lisi

LINK SOLUTIONS FOR INDUSTRY

FINANCIAL REPORT

This manual is a free translation and has not been subjecteed to a AMF (Autorité des Marchés Financiers) directive.

Summary

1 General information about the company

1 - Person responsible for the annual report and auditors

1.1 Name and title of the person responsible for the annual report

Mr. Emmanuel VIELLARD
Deputy Chairman and Managing Director

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.
The financial statements for the year ended December 31, 2008 displayed in this document have been subject to a report by legal auditors on page 103, which contains a comment regarding the first implementation of the CNC's notice Nr.2008 – 17."

Paris, April 17, 2009.

Emmanuel VIELLARD
Deputy Chairman and Managing Director

1.3 Statutory auditors

Regular auditors:
EXCO CAP AUDIT represented by Pierre BURNEL
2 rue Jules Emile Zingg – BP 9
25409 EXINCOURT Cedex
Appointed April 13, 1993. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

SALUSTRO REYDEL, a member of KPMG International represented by Marie GUILLEMOT
1 cours Valmy
92923 PARIS LA DEFENSE Cedex
Appointed March 4, 1999. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

Alternate auditors:
Jean-François CALAME
2 rue Jules Emile Zingg – BP 9
25409 EXINCOURT Cedex
Appointed April 13, 1993. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 31, 2011.

Jean-Claude REYDEL
1 cours Valmy
92923 PARIS LA DEFENSE 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

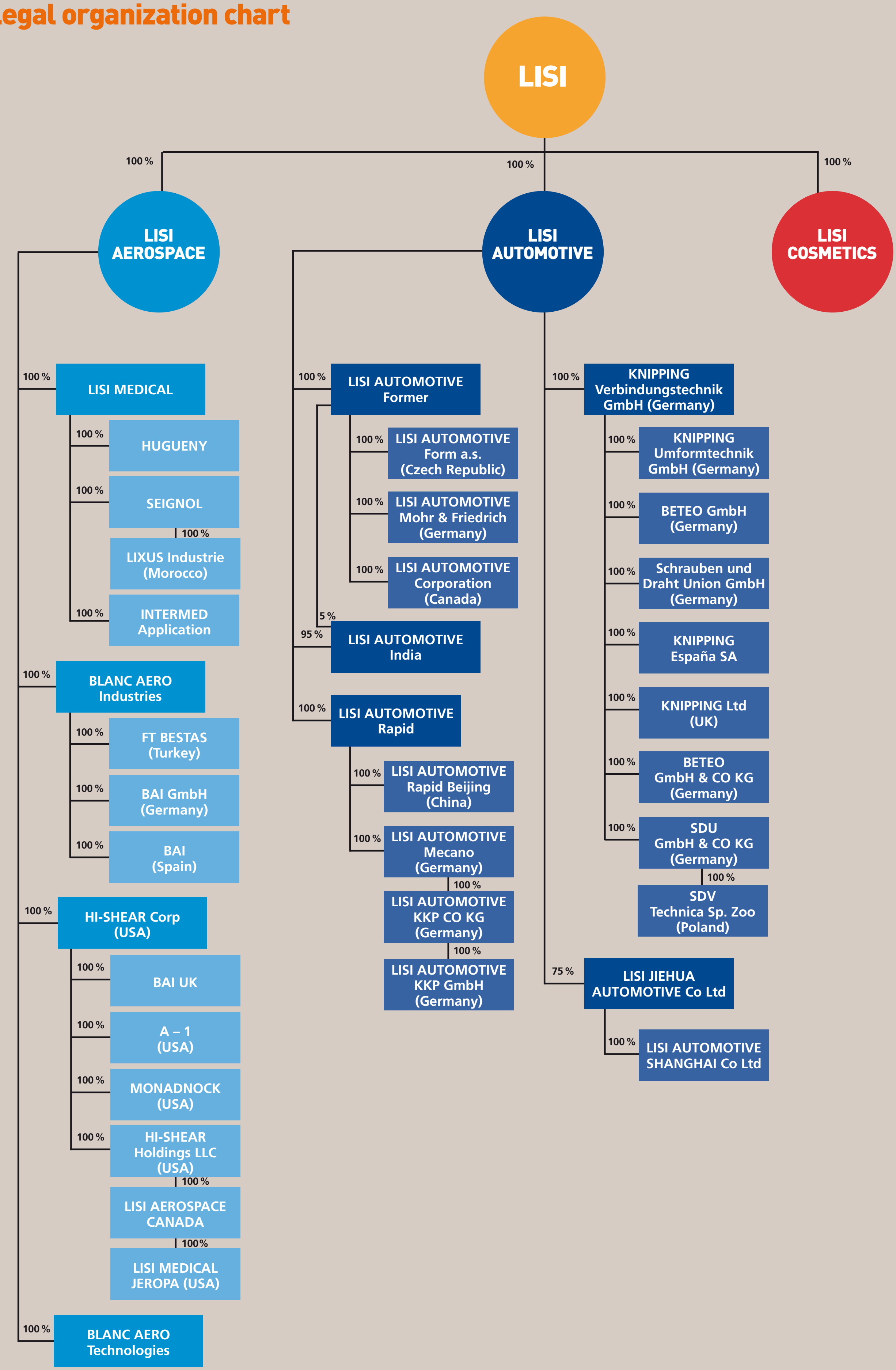
LISI
Le Millenium
18 rue Albert Camus – BP 431
90008 BELFORT Cedex
Tel.: + 33 (0)3 84 57 00 77 / Fax: + 33 (0)3 84 57 02 00
Email: emmanuel.viellard@lisi-group.com
Website: www.lisi-group.com

2.2 Documentation

- Annual report in French and English (hard copy and CD)
- Press Release

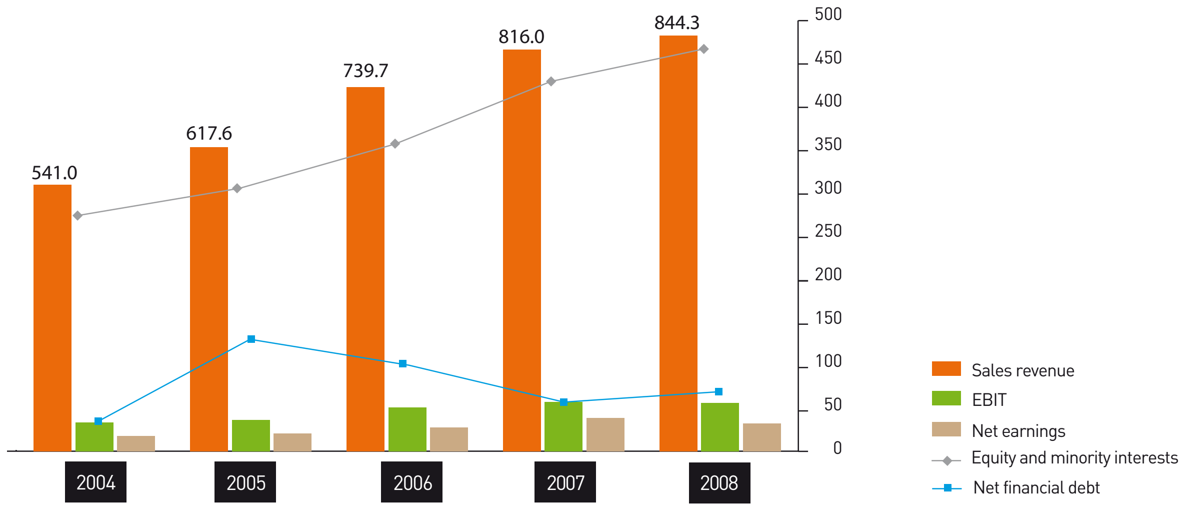
All documents are made available to the shareholders. A copy of these may be requested from the company's registered offices (at the above address) or found on the company website. The Group's company website has been publicly available for the last eight years, in both French and English. Annual reports 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)	2008	2007	2006	2005	2004
Sales revenue	844.3	816.0	739.7	617.6	541.0
EBIT	98.2	100.1	88.6	63.8	58.4
Net earnings	56.2	67.6	48.0	35.6	31.4
Equity and minority interests	458.6	425.3	357.0	310.3	276.6
Net financial debt	69.4	53.3	105.6	136.4	37.4



