	(3,813)				(133)	17,751
Environmental	6,987	2,419	9,406	1,815	(707)	(11)	(1,285)		(216)	9,002
Litigation & Other risks				1,414	(997)	(905)	6,846		(397)	5,962
Guarantees to clients	1,557	122	1,679	15	(600)		(380)		(42)	672
Taxes	619	254	873		(20)	(53)	272			1,072
Subtotal non current provisions	27,574	5,064	32,638	4,260	(6,137)	(968)	5,453		(788)	34,459
Restructuring of manufacturing operations	573	(248)	325	2,742			(325)		(97)	2,646
Litigation	5,316	(1,523)	3,793	5	(116)		(3,138)			543
Losses on foreign exchange rates	263	(153)	110				(110)			
Taxes					(143)		286			143
Other risks	5,369	(2,728)	2,641	90	(124)		(2,166)			440
Subtotal current provisions	11,521	(4,652)	6,869	2,837	(384)		(5,453)		(97)	3,772
Grand Total	**39,095**	**412**	**39,506**	**7,097**	**(6,521)**	**(968)**			**(884)**	**38,230**
Of which as current operating profit				4,355	(5,372)	(968)				
Of which as non-current operating profit				2,742	(1,149)					
Of which as financial income										

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The main provisions are in respect of pension commitments and related benefits provided to employees (cf. Note 4.4.2), as well as identified risks to the environment mainly in respect of ground contamination at the older industrial locations.

4.4.2 Commitments to staff

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.

The geographic breakdown of the Group's commitments to staff as at December 31, 2006 for defined benefits plans and the main assumptions employed in their measurement are as follows:

	Euro zone	United States	UK
Actuarial debt (in thousand euros)	11,132	9,713	16,088
Discount rate	4.5%	5.7%	5.1%
Wage increase	3.0%	NA	4.3%

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Long-term rates of return expected for the funds have been determined taking into account the allocation of assets and the rates of return expected for each component. The rates of return thus employed are equal to 6% for American insurance plans and 5.94% for British ones.

At December 31, 2006 the allocation of insurance assets was as follows:

Stocks	62.4%
Bonds	37.4%
Other	0.2%
Total	**100.0%**

In 2006 contributions to pension funds or payments to beneficiaries by the Group came to €2.6 million.

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The following table details over 2006 the development of the actuarial debt and the market value of insurance assets (in €'000s):

Change in actuarial debt	2006	2005
Actuarial debt at year start	**39,588**	**31,751**
Cost of services rendered during the period	1,166	1,225
Accretion expense	1,841	1,757
Contributions paid by employees	251	246
Benefits paid	(2,139)	(2,143)
Discounts	(1,692)	-
Settlements	-	-
Plan changes	-	-
Change in consolidation scope	-	4,082
Translation differentials	(821)	1,838
Actuarial gains (losses)	(1,285)	832
Actuarial debt at year end	**36,910**	**39,588**

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Change in market value of cover assets	2006	2005
Value at year start	**18,000**	**14,172**
Contributions paid by the Group	1,439	1,333
Contributions paid by employees	251	246
Benefits taken from the fund	(982)	(923)
Settlements	-	-
Expected yield from assets	1,069	934
Translation differentials	(650)	1,279
Actuarial gains (losses)	707	959
Value at year end	**19,834**	**18,000**

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The following table shows the reconciliation of amounts recognized in the Group's consolidated financial statements and the above sums (in €'000s):

	2006	2005
Non funded actuarial debt	(17,076)	(21,588)
Deferred actuarial losses (gains) recorded to the balance sheet	(455)	1,096
Cost of passed services not yet recognized	-	-
Liabilities recognized at year end	**(17,531)**	**(20,492)**

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The expense recognized in the operating income statement by the Group for 2006 for defined benefits plans came to €2 million and breaks down as follows (in €'000s):

	2006	2005
Cost of services rendered during the period	1,166	1,225
Accretion cost	1,841	1,757
Expected yield from plan assets	(1,069)	(934)
Actuarial differences recognized during the period	43	22
Cost of passed services	-	-
Depreciation of the transition asset	-	-
Limitation of the asset	-	-
Reductions/Settlements	-	-
Change in scope	-	1
Recognized expense (income)	**1,981**	**2,071**

In 2007 the Group will update the turnover assumptions applicable to all the French companies. Given the sensitivity of the commitments to such actuarial assumptions, this revision may involve a significant change, not currently accounted for, in the value of the commitments. Any such variations will be amortized in the income statement using the corridor method.

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4.5 Other non current assets

(in thousand euros)	2006	2005
Deposits and sureties received	61	–
Profit-sharing for the period	3,006	2,374
Deferred income	170	–
Total other non current assets	**3,237**	**2,374**

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4.6 Debts

a) Breakdown by nature

(in thousand euros)	2006	2005
Non-current share		
Mid-term loans	101,805	72,433
OBSAR (1)		47,120
Debt related to lease agreements	2,188	1,035
Employee profit-sharing (frozen on a current account)	6,818	5,242
Other financial debts		17
Subtotal non-current financial debt	**110,811**	**125,847**
Current share		
Banking facilities for operations	32,417	28,497
Mid-term loans	25,932	22,890
Debt related to lease agreements	2,390	1,458
Employee profit-sharing (frozen on a current account)	580	785
Other financial debts		5,000
Subtotal current financial debt	**61,320**	**58,630**
Total financial debt	**172,131**	**184,477**

(1) Early amortization in August 2006 of 2009-2010 Debentures through the repurchase of 95.38% of par of debentures from qualified bearers and through a refund at 100% of par for non-qualified bearers. The surplus on this transaction recognized in the company's financial statements for €2.3 million have been neutralized in the consolidated financial statements.

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b) Breakdown by due date

(in thousand euros)	2006	2005
Borrowings		
Less than one year	25,932	22,890
Between 2 and 5 years	91,960	102,176
More than 5 years	9,845	17,378
Total	127,737	142,443
Other financial debts		
Less than one year	35,388	35,740
Between 2 and 5 years	9,006	6,247
More than 5 years		47
Total	44,394	42,034
Loans and financial debts	**172,131**	**184,477**

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c) Breakdown by currency

All loans and borrowings from banks are denominated in euros or in dollars for the American companies. The Group's bank debts therefore do not expose it to any foreign exchange risk.

d) Breakdown by interest rate category

The summary table below of Group loans lists the main liabilities divided between fixed and variable rates.

Contracting entities	Nature of the loan	Fixed rate	Variable rate	Total items in million euros	Capital remaining due at 12/31/2006 in million euros	Maturity date	Rate or currency hedging instruments
LISI S.A	Syndicated loan [1]		Euribor over drawing period + margin	30.0	30.0	2013	Partly hedged by a swap
LISI S.A	Syndicated loan [2]		Euribor 3 months + margin	76.4	5.7	2007	Pledging of LISI AUTOMOTIVE shares
LISI AEROSPACE	Conventional loan		Libor 3 months USD + margin	2.9	2.9	2008	Partly hedged by a swap and a CAP
Blanc Aero Industries	Conventional loan		Euribor over drawing period + margin	5.0	4.3	2012	
HI-SHEAR Corporation	Syndicated loan [3]		Libor 3 months USD + margin	19.0	7.4	2009	Partly hedged by a swap and a CAP
LISI COSMETICS	Conventional loan		Euribor 3 months + margin	1.6	0.7	2008	Pledging of equipment
	Conventional loan		Euribor 3 months + margin	0.8	0.6	2009	Pledging of equipment
	Conventional loan		Euribor 3 months + margin	0.7	0.4	2012	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	1.0	0.8	2012	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	0.5	0.4	2010	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	0.6	0.4	2010	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	0.7	0.7	2011	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	0.8	0.8	2011	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	0.8	0.8	2011	LISI S.A. letter of intention
LISI AUTOMOTIVE	Conventional loan [4]		Euribor 6 months + margin	4.0	4.0	2012	LISI S.A. letter of intention
	Conventional loan [5]		Euribor 3 months + margin	4.0	4.0	2012	LISI S.A. letter of intention
	Conventional loan [6]		Euribor 3 months + margin	4.0	4.0	2012	LISI S.A. letter of intention
	Conventional loan		Euribor 3 months + margin	4.0	4.0	2012	LISI S.A. letter of intention
	Conventional loan [7]		Euribor 3 months + margin	3.0	2.2	2010	LISI S.A. letter of intention
LISI AUTOMOTIVE Former	Conventional loan		Euribor 3 months + margin	2.5	0.3	2007	
	Conventional loan		Euribor 6 months + margin	2.5	1.7	2010	
	Conventional loan		Euribor 3 months + margin	2.5	2.0	2012	
	Conventional loan		Euribor 3 months + margin	2.5	2.3	2012	
LISI AUTOMOTIVE CORP	Conventional loan		LIBOR USD 3 months + margin	0.8	0.6	2011	LISI AUTOMOTIVE letter of intention
LISI AUTOMOTIVE Mohr und Friedrich	Conventional loan		Euribor 3 months + margin	0.8	0.4	2009	LISI AUTOMOTIVE Former letter of intention

Télécharger

Contracting entities	Nature of the loan	Fixed rate	Variable rate	Total items in million euros	Capital remaining due at 12/31/2006 in million euros	Maturity date	Rate or currency hedging instruments
LISI AUTOMOTIVE Mecano	Conventional loan	5.44%		2.9	0.7	2008	LISI AUTOMOTIVE Rapid guarantee
	Conventional loan	4.50%		5.1	1.2	2008	LISI AUTOMOTIVE Rapid guarantee
KKP	Conventional loan	4.75%		1.5	0.2	2007	
	Conventional loan		Euribor 3 months + margin	2.5	1.0	2009	
Schrauben und Draht Union GmbH	Conventional loan	6.13%		2.0	1.1	2017	
	Conventional loan		Euribor 3 months + margin	0.6	0.6	2007	
	Conventional loan		Euribor 1 month + margin	1.0	1.0	2007	
BETEO GmbH	Conventional loan	4.35%		1.0	0.7	2011	
			Euribor 6 months + margin	0.8	0.7	2011	
			Euribor 6 months + margin	0.8	0.7	2011	
KNIPPING Espana S.A	Conventional loan		Euribor 3 months + margin	0.4	0.3	2010	
	Conventional loan		Euribor 3 months + margin	0.3	0.2	2009	
	Conventional loan		Euribor 3 months + margin	0.5	0.1	2007	
	Conventional loan		Euribor 3 months + margin	0.3	0.1	2007	
	Conventional loan		Euribor 3 months + margin	6.5	5.9	2018	
	Conventional loan		Euribor 3 months + margin	0.3	0.2	2010	
KNIPPING Umformtechnik GmbH	Conventional loan	7.05%		1.1	0.6	2011	
KNIPPING Verbindungstechnik GmbH	Conventional loan	6.60%		0.7	0.3	2009	LISI AUTOMOTIVE letter of intention
	Conventional loan	4.25%		0.6	0.6	2011	
	Conventional loan	1.50%		1.1	0.5	2017	LISI AUTOMOTIVE letter of intention
	Conventional loan	5.75%		0.8	0.7	2009	LISI AUTOMOTIVE letter of intention
	Conventional loan	4.10%		1.2	1.2	2010	LISI AUTOMOTIVE letter of intention
	Conventional loan	6.95%		2.7	0.3	2007	LISI AUTOMOTIVE letter of intention
	Conventional loan	5.50%		0.8	0.6	2008	LISI AUTOMOTIVE letter of intention
	Conventional loan	6.70%		2.5	0.3	2007	
	Conventional loan	5.00%		0.8	0.6	2009	
	Conventional loan	4.15%		0.6	0.6	2010	
	Conventional loan	6.35%		2.5	0.2	2007	
	Conventional loan	5.50%		0.8	0.6	2010	
	Conventional loan		Euribor 3 months + margin	1.5	1.4	2009	Hedged by a swap
	Conventional loan		Euribor 3 months + margin	0.6	0.6	2010	Hedged by a swap
	Conventional loan		Euribor 3 months + margin	3.0	2.4	2010	LISI AUTOMOTIVE letter of intention
	Conventional loan		Euribor 6 months + margin	3.0	2.6	2011	LISI AUTOMOTIVE letter of intention
	Conventional loan		Euribor 3 months + margin	3.0	2.6	2011	LISI AUTOMOTIVE letter of intention
	Conventional loan		Euribor 3 months + margin	3.0	3.0	2012	LISI AUTOMOTIVE letter of intention
	Conventional loan		Euribor 3 months + margin	3.0	2.4	2010	LISI AUTOMOTIVE letter of intention

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In order to handle the risk related to interest rate fluctuations on variable rate loans, the Group has entered into interest rate SWAP and CAP contracts (the characteristics of these instruments are described in Note 9.4 "Commitments »).

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

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

[1] LISI S.A. syndicated loan.

Availability of this loan as a revolving credit that can be drawn down in euros or dollars for a sum equivalent to €35 million (commitments A), and a revolving credit that can be drawn down in euros or dollars for a sum equivalent to €35 million (commitments B). At December 31, 2006 a draw down of €30 million was requested.

- Method used to calculate the margin:

- Commitments A: Euribor or Libor + margin

- Commitments B: Euribor or Libor + margin

Early redemption:

- Gearing Ratio < 1.2
- Leverage Ratio < 3.5 (Net borrowings / EBITDA)

[2] LISI S.A. syndicated loan

- Method used to calculate the margin:

- 1st tranche: fixed margin;

- 2nd tranche: variable margin based on Gearing (+ or – 0.20%)

Early redemption:

- Gearing less than or equal to 1.2 for a maximum of 2 consecutive years and < 1 during the other years;
- Net debt < 3.5 years of cash flow.

[3] HI-SHEAR Corporation syndicated loan

- Method used to calculate the margin: variable margin based on Gearing (+ or – 0.25%).

Early redemption cases:

- Failure to comply with financial indicators: negative net worth,
- Occurrence of legal events: failure to meet payment dates, insolvency, capital reduction.

[4] LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:

- < 0.25: 0.25% per annum.

- >= 0.25 and < 0.40: 0.30% per annum.

- >= 0.40 and < 0.80: 0.375% per annum.

- >= 0.80 and < 1.00: 0.475% per annum.

- >= 1.00 and < 1.20: 0.60% per annum.

Early redemption:

- Net debt / Shareholders' equity < 1.2,
- Net debt < 3.5 years of cash flow.

[5] LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:

- < 0.25: 0.25% per annum.

- >= 0.25 and < 0.40: 0.30% per annum.

- >= 0.40 and < 0.80: 0.375% per annum.

- >= 0.80 and < 1.00: 0.475% per annum.

- >= 1.00 and < 1.20: 0.60% per annum.

Early redemption:

- Net debt / Shareholders' equity < 1.2,
- Net debt < 3.5 years of cash flow.

[6] LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:

- <= 0.50: 0.40% per annum.

- > 0.50 and < 0.75: 0.45% per annum.

- >= 0.75: 0.50% per annum.

Early redemption:

- Consolidated net debt / Consolidated shareholders' equity < 1.2,
- Consolidated net debt / Consolidated cash flow < 3.5.

[7] LISI AUTOMOTIVE conventional loan

Early redemption:

- Net debt / EBITDA <= 2.5,
- Net debt / Shareholders' equity <= 1.2.

e) Sureties

(in million euros)	Capital remaining due as at December 31, 2006
Guarantees and deposits	29.9
Mortgages and pledged assets	7.0
Total	36.9

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The guarantees and deposits granted by the Group to cover loans taken out from credit institutions are mainly comprised of:

1 - Letters of intention delivered by the Group to banks for €43 million as part of :

- The acquisition of Monadnock by Hi-Shear Corp for €19 million in 2002, the capital outstanding at December 31, 2006 being €7.4 million,
- The acquisition of the Knipping Group by LISI AUTOMOTIVE for €18.9 million in 2005, the capital outstanding at December 31, 2006 being €18.2 million,
- The acquisition of equipment by LISI COSMETICS for €2.8 million in 2005, the capital outstanding at December 31, 2006 being €2 million,
- The acquisition of equipment by LISI COSMETICS for €2.3 million in 2006.

