FINANCIAL REPORT 07

LINK SOLUTIONS FOR INDUSTRY

lisi

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GENERAL INFORMATION ABOUT THE COMPANY

1 NAME AND TITLE OF THE PERSON RESPONSIBLE FOR THE ANNUAL REPORT AND STATUTORY AUDITORS

1.1 NAME AND TITLE OF THE PERSON RESPONSIBLE FOR THE ANNUAL REPORT

Mr. Emmanuel VIELLARD
Deputy CEO

1.2 STATEMENT BY THE PERSON RESPONSIBLE FOR THE ANNUAL REPORT

"I hereby certify, after taking all reasonable action for that purpose, that the information provided in this document is, as far as I know, accurate. There are no omissions that would significantly alter its scope.
I certify that, to the best of my knowledge, the accounts have been drawn up in accordance with the relevant accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the companies included therein taken as a whole, and the annual report in chapters 2-3-4-5-6 gives a true and fair view of the development of business, the profit or loss of the companies included therein taken as a whole together with a description of the principal risks and uncertainties that it faces.
I have secured from our auditors, 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 9, 2008.

Emmanuel VIELLARD
Deputy CEO

1.3 STATUTORY AUDITORS

Regular auditors:

EXCO CAP AUDIT represented by Pierre BURNEL
2 rue Jules Emile Zingg – BP 9
F-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
F-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:

Mr. Jean-François CALAME
2 rue Jules Emile Zingg – BP 9
F-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.

Mr. Jean-Claude REYDEL
1 cours Valmy
F-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.

2 INFORMATION POLICY

2.1 PERSON RESPONSIBLE FOR THE FINANCIAL INFORMATION

Mr. Emmanuel VIELLARD

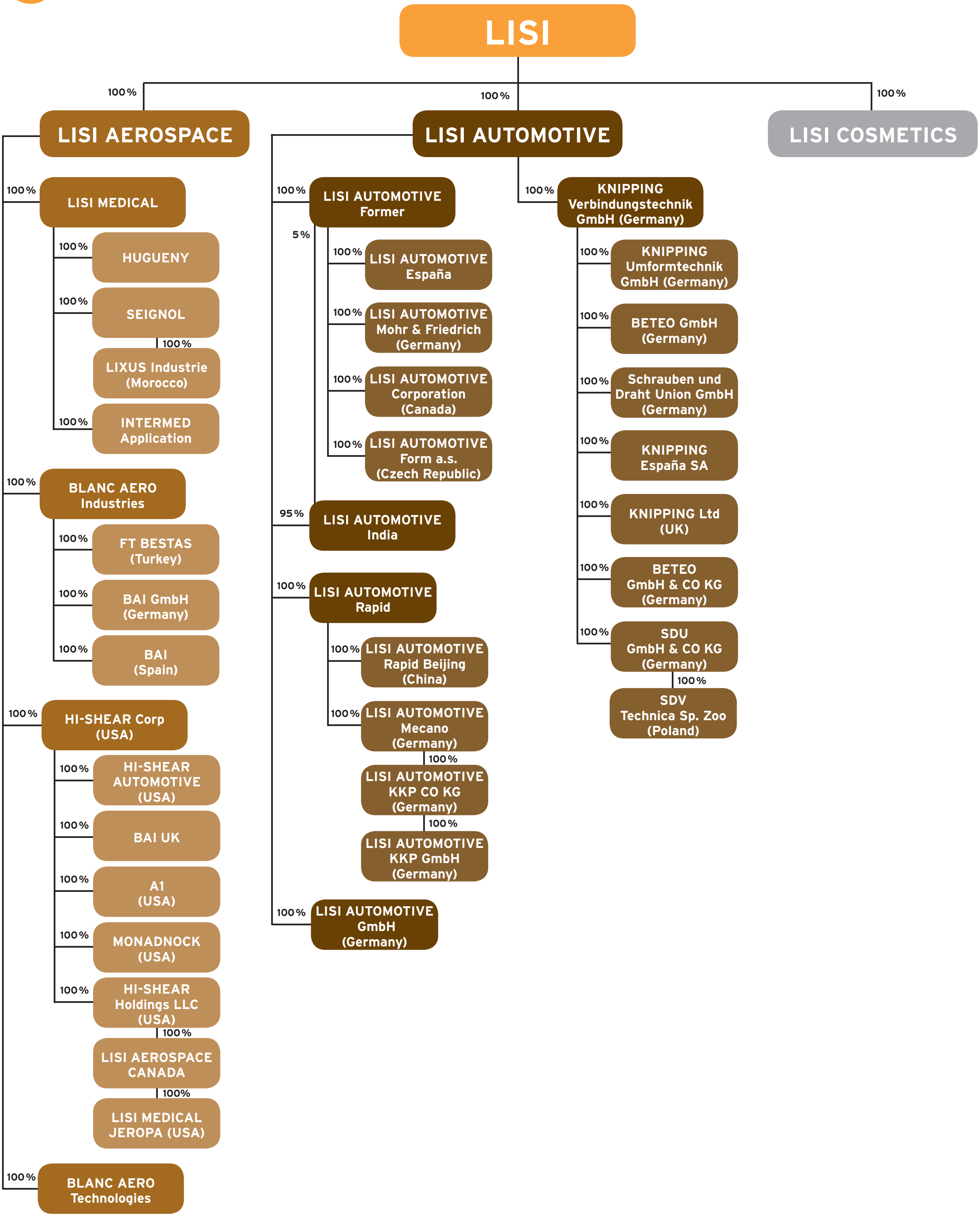
LISI
Le Millenium
18 rue Albert Camus – BP 431
F-90008 BELFORT Cedex
Phone: + 33 (0)3 84 57 00 77 / Fax: + 33 (0)3 84 57 02 00
e-mail: emmanuel.viellard@lisi-group.com
Website: www.lisi-group.com

2.2 DOCUMENTATION

- Annual document in French and English (paper version and CD).
- Press release.

All documents are made available to the shareholders. A copy of these may be requested from the company's registered offices (at the above address) or found on the company website. The Group's company website has been publicly available for the last seven years, in both French and English. Annual reports and quarterly updates, as well as all regulatory information are available to download from the website.

3 LEGAL ORGANIZATION CHART



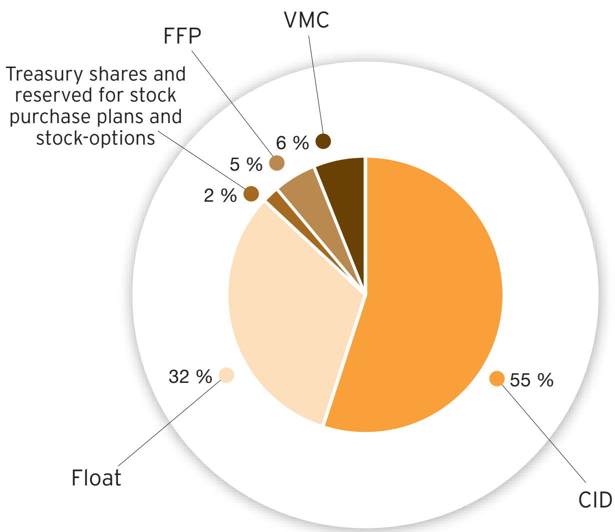
4 KEY FIGURES

(in million euros)	2007*	2006*	2005*	2004*	2003
Sales revenue	816.0	739.7	617.6	541.0	506.0
EBIT	100.1	88.6	63.8	58.4	51.9
Net earnings	67.6	48.0	35.6	31.4	21.0
Equity and minority interests	425.3	357.0	310.3	276.6	256.7
Net debt	53.3	105.6	136.4	37.4	63.1

* IFRS standards

5 INFORMATION ABOUT THE ISSUER

5.1 BREAKDOWN OF SHARE CAPITAL



LISI shares fact sheet

ISIN Code: FR 0000050353
Reuters: GFII.PA
Bloomberg: FII.FP
Compartment: B Eurolist
Market: Euronext Paris
Number of shares: 10,753,861
Market capitalization at December 31, 2007: €699 M
Indices: CACmid 100, SBF 250 and Next 150

Share liquidity

Float capital turnover rate: 103%

Average number of shares traded per day: 12,400.

DATES	Closing price in euros	Highest price in euros	Lowest price in euros	Session average in euros	Transaction volume In thousand euros	N° of shares traded during month (excl. non-system)
2005						
January	47.40	47.80	40.71	44.26	3,695	80,687
February	54.90	54.90	46.12	50.51	7,641	149,102
March	55.85	59.40	53.00	56.20	8,215	147,059
April	54.00	57.10	52.90	55.00	4,619	83,221
May	49.70	54.35	49.60	51.98	3,149	59,988
June	59.80	61.70	49.30	55.00	10,810	195,377
July	59.70	60.80	56.80	58.80	6,591	111,442
August	58.05	59.65	56.30	57.98	5,681	96,657
September	55.20	58.55	52.70	55.63	5,901	107,220
October	48.50	55.90	46.75	51.33	7,382	141,857
November	46.20	51.40	45.45	48.43	4,615	98,439
December	46.00	46.00	45.55	45.78	3,847	84,244
2006						
January	52.85	54.80	46.10	50.50	10,045	195,568
February	55.65	56.60	52.65	54.63	8,193	150,689
March	54.65	56.00	54.05	55.03	5,387	96,872
April	57.80	59.90	52.00	55.95	12,460	221,518
May	52.55	59.20	50.05	54.62	6,854	122,706
June	53.50	54.45	48.10	51.27	6,940	133,629
July	49.01	55.00	48.20	51.60	4,148	80,313
August	55.00	56.40	48.70	52.55	11,500	221,286
September	53.55	55.30	50.80	53.05	5,135	96,553
October	55.05	55.05	53.00	54.02	7,760	143,072
November	55.45	55.90	52.30	54.10	5,297	96,988
December	61.20	61.45	55.30	58.37	7,538	130,415
2007						
January	64.50	67.50	61.20	64.35	25,735	393,405
February	67.00	69.10	64.20	66.65	18,253	254,327
March	67.60	68.27	62.00	65.14	12,400	185,293
April	77.20	78.30	67.65	72.98	16,732	231,674
May	80.40	82.00	76.00	79.00	14,588	184,460
June	83.99	92.00	77.25	84.63	32,510	332,655
July	87.90	90.99	81.90	86.45	22,667	244,290
August	85.50	87.49	74.23	80.86	31,250	357,857
September	82.00	86.00	78.00	82.00	11,334	138,110
October	81.40	83.50	78.06	80.78	20,248	235,315
November	67.67	81.85	66.54	74.20	21,801	284,647
December	65.00	71.40	63.20	67.30	21,661	317,018
2008						
January	58.67	65.81	49.45	57.63	24,832	445,000
February	60.57	62.50	55.00	58.75	19,492	327,915
March	65.14	67.85	60.50	64.18	19,488	191,137

Market-making contract

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

ODDO FINANCE CORPORATE
Mr. Hervé GINOT
Email: hginot@oddo.fr
Phone: +33 (0)4 72 68 27 60

5.2 HISTORY

1777

Frédéric JAPY sets up a watch movement factory in Beaucourt, near Montbéliard. Some years later MIGEON & DOMINE is founded in Morvillars in the Belfort region, later to become VIELLARD MIGEON & Compagnie (VMC).

1806

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

1899

The Société Industrielle de Delle is founded by the DUBAIL-KOHLER family in the town of Delle, Belfort. The company quickly begins to specialize in the manufacture of lathed screws.

1968

These three family-run businesses merge to form a company called GFD(1), thus becoming France's foremost manufacturer of standard and automotive threaded fasteners. The three founding families are today part of CID (Compagnie Industrielle de Delle), owning a controlling stake in the LISI group.

1977

GFD acquires BLANC AERO, which specializes in aerospace fasteners and in packaging components for fragrances and cosmetics. This new group is named GFI.

1989

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

1990 / 2000

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

(1) GFD: Générale de Forgeage et Décolletage

2002

To better reflects its businesses areas, GFI Industries became LISI, which stands for LInk Solutions for Industry. The three divisions each adopt this name and add their respective main business aeras: LISI AEROSPACE, LISI AUTOMOTIVE and LISI COSMETICS.
The strategy of focusing on Core Business continues:

- Sale of non-strategic business lines (GFD, Ars Industries and the production unit at Aillevilliers);
- Acquisition of the Californian company MONADNOCK (LISI AEROSPACE).

2004

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

2005

Acquisition of KNIPPING in Germany (LISI AUTOMOTIVE).
Opening of a new factory in Canada (LISI AEROSPACE).
Disposal of Gradel (LISI AUTOMOTIVE).

2007

Sale of European distribution firm EUROFAST to ANIXTER France (LISI AEROSPACE).
LISI AUTOMOTIVE sells its Monistrol plant in the Haute-Loire (France).

Creation of the LISI MEDICAL subdivision, following acquisition of:

- HUGUENY (Lyon), specializing in spinal implants;
- JEROPA (Escondido-USA), specializing in dental implants;
- SEIGNOL and INTERMED APPLICATION (Neyron – France) and LIXUS (Tangiers – Morocco), specializing in subcontracting of dental and orthopaedic implants.

5.3 COMPANY NAME - REGISTERED OFFICE AND LEGISLATION

Company name and head office
LISI S.A. – Le Millenium – 18 rue Albert Camus – F-90008 BELFORT Cedex

Legal form of the issuer and applicable legislation
"Société Anonyme" (public limited company) governed by French legislation.

Place and number of registration

- R.C.S.: BELFORT 536 820 269
- NAF Code: 6420 Z

5.4 INCORPORATION AND TERM - ARTICLES OF ASSOCIATION

Incorporation and term

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

Purpose

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

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

Financial Year

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

Specific statutory clauses

Article 17 – Distribution of earnings

- Out of the distributable profit, all amounts the Shareholders' General Meeting shall decide to carry forward to the next year or allocate to the creation of extraordinary, contingency, or other funds, with or without a special allocation, 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.

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

Article 9 – Disclosure Requirements

- Shares are freely tradable in the absence of any legal or regulatory provisions to the contrary.

- Shares are delivered by transfer from one account to another 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.

5.5 CONSULTATION OF CORPORATE DOCUMENTS

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

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FINANCIAL SITUATION

1 OVERVIEW OF THE MAIN ACTIVITIES

1.1 LISI AEROSPACE

€355.7m	2,905	€18.1m
ANNUAL SALES REVENUE	STAFF	CAPEX

ACTIVITY	KEY PRODUCTS	CUSTOMERS	COMPETITORS
Fasteners and assembly components for the aerospace and motor racing markets.	**Airframe** Structural fasteners, principally in titanium (Hi-Lite, Hi-Lok – LGP, Pull-In, Pull-stem, Taper-Lok). **Engine** Engine fasteners (high temperature steels, cobalt- or nickel-based alloys, very high resistance superalloys), inserts and studs. **Special parts** Specialty, non-structural fasteners (clip nuts, quarter turns, spacers, etc.), assembly equipment. **Racing** Fasteners and components for motor sports. Other high quality automotive fasteners.	AIRBUS, BOEING, BOMBARDIER, DASSAULT, EMBRAER, GEAE, EUROCOPTER, PRATT & WHITNEY, ROLLS ROYCE, SNECMA, Formula 1 and Nascar teams for the Racing division.	ALCOA FASTENING SYSTEM, PRECISION CASTPART Corp., MELROSE Plc.

1.2 LISI MEDICAL

€25m	230
SALES REVENUE ON AN ANNUAL BASIS	STAFF

ACTIVITY	KEY PRODUCTS
Medical implant and auxiliary parts sub-contractor.	**HUGUENY** Spinal and orthopaedic implants. **JEROPA** Dental and spinal implants. **SEIGNOL & INTERMED Application** Surgical implants (hand, foot) and ancillary manufacture (surgical instruments).

1.3 LISI AUTOMOTIVE

€407.1m	2,953	€20.4m
ANNUAL SALES REVENUE	STAFF	CAPEX

ACTIVITY

Automotive fasteners and assembly components.

KEY PRODUCTS

Threaded fasteners

Engine fasteners, wheel screws and nuts, safety screws and nuts, ball joints, cab interior and engine dress-up fasteners, screws for sheet metal and plastics, PRESSFIX® nuts and assembly equipment, clamp washers.

Clip fasteners

Panel fasteners, fasteners for tubes and wiring, plugs, multi-functional metal and plastic sub-assemblies.

Components

Safety components: torsion bars, guide rods, brake hoses, spacers, ball in ramp, special hollowed components and rods.

CUSTOMERS

- BMW, DAIMLER, FORD, GENERAL MOTORS, PSA, RENAULT-NISSAN, VW-AUDI.
- AUTOLIV, BOSCH, FAURECIA, JTEKT, TI, TRW.
- FRANKE, LOOK, SCHNEIDER.

COMPETITORS

ACUMENT GLOBAL TECHNOLOGIES (Formerly TEXTRON),
A. RAYMOND,
ITW,
KAMAX,
NEDSCHROEF,
NIFCO,
SFS,
TRW.

1.4 LISI COSMETICS

€54.8m	490	€4.4m
ANNUAL SALES REVENUE	STAFF	CAPEX

ACTIVITY

Assembly and packaging components for fragrances and cosmetics.

KEY PRODUCTS

- Carolina HERRERA's 212 Men and 212 MEN SEXY (PUIG)
- CHANEL'S Allure Homme Sport Cologne
- CHANEL'S Allure Homme Sport
- DIOR'S J'Adore (LVMH)
- FENDI'S Palazzo (LVMH)
- ARMANI'S Acqua di Gio (L'OREAL)
- DIESEL'S Fuel for Life (L'OREAL)
- SHISEIDO'S Zen Gold
- Narciso RODRIGUEZ' Narciso for her (SHISEIDO)

CUSTOMERS

CHANEL,
PUIG,
LVMH,
SHISEIDO,
L'ORÉAL,
YSL,
PROCTER & GAMBLE,
CLARINS,
HERMES PARFUMS.

COMPETITORS

ALCAN PACKAGING,
ILEOS,
QUALIPAC,
REXAM BEAUTY,
SEIDEL,
TEXEN.

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

2.1 LISI CONSOLIDATED

Activity summary

In million euros	2007	2006	Change
Sales revenue	816.0	739.7	10.3%
Of which foreign	511.9	456.8	12.1%
EBITDA	141.9	122.3	16.0%
EBIT	100.1	88.6	12.9%
Net earnings	67.6	48.0	40.8%
Cash provided by or used for operations*	98.9	74.2	33.3%
Net CAPEX	43.1	47.6	-9.4%
Financial investments	32.3	0.9	NS
Equity and minority interests	425.3	357.0	19.1%
Net debt**	53.3	105.6	-49.5%
Return on capital employed (ROCE)	21.3%	19.5%	
Return on equity (ROE)	17.3%	14.4%	
Registered employees at period end	6,512	6,161	5.7%

* after net financial borrowing.
** See details in Note 2.5.6.4 Liquidity risk.

LISI announces a stable ongoing organic growth rate of + 13.3 % in 2007.

Quarterly variations in turnover are summarized in the table below:

Sales revenue in million euros	December 31,		Change	
	2007	2006	2007/2006	2007/2006 on a constant consolidation scope and exchange rate basis
Q1	209.8	192.6	+ 9.0%	+ 11.5%
Q2	209.0	190.8	+ 9.5%	+ 11.2%
Q3	189.4	173.4	+ 9.2%	+ 12.5%
Q4	207.8	182.9	+ 13.6%	+ 18.3%
Total (12 months)	**816.0**	**739.7**	**+ 10.3%**	**+ 13.3%**

In 2007 the LISI Group achieved consolidated sales revenues of €816m, of which 63% outside of France. Performance in the 4th quarter reflected the positive annual trend, with particularly high rates of internal growth for both the last quarter (+18.3%) and the year as a whole (+13.3%). In real terms the 10.3% increase on 2006 reflects:

- the continually falling value of the dollar throughout the financial year (net impact of 2.8% growth for the 4th quarter 2007) and of 2% over the financial year.
- integration of companies acquired in 2007, HUGUENY (from January 1, 2007) and JEROPA (from April 1, 2007) and the sale of Eurofast in May 2007, as well as that of the Monistrol-sur-Loire site in December 2007. These changes in consolidation scope compensate each other over the period.

The financial year 2007 was the fourth consecutive year of strong annual growth, representing a 60% increase in annual sales income between 2004 and 2007, i.e. total average annual growth of around 15%.

Half-yearly management indicators mirror business activity

For the period, EBITDA levels have continued to rise to an average of 17.4% of sales revenue, i.e. €141.9m (+16% compared with 2006). Depreciation rates moved less rapidly than business activity (+4.6%) meaning operating profits increased by 12.9%, reaching the Group target of a margin just above 12%.

Non-recurrent items (+€5.4m) are made up of the net income from the sale of Eurofast (around €11.1m) and restructuring costs relating to the shutdown at Mississauga (LISI AUTOMOTIVE – Canada) and to the sale of the Monistrol-sur-Loire site (LISI AUTOMOTIVE - France) and also to the Nogent-Le-Phaye relocation (LISI COSMETICS - France).

Net earnings benefit from a combination of favorable elements

Non-recurrent transactions have made a significant contribution to the strong growth of non-current operating profit over the period (+22.9%). Despite the rise in interest rates, the cost of debt remained under control, at -0.9% of sales (-1.3% in 2006). The reported tax rate was 30.5% of income, a significant improvement on the 2006 rate of 35.7%. The net annual sales revenue of €67.6m was a record high in terms of both absolute values, with an increase of 40.8% on 2006, and relative values (8.3% of sales revenue).

Good management indicators are borne out by a new improvement to the financial situation

Internal fund generation capacity reached an impressive 12.5% of sales revenue, i.e. almost €102.6m, thus allowing the financing of €43.1m-worth of industrial investments of and an additional €3.7m increase to working capital requirements. Free cash flow reached a record €56m.

After a dividends outlay of €13m for the previous financial year and net financial investments, (total balance from LISI MEDICAL acquisitions and the sale of Eurofast) of €12.3m, net borrowing fell sharply to €53.3m, i.e. 12.5% of shareholders' equity. With shareholders' equity of €425.3m increased by long-term provisions of €33.9m, the Group has therefore posted a strong balance sheet, putting the Group on a positive footing for the start of 2008.

The outlook in brief for 2008

The LISI Group enjoys good visibility in the various world markets in which it operates, and has not identified at this time any tangible signs of a change in the positive trends from which the three divisions are benefiting.

- With the number of firm orders booked by the LISI AEROSPACE division, the order book remains very solid for 2008, especially in the USA.
  The Boeing qualification process was highly active at the end of the period, and the Dorval (Canada) plant can benefit from that as of 2008. Following an encouraging end to 2007, 2008 ought to see a return to growth at Airbus, with production rates up (+9% in number of planes at station 40, of which 16 are the A380). The successive delays undergone by the B787 remain the only question mark for short-term prospects.
  Financial 2008 should see 12 months of full activity for the 3 acquisitions completed in 2007 and the first signs of synergy within the new resulting LISI MEDICAL division.
- The automobile industry has cycles with limited fluctuations, which allows real confidence in the outlook for LISI AUTOMOTIVE, despite its more limited visibility. Q1 2008 should in fact remain strong in France with the launch of new models. It might, however, be less strong in Germany while waiting for launches by Volkswagen. Emerging countries must obtain their growth from the Group's main clients, which still have low exposure on the North American market.
- The outlook for the various clients of LISI COSMETICS may vary, depending on their positioning and their policy for launching new products and stock management. The start of the year ought to continue Q4, prior to a boost expected in the summer with major new projects that are currently on the drawing board.

2.2 LISI AEROSPACE

Activity summary

In million euros	2007	2006	Change
Sales revenue	355.7	315.3	12.8%
EBIT	68.6	60.1	14.1%
Operating cash flow	62.3	49.8	25.2%
Net CAPEX	18.1	19.6	-7.5%
Registered employees at period end*	3,057	2,696	13.4%
Full time equivalent head count**	3,240	2,850	13.7%

* including LISI MEDICAL.
** Including temporary employees.

Enjoying excellent visibility in a high-demand market, LISI AEROSPACE saw record order levels from its main customers in 2007, notable amongst which were Boeing who placed 1,413 orders in 2007, as compared with 1,044 in 2006, and Airbus, who ordered 1,341 aircraft over the last year.