5 – Information about the issuer

5.1 Breakdown of capital

LISI shares data sheet

ISIN Code: FR 0000050353

Reuters: GFII.PA

Bloomberg: FII.FP

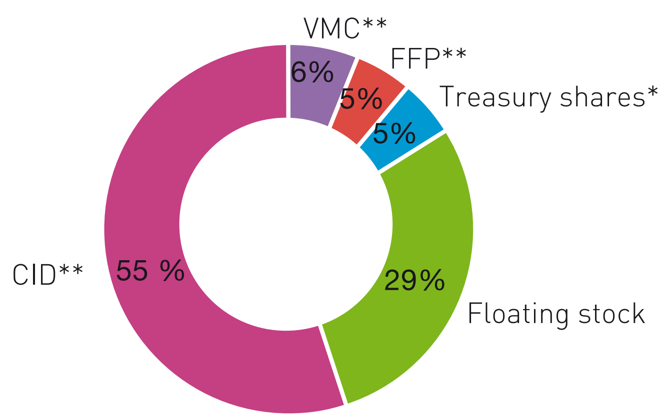
Compartment: B Eurolist

Stock marketplace: Euronext Paris

Number of shares: 10,753,861

Market capitalization at 31st December 2008: €263m

Indices: CACmid 100, SBF 250 and Next 150



* Treasury shares reserved for the performance share and stock option programs.
** Direct and indirect holdings:
VMC: 21.28%
FFP: 18.98%
CIKO: 16.75%

Liquidity of the share:

Float capital turnover rate: 122%.

Average number of shares traded per day: 17,400 (average volume for 3 months)

Month	Closing price in euros	Highest price in euros	Lowest price in euros	Session average in euros	Transaction volume In thousand euros	No of shares traded during month (supervision)
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	12,615	191,137
April	69.30	69.85	64.12	66.99	19,750	293,850
May	68.00	71.90	61.04	66.47	49,970	402,735
June	57.18	69.87	55.01	62.44	31,912	512,824
July	57.63	59.63	51.24	55.44	13,688	220,753
August	55.00	57.63	52.38	55.01	6,065	101,276
September	47.60	56.00	44.00	50.00	17,991	360,169
October	34.79	48.49	26.01	37.25	24,056	639,747
November	29.00	37.75	27.20	32.48	11,046	312,830
December	24.50	28.99	24.06	26.53	3,721	141,218
2009						
January	25.78	29.91	22.61	26.26	3,558	136,223
February	26.48	26.87	21.16	24.02	3,416	135,400

Market-making contract

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

ODDO FINANCE CORPORATE
Mr. Eric BIGOTTEAU
Email: ebigotteau@oddo.fr
Tel: +33 (0)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 et Compagnie (VMC).

1806
JAPY Frères and VIELLARD & MIGEON 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 machine-turned screws.

1968
These three family-run businesses (KOHLER, JAPY and VIELLARD) merge to form a company called GFD[1], thus becoming France's foremost manufacturer of standard and automotive nuts and bolts. 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 parts and in packaging components for the Perfumery sector. This new group is named GFI.

1989
GFI is floated on the Paris Stock Exchange's over-the-counter market and becomes GFI Industries.

1990 / 2000
Throughout the 1990s, GFI Industries continues to strengthen its positions in its three sectors by acquiring over 15 companies throughout Europe and the US.

2002
To better delineate its specialist areas, GFI Industries became LISI, (**LInk Solutions for Industry**), with the three divisions taking this name plus the name of its main business sector: LISI AEROSPACE, LISI AUTOMOTIVE and LISI COSMETICS.
The strategy of focusing on Core Business continues:
- Disposal of non-strategic business lines (GFD, Ars Industries and the production unit at Aillevilliers);
- Acquisition of California's MONADNOCK (LISI AEROSPACE).

1. GFD : Générale de Forgeage et Décolletage

2004
Acquisition of FORM a.s in the Czech Republic (LISI AUTOMOTIVE).

2005
Acquisition of KNIPPING in Germany (LISI AUTOMOTIVE).
Opening of a factory in Canada (LISI AEROSPACE)
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 to the PRECITURN group.

Creation of the LISI MEDICAL subdivision, following acquisition of:
- HUGUENY (Lyon), specializing in spinal implants;
- JEROPA (Escondido-USA), which specializes in dental implants,
- SEIGNOL and INTERMED Application (Neyron – France) and LIXUS (Tangiers – Morocco), specializing in subcontracting of dental and orthopedic implants.

2008
LISI AUTOMOTIVE is increasing its presence in China with the creation of a second production site in Shanghai dedicated to manufacturing threaded fasteners.

5.3 Company name – Registered Office and Legislation

Company name and head office

LISI S.A. – Le Millenium – 18 rue Albert Camus – 90008 BELFORT Cedex

Legal form of the issuer and applicable legislation

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

Place and number of registration

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

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.

In addition, the shareholder's presence at the general meeting will result in the cancellation of the proxy vote and/or the power of attorney that said shareholder might have sent to the company, since his presence takes precedence over all other means of participation previously chosen. If the shareholder is not present at the meeting, his power of attorney is only taken into consideration with respect to the votes cast in his proxy voting form, if one has been submitted.

Article 9 – Statement of beneficial ownership
- Shares are freely tradable in the absence of any legal or regulatory provisions to the contrary.

- Shares are delivered by transfer from one account to another according to the terms and conditions set forth by regulations.

- The company's shares are indivisible.

- If a specific quantity of existing shares is required for a shareholder to exercise rights, or if existing shares are exchanged or issued which grant the right to a new share in return for the redemption of several existing shares, any odd-lot shares or shares that fall short of the minimum number required will not provide shareholders with rights vis-à-vis the company, as it is up to the shareholders to gather the required number of shares and, if possible, to buy or sell the required number of shares.

- Without prejudice to the provisions covered in article 356-1 of law no. 66-537 of July 24, 1966, any person who owns or acquires at least 3% of share capital either directly or indirectly, as set forth under the provisions of said article 356-1, must report the total number of shares that he owns by registered mail with acknowledgement 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, P.O.B. 431, 90008 BELFORT Cedex.

2 Financial situation

1 – Overview of the main activities

1.1 LISI AEROSPACE

€384.8m	3,309	€35.4m
ANNUAL SALES REVENUE	STAFF	INVESTMENTS

ACTIVITY

Fasteners and assembly components for the aerospace and motor racing markets.

KEY PRODUCTS

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.

CUSTOMERS

AIRBUS,
BOEING,
BOMBARDIER,
DASSAULT,
EMBRAER,
GEAE,
EUROCOPTER,
PRATT & WHITNEY,
ROLLS ROYCE,
SNECMA,
Formula 1 and Nascar teams for the Racing division

COMPETITORS

ALCOA FASTENING SYSTEM,
PRECISION CASTPART Corp.,
MELROSE Plc.