2 - Pledging by LISI S.A. of 300,017 LISI AUTOMOTIVE shares, that is, 100% of capital, in order to cover bank loans due for repayment in 2007. The capital that remained due on December 31, 2006 amounted to €5.7M.

3 - Provision of collateral by LISI COSMETICS of tangible assets as part of the financing, the capital outstanding at December 31, 2006 being €1.3 million.

The summary of pledges and mortgages granted by the Group is as follows:

Type of pledge/ mortgage	Pledge start date	Pledge expiry date	Assets in €'000s from collateral (a)	Balance of pledged shares (b)	Balance of pledged equipment (c)	Total balance sheet item (€'000s) (d)	corresponding% (b) / (d) or (c) / (d)
Intangible fixed assets	-	-	-	-	-	-	-
Tangible fixed assets	2003	2009	2,400	-	1,300	44,305	2.93%
Financial assets	06/2000	09/2007	93,636	5,730	-	150,041	3.82%
TOTAL			96,036	5,730	1,300	194,346	3.62%

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f) Market risks

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 operations are posted to off-balance sheet accounts for the nominal value of the contracts. On December 31, the sum of these commitments represented the volume of operations that remained unsettled at year-end.

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

• *Cash flow management*

Cash flow management is centralized by the various divisions and by the financial department of the Group. Cash surpluses are passed up to LISI S.A., which invests it to achieve maximum liquidity without risk. Current investments are monetary mutual funds, dynamic mutual funds with guaranteed capital, or non-interest bearing deposits.

• *Liquidity risk*

At December 31, 2006 the Group's cash balance was €34 million. This amount corresponds to the gross cash position, minus all bank overdrafts. The ratio between net debt and shareholder's equity came out to 29.6%, to be compared with 44.0% as at December 31, 2005. The main terms and conditions of our various loan contracts make use of the aforementioned ratio with a limit of 120%.

(in million euros)	2006	2005
Financial assets	39,090	34,945
Cash and cash equivalents	**27,468**	**13,045**
Available cash	66,558	47,990
Banking facilities for operations	32,417	28,497
Net cash	**34,141**	**19,493**
Loans	127,737	142,443
Other financial debts	11,977	13,537
Financial debts	**139,714**	**155,980**
Net financial indebtedness [A]	**105,573**	**136,487**
Group equity [B]	**356,826**	**310,175**
Indebtedness ratio (in%) [A / B]	**29.6%**	**44.0%**

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• *Interest rate risk*

Market risks related to interest rate fluctuations are handled in a centralized manner by the Group's financial department. The Group has as its policy to limit its exposure to interest rate fluctuations. To achieve that goal, the Group uses derivatives such as interest rate swaps, CAP and FLOOR contracts. These hedging positions are negotiated by private contracts with banks. Notwithstanding this interest rate risk management, on account of taking out new loans in 2006 at variable rates, the Group is exposed to a possible upward movement of rates.

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

(in million euros)	2006	2005
Loans – variable rates	102,473	115,952
Financial assets	39,090	34,945
Cash and cash equivalents	27,468	13,045
Net cash before management	**35,915**	**67,962**
Interest rate CAP	6,616	7,714
Interest rate SWAP	25,000	25,000
Hedging	**31,616**	**32,714**
Net cash after management	**4,299**	**35,248**

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Based on the rate that was current on December 31, 2005, the impact of a one point change in variable rates, before any coverage operation, would amount to an increase or a loss of earnings of around €400,000, or 8.1% of total financial expenses for 2005.

The impact of a one point change in variable rates before any hedges would represent a surcharge or loss of earnings on liabilities at December 31, 2006 of about €0.4 thousand, namely 4% of the overall amount of 2006 financial costs.

• *Currency risk*

On the one hand, the cash flows of the Group are mainly movements on non-exposed currencies, while on the other hand, the main cash inflows in currencies outside of the euro zone are set off by cash outflows (particularly for raw materials) for very similar amounts. Consequently, the exchange rate risk relates purely to the conversion of income generated by consolidated companies located outside the eurozone. Financial instruments are used selectively in order to cover known or estimated turnover for up to one year, and never for speculation purposes. The Group is primarily exposed with respect to the following currencies: American and Canadian dollars, Sterling, Turkish pounds and the yuan.

• *Securities risk*

LISI S.A.'s stocks portfolio is not speculative, but rather of investments and holdings, and accordingly no particular share represents a risk.

4.7 Deferred taxes

(In thousands of euros)	2006	2005
Deferred tax assets	15,806	16,436
Deferred tax liabilities	31,077	29,208
Net deferred taxes	(15,271)	(12,772)

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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.

5. DETAILS OF INCOME STATEMENT ENTRIES

5.1 Revenue

The breakdown of sales revenues by business segment and country is shown in Note 7.1, "Segment information".

5.2 Purchases of consumables

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	OTHER ACTIVITIES	ELIMINATIONS	TOTAL 2006	TOTAL 2005
Consumption of goods	11,371	31,943	2,096		(1,670)	43,739	35,843
Consumption of raw materials	52,315	63,346	4,572		(20)	120,212	97,350
Machinery	16,018	14,770	2,984		(65)	33,707	29,445
Other purchases	3,718	10,113	2,731	16	(1)	16,577	14,712
Total purchases	83,422	120,172	12,383	16	(1,757)	214,236	177,350

In 2006 the increase in raw material prices in all divisions and mainly in the AUTOMOTIVE division, plus the effect of increased volumes, explains the sharp jump in this expense item.

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5.3 Other purchases and external expenses

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	OTHER ACTIVITIES	ELIMINATIONS	TOTAL 2006	TOTAL 2005
Outsourcing	11,034	34,058	2,868		(1)	47,959	36,794
Maintenance	6,030	13,419	1,722	308		21,479	17,697
Transportation	4,350	9,084	793			14,227	12,084
Energy	4,732	10,048	1,698	5		16,482	11,984
Other external costs	21,617	20,899	2,623	2,428	(6,843)	40,723	36,582
Total other purchases and external expenses	47,763	87,507	9,703	2,740	(6,844)	140,869	115 141

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We observe:

- Increased use of subcontracting, mainly in the AEROSPACE division,
- An increase in maintenance expenses due to a high usage rate, particularly at LISI AEROSPACE,
- A sharp increase in energy (up 37%) on account of an update of electricity and transportation tariffs (up 18%), due to the rising price of oil and other fuels,
- An increase in the external expenses item, for integrating the Knipping Group.

5.4 Personnel expenses

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	OTHER ACTIVITIES	ELIMINATIONS	TOTAL 2006	TOTAL 2005
Temporary employee expense	8,824	4,320	996	17	(25)	14,131	12,369
Salaries and wages	79,106	89,449	11,924	1,849		182,329	158,514
Layoff pay	192	1,108	138			1,438	
Social contributions and taxes on salaries	29,766	33,467	5,337	676		69,246	61,598
Profit sharing	3,006	80				3,086	2,580
TOTAL personnel expenses	120,894	128,424	18,395	2,543	(25)	270,231	235,061

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For 2006, personnel expenses stood at €270 million, up 15.0% from the previous year. This move breaks down as follows:

- An increase in staff of 8.3% for full-timers and part-timers following the massive recruitment campaign started in 2005 mainly in the AEROSPACE division,
- An increase of €1.8 million in temporary workers,
- An increase of €0.5 million in employee shareholdings,
- The balance is due to the rise in salaries over the period.

5.5 R&D expenses

These are mainly comprised of personnel expenses dedicated to R&D services. They came to €12.3 million in 2006, up 22% on 2005.

5.6 Non-recurring operating expenses and revenues

(In thousand euros)	2006	2005
Non-recurring operating costs		
Sale price of fixed assets disposals	787	1,685
Redundancy plan provision reversals	198	1,619
Reorganization provision reversals	950	
Total	**1,935**	**3,304**
Non-recurring operating costs		
Net book value of fixed assets disposals	7	(590)
Deconsolidation of LISI AUTOMOTIVE Gervais Le Pont		(502)
Disposal of LISI AUTOMOTIVE Gradel		(4,717)
Redundancy plans	(1,074)	(1,430)
Reorganization	(955)	
Disposals of assets		(321)
Reserve allowance for restructuring plans	(2,742)	
Total	**(4,765)**	**(7,560)**
Result of non-recurring operations	**(2,830)**	**(4,256)**

To the company's knowledge, no other legal disputes, arbitrations or exceptional occurrences exist that could or would have had a significant effect on the company or Group's financial situation, income, business or assets.

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5.7 Financial result

(In thousand euros)	2006	2005
Cost of financing		
Financial income	1,626	2,321
Impact of the change in fair value of financial instruments	264	40
Financial expenses	(9,562)	(8,001)
Subtotal cost of financing	**(7,672)**	**(5,640)**
Other financial revenues and expenses		
Foreign exchange gains	1,503	2,429
Foreign exchange losses	(3,044)	(1,670)
Other	(91)	(70)
Subtotal other financial revenues and expenses	**(1,633)**	**688**
Total	**(9,305)**	**(4,951)**

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5.8 Company taxation

a) Income tax breakdown

Breakdown (in thousand euros)	Earnings before restated tax	Restated tax	Earnings after restated tax
Income from ordinary operations	82,400	(29,425)	52,975
Income from other operations	(2,828)	(1,264)	(4,092)
Employee profit-sharing	(3,086)	1,069	(2,017)
Tax credit		(63)	(63)
Tax integration taxes		1,288	1,288
Earnings	76,486	(28,395) (A)	48,091

(A) of which taxes due: €26,903 K
of which deferred taxes: €1,492 K

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b) Reconciliation of recognized tax expense and calculated, theoretical tax expense

(In thousand euros)	
Theoretic rate (on the basis of the French rate)	34.43%
Theoretic tax (on the basis of the French rate)	26,299
Total theoretic tax	**26,299**
Tax exemption of foreign companies	(722)
DTA not activated	2 283
Tax credits of overseas subsidiaries	(685)
Tax credits of French subsidiaries	(63)
Tax rate differentials on overseas subsidiaries	1,289
Other changes	(6)
Recognized taxation	**28,395**
Apparent rate	37.17%

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c) Tax rates applicable to LISI Group companies

Germany	40.00%
UK	30.00%
Canada	34.12%
Spain	35.00%
United States	40.00%
France	34.43%
Czech Republic	28.00%

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5.9 Earnings per share

The basic earnings per share is calculated on the basis of the average weighted number of shares outstanding for the period, minus the average weighted number of treasury shares.

Diluted earnings per share takes into account the weighted average number of shares that would have been outstanding assuming conversion into shares of all potentially diluting instruments (repayable warrants).

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

2006 (In thousand euros)	Net earnings	Number of shares	Net earnings per share in euros
Total number of shares		9,991,224	
Treasury shares		(265,202)	
Non-diluted net earnings per share	47,989	9 726,022	4.93
BSAR		780,402	
Diluted net earnings per share	47,989	10,506,424	4.57

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2005 (In thousand euros)	Net earnings	Number of shares	Net earnings per share in euros
Total number of shares		9,896,834	
Treasury shares		(292,135)	
Non-diluted net earnings per share	35,572	9,604,699	3.70
OBSAR		1, 066,685	
Diluted net earnings per share	35,572	10,671,384	3.33

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6. OPERATING CASH FLOW

(In thousand euros)	2006	2005
Earnings	**48,090**	**35,598**
Elimination of depreciation and non-recurring financial provisions	37,370	27,509
Elimination of the change in deferred taxes	1,493	(465)
Elimination of capitals gains and losses on asset disposals	982	3,486
Elimination of other changes	920	663
Cash flow	**88,855**	**66,791**
Net change in operating reserves	(2,001)	839
Operating cash flow	**86,854**	**67,630**

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7. ADDITIONAL INFORMATION

7.1 Business segments

The Group's activities are spread over three markets, and divided into three divisions:

- The AEROSPACE Division, which brings together all activities in the aerospace market,
- The AUTOMOTIVE Division, which brings together all activities in the automotive market,
- The COSMETICS Division, which brings together perfume and cosmetics activities.

Other activities are mainly those of the Holding company.

a) Breakdown by business sector

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other lines of business	Eliminations	Total
12/31/2006						
Income component						
Revenue by line of business	315,264	382,472	44,126	6,495	(8,625)	739,733
EBITDA	70,229	47,760	2,563	1,773		122,326
EBIT	60,074	25,830	830	1,886		88,620
Operating profit	59,937	24,372	841	640		85,790
Profit	38,803	9,609	478	(800)		48,090
Balance sheet component						
Net fixed assets	100,729	233,367	28,236	1,194		363,526
Acquisitions of fixed assets	20,392	25,359	2,523	522		48,797
12/31/2005						
Income component						
Revenue by line of business	243,662	339,302	37,816	5,598	(8,781)	617,597
EBITDA	45,721	41,815	2,506	2,836		92,878
EBIT	37,342	23,362	279	2,849		63,832
Operating profit	36,980	19,164	487	2,945		59,576
Profit	25,690	8,381	200	1,327		35,598
Balance sheet component						
Net fixed assets	99,281	231,112	26,983	735		358,111
Acquisitions of fixed assets	20,956	23,882	4,241	86		49,165

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b) Breakdown by business sector and by country

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other lines of business	Eliminations	Total
12/31/06						
Income component						
Revenue by destination area						
European Union	193,896	314,446	42,803	6,495	(8,626)	549,014
Of which France	*106,780*	*142,914*	*35,403*	*6,495*	*(8,626)*	*282,967*
North American continent	99,478	5,627	1,323			106,428
South American continent	4,202	7,313				11,515
Far East	10,011	451				10,462
Middle East	7	9,899				9,906
Eastern Europe	6,138	42,893				49,031
Other	1,532	1,843				3,375
Total	**315,264**	**382,472**	**44,126**	**6,495**	**(8,626)**	**739,733**
Balance sheet component						
Net fixed assets by destination area						
European Union	36,187	228,402	28,236	1,194		294,019
Of which France	*31,432*	*134,948*	*28,236*	*1,194*		*195,810*
North American continent	56,319	4,303				60,622
Middle East	8,223	662				8,885
Total	**100,729**	**233,367**	**28,236**	**1,194**		**363,526**
Acquisition of fixed assets by destination area						
European Union	10,402	24,413	2,523	522		37,860
Of which France	*9,434*	*15,432*	*2,523*	*522*		*27,911*
North American continent	9,220	675				9,895
Middle East	770	271				1,041
Total	**20,392**	**25,359**	**2,523**	**522**		**48,797**
12/31/05						
Income component						
Revenue by destination area						
European Union	154,640	282,261	36,997	5,598	(8,781)	470,715
Of which France	*89,791*	*159,108*	*33,117*	*5,598*	*(8,781)*	*278,833*
North American continent	70,832	5,330	638			76,800
South American continent	6,182	6,809				12,992
Far East	6,168	4,068				10,236
Middle East	776	3,960				4,736
Eastern Europe	140	29,370				29,510
Other	4,923	7,503	180			12,606
Total	243,662	339,302	37,816	5,598	(8,781)	617,597
Balance sheet component						
Net fixed assets by destination area						
European Union	33,198	225,801	26,983	735		286,717
Of which France	*28,491*	*133,166*	*26,983*	*735*		*189,375*
North American continent	58,026	4,860				62,886
Middle East	8,057	451				8,508
Total	99,281	231,112	26,983	735		358,111
Acquisition of fixed assets by destination area						
European Union	9,375	22,649	4,241	86		36,351
Of which France	*7,931*	*18,731*	*4,241*	*86*		*30,989*
North American continent	9,779	1,021				10,800
Middle East	1,802	212				2,014
Total	**20,956**	**23,882**	**4,241**	**86**		**49,165**

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7.2 Head count by category

Registered employees at year end	2006	2005
Managers	573	568
Supervisors	642	576
Wage-earners	4,946	4,719
Total	**6,161**	**5,863**

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7.3 Share-based payments

Stock options

Stock options are awarded to directors and certain employees of the Group. In accordance with IFRS 2, "Share-Based Payment", these instruments result in the provision of shareholders' equity instruments and are measured at grant date. The Group uses the binomial method to measure them.