All aircraft manufacturers (including Embraer and Bombardier) and aerospace parts manufacturers are concerned about the increased workflow resulting from these programs and the availability of parts, and, more specifically, fasteners. With a book to bill ratio of 1.20, capacity and staffing levels are steadily increasing. This will continue into 2008, in line with the Skyline 2010 plan, which forecasts a 40% increase in capacity between 2006 and 2009.

LISI AEROSPACE business in Europe really picked up during the final quarter of 2007 (+10%), particularly with Airbus. It remained dynamic in the US (+44.5%), led by supply to the Boeing 787 assembly lines. LISI AEROSPACE thus achieved an annual sales revenue of over $150m for 2007, mainly in the aerospace sector. Despite the sharp drop in the value of the dollar over the financial year, business in the US made a strong contribution to divisional sales revenue, which was €355.7m, an increase of 20.2% on a like-for-like basis and at average exchange rates.

European manufacturing sites adapted their businesses to accommodate the Airbus' Power 8 restructuring plan, relying on shared skills across sites, which meant production could be transferred from the US to Europe. The Engines and Critical BU saw sustained growth, with the outlook across the whole of Europe remaining positive.

The financial year 2007 also saw the birth of the new LISI MEDICAL division, following three acquisitions during this period, contributing €9.3m to sales revenue. This consolidation impact was neutralized by the sale of Eurofast in May 2007.

To keep pace with its aerospace customers' growth, during this period LISI AEROSPACE increased its staffing levels, increased production capacity and modernized its industrial processes for the third year running. The latter did not affect the division's profitability, as the operational profit margins reached 19.3% of sales revenue, compared with 19.1% in 2006. The Canadian site has continued to increase production levels following their plan, with annual sales revenue of €7.5m and with levels remaining stable for the last quarter. The new LISI MEDICAL entity, which comprises three units acquired during the year only made a small contribution to LISI AEROSPACE's operating profit.

The sale of Eurofast resulted in a net capital gain of €11.1m. Net income therefore reached a record €56.4m, compared with €38.8m, i.e. an increase of 45.4%.

Total investments (€8.1m) remain high, in line with the development plan. This program essentially involves increasing production capacity, improving production capacity and extending some manufacturing sites, in particular those in Saint-Ouen l'Aumône (France), Torrance (USA) and Canada.

Despite the numerous investments recorded for the period and strong business growth, LISI AEROSPACE generated a free cash flow of €31.1m, as compared with €27.8m, i.e. an increase of 11.8%.

Confidence in the 2008 outlook

In 2008, based on manufacturing forecasts, LISI AEROSPACE is expecting another year of growth following the efforts made since 2006 towards increasing capacity. The division is also expecting further news on wider development, based on Boeing qualifications in Europe, and development of the B787 and A350 programs. With the number of firm orders booked by the LISI AEROSPACE division, the order book remains very solid for 2008, especially in the USA. The only area of concern is the continual delays to the B787 schedule. The division nevertheless has confirmed its Skyline 2010 plan with a considerable increase in investments from 2008 onwards.

2.3 LISI AUTOMOTIVE

Activity summary

In million euros	2007	2006	Change
Sales revenue	407.1	382.5	6.4%
EBIT	27.4	25.8	6.2%
Operating cash flow	35.4	33.7	5.1%
Net CAPEX	20.4	25.1	-18.4%
Registered employees at period end	2,953	2,980	-0.9%
Full time equivalent head count*	3,118	3,025	3.1%

* Including temporary employees.

The European market increased by 1.1% in 2007 thanks to the contribution of France (+3.2%), Italy (+7.1%), the UK (+2.5%) and the new EU countries (+14.5%) and in spite of the falling markets in Germany (-9.2%) and Spain (-1.2%).

Amongst manufacturing customers, worldwide sales for RENAULT saw an upturn in 2007 with sales of over 2.5m units, of which 360,000 were for the Logan. Similarly, PSA confirmed a similar trend with 3.4m units, representing a 1.8% increase. In Germany, MERCEDEZ-BENZ saw similar rates of business (+2%), within a difficult domestic market. The VOLKSWAGEN group managed an even better performance (+7.9%) with over 6m units sold.

The financial year for 2007 can be divided into two periods:

- For the first 9 months of 2007, the international parts manufacturers and German manufacturers were the market's growth drivers.
- Two of LISI AUTOMOTIVE's main customers have reported an upturn in business towards the end of the period driven by their new models for which advertising campaigns are currently running.

Against this background, LISI AUTOMOTIVE has shown solid growth (+6.4%), with a promising final quarter (+8%). This dynamic growth, generally higher than that recorded in Europe, is a result of the globalization of the final destination of components: LISI AUTOMOTIVE provides its manufacturing customers not only with volumes destined for assembly plants in France and Germany, but also to other plants for the same customers in countries with strong growth such as the Chinese automotive market (+24%).

Alongside this globalization of French- and German-manufactured Group products, LISI AUTOMOTIVE's presence in emerging countries such as the Czech Republic (+23%) and China (+64%) has brought an appreciable rise in growth, linked to local production. These two sites do not yet have significant levels of business (currently around (€15m), but will however be the object of considerable investment over the coming year.

LISI AUTOMOTIVE has not fully reaped the rewards of increased production levels due to inflationary pressures on raw materials and subcontracting (+€20m), various additional costs linked to overheating or inefficiency during the busiest periods (+€6m), as well as salary increases (+€3m) and falling sales prices. Gains made through process improvement, along with increased output levels have almost completely offset these effects and the operating profit has increased by 6.2% compared to N-1, to reach 6.7% of sales revenue. EBIT has increased in value and the general trend is promising with a 7.1% operational profit margin in the second half of 2007.

In terms of investments, those made in 2007 focused largely on the roll-out of the POLARIS project (Movex ERP set up in France), new stamping equipment for Business Group France and Germany as well as steps to implement complete EPB (electric parking brake) manufacturing lines for Business Group Tier1 at the Melisey factory. The latter plant is the focus of great determination within the Group to make further advances in mechanical safety components.

The free cash flow remains positive this year thanks to well-managed working capital requirements. LISI AUTOMOTIVE is therefore contributing as much as €23m to the Group's free cash flow of €56m.

Forecasting based on action plan continuity

Aware of the increasing weight of customer expectation, LISI AUTOMOTIVE is continuing to pursue its action plan which focuses on the following areas:

- Pursuing the continuous improvement plan with the "Excellence 2008" initiative.
- Managing costs and customer negotiations relating to increasing raw materials costs in 2008;
- Developing in key growth areas:
  – The Czech Republic, with the construction of a new factory to bring together two existing sites.

- China, with the acquisition of a small manufacturing company, giving LISI AUTOMOTIVE a presence in China in the threaded fasteners market;

- Consolidating its commercial interests based on strategic customers in France and Germany, and the large international parts manufacturers. The new organizational structure was set up in early 2007, with this main aim.

This restructuring plan, combined with strategic planning, should lead to increased levels of profitability within the division. The concentration of sites and the reorganization initiatives carried out in 2007 should lead to targeted improvement in some areas, with, notably, the shutdown at Mississauga and the sale of the Ministrol-sur-Loire site.

2.4 LISI COSMETICS

Activity summary

In million euros	2007	2006	Change
Sales revenue	54.8	44.1	24.2%
EBIT	3.8	0.8	
Operating cash flow	5.6	2.2	158.3%
Net CAPEX	4.4	2.5	76.4%
Registered employees at period end	490	475	3.2%
Full time equivalent head count*	542	473	14.6%

* Including temporary employees.

A return to sustainable growth

Whilst the market was very buoyant at the start of the financial year, with new reserve stocks being set up, and stock cover levels increasing, the end of the year saw a classic seasonal adjustment, albeit somewhat more pronounced in 2007. LISI COSMETICS thus ended the financial year with increased growth of 24.2%, as a result of continuing positive relationships with major customers such as CHANEL, SHISEIDO and PUIG, who entered into a number of co-development projects with LISI COSMETICS.
Increased confidence from leading groups such as L'OREAL and LVMH is also proving to be rewarding. Recently recognized by L'OREAL as a strategic supplier, LISI COSMETICS has been consulted on a Consumer division project. Very high repeat demand for lines such as ARMANI's "Aqua di Gio", far exceeding 2006 levels, has been a one of a number of driving forces behind improved growth.

Industrial and commercial initiatives started in previous years yielded good results in the 2007 financial year. This contributed to a current operating profit of €3.8m (6.9% of sales revenue) which represents a five-fold increase on 2006, whilst still maintaining high levels of investments, (up to €4.4m) during the period.

An investment plan, based around high-quality industrial engineering, is being implemented at Nogent-le-Phaye. The new varnishing line is now operational, which allowed all activities to be transferred over from Neuilly-sur-Eure in December, which was recorded as a non-recurring charge of €1.5m. The Nogent-le-Phaye site has also finalized overall improvements planned for the site and its equipment, and will be starting to build a 4,500m^2 warehouse which is designed to accommodate automated injection molding and assembly systems.

Internal fund generation capacity of €5.6m, which has more than doubled since 2006, has covered funding for the annual investment plan to the tune of €4.4m.

Outlook for 2008

The start of 2008 should see a continuance of the trends of the last quarter before seeing the resurgence predicted for the summer fuelled by the fruition of significant new projects which are currently being investigated. New customers, as well as numerous consultations which are underway should allow LISI COSMETICS' to sustain their growth plan. The issue of improving profitability depends on the technical success of the new Nogent-le-Phaye factory.

3

CONSOLIDATED FINANCIAL STATEMENTS

1 FINANCIAL STATEMENTS

1.1 CONSOLIDATED INCOME STATEMENT

(In thousand euros)	Notes	31/12/2007	31/12/2006
Pre-tax turnover	2.6.1	**815,957**	**739,733**
Changes in inventory, finished and in process goods		14,817	13,781
Total production		830,773	753,513
Other revenues		5,907	6,035
Total operating revenues		**836,681**	**759,548**
Cost of materials	2.6.2	(242,130)	(214,236)
Other purchases and external charges	2.6.3	(152,173)	(140,870)
Value added		**442,378**	**404,443**
Taxes and duties		(10,648)	(11,886)
Personnel expenses (* Including temporary employees)	2.6.4	(289,793)	(270,231)
EBITDA		**141,937**	**122,326**
Depreciation		(38,421)	(36,729)
Net provisions		(3,464)	3,023
EBIT		**100,052**	**88,620**
Non-recurring operating expenses	2.6.6	(19,835)	(4,765)
Non-recurring operating revenues	2.6.6	25,258	1,935
Operating profit		**105,475**	**85,790**
Financing expenses and revenue on cash	2.6.7	**(8,174)**	**(7,672)**
Revenue on cash	2.6.7	*4,899*	*1,890*
Financing charges	2.6.7	*(13,073)*	*(9,562)*
Other financial income and expenses	2.6.7	**1,060**	**(1,633)**
Other financial items	2.6.7	*3,087*	*1,503*
Other financial expenses	2.6.7	*(2,027)*	*(3,136)*
Taxes	2.6.8	(30,808)	(28,395)
Net earnings		**67,553**	**48,090**
Net profit attributable to the Group		67,553	47,989
Minority interests			102
Net income per share (in €)	2.6.9	**6.60**	**4.93**
Net diluted earnings per share (in €)	2.6.9	**6.45**	**4.57**

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The attached notes are an integral part of the financial statements.

1.2 CONSOLIDATED BALANCE SHEET

ASSETS

(In thousand euros)	Notes	31/12/2007	31/12/2006
LONG-TERM ASSETS			
Goodwill	2.5.1.1	136,738	118,034
Other intangible assets	2.5.1.1	15,529	16,070
Tangible assets	2.5.1.2	232,120	224,165
Long-term financial assets	2.5.1.4	4,976	5,258
Deferred tax assets	2.5.7	14,118	15,806
Other long-term financial assets *	2.5.1.5	219	16,522
Total long-term assets		**403,700**	**395,855**
SHORT-TERM ASSETS			
Inventories	2.5.2.1	173,345	170,578
Taxes - Claim on the State		8,517	7,456
Trade and other receivables	2.5.2.2	118,764	116,443
Other short-term financial assets	2.5.2.3	55,332	22,801
Cash and cash equivalents	2.5.2.4	62,931	27,467
Total short-term assets		**418,889**	**344,746**
TOTAL ASSETS		**822,589**	**740,601**
* Of which other non current financial assets			16,289

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TOTAL EQUITY AND LIABILITIES

(In thousand euros)	Notes	31/12/2007	31/12/2006
SHAREHOLDERS' EQUITY			
Capital stock		21,508	20,422
Additional paid-in capital		68,353	42,963
Treasury shares		(7,814)	(5,479)
Consolidated reserves		285,179	250,169
Conversion reserves		(12,495)	(2,325)
Other income and expenses recorded directly as shareholder's equity		3,042	3,087
Profit (loss) for the period		67,553	47,989
Total shareholders' equity - Group's share	2.5.3	**425,326**	**356,826**
Minority interests		0	224
Total shareholders' equity		**425,326**	**357,050**
LONG-TERM LIABILITIES			
Long-term provisions	2.5.4.1	30,702	34,459
Long-term borrowings	2.5.6	87,784	110,811
Other long-term financial liabilities	2.5.5	3,070	3,237
Deferred tax liabilities	2.5.7	31,836	31,077
Total long-term liabilities		**153,392**	**179,584**
SHORT-TERM LIABILITIES			
Short-term provisions	2.5.4.1	6,128	3,771
Short-term borrowings*	2.5.6	83,757	61,320
Trade and other accounts payable		145,857	128,719
Tax liability		8,128	10,159
Total short-term liabilities		**243,870**	**203,968**
TOTAL EQUITY AND LIABILITIES		**822,589**	**740,601**
* of which banking facilities		52,628	32,417

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The attached notes are an integral part of the financial statements.

1.3 CONSOLIDATED CASH FLOW TABLE

(In thousand euros)	31/12/2007	31/12/2006
OPERATING ACTIVITIES		
Net earnings	**67,553**	**48,090**
Elimination of net charges not affecting cash flows		
– Depreciation and non-recurrent financial provisions	38,306	37,370
– Changes in deferred taxes	1,725	1,493
– Income on disposals and others	(7,857)	1,902
Gross cash flow margin	**99,726**	**88,855**
Net variation in provisions provided by or used for current period	2,901	(2,001)
Operating cash flow	**102,627**	**86,854**
Elim. of corporate income tax (debit or credit)	29,084	26,903
Elim. of net interest	10,408	8,961
Effect of changes in inventory	(11,801)	(22,768)
Effects of changes in accounts receivable and accounts payable	10,736	8,663
Net cash provided by or used for operations before tax	**141,055**	**108,613**
Taxes paid	(31,699)	(25,498)
Cash provided by or used for operations (A)	**109,356**	**83,115**
INVESTMENT ACTIVITIES		
Acquisition of consolidated companies	(32,348)	(165)
Cash acquired	1,449	0
Acquisition of tangible and intangible assets	(44,112)	(48,067)
Acquisition of financial assets	(120)	(730)
Change in granted loans and advances	(24)	(51)
Investment subsidies received	0	0
Dividends received	0	0
Total cash used for investing activities	**(75,155)**	**(49,013)**
Disposed cash	1,315	0
Disposal of consolidated companies	20,000	0
Transfer of tangible and intangible assets	971	459
Disposal of financial assets	0	6
Total cash from disposals	**22,286**	**466**
Cash provided by or used for investing activities (B)	**(52,869)**	**(48,547)**
FINANCING ACTIVITIES		
Capital increase	25,525	14,633
Net disposal (acquisition) of treasury shares	0	(274)
Dividends paid to shareholders of the Group	(12,979)	(10,413)
Dividends paid to minority interests of consolidated companies	0	(43)
Total cash from equity operations	**12,546**	**3,903**
Issue of long term loans	6,479	89,566
Issue of short term loans	819	14,863
Repayment of long term loans	(4,574)	(89,011)
Repayment of short term loans	(25,385)	(30,858)
Net interest expense paid	(9,866)	(8,243)
Total cash from operations on loans and other financial liabilities	**(32,526)**	**(23,682)**
Cash provided by or used for financing activities (C)	**(19,980)**	**(19,779)**
Effect of change in foreign exchange rates (D)	(2,678)	(1,328)
Effect of change in restatement of treasury shares (D)	(2,335)	1,186
Changes in net cash (A+B+C+D)	**31,495**	**14,646**
Cash at January 1st (E)	34,141	19,493
Cash at year end (A+B+C+D+E)	65,635	34,141
Short- and long-term financial assets	55,332	39,090
Cash and cash equivalents	62,931	27,468
Short-term banking facilities	(52,628)	(32,417)
Closing cash position	**65,635**	**34,141**

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The attached notes are an integral part of the financial statements.

1.4 CHANGE IN SHAREHOLDERS' EQUITY

(In thousand euros)	Capital stock (Note 2.5.3.1)	Additional paid-in capital (Note 2.5.3.2)	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholders' equity	Group's share of net income	Group's share of shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at January 1, 2006	**19,794**	**28,053**	**(6,665)**	**224,959**	**5,206**	**3,256**	**35,572**	**310,175**	**166**	**310,340**
Earnings for year N							47,989	47,989	102	48,090
Translation differential					(7,531)			(7,531)		(7,531)
Payments in shares (a)		302						302		302
Capital increase	628	14,005						14,633		14,633
Restatements of treasury shares (b)			1,186			139		1,325		1,325
Appropriation of N-1 earnings				35,572			(35,572)	0		0
Change in methods				46				46		46
Change in scope				1				1		1
Dividends distributed				(10,413)				(10,413)	(43)	(10,456)
Reclassification		603				(603)		0		0
Miscellaneous (c)				4		295		299		299
Shareholders' equity at December 31, 2006	**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***		
Earnings for year N							67,553	67,553	0	67,553
Translation differential					(10,170)			(10,170)		(10,170)
Payments in shares (a)		951						951		951
Capital increase	1,086	24,439						25,525		25,525
Restatements of treasury shares (b)			(2,335)			(45)		(2,380)		(2,380)
Appropriation of N-1 earnings				47,989			(47,989)	0		0
Change in methods				0				0		0
Change in scope				0				0	(224)	(224)
Dividends distributed				(12,979)				(12,979)	0	(12,979)
Reclassification								0		0
Miscellaneous (c)				0				0		0
Shareholders' equity at December 31, 2007	**21,508**	**68,353**	**(7,814)**	**285,179**	**(12,495)**	**3,042**	**67,553**	**425,326**	**0**	**425,326**
Of which total income and expenses recorded for the period (a) + (b) + (c)					***(10,170)***	***(45)***	***67,553***	***57,338***		

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The attached notes are an integral part of the financial statements.

2 APPENDICES

2.1 GROUP ACTIVITY AND KEY HIGHLIGHTS OF THE YEAR

LISI S.A (hereafter referred to as “the Company”) is a public limited company incorporated in France and listed on the French Stock Exchange, whose registered offices are based at: "Le Millenium, 18 rue Albert Camus, BP 431, 90008 BELFORT cedex." The Group’s consolidated financial statements for the financial year ending 31 December, 2007 include the Company and its subsidiaries (collectively referred to as “the Group”).

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

The highlights of the financial year are as follows:

- Creation of the LISI MEDICAL division, through the acquisition of the following companies:
  - 100% of shares in SAS HUGUENY, based in Fleurieux-sur-l’Arbresle, Lyon; the company’s annual sales revenue for 2006 was €4.3m.
  - 100% of assets for JEROPA Swiss Precision based in San Diego, California, whose annual sales revenue in 2006 was $10m.
  - 100% of SEIGNOL based in Neyron, Lyon; the company’s annual sales revenue for 2006 was €8.2m.
  - 100% of INTERMED based in Neyron, Lyon; the company’s annual sales revenue for 2006 was €1.1m.
  - 100% of Application LIXUS, based in Tangiers, Morocco; the company’s annual sales revenue for 2006 was €0.5m.

- The HI-SHEAR Corporation sold 100% of shares in its subsidiary HI-SHEAR Automotive which in 2006 achieved an annual sales revenue of $6.4m.

- LISI AEROSPACE sold 100% of its shares in Eurofast. This company’s annual sales revenue for 2006 was €14m.

- A €25.5m capital increase through the release of 543,078 redeemable share subscription warrants. These capital equity notes, released at a unit cost of €47, were fully paid up in cash on subscription. The number of LISI shares in circulation on 31 December 2007 was 10,753,861.

2.2 ACCOUNTING RULES AND METHODS

The financial statements for year ending 31 December, 2007 were approved by the Board of Directors on 20 February, 2008 and will be submitted to the Ordinary General Meeting on 29 April, 2008.

2.2.1 Background to the preparation of the consolidated financial statements for the 2007 financial year

In accordance with EU regulation 1601/2002 dated 19 July, 2002, the LISI Group’s consolidated financial statements have been prepared in line with IAS/IFRS international accounting standards as adopted by the European Union on 31 December, 2007.

As regards the first implementation of texts which came into force on 1 January, 2007, only IFRS Standard 7: “Financial Instruments: required information” and the amendment to IAS 1 “Presentation of financial statements – Information to be provided regarding capital” were applicable to the presentation of the financial statements, and the Group has therefore provided additional notes in the appendices where relevant.

2.2.2 Basis for the preparation of the financial statements

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

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

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

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 capital assets (see Notes 2.2.7.2 and 2.2.8.4);
- measurements employed for impairment tests (see Note 2.2.8.5);
- the assessment of provisions and retirement commitments (see Notes 2.2.14 and 2.2.15.1);
- the valuation of financial instruments at their market value (see Notes 2.2.6, 2.2.11, 2.2.12 and 2.2.8.6);
- the valuation of share-based payments (see Note 2.2.15.2);
- the recognition of deferred tax assets (see Note 2.2.19.5).

Management continuously reviews its estimates and assessments based upon past experience and on factors considered reasonable that form the basis of its assessment for the book values of assets and liabilities. Actual values may vary significantly from these estimates depending upon assumptions and varying conditions.

The impact of changes to accounting estimates is recognized during the period of change only where it affects this period or during the period of change and successive periods if these are also impacted by the change.

Management judgments in respect of IFRS standards that have a significant impact on the financial statements, and estimates that have a major risk of variation during later periods, relate mainly to provisions (Notes 2.2.14 and 2.5.4), deferred tax credits (Note 2.5.7) and impairment tests on assets (notes 2.2.8.5 et 2.5.1.1). Calculations for staff retirement provision and valuation tests are based on valuation assumptions, the sensitivity of which can affect costs recognized as provisions in the accounts. These assumptions are broken down by division on the basis of information drawn from independent experts (actuaries, etc).

2.2.3 Consolidation guidelines

A subsidiary is an entity controlled by its parent company. Control exists when the Group is able to direct the financial and operating policies of the entity (either directly or indirectly) in order to obtain benefits from its activities. The list of consolidated companies is provided in Note 2.3.3. At December 31, 2006 there were no proportionately consolidated or equity method consolidated companies.

All companies are included in the consolidation scope. LISI MEDICAL was set up in November 2007. JEROPA, acquired in April 2007, SEIGNOL, INTERMED Application and LIXUS Industrie acquired in December have been integrated into the consolidation scope since their acquisition date and have therefore not been consolidated for a full year. In addition, Eurofast was sold and excluded from the scope of consolidation on June 1, 2007.

2.2.4 Transactions excluded from the consolidated financial statements

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

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

2.2.5 Conversion methods for items in foreign currency

2.2.5.1 Transaction in foreign currency

Transactions in foreign currencies are recorded in the books in the operating currency at the rate of exchange 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 a net investment in a foreign entity, which are recognized in the conversion reserve as a distinct element of shareholders' equity. They appear on the income statement upon the exit of that business.

2.2.5.2 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.

2.2.6 Financial instruments

2.2.6.1 Non-derivative financial instruments

Non-derivative financial instruments include investments in equity instruments and debt securities, trade and other receivables, cash and cash equivalents, loans and debts, and trade and other payables. Non-derivative financial instruments are recognized in the accounts as indicated in the notes below: 2.2.8.6, 2.2.10, 2.2.11, 2.2.12, 2.2.16 and 2.2.17.