1.2 LISI MEDICAL

€24m	256	€3m
ANNUAL SALES REVENUE	STAFF	INVESTMENTS

ACTIVITY

Medical implant and auxiliary parts sub-contractor.

KEY PRODUCTS

HUGUENY

Spinal and orthopedic implants.

JEROPA

Dental and spinal implants.

SEIGNOL & INTERMED Application

Surgical implants (hand, foot, dental, maxillofacial) and ancillary manufacture (surgical instruments).

1.3 LISI AUTOMOTIVE

€385.8m	3,033	€21.1m
ANNUAL SALES REVENUE	STAFF	INVESTMENTS

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, TI, TRW.
- FRANKE, LOOK, SCHNEIDER.

COMPETITORS

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

1.4 LISI COSMETICS

€51m	457	€5.7m
ANNUAL SALES REVENUE	STAFF	INVESTMENTS

ACTIVITY

Assembly and packaging components for fragrances and cosmetics.

KEY PRODUCTS

- 212 Men and 212 Men Sexy by Carolina HERRERA (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 millions euros	2008	2007	Changes
Sales revenue	844.3	816.0	+3.5%
Of which foreign	543.3	511.9	+6.1%
EBITDA	140.3	141.9	–1.2%
EBIT	98.2	100.1	–1.9%
Net earnings	56.2	67.6	–16.8%
Net operating cash flow	74.9	98.9	–24.3%
Net CAPEX	65.2	43.1	+51.0%
Net financial investments	2.2	32.3	–93.2%
Equity and minority interests	458.6	425.3	+7.8%
Net financial debt	69.4	53.3	+30.3%
Return on capital employed (ROCE)	19.5%	21.3%	–
Return on equity (ROE)	12.7%	17.3%	–
Registered employees at year end	7,068	6,512	+ 8.5 %

LISI displays organic growth of +4.5% in 2008

Thanks to the good performance results achieved over the first three quarters, the LISI group publishes annual sales for 2008 up +3.5% at €844.3m, against €816m for financial 2007.

Quarterly changes in sales revenue are summarized in the table below:

Sales revenue in millions euros	December 31		Change	
	2008	2007	2008/2007	2008/2007 on a constant consolidation scope and exchange rate basis
Q1	226.1	209.8	+7.8%	+11.4%
Q2	223.6	209.0	+7.0%	+10.8%
Q3	202.2	189.4	+6.8%	+7.4%
Q4	192.4	207.8	–7.4%	–11.2%
Total (12 months)	**844.3**	**816.0**	**+3.5%**	**+4.5%**

Notes :

During financial 2008, the Group generated 64% of its business abroad.

The average dollar rate stood at 1.47 versus 1.38 in 2007 for actual sales of $275m.

Changes in consolidation scope cover:

- consolidation of SEIGNOL in December 2007 (€12m),
- deconsolidation of EUROFAST in May 2007 (€6.7m).

Interim balances are affected by the business downturn at the end of the period

While the half-yearly statements showed a progression of all business indicators, the 2nd half of the year suffers the impact of the downturn in the LISI AUTOMOTIVE division, which reaches its EBIT break-even point.

Nevertheless, the overall performance results near absolute value records with EBITDA at €140.3m and EBIT at €98.2m. On a relative value basis, results are not far from normative figures for the Group, i.e. 16.6% for EBITDA and 11.6% for EBIT. Productivity loses approximately 2%, while the beginning of the year was showing a clear progression. The loss of productivity is mainly due to the difficulty in adjusting the head count towards the end of the period in the LISI AUTOMOTIVE division. Thus, the total Group head count recorded at December 31, 2008 stands at 7,068 against 6,512 at December 31, 2007, of which 100 additional employees related to the acquisition of Seignol in the LISI MEDICAL division and 116 in China due to the consolidation of LISI AUTOMOTIVE Shanghai. At end December 2008, we record 351 temporary employees, mainly in France.

Net earnings maintained at a satisfactory level

At more than 6.7% of sales or €56.2m, net earnings are slightly down on 2007 (€67.6m), which benefited from the capital gains generated by the disposal of Eurofast, for €11.1m. Restated after the disposal, the Group earnings remain stable (€56.2m to be compared with €56.5m). In 2008, interest expenses display a slight decline, thanks to the stability of interest rates and good control over the debt. The apparent income tax is stable at approximately 36.2%.

All in all, 2008 results are thus within standards, thereby showing the Group's ability to generate robust results in a difficult economic context.

The financial position remains robust despite sustained capex efforts and high working capital requirements

In 2008, capital expenses reach an all-time high at €65.2m. They include, in the LISI AEROSPACE division, the project for a new "nuts" unit in Torrance, the extension of the Montreal site for critical parts, the new Izmir, Turkey plan, the pursuit of the Saint-Ouen project and the extension of the Rugby, UK, plant.

The LISI AUTOMOTIVE division has not been left over, with the installation of production lines for the mechanical components manufactured at the Melisey site, the kickoff of the construction work for the new Form As (Czech Republic) plant, the deployment of the press replacement and productivity plans. Lastly, LISI COSMETICS has installed its automated varnishing workshop and its new injection hall in its Nogent (Chartres), unit.

After setting up inventories in the course of the first 6 months of the year in the LISI AUTOMOTIVE division, the adjustment expected for the second half of the year could not take place, due to the collapse of demand. The deficit of inventory adjustment compared to the activity level, exceeds €13m.

It should be noted that the cash flow has continued to grow, reaching €105.4m or 12,5%, thereby generating positive free cash flow of €9.7m.

After distributing €15.8m of dividends and acquiring LISI AUTOMOTIVE Shanghai for €2.2m, the net debt stands at €69.4m, representing a net debt on equity ratio of 15.1% (12.5% at end 2007). The Group's share of equity further rises at €457.8m against €425.3m in 2007.

Outlook in brief

Seldom does a financial year begin with so little visibility in the Automotive Division. That line of business has always been characterized by good control over the supplier chain and by cycles of limited scope. The current crisis is so severe that all past certainties have thus been swept away by current events. Even though new license plates in Europe are expected to have lost 10 to 20%, the drop in our customers' inventories will further amplify that of demand over the entire first half of 2009. At this stage, it is impossible to draw any clear conclusions that would enable the Group to adjust its organization or structure.

The aerospace market seems to face the crisis with a significant reverse effect, due to a robust order book and new programs that are just being kicked off. However, production paces should adjust gradually to that of customer demand and the further decline of air traffic. LISI AEROSPACE will adjust its Skyline growth plan by putting the emphasis on new programs.

In 2009, the Group will engage into a project aimed at redesigning its industrial structure for its LISI MEDICAL division, while pursuing its external growth ambitions in that industry.

Lastly, the LISI COSMETICS division will have to complete its industrial organization project in a context of low business activity over the beginning of the year, but that is expected to return gradually to less depressed business during the 2nd half of the year, owing to already planned launches.

In a context that is more than depressed, the LISI Group will pursue its program aimed at adjusting its capacities temporarily, knowing that return to normal activity in the LISI AUTOMOTIVE division cannot be dreamt of before the 2nd half of 2009. The Group's financial robustness will enable it to maintain the expenditure efforts required and the preservation of its industrial equipment at the highest standards for the profession.

The Group is therefore maintaining the main strategic orientations of its business plan, despite economic uncertainties that are undermining visibility. Its actions focus on four major targets:

- Protect the current operating margin,
- Preserve the cash position,
- Pursue its development projects,
- Take part in market consolidation.