Options granted prior to November 7, 2002 and which had not been exercised at January 1, 2004 have not been recognized, as recommended by IFRS 2. Accordingly, in 2006 a charge of €0.3 million was recognized. A similar charge was recognized in 2004 and 2005.

A single stock options plan had an impact on the 2006 income statement.

Award date	June 25, 2003
Strike price	20.33 €
Contractual maturity (in years)	8
Number of options awarded	163,000

Options will vest from June 26, 2007, being a vesting period of 4 years from award date.

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The assumptions employed to measure these options at award date are as follows:

Award date	June 25, 2003
Share price at award date	24 €
Life of options	8 years
Volatility	30%
Risk-free interest rate	5.0%
Dividend rate	2.5%
Option fair value	**9.09 €**

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The estimated life of the options is determined by combining the assumptions that seek to model the behavior of beneficiaries as a function of the intrinsic value of the option. The volatility selected was determined by reference to the historical volatility of the LISI share.

The fair value of options thus determined is recognized in staff expenses on a straight-line basis between grant date and the end of the vesting period, with a counter entry in shareholders' equity.

	Number	Average weighted exercise price of options in euros
Options outstanding at period start	183,470	20.76
Options allocated during the period	–	–
Options cancelled during the period	(5,000)	20.33
Options exercised during the period *	(31,710)	21.05
Options that reached maturity during the period	–	–
Options outstanding at period end	146,760	20.71

* Average weighted price of share on the exercise date

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The following table presents information about stock options outstanding at December 31, 2006:

Award date of options	Exercise price in euros	Number of options outstanding on December 31, 2006	Number of exercisable options	Residual contractual term
12/15/1999	22.70	5,600	5,600	12/14/2007
03/01/2001	27.82	9,010	9,010	02/28/2009
12/06/2001	18.81	16,150	16,150	12/05/2009
06/25/2003	20.33	116,000	–	06/24/2011
Total		**146,760**	**30,760**	

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7.4 Information on related parties / Remuneration of members of management bodies

a) Information on related parties

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.

b) Remuneration of members of management bodies

(In thousand euros)	2006	2005
Short-term benefits (salaries, bonuses etc)	753	747
Post-employment benefits	26	15
Other long-term benefits	–	–
Severance benefits	–	–
Stock benefits	–	–
Overall remuneration	**779**	**762**

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7.5 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 together with the banks and finance companies of sureties and guarantees;
- 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.

A) Given in the context of current activities

In addition to the actual sureties stated in the note to this document (cf. Note 4.6e), commitments provided as part of current activities are as follows:

(In thousand euros)	2006
Training entitlements	1,200
Balance of investment orders	8,997
Commitments made	**10,197**
Cap/Floor of interest rates	4,631
Rate swaps	26,985
Reciprocal commitments	**31,616**

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Reciprocal commitments

Reciprocal commitments are interest rate swaps to hedge variable rate loans (cf. Note 4.6, Borrowings) contracted as part of the financing of external growth. At December 31, 2006, the features of the swap contracts were as follows:

Notional at 12/31/2006	Value in thousand euros	Start date	Maturity date	Lending rate	Net Present Value In thousand euros
HI-SHEAR Corp.	1,898	11/25/05	07/31/08	Libor 3 months USD	1
LISI AEROSPACE	2,733	12/30/05	12/31/08	Libor 3 months USD	–
KNIPPING Verbindungstechnik	1,385	12/15/04	12/15/09	Euribor 3 months	20
KNIPPING Verbindungstechnik	600	08/01/05	06/30/10	Euribor 3 months	15
LISI S.A.	25,000	07/27/04	05/07/07	Euribor 3 and 6 months	(25)
				Total	11

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B) Given in the context of non-recurring transactions

The financial guarantees provided by the LISI Group to the transferees in respect of the disposal of GFD and Ars Industries expired during 2006.

C) Received in the context of non-recurring transactions

1. Financial guarantiees received by LISI AUTOMOTIVE Former in respect of the acquisition of LISI AUTOMOTIVE Form a.s.

To cover liability guarantees, LISI AUTOMOTIVE Former has received a first demand bank guarantee for CZK 5,000,000, and an additional guarantee of CZK 11,000,000 (expiry June 9, 2007).

2. Financial guarantees received by LISI AUTOMOTIVE in the context of the acquisition of the Knipping Group

Guarantee provided by the sellers in the sum of €1 million held in an escrow account to cover the variation on the assessment of pension funds and any liability coming to life after the acquisition and not known when the holding was taken over. This guarantee was updated for the 2006 financial year and stood at €0.5 million at year-end.

8. EXCHANGE RATES EMPLOYED BY FOREIGN SUBSIDIARIES

		2006		2005	
		Closing	**Average**	**Closing**	**Average**
Dollar	(USD)	1.3170	1.2615	1.1797	1.2380
Sterling Pound	(GBP)	0.6715	0.6818	0.6853	0.6830
Chinese Yuan	(RMB)	10.2793	10.0365	9.5204	10.1308
Canadian dollar	(CAD)	1.5281	1.4258	1.3725	1.4997
Zloty	(PLN)	3.8310	3.8210	–	–
Czech crown	(CZK)	27.4850	28.2665	29.0000	29.7948

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9. EVENTS TAKING PLACE AFTER YEAR-END

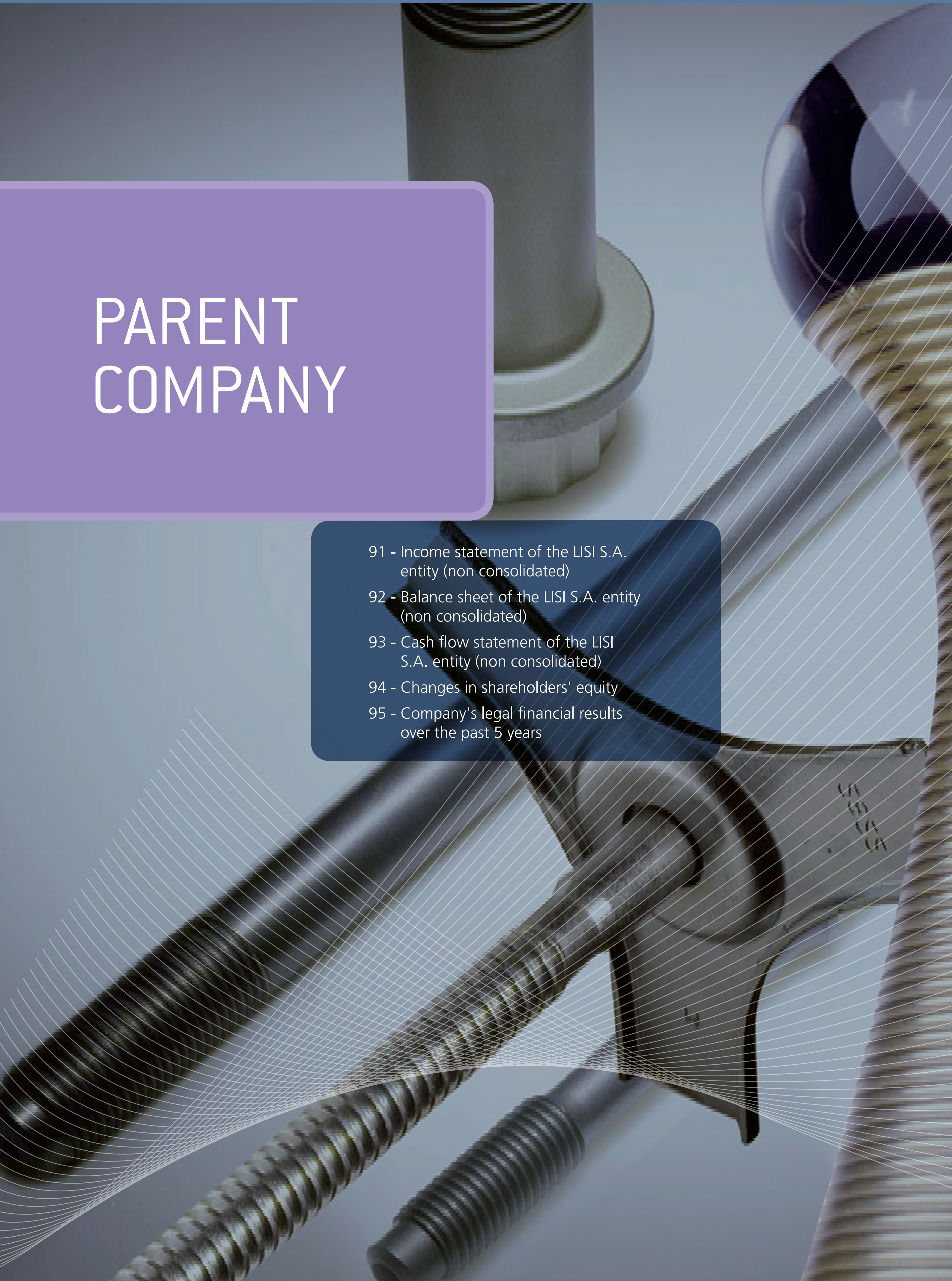
1. Disposal of Hi-Shear Automotive (USA)

Hi-Shear Corporation has sold 100% of its stakes in its subsidiary Hi-Shear Automotive, which recorded revenue of \$6.4m (€5.1m) in 2006. The company exploited a number of braking cable adjuster and hub swivel patents for the automotive industry in the USA. This disposal is part of Hi-Shear Corporation's strategy to focus on aerospace business activities.

2. Acquisition of Hugueny SAS (France)

LISI AEROSPACE acquired 100% of the capital stock of SAS Hugueny, a company based in Fleurieux-sur-l'Arbresle, not far from Lyon. With revenue of €4.3m in 2006 and 43 employees, the company specializes in the manufacture of orthopedic implants. The two previous managers/transferees expect to support the integration of the company into the LISI Group. The similarity of the materials used, the quality standards and the size of batches make this extremely specific activity as close to LISI AEROSPACE as the "Racing" segment.

These two changes of consolidation scope took effect as of January 1, 2007.



PARENT COMPANY

INCOME STATEMENT OF THE LISI S.A. ENTITY (NON CONSOLIDATED)

(in thousand euros)	2006	2005	2004
Net revenues	**6,495**	**5,648**	**5,134**
Total operating revenues	**7,275**	**6,266**	**6,468**
Cost of materials	(2,714)	(1,206)	(2,963)
Taxes and duties	(192)	(127)	(121)
Salaries and benefits	(2,151)	(1,737)	(1,826)
Other expenses	(59)	(58)	(70)
Depreciation	(665)	(755)	(161)
EBIT	**1,494**	**2,382**	**1,327**
Financial income			
- from equity interests	14,094	13,458	11,839
- interest and similar expenses	526	440	125
- positive exchange rate differences	7	127	1
- from disposal of marketable securities	955	1,449	1,546
- reversal of reserves	71	–	–
Financial expenses			
- interest and similar expenses	(3,181)	(2,742)	(2,775)
- negative exchange rate differences	(60)	–	(227)
- from disposal of marketable securities	(146)	(137)	
- provisions	–	(70)	(5,000)
Financial result	12,265	12,526	5,510
Current pre-tax profit	**13,760**	**14,910**	**6,837**
Extraordinary items			
- on capital operations	7	–	–
- bonuses on bond repurchases	2,293	–	–
- on management operations	57	46	4
- provision reversals	175	1,143	285
Extraordinary expenses			
- on capital operations	(10)	–	–
- on management operations	(8)	–	(6)
- provision allowances	(82)	(750)	(1,000)
Extraordinary earnings	**2,432**	**439**	**(717)**
Income tax	29	337	1,366
NET PROFIT	**16,221**	**15,685**	**7,486**

BALANCE SHEET OF THE LISI S.A. ENTITY (NON CONSOLIDATED)

ASSETS (in thousand euros)	2006	2005	2004
Fixed assets			
Intangible fixed assets	180	68	68
Tangible fixed assets	1,689	1,466	1,395
Financial assets	160,293	160,253	145,823
Depreciation and amortization	(5,782)	(5,896)	(5,923)
Total net fixed assets	**156,381**	**155,891**	**141,364**
Current assets			
Accounts receivable	1,424	648	201
Other receivables	4,374	1,598	6,009
Subsidiaries' current accounts	4,487	12,564	57
Provision for doubtful receivables	–	–	–
Tax credit	–	1,002	–
Marketable securities	37,702	37,602	76,790
Cash	2,011	125	1,224
Prov. write-down of marketable securities	–	(70)	–
Total current assets	**49,997**	**53,468**	**84,280**
Prepaid expenses	22	40	20
Deferred expenses on loan issue costs	245	570	719
Other deferred expenses	–	–	109
Translation adjustment	–	–	–
Total accruals	**267**	**611**	**848**
Total assets	**206,646**	**209,971**	**226,493**

LIABILITIES	2006	2005	2004
Shareholders' equity			
Capital stock	20,422	19,794	19,794
Additional paid-in capital, merger and contribution premiums	41,908	27,902	27,902
Retained earnings	19,417	18,499	18,493
Of which legal reserve	1,979	1,979	1,973
Balance carried forward	31,516	27,151	28,350
Profit for the period	16,221	15,685	7,486
Regulated provisions	122	72	–
Total shareholders' equity	**129,605**	**109,103**	**102,026**
Provisions for risks and contingencies	**1,513**	**1,726**	**1,572**
Liabilities			
Long-term debt (*)	36,669	64,022	77,135
Subsidiaries' current accounts	30,455	29,026	36,464
Taxes due	2,554	–	5,066
Accounts payable	2,906	2,012	2,693
Tax and social debts	1,130	698	687
Other liabilities	1,813	3,384	851
Total debt	**75,528**	**99,142**	**122,896**
Total accruals			
Total liabilities	**206,646**	**209,971**	**226,493**
(*) of which banking facilities	(445)	(478)	(180)

CASH FLOW STATEMENT OF THE LISI S.A. ENTITY (NON CONSOLIDATED)

(in thousand euros)	2006	2005	2004
Operating activities			
Operating cash flow	14,376	16,001	13,360
Effect of changes in inventory			
Effects of changes in accounts receivable and accounts payable	(223)	(150)	1,937
Cash provided by or used for operations (A)	**14,153**	**15,851**	**15,297**
Investment activities			
Cash used to acquire tangible			
and intangible assets	(529)	(86)	(14)
Cash received from the disposal of tangible			
and intangible assets	57	46	3
Cash used to acquire financial assets		(10,000)	
Cash received from the disposal of financial assets	7		
Net cash used for acquisitions and disposals of subsidiaries			
Cash received from loans to subsidiaries	(49)	5,739	8,801
Cash provided by or used for investing activities (B)	**(514)**	**(4,301)**	**8,790**
Financing activities			
Cash received from shareholders as part of a capital increase	14,633		828
Impact of the processing of long-term capital gains tax			(423)
Dividends paid to shareholders of the parent company	(10,403)	(8,679)	(7,647)
Cash received from new loans	50,226	24	49,319
Cash used to pay off loans	(75,512)	(13,436)	(15,309)
Cash provided by or used for financing activities (C)	**(21,055)**	**(22,091)**	**26,768**
Effect of change in foreign exchange rates (D)		(10,169)	
Changes in net cash (A+B+C+D) *	**(7,416)**	**(20,710)**	**50,855**
Cash at year start (E)	20,716	41,426	(9,430)
Cash at year end (A+B+C+D+E)	13,299	20,716	41,426
Marketable securities	37,702	37,532	76,790
Cash, subsidiaries' current accounts	6,498	12,689	1,280
Banking facilities, subsidiaries' current accounts	(30,900)	(29,504)	(36,644)
Cash at year end **	**13,299**	**20,716**	**41,426**

* The overall change in cash position corresponds to the total of net cash flows generated by the various categories: operations, investment, and financing.