2.2.6.2 Financial derivatives

The Group makes use of derivatives to hedge its exposure to exchange rate, interest rate and raw material price fluctuation 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 trading 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, hedge accounting is not used and the profits or losses on the hedge instrument are posted to the income statement.

2.2.7 Intangible assets

2.2.7.1 Goodwill

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

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

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

2.2.7.2 Other intangible assets

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

Subsequent expenditure relating to an intangible asset is only capitalized if it increases the future economic benefits that are attributable to the specific asset in question. Other expenditure is recognized as an expense when incurred.

Depreciation is recognized as an expense using the straight-line method over the estimated useful life of the intangible assets, unless the useful life cannot be estimated.

Standard estimated useful lives are as follows:
Trademarks: 10 - 20 years
Software programs: 1 - 5 years

2.2.7.3 Research and Development

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

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

Due to the nature of the Group's research and development costs, most such costs do not meet the criteria for capitalization. Most industrial products have a fairly short development period and a fairly short depreciation period. The Group carries out regular assessments of major projects in order to identify any costs which could be capitalized. As of December 31, 2007, none of the projects met the criteria, with the exception of certain costs relating to the development or co-development of tooling, which are capitalized as either tangible assets or stock depending on the details of the development agreement with the client.

2.2.8 Tangible assets

2.2.8.1 Assets owned by the Group

Tangible assets are recognized at cost, less the total depreciation and loss in value minus the cost of financing incurred prior to the period of use. The cost of an asset produced by the Group for itself comprises the cost of raw materials and direct labour, plus an estimate where necessary of the costs relating to the dismantling and removal of the asset and the restoration of its site, and an appropriate share of general production costs.

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

2.2.8.2 Assets funded through finance leases

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

2.2.8.3 Subsequent expenditure

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

2.2.8.4 Depreciation

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

Land is not depreciated.
Estimated useful lives are as follows:
- buildings: 20 – 40 years
- plant and machinery: 10 – 15 years
- fixtures and fittings: 5 – 15 years
- transport equipment: 5 years
- equipment and tools: 10 years
- office equipment: 5 years
- office furnishings: 10 years
- computer equipment: 3 years

2.2.8.5 Impairment of assets

Goodwill and intangible assets with an indefinite useful life are subject to an impairment test at each closing of accounts, and at any time when events or changes in the market environment indicate a risk of loss of value. Other intangible assets and tangible assets are also subject to such a test at any time when there is a risk of loss of value.
The method used involves comparing the recoverable value of each of the Group's cash-generating units with the net book value of the corresponding assets (including the goodwill).
The recoverable value is calculated for each asset individually, unless the asset under consideration does not generate cash inflows independently of the cash inflows generated by other assets or groups of assets. In some cases, the recoverable value is calculated for a group of assets.
Recoverable value is defined as: whichever is the higher out of the realizable value (less the costs of disposal) and the value in use. The latter is calculated by discounting future cash flows, using predicted cash flows which are consistent with the most recent budget and business plan approved by the Executive Committee and presented to the Board of Directors. The discount rate applied reflects the market's current assessment of the time value of money and the risks specific to the asset or the group of assets.
The realizable value is defined as the sum which could be obtained by selling the asset or group of assets in conditions of normal competition where all parties are fully informed and consenting, less the costs of disposal. These figures are calculated from market values (comparison with similar listed companies, value of recent deals and stock prices) or failing that, from discounted future cash flows.
If the recoverable value is lower than the net book value for the asset or group of assets tested, the discrepancy is recognized as a loss of value. In the case of a group of assets, it should preferably be classified as a reduction in goodwill.

Impairments recognized for tangible and intangible fixed assets (excluding goodwil) can be eventually recovered, if the recoverable value exceeds the net book value, within the limits of the impairment value that was initially recognized. In contrast, losses of value recognized under Goodwill are irreversible

The Group has defined its cash generating units (CGU) in line with the strategic organization of the Business Units (B.U).

The AUTOMOTIVE division includes five CGUs:
- Threaded fasteners B.U.
- Mechanical Components B.U.
- Clip Fasteners B.U.
- International Operations B.U.
- Knipping B.U.

The AEROSPACE division is split into 6 CGUs:
- Airframe Europe B.U.
- Airframe USA B.U.
- Engines and Critical Parts B.U.
- Specialty Fasteners B.U.
- Racing B.U.
- Medical B.U.

The COSMETICS division is composed of a single CGU.

2.2.8.6 Long-term financial assets

This item includes non-consolidated holdings. These are investments in unlisted companies, for which fair value cannot be reliably estimated. As a last resort, the Group values financial assets at their historic cost less any potential loss of value, in the absence of an active market. In 2006, this item primarily included bond investments which were made in order to cover pension commitments.

2.2.9 Inventories

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

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

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

Stock is subject to depreciation when its net realizable value is lower than production costs; if it is damaged or obsolete; and in any situation where it is at risk of remaining unsold under normal conditions.

2.2.10 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. This risk is normally assessed by a third party and takes into account the time elapsed since the transaction.

2.2.11 Other short-term financial assets

Other short-term financial assets include marketable securities and deposit certificates held by the group. These financial assets are recognized at fair value and offset against the income statement.

2.2.12 Cash and cash equivalents

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

2.2.13 Share capital

2.2.13.1 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 investment services provider through 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 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.

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

2.2.13.2 Remuneration in shares (Stock options and performance shares)

Refer to note 2.2.15 "Personnel benefits".

2.2.13.3 Dividends

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

2.2.14 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.

2.2.14.1 Long-term provisions

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

2.2.14.2 Short-term provisions

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

2.2.15 Personnel benefits

2.2.15.1 Commitments to personnel

In accordance with the laws and practices of each country in which the Group operates, it offers its employees and former employees, subject to certain conditions of service, the payment of pensions or compensation on retirement. Such benefits can be paid as part of defined contributions plans or defined benefits plans. Contributions in defined contributions plans are recognized as expenses for the period in which they are incurred.

In respect of defined benefits plans, the Group's commitments to its staff are determined by independent actuaries 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.

2.2.15.2 Share-based payments

The Group has set up stock option plans and a performance shares plan for certain employees and managers, with a view to providing an additional incentive to improve Group performance. As part of this scheme, certain employees and managers of foreign subsidiaries will benefit from these same advantages, but will receive their remuneration in the form of a bonus payment.

The allocation of stock options and performance shares represent benefits offered to employees, and are accordingly a supplement to remuneration. They are recognized as a staff expense based on the fair value of allocated shares or stock options, on the date on which these plans are implemented.

In the case of stock option plans and the performance shares plan, these benefits are respectively determined by the value of the option on the award date and the value of the share on the date of acquisition, valued using the binomial model.

As regards bonus commitments, these are recorded as social liabilities at their fair value at year-end.

This remuneration paid in LISI shares or stock options is recognized:

- Over a period of 4 years from award date, in accordance with the regulation governing stock option plans.
- Over a period of 2 years and 2 months from award date, in accordance with the regulation governing the performance share plan.

In respect of transactions settled by delivery of 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.

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

2.2.16 Financial debt

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.

2.2.17 Trade and other accounts payable

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

2.2.18 Definition of the concepts "current" and "non current" in the balance sheet

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

2.2.19 Overview 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. Non-recurring items are defined as income and expenses resulting from events or transactions that are clearly distinct from the company's ordinary activities and

that are not expected to reoccur on a regular basis, owing to:
- their unusual nature and,
- their random occurrence, such as expenses or compensation received for losses, costs resulting from shutdowns, restructurings, or site relocations, goodwill amortization, and capital gains and losses on the sale of non-recurring, tangible and intangible assets.

2.2.19.1 Sale of goods and provision of services

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

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

2.2.19.2 Payments for operating lease contracts

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

2.2.19.3 Payments for finance lease contracts

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

2.2.19.4 Cost of finance and other financial charges and income

The cost of finance includes:
- Interest charges on loans calculated using the effective interest rate method;
- Interest charges included in payments made for a finance lease and calculated using the effective interest rate method;
- Interest income generated from 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 expenses mainly include exchange profits and losses.

2.2.19.5 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 recognized as income, except if it relates to items that are directly recognized as equity; in which case it is recognized as equity.

Deferred taxation is calculated using the variable carry forward method for all timing differences at year-end between taxable and accounting values of assets and liabilities on the consolidated balance sheet. The following items are not subject to deferred taxation:
- goodwill that cannot be deducted for tax,
- timing differences on interests, provided that they will not be reversed in the foreseeable future.

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.

2.2.19.6 Earnings per share

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

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).

2.2.20 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.

2.2.21 Segment reporting

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 n 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.

2.2.22 New applicable IFRS standards

The Group voted against early adoption of the following standards, amendments or interpretations, published on 31 December, 2007 and adopted or in the process of being adopted by the European Union:

- IFRS 8 "Operating segments" applicable for financial years commencing from 1 January, 2009: The principles established in this standard may affect the structure of segment reporting and the way Cash Generating Units (CGUs) are grouped for the purpose of calculating the value of goodwill.
- IAS 1 (revised 2007) "Presentation of Financial Statements", applicable for financial years beginning after 1 January, 2009. This revision changes the structure of the financial statements in that only transactions with shareholders will be recognized in the statement of changes in equity, with other elements moved to a global income statement, either together with the primary income statement or separately.
- Amendment to IAS 23 "Borrowing Costs", compulsory for financial years beginning after 1 January, 2009. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset, in contrast to the procedure to date.

2.3 CONSOLIDATION SCOPE

2.3.1 Changes in the consolidation scope in the financial year 2007

The changes in the consolidation scope were as follows:

Creation of a Medical branch within the AEROSPACE division:

Companies	Type of change	Date of operation	Date of 1st consolidation
HUGUENY	100% share acquisition	January 1, 2007	January 1, 2007
LISI MEDICAL JEROPA Inc.	Creation, ownership of 100% of share capital	April 1, 2007	April 1, 2007
SEIGNOL	100% share acquisition	December 14, 2007	December 14, 2007
INTERMED Application	100% share acquisition	December 14, 2007	December 14, 2007
LIXUS Industrie	100% share acquisition	December 14, 2007	December 14, 2007
LISI MEDICAL	Creation, ownership of 100% of share capital	November 15, 2007	December 1, 2007

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Disposals in the AEROSPACE division:

Companies	Type of change	Date of operation	Date of deconsolidation
HI-SHEAR Automotive Corp.	Sale of 100%	January 1, 2007	January 1, 2007
EUROFAST	Sale of 100%	May 20, 2007	May 31, 2007

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Creation of an Indian structure within the AUTOMOTIVE division:

Company	Type of change	Date of operation	Date of 1st consolidation
LISI AUTOMOTIVE India	Creation, ownership of 100% of share capital	January 1, 2007	January 1, 2007

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2.3.2 Impact on the Group indicators of changes in scope during 2007

(In thousand euros)		Impact in % on Group indicators in 2007
Newly-consolidated companies	**HUGUENY + LISI MEDICAL JEROPA Inc.**	
Sales revenue	9,302	1.14%
EBIT	-228	0.23%
Exiting company	**EUROFAST**	
Sales revenue	6,746	0.83%
EBIT	1,419	1.42%

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The HI-SHEAR Automotive Corp and LISI AUTOMOTIVE India are not included in the above table as they have not contributed to annual sales revenue or to current operating profit (<0.1% of EBIT). SEIGNOL, INTERMED Application, LIXUS Industrie and LISI MEDICAL have not been included in the table above as they were only included on the balance sheet for accounting purposes in December 2007.

Moreover, taking into account the acquisition dates and different sizes of the entities acquired, their inclusion in the consolidation scope on 1 January, 2007 would not have had any effect on either sales revenue or result, as no revenues or expenses were recognized for the period.

As changes in scope remain within the thresholds stipulated by the market authorities, a pro forma financial statement was not drawn up.

2.3.3 Consolidation scope at year end

Companies	Registered Office	Country	% of control	% interests
Holding company				
LISI S.A.	Belfort (90)	France	Parent company	
AEROSPACE Division				
LISI AEROSPACE	Paris 12th (75)	France	100.00	100.00
BLANC AERO INDUSTRIES (BAI)	Paris 12th (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 12th (75)	France	100.00	100.00
BAI Espagne	Madrid	Spain	100.00	100.00
HI-SHEAR CORPORATION (HSC)	Torrance (California)	USA	100.00	100.00
MONADNOCK	City of Industry (California)	USA	100.00	100.00
BAI UK	Rugby	UK	100.00	100.00
A 1	Paramount (California)	USA	100.00	100.00
HI-SHEAR Holdings LLC	Torrance (California)	USA	100.00	100.00
LISI AEROSPACE Canada	Dorval	Canada	100.00	100.00
HUGUENY (B)	Lyon	France	100.00	100.00
LISI MEDICAL JEROPA Inc. (C)	Escondido	USA	100.00	100.00
LISI MEDICAL (D)	Paris 12th (75)	France	100.00	100.00
SEIGNOL (E)	Neyron	France	100.00	100.00
INTERMED Application (E)	Neyron	France	100.00	100.00
LIXUS Industrie (E)	Tangiers	Morocco	100.00	100.00
AUTOMOTIVE Division				
LISI AUTOMOTIVE	Delle (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 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
LISI AUTOMOTIVE India (A)	Ahmedabad	India	100.00	100.00
KNIPPING Verbindungstechnik GmbH	Kierspe	Germany	100.00	100.00
KNIPPING Umformtechnik GmbH	Herscheid	Germany	100.00	100.00
BETEO GmbH	Gummersbach	Germany	100.00	100.00
BETEO GmbH & CO KG	Gummersbach	Germany	100.00	100.00
KNIPPING Espana SA	Madrid	Spain	100.00	100.00
KNIPPING Ltd	Solihull	UK	100.00	100.00
Schrauben und Draht Union GmbH	Bochum	Germany	100.00	100.00
SDU GmbH & CO KG	Bochum	Germany	100.00	100.00
SDV Technica Sp. Zoo	Dabrowa Gornicza	Poland	100.00	100.00
COSMETICS Division				
LISI COSMETICS	Paris 12th (75)	France	100.00	100.00

(A) Company set up January 1, 2007
(B) Company acquired January 1, 2007
(C) Company acquired April 1, 2007
(D) Company incoporated on November 15, 2007
(E) Companies acquired at December 14, 2007

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The following exited the scope of consolidation during the period: :
- Hi-Shear Automotive Corporation on January 1, 2007,
- Eurofast May 20, 2007.

2.3.4 Acquisitions of subsidiaries

Acquisitions were paid for in cash and no payment in equity was made. In line with Standard IFRS 3 on business combinations, the LISI Group has 12 months from the date of acquisition to determine a definitive acquisition price and to definitively calculate goodwill. Consequently, the amounts recorded on 31 December, 2007 for acquisitions made in the financial year 2007 are liable to be revised at a later closing date.

2.3.4.1 HUGUENY

On January 1, 2007, LISI AEROSPACE acquired a 100% stake in HUGUENY for an aggregate cost (including acquisition charges and related expenses) of €3.6m. The wholly owned company is now a fully consolidated subsidiary.

(In thousand euros)	Book values on acquisition date
Fixed assets	966
Other net short-term assets and liabilities	167
Net debt	(567)
Deferred taxes and provisions	(134)
Cash and cash equivalents	10
Total net position of HUGUENY	**442**
% of acquired shares	100%
Share of net worth acquired by LISI AEROSPACE	**442**
Aggregate cost of shares	3,600
Goodwill	**3,158**

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2.3.4.2 LISI MEDICAL JEROPA Inc.

On April 1, 2007, LISI MEDICAL JEROPA Inc acquired 100% of JEROPA's net assets for an aggregate cost (including acquisition charges and related expenses) of €125.5m. The wholly owned company is now a fully consolidated subsidiary.

(In thousand euros)	Book values on acquisition date
Fixed assets	2,194
Other net short-term assets and liabilities	1,110
Total net JEROPA assets acquired	**3,304**
% of net assets acquired	100%
JEROPA's net asset value	**3,304**
Aggregate cost of shares	12,490
Goodwill	**9,186**

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As the acquisition was made in dollars, the exchange rate used to calculate goodwill in the above table is the rate on the day on which the company was integrated into the scope, i.e. 1 April, 2007.

2.3.4.3 SEIGNOL and LIXUS Industrie

On December 14, 2007, LISI MEDICAL acquired 100% of SEIGNOL's and LIXUS Industrie's net assets for an aggregate cost (including acquisition charges and related expenses) of €13.5m. The wholly owned company is now a fully consolidated subsidiary.

(In thousand euros)	Book values on acquisition date
Fixed assets	3,778
Other net short-term assets and liabilities	3,022
Net debt	(1,684)
Deferred taxes and provisions	(598)
Cash and cash equivalents	937
Total net position of SEIGNOL and LIXUS Industrie	**5,455**
% of acquired shares	100%
Share of net worth acquired by LISI MEDICAL	**5,455**
Aggregate cost of shares	13,543
Goodwill	**8,088**

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2.3.4.4 INTERMED Application

On December 14, 2007, LISI MEDICAL acquired 100% of INTERMED Application Industrie's net assets for an aggregate cost (including acquisition charges and related expenses) of €2.2m. The wholly owned company is now a fully consolidated subsidiary.

(In thousand euros)	Book values on acquisition date
Fixed assets	515
Other net short-term assets and liabilities	(75)
Net debt	(188)
Deferred taxes and provisions	(19)
Cash and cash equivalents	505
Total net position of INTERMED Application	**738**
% of acquired shares	100%
Share of net worth acquired by LISI MEDICAL	**738**
Aggregate cost of shares	2,157
Goodwill	**1,419**

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2.4 FINANCIAL RISK MANAGEMENT

The group is exposed to the following risks related to the use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- currency risk.

This note provides information on the Group's exposure to each of the risks listed above, its objectives, policies, measurement and risk management procedures, as well as its capital management. Quantitative information is provided in other parts of the consolidated financial statements.

The aim of the Group's risk management policy is to identify and analyse risks which the Group faces, to define the limits within which risks must be confined and the controls to be implemented, to manage risk and to ensure compliance with the prescribed limits.

Cash flow management is centralized by the various divisions and by the Financial Department of the LISI 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.

Credit risk

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

Trade and other receivables

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

Equity price risk

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

Liquidity risk

Liquidity risk corresponds to the extent to which the Group is at risk of experiencing difficulty in honouring debts when they mature. At 31 December, 2007, the Group's liquidity risk was deemed to be low as it has €66m in cash and the ratio between net debt and equity was 12.5%, as shown in Note 2.5.6.4.

Market risk

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

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

Hedging and market operations on interest rates, exchange rates or securities using futures instruments are recorded in accordance with the provisions of CRBF rules nos. 88-02 and 90-15. Commitments relating to these operations are posted to off-balance sheet accounts for the nominal value of the contracts. As of 31 December 2007, the figure for these commitments represents the volume of transactions that remained unsettled at year end.

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

Interest rate risk

Group exposure to interest rate fluctuations involves the following risk: the Group mainly has variable rate liabilities, for which the initially-agreed maturity period was greater than 1 year. These liabilities are exposed to a cash flow fluctuation risk due to fluctuations in interest rates. Within the framework of its overall policy, the Group partially converts its fixed-interest liabilities into financial instruments such as interest rate swaps and interest rate options.

Interest rate instruments in existence on 31 December, 2007, are not categorized as hedges by the Group and appear on the income statement at fair value.

Commodities price fluctuation risk

The Group is also exposed to fluctuations in the price of commodities such as titanium, nickel and steel. The price of these materials can fluctuate considerably. In order to prevent the risk of tension on the markets for its principal raw materials, the Group has signed supplier agreements with its major business partners within the aerospace division.

Currency risk

On the one hand, the Group's flows relate essentially to non-exposed currencies; on the other, the main cash inflows outside the eurozone are offset by similarly sized cash outflows (most notably for raw materials). 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: US dollar, Canadian dollar, Sterling pound, Turkish pound, and Chinese yuan.

2.5 DETAIL OF BALANCE SHEET ITEMS

2.5.1 Long-term assets

2.5.1.1 Intangible assets

a) Goodwill

(In thousand euros)	Goodwill
Net values at December 31, 2006	**118,034**
Change in consolidation scope	22,441
– of which increases	*22,636*
– of which decreases	*(195)*
Changes in foreign exchange rates	(3,737)
Net values at December 31, 2007	**136,738**

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The increase in the net value of goodwill chiefly impacts on the AEROSPACE division; this change in scope is outlined in paragraph 2.3.4. "Acquisitions of subsidiaries". Moreover, the purchase of minority shares in the KNIPPING division has led to an additional increase in goodwill of €785K for the period.

The decrease in the net value of goodwill relates to the sale of Eurofast.

Non-allocated goodwill resulting from acquisitions in 2007 chiefly represent acquired knowledge and the potential for market share expansion.

The proportion of goodwill eligible for allocation is posted in the corresponding balance sheet entries and amortized in line with the procedure applicable to goods of the same type.

As at December 31, 2007, the net value of goodwill broke down as follows:

In million euros	AEROSPACE Division						
	Airframe Europe B.U	Airframe USA B.U.	Engines and Critical Parts B.U.	Specialty Fasteners B.U.	Racing B.U	Medical B.U	Total
Goodwill	0.1	9.6	3.0	6.7	8.3	21.0	48.8
Intangible fixed assets with a fixed useful life	None	None	None	None	None	None	None
Result of the impairment test	No impairment	No impairment	No impairment	No impairment	No impairment	No impairment	No impairment
Key assumptions							
Cash flows up to one year	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Cash flows over 4 years	4-year strategic plan	4-year strategic plan	4-year strategic plan	4-year strategic plan	4-year strategic plan	4-year strategic plan	4-year strategic plan
Discount rate	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Cash flow growth rate not covered by assumptions budgetary and strategic	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

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In million euros	Division AUTOMOTIVE					
	Threaded fasteners B.U.	Mechanical components B.U,	Clip fasteners B.U.	International operations B.U.	Knipping B.U	Total
Goodwill	1.1	None	55.7	1.2	22.6	80.6
Intangible fixed assets with a fixed useful life	None	None	None	None	None	None
Trademarks	None	None	6.9	None	None	6.9
Result of the impairment test	No impairment	None	No impairment	No impairment	No impairment	No impairment
Key assumptions						
Cash flows up to one year	Budget	None	Budget	Budget	Budget	Budget
Cash flows over 4 years	4-year strategic plan	None	4-year strategic plan	4-year strategic plan	4-year strategic plan	4-year strategic plan
Discount rate	9%	None	9%	9%	9%	9%
Cash flow growth rate not covered by assumptions budgetary and strategic	2.50%	None	2.50%	2.50%	2.50%	2.50%

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In million euros	COSMETICS Division Cosmetics B.U.
Goodwill	7.3
Intangible fixed assets with a fixed useful life	None
Result of the impairment test	No impairment
Key assumptions	
Cash flows up to one year	Budget
Cash flows over 4 years	4-year strategic plan
Discount rate	9%
Cash flow growth rate non covered by assumptions budgetary and strategic	2.5%

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Impairment tests carried out for accounting purposes at year end 2007 have not led to the recognition of any impairment of goodwill. These tests, in conformity with Note 2.2.8.5, have been carried out at the level of each CGU on the basis of:

- values in use calculated on the basis of cash flow forecasts from the budget plan and strategic 4-year plans approved by the Board of Directors;
- a 2.5% growth rate to establish cash flow forecasts;
- a discount rate of 9% for LISI AUTOMOTIVE CGUs and LISI COSMETICS CGUs and 7.5% for LISI AEROSPACE CGUs, thereby reflecting the commensurate assessment of risks specific to each area.

Management base their forecasts on budgetary assumptions for the first year, and on data in the 4-year strategic plan approved by the Board of Directors for each year; key assumptions relate largely to changes in annual revenue as determined by the order book and, where appropriate, to framework agreements signed by the Group, the operating profit and the assessment of fluctuations in working capital requirements. These assumptions use observation of past events and market studies to determine production rates. The assumptions are mainly based on analysis of previous production cycles in the various sectors as well as studies of the external market. For example, in the aerospace division, estimated data are also corroborated by orders placed with the aircraft manufacturers themselves.

b) Other intangible assets (including goodwill)

(In thousand euros)	Concessions, patents and similar copyrights*	Other intangible fixed assets	TOTAL
Gross values at December 31, 2006	**20,389**	**9,072**	**29,461**
Acquisitions	3,263	(13)	3,250
Disposals	(285)		(285)
Scope changes	(277)	87	(191)
Exchange rate changes	5	10	15
Gross values at December 31, 2007	**23,095**	**9,156**	**32,250**
Depreciation at December 31, 2006	**12,978**	**413**	**13,391**
Depreciation allowance	2,218	1,590	3,808
Depreciation reversals	(270)		(270)
Scope changes	(265)	47	(217)
Exchange rate changes	7	3	10
Depreciation at December 31, 2007	**14,668**	**2,054**	**16,722**
Net values at December 31, 2007	**8,426**	**7,102**	**15,529**

* 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.