2.2 LISI AEROSPACE

Activity summary

In millions euros	2008	2007	Changes
Sales revenue	408.8	355.7	+15.1%
EBIT	84.0	68.6	+22.5%
Operating cash flow	71.5	62.3	+14.7%
Net CAPEX	38.4	18.1	+111.5%
Registered employees at year end*	3,565	3,057	+16.6%
Full time equivalent head count**	3,782	3,240	+16.7%

* including LISI MEDICAL
** Including temporary employees

The aerospace market enjoys a robust order book, which was further strengthened in 2008. This is, in particular, the case with BOEING: with 662 net orders in 2008 for just 375 delivered aircraft, the manufacturer expects to expand its delivery program in 2009. As for AIRBUS, it is consolidating its positions, with 777 net orders and 483 deliveries, of which 12 A380s. At end December 2008, the order book stood at 3,715 aircraft for AIRBUS representing 7.7 years of production and 3,714 aircraft for BOEING. Given the requirements displayed by its two main customers, the LISI AEROSPACE division should be able to stabilize its activity within existing programs and gain momentum on new models such as the B787 and the A380.

However, the decline of air traffic and the withdrawal of the number of old aicraft from the fleet in circulation are to be pointed out (approximately 350 old-generation aircraft over the last quarter). The combination of these two phenomena will inevitably lead to the decline of maintenance in the short term.

In that contrasted context, and despite the first signs of decline related to the destocking observed throughout the aerospace industry during the 4th quarter of the year, particularly in Europe, LISI AEROSPACE displays two-digit growth for the fifth year in a row: sales reach the threshold of €400m, up +17.5% on 2007, on a constant exchange rate and like-for-like basis.

Rule changes in F1 have led to a –13.4% decline for the Racing business over the 4th quarter of the year, to be compared with annual sales down –6.0%.

Medical business continues to thrive: annual sales thus stand at €24m, i.e. organic growth of +18.9%, of which +17.4% for the last quarter alone. However, one must note that demand clearly loses momentum in the field of dental implants in the United States, while the other areas of application (spinal, reconstruction, etc.) remain dynamic in Europe.

Profitability reaches near excellence over that period, thanks to constant improvement efforts, perceptible throughout the division's sites, and in particular at the Torrance, USA plant, whose head count now exceeds 1,000, and at the new Montreal unit, which has made an outstanding start.

The additional contribution from the USA accounts for most of the EBIT progression at €84m against €68.6m in 2007. The average dollar rate, down significantly on 2007, has adverse effects of nearly €5m on the conversion of the operating profit in euros.

Outlook

As expected, LISI AEROSPACE provided the Group with some stability towards the end of the period. However, with market trends being so uncertain, it is difficult to make a prognosis into this new year. Thus, the business aircraft segment is already showing obvious signs of slowdown; on the other hand, the order book for commercial aircraft remains high. LISI AEROSPACE's reflects that level with, for example, orders for more than USD200 million to be delivered in the US in 2009. However, cancellations in that order book should not be ruled out, in which case the US plants would have some adjustments to make.

In Europe, the doubling of the production pace of the A380 has a dampening effect. The flexibility of labor is also a constant concern for the operating teams.

The LISI AEROSPACE division will adapt its Skyline growth plan to the economic situation. However, it will maintain a number of structural decisions (doubling of the Izmir plant, new surface treatment workshop in Torrance, extensions in Dorval and preservation of the Development teams), thereby showing its confidence in the medium term market trends.

2.3 LISI AUTOMOTIVE

Activity summary

In millions euros	2008	2007	Changes
Sales revenue	385.8	407.1	–5.2%
EBIT	14.0	27.4	–48.9%
Operating cash flow	29.2	35.4	–17.4%
Net CAPEX	21.1	20.4	+3.1%
Registered employees at year end	3,033	2,953	+2.7%
Full time equivalent head count*	3,043	3,119	–2.5%

* Including temporary employees

The end of the year was marked by the collapse of new license plates in Europe: –17.8% in December 2008, after reaching an all-time low of –25.8% in November. Over the entire year, they are down –7.8%, a consequence of the crisis that hit the industry so strongly during the second half of the year. The most affected countries include Spain (–49.9% in December; –28.1% for the entire year), and Italy (–13.5% in December; –13.4% for the entire year). The situation remains critical in the United Kingdom (–11.3% in total); and, to a lesser extent, in France (–15.8% in December; –0.7% over the year) and in Germany (–1.8% over the year). The trend followed by the East European market is less worrying, with car sales being almost stable (–1%) compared to last year.

All manufacturers have seen their volumes drop considerably in December, except for Volkswagen, which recorded a limited reduction at –6.5% (–4.4% for the year), owing to the launch of the new Golf and the excellent performance results of Audi. Among French car manufacturers, Renault (–27.4% for Q4; –6.9% for the year) has suffered more than PSA (–10.4% for Q4; –9.1% for the year). The end of 2008 was also difficult for BMW (–20.6% for Q4; –3.5% for the year) and Daimler (–14.4% for Q4; –5.9% for the year). Well decided to limit their inventory of vehicles, manufacturers and parts manufacturers have suddenly adjusted their production, beyond the drop in new European license plates. This move had very adverse effects on LISI AUTOMOTIVE.

To illustrate this, the production of LISI AUTOMOTIVE's 7 top manufacturer customers was adjusted by –25% during the last quarter, for annual business down –4.4% only. These figures should be compared to the changes in LISI AUTOMOTIVE's sales figures observed during the last quarter of 2008 and the whole of 2008, –27.8% and –2%, respectively.

This unprecedented fall has had a similar impact on all of the Group's production sites, in both France and Germany, and those supplying component manufacturers. LISI AUTOMOTIVE was thus forced to close down several production plants: most of the division's plants thus stopped running between December 12, 2008 and January 5, 2009.

The decline being so sudden and brutal, adjusting capacities and head counts was impossible. After the progression observed during the 1st half-year, the momentum was disrupted by successive cancellations of delivery programs and the 2nd half-year thus displays an operating loss of –€1.5m.

For the entire year, the loss of volume was only partly offset by the productivity gains generated by the 2008 ACE and Excellence plans.

LISI AUTOMOTIVE's operating profit dropped by –48.9% at €14m, i.e. 3.6% of sales, the lowest margin rate in 20 years.

Outlook

It is crystal-clear that the automotive industry is still shocked by the adjustment measures decided by car manufacturer, with effects that will be felt at least throughout the 1st half of financial 2009. At this stage, it is difficult to assess whether the industry's inventories have dropped sufficiently to reach the appropriate level. Once that point is reached, LISI AUTOMOTIVE will enjoy a technical recovery that will mitigate the severity of the current drop. Pending that, the division is trying to optimize its production capacities through technical unemployment (2 days per week during the first half-year in France on most sites), the 4-day week in Germany, and the implementation of intensive lifelong training. At this stage, prudence dictates awaiting clearer indications from the market before deciding of any structural adaptation measures that may be necessary.

(1) Source: ACEA: European Automobile Manufacturers' Association

2.4 LISI COSMETICS

Activity summary

In millions euros	2008	2007	Changes
Sales revenue	51.0	54.8	–6.9%
EBIT	1.3	3.8	–66.0%
Operating cash flow	3.9	5.6	–30.4%
Net CAPEX	5.7	4.4	+30.7%
Registered employees at year end	457	490	–6.7%
Full time equivalent head count*	491	542	–9.2%

* Including temporary employees

A difficult context

Like in past quarters, the Group's customers have once again suffered from rather sluggish demand, and chose to reduce, or sometimes even put off, new product launches. Nevertheless, in that difficult context, the LISI COSMETICS division enjoys a number of signs of progress:

- Strengthening of close ties with key customers such as Chanel, L'Oréal and LVMH, particularly in the strategic field of care.
- Opening of new accounts and major launches with Inter Parfums and Oriflamme.
- Completion of the new plant in Nogent, streamlined layout of the new injection and adjustment hall for the finishing chain, which will make it possible to increase productivity significantly and optimize the flows on that production site.