** The cash position is the algebric sum of the balance sheet assets and liabilities.

CHANGES IN SHAREHOLDERS' EQUITY

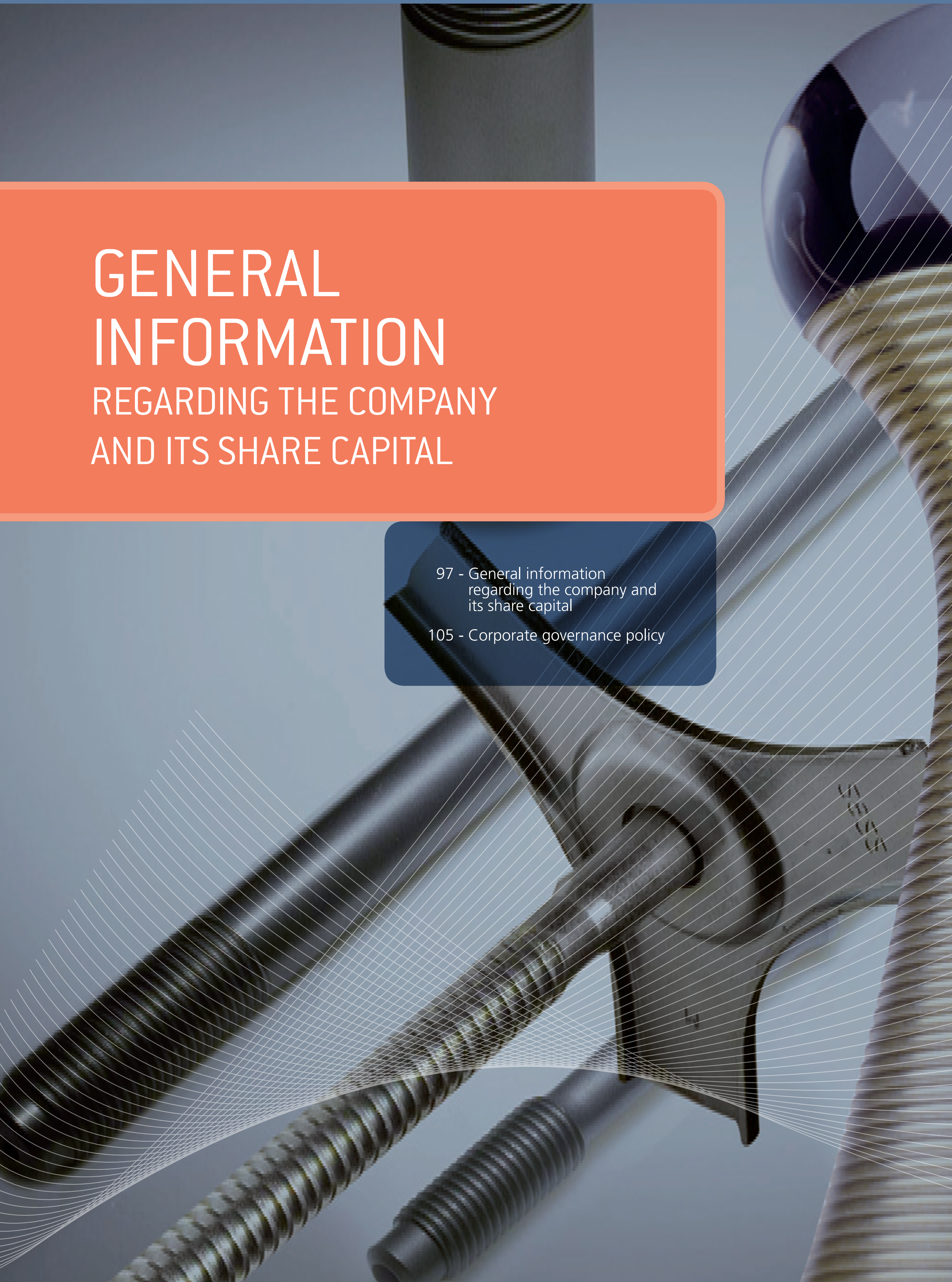
(in thousand euros)	
At 01.01.2005	**102,026**
Profit for the period	15,685
Accelerated depreciation	71
Dividends paid	(8,679)
At 12.31.2005	**109,103**
Profit for the period	16,221
Dividends paid	(10,403)
Capital increase	14,633
Accelerated depreciation	51
At 12.31.2006	**129,605**

COMPANY'S LEGAL FINANCIAL RESULTS OVER THE PAST 5 YEARS

(articles 133, 135 and 148 of the law on commercial companies)

NATURE OF INDICATIONS (in euros)	2002	2003	2004	2005	2006
Financial situation at year end					
Share capital	19,733,676	19,733,676	19,793,668	19,793,668	20,421,566
Number of shares issued	9,866,838	9,866,838	9,896,834	9,896,834	10,210,783
Number of convertible bonds			1,066,685	1,066,685	780,402
Total result of actual operations					
Net revenues	4,842,314	4,826,638	5,133,638	5,648,417	6,495,402
Earnings before taxes, depreciation and reserves	6,793,622	9,015,772	11,995,522	16,116,234	16,623,351
Corporate tax	(2,273,016)	(978,873)	(1 366,336)	(336,648)	(28,838)
Profit sharing					
Result after taxes, depreciation and reserves	8,702,436	9,998,523	7,485,903	15,684,834	16,221,185
Distributed profit (A)	5,946,310	7,647,159	8,678,813	10,402,657	13,274,018
Result of operations per share					
Result after taxes, before depreciation and reserves	0.92	1.01	1.35	1.66	1.63
Result after taxes, depreciation and reserves	0.88	1.01	0.76	1.58	1.59
Dividends allocated per share (net)	0.62	0.80	0.90	1.08	1.30
Staff					
Average head count	9	9	9	9	10
Payroll	909,412	1,060,762	1,328,850	1,210,667	1,539,301
Benefits paid (social security, benefits, etc.)	348,263	403,226	496,856	526,634	611,748

(A) after deducting the dividend that would have concerned the own shares held by the company.



GENERAL INFORMATION
REGARDING THE COMPANY AND ITS SHARE CAPITAL

GENERAL INFORMATION REGARDING THE COMPANY AND ITS SHARE CAPITAL

1. COMPANY ID

1.1 Company name and head office

LISI S.A. - Tour Gamma « A », 193 rue de Bercy, 75012 PARIS.

At the Company's General Meeting on April 27, 2007, it will be proposed to move the head office to Le Millenium, 18 Rue Albert Camus, BELFORT 90008, France.

1.2 Legal form of the issuer and applicable legislation

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

1.3 Inception and term

The Company was set up on July 5, 1968. Its term expires on July 4, 2067, except in the case of early winding up or extension.

1.4 Purpose of the company

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

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

1.5 Commercial and corporate register (RCS)

- R.C.S.: PARIS 536 820 269
- NAF Code: 741 J

1.6 Consultation of corporate documents

The corporate documents pertaining to LISI S.A. (by-laws, Shareholders' General Meeting reports, Auditors' reports and all documents available to shareholders) can be viewed upon request at the corporation's head office at the following address: Société LISI S.A., Le Millenium, 18 rue Albert Camus, B.P. 431, 90008 BELFORT Cedex, France.

1.7 Accounting period

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

1.8 Special 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, shall be withdrawn first. 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

- Shareholder 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' meeting is composed of all the shareholders, regardless of the number of shares they own, provided that the shares are fully paid-up. The right to attend in person or to be represented by proxy is subject:

1. For registered shareholders, to the registration of their shares in a pure or administered personal account at least 5 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 may elect its own Chairman.
- Barring any legal or regulatory measures to the contrary, each member of the Shareholders' Meeting is entitled to as many share votes as he owns or represents, both in his own name and as a proxy, without limitation. However, certain shares have double the voting rights of other shares in view of the proportion of share capital they represent, namely:

1. All fully paid-up shares registered in the name of the same shareholder for at least four (4) years;
2. All shares allocated free of charge to shareholders as part of a capital increase carried out through the incorporation of reserves, profits or issue premiums, up to the number of existing shares for which they are entitled to such double voting rights.

Double-voting rights cease to apply once the shares change hands. However, the aforementioned time period is not interrupted and double voting rights still apply in the event that transfers occur as a result of inheritance, liquidation of community property between spouses or donations inter vivos to a partner or family relation who is entitled to inheritance rights.

- In the event that shareholders vote by proxy, only those proxy votes that have arrived at the company at least 3 days prior to the date of the Shareholders' Meeting will be counted.

In addition, the shareholder's presence at the general meeting will result in the cancellation of the proxy vote and/or the power of attorney that said shareholder might have sent to the company, since his presence takes precedence over all other means of participation 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 – Statement of beneficial ownership

- 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 according 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 covered in article 356-1 of law no. 66-537 of July 24, 1966, any person who owns or acquires at least 3% of share capital either directly or indirectly, as set forth under the provisions of said article 356-1, must report the total number of shares that he owns by recorded delivery with confirmation of receipt to the company's registered office within 15 days of this 3% threshold being exceeded.

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 3 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.

2. INFORMATION REGARDING THE SHARE CAPITAL

2.1 Value of share capital

Share capital taken up by shareholders and fully paid-up, as at December 31, 2006, amounted to €20,421,566, divided into 10,210,783 shares with a face value of €2 of the same category.

2.2 Changes in share capital over the past 5 years

Date of General Meeting	Date of board meeting	Nature of transaction	Nominal increase (reduction) in capital	Increase (reduction) in capital inc. premium	Number of shares created (cancelled)	Nominal value of shares	Total number of shares after issue	Capital after transaction
Capital at 12/31/2006: €20,421,566 divided into 10,210,783 shares with €2 face value								
02/10/04	02/22/07	Capital increase by conversion of BSARs	€30,000	€675,000	15,000	€2	10,210,783	€20,421,566
02/10/04	12/20/06	Capital increase by conversion of BSARs	€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 BSARs	€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
02/10/04	03/01/04	Capital increase reserved for employees	€59,992	€768,198	29,996	€2	9,896,834	€19,793,668
05/10/01	07/05/01	Conversion of share capital into € via debit from "merger premium" account	€4,691,778.44	-	-	€2	9,866,838	€19,733,676
02/28/01	07/05/01	Capital increase reserved for employees	FRF 626,330	FRF8,999,781.19	62,633	FRF 10	9,866,838	FRF 98,668,380

2.3 Authorized share capital not yet issued

As at December 31, 2006, the Board of Directors had no further authorization to issue new shares.

2.4 Securities giving access to the share capital

2.4.1 Stock option plans

Since May 18, 1995, the Shareholders' Meeting has given the Board of Directors authorization to grant share subscription or purchase options. The last authorization, given on February 28, 2001, is valid for 5 years and involves 500,000 shares.

2.4.2 Stock options

Plans in place as at December 31, 2006:

General Meeting Date Board of Directors	Category P plan no.	Number of options allocated	Of which to corporate officers	Of which to members of the Management Committee	Of which to the 10 best-paid employees	Headcount	Exercise period	Subscription or purchase price	Options exercised as at 01/01/2006	Options exercized in 2006	Options cancelled	Options remaining as at December 31, 2006
Authorization granted on 05.20.1999												
12.15.1999	P Plan no. 1	125,000	13,000	43,500	10,500	4	12.16.2004 12.14.2007	€22.70	61,830	17,570	40,000	5,600
Authorization granted on 02.28.2001												
03.01.2001	P Plan no. 2	34,700	–	5,500	6,500	6	03.02.2005 02.28.2009	€27.82	14,200	290	11,200	9,010
Authorization granted on 02.28.2001												
12.06.2001	P Plan no. 3	39,500	10,000	34,500	10,000	6	12.07.2005 12.05.2009	€18.81	4,500	13,850	5,000	16,150
Authorization granted on 02.28.2001												
06.25.2003	P Plan no. 4	163,000	10,000	47,500	12,500	66	06.26.2007 06.24.2011	€20.33	10,000	None	37,000	116,000

P = purchase

No stock purchase options were granted to LISI Group employees or corporate officers during financial 2006. Some executives used existing options to purchase shares.

2.5 Potential share capital

As part of the issue of debentures (OBSAR), each had attached a warrant for subscription to a new share (BSAR). Following the authorization granted by the Shareholders' Extraordinary Meeting of February 10, 2004, the Board of Directors established on May 3, 2004, that 1,066,685 BSARs had been issued.

At December 31, 2006, 286,283 warrants had been converted. There thus remain 780,402 warrants to convert on the basis of one warrant per share.

3. BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

3.1 Breakdown of share capital and voting rights over the past 2 years

3.1.1 Breakdown of share capital and voting rights

Description	2006			2005		
	as % of capital	as % of voting rights	Number of shares	as % of capital	as % of voting rights	Number of shares
CID	58.1	68.6	5,928,724	59.9	73.0	5,928,725
VMC	6.3	7.3	641,675	6.5	7.8	641,675
Other corporate officers	0.3	0.2	27,029	0.2	0.1	17,178
TOTAL FOR CORPORATE OFFICERS	**64.7**	**76.1**	**6,597,428**	**66.6**	**80.9**	**6,587,578**
Of which directors	0.09	0.05	8,840	0.02	0.02	1,990
FFP	5.0	5.8	515,000	5.1	3.3	500,000
FMR Corp and Fidelity	4.9	2.9	499,378	5.0	3.1	495,206
Treasury stock	2.4	—	243,296	2.9	—	287,108
Employees	1.0	0.6	103,500	0.9	0.6	93,150
Public	22.0	14.6	2 ,252,181	19.5	12.1	1,933,792
Grand Total	**100.0**	**100.0**	**10,210,783**	**100.0**	**100.0**	**9,896,834**

Shareholders or groups of shareholders controlling more than 3% of share capital

The sole activity of CID, a company based at 28 Faubourg de Belfort 90100 DELLE, is the ownership of LISI shares. At December 31, 2006, it holds: 58.1% of the share capital and 68.6% of the voting rights.

- At December 31, 2006, VMC, Route des Forges 90120 MORVILLARS, holds: 6.3% of the share capital and 7.3% of the voting rights.
- At December 31, 2006, FFP, 75 avenue de la Grande Armée 75116 PARIS, holds: 5.0% of the share capital and 5.8% of the voting rights.
- FMR Corp and Fidelity International, acting on behalf of mutual funds managed by its subsidiaries held, at December 31, 2006: 4.9% of the share capital and 2.9% of the voting rights.

To the company's knowledge, no other shareholders hold more than 3% of share capital or voting rights, be it directly, indirectly or jointly.