The increase in the item "Concessions, patents and similar rights" in 2006 refers mainly to the implementation of an integrated software package at French and foreign sites within the AUTOMOTIVE Division.

2.5.1.2 Tangible assets

a) Fully-owned tangible assets (including goodwill)

(In thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2006	**12,469**	**84,141**	**369,391**	**49,025**	**5,619**	**520,645**
Acquisitions	15	1,093	30,255	6,892	3,803	42,058
Disposals	(461)	(2,416)	(15,532)	(2,427)	(7)	(20,843)
Scope changes		606	3,572	706		4,884
Exchange rate changes	1	(144)	(4,041)	(384)	(151)	(4,718)
Gross values at December 31, 2007	**12,024**	**83,281**	**383,645**	**53,812**	**9,264**	**542,026**
Depreciation at December 31, 2006	**894**	**31,796**	**240,459**	**28,216**		**301,365**
Depreciation allowance		3,051	28,284	3,735		35,070
Depreciation reversals	(758)	(2,247)	(12,768)	(1,634)		(17,407)
Scope changes		78	1,158	125		1,361
Exchange rate changes		49	(2,311)	(222)		(2,484)
Depreciation at December 31, 2007	**134**	**32,727**	**254,822**	**30,219**		**317,900**
Net values at December 31, 2007	**11,890**	**50,554**	**128,823**	**23,592**	**9,264**	**224,127**

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The increase in tangible assets derives mainly from company acquisitions within the AEROSPACE divison (€4.8m) and investments required to support the strong growth of this division (€16.7m). There has been a €20.7m increase in tangible assets in the AUTOMOTIVE division, and a €4.4m increase in the COSMETICS division. Asset sales mainly comprised changes resulting from the sale of assets from LISI AUTOMOTIVE Former (the Monistrol-sur-Loire site).

b) Tangible assets under finance leases

(In thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2006		**5,513**	**7,888**			**13,401**
Acquisitions						
Disposals						
Scope changes			5,396			5,396
Exchange rate changes			8			8
Gross values at December 31, 2007		**5,513**	**13,288**			**18,802**
Depreciation at December 31, 2006		**2,882**	**5,638**			**8,521**
Depreciation allowance		99	401			500
Depreciation reversals						
Scope changes			1,787			1,787
Exchange rate changes			3			3
Depreciation at December 31, 2007		**2,980**	**7,828**			**10,808**
Net values at December 31, 2007		**2,533**	**5,460**			**7,993**

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Increases in tangible assets under finance leases have resulted from new companies HUGUENY (€0.9m) and SEIGNOL (€4.4m).

c) Operating leases

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

In total the annual expense is about €3.6m.

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

2.5.1.3 Financial assets

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

Financial assets and liabilities recorded on balance sheet (In thousand euros)	At 12/31/2007		Breakdown by instrument category				
	Net book value	Fair value	Fair value	Assets available for sale	Loans and receivables	Debt at depreciated cost	Derivatives
Long-term financial assets	4,976	4,976			4,976		
Other long-term financial assets	219	219	219				
Trade and other receivables	118,764	118,764			118,764		
Other short-term financial assets	55,332	55,332	55,332				
Cash and cash equivalents	62,931	62,931	62,931				
Total financial assets	**242,222**	**242,222**	**118,482**	**0**	**123,740**	**0**	**0**
Long-term borrowings	87,784	87,784				87,784	
Other long-term financial liabilities (excl. PCA)	2,549	2,549			2,549		
Short-term borrowings	83,757	83,757				83,757	
Trade and other accounts payable	145,857	145, 857			145,857		
Total financial liabilities	**319,947**	**319, 947**	**0**	**0**	**148,406**	**171,541**	**0**

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Financial assets and liabilities recorded on balance sheet (In thousand euros)	At 12/31/2006		Breakdown by instrument category				
	Net book value	Fair value	Fair value	Assets available for sale	Loans and receivables	Debt at depreciated cost	Derivatives
Long-term financial assets	5,258	5,258			5,258		
Other long-term financial assets	16,522	16,522	16,522				
Trade and other receivables	116,443	116,443			116,443		
Other short-term financial assets	22,801	22,801	22,801				
Cash and cash equivalents	27,467	27,467	27,467				
Total financial assets	**188,491**	**188,491**	**66,790**	**0**	**121,701**	**0**	**0**
Long-term borrowings	110,811	110, 811				110,811	
Other long-term financial liabilities (excl. PCA)	3,067	3,067			3,067		
Short-term borrowings	61,320	61,320				61,320	
Trade and other accounts payable	128,719	128,719			128,719		
Total financial liabilities	**303,917**	**303,917**	**0**	**0**	**131,786**	**172,131**	**0**

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2.5.1.4 Long-term financial assets

(In thousand euros)	Non-consolidated equity interests	Other long-term investments	Loans granted	Other financial assets	TOTAL
Gross values at December 31, 2006	**8**	**4,915**		**333**	**5,258**
Acquisitions		120		134	254
Disposals				(76)	(76)
Scope changes	1			70	71
Exchange rate changes		(523)		2	(521)
Gross values at December 31, 2007	**9**	**4,512**		**463**	**4,984**
Impairment at December 31, 2006					
Provisions for impairment of assets		8			8
Reversals of impairment provisions					
Impairment at December 31, 2007		**8**			**8**
Net values at December 31, 2007	**9**	**4,504**		**463**	**4,976**

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Other financial assets are primarily comprised of payments made for the life insurance contracts of the US companies, for €4.5m. Payments of deposits and guarantees amounted to €0.5m.

2.5.1.5 Other long-term financial assets

(In thousand euros)	2007	2006
Long-term financial assets		16,289
Other debtors	219	233
Total other long-term financial assets	**219**	**16,522**

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As of 31 December, 2007, positions on long-term assets were sold or converted into financial assets which mature within less than a year or which can be immediately liquidated, subsequently classified as short-term items.

2.5.2 Short-term assets

2.5.2.1 Inventories

(In thousand euros)	Raw materials	Tools and other procurements	Work in progress	Finished and intermediary products	Goods	TOTAL
Gross values at December 31, 2006	**38,298**	**5,829**	**65,992**	**56,939**	**25,455**	**192,514**
Scope changes	2,261	16	717	1,320	(9,366)	(5,052)
– *of which increases*	*2,261*	*16*	*717*	*1,320*		*4,314*
– *of which reductions*					*(9,366)*	*(9,366)*
Changes in foreign exchange rates	(918)	(13)	(1,521)	(1,062)	3	(3,511)
Inventories changes	(3,447)	302	4,711	7,960	2,276	11,801
Reclassifications	(1,133)	885	(6)	(1,184)	1,438	0
Gross values at December 31, 2007	**35,061**	**7,018**	**69,894**	**63,973**	**19,806**	**195,751**
Impairment at December 31, 2006	**3,396**	**403**	**4,092**	**11,463**	**2,580**	**21,934**
Scope changes	8				(1,957)	(1,949)
– *of which increases*	*8*					*8*
– *of which reductions*					*(1,957)*	*(1,957)*
Reserve allocations for impairment of assets	777	448	1,063	6,287	533	9,109
Reversals of impairment provisions	(364)	(401)	(2,218)	(2,968)	(191)	(6,142)
Changes in foreign exchange rates	(75)		(164)	(292)	(16)	(547)
Reclassifications				(70)	70	0
Impairment at December 31, 2007	**3,743**	**450**	**2,773**	**14,419**	**1,019**	**22,405**
Net values at December 31, 2007	**31,318**	**6,567**	**67,120**	**49,554**	**18,786**	**173,345**

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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.
Within the context of stabilising prices in the final quarter, commodities stocks were down on the year end due to a considerable reduction in volume and the move towards increased frequency of stock deliveries from suppliers.
Inventories of equipment and other purchases have increased in line with Group expansion.
Inventories of finished goods and works in progress have been affected on the one hand by scope increases of almost €2m and on the other hand by the increase in business, chiefly in the aerospace division.
The exit of Eurofast from the consolidation scope has resulted in stock inventories seeing an appreciable reduction in volume.
Value losses at 31 December, 2007 were close to N-1 levels, due to calculation regulations being implemented and the positive impact of the exit of Eurofast from the consolidation scope.

2.5.2.2 Trade and other receivables

(In thousand euros)	2007	2006
Gross debtors and apportioned accounts	103,596	104,828
Depreciation of trade and other apportioned accounts	(3,827)	(4,276)
Net debtors and apportioned accounts	**99,769**	**100,552**
State - Other taxes and duties	8,472	5,686
Social charges & employees	730	454
Accounts payable - advances, debtors	1,030	1,552
Deferred charges	2,986	2,793
Other	5,773	5,404
Other receivables	**18,995**	**15,892**
Total trade and other receivables	**118,764**	**116,443**

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The aforementioned outstanding trade receivables have gone down in the previous period thanks to the effect of the sale of debts, which was €65.8m at 31 December, 2007 as against €55.8m at 31 December, 2006. These sales took the form of factoring with non-recourse, contractual subrogation. The amount realized from these sales in France alone brings the average debt to 60 days.
Unprovided past due receivables are largely related to major clients with whom the Group signs annual or multiannual business agreements. Based on observation of past events, the company estimates the risk of non-recovery to be minimal, uncovered debts being mainly less than one year past due date.
Trade and other receivables are all due within one year.

2.5.2.3 Short-term financial assets

This item largely consists of securities held by the Group, such as money-market funds with a value of €11.1m, negotiable deposit certificates of €30.1m, guaranteed capital investments of €11m and a structured investment of €3m. The latter are recorded at their fair value, and value adjustments are recorded into the income statement. These positions are not exposed, as the main backing instruments guarantee the capital.

2.5.2.4 Cash and cash equivalents

The cash available as at 31 December, 2007 stood at €62.9m. It was mainly comprised of current bank accounts in euros and currencies.

2.5.3 Shareholders' equity

The Group's shareholders' equity was €425.3m at year end 2007, as compared with €356.8m for the same period in 2006, i.e. an increase of €68.5m. This change takes into account the following main factors:

- + €67.6m net income;
- - €10.1m in exchange rate differences, related to differences in closing rates, particularly the drop in the value of the dollar;
- - €13.0m of dividends paid in May 2007;
- + €25.5m in capital increase, in part on account of conversion of warrants;
- - €1.5m of restatement of treasury stock and equity payments (restatement of awards for workers' share allocation schemes).

2.5.3.1 Capital stock

Share capital at year end amounted to €21,508k, divided into 10,753,861 shares with a face value of €2.

Changes to the number of shares outstanding were as follows:

(In thousand euros)	31/12/2007	31/12/2006
Additional paid-in capital	50,612	25,222
Contribution premiums	15,030	15,030
Merger premiums	2,711	2,711
Total	**68,353**	**42,963**

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2.5.3.2 Additional paid-in capital

Additional paid-in capital is broken down as follows (in millions of Euros:

In number of shares	2007	2006
Outstanding on 1 January	10,210,783	9,896,834
Cash issue		27,666
Exercising of warrants (BSAR)	543,078	286,283
Exercising of options		
Outstanding on 31 December	10,753,861	10,210,783

Variations in paid-in capital largely result from the conversion of warrants.

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2.5.3.3 Capital management

It is the Group's policy to maintain a solid capital base in order to maintain shareholder and investor confidence and to support its growth. The Board of Directors supervises capital returns and the dividend payments to shareholders.

To benefit from a market opportunity, an OBSAR was issued in 2004: there remain to date stock warrants to convert. Other instruments which provide access to the company's capital relate to the benefits conferred on managers and employees under certain conditions, as set out in Notes 2.6.9 and 2.7.2.

2.5.3.4 Dividends

The amount of (unrecognized) dividends for the 2007 financial year submitted to the Shareholders' General Meeting on 29 April, 2008 for approval and the amounts per share break down as follows:

Total net dividend	2007	2006
Amount in million euros	16.1	13.0

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This estimate is based on dividend-bearing shares as of the date of the Board meeting held 20 February, 2008, or 10,753,861 shares.

The (unrecognized) dividend per share for the 2007 financial year submitted to the Shareholders' General Meeting on 29 April, 2008 for approval breaks down as follows:

Dividend per share	2007	2006
Dividend per share in euros	1.5	1.3

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2.5.4 Provisions

2.5.4.1 Changes in provisions break down as follows:

(In thousand euros)	At January 1, 2006	Provisions (net of reversals)	At December 31, 2006	Provisions	Reversals (amounts used)	Reversals (non used amounts)	Reclassifications	Entry into/ exit from consolidation scope	Translation differential	At December 31, 2007
Pensions and retirement	20,680	(2,929)	17,751	847	(1,923)			39	(563)	16,151
Environment-related risks	9,406	(404)	9,002	2,203	(698)	(646)			(478)	9,383
Disputes and other risks		5,962	5,962	1,533	(472)	(3,220)	(134)		(44)	3,625
Guarantees to clients	1,679	(1,007)	672	1	(1)	(18)	134		(37)	751
For taxes	873	199	1,072		(280)					792
Subtotal long-term provisions	**32,638**	**1, 821**	**34,459**	**4,584**	**(3,374)**	**(3,884)**		**39**	**(1,122)**	**30,702**
Industrial reorganization	325	2,321	2,646	1,360	(2,578)	(8)			66	1,486
Disputes	3,793	(3,250)	543	509	(145)	(6)			(11)	891
Losses on foreign exchange rates	110	(110)								
For taxes		143	143							143
Other risks	2,641	(2,201)	440	3,550	(322)				(59)	3,609
Subtotal short-term provisions	**6,869**	**(3,097)**	**3,772**	**5,419**	**(3,045)**	**(14)**			**(4)**	**6,128**
Grand Total	**39,507**	**(1,276)**	**38,230**	**10,003**	**(6,419)**	**(3,898)**		**39**	**(1,126)**	**36,830**
Of which as current operating profit				*8,143*	*(2,402)*	*(3,898)*				
Of which as non-current operating profit				*1,860*	*(4,017)*					

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The main provisions are in respect of:

Pensions and retirement:
Legally-imposed obligations in respect of staff salaries, pension payments or retirement indemnities. The calculation takes account of assumptions regarding payout levels, turnover and mortality statistics. Some of these commitments are backed with external funds.

Environment:
Awareness of liabilities links to requirements to uphold environmental standards in the various countries in which the company operates and more specifically with regard to soil pollution on industrial sites. The cost of monitoring and compliance in concert with local authorities makes up a large part of these provisions. No return is expected for this liability category.

Disputes and other risks:
This covers litigation or disputes with partners and service providers. Risk assessment has been calculated based on the estimated cost of the outcome of any dispute or possible transactions. Assessment of expected returns is not as yet calculable.

Industrial reorganization:
This covers industrial reorganization based on assessments of the cost of closing or redeploying certain sites or entities within the LISI

AUTOMOTIVE and LISI COSMETICS divisions. The assessment of the sums recognized takes account of specific local regulatory stipulations: the favourable outcome of an option relating to an affected site could lead to the recording of a cash flow of €0.7m (unrecognized on 31 December, 2007).

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

2.5.4.2 Personnel commitments

In accordance with the laws and practices of each country in which the Group operates, it offers its employees and former employees, subject to certain conditions of service, the payment of pensions or compensation on retirement. Such benefits can be paid as part of defined contribution plans or defined benefit plans.
The geographic breakdown of the Group's commitments to staff as at December 31, 2007 for defined benefit plans and the main assumptions employed in their measurement are as follows:

In €	Euro zone	USA	UK
Actuarial debt	12,896,441	8,125,838	14,730,690
Discount rate	5.20%	5.85%	5.75%
Wage increase	2.5% – 3.0%	N/A	4.40%

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Long-term rates of return expected for the funds have been determined taking into account the asset allocation 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, 2007 the allocation of insurance assets was as follows :

Stocks	64.5%
Bonds	34.9%
Other	0.6%
Total	**100.0%**

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In 2007 contributions to pension funds or payments to beneficiaries by the Group came to €2.4 million.

The following table details over 2007 the development of the actuarial debt and the market value of insurance assets (in €'000s):

Change in market value of cover assets	2007	2006
Actuarial debt at year start	37,130	39,808
Cost of services rendered during the year	1,315	1,166
Cost of accretion	1,833	1,841
Contributions paid by employees	94	251
Benefits paid	(1,900)	(2,139)
Discounts	(667)	(1,692)
Wind-ups		
Scheme changes		
Change in consolidation scope		
Translation differential	(1,895)	(821)
Actuarial losses (gains)	(157)	(1,285)
Actuarial debt at year end	**35,753**	**37,130**

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Change in market value of hedging assets	2007	2006
Opening value	19,834	18,000
Contributions paid the Group	1,335	1,439
Contributions paid by employees	94	251
Benefits withheld from fund	(817)	(982)
Wind-ups		
Expected yield from assets	1,287	1,069
Translation differential	(2,101)	(650)
Actuarial gains (losses)	97	707
Closing value	**19,729**	**19,834**

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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 €k)

	2007	2006
Non funded actuarial debt	(16,024)	(17,296)
Deferred actuarial losses (gains) recorded to the balance sheet	(129)	(455)
Unrecognized costs of past services		
Liabilities recognized at year end	**(16,152)**	**(17,751)**

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The expense recognized in the operating income statement by the Group for 2007 for defined benefits plans came to €2 million and breaks down as follows (in €k)

	2007	2006
Cost of services rendered during the year	1,315	1,166
Cost of accretion	1,832	1,841
Yield expected from regime assets	(1,287)	(1,069)
Actuarial differences recognized during the year	50	43
Cost of past services		
Depreciation of transition assets		
Limitation of assets		
Reductions / Wind-ups	(661)	
Change in consolidation scope	(151)	
Recognized expense (revenue)	**1,098**	**1,981**

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2.5.5 Other long-term liabilities

(In thousand euros)	2007	2006
Deposits and sureties received	61	61
Employee profit-sharing for the year	2,489	3,006
Deferred income	521	170
Total other long-term liabilities	**3,070**	**3,237**

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2.5.6 Debts and financial risk management

Breakdown by accounting category and instrument class for financial liabilities is given in Note 2.2.16 and 2.5.6.4.

2.5.6.1 Financial debt

a) Breakdown by nature

(In thousand euros)	2007	2006
Non-current share		
Mid-term loans	76,375	101,805
Debt related to lease agreements	2,388	2,188
Employee profit-sharing (frozen on a current account)	9,021	6,818
Subtotal non-current financial debt	**87,784**	**110,811**
Current share		
Banking facilities for operations	52,628	32,417
Debt related to lease agreements	28,415	25,932
Debt related to lease agreements	2,542	2,390
Employee profit-sharing (frozen on a current account)	171	580
Subtotal current financial debt	**83,757**	**61,320**
Total financial debt	**171,541**	**172,131**

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b) Breakdown by maturity date

(In thousand euros)	2007	2006
Borrowings		
below one year	28,415	25,932
two to five years	71,375	91,960
over five years	5,000	9,845
Subtotal borrowings	**104,790**	**127,737**
Other financial creditors		
below one year	55,341	35,388
two to five years	11,409	9,006
over five years		
Subtotal financial creditors	**66,751**	**44,394**
Borrowings and financial debt	**171,541**	**172,131**

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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 loan	Fixed rate	Variable rate	Total items in €m	Capital remaining due at 31/12/2007 in €m	Maturity date	Rate or currency hedging instruments
LISI S.A	Syndicated loan [1]		Euribor over drawing period + margin	35.0	30.0	2013	
HI-SHEAR Corporation	Syndicated loan [2]		Libor 3 months USD + margin	17.0	3.7	2009	Partly hedged by a SWAP and a CAP
LISI AEROSPACE	Conventional loan		Libor 3 months USD + margin	2.9	2.6	2009	Partly hedged by a SWAP and a CAP
BLANC AERO Industries	Conventional loan		Euribor over drawing period + margin	5.0	3.6	2012	
LISI COSMETICS	Conventional loan		Euribor 3 months + margin	1.6	0.3	2008	Equipment pledging
	Conventional loan		Euribor 3 months + margin	0.8	0.5	2009	Equipment pledging
	Conventional loan		Euribor 3 months + margin	0.7	0.2	2012	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	1.0	0.7	2012	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.5	0.3	2010	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.6	0.3	2010	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.7	0.6	2011	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.8	0.7	2011	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.8	0.6	2011	Intention letter by LISI S.A
LISI AUTOMOTIVE Former							
	Conventional loan		Euribor 6 months + margin	2.5	1.2	2010	
	Conventional loan		Euribor 3 months + margin	2.5	1.5	2012	
	Conventional loan		Euribor 3 months + margin	2.5	1.8	2012	
LISI AUTOMOTIVE Mohr und Friedrich	Conventional loan		Euribor 3 months + margin	0.8	0.2	2009	Intention letter by LISI AUTOMOTIVE Former
LISI AUTOMOTIVE Mecano	Conventional loan	5.44%		2.9	0.3	2008	LISI AUTOMOTIVE Rapid guarantee
	Conventional loan	4.50%		5.1	0.5	2008	LISI AUTOMOTIVE Rapid guarantee
LISI AUTOMOTIVE KKP	Conventional loan		Euribor 3 months + margin	2.5	0.5	2009	
LISI AUTOMOTIVE Beijing	Conventional loan	6.561%		0.1	0.1	2008	
LISI AUTOMOTIVE	Conventional loan [3]		Euribor 6 months + margin	4.0	4.0	2012	Intention letter by LISI S.A
	Conventional loan [4]		Euribor 3 months + margin	4.0	4.0	2012	Intention letter by LISI S.A
	Conventional loan [5]		Euribor 3 months + margin	4.0	3.6	2012	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	4.0	3.8	2012	Intention letter by LISI S.A
	Conventional loan [6]		Euribor 3 months + margin	3.0	1.7	2010	Intention letter by LISI S.A
Schrauben und Draht Union GmbH	Conventional loan	6.13%		2.0	1.0	2017	
	Conventional loan		Euribor 1 month + margin	1.0	1.0	2008	
	Conventional loan		Eonia + margin	0.5	0.4	2011	
	Conventional loan		Euribor 6 months + margin	0.5	0.5	2009	
BETEO GmbH	Conventional loan	4.35%		1.0	0.6	2011	
	Conventional loan		Euribor 6 months + margin	0.8	0.5	2011	
	Conventional loan		Euribor 6 months + margin	0.8	0.6	2011	
KNIPPING Espana S.A	Conventional loan		Euribor 3 months + margin	0.4	0.2	2010	
	Conventional loan		Euribor 3 months + margin	0.3	0.1	2009	
	Conventional loan		Euribor 3 months + margin	6.5	5.5	2018	
	Conventional loan		Euribor 3 months + margin	0.3	0.2	2010	
	Conventional loan		Euribor + margin	0.3	0.2	2011	

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Contracting Entities	Nature of loan	Fixed rate	Variable rate	Total items in €m	Capital remaining due at 31/12/2007 in €m	Maturity date	Rate or currency hedging instruments
KNIPPING Umformtechnik GmbH	Conventional loan	7.05%		1.1	0.5	2011	
KNIPPING Verbindungstechnik GmbH	Conventional loan	6.60%		0.7	0.2	2009	Intention letter by LISI AUTOMOTIVE
	Conventional loan	4.25%		0.6	0.5	2010	
	Conventional loan	1.50%		1.1	0.5	2017	Intention letter by LISI AUTOMOTIVE
	Conventional loan	5.75%		0.8	0.4	2009	Intention letter by LISI AUTOMOTIVE
	Conventional loan	4.10%		1.2	1.0	2010	Intention letter by LISI AUTOMOTIVE
	Conventional loan	5.50%		0.8	0.3	2008	Intention letter by LISI AUTOMOTIVE
	Conventional loan	5.00%		0.8	0.3	2009	
	Conventional loan	4.15%		0.6	0.5	2010	
	Conventional loan	5.50%		0.8	0.4	2010	
	Conventional loan		Euribor 3 months + margin	1.5	0.9	2009	
	Conventional loan		Euribor 3 months + margin	0.6	0.6	2010	
	Conventional loan		Euribor 3 months + margin	3.0	1.8	2010	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 6 months + margin	3.0	2.0	2011	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 3 months + margin	3.0	2.0	2011	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 3 months + margin	3.0	3.0	2012	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 3 months + margin	3.0	1.8	2010	Intention letter by LISI AUTOMOTIVE
			TOTAL	**145.3**	**94.8**		

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2.5.6.2 Attached covenants

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

For the reader's information, the financial "covenants" related to each loan are described 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, as yet not drawn down).