In the context of significant drops in volumes since the beginning of the period, the division is a victim of the lesser absorption of fixed costs and of extra expenses attributable to the startup of the Nogent plant. The LISI COSMETICS division records EBIT of €1.3m only (i.e. 2.5% of sales only), against, €3.8m in 2007, or nearly 7% of sales.

Outlook

The LISI COSMETICS division was the first, as of the second quarter of the year, to suffer from the decline in consumption volumes, and then from the adjustment of inventories carried out at the end of the year. This should enable it to stabilize its activity during the 1st half of 2009. A number of launches are slated for the end of 2009 and the beginning of 2010.

3 Consolidated financial statements

1 – Financial statements

1.1 Consolidated income statement

(In thousand euros)	Notes	12/31/2008	12/31/2007
Pre-tax turnover	2.6.1	**844,254**	**815,957**
Changes in inventory, finished and in process goods		22,377	14,817
Total production		866,631	830,773
Other revenues		5,451	5,907
Total operating revenues		**872,081**	**836,681**
Consumption	2.6.2	(253,493)	(242,130)
Other purchases and external charges	2.6.3	(157,467)	(152,173)
Value added		**461,121**	**442,378**
Taxes and duties		(11,261)	(10,648)
Personnel expenses (Including temporary employees)	2.6.4	(309,557)	(289,793)
EBITDA		**140,302**	**141,937**
Depreciation		(41,249)	(38,421)
Net provisions		(877)	(3,464)
EBIT		**98,177**	**100,052**
Non-recurring operating expenses	2.6.6	(5,171)	(19,835)
Non-recurring operating income	2.6.6	855	25,258
Operating profit		**93,861**	**105,475**
Financing expenses and revenue on cash	2.6.7	**(8,885)**	**(8,174)**
Revenue on cash	2.6.7	*1,397*	*4,899*
Financing charges	2.6.7	*(10,282)*	*(13,073)*
Other interest revenue and expenses	2.6.7	**2,847**	**1,060**
Other financial items	2.6.7	*6,009*	*3,087*
Other interest expenses	2.6.7	*(3,162)*	*(2,027)*
Taxes	2.6.8.1	(31,712)	(30,809)
Profit for the period		**56,111**	**67,553**
Attributable to bearers of company shareholders' equity		56,229	67,553
Minority interests		(118)	0
Net income per share (in €):	2.6.9	**5.40**	**6.60**
Net diluted earnings per share (in €):	2.6.9	**5.28**	**6.45**

1.2 Consolidated balance sheet

ASSETS

NON-CURRENT ASSETS		
Goodwill	139,068	136,738
Other intangible assets	15,715	15,529
Tangible assets	255,984	232,120
Non-current financial assets	4,558	4,976
Deferred tax assets	14,462	14,118
Other non-current assets	141	219
Total non-current assets	**429,928**	**403,700**
CURRENT ASSETS		
Inventories	201,187	173,345
Taxes – Claim on the state	5,718	8,517
Trade and other receivables	126,939	118,764
Financial assets	30,222	55,332
Cash and cash equivalents	25,665	62,931
Total current assets	**389,730**	**418,889**
TOTAL ASSETS	**819,660**	**822,589**
of which other non-current financial assets	*0*	*0*

TOTAL EQUITY AND LIABILITIES

(In thousand euros)	31/12/2008	31/12/2007	12/31/2007
SHAREHOLDERS' EQUITY			
Capital stock	21,508	21,508	21,508
Additional paid-in capital	69,853	68,353	68,353
Treasury shares	(17,090)	(7,814)	(7,814)
Consolidated reserves	336,938	285,179	285,179
Conversion reserves	(12,406)	(12,495)	(12,495)
Other income and expenses recorded directly as shareholders' equity	2,752	3,042	3,042
Profit for the period	56,229	67,553	67,553
Total shareholders' equity – Group's share	**457,786**	**425,326**	**425,326**
Minority interest	780	0	0
Total shareholders' equity	**458,567**	**425,326**	**425,326**
NON-CURRENT LIABILITIES			
Non-current provisions	30,386	30,702	30,702
Non-current borrowings	84,399	87,784	87,784
Other non-current liabilities	3,096	3,070	3,070
Differed taxes	33,567	31,836	31,836
Total non-current liabilities	**151,449**	**153,392**	**153,392**
CURRENT LIABILITIES			
Current provisions	8,205	6,128	6,128
Current borrowings*	40,887	83,757	83,757
Trade and other accounts payable	156,223	145,857	145,857
Tax liability	4,328	8,128	8,128
Total non-current liabilities	**209,643**	**243,870**	**243,870**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**819,660**	**822,589**	**822,589**
** of which banking facilities*	*13,982*	*52,628*	52,628

1.3 Consolidated cash flow table

(In thousand euros)	12/31/2008	12/31/2007
Operating activities		
Net earnings	**56,111**	**67,553**
Elimination of net charges not affecting cash flows:		
– Depreciation and non-recurrent financial provisions	41,765	38,306
– Changes in deferred taxes	1,025	1,725
– Income on disposals, provisions for liabilities and others	5,006	(7,857)
Gross cash flow margin	**103,907**	**99,726**
Net changes in provisions provided by or used for current operations	1,474	2,901
Operating cash flow	**105,380**	**102,628**
Elim. of corporate income tax (debit or credit)	30,687	29,084
Elim. of net interest	9,188	10,408
Effect of changes in inventory	(28,954)	(11,801)
Effect of changes in accounts receivable and accounts payable	(1,213)	10,736
Net cash provided by or used for operations before tax	**115,089**	**141,055**
Taxes paid	(31,018)	(31,699)
Cash provided by or used for operations (A)	**84,070**	**109,356**
Investment activities		
Acquisition of consolidated companies	(2,198)	(32,348)
Acquired cash	1,057	1,449
Acquisition of tangible and intangible fixed assets	(65,671)	(44,112)
Acquisition of financial assets	-	(120)
Change in granted loans and advances	634	(24)
Investment subsidies received	-	-
Dividends received	1	-
Total cash used for investment activities	**(66,177)**	**(75,155)**
Disposed cash	-	1,315
Disposal of consolidated companies	-	20,000
Disposal of tangible and intangible fixed assets	511	971
Disposal of financial assets	-	-
Total cash from disposals	**511**	**22,286**
Cash provided by or used for investment activities (B)	**(65,665)**	**(52,869)**
Financing activities		
Capital increase	18	25,525
Net disposal (acquisition) of treasury shares	-	-
Dividends paid to shareholders of the Group	(15,793)	(12,979)
Dividends paid to minority interests of consolidated companies	-	-
Total cash from equity operations	**(15,776)**	**12,546**
Issue of long-term loans	27,066	6,476
Issue of short-term loans	580	819
Repayment of long-term loans	(14,423)	(4,574)
Repayment of short-term loans	(20,517)	(25,385)
Net interest expense paid	(9,959)	(9,866)
Total cash from operations on loans and other financial liabilities	**(17,254)**	**(32,526)**
Cash provided by or used for financing activities (C)	**(33,029)**	**(19,980)**
Effect of change in foreign exchange rates (D)	134	(2,678)
Effect of adjustments in treasury shares (D)	(9,241)	(2,335)
Changes in net cash (A+B+C+D)	**(23,732)**	**31,495**
Cash at January 1st (E)	65,635	34,141
Cash at year end (A+B+C+D+E)	41,904	65,635
Other current financial assets	30,222	55,332
Cash and cash equivalents	25,665	62,931
Short-term banking facilities	(13,982)	(52,628)
Closing cash position	**41,904**	**65,635**