The percentage of share capital held by staff members is not significant (1% of the share capital).

3.1.2 Shareholder agreements

There are no shareholders agreements at LISI S.A., and no shareholders (other than those listed in the above chart) have represented that they have breached the threshold of between 3% and 5%, as provided for in the by-laws.

3.1.3 Pledging

To the company's knowledge, no pure registered shares have been pledged as collateral.

3.2 LISI S.A. shareholding

A TPI ("Identifiable bearer share") analysis was conducted on March 31, 2006. Out of the floating stock that represented around 25% of the total shareholding, 2,737 shareholders could be identified. At that date, the breakdown was as follows:

- French institutional investors: 28 or 8.3% of share capital;
- International institutional investors: 20 or 14.2% of share capital;
- French and international individual shareholders: 2,689 or 2.6% of share capital.

3.3 LISI S.A. treasury shares

As at December 31, 2005, LISI S.A. held 243,296 of its own shares, or 2.4% of share capital. No shares were cancelled.

3.4 Stock repurchase program

In place at December 31, 2006:

On May 10, 2006, the Shareholder's Ordinary Meeting authorized the company to repurchase up to 10% of its own shares in the open market for a period of 18 months, i.e. up until November 10, 2007.

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 French market authority (AMF);

- to grant stock options or free shares to employees and corporate officers of the company and/or its consolidated group;
- to retain and use shares as consideration or payment for potential acquisitions;
- to cancel purchased shares, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

The following terms apply to this authorization:

- the company may repurchase its own shares for a maximum price of €75, not including transaction fees,
- the company may sell all or some of the shares purchased for a minimum unit price of €35, 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' Meeting, i.e. €75, is €74,226,225.

Under the share repurcharse program referred to below, LISI S.A. acquired in 2006, 127,855 treasury shares, i.e. 1.3%. The operations conducted by the company on its own shares are summarized in the table below:

	Number of shares	Average weighted Prices in €
Shares held at 01/01/2006	287,108	23.82
Shares acquired in 2006	127,855	53.71
Shares disposed of in 2006	171,667	46.91
Shares held at 12/31/2006	243,296	23.24
Of which shares assigned to the stock options program	*146,760*	
Of which available	96,536	

The number of own shares held by LISI S.A. stands at 243,296.

Shares have been purchased and sold within the scope of the market-making contract with Oddo Pinatton Corporate. The animation agreement complies with the AFEI's deontological charter.

3.5 New stock repurchase program

The next 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 Nr.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. 510,539 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:

- 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 stock market authority);
- to grant stock options to employees and directors of the company and/or its consolidated group;
- to keep and use shares as consideration or payment for potential future acquisitions;
- to cancel shares purchased, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

The maximum purchase price may not exceed €85 per share and the minimum sale price may not be lower than €45 per share.

Should derivative products be used, LISI S.A. will ensure that the price of its shares is not made more volatile as a result.

4. 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.

For the past five financial years, the dividends per share were as follows:

	Gross dividend in €	Tax credit in €	Net dividend in €
2002	0.93	0.31	0.62
2003	1.20	0.40	0.80
2004	–	–	0.90
2005	–	–	1.08
2006 (1)	–	–	1.30

(1) Subject to the decision of the Ordinary General Meeting of April 27, 2007. The date for payment of dividends has been set at May 4, 2007.

The timeframe for paying dividends is 9 months as of the year end date. Unclaimed dividends are waived to the State after a period of 5 years beginning of the payment date.

5. RELATIONSHIP BETWEEN THE COMPANY AND ITS SUBSIDIARIES

5.1 Activity of the company and relationship with 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 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 certain 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 matters. The three divisions pay LISI S.A. a normal level of compensation for these services, based on their added value.

Data with related companies are as follows:

	Amount concerning…	
	Related companies	Companies with which the company has an ownership relationship
ASSETS:		
Provisions on equity shares	(5,000)	-
Receivables related to equity interests	10,213	-
Accounts receivable	1,261	-
Cash advances to subsidiaries	4,487	-
Tax integration current account	3,630	-
LIABILITIES:		
Subsidiaries' financial assistance	30,455	-
Tax integration current account	1,785	-
Advance payments from customers	28	-
Accounts payable	1,003	-
Other liabilities	-	-
INCOME STATEMENT:		
Services received	312	-
IT maintenance	28	-
Reserves for equity interests	-	-
Interest and similar expenses	847	-
Sales revenues from subsidiaries	6,434	-
Revenues from loans to subsidiaries	593	-
Revenues from equity interest	13,501	-

Significant intra-group items include:

- On the assets side:

- receivables relating to equity interests: LISI S.A. advanced, as a mid-term loan, €10 million to its subsidiary LISI AUTOMOTIVE so as to enable it to fund part of the acquisition, in July 2005, of Germany's KNIPPING. The loan contract was entered into on July 15, 2005 for a period of 7 years, refundable, with reimbursements deferred 2 years,
- cash advances to group susbidiaries as part of the Group's cash agreement,
- the current accounts for the fiscal integration of tax receivables of the companies consolidated within the group.

- 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,
- dividends received by LISI S.A. during the financial year 2006.

These transactions are entered into under normal market conditions; in particular, they take into account costs that were actually incurred and are billed back.

6. AUDITORS' FEES

The table below lists the fees paid to the Auditors appointed for certifying the Group's financial and consolidated statements. These fees pay for services rendered and are recorded as expenses for fiscal 2006 in the financial statement of LISI S.A. and its subsidiaries whose income statements for the period 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.

(in thousand euros)	Salustro Reydel, member of KPMG		Exco Cap Audit		Foreign auditors		Sécafi Alpha (1)	
	Amount		Amount		Amount		Amount	
	N	N-1	N	N-1	N	N-1	N	N-1
Audit								
Auditors, certification, review of individual								
and consolidated financial statements								
- Holding company	24	17	18	14				
- Fully-consolidated subsidiaries	74	82	81	132	421	538		
Other diligence and services								
- Holding company			37				19	44
- Fully-consolidated subsidiaries			40	8	58	–	63	85
Sub-total	98	99	176	154	479	538	82	129
Other services performed by the networks for fully-consolidated subsidiaries								
Legal, tax, and labor-related					145	124		
Miscellaneous services								
Sub-total	–	–	–	–	145	124	–	–
TOTAL	**98**	**99**	**176**	**154**	**624**	**662**	**82**	**129**

(1) Group committee auditors.

CORPORATE GOVERNANCE POLICY

1. Tasks and operating procedures of the Board of Directors

During the Meeting of March 1, 2004, the LISI Board of Directors set out the terms of a Corporate Governance Charter detailing the rules that apply to all members and participants of this Board. This is an exclusively internal document and in no way does it replace the by-laws or the provisions of commercial Law.

Tasks of the Board of Directors

LISI S.A.'s Board of Directors is a collegial body that represents all shareholders and which has a duty to act in the corporate interests of the company.

In exercising its prerogatives, subject to the powers expressly assigned to the shareholder's meetings and purely within the scope of the business purpose, the Board must examine any question that may affect that correct functioning of the company and, through its deliberations, address any related issues.

As a general rule, the Board of Directors has 5 main tasks:

1. It sets out the company's strategy,
2. It nominates the directors in charge of running the company within the framework of this strategy and selects an appropriate form of organization (dissociation of the functions of the Chairman and the Chief Executive Officer or fusion of these functions),
3. It supervises the company's management,
4. It guarantees the quality of the information supplied to shareholders and the markets via the financial statements or in the event of significant transactions,
5. It checks the main acquisitions or disposals of assets presented by management, in particular compliance with the strategic plan and their valuation.

The Board of Directors carries out any controls or checks that it deems necessary.

The Board of Directors will ensure that its composition, as well as its work, is representative of LISI S.A.'s share ownership structure.

The Board may decide to create Committees, to which it can submit questions in order to obtain advice. It sets out the composition and powers of the Committees, who carry out their work under the Board's authority.

Director's code of ethics

Each director must consider himself to represent all shareholders and conduct himself accordingly when exercising his functions.

At its meeting on March 1, 2004, the Board of Directors of LISI S.A. decided not to differentiate between directors, whether or not they were members of management, directors of the parent company, directly or indirectly connected to the Company or its subsidiaries by a business link. Indeed, the Board considers that its members are selected purely on the strength of their competence and on their active contribution to its missions.

Before accepting their functions, directors must ensure that they have familiarized themselves with the general and special obligations that relate to the position of director. LISI S.A.'s by-laws and this charter will be handed to them prior to them taking up their functions. Acceptance of the position of director implies acceptance of this charter.

All members of the Board of Directors must devote sufficient time to examining the files sent to them in order to adequately prepare for Board Meetings and for the meetings of the Committees to which they have been appointed. They may ask the Chairman for any additional information they may require in order to carry out their work.

Directors must be committed and take part in all meetings held by the Board or by the Committees to which they have been appointed. A provisional calendar of Board Meetings is set out each year for the following year.

Directors must notify the Board of Directors of any conflicts of interest with LISI S.A., even potential ones. They must abstain from taking part in the vote for any deliberations that are affected by these conflicts.

The direct or indirect participation of a member of the Board of Directors in a transaction in which LISI S.A. is directly interested or of which he has knowledge as a member of the Board, must be brought to the attention of the Board prior to its taking place.

Operating procedures of the Board of Directors

The Board of Directors meets as often as the Company's interests require, to be convened by the Chairman, or failing that by one of the Deputy Chairmen that it will have appointed.

Notwithstanding exceptional circumstances, invitations to meetings will be sent in writing to the members of the Board less than two weeks before the date it is to be held. The documents relating to subjects to be covered in the meeting agenda will be attached to this invitation, which will allow the members of the Board to form an informed opinion on the stakes involved.

The members of the Board of Directors have the right to have themselves represented by one of their colleagues by written proxy. A member of the Board of Directors may only represent one person at any one meeting.

For the deliberations of the Board of Directors to be valid, the number of members present must be at least equal to half the total number of members.

Decisions are taken by majority vote of the members present or represented. Should the vote be split, the Chairman of the meeting shall have the casting vote.

For corporate governance to be practiced to an acceptable standard, the Board will assess its ability to fulfill the requirements of the shareholders, who have given them a mandate to run the company, by carrying out a periodic review of its composition, its organization and its operating procedures at least once a year. In particular, it will check that important issues are suitably prepared and debated.

The Board of Directors and the Shareholders' General Meeting

The Board of Directors represents all shareholders. In carrying out its missions it reports jointly to the Shareholders' General Meeting, whose principal legal responsibilities it assumes.

Operations of truly strategic importance, such as acquisitions or disposals, investment for the purposes of organic growth or significant internal restructuring, must be examined by the Board of Directors for approval.

Directors' obligations

Each member of the Board of Directors must own a minimum of one LISI share registered in his own name, for the entire duration of his mandate.

Directors, whether on their own behalf or for others, shall refrain from any transactions in respect of the shares of LISI S.A, including derivatives, if on account of their positions they are aware of information not yet made public that might influence the share's price on the stock exchange.

2. Internal rules of the Board of Directors

At the Board of Directors meeting held on August 30, 2006, the internal rules of the Board of Directors were adopted.

In addition to the Corporate Governance Charter referred to above, the internal rules provide:

Board meetings:

If the technical facilities of the Boardroom so permit, for purposes of establishing a quorum and a majority, directors who attend a board meeting by way of videoconference and/or conference call shall be considered present in accordance with the rules.

This provision shall not apply to the following decisions: appointment or removal of the Chairman, appointment or removal of the CEO, appointment or removal of the Vice Presidents, approval of the corporate and consolidated annual financial statements and the management report.

Invitations to board meetings that are issued by either the Chairman or the Secretary of the Board can be by letter, telex, fax, email or verbally.

3. The Compensation Committee

The Compensation Committee is in charge of:

- Setting out the general rules of compensation (fixed salaries and variable bonuses of all types):

a) Members of management of LISI S.A. (the Chairman of the Board of Directors, the CEO and Vice Presidents);

b) The CEOs of the divisions of LISI S.A;

and checking the annual application of these rules.

- Advising the LISI S.A. Chairman and Chief Executive Officer on the compensation policy for the top management of each of the Group's subsidiaries. To this end, the Compensation Committee shall submit to the Board every proposal for the motivation and profit-sharing of the Group's management, especially the Company's policy concerning stock options, their methods and terms of allocation.

It also presents its recommendations regarding the appearance fees awarded to directors and to members of the Board's Committees and the pay scale applied to these fees.

The Compensation Committee is comprised of at least 3 members and at most 5 members, the majority of whom cannot be corporate officers. The members of this Committee are Messrs. Eric ANDRE, Gilles KOHLER and Thierry PEUGEOT.

Members who are corporate officers do not take part in the vote when the Committee deliberates on their own compensation or on any incentive systems from which they may benefit.

The Committee meets a minimum of twice a year. Its work leads to the drafting of a written report that allows the Board to remain fully informed, thus facilitating its deliberation.

The Committee met twice in 2006 and all its members were present. It presented its recommendations to the Board on the following points:

- The possibility of awarding shares free of charge to the Group's management and staff,
- The fixed compensation paid to members of LISI S.A.'s General Management and to Chief Executive Officers of the group's Divisions, as well as the calculations that apply to the variable portion of this compensation, known as the Objective-Related Bonus.

4. The Audit Committee

The main tasks of the Audit Committee are:

- To examine the financial statements and to ensure that the accounting methods used to establish the company's consolidated financial and corporate statements are relevant and permanent;

- To check that the internal procedures used to gather and verify information will guarantee this. In order to do so, the Audit Committee analyzes and monitors the company's risk management procedures. It issues an opinion on the process used to check the financial statements, assesses the independence of the auditors and familiarizes itself with the auditors' comments on the financial statements.
- To take into account the Group's general risk analysis, follow up the action plans set up and their progression. As such, the internal audit reports are presented to the Audit Committee, as well as the follow-up and corrective action reports.

The Audit Committee has full authority to issue to the Board of Directors the recommendations designed to improve the Group's internal control.

The Audit Committee steers the Auditor selection procedure and submits the outcome of this selection to the Board. Once the Auditors' mandate comes to an end, the selection of new Auditors or the renewal of their mandate must be preceded by a call for tender issued by the Board and supervised by the Audit Committee. The amount paid in fees by the company and group to the consultancy and the Auditors involved is communicated to the Committee, which verifies that this amount and the proportion of the consultancy's turnover it represents are not likely to affect their independence.

The Audit Committee is comprised of at least 3 members and at most 5 members, the majority of whom cannot be corporate officers. The members of this Committee are Messrs. Christophe VIELLARD , Pascal LEBARD and Emmanuel VIELLARD.

It meets prior to the Board of Directors' meetings that are held to set out the annual or half-yearly financial statements.

The Auditors are invited to take part in this preparatory meeting.

The Audit Committee's examination of the financial statements must be accompanied by a note from the Auditors highlighting the key points not only of the results, but also of the accounting methods selected, as well as a note from the company describing its exposure to risks and any significant off-balance sheet commitments.

The Committee met twice in 2006 and all its members were present. It heard the Auditors report on the execution of their mission and was informed by the company's General Management of the internal procedures employed. Information about the scope of consolidation, off-balance sheet risks described in the appendix to the consolidated financial statements was passed on to the Audit Committee, which in turn reported on its work to the Board of Directors and issued various recommendations.

5. Independent directors and directors linked to the company

Independent directors are those who have neither direct nor indirect links to the reference shareholders, namely CIKO, FFP and VIELLARD MIGEON & CIE.

6. Composition of the Board of Directors and the specialized Committees

The Group's Board of Directors is comprised of 9 members, 3 of whom are independent.