The total for commitments A will be automatically reduced on a straight line basis, in accordance with the depreciation table for 7 August from 2007 to 2013. LISI will not be able to draw again on all or part of commitments A, which will have been repaid. For this commitment, a draw down of €35m was requested and the remaining capital due on December 31, 2007 was €30m.

With regard to commitments B, any repaid advance may be the subject of a new draw down as per the conditions stipulated in the agreements, as the rights for this loan expire on 7 August 2013 at the latest.

- Method used to calculate the margin for commitments "A" and "B": Euribor or Libor + margin

Early redemption:

- Gearing ratio < 1.2,
- Leverage Ratio < 3.5 (Net debt / EBITDA)

[2] 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.

[3] LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:
1. < 0.25: 0.25% per annum.
2. >= 0.25 and < 0.40: 0.30% per annum.
3. >= 0.40 and < 0.80: 0.375% per annum.
4. >= 0.80 and < 1.00: 0.475% per annum.
5. >= 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.

[4] LISI AUTOMOTIVE conventional loan

- Method used to calculate the margin according to gearing:
1. < 0.25: 0.25% per annum.
2. >= 0.25 and < 0.40: 0.30% per annum.
3. >= 0.40 and < 0.80: 0.375% per annum.
4. >= 0.80 and < 1.00: 0.475% per annum.
5. >= 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:
1. <= 0.50: 0.40% per annum.
2. > 0.50 and < 0.75: 0.45% per annum.
3. >= 0.75: 0.50% per annum.

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

[6] LISI AUTOMOTIVE conventional loan

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

2.5.6.3 Sureties

(in million euros)	Capital remaining due as at December 31, 2007
Guarantees and deposits	24.2
Mortgages and pledged assets	0.8
Total	**25.0**

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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 €43m as part of:
   - The acquisition of MONADNOCK by Hi-Shear Corp for €19m in 2002, the capital outstanding at December 31, 2007 being €3.7m;
   - The acquisition of the KNIPPING Group by LISI AUTOMOTIVE for €18.9m in 2005, the capital outstanding at December 31, 2007 being €17.1m;
   - The acquisition of equipment by LISI COSMETICS for a total of €2.8m 2005; the capital outstanding at December 31, 2007 being €1.5m;
   - The acquisition of equipment by LISI COSMETICS for a total of €2.3m 2005; the capital outstanding at December 31, 2007 being €1.9m;

2. Pledging by LISI COSMETICS of tangible assets for their financing. The capital that remained due on December 31, 2007 amounted to €0.8 M.

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 €k from collateral (a)	Balance of pledged shares (b)	Balance of pledged equipment (c)	Total balance sheet item (K€) (d)	corresponding % (b) / (d) or (c) / (d)
Intangible fixed assets	–	–	–	–	–	–	–
Tangible fixed assets	2003	2009	2,400	–	800	46,503	1.72%
Financial assets	–	–	–	–	–	–	–
TOTAL	**–**	**–**	**2,400**	**–**	**800**	**46,503**	**1.72%**

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Year end saw the withdrawal of LISI AUTOMOTIVE Rapid equity collateral withdrawal on repayment of the loan.

2.5.6.4 Liquidity risk

At December 31, 2007 the Group's net cash balance was €66m. This amount corresponds to the gross cash position, minus all bank overdrafts. The ratio between net debt and shareholder's equity came out to 12.5%, to be compared with 29.6% as at December 31, 2006. The main terms and conditions of our various loan contracts make use of the aforementioned ratio with a limit of 120%.

(In thousand euros)	2007	2006
Other short-term financial assets	55,332	39,090
Cash and cash equivalents	62,931	27,467
Cash available [A]	**118,263**	**66,557**
Banking facilities for operations [B]	52,628	32,417
Net cash [A - B]	**65,635**	**34,140**
Mid-term loans	104,790	127,737
Other creditors	14,123	11,978
Financial debt [C]	**118,913**	**139,715**
Net financial debt [D = C + B – A]	**53,277**	**105,575**
Group equity [E]	**425,326**	**356,825**
Debt ratio (expressed as %) [D / E]	**12.5%**	**29.6%**

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The table of liquidities for all financial liabilities is as follows:

Financial liabilities recorded on balance sheet	31/12/2007	Breakdown of contractual flows not discounted on due date			
(In thousand euros)	Net book value	Within less than one year	Between 1 and 5 years	Over 5 years	Total
Long-term borrowings	87,784		82,784	5,000	87,784
Other long-term financial liabilities (excl. PCA)	2,549		2,489	60	2,549
Short-term borrowings	83,757	83,757			83,757
Trade and other accounts payable	145,857	145,857			145,857
Total financial liabilities	**319,947**	**229,614**	**85,273**	**5,060**	**319,947**

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Financial liabilities recorded on balance sheet	31/12/2006	Breakdown of contractual flows not discounted on due date			
(In thousand euros)	Net book value	Within less than one year	Between 1 and 5 years	Over 5 years	Total
Long-term borrowings	110,811		100,966	9,845	110,811
Other long-term financial liabilities (excl. PCA)	3,067		3,007	60	3,067
Short-term borrowings	61,320	61,320			61,320
Trade and other accounts payable	128,719	128,719			128,719
Total financial liabilities	**303,917**	**190,039**	**103,973**	**9,905**	**303,917**

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2.5.6.5 Interest rate risk

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 2.7.4 “Commitments”).

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, the Group is exposed to a possible upward movement of rates on account of taking out new loans in 2007 at variable rates.

At December 31, the Group’s net variable rate position broke down as follows:

(In thousand euros)	2007*	2006
Loans – variable rates	89,020	102,473
Short-term banking facilities	52,628	32,417
Short- and long-term financial assets	(25,244)	(34,919)
Cash and cash equivalents	(62,931)	(27,468)
Net position prior to management	**53,473**	**72,503**
Interest rate CAP	4,143	6,616
Interest rate SWAP	1,423	25,000
Hedging	**5,566**	**31,616**
Net position after management	**47,907**	**40,887**

(*) During 2007, the approach taken was to use the net borrowing and lending positions as a basis for assessment of sensitivity to rates, which required a restatement of bases on December 31, 2006, in order to ensure comparability between the two financial periods.

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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, 2007 of about €479k, i.e. 6.7% of the overall amount of 2007 financial costs. This impact will automatically be reduced by the increase in income from cash investments which reached €62.9m at year end, 2007 (cf note 2.5.4).

2.5.7 Deferred taxes

(In thousand euros)	2007	2006
Deferred tax assets	14,118	15,806
Deferred tax liabilities	(31,836)	(31,077)
Net deferred taxes	**(17,718)**	**(15,271)**

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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. Deferred tax assets are only recognized if their recovery is probable. This prudential rule applies more specifically to brought forward losses for which the Group believes recoverability depends on future profits. For information, brought forward losses on December 31, 2007 will generate deferred tax assets of up to €1.8m (not recognised for the period).

2.6 DETAIL OF MAIN INCOME STATEMENT ITEMS

2.6.1 Sales revenue

The breakdown of sales revenues by business segment and country is shown in note 2.7.1, “Segment information”.

2.6.2 Purchases of consumables

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL 2007	TOTAL 2006
Consumption of goods	9,146	33,119	2,463		28	44,756	43,739
Consumption of raw materials	62,925	71,678	6,575		(17)	141,161	120,212
Tools	19,009	15,235	2,968		7	37,219	33,707
Other purchases	4,171	11,187	3,619	18		18,995	16,577
Total purchases	**95,250**	**131,219**	**15,625**	**18**	**18**	**242,130**	**214,236**

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In 2007, the increase in the raw materials line is largely accounted for by considerable increases in the prices of the main commodities used by the group (steel, titanium, stainless steel, etc.), combined with an increase in volume. Other items under "Purchases of consumables" reflect the impact of volume increases.

2.6.3 Other purchases and external expenses

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL 2007	TOTAL 2006
Subcontracting	11,260	40,412	3,138		(2)	54,808	47,959
Maintenance	7,455	14,658	2,104	142	(15)	24,345	21,479
Transport	3,313	11,109	1,026			15,448	14,227
Energy	4,740	10,087	1,721	7		16,556	16,482
Other external costs	24,462	20,392	2,755	2,024	(8,616)	41,017	40,723
Total other purchases and external costs	**51,231**	**96,659**	**10,744**	**2,173**	**(8,634)**	**152,173**	**140,870**

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Other purchases and external expenses have increased sharply due to additional costs relating to changes in surface treatment processes within the AUTOMOTIVE division and the impact of the mix of products which require more outside assembly services. Generally speaking, overall external service provision costs have increased up by 3 to 5%.

2.6.4 Personnel expenses

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL 2007	TOTAL 2006
Temporary employees	7,722	7,059	2,940	7	(30)	17,698	14,131
Salaries and incentives	89,839	91,435	12,971	3,066		197,311	182,329
Layoff pay	52	391	11			454	1,438
Social contributions and taxes on salaries	33,036	31,780	6,039	985		71,841	69,246
Employee profit-sharing	2,489					2,489	3,086
Total payroll expenses	**133,139**	**130,664**	**21,962**	**4,058**	**(30)**	**289,793**	**270,231**

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The almost 7.2% increase in personnel expenses comes as a result of the increase in staff and the massive recruitment campaign within the AEROSPACE division (averaging 361 staff over the year) and the requirement for additional hours and temporary staff within the AUTOMOTIVE and COSMETICS divisions.

2.6.5 R&D expenses

The LISI Group's mission is to carry out intensive research and development activities, both in developing new products and in using new materials. This research and development activity is carried out at various levels: either as part of a co-operative venture between research and design departments within our own divisions and those of our customers, or to develop or improve certain components or industrial processes. These are mainly comprised of personnel expenses dedicated to R&D services. Staff working within research and development represent around 2% of Group salaries. In general, the Group does not freeze research and development costs (see note 2.2.7.3).

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

(in million euros)	2007	2006	2005
R&D expenses	15.0	12.3	10.1
% of sales revenue	1.8%	1.7%	1.6%

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2.6.6 Non-recurring operating expenses and revenues

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

(In thousand euros)	2007	2006
Non-recurring operating income		
Sale price of fixed assets disposals	941	787
Reversals of restructuring provisions	751	1,148
Industrial reorganisation plan provision reversals	3,266	
Disposal price of Monistrol-sur-Loire	300	
Disposal price of Eurofast	20,000	
Total	**25,258**	**1,935**
Non-recurring operating expenses		
Net book value of fixed assets disposals	(3,897)	7
Restructuring costs	(880)	(2,029)
Industrial reorganisation costs	(4,766)	
Reserve allowance for industrial reorganisations	(1,360)	(2,742)
Assessed value of Eurofast	(8,932)	
Total	**(19,835)**	**(4,765)**
Result of non-recurring operations	**5,423**	**(2,830)**

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The non-recurring element of the result is primarily derived from:

- the sale of Eurofast for €11.1m;
- the restructuring of the Canadian subsidiary of the AUTOMOTIVE division for €–0.7m
- cost of shutting down the Neuilly-sur-Seine COSMETICS division plant, at €–1.4m;
- the sale of assets from the Monistrol-sur-Loire site (AUTOMOTIVE division) for €2.4m;

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.

2.6.7 Financial income or loss

(In thousand euros)	2007	2006
Financing expenses and revenue on cash		
Financial earnings	4,899	1,626
Effect of changes to fair value of financial instruments*	(2,544)	264
Financial charges	(10,529)	(9,562)
Sub-total income from cash and cash equivalents	**(8,174)**	**(7,672)**
Other financial income and expenses		
Foreign exchange gains	3,087	1,503
Foreign exchange losses	(2,026)	(3,044)
Other	(1)	(92)
Financial income and expenses	**1,060**	**(1,633)**
Total	**(7,114)**	**(9,305)**

* On liquidated deferred capital bond in August 2007.

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2.6.8 Income tax

2.6.8.1 Breakdown of the income tax

Breakdown (In thousand euros)	Earnings before restated tax	Restated tax	Earnings after restated tax
Current profit	95,428	(32,421)	63,007
Non-current operating income	5,424	541	5,963
Employee profit-sharing	(2,489)	851	(1,638)
Tax credit		591	591
Tax integration taxes		(370)	(370)
Profit (loss)	**98,363**	**(30,808)***	**67,553**

* of which tax payable: €29,083k,
of which deferred taxes: €1,725k.

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2.6.8.2 Reconciliation between the actual tax burden and the theoretic calculated tax burden

(In thousand euros)	
Theoretic rate (on the basis of the French rate)	34.43%
Theoretic tax (on the basis of the French rate)	31,154
Specific rate on disposal of equity interests	323
Total theoretic tax	31,477
Tax exemption of foreign companies	(812)
DTA not activated	452
Tax credits of French subsidiaries	(591)
Tax rate differentials on overseas subsidiaries	216
Other changes	64
Recognized taxation	**30,808**
Apparent rate	31.32%

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2.6.8.3 Tax rates applicable to LISI Group companies

	2007	2006
Germany	30.00%	40.00%
UK	30.00%	30.00%
Canada	34.12%	34.12%
Spain	30.00%	35.00%
USA	40.00%	40.00%
France	34.43%	34.43%
Czech Republic	21.00%	28.00%

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Fiscal reforms in Germany have resulted in a 10 basis-point decrease in corporation tax, which has had a positive €0.5m impact on deferred tax calculations.

2.6.9 Earnings per share

Earnings per share calculations are shown in paragraph 2.2.19.6.
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.

2007	Net earnings in thousand €	Number of shares	Net earnings per share in €
Total stocks		10,472,285	
Treasury shares		(229,298)	
Basic earnings per share	67,553	10,242,987	6.60
Warrants		237,324	
Diluted earnings per share	67,553	10,480,311	6.45

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2006	Net earnings in thousand €	Number of shares	Net earnings per share in €
Total stocks		9,991,224	
Treasury shares		(265,202)	
Basic earnings per share	47,989	9,726,022	4.93
Warrants		780,402	
Diluted earnings per share	47,989	10,506,424	4.57

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2.7 ADDITIONAL INFORMATION

2.7.1 Segment reporting

Group activities are spread over three business segments and are split 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 perfumes and cosmetics activities.

Other activities are primarily the activities of the Holding company.

2.7.1.1 Breakdown by business sector

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Restatements	TOTAL
31/12/2007						
Income component						
Sales revenue by business sector	355.700	407.089	54.823	6.990	(8.645)	815.957
EBITDA	83.600	51.289	6.119	928		141.937
Depreciation allowance and net provisions	15.027	23.870	2.351	637		41.885
EBIT	68.573	27.419	3.769	291		100.052
Operating profit	79.371	22.663	2.297	1.144		105.475
Net earnings	56.409	10.022	1.987	(866)		67.553
Balance sheet component						
Working capital requirements	87.473	90.818	(1.457)	(3.963)		172.871
Net fixed assets	130.981	228.461	28.662	1.259		389.363
Acquisitions of fixed assets	18.859	20.797	4.382	195		44.232
31/12/2006						
Income component						
Sales revenue by business sector	315.264	382.472	44.126	6.495	(8.625)	739.733
EBITDA	70.229	47.760	2.563	1.773		122.326
Depreciation allowance and net provisions	10.155	21.930	1.733	(113)		33.706
EBIT	60.074	25.830	830	1.886		88.620
Operating profit	59.937	24.372	841	640		85.790
Net earnings	38.803	9.508	478	(801)		47.989
Balance sheet component						
Working capital requirements	88.537	98.191	(2.372)	(2.546)		181.810
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

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2.7.1.2 Breakdown by business sector and by country

(In thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Restatements	TOTAL
31/12/2007						
Income component						
Revenue by destination area						
European Union	182.781	311.733	54.124	6.990	(8.645)	546.981
of which France	*107.331*	*152.016*	*43.897*	*6.990*	*(8.645)*	*301.589*
North American continent	122.656	13.399	622			136.677
Other emerging countries	50.263	81.957	77			132.297
Total	**355.700**	**407.089**	**54.823**	**6.990**	**(8.645)**	**815.957**
Balance sheet component						
Net fixed assets by destination area						
European Union	56.531	227.442	28.662	1.259		313.894
of which France	*51.892*	*135.546*	*28.662*	*1.259*		*217.359*
North American continent	65.917					65.917
Africa	569					569
Asia	7.964	1.019				8.983
Total	**130.981**	**228.461**	**28.662**	**1.259**		**389.363**
Flows provided by or used for acquisition of fixed assets by destination area						
European Union	8.906	20.283	4.382	195		33.766
of which France	*7.555*	*13.474*	*4.382*	*195*		*25.606*
North American continent	9.181					9.181
Asia	772	514				1.286
Total	**18.859**	**20.797**	**4.382**	**195**		**44.232**
31/12/2006						
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*	*(8.625)*	*282.967*
North American continent	99.478	5.627	1.323			106.428
Other emerging countries	21.890	62.399				84.289
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
Asia	8.223	662				8.885
Total	**100.729**	**233.367**	**28.236**	**1.194**		**363.526**
Flows provided by or used for 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
Asia	770	271				1.041
Total	**20.392**	**25.359**	**2.523**	**522**		**48.797**

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2.7.2 Share-based payments

2.7.2.1 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 €0.3m was recognized. The overall charge recognized for this plan since its inception is €1.2m.

The stock options plan breaks down as follows:

Award date	June 25, 2003
Strike price	€20.33
Contractual maturity	8 years
Number of options awarded	163,000
Number of options cancelled	36,000

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

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.

2.7.2.2 Allocation of performance shares

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on June 27, 2007, to allocate performance shares to members of the Executive Committee and to members of the principal Management Committees for the three LISI Group divisions, subject to their meeting certain performance targets: achieving two main goals of the LISI strategic plan for 2009, i.e. sales revenue and gross income from ordinary operations. The maximum allocated number of shares is 68,000 shares and concerns 77 French employees. Shares will vest from March 1, 2010, but they should be kept in a purely registered form by the beneficiaries for a period of two years after the acceptance period has terminated.

29 employees outside of France will benefit from bonuses based on the principles and conditions, but in the form of pay and salaries (synthetic share scheme).

The valuation of these benefits on their allocation date has been calculated by independent actuaries, taking into account hypotheses linked to the two performance parameters as of the maturity date: sales revenue and the gross income from ordinary operations. Statistical models and rules have been applied to these parameters in order to model the behaviour of beneficiaries.
The fair value of the benefits thus allocated has been recognized for 2007 under personnel expenses at a value of €0.8m for employees of French companies, with a corresponding increase in shareholders' equity, and at a value of €0.2m for employees of non-French companies with a corresponding increase in personnel liabilities. This cost has not been recognized at divisional level and is charged at LISI S.A level.

2.7.2.3 Information relating to stock options and performance shares at year end, 2007

The table below shows information relating to outstanding stock options and performance shares on December 31, 2007.

	Number	Average weighted exercise price of options in euros*
Options outstanding at year start	**146,760**	**20.71**
Options allocated during the period	68,000	None
Options cancelled during the period	1,000	20.33
Options exercised during the period*	(82,150)	20.77
Options cancelled during the period	–	
Options that reached maturity during the period	**133,610**	

* Average weighted price of share on the exercise date.

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The following table presents information about outstanding stock options by date at December 31, 2007:

Award date of options	Exercise price in euros	Number of options outstanding at December 31, 2007	Number of exercisable options	Residual contractual term
03/01/2001	27.82	5,060	5,060	02/28/2009
12/06/2001	18.81	11,640	11,640	12/05/2009
06/25/2003	20.33	48,910	48,910	06/24/2011
06/27/2007	None	68,000	–	03/01/2012
Total		**133,610**	**65,610**	

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

2.7.3.1 Information on related parties

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

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

2.7.3.2 Remuneration of members of management bodies (paid in 2007)

(In thousand euros)	Expenses for the period		Liabilities at 12/31/2007
	2007	2006	
Gross short-term benefits (salaries, bonuses, etc.)	752	554	
Post-employment benefits (IFC)	112	22	112
Other long-term benefits			
Termination benefits			
Equity compensation benefits	71		71
Total compensation	**935**	**576**	**183**

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The increase in short-term benefits is the result of a larger allocation of 2006-related interim bonuses paid out in 2007.

The main directors will receive remuneration in the form of short-term benefits, post-employment benefits and share-based payments. With regard to this category, in 2007 both directors of LISI S.A.received performance shares in accordance with the same terms and conditions as other members of the divisional Executive Committees; an additional retention condition is imposed upon them, namely that they shall retain a 20% share until their position as a director of the parent company is terminated.

2.7.4 Commitments

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

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

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

2.7.4.1 Commitments made in the context of current activities

In addition to the actual sureties stated in the note to this document (cf. note 4.5.6.3), and the operating leases whose annual charges are presented in note 2.5.1.2, commitments provided as part of current activities are as follows:

(In thousand euros)	2007
Training entitlements	1,548
Balance of investment orders	15,505
Commitments made	**17,053**
CAP/FLOOR of interest rates	4,143
Rate swaps	1,423
Reciprocal commitments	**5,566**

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Reciprocal commitments:

Reciprocal commitments are interest rate swaps to hedge variable rate loans (cf. note 2.5.6.1. Financial Debt) contracted as part of the financing of external growth. At December 31, 2007, the features of the swap contracts were as follows:

Notional at 31/12/2007	Value in thousand euros	Start date	Maturity date	Lending rate	Net present value in thousand euros
HI-SHEAR Corp.	1,698	11/25/05	07/31/08	Libor 3 months USD	–
LISI AEROSPACE	2,445	12/30/05	12/31/08	Libor 3 months USD	–
KNIPPING Verbindungstechnik	923	12/15/04	12/15/09	Euribor 3 months	15
KNIPPING Verbindungstechnik	500	08/01/05	06/30/10	Euribor 3 months	11
				Total	**26**

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2.7.4.2 Commitments received in the context of the acquisition of companies during the period

- HUGUENY: Representations and warranties received for social and fiscal commitments and for legal compliance, with a variable term relative to the nature of the commitments covered. The triggering threshold is €10k.

- LISI MEDICAL JEROPA Inc: Representations and warranties received for elements making up assets acquired, with a variable term relative to the nature of the commitments covered. The triggering threshold is €10k with a cap of $3500k.

- SEIGNOL, INTERMED Application and LIXUS:
  - Representations and warranties received for social and fiscal commitments and for legal compliance, with a variable term relative to the nature of the commitments covered. The triggering threshold is €25k with an excess of €150k and a cap of €2,184k in the event of legal liability issues relating to product quality. Generally, the guarantee cap is €1,456k.

  Earn out:
  - The sales contract provides for an additional payment based on the sales revenue and EBITDA for the financial year 2008.
  - The representations and warranties have been covered by an independent first-demand guarantee issued by the assignor's bank.

2.7.4.3 Representations and warranties given within the scope of the sales of Eurofast and HI-SHEAR's Tooling activities

EUROFAST: Representations and warranties given for social and fiscal commitments and for legal compliance, with a variable term relative to the nature of the commitments covered, subject to an excess of €250k, a minimum threshold of €25k and with a cap of €500k for environmental and fiscal risks and a €1,000k ceiling for other risks.

Tooling HI-SHEAR: Representations and warranties given for elements making up assets sold, with a variable term relative to the nature of the commitments covered. The triggering threshold is $25k, with a guarantee limit of $50k for defective products sold 12 months prior to disposal of business.