1.4 Change in shareholders' equity

(In thousand euros)	Capital stock (Note 2.5.3.1)	Share premiums (Note 2.5.3.2)	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholders' equity	Profit for the period, group share	Group's share of share-holders' equity	Minority interests	Total shareholders' equity
Total shareholders' equity at January 1, 2007	**20,422**	**42,963**	**(5,479)**	**250,169**	**(2,325)**	**3,087**	**47,989**	**356,826**	**224**	**357,049**
Profit for the period N (a)							67,553	67,553		67,553
Translation differential (b)					(10,170)			(10,170)		(10,170)
Payments in shares (c)		951						951		951
Capital increase	1,086	24,439						25,525		25,525
Restatements of treasury shares (d)			(2,335)			(45)		(2,380)		(2,380)
Appropriation of N-1 earnings				47,989			(47,989)			
Change in methods										
Change in scope									(224)	(224)
Dividends distributed				(12,979)				(12,979)		(12,979)
Reclassification										
Various (e)										
Shareholders' equity at December 31, 2007	**21,508**	**68,353**	**(7,814)**	**285,179**	**(12,495)**	**3,042**	**67,553**	**425,326**		**425,326**
of which total revenue and expenses recorded for the financial period (a) + (b) + (c) + (d) + (e)		*951*			*(10,170)*	*(45)*	*67,553*	*58,289*		
Profit for the period N (a)							56,229	56,229	(118)	56,111
Translation differential (b)					89			89	72	161
Payments in shares (c)		1,500						1,500		1,500
Capital increase										
Restatements of treasury shares (d)			(9,276)	67,553		(290)		(9,566)		(9,566)
Appropriation of N-1 earnings							(67,553)			
Change in methods										
Change in scope									827	827
Dividends distributed				(15,793)				(15,793)		(15,793)
Reclassification										
Various (e)										
Shareholders' equity at December 31, 2008	**21,508**	**69,853**	**(17,090)**	**336,938**	**(12,406)**	**2,752**	**56,229**	**457,786**	**780**	**458,567**
of which total revenue and expenses recorded for the financial period (a) + (b) + (c) + (d) + (e)		*1,500*			*89*	*(290)*	*56,229*	*57,528*		

2 – Notes

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, 2008 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. Through its subsidiary LISI MEDICAL, the LISI Group has also been present since 2007 in the outsourcing of medical implants targeted at groups that develop medical solutions.

The highlights of the financial year are as follows:
-The Group has proceeded to the acquisition of assets that make up a full line of business located in Shanghai in the field of the production of threaded products for the automotive industry. The resulting company is held by a joint venture based in Hong Kong, of which LISI AUTOMOTIVE holds 75%.

- Acquisition of the assets and patents of ERRIAM, a company specializing in technical locks used in Airbus, Dassault, and Eurocopter programs. This activity further strengthens the lock range already manufactured by the Vignoux-sur-Barengeon, France plant, for approximately €1m annual sales.

- An agreement has been signed between LISI AEROSPACE and ANKIT Fasteners, an Indian company situated in Bangalore, to acquire 49% of this start-up company. The agreement is subject to review by the Indian authorities in charge of approving foreign investments. The company already has a number of aerospace approvals and an order book that enables it to start business immediately. The purpose of the operation is to participate in the establishment of a technical plant able to serve the booming Indian aerospace industry.

- Signing, in April 2008, with the European Investment Bank, of a finance agreement to hedge the R&D program for the AEROSPACE and AUTOMOTIVE segment for €30m. €20m had been used at December 31, 2008.

- Own share repurchase program in accordance with the authorization granted by the General Meeting implemented for €8.2m to which should be added the shares purchased for market making. The total stands at €9.2m.

2.2 Accounting rules and methods

The financial statements for year ending December 31, 2008 were approved by the Board of Directors on February 19, 2009 and will be submitted to the Ordinary General Meeting on April 29, 2008.

2.2.1 Background to the preparation of the consolidated financial statements for the 2009 financial year

In accordance with EU regulation 1601/2002 dated July 19, 2002, the LISI Group's consolidated financial statements have been prepared in line with IAS/IFRS international accounting standards as adopted by the European Union on December 31, 2008.

2.2.2 Basis for the preparation of the financial statements

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

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

Non-current assets held for sale are evaluated at the lower of their book value and the fair value less costs of disposal.
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 fixed 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 fair value (see Notes 2.2.6, 2.2.11 and 2.2.12),
- the valuation of share-based payments (see Note 2.2.15.2),
- the recognition of deferred tax assets (see Note 2.2.19.5).

These estimates and assumptions take into account the risks specific to LISI's lines of business, as well as the more general risks inherent to the current international context. For several months, the latter has been characterized by a financial and economic crisis, particularly in the automotive industry. That context makes it difficult to estimate the economic outlook. Consequently, the amounts likely to be affected by LISI's estimates and assumptions, and which will appear in the Group's future financial statements, could differ from current estimates.

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

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 and 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, 2008 there were no proportionately consolidated or equity method consolidated companies. All companies are included in the consolidation scope.

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 very seldom use of derivatives to hedge its exposure to currency risks, and more occasionally, 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 valued and recorded 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' equity 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 currency 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 fixed assets acquired through a business combination are recognized at their acquisition-date fair value. Intangible fixed assets with finite useful lives are subject to depreciation over this period, while intangible fixed assets with indefinite useful lives are subject to an impairment test at least once a year.

Subsequent expenditure relating to an intangible fixed 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 fixed 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. The Group carries out regular assessments of major projects in order to identify any costs which could be capitalized. As of December 31, 2008, 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 fixed 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 fixed 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 labor, 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 fixed asset, the Group recognizes the cost of replacing a component of this tangible fixed asset at the time when the cost is incurred, if it is likely that future economic benefits associated with this asset will flow to the Group and the cost can be reliably estimated. All ongoing servicing and maintenance costs are recognized as an expense when they are incurred.

2.2.8.4 Depreciation

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

Land is not depreciated.
Estimated useful lives are as follows:

- buildings: 20 – 40 years
- plant and machinery: 10 – 15 years
- fixtures and fittings: 5 – 15 years
- transport equipment: 5 years
- equipment and tools: 10 years
- office equipment: 5 years
- office 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 fixed and tangible fixed assets are also subject to such a test at any time when there is a risk of loss of value.
The method used involves comparing the recoverable value of each of the Group's cash-generating units with the net book value of the corresponding assets (including the goodwill).
The recoverable value is calculated for each asset individually, unless the asset under consideration does not generate cash inflows independently of the cash inflows generated by other assets or groups of assets. In some cases, the recoverable value is calculated for a group of assets.
Recoverable value is defined as: whichever is the higher out of the realizable value (less the costs of disposal) and the value in use. The latter is calculated by discounting future cash flows, using predicted cash flows which are consistent with the most recent budget and business plan approved by the Executive Committee and presented to the Board of Directors. The discount rate applied reflects the market's current assessment of the time value of money and the risks specific to the asset or the group of assets.

The realizable value is defined as the sum which could be obtained by selling the asset or group of assets in conditions of normal competition where all parties are fully informed and consenting, less the costs of disposal. These figures are calculated from market values (comparison with similar listed companies, value of recent deals and stock prices) or failing that, from discounted future cash flows.
If the recoverable value is lower than the net book value for the asset or group of assets tested, the discrepancy is recognized as a loss of value. In the case of a group of assets, it should preferably be classified as a reduction in goodwill.