		Independent director	Date appointed	Date mandate expires
Board of Directors				
Chairman of the Board of Directors	Gilles KOHLER		1985	2009 General Meeting [3]
Member of the Board of Directors	Emmanuel VIELLARD		2000	2007 General Meeting [1]
Member of the Board of Directors	Eric ANDRE	X	2002	2008 General Meeting [2]
Member of the Board of Directors	Roland BURRUS	X	1984	2009 General Meeting [3]
Member of the Board of Directors	Christian PEUGEOT		2003	2007 General Meeting [1]
Member of the Board of Directors	Pascal LEBARD	X	2005	2011 General Meeting [4]
Member of the Board of Directors	Compagnie Industrielle de Delle represented by Thierry PEUGOT		1977	2007 General Meeting [1]
Member of the Board of Directors	Société Civile CIKO represented by Jean-Philippe KOHLER		2002	2009 General Meeting [3]
Member of the Board of Directors	VIELLARD MIGEON & Cie represented by Christophe VIELLARD		2000	2009 General Meeting [3]
Secretary of the Board of Directors	Maître Olivier PERRET (member of Cabinet Bernard Roy)			
Audit Committee				
Member of the Audit Committee	Emmanuel VIELLARD			
Member of the Audit Committee	Christophe VIELLARD			
Member of the Audit Committee	Pascal LEBARD			
Compensation Committee				
Member of the Compensation Committee	Gilles KOHLER			
Member of the Compensation Committee	Thierry PEUGEOT			
Member of the Compensation Committee	Eric ANDRE			

[1] Ordinary General Meeting slated to rule in 2007 on the financial statements for the period ended December 31, 2006.
[2] Ordinary General Meeting slated to rule in 2008 on the financial statements for the period ended December 31, 2007.
[3] Ordinary General Meeting slated to rule in 2009 on the financial statements for the period ended December 31, 2008.
[4] Ordinary General Meeting slated to rule in 2011 on the financial statements for the period ended December 31, 2010.

7. Information regarding the members of the Board of Directors

7.1 The members of the Board of Directors

Directorships in other companies:

Gilles KOHLER, age 53, Chairman and CEO of LISI.

He attends the Board of Directors and the Compensation Committee.

Gilles KOHLER has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):
- Chairman of the Management Committee of LISI AUTOMOTIVE SAS,
- Director of HI-SHEAR Corporation (USA),
- Director of HI-SHEAR AUTOMOTIVE (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 COSMETICS SAS,
- Member of the Management Committee of LISI AEROSPACE SAS,
- Member of the Management Committee of BLANC AERO Technologies SAS,
- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of EUROFAST SAS.

Outside the LISI Group (in France and abroad):
- Chairman of the Board of Directors of Compagnie Industrielle de Delle,
- Director of Société Immeubles de Franche-Comté,
- Chairman of Franche Comté Entreprendre.

Emmanuel VIELLARD, age 43, Deputy Chairman – Vice-President of LISI.

He attends the Board of Directors and the Audit Committee.

Emmanuel VIELLARD has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):
- Chairman of the Management Committee of LISI AEROSPACE SAS,
- Director of HI-SHEAR Corporation (USA),
- Director of BLANC AERO Industries SAS,
- Member of the Management Committee of LISI AUTOMOTIVE SAS,
- 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 COSMETICS SAS,
- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of EUROFAST SAS,
- Member of the Management Committee of BLANC AERO Technologies SAS.

Outside the LISI Group (in France and abroad):

- Judge at the Belfort Commercial Court,
- Chairman of the Management Committee of Financière VIELLARD SAS,
- CEO of VIELLARD MIGEON & Cie,
- Director of Compagnie Industrielle de Delle,
- Chairman of RAPALA-VMC OYJ (Finland),
- Director of FSH WELDING GROUP.

Eric ANDRE, age 58, Director of LISI.

He attends the Board of Directors and the Compensation Committee.

Eric ANDRE has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):

- None.

Outside the LISI Group (in France and abroad):

- Member of the Board of Directors of NATEXIS France,
- Director of R. DI GIOIA Cie.

Roland BURRUS, age 70, Director of LISI.

He has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):

- None.

Outside the LISI Group (in France and abroad):

- Chairman of the Syndicat des producteurs forestiers privés de la Haute-Saône et du Territoire de Belfort,
- Chairman of the Union Régionale des producteurs forestiers privés de Franche-Comté,
- Acting Partner of Groupement Forestier de Saint-André,
- Acting Partner of CLARTUS,
- Acting Partner of LA BRUNELLIERE SARL,
- Director of Fédération Nationale des Forestiers Privés de France,
- Director of Mouvement Européen Paris Ouest,
- Director of Association Futaie Irrégulière,
- Director of Comité National pour le développement du bois,
- Director of LUCAY, Terroir Préservé.

Christian PEUGEOT, age 53, Director of LISI.

He has held the following other directorships and positions:

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 La Française de Participations Financières,
- Deputy Chairman of the Football Club of Sochaux-Montbéliard,
- Director of Ets PEUGEOT Frères,
- Director of Société Foncière Financière et de Participation,
- Director of SEB,
- Director of Compagnie Industrielle de Delle,
- Communication Manager of Automobiles PEUGEOT.

Pascal LEBARD, age 44, Director of LISI.

He attends the Board of Directors and the Audit Committee.

Pascal LEBARD has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):

- None.

Outside the LISI Group (in France and abroad):

- Director – Deputy CEO of Sequana Capital,
- Chairman of Greysac SAS,
- Chairman of Permal Group SAS,
- Director of Club Méditerranée,
- Director of Permal Group Ltd,
- Director of Société Générale de Surveillance (Geneva),
- Director of Exint SA,
- Member of the Supervisory Board of ARJOWIGGINS SAS,
- Member of the Supervisory Board of ANTALIS International SAS,
- Member of the Supervisory Board of Antonin Rodet SAS,
- Manager of Ibéria SARL.

Thierry PEUGEOT, age 49, Director of LISI.

He attends the Board of Directors and the Compensation Committee.

Thierry Peugeot has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):

- None.

Outside the LISI Group (in France and abroad):

- Chairman of the Supervisory Board of PEUGEOT SA,
- Deputy Chairman of Ets PEUGEOT Frères,
- Director of Société Foncière Financière et de Participation,
- Director of Française de Participations Financières,
- Director of Société Anonyme de Participations,
- Director of Compagnie Industrielle de Delle,
- Director of Immeubles et Participations de l'Est,
- Director of FAURECIA,
- Director of Air Liquide.

Jean-Philippe KOHLER, age 46, Director of LISI.

He has held the following other directorships and positions:

Related to the LISI Group (in France and abroad):

- 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 COSMETICS SAS,
- Member of the Management Committee of LISI AEROSPACE SAS,

- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of EUROFAST SAS,

Outside the LISI Group (in France and abroad):
- CEO of Compagnie Industrielle de Delle,
- Manager of Société Civile CIKO.

Christophe VIELLARD, age 65, Director of LISI.

He attends the Board of Directors and the Audit Committee.

Christophe VIELLARD has held the following other directorships and positions:

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

Outside the LISI Group (in France and abroad):
- Deputy Chairman of VIELLARD MIGEON & Cie,
- Member of the Management Committee of Financière VIELLARD SAS,
- Member of the Management Committee of REBOUD ROCHE SAS,
- Member of the Management Committee of FSH Industries,
- Member of the Management Committee of SELECTARC Industries,
- Director of Compagnie Industrielle de Delle,
- Director of RAPALA-VMC OYJ (Finland),
- Director of FSH WELDING GROUP,
- Manager of Groupement Forestier des Lomonts,
- Member of the Board of Directors of Agence Régionale de Développement de Franche-Comté.

7.2 Family ties

The only direct family tie between the persons listed above is the following:

Gilles KOHLER and Jean-Philippe KOHLER are brothers.

7.3 No conflicts of interests

To the Company's knowledge, there are no current or potential conflicts of interests between LISI S.A. and the members of the Board of Directors, both in terms of their personal interests and of their other obligations. The internal rules of the Board provide explicitly, if applicable, for a situation of conflict of interests: "The members of the Board of Directors have as an obligation to notify the Board of any situation of conflict of interests, be it potential, current, or future, where they are or are likely to be involved. Whenever the Board of Directors deliberates on a subject that concerns one of its members, either directly or indirectly, the said member is invited to leave, for the time of deliberations and, if applicable, of the vote, the Board meeting."

7.4 No conviction for fraud, involvement in bankruptcy or incrimination and/or public sanction

To the Company's knowledge, in the past five years:

- There has been no conviction for any member of the Board of Directors.
- No member of the Board of Directors has been involved in a bankruptcy, sequestration or liquidation in a capacity as member of management of a board of directors or supervisory board.
- No member of the Company's Board of Directors has been incriminated or publicly sanctioned by the statutory or regulatory authorities.

8. Directors' interests

8.1 Compensation and benefits in kind

Compensation paid to directors and LISI shares held as at December 2006.

in thousand euros		Compensation paid by LISI S.A. (a) in 2006	Compensation paid by LISI S.A. (a) in 2005	Number of LISI shares held by directors	
Director	Mandate			Physical entities	Legal entities
Gilles KOHLER	Chairman and CEO	294.6	271.6	6,515	
Emmanuel VIELLARD	Deputy Chairman	259.2	253.6	2,325	
Christian PEUGEOT	Director	2.5	5.0	1	
Roland BURRUS	Director	2.5	6.2	20	
Christophe VIELLARD	Permanent representative of VMC	3.7	8.7		634,230
Jean-Philippe KOHLER	Permanent representative of S.C. CIKO	198.6	222.0	3,000	15,153
Thierry PEUGEOT	Permanent representative of CID	3.7	8.7	25	5,928,724
Eric ANDRE	Director	3.7	8.7	5	
Pascal LEBARD	Director	3.7	3.7	10	
TOTAL		**772.2**	**788.2**	**11,901**	**6,578,107**

(a) Compensation paid by LISI S.A. comprises total gross compensation, bonuses, benefits of all kinds and directors' fees paid during the year to each director according to their employment contract or to their corporate mandate.

Directors' fees

The directors' duties are compensated in the form of directors' fees for attendance at meetings of the Board of Directors and other committees of which they are members. For 2006, directors' fees amounted to €58,750 and the attendance rate stood at 97.9%.

8.2 Stock options

No share options were granted to directors in 2006.

Options exercised during the period by each of the corporate officers (nominative information):

Corporate officer	Number of options exercised	Price
Gilles KOHLER	6,500	€22.70
Emmanuel VIELLARD	600	€18.81

8.3 Profit-sharing

8.3.1 Profit-sharing and incentive scheme

Profit-sharing

The funds paid out in the form of special reserves for profit-sharing during the past 3 years are as follows (in million euros):

2004	2005	2006
3.9	2.6	3.1

Incentive

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.

8.3.2 Group Provident Plan

In 2001 the LISI Group created for its French companies a group provident plan, the "LISI en action" fund. This plan facilitated participation in 2001, 2004 and 2006 in a reserved capital increase for employees in the sums of €1.47 million, €0.8 million and €1.18 million respectively.

In 2002, 2003 and 2005 the Group Provident Plan was renewed in the form of a repurchase of shares.

The levels of voluntary contributions by employees and the extent of profit-sharing schemes are set by the company in accordance with a schedule.

Benefits awarded to employees under the Group Provident Plan are recognized in the income statement and measured in accordance with IFRS 2.

As at December 31, 2005, the "LISI en action" plan consisted entirely of LISI shares, for a total of 103,500 shares, and had 1,107 members.

8.3.3 Employee shareholding

There is no authorization today for a capital increase.

The percentage of share capital held by the Group's employees stood at 1% as at December 31, 2006.

8.3.4 Stock options

In 1995, LISI launched plans to grant subscription or purchase options for LISI shares to the personnel of LISI or its subsidiaries and for the company's directors. Options relating to the plans in place on December 31, 2006 can be exercised 4 years after the date the options are granted, and this for a period of 4 to 5 years depending on the plan. The options granted are cancelled in the event of resignation or redundancy or if the period during which they can be exercised has expired.

Option applications in 2006 concerning the Goup's 10 non-corporate officer employees holding the largest number of options (general information):

Number of options exercised	Price
8,950	€18.81
290	€27.82

RISK FACTORS

RISK FACTORS

Long before the appearance of the "sustainable development" concept, like many industrial concerns, the LISI Group since the mid-1990s had embraced a policy of risk identification and control in two main areas: manufacturing and HSE (Health, Safety and Environment).

The LISI Group quickly focused its approach on Risk Management of every sort, industrial, commercial, financial and strategic, and has sought to manage these in an in-depth manner, in identical fashion in every country where the Group is located.

Started in 2005, this new policy was reflected in increased skills and means, and was implemented in the 2005 and 2006 financial years. It covers three main areas: mapping of risks, HSE activities and crisis management, for which periodic qualitative and quantitative reporting was set up. The resulting action plans are then fixed for the following years.

HYGIENE, CLEANLINESS AND SITE ENHANCEMENT

The rules established in 2005 were applied in 2006, using plans that had been drawn up by the Divisions and supported by a sum allocated for specific issues, such as for example the improvement of lighting in the workshops. One of the high points of the year, following the experiment at Villefranche de Rouergue, was to extend the prohibition on smoking to all the French factories, this already having been implemented in the British and American plants. Help in stopping to smoke has been made available for difficult cases.

Safety and work accidents

In direct cooperation with the Veritas Group based upon a multi-year support program, the compliance program for machinery is nearing its end. The ATEX zone was made compliant at all the main sites, with this year the Saint-Saturnin du Limet plant, which has solved the problem of areas of increased suction in the recently renovated polishing workshops.

The action plan is in constant flux, with the support of our insurers who carry out regular audits at our various locations. These technical controls result in highly detailed recommendations. We would mention, for example, the installation of reinforced fire hydrants at the Delle plant, fire detectors at Villefranche de Rouergue, and installation of a sprinkler system at the Saint-Saturnin du Limet plant.

In respect of work accidents, the Group made a concerted effort in 2006 that led to a significant drop in the number, frequency and seriousness of accidents at all three divisions. For example, in the AUTOMOTIVE Division all indicators dropped by over 40%. A policy of instructions suited to each workstation has been drawn up in the AEROSPACE Division. The target is to achieve "Zero Accident" for the entire Group.

Environment

2006 was the year in which the Group started the certification process for ISO 14001, in France in partnership with the French Environment and Energy Agency, ADEME. Certification audits have taken place at the Grandvillars and Lure locations and will be carried out at Thiant in March 2007. Today there are five certified locations in Germany, including those of Knipping and KKP. Specific action has also been taken, for example cascading the rinsing water at the Grandvillars pickling plant, thereby saving 1,100 times the annual consumption of a household; and recycling the waste from the plastic injection process at KKP, the total elimination of chlorinated solvents at Saint-Ouen l'Aumône and of the last transfomer at Pyralène.

MAPPING RISKS

Based on the COSO (Committee Of Sponsoring Organizations) standards, each of the LISI Group's Divisions has drawn up a list of equipment, operational, commercial and financial risks that it faces. This mapping is scaled according to seriousness and probability and has resulted in:

- A summary presentation,
- Precise action plans that seek to reduce harmful effects if such occur.

We offer two examples to illustrate this in-depth analysis: putting in place of a detailed plan for the protection of the facilities and strategic assets at the Villefranche de Rouergue aeronautics factory in the event of a flood following a sharp rise in the level of the River Aveyron; the creation of safety stocks of products manufactured on a stamping press at Puiseux, the only one of its type within the Group. In this specific case LISI AUTOMOTIVE has built up its stocks to a level equivalent to an average stoppage of production following a major breakdown that might occur on this equipment that is indispensable for the assembly of certain of our customers' vehicles.