2.7.4.4 Other commitments

The sale of real estate assets by LISI AUTOMOTIVE Former: LISI AUTOMOTIVE Former transferred land ownership of Forges de Maurienne to the district of Saint-Michel de Maurienne. The 2.15 hectare piece of land contained existing known pollutants from business activity. All risk linked to these pollutants has been transferred to the buyer.

2.8 CURRENCY RATES USED BY FOREIGN SUBSIDIARIES

		2007		2006	
		Closing	Average	Closing	Average
Dollar	(USD)	1.4721	1.3797	1.3170	1.2615
Sterling	(GBP)	0.7334	0.6873	0.6715	0.6818
Chinese Yuan	(RMB)	10.7524	10.4551	10.2793	10.0365
Canadian dollar	(CAD)	1.4449	1.4663	1.5281	1.4258
Zloty	(PLN)	3.5935	3.7749	3.8310	3.8210
Czech crown	(CZK)	26.6280	27.7325	27.4850	28.2665
Moroccan Dirham	(MAD)	11.3437	11.3437	–	–
Indian rupee	(INR)	57.9856	56.6764	–	–

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2.9 IMPORTANT EVENTS OCCURRING AFTER YEAR-END: INFORMATION ON TRENDS

No significant change to the Group's financial and commercial situation has occurred since December 31, 2007.

With an accurate order book within its main divisions, the LISI Group can safely predict a good year in 2008. The Group's sales revenue should therefore see new growth.

4

COMPANY FINANCIAL STATEMENTS

1 HOLDING COMPANY ACTIVITY FOR THE FINANCIAL YEAR, AND OUTLOOK FOR THE COMING YEAR

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

- strategic validation, growth approach, action plans;
- outlining strategy in an annual budget plan;
- financial control and internal audit;
- financial and fiscal consolidation;
- financial optimisation and resource allocation;
- co-ordination of: insurance; purchasing; quality; research and development; health, safety and environment; human resources and investments.

HIGHLIGHTS OF THE PERIOD

- Capital increase through the release of 543,078 redeemable share subscription warrants (BSARs). These BSARs were converted, allowing the issue of new shares. These capital equity notes, released at a unit cost of €47, were fully paid up in cash on subscription. The number of LISI shares outstanding on December 31, 2007 was 10,753,861. There remained 237,324 warrants to convert at December 31, 2007.
- A €1,800,000 capital increase for LISI COSMETICS.
- Transfer of registered offices from Paris (75012) – Tour gamma A – 193 rue de Bercy to Belfort (90000) – Le Millenium 18 rue Albert Camus, effective from May 1, 2007.

EARNINGS AT DECEMBER 31ST, 2007

The remarks below relate to the income statement for 2007.

- **Operating revenue** of €7.3m is largely composed of services invoiced to subsidiaries of LISI S.A. in the areas of business assistance, control and co-ordination. This figure also includes transfer of expenses at €0.3m. **Sales revenue** from LISI S.A. was €7m, as compared with €6.5m in 2006, i.e. a 7.6% increase.

- **Operating expenses** reached €5.4m, a decrease of 7% compared with 2006, following good control of external expenses.

- **Operating profit** thus increased from €1.5m to €1.9m.

- **The financial result** is positive, at €+21.7m, as compared with €+12.3m in 2006. This result is largely accounted for, at revenue level, by dividends received from our subsidiaries worth €15.7m; cash received on financial products from liquidation of an equity investment which generated a capital gain of €2.7m; the release of the provision for LISI COSMETICS shares to a value of €5m; and at expenses level, by interest on Group loans and current accounts to the value of €4.6m.

- **Dividends** received by LISI AEROSPACE and LISI AUTOMOTIVE reached €15.7m, representing a 16.6% increase on the previous year.

- **Extraordinary earnings** of €0.3m do not include any significant items.

- **Corporation tax** constituted an expense of €1.1m, linked mainly to the effects of tax integration.

- Consequently, LISI S.A.'s **net profit** was €22.8m, as compared with €16.2m in 2006, i.e. a 40.8% increase.

- **Shareholders' equity** rose from €130m in 2006 to €165m at the end of 2007, after the distribution of €13m worth of dividends for 2006 which were paid in 2007, and a capital increase of €25.5m, largely as a result of BSAR conversions. This increase can be broken down into capital of €1.1m and paid-in capital of €24.4m.

- **Cash flow** reached €72.8m, and was largely made up of investments in guaranteed capital products. Net financial debt was €12.6m at year end 2007, as compared with €27.4m at year end 2006.

APPROPRIATION OF EARNINGS

We propose that last year's profits of €22,832,807 be allocated as follows:

(in euros)	
profits for the financial year of	22,832,807
increased by the balance carried forward for a total of	34,695,981
giving distributable profit of	57,528,788
which we propose be allocated as follows:	
• as dividends to shareholders a sum of €1.50 per share, i.e.	16,130,792
• to the Legal Reserve	108,615
• remainder to be carried forward, for a total of	41,289,381

The dividend for each share amounts to €1.50. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.50.

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

	Nominal value of the share	Dividend
Financial year ended 12/31/04	2.00	0.90
Financial year ended 12/31/05	2.00	1.08
Financial year ended 12/31/06	2.00	1.30

Please note that dividends are paid out 9 months after year end, and the time limit after which dividend entitlement lapses is 5 years, effective from the date when dividends were agreed.

OUTLOOK FOR 2008

Dividends received from our various subsidiaries and stable Group fees should allow LISI S.A. to continue in its mission to support its subsidiaries whilst paying dividends to shareholders in accordance with company performance.

ADDITIONAL INFORMATION

- Deductible expenses for tax purposes are made up of depreciation and hire of passenger vehicles and loan payments totalling €20,387.

- LISI S.A. has, through a market making agreement with an independent service provider, purchased 166,484 LISI shares for €12.7m and has sold 155,135 shares for a sum of €11.8m. At year end 2007, the number of shares held through market-making agreements was 18,160.

- As of December 31, 2007, the company held 215,299 of its own shares. The company repurchased 42,754 of its own shares during the period, as approved at the Combined General Meeting held on April 27, 2007.

2 FINANCIAL STATEMENTS

2.1 INCOME STATEMENT

(In thousand euros)	Notes	2007	2006	2005
Pre-tax turnover		**6,990**	**6,495**	**5,648**
Operating income		**7,314**	**7,275**	**6,266**
External costs		(2,108)	(2,714)	(1,206)
Taxes and duties		(180)	(192)	(127)
Personnel expenses		(2,838)	(2,151)	(1,737)
Other charges		(70)	(59)	(58)
Depreciation		(173)	(665)	(755)
Operating profit		**1,945**	**1,494**	**2,382**
Financial earnings				
– from equity interests	3.3.1	17,137	14,094	13,458
– interest and similar expenses		370	526	440
– positive exchange differences		1	7	127
– from disposal of marketable securities		4,390	955	1,449
– reversals of provisions		5,000	71	
Interest expenses				
– interest and similar expenses		(4,598)	(3,181)	(2,742)
– negative exchange rate differences		(157)	(60)	
– from disposal of marketable securities		(298)	(146)	(137)
– provisions allowance		(106)		(70)
Non-operating profit		21,739	12,265	12,526
Current profit before tax		**23,683**	**13,760**	**14,910**
Extraordinary earnings				
– on capital transactions			7	
– bonuses on bond repurchases			2,293	
– on management transactions		176	57	46
– reversals of provisions		143	175	1,143
Extraordinary charges				
– on capital transactions			(10)	
– on management transactions		(18)	(8)	
– provisions allowance		(46)	(82)	(750)
Extraordinary earnings		**255**	**2 432**	**439**
Income tax	3.3.2	(1,105)	29	337
NET EARNINGS		**22,833**	**16,221**	**15,685**

2.2 HOLDING COMPANY BALANCE SHEET

Assets

(In thousand euros)	Notes	2007	2006	2005
Fixed assets				
Intangible fixed assets		183	180	68
Tangible fixed assets		1,844	1,689	1,466
Financial assets		166,704	160,293	160,253
Depreciation and impairment		(926)	(5,782)	(5,896)
Total net fixed assets	3.2.1 / 3.2.2	**167,805**	**156,381**	**155,891**
Short-term assets				
Clients and apportioned accounts	3.2.3	803	1,424	648
Other debtors	3.2.3	761	4,374	1,598
Subsidiaries' current accounts	3.2.3	14,665	4,487	12,564
Provision for doubtful receivables				
Tax credit	3.2.3	3,367		1,002
Marketable securities	3.2.4.1	58,109	37,702	37,602
Cash	3.2.4.2	14,728	2,011	125
Provisions for write-down of marketable securities	3.2.5	(97)		(70)
Total short-term assets		**92,335**	**49,997**	**53,468**
Deferred charges		38	22	40
Deferred expenses on loan issue costs		208	245	570
Other deferred expenses				
Translation adjustment				
Total accruals	3.2.7	**246**	**267**	**611**
Total assets		**260,386**	**206,646**	**209,971**

Liabilities

(In thousand euros)	Notes	2007	2006	2005
Shareholders' equity				
Share capital		21,508	20,422	19,794
Issue, merger, and contribution premiums		66,346	41,908	27,902
Reserves		19,479	19,417	18,499
of which legal reserve		*2,042*	*1,979*	*1,979*
Balance carried forward		34,696	31,516	27,151
Profit (loss) for the period		22,833	16,221	15,685
Controlled provisions		168	122	72
Total equity	2.4	**165,030**	**129,605**	**109,103**
Provisions for risks and charges	3.2.6	**1,370**	**1,513**	**1,726**
Debt				
Sundry loans and financial debts (*)	3.2.3	30,991	36,669	64,022
Subsidiaries' current accounts	3.2.3	54,473	30,455	29,026
Taxes due	3.2.3		2 554	
Accounts payable and apportioned accounts	3.2.3	3,220	2,906	2,012
Tax and statutory payments	3.2.3	1,304	1,130	698
Other creditors	3.2.3	3,998	1,813	3,384
Total debt		**93,986**	**75,528**	**99,142**
Total accruals				
Total liabilities		**260,386**	**206,646**	**209,971**
(*) of which banking facilities		(50)	(445)	(478)

2.3 HOLDING COMPANY CASH FLOW BREAKDOWN

(In thousand euros)	2007	2006	2005
Operating activities			
Operating cash flow	18,014	14,376	16,001
Effect of changes in inventory			
Effects of changes in accounts receivable and accounts payable	971	(223)	(150)
Cash provided by or used for operations (A)	**18,985**	**14,153**	**15,851**
Investment operations			
Cash used to acquire tangible and intangible assets	(157)	(529)	(86)
Cash received from the disposal of tangible and intangible assets	1	57	46
Cash used to acquire financial assets	(1,809)		(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	(4,602)	(49)	5,739
Cash provided by or used for investing activities (B)	**(6,567)**	**(514)**	**(4,301)**
Financing operations			
Cash received from shareholders as part of a capital increase	25,525	14,633	
Dividends paid to shareholders of the parent company	(12,979)	(10,403)	(8,679)
Cash received from new loans	932	50,226	24
Repayment of loans	(6,216)	(75,512)	(13,436)
Cash provided by or used for financing activities (C)	**7,262**	**(21,055)**	**(22,091)**
Effect of change in foreign exchange rates (D)			(10,169)
Changes in net cash (A+B+C+D) *	**19,681**	**(7,416)**	**(20,710)**
Cash at year start (E)	13,299	20,716	41,426
Cash at year end (A+B+C+D+E)	32,979	13,299	20,716
Marketable securities	58,109	37,702	37,532
Cash, subsidiaries' current accounts	29,393	6,498	12,689
Banking facilities, subsidiaries' current accounts	(54,523)	(30,900)	(29,504)
Closing cash position **	**32,979**	**13,299**	**20,716**

* 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.

2.4 CHANGE IN SHAREHOLDERS' EQUITY

(In thousand euros)	
01.01.2006	**109,103**
Profit for the period	16,221
Dividends paid	(10,403)
Capital increase	14,633
Accelerated depreciation	51
12.31.2006	**129,605**
Profit for the period	22,833
Dividends paid	(12,979)
Capital increase	25,524
Accelerated depreciation	46
12.31.2007	**165,030**

3 APPENDICES TO FINANCIAL STATEMENTS

LISI S.A. is a public limited company with a Board of Directors, with capital of €21,507,722 representing 10,753,861 shares with €2 face value. It is registered at the Belfort trade registry, under no. 536 820 269. Its registered offices are based at Le Millenium, 18 rue Albert Camus, Belfort.

The final annual balance at December 31, 2007 was €260,386,264. The annual income statement showed a profit of €22,832,807.

The financial year runs over 12 (twelve) months, from January 1, 2007 to December 31, 2007.

The notes and tables below form an integral part of the company accounts.

3.1 ACCOUNTING RULES AND METHODS

The accounts for 2007 are drawn up in line with current French accounting regulations. The accounting rules and methods have been applied in line with the prudence principle and with underlying assumptions which aim to provide an accurate picture of the company:

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

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

The accounting rules and methods used when drawing up accounts for LISI S.A. take account of the CRC regulation 2004-06 dated November 23, 2004 on asset definition, accounting and evaluation, as well as CRC regulations 2002-10 and 2005-07 on the definition of amortization and depreciation of assets.

a) Tangible fixed assets

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

	Economic depreciation	Fiscal depreciation
Buildings	33.33 years straight line	20 years straight line
Transport equipment	5 years straight line	3 years straight line
Office equipment	5 years straight line	5 years straight line
Office furnishings	10 years straight line	10 years straight line

LISI S.A. does not calculate depreciation of individual elements: its tangible assets either cannot be broken down into individual elements, or are not of a type requiring such a calculation.

b) Financial fixed assets

Participating shares and other financial fixed assets are valued at their purchase price, excluding the costs incurred in their acquisition. If these values are higher than the value in use, a provision for depreciation is recorded to account for the discrepancy.
The value in use is calculated from each line of investment, based on the profitability and performance outlook for the companies concerned; on developments in the economic sectors in which they operate; and on their positions within these sectors.
The inventory value has been brought into line with the value in use calculated for the impairment tests, which did not show any loss in value.

c) Marketable securities

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

d) Treasury stock

Treasury stock used to guarantee stock option plans or performance share plans are recognized as marketable securities and depreciated, if necessary, in line with the exercise price of the corresponding options.

e) Loans and receivables

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

f) Provisions for risks and charges

Provisions for risks and charges are recognized in line with the CRC regulation 2000-06 on liabilities, dated December 7, 2000.
This regulation stipulates that a liability is recognized when a company has an obligation to a third party and it is probable or certain that this obligation will necessitate an outflow of resources to the third party, with no equivalent or larger payment in return. The obligation must exist at the closing of accounts in order to be recognized.
Provisions are calculated with help from the Group's lawyers and consultants, based on current protocol and an assessment of the risks at the date of closing of accounts.

g) Financial instruments

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

h) Taxes on profits

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

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

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

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

3.2 DETAIL OF BALANCE SHEET ITEMS

3.2.1 Gross fixed assets

(In thousand euros)	Gross value at year start	Acquisitions	Disposals	Gross value at year end
Intangible fixed assets				
Concessions, patents, licenses, etc.	180	3		183
Total	**180**	**3**		**183**
Tangible fixed assets				
Land	457			457
Buildings	747			747
Other tangible fixed assets	72	567		639
Fixed assets in progress	413		(413)	
Total	**1,689**	**567**	**(413)**	**1,844**
Financial assets				
Equity interests and related receivables	160,254	7,114	(713)	166,656
– of which LISI AUTOMOTIVE loan		*5,000*	*(500)*	
– of which LISI AUTOMOTIVE accrued interest		*314*	*(213)*	
– of which LISI COSMETICS capital increase		*1,800*		
Other interests	14			14
Loans and other financial assets	25	18	(8)	35
Total	**160,293**	**7,132**	**(721)**	**166,704**
Grand total	**162,163**	**7,703**	**(1,134)**	**168,732**

3.2.2 Depreciation and impairment

(in thousand euros)	Balance at start of financial year	Provisions for period	Reversals for period	Balance at year end
Intangible fixed assets				
Concessions, patents, licenses, etc.	57	53		110
Total	**57**	**53**		**110**
Tangible fixed assets				
Land	53			53
Buildings	654	8		662
Other tangible fixed assets	17	75		92
Total	**724**	**83**		**807**
Financial assets				
Depreciation on equity interests	5,000		(5,000)	
Other financial assets		8		8
Total	**5,000**	**8**	**(5,000)**	**8**
Grand total	**5,782**	**145**	**(5,000)**	**926**

The release of provision is largely related to shares in our subsidiary LISI COSMETICS.

3.2.3 Maturity dates for receivables and debts

Receivables (in thousand euros)	Gross amount	Of less than one year	Of over one year
Accounts receivable	803	803	
Other receivables	280	280	
Subsidiaries' current accounts	14,665	14,665	
Taxation integration current accounts	481	481	
Tax credit	3,367	3,367	
Total	**19,596**	**19,596**	**0**

Debts (in thousand euros)	Gross amount	Of less than one year	Of two to five years
Loans and borrowings from banks	30,982	5,982	25,000
Miscellaneous loans and borrowings	9		9
Subsidiaries' current accounts	54,473	54,473	
Taxes due			
Accounts payable	3,220	3,220	
Tax and social debts	1,304	1,304	
Tax integration current accounts	3,971	3,971	
Other debts	28	28	
Total	**93,987**	**68,978**	**25,009**

3.2.4 Marketable securities and cash

3.2.4.1 Marketable securities

As of December 31, 2007, the figures for marketable securities were as follows:

(in thousand euros)	
215,299 LISI shares*	7,989
Marketable securities and deposit certificates	50,120
Giving a gross total of	**58,109**

* 215,299 shares held, thanks to the option of buying back the company's own shares up to a 10% limit.
125,010 shares were assigned to stock option plans or performance share plans.

The "Marketable securities" item is primarily composed of money-market funds (accounting for €11.1m); deposit certificates (€25m); capital guaranteed investments (€11m) and a structured investment (€3m).

These investments are not exposed to risk; the major underlying assets guarantee the capital.

The total net asset value of marketable securities stood at €58,234k as of December 31, 2007.

3.2.4.2 Cash

This item is solely composed of bank balances.

3.2.4.3 Inventory of marketable securities

a) Shares

(in thousand euros)	Gross book value	Provisions	Net book value
Equity interests			
French companies	151,841		151,841
Foreign companies	–	–	–
Total shares	**151,841**	**0**	**151,841**
Securities held for sale			
French companies	14	8	6
Foreign companies	–	–	–
Total securities held for sale	**14**	**8**	**6**

b) Bonds and equivalents

(in thousand euros)	Gross book value	Provisions	Net book value
French companies	–	–	–
Foreign companies	–	–	–
Total bonds and equivalents	**–**	**–**	**–**

c) Marketable securities

(in thousand euros)	Gross book value	Provisions	Net book value
Stocks options and treasury shares	7,989	97	7,892
SICAV and deposit certificates	50,120	–	50,120
Total marketable securities	**58,109**	**97**	**58,012**

3.2.5 Provisions for impairment of short-term assets

(in thousand euros)	Balance at year start	Provisions for period	Reversals for period	Balance at year end
Provisions for impairment		97		97
Total	**0**	**97**	**0**	**97**

Provision for impairment of LISI treasury shares (at year end).

3.2.6 Provisions for risks and charges

(in thousand euros)	Balance at start of financial year	Provisions for financial year	Withdrawals made over financial year	Balance at year end
Provisions for exceptional liabilities	1,227			1,227
Provision for tax	286		(143)	143
Total	**1,513**		**(143)**	**1,370**

Provisions for risks largely cover a legal dispute with a third party.

3.2.7 Prepayments and accrued income

(in thousand euros)	2007
Detail of charges and deferred income	**38**
Deferred charges	38
Charges to be spread over several years	**208**
Deferred expenses on loan issue costs	208

3.3 DETAIL OF MAIN INCOME STATEMENT ITEMS

3.3.1 Financial income from investments

(in thousand euros)	Amounts
Dividends received from Group subsidiaries	15,738
Interest on lending to subsidiaries	1,399
Total	**17,137**

3.3.2 Breakdown of corporation tax

(in thousand euros)	Income from ordinary operations	Income from extraordinary operations	Accounting income
Earnings before tax	23,683	255	23,938
Corporation tax	(470)	(38)	(508)
Tax credits, IFA & miscellaneous			(227)
Tax integration taxes	(370)		(370)
Net income	**22,843**	**217**	**22,833**

The LISI Group benefits from the tax integration regime, which covers all its French subsidiaries. The tax integration agreement stipulates that tax gains should be retained at the parent company level. The total corporation tax was €1,105k as of December 31, 2007.

3.4 FINANCIAL COMMITMENTS

Financial guarantees given:

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

3.5 SUBSIDIARIES AND HOLDINGS

3.5.1 Elements relating to affiliated companies and holdings

(in thousand euros)	Amount concerning ... related companies	Amount concerning ... Companies with which the company has an ownership relationship
ASSETS:		
Provisions on equity shares	–	–
Receivables related to equity interests	14,814	–
Accounts receivable	791	–
Cash advances to subsidiaries	14,665	–
Tax integration current account	465	–
LIABILITIES:		
Subsidiaries' financial assistance	54,473	–
Tax integration current account	3,971	–
Advance payments from customers	27	–
Accounts payable	2,000	–
Other liabilities	–	–
INCOME STATEMENT:		
Services received	498	–
IT maintenance	22	–
Reserves for equity interests	1,712	–
Sales revenues from subsidiaries	6,928	–
Revenues from subsidiaries' loans and current accounts	1,399	–
Revenues from equity interest	15,738	–
Release of provision for shares	5,000	–

3.5.2 Subsidiaries and holdings (company data in euros)

Companies	Capital stock	Shareholders' and minority interests' equity	Shares held in capital (as a %)	Gross value of shares held	Provisions on shares held	Net book value of shares held	Outstanding loans and advances granted by the company	Outstanding loans and advances received by the company	Sum of guarantees and deposits granted by the company	Preceding year's turnover excluding tax (not including Intra-Group)	Preceding year's net profit or loss	Dividends received by parent company over preceding year
Subsidiaries:												
LISI AUTOMOTIVE	31,690,000	109,070,067	100%	93,636,481		93,636,481	14,814,233	5,304,442		1,622,044	6,900,793	5,498,213
LISI AEROSPACE	2,475,200	56,666,272	100%	30,863,816		30,863,816		43,570,426		75,190,733	28,509,743	10,240,053
LISI COSMETICS	5,330,640	4,410,209	100%	27,341,048		27,341,048		5,598,476		54,822,820	2,301,563	

3.6 FINANCIAL RESULTS FOR LISI S.A. OVER THE PAST FIVE YEARS (articles 133, 135 and 148 of the Decree on Commercial Companies)

NATURE OF INDICATIONS (in euros)	2003	2004	2005	2006	2007
Financial situation at year end					
Share capital	19,733,676	19,793,668	19,793,668	20,421,566	21,507,722
Number of shares issued	9,866,838	9,896,834	9,896,834	10,210,783	10,753,861
Number of convertible bonds		1,066,685	1,066,685	780,402	237,324
Total result of actual operations					
Net revenues	4,826,638	5,133,638	5,648,417	6,495,402	6,989,653
Earnings before taxes, depreciation and reserves	9,015,772	11,995,522	16,116,234	16,623,351	19,119,431
Corporate tax	(978,873)	(1,366,336)	(336,648)	(28,838)	1,105,085
Profit sharing					
Result after taxes, depreciation and reserves	9,998,523	7,485,903	15,684,834	16,221,185	22,832,807
Distributed profit*	7,647,159	8,678,813	10,402,657	12,978,681	16,130,792
Result of operations per share					
Result after taxes, before depreciation and reserves	1.01	1.35	1.66	1.63	1.68
Result after taxes, depreciation and reserves	1.01	0.76	1.58	1.59	2.12
Dividends allocated per share (net)	0.80	0.90	1.08	1.30	1.50
Personnel					
Average head count	9	9	9	10	12
Payroll	1,060,762	1,328,850	1,210,667	1,539,301	1,895,104
Benefits paid (social security, benefits, etc.)	403,226	496,856	526,634	611,748	703 516

* After deducting the dividend that would have concerned the own shares held by the company.