Impairment reversal should not result in a net book value exceeding the one that would have been determined if no impairment had been 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,
- Clipped 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 is mainly comprised of capitalization contracts. It also includes non-consolidated holdings. These are investments in unlisted companies, for which fair value cannot be reliably estimated. As a last resort, the Group values financial assets at their historic cost less any potential loss of value, when no reliable fair value estimate is possible through an evaluation technique, in the absence of an active market.

2.2.9 Inventories

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

The cost of materials and merchandise is calculated from their acquisition cost plus the costs incurred to bring them to their current location. 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. At each year-end, 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:
- 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 or free shares to employees and corporate officers 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 (Stocks options and conditional allocation of free shares also called 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, 2008 there no longer existed within the LISI Group 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 Savings Plan) is also available for Group employees, in which they may purchase LISI shares within the framework of a capital increase reserved for employees or as part of a share buyback program. Shares acquired by employees within the framework of these programs are subject to certain sale and transfer restrictions. In the case of capital increases reserved for employees as part of the Group Savings Plan, the benefit offered to employees is the discount on the subscription price, being the difference between the subscription price of the shares and the share price at the award date (with a maximum of 20% in accordance with French law). This expense is recognized in its entirety at subscription date in the case of the Group Savings Plan.

2.2.16 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.

2.2.21 Business segments

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 in 2008 are spread over three business segments, in which the four divisions operate:

- The AEROSPACE Division, which brings together all activities in the aerospace market,
- The AUTOMOTIVE Division, which brings together all activities in the automotive market,
- The COSMETICS Division, which brings together perfume and cosmetics activities,
- The MEDICAL Division, in construction, represents alone 3% of the Group total. It does not yet represent a significant line of business. It has therefore been decided to display it with the AEROSPACE Division.

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, 2008 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 2008

The changes in the consolidation scope were as follows:

Companies	Type of change	Date of operation	Date of 1st consolidation
LISI JIEHUA AUTOMOTIVE Co. Ltd (JV)	Subscription of 75% of the capital upon the company's inception	11/14/2007	05/01/2008
LISI AUTOMOTIVE Shanghai &Co. Ltd	Consolidation resulting from the capital being 100% held by LISI JIEHUA AUTOMOTIVE Co. Ltd	01/30/2008	05/01/2008

2.3.2 Impact on Group indicators of changes in scope that occurred in 2008

(in millions euros)		% impact on the Group's indicators in 2008
Newly-consolidated companies	**LISI JIEHUA AUTOMOTIVE Co. Ltd + LISI AUTOMOTIVE SHANGHAI Co. Ltd**	
Sales revenue	2.1	0.25%
EBIT	(0.4)	–0.40%

The change in consolidation scope remains within the limits recommended by control authorities, and therefore did not require any proforma financial statements.
LISI AUTOMOTIVE SHANGHAI and LISI JIEHUA AUTOMOTIVE have been consolidated since May 1, 2008. Therefore, they are not consolidated on a full-year basis.

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 12e (75)	France	100.00	100.00
BLANC AERO INDUSTRIES (BAI)	Paris 12e (75)	France	100.00	100.00
BAI GmbH	Hamburg	Germany	100.00	100.00
FT BESTAS	Izmir	Turkey	100.00	100.00
BLANC AERO TECHNOLOGIES (BAT)	Paris 12e (75)	France	100.00	100.00
BAI Spain	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	Lyon (69)	France	100.00	100.00
LISI MEDICAL JEROPA Inc.	Escondido (California)	USA	100.00	100.00
LISI MEDICAL	Paris 12e (75)	France	100.00	100.00
SEIGNOL	Neyron (01)	France	100.00	100.00
INTERMED Application	Neyron (01)	France	100.00	100.00
LIXUS Industrie	Tanger	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 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 India	Ahmedabad	India	100.00	100.00
LISI JIEHUA AUTOMOTIVE Co. Ltd (A)	Hong Kong	Hong Kong	100.00	75.00
LISI AUTOMOTIVE SHANGHAI Co. Ltd (B)	Shanghai	China	100.00	75.00
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 12e (75)	France	100.00	100.00

(A) Company set up November 14, 2007
(B) Company set up January 30, 2008

The following exited the scope of consolidation during the period:
LISI AUTOMOTIVE Espana December 31, 2007: company absorbed by KNIPPING Espana SA
LISI AUTOMOTIVE GmbH December 31, 2008: company absorbed by LISI AUTOMOTIVE Mecano

2.3.4 Inception of subsidiaries

On November 14, 2007, LISI AUTOMOTIVE subscribed 75% of the capital of newly-created LISI JIEHUA AUTOMOTIVE Co Ltd in partnership with Shanghai Yankang Automotive Components Co. Ltd, which represented a total expense for the Group (including acquisition expenses and auxiliary items) of €2.2m. The company, of which 75% is held, is fully consolidated.

This company acquired the tangible assets and the inventory of a production site exterior to the Group, located in Shanghai, for €2.2m, and brought them to LISI AUTOMOTIVE SHANGHAI Co Ltd.

2.4 Financial risk management

The Group is exposed to the following risks arising from 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 analyze 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. At December 31, 2008, the Group's balance sheet displays cash and cash equivalents for €25.7m. The cash equivalents are made of marketable securities represented by monetary mutual funds, invested in very short maturity securities and representing no risk in capital, in accordance with the Group's cash management policy. In accordance with accounting rules, these instruments are valued at their market price at year-end.

In accordance with IAS 32, own shares are recognized upon their acquisition. Their value is deducted from equity and changes in value are not recorded. When own shares are acquired or disposed of, the shareholders' equity is adjusted by the amount of the fair value of the securities bought or sold. The acquisition of 417,002 own shares and the disposal of 150,400 own shares in 2008 result in a €9.6m reduction of shareholders' equity over the period.

Liquidity risk

Beyond maximizing the operating cash flows intended to fund its expansion and the payment of dividends to shareholders, the LISI Group insists upon maintaining very broad access to liquidity to face its commitments and expenditure requirements. At December 31, 2008, the LISI Group enjoyed several bank facilities confirmed for the medium term and unused bank facilities for a total of €90m. Including net cash, at December 31, 2008, the LISI Group had €132m available. At year-end, the Group considered its liquidity risk to be limited, as it had €41.9m of cash at hand, against €65.6m at December 31, 2007, and a net debt ratio on equity of 15.1%, against 12.5% at December 31, 2007, as shown below.

At 15.1% at December 2008, the net debt on equity ratio is far below 120%, the limit that would be likely, according to certain bank covenants, to lead to the early repayment of past drawdowns.

(in thousand euros)	2008	2007
Short-term investments	30,222	55,332
Cash and cash equivalents	25,665	62,931
Cash available [A]	**55,887**	**118,263**
Short-term banking facilities [B]	13,982	52,628
Net cash [A – B]	**41,904**	**65,635**
Mid-term loans between 1 and 5 years	99,181	104,790
Other financial debts	12,123	14,123
Financial debt [C]	**111,304**	**118,913**
Net financial debt [D = C + B – D]	**69,400**	**53,277**
Group equity [E]	**457,786**	**425,326**
Debt ratio (expressed as %) [D / E]	**15.1%**	**12.5%**

The balance between the compartments of net cash have been subjected to arbitration over the year. More specifically, the Group's Financial Department has decided that the divisions' bank overdrafts should be primarily financed by the holding company's surpluses and no longer to systematic current bank facilities. The main effect of this arbitration was the concurrent reduction in cash investments and current bank facilities, with a view to optimizing finance costs.