Crisis Management

Notwithstanding the rigorous work to identify and analyze every sort of risk, it cannot theoretically be excluded that something particularly seriously might occur that would harm the image of the LISI Group and its subsidiaries.

To take such eventualities into account, which would apply most especially to corporate communications, we have prepared, with the help of specialist consultants, a Guide to Crisis Management and Communications, intended for everyone in the Group. This comes as a kit and lists chronologically and in detail the various steps to be taken in such an occurrence: golden rules for messaging, a master press release, approaches for handling the media, information both for internal use and for the authorities, and of course the lessons to be drawn and the action plans to be implemented.

The Villefranche de Rouergue plant, which in December 2003 had the unhappy experience of the Aveyron overflowing, leading to the interruption for several days of a large part of the production, is the pilot for this issue.

Several partial drills consisting in evacuation, deploying removable flood barriers and securing of equipment, took place in 2006.

RISK EXPOSURE

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

- strategic risks,
- general risks covered by the various insurance policies,
- environmental risks,
- legal risks,
- IT-related risks,
- market risks (see note 4.6-f)
- other risks.

1. Strategic risks

These risks are identified as major risks likely to compromise durably the completion of the strategic plan. All the risks identified that were classified in the "STRONG" occurrence category are subject to a corrective action plan and are treated in priority by the management of the various divisions.

2. General risks covered by the various insurance policies

The LISI Group is covered by Group insurance policies that are intended to protect it in the event of major damage being caused. The amount covered is contractually limited to €100 million.

a) Cover for property risks

At January 1, 2007 this policy covered own and others' installations, as well as operating losses in the event of a claim. The deductible is applied per loss and stands at €100K with maximum cover of €668 million for buildings and equipment and €142 million for goods. Site inspections are carried out from time to time by the insurers in order to set up preventive programs in coordination with the Safety and Environment and Action Plan (PASE) at the locations (cf: § Safety and work accidents). In 2006 the policy was extended to several critical machines in the AUTOMOTIVE Division, to cover the risk of operating losses following machine breakdowns.

Safety and work accidents

b) Third party liability insurance:

This covers personal, physical and intangible damage that might occur during operations, as well as damage that occur after delivery, in the sum of €15.2 million per claim and per annum in primary coverage. The Group is also covered by an Excess policy for a sum of €7.6 million in addition to primary coverage. An aerospace policy covers special risks in the sum of €305 million (flight stoppages are covered up to $125 million per claim and per annum, and space products up to $125 million per claim and $250 million per annum).

c) Directors' liability insurance policy:

The Group has taken out a Directors' liability insurance for all its subsidiaries with cover of up to €7.7 million per annum.

3. Environmental risks

As at December 31, 2006, the provisions for environmental risks recorded in the balance sheet stood at €9 million versus €9.4 million as at December 31, 2005, and €7 million as at December 31, 2004.

More specifically, a sum of €4.6 million has been established which relates to the assessed cost of decontaminating the Torrance site (California – USA) which suffered TCE (solvent) pollution several years ago (before 1975). The process that is currently in progress involves pumping and filtering underground water downstream from the site. This treatment has facilitated processing over 15 metric tons of TCE in shallow pollution, and over 7 metric tons in the layers further from the surface. The estimated amount at December 31, 2006, facilitates handling over 10 years of treatment in accordance with the techniques recommended by our advisors.

In France, the Group operates out of a number of very old industrial sites, soil studies at which have been carried out in line with national planning regulations. Thus, at AUTOMOTIVE, a complete inventory of survey costs was conducted and led to completing the provision for 2006, thus bringing the environmental provision up to €1.7 million.

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 considered by the Audit Committee. Provisions for such litigation are €2 million. In general, all legal positions are arrived at and reviewed by both internal and external specialists, in coordination with our external Auditors.

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 of its IT systems with a specific policy.

6. Other risks

a) Raw material risks

The Group uses specific raw materials that have recently undergone significant changes within a limited time. In the past, a fixed price was guaranteed for supplies for a period of between 3 months and 3 years without any commitment being made in terms of volume. The recent situation shows signs of genuine tension in terms of prices and availability of most of the raw materials used by the Group. Into 2007, only the AEROSPACE Division has been able to find procurement agreements for the whole of 2007, yet these integrate overload clauses. The other divisions are covered for approximately 3 months.

b) Energy risks

The Group has been confronted by brutal energy cost hikes at most of its operating sites. It has entered into a three-year electricity supply contract with EDF for its French locations. Following the sharp increase in 2006, the Group will benefit from the "TRTAM" contract, which will bring the electricity bill in France down significantly up until November 2008. Abroad the Group is assessing its degree of cover in line with local market conditions.

c) Commercial risks

For the record, the Group manufactures several thousand different items using various raw materials (steels, alloys, aluminum, various plastics, titanium etc), employing a range of technologies (cold and hot forming machines, machining, die trimming and stamping, plastic injection, thermal processes and surface treatment).

As a result, the commercial risk is spread over a considerable number of products manufactured at the 35 LISI sites around the world. Thus, the company's first product in 2006, a parking brake system, accounted for slightly above 1% of the total consolidated sales revenue.

The main product families are developed in collaboration with customers, and the proportion of turnover from patented products plays only a secondary role in total consolidated sales.

d) Customer-related risks

Looking at the figures for 2006, only 3 clients accounted for more than 5% of the LISI Group's consolidated sales. The 10 leading customers represent 44% of total sales; this list includes clients of all 3 divisions, AEROSPACE, AUTOMOTIVE and COSMETICS. Our 77 largest customers accounted for 80% of sales.

Sales revenues with the three largest customers have developed as follows:

	2004	2005	2006
CUSTOMER A	13.75%	11.9%	9.5%
CUSTOMER B	7.9%	10.9%	12.25%
CUSTOMER C	12.5%	7.2%	5.7%

e) Product risks

As described in paragraph 2b) 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 specifications or customer specifications that cannot be extended to mastery of the actual application.

f) 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 company'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 (plating and assembly), since most of the Group's activities are integrated. In the 2006 financial year all operations subcontracted by Group sites represented about 6.5% of consolidated sales revenues.

DOCUMENTS SPECIFIC TO THE COMBINED GENERAL MEETING

REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS FINANCIAL SECURITY LAW (ART. L 225-37 OF THE FRENCH COMMERCIAL CODE)

REMINDER OF THE FSL CONTEXT AND THE OBJECTIVES OF INTERNAL CONTROLS EXERCISED WITHIN THE LISI GROUP

In accordance with article L 225-37 of the French Commercial Code on Financial Security, the Chairman of the Board of Directors must compile a report containing details of the preparation and organization of the Board's tasks and of the internal control procedures that have been set up.

In that context, the report will be mainly devoted to the factual description of applicable procedures, of an assessment of the accomplishments of the year, and of future prospects.

1 PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' TASKS

1.1 Organization

The Board meets whenever it is in the interests of the company to do so. Directors may be invited to Board meetings by the Chairman using any means available and even verbally.

Decisions are made based on a quorum and a majority vote, as provided for by the Law; in the event that votes are split, the Chairman's vote will be the casting vote. However, a majority of three quarters of the votes of the members who are present or represented is required when decisions relating to the following issues are to be taken:

- The calculation of amortization and depreciation expenses and of provisions,
- Proposals to be made to the Shareholder's Ordinary Meeting for the allocation of profits for the financial year just ended,
- Resolutions to be submitted to a Shareholder's Extraordinary Meeting,
- The replacement of a director who has resigned or is deceased.

The Board of Directors sets out the company's business policies and ensures that they are followed. The Board of Directors conducts the checks and verifications it deems opportune.

1.2 Operating procedures

The Board meets upon invitation by the Chairman a minimum of 4 times per financial year and whenever an important decision is to be made. Each member participates in the tasks supervised by the Chairman and decisions are made on a majority vote of the members who are present or represented.

Debates are recorded in a report that is submitted for approval by the members within a month of the meeting and signed at the following meeting. The Board submits legal resolutions for approval by the Shareholders' Meeting.

1.3 Preparation of tasks

- Prior to each Board meeting, participants receive a file that has been duly documented so that they may adequately prepare for the meeting.

- Meetings that require the approval of annual and half-yearly financial statements are accompanied by a presentation by the Audit Committee, which will have met prior to the meeting.
- Meetings on the subject of compensation are accompanied by a presentation by the Compensation Committee, which will have met prior to the meeting.

1.4 Decision-making process

All major decisions are subjected to the Board's ratification, in accordance with the operating procedures described in paragraph 1.2. Important decisions include: approval of financial statements, acquisitions, disposals, forecasting elements, the compensation of directors, the nomination of directors, or any other element which may have a significant influence on the financial statements.

2. RESTRICTION OF THE POWERS OF THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer and Chairman of the Board is assisted by the Executive Vice President for the day-to-day management of the group. Their power is limited by the Board of Directors' authority to rule on all decisions relating to the structure of the group, such as described in paragraph 1.

Present on the Board of Directors are 3 independent directors, in compliance with the Bouton report. There are also 2 specific committees in existence: the Compensation Committee and the Audit Committee, both of which are responsible for supervising the work of General Management in these 2 fields. The two committees brief the Board of Directors on the work they have carried out (organizational principles are detailed in paragraph 3.2).

The principles and rules governing corporate officers' remuneration, which are verified annually by the Remunerations Committee, are detailed in the chapter dealing with corporate governance policy.

3. INTERNAL CONTROL PROCEDURES

3.1 General principles

- Reminder of the objectives of General Management: according to an internal memo dated August 21, 2003 (ref.: EV/VC14203), General Management has declared its objectives in clear terms. The standards currently selected are that of the COSO, the methodology of which should enable the gradual convergence of these objectives with the reality experienced by all individuals within the group.
- To ensure that these objectives are met, the group has set up a prevention and detection process:

- At group level, through the coordinated audits of the internal audit officer and external auditors (during the review of internal control mechanisms which takes place at least once a year in all divisions);
- For each division, through the deployment policy of the local auditors.

It must be noted that this prevention mechanism is non-exhaustive and that a residual risk remains.

- This mechanism is based on a decentralized organization for 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.

This manual is supplemented by a Group accounting procedures manual. In addition, the Group has deployed a uniform reporting and information system in each division using an identical procedure each time.

- The specificities of the LISI Group's activities require that precise quality control be carried out on operational processes in the following areas:

- quality;
- health and safety;
- the environment;
- staff and salaries;
- accounting, management control and cash flow.
- Purchases, management of activity and production flows, inventories.

- Action is taken within the Group on a continual basis to ensure that these mechanisms are effective. This action is regularly assessed using performance tables.

3.2 Organizational principles and general context of internal controls

- Decision-making committees: 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.
- Supervisory bodies:

- The Audit Committee familiarizes itself with the general management and risk-monitoring environment in the presence of the external auditors and the internal auditing officer.
- On account of the Group's size, the internal audit unit was strengthened in 2006. It 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 can be co-opted to round off the team.
- The structure of the procedure for internal audits may require the intervention of an outside consultancy specializing in risk management.
- 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 that are deemed critical are monitored across the Group, such as finance, cash flow management, consolidation, the legal department, insurance cover, safety policy, environmental policy, purchasing policy and human resources management.

• 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, which is supplemented by an accounting and consolidation procedures manual. These procedures are made available to all the individuals involved and are regularly updated in electronic form via a dedicated Internet portal.

- Each division and each operational unit is responsible for ensuring that these procedures are followed and adapted to their country's specific context.

- Each manager receives notification of new levels of responsibility in the form of delegation letters.

• Risk-mapping and monitoring processes:

- The Group is committed to a process that will eventually allow it to converge with COSO risk mapping procedures. This methodology is currently employed throughout the Group with the exception of Knipping, down to the level of the basic Management Units. It is subject to a regular, comprehensive annual review at the time of the preparation of the 4-Year Strategic Plan. The priority action plans for the main risks identified in each division are validated within the budget of the following year.

- The security and environmental risks committee identifies and lists all inherent risks since 2001 and takes the corrective action required.

3.3 Main internal control procedures relating to the drafting and processing of accounting and financial information

• The Group carries out an annual review of the 4 to 5-year strategic plan that has been set out and, based on this review, defines a priority action plan. 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: base Management Units, Business Units, Divisions and Group.

• 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 reviewed specifically by the local teams, BUs, divisions or the Group depending on the materiality level, before the actual commitment is made.

• The Cash Flow-Finance process also requires specific commitments. For example, all financial investments are carried out at Group level, with the exception of cash managed in the US.

• 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 has been subjected to the quarterly review of management indicators (industrial accident rates, non-compliances, etc.) and the major resulting action plans.

• In respect of IFRS, the LISI Group has adopted IAS standards since the financial statements prepared for the 2005 financial year. The accounts to December 31, 2006 thus represent the 3rd financial year in a row to comply with these standards that are in a constant state of development. All the teams responsible for applying and verifying IFRS standards are of the opinion that the Group has now fully integrated all the significant provisions.

3.4 Achievements in 2006 and outlook

• The "Risk Management" initiative, whose purpose is to strengthen the Group's internal controls, is today an integral part of the process that is in use throughout all the divisions with the exception of Knipping, which is scheduled for 2007.

• The Group also aimed to strengthen its risk detection and prevention activities through better organization of its internal checking unit. Adding an auditor to the internal control unit and the continuation of direct cooperation with the external auditors has rendered the controls much more efficient.

This objective was again achieved in 2006, according to the number of checks performed:

	2005	2006 targets	2006 achievements
Full Audit of an area of procedure:	11	10 to 12	13
Notes from internal audits complied with:	7	5 to 6	7

• Several new projects were kicked off by the Group in 2007:

- Centralized cash control,
- Integration of divisional indicators into the Group's unified management system,
- More consistent application of legal reviews,
- Set up of the crisis management procedure.

3.5 Conclusion

In 2006, the interventions conducted by the entire internal control system described above have not revealed any major risks likely to affect significantly the achievement of the targets set by the General Management.

Whenever non-compliances were observed, proposals for improvement were made, validated, and handled by the relevant operational staff, within the timeframes set. Subsequent follow-up procedures make it possible to ensure they are applied properly.

With the FSL Act, the Group has engaged into an ongoing progress initiative. Relying on knowledge that can always be improved and the involvement of those in charge of key processes, it facilitates the development and improvement of internal control over time.

Gilles KOHLER

Chairman of the Board of Directors

AUDITORS' REPORT, DRAWN UP IN COMPLIANCE WITH THE LAST PARAGRAPH OF ARTICLE L.225-235 OF THE COMMERCIAL CODE, ON THE REPORT OF THE CHAIRMAN OF THE BOARD OF LISI, IN RESPECT OF THE INTERNAL CONTROL PROCEDURES FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

Financial year ended December 31, 2006

Dear Shareholders,

In our capacity as Auditors of LISI and in compliance with the provisions of the last paragraph of article L.225-235 of the Commercial Code, we hereby submit our report on the Report of the Chairman of your company in compliance with the provisions of article L.225-37 of the Commercial Code for the year ending December 31, 2006.

In his report, the Chairman must, first and foremost, provide details of the preparation and organization of the tasks for which the board of directors is responsible and of the internal control procedures set up within the company.

It is for us to inform you of such observations as are called for by ourselves, in respect of the information and declarations contained in the Chairman's Report concerning the internal control procedures for the preparation and processing of accounting and financial information.