3.7 IDENTITY OF THE CONSOLIDATING COMPANY

Compagnie Industrielle de Delle (CID)
S.A. with share capital of €3,189,900
Registered Office:
28 Faubourg de Belfort – BP 19 – 90101 DELLE Cedex
Compagnie Industrielle de Delle held 55.10% of the capital of LISI S.A. as of December 31, 2007.

3.8 MISCELLANEOUS INFORMATION

- The company directors and executives have not been given any advances or credits.
- Remuneration of executives stood at €632,991 for the year 2007 (remuneration net of social security contributions, including the variable element and attendance fees).
- The total remuneration paid to the highest-paid individuals stood at €1,397,094.
- The workforce as of December 31, 2007 numbered 12 individuals.
- Retirement commitments have not been given, as they do not represent a significant amount.
- Commitments relating to the Individual Right to Training (the French continuing professional development scheme) represent a total amount of training time corresponding to accumulated rights of around 400 hours as of December 31, 2007. In most cases, training requests for this time have not been made.
- The company does not have any leasing agreements.
- The increase and relief of the future tax debt are not significant.
- Deferred expenses primarily relate to the €261k spreading of costs linked to a €70m subscription to a revolving loan scheme with a banking syndicate. The subscription was made in 2006 and is being amortized over five years.

5

RISK FACTORS

For several years now, it has been the stated aim of the LISI group to attain a level of excellence in the areas of Health, Safety and the Environment by limiting our environmental impact and guaranteeing employees and service providers safe and healthy working conditions, whilst identifying and reducing the industrial risks linked with the group's goods and services.

1 ENVIRONMENT

In drawing up its HSE charter in 2005, the LISI group undertook to take concrete measures to manage its environmental impact and made the following commitments:

- know and abide by regulations;
- reduce energy consumption, waste water discharge, and the production of waste;
- actively promote ongoing improvement.

All group divisions have since taken on these commitments and defined additional objectives by drawing up their own HSE policy.

1.1 KNOWLEDGE OF, AND COMPLIANCE WITH, REGULATIONS

Aware of the constantly changing nature of environmental regulations, and taking into account the public authorities' concerns over the environment, the LISI Group has commissioned an audit campaign to ensure regulatory compliance in France and the US.

These audits aim to list all texts which apply to group activities and to identify the level of legislative and regulatory compliance required.

In France, the administrative standardisation of LISI Group industrial sites in terms of environmental protection legislation at classified facilities is an ongoing project.

The relevance of the classified activities at LISI Group industrial sites is regularly reviewed by an external agency. This agency will, where necessary, draft technical specification details to inform the competent authorities of any minor changes in activity at our sites, or will submit a request for permission to operate in the event of significant changes in activity.

1.2 ENERGY EFFICIENCY, REDUCTION OF WASTE WATER DISCHARGE AND RECYCLING

In 2007, the LISI group continued to pursue its energy efficiency and waste water discharge reduction policy, and began research into the efficient processing of industrial waste.

There are three stages in this initiative to reduce our environmental impact:

- staff education and awareness-raising on the issues;
- identifying and prioritising the major environmental issues at each of the Group's industrial sites;
- defining actions which can eliminate, if not reduce, pollution linked to these major environmental issues.

In 2007, this initiative led to the following concrete measures: reduction in the use of compressed air at the Delle site, a 50% reduction of aqueous waste through the installation of a sealed cooling system on the industrial equipment at the Melisey site and recycling of waste oil by re-using it in rolling machinery at the Saint-Florent-sur-Cher site.

Between 2004 and 2007, the support initiative at the materials preparation unit at the AUTOMOTIVE division's Grandvillars site made the following reductions:

- by 40% its volumes of waste;
- by 53% its volumes of waste water discharge;
- by 54% its quantities of water pollution;
- by 37% its consumption of natural gas;

all of which were achieved whilst production levels continued to increase.

In a similar continuous improvement exercise, the Saint-Saturnin-du-Limet site reduced its water consumption from 350 m^3/day to 170 m^3/day within 4 years. This net improvement is the fruit of systematic research into leaks, waste points or improving surface treatment processes.

1.3 TOWARDS ISO 14001 CERTIFICATION

LISI's aim is to gain ISO 14001 certification at all Group industrial facilities by 2010. To date, 9 LISI AUTOMOTIVE production sites (Grandvillars, Lure and Thiant in France, Bochum, Gummersbach, Herscheid, Kierspe and Mellrichstadt in Germany, Madrid in Spain) have already been certified.

The LISI Group's common HSE manual is currently being revised in order to comply with the environmental standard ISO 14001 requirements and OHSAS 18001 safety requirements.

The drafting of the HSE manual, defining requirements for environmental organisation, and the performing of regular quality controls through internal HSE audits, are co-ordinated by the parent company.

The HSE manual and internal HSE audits are tools which complement the implementation of the HSE management system, built in line with ISO 14001 guidelines at all our industrial sites.

2 SAFETY

2.1 MONITORING ACCIDENTS AT WORK

In 2007, the LISI group redefined its safety indicators: the lost time injury frequency rate, the frequency rate for all accidents (with or without lost time) and the accident severity rate. To get a better view of the patterns and the impact of our action plans, every month we look at the indicators over the past 12 months.

Each accident at work, with or without lost time, is analysed and corrective action is then taken by our entities.

These safety indicators are automatically included in the incentive scheme calculations or the relevant share of it for the workers concerned, showing how seriously the group takes safety at work.

2.2 TOWARDS "ZERO ACCIDENTS"

The group has set a target of not exceeding more than 10 accidents at work with time loss per million working hours by the end of 2009.

The LISI Group HSE manual will stipulate the health and safety at work standards. Internal HSE audits will be carried out to assist critical sites in identifying and managing their professional risks.

The LISI Group will also be working on a method of reducing accidents at work by helping critical sites to draw up safety protocols based on communication, analysis and resolution of malfunctions, training and a diligent approach.

The aim of this method is to help at-risk industrial sites to improve their safety levels and to significantly and sustainably reduce the number of accidents at work.

3 RISK MANAGEMENT

3.1 FOLLOWING COSO GUIDELINES

Since 2004, the group has been carrying out a monthly monitoring report following COSO guidelines to organise its risk mapping initiative. Having identified and itemised risks at individual department level (production or distribution sites) the group has classified risks at a consolidated level within a matrix showing occurrence probability and severity rate. Each risk identified is subject to an action plan which is periodically updated. A link is automatically made with proactive initiatives for risk prevention, insurance or accounting services.

3.2 INCREASED COOPERATION WITH INSURERS

This working initiative has clarified the relationship with the insurers and has allowed us to organise prevention measures. Thus, all of the insurer's recommendations are included in the Environmental Safety Improvement Plans and are subject to periodic monitoring by the Risk Monitoring Committee.

The insurers visit ten sites each year to assess not only damages to goods but also environmental risks; they then present their recommendations which are then fed into the action plan. Therefore there is a continuous improvement process which ensures that the prevention policy is as efficient as possible, as well as ensuring that insurance premiums are optimised.

3.3 FORMULATING ACTION PLANS

Action plans draw together risk identification, preventative measures, asset protection and operational controls within the Group. The whole of the initiative is run by the Group's main company in the areas of HSE, internal auditing and, shortly, accounts.

4 INFORMATION ON ISSUER RISKS

In an approach meant to analyze the general and specific risks the Group is exposed to, the following categories have been identified:
- operating risks
- strategic risks,
- environmental risks,
- legal risks,
- IT-related risks,
- market risks (see note 2.4)
- other risks.

4.1 OPERATING RISKS

4.1.1 Exposure to risk of natural disaster or industrial action

In common with any other company, the LISI Group could be disrupted by industrial strike action or natural disasters such as flooding, earthquake or even pandemic. Such events could negatively affect Group sales revenue or cause a substantial increase in expenses required to cover system maintenance or repair.

4.1.2 Acquisitions

In order to manage any risks related to the integration of newly-acquired companies and to ensure the transferral of Group management principles, the LISI Group's policy is to acquire a controlling stake in the capital of any potential acquisitions. Any acquisition or sale plans are subject to approval by the Board of Directors.

4.2 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.

4.3 ENVIRONMENTAL RISKS

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

Its industrial and environmental policy aims to manage its major risks, which are:
- the risk of fire and its potential impact on affected sites or their environment.
- the risk of soil or water table pollution.

This risk management policy involves:
- continuous improvement of all sites' fire protection. These sites are subject to annual monitoring and inspections;
- investment in protection, with the installation of sprinkler systems or upgrading of existing systems;
- pollution risk prevention: the Group is implementing an updated prevention policy.

As part of the manufacturing sites' compliance program, and in the absence of any ongoing legal disputes, the Group has made provisions for an overall sum of €9.4m. Concrete measures are being taken to prevent soil pollution on old sites, including carrying out monitoring activities in concert with the local authorities; work is also being done to ensure compliance, the impact of which on the Group's annual results was around €1.5m for 2007.

More specifically, a sum of €5.3 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, 2007, facilitates handling over 10 years of treatment in accordance with the techniques recommended by our advisors. Complete remediation may be possible within the scope of a plan which is currently being collaboratively drafted with Torrance's municipal authorities.

4.4 LEGAL RISKS

The Group is involved in a limited number of legal proceedings with third parties (not customers). All these disputes have been reviewed with our Auditors and the most significant were appreciated by the Audit Committee. The amount of provisions for legal disputes set up for that purpose stands at €2 million. Generally speaking, all legal opinions are determined and reviewed by third-party and in-house specialists, in cooperation with the external auditors.

4.5 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.

4.6 OTHER RISKS

a) Raw material risks

The LISI Group is potentially exposed to the risk of increased costs for raw materials used in the course of its business activities. Nevertheless, the Group estimates that such price increases are unlikely to impact negatively on its profit margins. Indeed, some contracts include price-revision formulae which allow prices to be varied in accordance with changes to raw material costs. Suppliers work to limited time frames based on guaranteed-price contacts. The raw materials risk is not secured through forward cover.

b) Energy risks

In 2006, the Group was confronted by severe energy cost hikes at most of its operating sites. As a result of this, the Group entered into a three-year supply contract with electricity company EDF for its French sites, known as the "TRTAM contract" it is due to expire November 2008. This contract resulted in a significant reduction in electricity costs for France in 2007. 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 32 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 2007, only 3 clients accounted for more than 5% of the LISI Group's consolidated sales. Our 10 largest customers accounted for 41.5% of total sales; this list includes clients of all 3 divisions, AEROSPACE, AUTOMOTIVE and COSMETICS. Our 90 largest customers accounted for 80% of sales.

Figures for our 3 largest customers have evolved as follows:

	2007	2006	2005
CUSTOMER A	8.9%	9.5%	11.9%
CUSTOMER B	9.0%	12.25%	10.9%
CUSTOMER C	5.7%	5.7%	7.2%

e) Product risks

As described in paragraph 5 above, 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 thermal treatment and finishing operations (surface treatment and assembly), since most of the Group's activities are integrated. For 2007, the various operations outsourced by the Group's sites represented approximately 6.7% of consolidated sales revenue.

5 INSURANCE POLICY

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

a) Cover for property risks

As of January 1, 2008, 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 €683 million for buildings and equipment and €139 million for goods.

b) Third party liability insurance

This covers personal, physical and intangible damage that might occur during operations, as well as damages that occur after delivery, to the sum of €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 the first line. 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.

6

INFORMATION REGARDING THE COMPANY AND CORPORATE GOVERNANCE

1 COMPANY INFORMATION

1.1 CAPITAL STOCK

1.1.1 Amount of capital stock

Share capital taken up by shareholders and fully paid-up, as at December 31, 2007, amounted to €21,507,722, divided into 10,753,861 shares with a face value of €2 of the same category.

1.1.2 Changes in share capital over the past 5 years

Date of Shareholders' 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 12/31/2007: €21,507,722 divided into 10,753,861 shares with €2 face value								
02/10/04	02/20/08	Capital increase by conversion of warrants	€299,588	€6,740,730	149,794	€2	10,753,861	€21,507,722
02/10/04	12/21/07	Capital increase by conversion of warrants	€169,592	€3,815,820	84,796	€2	10,604,067	€21,208,134
02/10/04	08/29/07	Capital increase by conversion of warrants	€255,292	€5,744,070	127,646	€2	10,519,271	€ 21,038,542
02/10/04	06/27/07	Capital increase by conversion of warrants	€361,684	€8,137,890	180,842	€2	10,391,625	€20,783,250
02/10/04	02/22/07	Capital increase by conversion of warrants	€30,000	€675,000	15,000	€2	10,210,783	€20,421,566
02/10/04	12/20/06	Capital increase by conversion of warrants	€498,926	€11,225,835	249,463	€2	10,195,783	€20,391,566
02/10/04	06/23/06	Capital increase by conversion of warrants	€43,640	€981,900	21,820	€2	9,952,166	€19,892,640
02/10/04	06/23/06	Capital increase reserved for employees	€55,332	€1,122,686.58	27,666	€2	9,924,500	€19,849,000
02/10/04	03/01/04	Capital increase reserved for employees	€59,992	€768,198	29,996	€2	9,896,834	€19,793,668

1.1.3 Authorized share capital not yet issued

On April 27, 2007, the Shareholders' Extraordinary Meeting authorised 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 €1,300,000 (excluding premium), valid for 26 months from the date of this Meeting.

1.1.4 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 warrants (BSAR) had been issued.

At December 31, 2007, 829,361 warrants were converted, of which 543,078 over the period. There thus remain 237,324 warrants to convert on the basis of one warrant per share.

1.1.5 Dividend distribution policy for the past five years – dividend prescription period

The distributable profit is at the disposal of the Shareholders' General Meeting, which determines its allocation.

In the past 5 years, dividends paid out per share have been as follows:

	Gross dividend in €	Tax credit in €	Net dividend in €
2003	1.20	0.40	0.80
2004	–	–	0.90
2005	–	–	1.08
2006	–	–	1.30
2007 (1)	–	–	1.50

(1) Subject to the decision of the Ordinary General Meeting of April 29, 2008. The date for payment of dividends has been set at May 7, 2008.

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.

1.2 STOCK REPURCHASE PROGRAM

1.2.1 In place December 31, 2007

On April 27, 2007, 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 October 27, 2008.

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 cancel purchased shares subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date;
- to retain and use shares as consideration or payment for potential acquisitions.

The following terms apply to this authorization:

- the company may repurchase its own shares for a maximum price of €85, not including transaction fees,
- the company may sell all or some of the shares purchased for a minimum unit price of €45, 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. €85, is €91,407,819.

Under the above-mentioned share repurchase program, in 2007 LISI S.A. acquired 209,138 treasury shares, i.e. 1.9%. The number of own shares held by LISI S.A. stands at 215,299.

The operations carried out by the Company on its own shares are summarized in the table below:

	Number of shares	Average weighted prices in €
Shares held at 01/01/2007	243,296	23.24
Shares acquired in 2007	209,238	75.73
Shares disposed of in 2007	237,235	56.95
Shares held at 12/31/2007	215,299	37.11
of which shares assigned to the stock options program	*133,610*	
of which available	*81,689*	

Shares have been purchased and sold within the scope of the market-making contract with Oddo Pinatton Corporate. The market-making contract complies with the ethical charter of the AFEI.

1.2.2 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. 537,693 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 €100 per share and the minimum sale price may not be lower than €50 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.

1.3 BREAKDOWN OF SHARE CAPITAL AND VOTING RIGHTS

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

1.3.1.1 Breakdown of share capital and voting rights

Description	2007			2006		
	as % of capital	as % of voting rights	as number of shares	as % of capital	as % of voting rights	as number of shares
CID	55.1	67.3	5,928,724	58.1	68.6	5,928,724
VMC	6.0	7.2	641,675	6.3	7.3	641,675
Other corporate officers	0.3	0.3	32,644	0.3	0.2	27,029
TOTAL CORPORATE OFFICERS	**61.4**	**74.8**	**6,603,043**	**64.7**	**76.1**	**6,597,428**
of which managers	*0.12*	*0.08*	*12,990*	*0.09*	*0.05*	*8,840*
FFP	5.1	5.9	550,000	5.0	5.8	515,000
FMR Corp and Fidelity	–	–	–	4.9	2.9	499,378
Treasury shares	2.0	–	215,299	2.4	–	243,296
Employees	0.9	0.6	101,698	1.0	0.6	103,500
Public	30.6	18.7	3,283,821	22.0	14.6	2,252,181
Grand Total	**100.0**	**100.0**	**10,753,861**	**100.0**	**100.0**	**10,210,783**

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, 2007, it holds: 55.1% of the share capital and 67.3% of the voting rights.
  CID's capital is held in almost equal proportion by three family shareholder groups through family holdings. Whilst family links exist between shareholders, they are not directly related.
- At December 31, 2007, VMC, Route des Forges 90120 MORVILLARS, holds: 6.0% of the share capital and 7.2% of the voting rights.
- At December 31, 2007, FFP, 75 avenue de la Grande Armée 75116 PARIS, holds: 5.1% of the share capital and 5.9% 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 (0.9% of the share capital).

1.3.1.2 Shareholders' agreement – Acting in concert

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.

To the best of LISI's knowledge, on the date on which this document was drafted, there exists no action in concert, as defined in articles L233-10 and L233-11 of the commercial code.

1.3.1.3 Pledging

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

1.3.2 LISI S.A. shareholding

A TPI ("Identifiable bearer share") analysis was conducted on January 31, 2008. Out of the floating stock that represented around 32% of the total shareholding, 2,343 shareholders could be identified. At that date, the breakdown was as follows:

- French institutional investors: 137 or 11.7% of share capital;
- International institutional investors: 111 or 15.7% of share capital;
- French and international individual shareholders: 2,095 or 2.6% of share capital.

1.3.3 LISI S.A. treasury shares

As at December 31, 2007, LISI S.A. held 215,299 of its own shares, or 2% of share capital. No shares were cancelled.

1.4 RELATIONSHIP BETWEEN THE COMPANY AND ITS SUBSIDIARIES

LISI S.A. operates as a holding and support company for its subsidiaries. It manages its portfolio of interests, the funding of its operations and those of its subsidiaries, as well as exchange rate, interest rate and liquidity risks. If necessary, it can also grant loans to its subsidiaries and centralize the group's cash flow surpluses, within the scope of a cash management agreement. These operations are charged at the market price plus a margin.

In France, LISI S.A. is the parent company of a group consolidated for fiscal purposes. In accordance with the express provisions of the 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 ...	
(in thousand euros)	related companies	Companies with which the company has an ownership relationship
ASSETS:		
Provisions on equity shares	–	–
Receivables related to equity interests	14,814	–
Accounts receivable	791	–
Cash advances to subsidiaries	14,665	–
Tax integration current account	465	–
LIABILITIES:		
Subsidiaries' financial assistance	54,473	–
Tax integration current account	3,971	–
Advance payments from customers	27	–
Accounts payable	2,000	–
Other liabilities	–	–
INCOME STATEMENT:		
Services received	498	–
IT maintenance	22	–
Reserves for equity interests	1,712	–
Sales revenues from subsidiaries	6,928	–
Revenues from subsidiaries' loans and current accounts	1,399	–
Revenues from equity interest	15,738	–
Release of provision for shares	5,000	–

Significant intra-group items include:

- On the assets side:
  - receivables relating to equity interests: LISI S.A. advanced, as a mid-term loan, €15m to its subsidiary LISI AUTOMOTIVE. A loan contract for €10m which was entered into on July 15, 2005 for a period of 7 years, refundable, with reimbursements deferred 2 years, allowed it to fund part of the acquisition of the German group KNIPPING in July 2005. A loan contract for €5m which was entered into on April 2, 2007 for a period of 5 years, repayable quarterly, allowed the company to finance a number of these industrial investments;

– cash advances to group subsidiaries as part of the Group's cash agreement. In 2007, a €14.6m advance was approved for LISI MEDICAL for the acquisition of SEIGNOL and INTERMED Application;
– 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 2007;
  – reversal of provision for equity shares in our subsidiary LISI COSMETICS.

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

1.5 AUDITORS' FEES

The table below lists the fees paid to the Auditors appointed for certifying the Group's financial and consolidated statements. These fees pay for services rendered and are recorded as expenses for fiscal 2007 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.

	Salustro Reydel, member of KPMG		Exco Cap Audit		Foreign auditors		Sécafi Alpha*	
	Amount		Amount		Amount		Amount	
(In thousand euros)	N	N-1	N	N-1	N	N-1	N	N-1
Audit								
Auditors, certification, review of individual and consolidated financial statements								
– Holding company	39	24	18	18				
– Fully-consolidated subsidiaries	72	74	113	81	462	421		
Other diligence and services								
– Holding company				37			19	19
– Fully-consolidated subsidiaries				40	71	58	51	63
Sub-total	111	99	131	177	533	479	70	81
Other services performed by the networks for fully-consolidated subsidiaries								
Legal, tax, and labor-related					156	145		
Miscellaneous services	2							
Sub-total	2	0	0	0	156	145	0	0
TOTAL	**113**	**99**	**131**	**177**	**689**	**624**	**70**	**81**

* Group committee auditors.

2 CORPORATE GOVERNANCE

2.1 TASKS AND OPERATING PROCEDURES OF THE BOARD OF DIRECTORS

During the meeting held 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.

During the Meeting of March 1, 2004, the Board of Directors of LISI S.A. deemed it unnecessary to draw distinctions between the directors, regardless of whether or not they are corporate officers, directors of a parent company, or directly or indirectly tied to the Company or its subsidiaries in an economic capacity. 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.

If a member of the Board of Directors has a direct or indirect role in an operation in which LISI S.A. has interests or which he has gained knowledge of as a result of his membership of the Board, he must bring this to the attention of the Board prior to their meeting.

Operating procedures of the Board of Directors

The Board of Directors meets whenever it is in the Company's interests to do so or when a meeting is called by the Chairman, or failing this, by a Deputy Chairman he has nominated.

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.

2.2 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.

2.3 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) and checking the annual application of these rules:
  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.
- 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 three times in 2007 and all its members were present. It presented its recommendations to the Board on the following points:

- regulations for the performance share scheme for the Group's corporate officers and staff;
- the number of shares to be held by corporate officers during their term of employment with regard to share allocations;
- 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 calculation regulations that apply to the variable portion of this compensation, known as the Objective-Related Bonus. This portion depends chiefly on meeting annual objectives on growth, revenue and net borrowing.

2.4 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. Pascal LEBARD, Christophe VIELLARD 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 2007 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.

2.5 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.

2.6 EMPLOYEES

2.6.1 Head count

2.6.1.1 Registered employees at period end by category

The table below shows the breakdown of Group staff by category:

	2007	2006	N/N-1 difference
Management	619	573	8%
Supervisors	651	642	1%
Staff and workers	5,242	4,946	6%
Total	**6,512**	**6,161**	**6%**

2.6.1.2 Registered employees at period end by division

The table below shows a breakdown of Group staff by business activity.

	2007	2006	N/N-1 difference
LISI AEROSPACE	3,057	2,696	13%
LISI AUTOMOTIVE	2,953	2,980	– 1%
LISI COSMETICS	490	475	3%
Holding company	12	10	20%
Total	**6,512**	**6,161**	**6%**
Temporary staff	417	356	17%

2.6.1.3 Geographic breakdown of staff

As of December 31, 2007, the breakdown of Group staff was as follows: there were 3,340 staff employed in France, representing 51% of total staff; 3,172 staff were employed outside France, with 1,578 in the rest of Europe; 1,234 in North America and 360 in Asia.

2.6.1.4 2007 consolidated sales revenue

EFTAW*	Voluntary departures	Turnover rate
6,911	356	5%

* Equivalent full-time average wage.

2.6.2 Incentive schemes, profit-sharing and stock options

2.6.2.1 Employee profit-sharing

a) 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):

2007	2006	2005
2.5	3.1	2.6

Incentive scheme

Most of the companies within the Group have an incentive system allowing employees to participate actively in the group's performance. The methods for calculating the sums involved depend on the criteria of each company.

b) Group Savings Plan (PEG)

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

For other years, the PEG 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 granted to employees under the Group savings plan are recorded to the income statement and assessed in accordance with IFRS 2.

As at December 31, 2007, the *"LISI en action"* plan consisted entirely of LISI shares, for a total of 101,698 shares, and had 1,229 members.

c) Employee shareholding

There is no authorization today for a capital increase.

The percentage of share capital held by the Group's employees stood at 0.9% as at December 31, 2007.

2.6.2.2 Stocks options

a) Stock option plans

Various decisions at the Shareholders' General Meeting have authorised the Board of Directors to agree to share subscription or purchase options. The following authorisations are still valid: the General Shareholders' Meeting on February 28, 2001, valid for 5 years and involving 500,000 shares. The General Shareholders' Meeting on April 27, 2007, valid for 38 months years and involving 20,000 shares.

b) Stock options

Plans in place as at December 31, 2007:

Date of Shareholders' General Meeting Board of Directors	Category P plan no.	Number of shares allocated	Of which corporate officers	Of which members of the Management Committee	Of which to the 10 best-paid employees	Number of employees	Exercise period	Subscription or purchase price	Options exercised as at 01/01/2007	Options exercised in 2007	Options cancelled	Options remaining at 31/12/2007
Autorization granted on 05.20.1999												
12.15.1999	A Plan Nr. 1	125,000	13,000	43,500	10,500	0	12.16.2003 12.14.2007	€22.70	79,400	5,600	40,000	0
Autorization granted on 02.28.2001												
03.01.2001	A Plan Nr. 2	34,700		5,500	6,500	4	03.02.2005 02.28.2009	€27.82	14,490	3,950	11,200	5,060
Autorization granted on 02.28.2001												
12.06.2001	A Plan Nr. 3	39,500	10,000	34,500	10,000	3	12.07.2005 12.05.2009	€18.81	18,350	4,510	5,000	11,640
Autorization granted on 02.28.2001												
06.25.2003	A Plan Nr. 4	163,000	10,000	47,500	12,500	27	06.26.2007 06.24.2011	€20.33	10,000	68,090	36,000	48,910
Autorization granted on 04.27.2007												
06.27.2007	G Plan Nr. 5	68,000	8,500	16,000	10,500	77	03.01.2010 03.01.2012	None	0	0	0	68,000

A = purchase.
G = free.

c) Performance shares plan

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on June 27, 2007, to allocate performance shares to members of the Executive Committee and to members of the principle Management Committees for the three LISI Group divisions, subject to their meeting certain performance targets: achieving two main goals of the LISI strategic plan for 2009, i.e. sales revenue and EBT (Earnings Before Tax) (current operating profit, minus the cost of financing and plus or minus any other financial revenue or expenses). The maximum allocated number of shares is 68,000 shares and concerns 77 French employees. In order for the number to be equal to the number of shares originally allocated, performance indicators need to be fully respected. Where performance targets are not met, the number of shares will be reduced accordingly. The plan also stipulates that shares thus allocated shall be held for two years, during which period they may not be sold on.

As far as the corporate officers are concerned, the Board of Directors decided that during their term of employment, they must retain 20% of any free shares allocated to them.

29 employees outside of France will benefit from bonuses based on the principles and conditions, but in the form of pay and salaries.

d) Options granted in 2007

During the financial year 2007, the Board of Directors resolved:

- On June 27, 2007, a performance shares scheme was set up, involving 68,000 shares and 77 staff members, of which two were corporate officers. The corporate officers received shares as follows:

Corporate officers	Number of shares allocated
Gilles KOHLER	3,000
Emmanuel VIELLARD	3,000

In 2007, the top ten staff other than corporate officers received shares as follows:

	Total number of shares allocated
Total number of shares allocated during the financial year to the top ten Group staff other than corporate officers, to whom the highest number of shares were allocated	10,500

e) Options granted in 2007

Between January 1 and December 31, 2007, 82,150 options were exercised as purchase options.

In 2007, the corporate officers exercised the following options:

Corporate officer	Number of stock options purchased	Price in euros
Emmanuel VIELLARD	4,400	18.81 Plan Nr. 3

In 2007, the top ten staff other than corporate officers exercised the following stock options:

	Total number of stock options purchased	Price in euros
Total number of options held on LISI S.A. exercised during the financial year by the top ten Group staff other than corporate officers who thus purchased the highest number of options	1,450	27.82 Plan Nr. 2
	1,050	18.81 Plan Nr. 3
	5,500	20.33 Plan Nr. 4

2.7 ADMINISTRATIVE BODIES

2.7.1 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 of nomination	Date mandate expires
Board of Directors				
Chairman of the Board of Directors	Gilles KOHLER		1985	2009 GENERAL MEETING [2]
Members of the Board of Directors:	Emmanuel VIELLARD		2000	2013 GENERAL MEETING [4]
	Eric ANDRE	X	2002	2008 GENERAL MEETING [1]
	Roland BURRUS	X	1984	2009 GENERAL MEETING [2]
	Christian PEUGEOT		2003	2013 GENERAL MEETING [4]
	Pascal LEBARD	X	2005	2011 GENERAL MEETING [3]
	Compagnie Industrielle de Delle represented by Thierry PEUGEOT		1977	2013 GENERAL MEETING [4]
	Société Civile CIKO represented by Jean-Philippe KOHLER		2002	2009 GENERAL MEETING [2]
	VIELLARD MIGEON & Cie represented by Christophe VIELLARD		2000	2009 GENERAL MEETING [2]
Secretary of the Board of Directors	Maître Olivier PERRET (member of Cabinet Bernard Roy)			
Audit Committee				
Members of the Audit Committee:	Emmanuel VIELLARD			
	Christophe VIELLARD			
	Pascal LEBARD			
Compensation Committee				
Members of the Compensation Committee:	Gilles KOHLER			
	Thierry PEUGEOT			
	Eric ANDRE			

[1] Ordinary General Meeting slated to rule in 2008 on the financial statements for the period ended December 31, 2007.
[2] Ordinary General Meeting slated to rule in 2009 on the financial statements for the period ended December 31, 2008.
[3] Ordinary General Meeting slated to rule in 2011 on the financial statements for the period ended December 31, 2010.
[4] Ordinary General Meeting slated to rule in 2013 on the financial statements for the period ended December 31, 2012.

2.7.2 Information regarding the members of the Board of Directors

2.7.2.1 The members of the Board of Directors

Gilles KOHLER, age 54, Chairman and CEO of LISI.

He attends the Board of Directors and the Compensation Committee.

Gilles KOHLER has exercised the other mandates and functions listed below:

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 LISI MEDICAL 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 the Association Réseau Entreprendre Franche-Comté.

Emmanuel VIELLARD, age 44, Deputy Chairman and Deputy CEO of LISI.

He attends the Board of Directors and the Audit Committee.

Emmanuel VIELLARD has exercised the other mandates and functions listed below:

Related to the LISI Group (in France and abroad):
- Chairman of the Management Committee of LISI AEROSPACE SAS,
- Director of HI-SHEAR Corporation (USA),
- 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 LISI MEDICAL 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 59, Director of LISI.

He attends the Board of Directors and the Compensation Committee.

Eric ANDRE has exercised the other mandates and functions listed below:

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

Outside the LISI Group (in France and abroad):
- Member of the Board of Directors of NATIXIS France,
- Director of R. DI GIOIA Cie.

Roland BURRUS, age 71, Director of LISI.

He has exercised the other mandates and functions listed below:

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

Outside the LISI Group (in France and abroad):
- 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 54, Director of LISI.

He has exercised the other mandates and functions listed below:

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

Outside the LISI Group (in France and abroad):
- Chairman of the Board of Directors of La Française de Participations Financières,
- Deputy Chairman of Football Club de Sochaux-Montbéliard,
- Director of Ets PEUGEOT Frères,
- Director of Société Immeubles et Participation de l'Est,
- Permanent representative of FFP at the Board of Directors of SEB,
- Director of Compagnie Industrielle de Delle,
- Communication Manager of Automobiles PEUGEOT.

Pascal LEBARD, age 45, Director of LISI.

He attends the Board of Directors and the Audit Committee.

Pascal LEBARD has exercised the other mandates and functions listed below:

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

Outside the LISI Group (in France and abroad):
- Director – CEO, Sequana Capital,
- Chairman of Greysac SAS,
- Chairman of BOCCAFIN SAS,
- Director of Club Méditerranée,
- Director of Société Générale de Surveillance (Genève),
- Director of BOCCAFIN Suisse SA,
- Chairman of the Supervisory Board of ARJOWIGGINS SAS,
- Chairman of the Supervisory Board of ANTALIS International SAS,
- Member of the Supervisory Board of Antonin Rodet SAS,
- Manager of Ibéria SARL.

Thierry PEUGEOT, age 50, permanent representative of Compagnie Industrielle de Delle at the Board of LISI.

He attends the Board of Directors and the Compensation Committee.

Thierry PEUGEOT has exercised the other mandates and functions listed below:

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

Outside the LISI Group (in France and abroad):
- Chairman of the Supervisory Board of PEUGEOT SA,
- Vice-Chairman of Ets PEUGEOT Frères and Executive Managing Director,
- 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 47, Permanent representative of CIKO at the Board of LISI.

He has exercised the other mandates and functions listed below:

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 LISI MEDICAL SAS.

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

Christophe VIELLARD, age 66, permanent representative of VIELLARD MIGEON & CIE at the Board of LISI.

He attends the Board of Directors and the Audit Committee.

Christophe VIELLARD has exercised the other mandates and functions listed below:

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

Outside the LISI Group (in France and abroad):
- 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.

2.7.2.2 Family ties

The only family ties between the individuals listed above are the following:

- Gilles KOHLER and Jean-Philippe KOHLER are brothers.

2.7.2.3 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."

2.7.2.4 No condemnation for fraud, involvement in bankruptcy or incrimination and/or public sanction

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

- no condemnation for fraud has been pronounced against any of the members of the Board of Directors;
- none of the members of the Board of Directors has been involved in a bankruptcy, receivership, or winding up, as a member of a board of directors, a management board, or a supervisory board;
- no official incrimination and/or public sanction has been pronounced by statutory or regulatory authorities against any of the members of the Board of Directors of the company.

2.8 PAY AND INTERESTS OF CORPORATE OFFICERS

2.8.1 Directors' fees and remuneration

The Shareholders' General Meeting, held on April 27, 2007, fixed the annual directors' fees for members of the Board of Directors at €75,000, from the start of the financial year, January 1, 2007.

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. Directors' fees for each director are €1,250 per Board and per Committee and are dependent on the beneficiaries' regular attendance. For 2007, directors' fees amounted to €70,000 and the attendance rate stood at 93.3%.

The table below shows fees and remunerations paid to directors in 2007:

Directors	Directors' fees paid in 2007 by LISI S.A. (in euros)	Gross wages paid in 2007 by LISI S.A. (in euros)	Directors' fees paid in 2006 by LISI S.A. (in euros)	Gross wages paid in 2006 by LISI S.A. (in euros)
Gilles KOHLER	8,750	384,481	3,750	290,891
Emmanuel VIELLARD	7,500	348,273	3,750	255,493
Roland BURRUS	3,750		2,500	
Christian PEUGEOT	2,500		2,500	
Christophe VIELLARD	7,500		3,750	
Jean-Philippe KOHLER	5,000	295,264	2,500	196,118
Thierry PEUGEOT	8,750		3,750	
Pascal LEBARD	7,500		3,750	
Eric ANDRE	7,500		3,750	
Total	**58,750**	**1,028,018**	**30,000**	**742,502**

2.8.2 Shares held by corporate officers

In accordance with the company's by-laws, the minimum number of LISI shares that each director may hold is one share.

The table below shows the number of shares held by the corporate officers as of December 31, 2007:

Corporate officers	Number of LISI shares held directly	Number of LISI shares held indirectly
Directors		
Gilles KOHLER	6,515	
Emmanuel VIELLARD	6,475	
Roland BURRUS	20	
Christian PEUGEOT	1	
Christophe VIELLARD (permanent representative of VMC)		634,230
Jean-Philippe KOHLER (permanent representative of S.C. CIKO)	4,440	15,153
Thierry PEUGEOT (permanent representative of CID)	25	5,928,724
Pascal LEBARD	10	
Eric ANDRE	5	
Total	**17,491**	**6,578,107**

2.8.3 Directors' remuneration

The terms for the salary of the Chairman and Chief Executive Officer and for the Vice President are approved by the Board of Directors on the advice of the Compensation Committee. Payments made by LISI S.A. to each corporate officer according to their employment contract or corporate mandate for the last two years were as follows:

Gilles KOHLER	2007	2006
Gross fixed compensation	257,381	221,191
Gross variable compensation	127,100	69,700
Total amount in euros	**384,481**	**290,891**

Emmanuel VIELLARD	2007	2006
Gross fixed compensation	225,773	197,193
Gross variable compensation	122,500	58,300
Total amount in euros	**348,273**	**255,493**

2.8.4 Benefits in kind paid to directors

In 2007, Mr Gilles KOHLER and Mr Emmanuel VIELLARD benefited from a company car.

7

DOCUMENTS SPECIFIC TO THE ORDINARY GENERAL MEETING

1 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.

1.1 PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' TASKS

1.1.1 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. If the Board has not met for more than two months, directors representing at least one third of the members of the Board can request that the Chairman call a meeting on a particular agenda.

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.

Copies or extracts of the deliberations of the Board of Directors are certified as valid by the Chairman of the Board of Directors, a Chief Executive Officer, a director who has been temporarily vested with the Chairman's powers or a representative authorized to this effect.
The Board of Directors sets out the company's business policies and ensures that they are followed. The Board of Directors carries out any controls or checks that it deems necessary.

1.1.2 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.

1.1.3 Preparation of tasks

- Prior to each Board meeting, participants receive a file that has – as far as possible – 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.

1.1.4 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.

1.2 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 1.3.2).

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.

1.3 INTERNAL CONTROL PROCEDURES

1.3.1 General guidelines

- 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 based on 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). This process is then also implemented in 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, which is available to all relevant Group staff via an intranet site.

This manual is supplemented by a Group accounting procedures manual. In addition, the Group has set up 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, Safety and Environmental,
  - Staff and salaries,
  - Accounting, management control and cash flow,
  - Purchasing and investments,
  - Sales and 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.

1.3.2 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 Management Committee and Executive Committee channel 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.
  - The internal audit unit comprises the Group internal audit manager assisted by an auditor. Depending on the scale and nature of the task to be performed, internal and external partners may be co-opted to round off the team.
  - Coordination with the external auditors is particularly close in order to direct controls specifically towards areas that have been identified as being high-risk and to allocate sufficient time to the task.
  - Certain functions that are judged to be critical are monitored throughout the Group. These include finance, cash flow management, consolidation, the legal secretariat, insurance cover, security policy, environmental policy, procurement policy, as well as human resource 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 the Medical division, 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.

1.3.3 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. Co-ordination with the third party liability insurance cover processes is also carried out.

1.3.4 2007 achievements 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 the Medical division, which is scheduled for 2008.

- The Internal Control Management team, which was joined by an additional auditor in 2006, has continued to pursue its program of audit checks, with 17 internal audit missions carried out in 2007, as compared with 13 and 11 in previous years. In addition, special assistance missions have been carried out at sites which have experienced operational problems throughout the year. Once a specific diagnosis has been made, and reassessment plans, approved by the division’s General Management, have been implemented, they are then subject to very careful and regular monitoring by Internal Audit Management.

- Alongside the Internal Audit unit, during the third quarter of 2007, the Group created the new post of HSE Auditor (Health, Safety, Environment), whose main functions are to ensure Group co-ordination of HSE activity and to conduct HSE audits at all sites. With this new expertise being brought in, plans are now being made for joint “HSE & Internal Audit” missions to be carried out from 2008 onwards, combining procedures from both divisions.

- In addition, at the end of 2007, LISI's General Management decided to employ a Group Treasurer. The treasurer’s main functions will be not only cash flow management but also the implementation of a cash pooling system, cash flow and cash surplus management and the monitoring of interest rate and currency risks.

- Finally, other interdepartmental projects were initiated in 2007, such as:
  – the inclusion of performance indicator and cash flow tables in the Group‘s integrated management system;
  – the control of commitments to major investments;
  – more systematic application of the legal review process.

1.3.5 Conclusion

In 2007, 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.

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

2 AUDITORS' REPORT ESTABLISHED IN ACCORDANCE WITH 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, 2007

Ladies and Gentlemen,

In our capacity as Auditors of LISI S.A. and in accordance with the provisions of article L. 225-235 of the French Commercial Code, we hereby present our report on the report drafted by the Chairman of your Company's Board of Directors in compliance with the provisions of article 225-37 of the French Commercial Code for the financial year ended December 31, 2007.

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 given 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 standards that govern this industry 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 internal control procedures for the drafting and processing of the accounting and financial information behind the information presented in the Chairman's report and other existing documentation;
- familiarizing ourselves with the work on which existing information and documentation is based;
- ascertaining whether appropriate information on serious lapses in internal controls regarding the drafting and processing of accounting and financial information which we may have found within the scope of our mission are appropriately included in the Chairman's report.

Based upon this work, we have no observations to make concerning the information in regarding 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, March 3, 2008.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 3, 2008.

Exco Cap Audit

Pierre Burnel
Partner

3 AUDITORS' SPECIAL REPORT ON REGULATED CONVENTIONS AND COMMITMENTS

Year ended December 31, 2007

Dear Shareholders,

In our capacity as Auditors in charge of your company's financial statements, we are required to inform you about the regulated conventions of which we have been notified. It is not part of our task to check out the possible existence of such agreements or commitments.

We hereby inform you that we have not been notified of any of the conventions mentioned in article L.225-38 of the French Commercial Code.

Paris La Défense, March 3, 2008.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 3, 2008.

Exco Cap Audit

Pierre Burnel
Partner

4 AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended December 31, 2007

Ladies and Gentlemen,

In carrying out the mission entrusted to us by your Shareholder's General Meeting, we have audited the consolidated statements of LISI S.A. for the financial year ended December 31, 2007, which are attached to this report.
The consolidated financial statements were drafted by the Board of Directors. Our role is to express 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 require due diligence to ensure with a reasonable degree of certainty that the consolidated financial statements do not contain any 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, from the point of view of French accounting rules and principles, these consolidated financial statements are consistent and sincere, and provide a faithful representation of the assets, the financial situation and the results achieved by the persons and entities of consolidated companies.

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, 2.2.8.5, 2.2.14 and 2.2.19.5 in the appendix. For all these estimates, we have assessed the data and assumptions on which they are founded, reviewed randomly the calculations made by the company, reviewed the available material, and verified that the notes to the annex provide appropriate information regarding the assumptions retained 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 2.2.7.1, 2.2.8.5 and 2.5.1.1 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 2.2.7.1, 2.2.8.5 and 2.5.1.1 provide suitable information.
- Note 2.2.15 stipulates the methods for evaluating pensions and share-based staff benefits. These commitments have been subject to external assessments. Our work has consisted in reviewing the data used, in assessing the assumptions retained, in reviewing the calculations made, and in verifying that Notes 2.2.15 and 2.5.4.2 to the Appendix to consolidated financial statements provide appropriate 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, March 3, 2008.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 3, 2008.

Exco Cap Audit

Pierre Burnel
Partner

5 AUDITORS' GENERAL REPORT

Financial year ended December 31, 2007

Dear Shareholders,

In carrying out the mission entrusted to us by your Shareholder's General Meeting, we submit to you our report relative to the year ended December 31, 2007, regarding:

- the audit of the annual statements of LISI S.A., as attached to this report;
- justifications for our assessments;
- specific verifications and legally required information.

The annual statements were drafted by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

ASSESSMENT OF THE ANNUAL STATEMENTS

We performed our audit in accordance with the professional standards applicable in France; these standards require due diligence to ensure with a reasonable degree of certainty that the consolidated financial statements do not contain any 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 annual accounts comply with French accounting rules and principles and provide a true and fair view of the earnings derived from the company's activity during the year, as well as the financial situation and net worth of the company at the end of the financial year.

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 wish to inform you that the assessments which we have made relate to the appropriate nature of the accounting principles applied and the reasonable nature of any significant estimates retained, with regard to: non-voting shares and the depreciation allowances on these shares which your company has set up when the net book value exceeds their usage value, as outlined in Note 3.1b to the Appendix to the Annual Statements.

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.

VERIFICATIONS AND SPECIFIC INFORMATION

We have also carried out verifications specifically required by law, in accordance with French professional regulations.

We have no remarks to make regarding:

- the sincerity and consistency of the information provided in the Board of Directors' management report and in the documents sent to shareholders regarding the financial situation and annual financial statements, with that provided in the annual financial statements;
- the sincerity of the information given in the management report regarding remuneration and benefits paid to the relevant corporate officers as well as commitments of any kind made in their favour on the occasion of their connection with, or subsequent to, their appointment, termination or change in function.

In accordance with French law, we have verified that the required information concerning the identities of the shareholders has been disclosed to you in the management report.

Paris La Défense, March 3, 2008.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 3, 2008.

Exco Cap Audit

Pierre Burnel
Partner

6 DRAFT RESOLUTIONS

ORDINARY GENERAL MEETING OF APRIL 29, 2008

Agenda

- Review and approval of the annual financial statements for the period ended December 31, 2007;
- Discharge to the Directors and Auditors;
- Approval of consolidated financial statements for the period ended December 31, 2007;
- Approval of the conventions covered by articles L.225-38 *et seq.* of the French Commercial Code;
- Appropriation of earnings;
- Renewal of a director's mandate;
- Appointment of a new director;
- Authorization for the Company to repurchase its own shares;
- Determination of directors' fees;
- Proxies;
- Miscellaneous questions.

Draft resolutions

1st resolution – Approval of corporate financial statements

Having listened to the reading of the Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves the annual financial statements established as at December 31, 2007, as they are presented, with profits of 22,832,807, 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 €20,387.

2nd resolution – Approval of consolidated financial statements

Having listened to the reading of Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves, as they are presented, the consolidated financial statements set out in accordance with article L. 233-16 *et seq.* of the French Commercial Code, showing profits of €67,552,677.

3rd resolution – Approval of the conventions covered by articles L.225-38 *et seq.* of the French Commercial Code

Having listened to the reading of the Auditors' Special Report on the conventions covered by articles L.225-38 of the French Commercial Code, the Shareholders' General Meeting approves the sections indicated in this report.

4th resolution – Discharge to the Directors

The Shareholders' General Meeting gives full discharge to the Directors for their work for the year 2007, and to the Auditors for their mandate.

5th resolution – Earnings appropriation

Acting on the proposal of the Board of Directors, the Shareholders' General Meeting has decided to allocate last year's profits as follows:

profits for the financial year of	€22,832,807
increased by retained earnings to a total of	€34,695,981
to give a total of	**€57,528,788**

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

To the legal reserve	€108,615
as dividends to shareholders a sum of €1.50 per share, for the total of payable on May 7, 2008	€16,130,792
the remainder to the retained earnings account, for the total of	€41,289,381

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 €1.50. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.50.

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, 2004:	dividends eligible for the 50% allowance: €0.90
Financial year ended December 31, 2005:	dividends eligible for the 40% allowance: €1.08
Financial year ended December 31, 2006:	dividends eligible for the 40% allowance: €1.30

6th resolution – Director renewal

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

7th resolution – Co-option of a new Director

The Shareholders' General Meeting resolved to appoint:

- Mrs. Lise NOBRE
  Living:
  19 rue Raymond Queneau
  92500 RUEIL MALMAISON

as a director, to join the other currently-appointed members, for a period of six years that will end at the Shareholders' General Meeting that will approve the financial statements for the year ended December 31, 2012.

8th resolution – Share repurchase program

Having listened to the reading of the Board of Directors' report and reviewed the data contained in the program description, the Shareholders' General Meeting:

- cancels the purchase authorization given on April 27, 2007;
- 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 1,075,386 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 537,693 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 €100, not including transaction fees;
- the company may not sell all or part of the shares purchased for less than €50, 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. €100, is €107,538,600.

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.

9th resolution – Directors' fees

The General Shareholders' Meeting has decided to allocate directors' fees of €106,250 to the Board of Directors.

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

10th resolution – Formalities

The Shareholders' General Meeting assigns all rights to the bearer of an original, a copy or extracts of the minutes of its deliberations for the purpose of accomplishing all formalities, as well as all legally required filings and publications.

Design, creation and publication DESIGN MEDIA Agence Conseil en Communication +33 (0)1 40 55 16 66

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