We have carried out our work in accordance with the professional rules that apply in France. This has required us to carefully evaluate the sincerity of the information and declarations within the Chairman's report regarding internal monitoring of the elaboration and processing of accounting and financial information. These careful evaluations largely consist of:

- familiarizing ourselves with the objectives and general organization of these internal controls, as well as the internal control procedures for the drafting and processing of accounting and financial information, as they are presented in the Chairman's report.
- familiarizing ourselves with the work underlying the information thus delivered in the report.

Based upon this work, we have no observations to make concerning the information provided in respect of the company's internal control procedures for the preparation and processing of accounting and financial information, as contained in the Chairman's Report, prepared in accordance with Article L.225-37 of the Commercial Code.

Paris La Défense, February 23, 2007

Salustro Reydel
Member of KPMG International
Marie Guillemot
Partner

Exincourt, February 23, 2007

Exco Cap Audit

Pierre Burnel
Partner

SPECIAL AUDITORS' REPORT ON REGULATED AGREEMENTS AND COMMITMENTS

Financial year ended December 31, 2006

Dear Shareholders,

In our capacity as Auditors for your company, we submit our report on the regulated agreements and commitments of which we have been apprised. It is not part of our task to check out the possible existence of such agreements or commitments.

We must inform you that we have not been advised of any agreement or commitment as stipulated in Article L.225-38 of the Commercial Code.

Paris La Défense, February 23, 2007

Salustro Reydel
Member of KPMG International
Marie Guillemot
Partner

Exincourt, February 23, 2007

Exco Cap Audit

Pierre Burnel
Partner

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended December 31, 2006

Dear Shareholders,

To carry out the assignment confided upon us by your General Meeting, we have examined the consolidated accounts of LISI S.A. for the financial year ending December 31, 2006, as appended to this report.

The consolidated financial statements were drafted by the Board of Directors. Our task is to issue an opinion on these financial statements based on our audit.

Assessment of the consolidated financial statements

We performed our audit in accordance with the professional standards applicable in France; these standards involve diligences to achieve reasonable certainty that the consolidated statements contain no significant anomalies. An audit involves examining the key elements that support the data contained in these financial statements, through surveys. It also involves assessing the accounting principles followed and any significant estimates used in the drafting of financial statements, as well as assessing overall presentation. It is our belief that our audit provides a reasonable basis for the opinion expressed hereafter.

We certify that the consolidated financial statements for the period are, in regards to the IFRS standards as adopted by the European Union, honest and sincere, and provide a reliable picture of the assets, the financial health, and the performance of the group made up of the physical and legal entities comprised in the consolidation scope.

Justifications for our assessments

In accordance with the provisions of article L.823-9 of the French Commercial Code with regard to the justifications for our assessments, we bring the following to your attention:

- The Management of the LISI Group has had to make judgments and estimates and to formulate assumptions, which concern in particular depreciation of assets, provisions and deferred taxes, stated in Notes 2.2, 2.10, 2.17 and 2.27 in the appendix. For all these estimates, we have considered the data and assumptions upon which these judgments and estimates were based, sample-tested the Company's calculations, reviewed the documentation available and checked that the annexed notes provide appropriate information on the assumptions employed by the Company.
- At each year-end the Company regularly performs an impairment test for goodwill and assets without a defined useful life, and also measures if there is an index of loss of value of long-term assets, in accordance with the methods described in Notes 2.7 and 2.10 to the financial statements. We have examined the methods for carrying out the impairment test together with forecast cash flow and the assumptions employed, and we have verified that Notes 2.7 and 2.10 provide suitable information.
- Note 2.8.1 stipulates the methods for measuring pensions and similar commitments. These commitments have been assessed by third-party actuaries. Our work has consisted of examining the data used, considering the assumptions employed, checking the calculations made and checking that Notes 2.18.1 and 4.4.2 of the appendix to the consolidated financial statements provide suitable information.

These assessments form part of our task as Auditors of the consolidated financial statements, taken as a whole, and have therefore helped us to form our unreserved opinion, as it is described in the first part of this report.

Specific verification

Besides, in accordance with professional standards applicable in France, we have also verified the information delivered in the report regarding the management of the Group. We have no comments to make on their sincerity and consistency with the consolidated financial statements.

Paris La Défense, February 23, 2007

Salustro Reydel
Member of KPMG International
Marie Guillemot
Partner

Exincourt, February 23, 2007

Exco Cap Audit

Pierre Burnel
Partner

RESOLUTIONS PRESENTED BY THE BOARD OF DIRECTORS

COMBINED GENERATION MEETING OF APRIL 27, 2007

AGENDA

IN THE COMPETENCE OF THE ORDINARY GENERAL MEETING

- Review and approval of the annual financial statements for the period ended December 31, 2006;
- Discharge to the Directors and Auditors;
- Approval of consolidated financial statements for the period ended December 31, 2006;
- Approval of the conventions covered by articles L.225-38 et seq. of the French Commercial Code;
- Appropriation of earnings;
- Renewal of directors' mandates
- Authorization for the Company to repurchase its own shares;
- Determination of directors' fees;
- Proxies;
- Miscellaneous questions.

IN THE COMPETENCE OF THE EXTRAORDINARY GENERAL MEETING

- Transfer of head office;
- Correlative changes to the by-laws;
- Free award of shares; authorization to be given to Board of Directors to carry out distribution of this award of free shares;
- Award of stock options; authorization to be given to Board of Directors to carry out distribution of these stock options; Authorization to be given to the Board of Directors to issue shares by contribution in kind of stock certificates or marketable securities that provide access capital up to a limit of one million three hundred thousand euros (excluding premium);
- Proxies;
- Miscellaneous questions.

DRAFT RESOLUTIONS

IN THE COMPETENCE OF THE ORDINARY GENERAL MEETING

1st resolution

Having listened to the reading of the Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves the annual financial statements established as at December 31, 2006, as they are presented, with profits of €16,221,185, as well as the transactions described in these financial statements that are 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 €15,379.

2nd resolution

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 to December 31, 2006, set out in accordance with article L. 233-16 et seq. of the French Commercial Code, showing profits of €47,988,704.

3rd resolution

The General Meeting, having heard the Auditors' special report concerning agreements covered by Article L.225-38 of the Commercial Code, approves the information given in that report.

4th resolution

The Shareholders' General Meeting gives full discharge to the Directors for their work for the year 2006, and to the Auditors for their mandate.

5th resolution

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	€16,221,185
increased by retained earnings to a total of	€31,516,267
To give a total of	**€47,737,452**

This represents distributable profit, which the Board of Directors proposes should be distributed as follows:

To the legal reserve	€62,790
as dividends to shareholders a sum of €1.30 per share, for the total of	€13,274,018
payable on May 4, 2007 the remainder to the retained earnings account, for the total of	€34,400,644

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 €1.30. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.30.

In addition, the Shareholders' General Meeting acknowledges that it has been apprised that the dividend payouts per share for the last 3 years were as follows:

Financial year ended December 31, 2003:	net dividend: €0.80	tax credit: €0.40	gross income: €1.20
Financial year ended December 31, 2004:	dividends eligible for the 50% allowance: € 0.90		
Financial year ended December 31, 2005:	dividends eligible for the 40% allowance: €1.08		

6th resolution

The General Meeting renews the appointment as Director of Mr. Emmanuel VIELLARD for a period of six years that will end at the Ordinary General Meeting that will approve the financial statements for the year ended December 31, 2012.

7th resolution

The General Meeting renews the appointment as Director of the Compagnie Industrielle de Delle, represented by Mr. Thierry PEUGEOT, for a period of six years that will end at the Ordinary General Meeting that will approve the financial statements for the year ended December 31, 2012.

8th resolution

The General Meeting renews the appointment as Director of Mr. Christian PEUGEOT for a period of six years that will end at the Ordinary General Meeting that will approve the financial statements for the year ended December 31, 2012.

9th resolution

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 May 10, 2006;
- gives its authorization, in accordance with articles L.225-209 et seq. of the French Commercial Code, to the Board of Directors, to proceed, by whatever means it deems appropriate, to the repurchase of own shares, representing up to 10% of the company's share capital, corresponding to 1,021,078 shares, except for the acquisition of shares meant to be retained and the delivery of shares to be used as consideration or payment for external growth operations whose total will be limited to 5% of the share capital or 510,539 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 French market authority (AMF);
- to grant stock options or free shares to employees and corporate officers of the company and/or its consolidated group;
- to retain and use shares as consideration or payment for potential acquisitions;
- to cancel purchased shares, subject to the approval of the Shareholders' Extraordinary 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 constantly within the limits set by article L.225-209 of the Commercial Code.

The following terms apply to this authorization:

- the company may not repurchase its own shares for more than €85, not including transaction fees;
- the company may not sell all or part of the shares purchased for less than €45, not including transaction fees.

The maximum amount that LISI S.A. can pay under the assumption of purchases at the maximum price set by the General Meeting, namely €85, will come to €86,791,630.

This authorization is valid for a period of 18 months from the date of this Shareholders' 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.

10th resolution

The General Shareholders' Meeting has decided to allocate directors' fees of €75,000 to the Board of Directors.

This decision, which applies to the current year, will remain valid until a decision is made to the contrary.

11th resolution

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.

IN THE COMPETENCE OF THE ORDINARY GENERAL MEETING

12th resolution

The General Meeting, having heard the Board of Directors' Report, decides to transfer the head office from 193 Rue de Bercy, Gamma A Tower, 75012 Paris to Le Millenium, 18 Rue Albert Camus, 90008 Belfort, as of May 1, 2007.

13th resolution

On account of the previous resolution, the General Meeting decides to change Clause 4 of the Articles of Association as follows:

Article 4 – Head Office -

Former wording:

The head office shall be at Gamma A Tower, 193 Rue de Bercy, 75012 Paris

New wording:

The head office shall be at Le Millenium, 18 Rue Albert Camus, 90008 Belfort

14th resolution

The General Meeting, having taken note of the Directors' Report and the Auditors' Report, in accordance with Articles L.225-197-1 et seq. of the Commercial Code:

- Authorizes the Board of Directors to carry out, on one or several occasions, on behalf of beneficiaries in the category that it will determine of employees and corporate officers of the Company as stipulated in Article L. 225-197-1, II° of the Commercial Code, as well as employees and corporate officers of related companies as stipulated in Article L. 225-197-2, of the Commercial Code, a free award of the Company's shares;
- Decides that the Board of Directors shall determine the number of shares that can be awarded free of charge to each beneficiary, and the conditions and, if applicable, the criteria for the award of these shares;
- Decides that the total number of shares to be awarded free of charge shall not exceed 65,000 shares, being today 0.6% of the Company's equity, subject to any adjustments in order to maintain awarded rights, but without exceeding an overall limit of 10% of the Company's equity today;
- Decides that the award of the said shares to their beneficiaries shall become final, subject to fulfilling the conditions or criteria that may be set by the Board of Directors, at the end of a vesting period of at least two years, and that during this period the beneficiaries shall not be owners of the shares awarded to them and the resulting rights shall be non-transferable;
- Decides that in the event of the death of beneficiaries during this two year period, the heirs of the deceased beneficiaries can ask to benefit from the free award of shares within a period of 6 months from the death, but the shares shall not be finally acquired by them and shall not be provided to them until the end of the vesting period and subject to fulfillment of any conditions for award set by the Board of Directors;

- Decides that in the event that shares are awarded free of charge to corporate officers or employees of related companies and that these companies cease to be related to LISI S.A. during this two year period, the Board of Directors of LISI S.A. can decide at its discretion to maintain the award rights of the beneficiaries at the end of the vesting period subject to fulfillment of the other conditions;
- Decides that during this two year period, in the event of dismissal or resignation, or removal for corporate officers, beneficiaries lose all rights to the award of free shares, whereas in the event of retirement or disability that forces them to leave their positions in the Company or in a related company, the beneficiaries shall retain their rights to the award of free shares at the vesting date set by the Board of Directors subject to fulfillment of any other award conditions;
- Takes note that at the end of the vesting period defined above and subject to having fulfilled the conditions or criteria that might be set by the Board of Directors, the award of free of shares shall take place using existing shares that the Company shall have acquired for this purpose in accordance with the provisions of Article L.225-208 of the Commercial Code;
- Decides that at the end of this two year period, the shares shall be definitively awarded to their beneficiaries, but shall be non-transferable and must be held by them for a minimum period of two years;
- Delegates full authority to the Board of Directors, with possibility of sub-delegation in accordance with the provisions of the law, to implement this authorization, and in general to carry out everything necessary, particularly in respect of setting up those steps to protect beneficiaries' rights by adjusting the number of shares awarded free of charge in the light of possible transactions concerning the Company's equity that might take place during the vesting period, to decide if corporate officers may dispose of their shares thereby received prior to the end of their appointment or to set the number of shares they must retain in their own name until the end of their appointments.
- Sets at thirty-eight months from today's date, the validity period of this authorization.

15th resolution

The General Meeting, having heard the Directors' Report and the Auditors' Report, in accordance with the provisions of Articles L. 225-179 and seq. of the Commercial Code, authorizes the Board of Directors to award, on one or several occasions, for the benefit of persons it shall designate from among employees and corporate officers of the Company or related companies, stock options in the Company's shares arising from the prior purchase by the Company and up to a limit of 20,000 shares.

This authorization can be used on one or several occasions by the Board within 38 months from today's date.

The Board of Directors shall draw up each stock options plan, stating in particular the beneficiaries, the conditions under which the options shall be awarded, and such conditions can include or not, prohibition clauses on immediate resale in whole or in part of the shares, their purchase price, and the criteria to benefit from the plan.

The purchase price of shares by beneficiaries of the options shall not be less than 95% of the average purchase price of the Company's treasury shares for award to employees and corporate officers.

The options must be exercised within 8 years from today's date or they will be allocated by the Board. This exercise period shall end early in the event the beneficiary of the options leaves the Company or one of the related companies.

However, if departure is on account of retirement or disability that obliges him/her to leave his/her position in the Company or one of its related companies, that person can benefit from the right awarded to options within a period of 6 months from his/her effective departure, while the overall exercise period for the options may not exceed eight years.

If options are granted to corporate officers or employees of related companies, the exercise period for the options shall end early in the event that the company in question ceases to be related with LISI S.A. In such a situation, the Chairman of the Board of Directors of LISI S.A. shall inform the beneficiaries of the stock options that they have a period of 30 days in which to exercise their options.

The Board of Directors shall purchase the shares required to carry out the exercise of options in accordance with the provisions of the law and in particular those of Articles L.225-208 and L.225-209 of the Commercial Code.

The General Meeting confers upon the Board of Directors all necessary authority to set any other conditions or methods for the various transactions, to prohibit corporate officers from exercising their options prior to the end of their appointments or requiring them to retain in their own name up until the end of their appointments in whole or in part the shares arising from the exercised options, to sell shares in relation to the exercise of options and to fulfill all related formalities.

16th resolution

The General Meeting, having heard the Directors' Report, decides to delegate to the Board of Directors, in accordance with the provisions of Article L.225-147 para. 6 of the Commercial Code, full competency to decide, within a maximum period of 26 months from the date of this Meeting and within an upper limit of €1,300,000 (excluding additional paid-in capital) on one or several increases in the Company's equity in order to pay for the shares or marketable securities that provide access to capital to pay in whole or in part for a possible external growth transaction.

Within such limits, the Board of Directors shall be fully empowered to carry out the capital increases, upon presentation of the contribution agent's report.

The Board shall only approve the valuations of these contributions and if required the grant of special advantages, may decide upon the reduction of the valuation of the contributions or the remuneration of particular advantages if the contributors so agree.

This authorization may not be used in the event that the Company increases its equity as stipulated in Article L.225-148 para. 1 of the Commercial Code.

17th resolution

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.