The cash table for all financial liabilities is as follows:

Financial liabilities recorded on balance sheet (in thousand euros)	At 12/31/2008	Breakdown of contractual flows not discounted on due date			
	Net book value	Within less than 1 year	Between 1 and 5 years	Over 5 years	Total
Long-term borrowings	84,399		78,813	5,586	84,399
Other long-term financial liabilities (excl. PCA)	1,954		1,916	38	1,954
Short-term borrowings	40,887	40,887			40,887
Trade and other accounts payable	156,223	156,223			156,223
Total financial liabilities	**283,463**	**197,110**	**80,729**	**5,624**	**283,463**

Financial liabilities recorded on balance sheet (in thousand euros)	At 12/31/2007	Breakdown of contractual flows not discounted on due date			
	Net book value	Within less than 1 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**

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 optimizing the profitability: risk ratio.

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

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 (the features of these instruments are described in Note 2.7.4 "Commitments"). These hedging positions are negotiated by private contracts with banks. In 2008, the Group did not take out any such hedging positions in order to benefit from the reduction in rates. Market risks related to interest rate fluctuations are handled in a centralized manner by the Group's financial department.

Interest rate instruments outstanding at December 31, 2008 are not considered by the Group to be hedging instruments and are recorded at fair value to the income statement.

As at December 31st of each year, the Group's net variable rate position breaks down as follows:

(in thousand euros)	2008	2007
Loans – variable rates	87,355	89,020
Short-term banking facilities	13,982	52,628
Short- and long-term investments	(24,362)	(25,244)
Cash and cash equivalents	(25,665)	(62,931)
Net position prior to management	**51,310**	**53,473**
Interest rate CAP		4,143
Interest rate swap	762	1,423
Hedging	**762**	**5,566**
Net position after management	**50,548**	**47,907**

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

The impact of a one point change in variable rates, before any hedging operation, would amount to an increase or a loss of earnings of around €505K on December 31, 2008, or 5.7% of total cash revenue and financial expenses for 2008.

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

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
Gross goodwill at December 31, 2007	**136,738**
Impairment at December 31, 2007	**-**
Increase	470
Decrease	(32)
Changes in foreign exchange rates	1,891
Gross goodwill at December 31, 2008	**139,068**
Impairment at December 31, 2008	**–**

The €470K increase relates to the acquisition of Erriam's operations. Changes in currency exchange rate only concern the AEROSPACE Division and result from translation differentials on the dollar.

The allocation of purchase prices relative to Seignol, Intermed Application and Lixus was completed in 2008 without any change.

As at December 31, 2008, the net value of Goodwill broke down as follows:

	AEROSPACE Division						
(in million euros)	Airframe Europe B.U.	Airframe USA B.U.	Engines and critical parts B.U.	Special products B.U.	Racing B.U.	Medical B.U.	Total
Goodwill	0.6	10.1	3.0	7.1	8.8	21.4	51.1
Intangible fixed assets with an undetermined 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 flow within one year	Budget	Budget	Budget	Budget	Budget	Budget	Budget
Cash flow within four 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 after tax	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Growth rate of flows not covered by the budget and strategic assumptions	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

(in million euros)	AUTOMOTIVE Division					
	Threaded fasteners B.U.	Mechanical components B.U.	Clipped 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 an undetermined useful life	None	None	None	None	None	None
Trademarks	None	None	6.5	None	None	6.5
Result of the impairment test	No impairment	None	No impairment	No impairment	No impairment	No impairment
Key assumptions						
Cash flow within one year	Budget	Budget	Budget	Budget	Budget	Budget
Cash flow within four 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
Discount rate after tax	8 %	8 %	8 %	8 %	8 %	8 %
Growth rate of flows not covered by the assumptions budgetary and strategic	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%

(in million euros)	COSMETICS Division
	Cosmetics B.U.
Goodwill	7.3
Intangible fixed assets with an undetermined useful life	None
Result of the impairment test	No impairment
Key assumptions	
Cash flow within one year	Budget
Cash flow within four years	4-year strategic plan
Discount rate after tax	8%
Growth rate of flows not covered by the assumptions budgetary and strategic	2.50%

The impairment tests conducted for the purpose of the financial statements at December 31, 2008 have not led to the recognition of an impairment loss on goodwill. These tests, in accordance with Note 2.2.8.5, were conducted for each CGU on the basis of:

- the values in use determined on the basis of future cash flows resulting from the budget construction and the four-year strategic plans approved by the Board of Directors,
- a growth rate of 2.5% to extrapolate the cash flow projections,
- an after-tax discount rate of 8% on the CGUs of LISI AUTOMOTIVE and LISI COSMETICS and 7.5% on the CGUs of LISI AEROSPACE, thus reflecting the appreciation of the specific risks to which these activities are exposed.

The Management bases its projections on budget assumptions for the first year, and on data from the four-year strategic plan reviewed by the Board of Directors each year; the key assumptions relate in particular to the evolution of sales based on the order book and the master contracts signed by the Group, if applicable, the operating profit rate, the renewal capex rate, and the determination of factors that may affect the working capital. The assumptions are in particular established on the basis of observations made during previous activity cycles in the various lines of business, as well as in external market surveys and the observation of the sensitivity of the contractual data for the environment of each division. For example, in the aerospace industry, the estimated data are also confirmed by the actual aircraft manufacturers' orders. It is specified that these assumptions are the best estimate possible of the market situation at the time they were prepared, and that they take into consideration the degradation of markets for 2009 and 2010. The impairment tests have not led to the depreciation of intangible assets for 2008.

b) Other intangible assets (including purchase price discrepancies)

(in thousand euros)	Concessions, patents and similar copyrights*	Other intangible fixed assets	TOTAL
Gross values at December 31, 2007	**23,095**	**9,156**	**32,250**
Acquisitions	3,816	70	3,886
Disposals	(14)		(14)
Scope changes			
Exchange rate changes	(9)	(25)	(34)
Gross values at December 31, 2008	**26,887**	**9,201**	**36,088**
Depreciation at December 31, 2007	**14,668**	**2,054**	**16,722**
Depreciation allowance	3,236	463	3,699
Depreciation reversals	(13)		(13)
Scope changes			
Exchange rate changes	(10)	(25)	(35)
Depreciation at December 31, 2008	**17,881**	**2,491**	**20,373**
Net values at December 31, 2008	**9,006**	**6,710**	**15,715**

* Including the brand Rapid

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, given the commercial usage period envisaged to date.

The progression of the item “Concessions, patents and similar rights” in 2008 concerns the continued deployment of an integrated software package on certain French and foreign sites of the AUTOMOTIVE Division for €0.9m, and the change in version of the ERP and the reorganization of the IT equipment of the AEROSPACE Division for €2.3m.

2.5.1.2 Tangible assets

a) Fully-owned tangible assets (including purchase price discrepancies)

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2007	**12,024**	**83,281**	**383,645**	**53,812**	**9,264**	**542,026**
Acquisitions	48	9,047	39,204	8,876	5,839	63,014
Disposals	(137)	(1,461)	(4,855)	(1,721)	(29)	(8,203)
Scope changes			1,390			1,390
Exchange rate changes		73	(1,667)	(199)	(253)	(2,046)
Gross values at December 31, 2008	**11,935**	**90,940**	**417,717**	**60,768**	**14,821**	**596,181**
Depreciation at December 31, 2007	**134**	**32,727**	**254,822**	**30,219**		**317,900**
Depreciation allowance		3,967	29,525	3,987		37,480
Depreciation reversals	(78)	(1,290)	(4,144)	(1,317)		(6,829)
Scope changes						
Exchange rate changes		(61)	(1,094)	(118)		(1,273)
Depreciation at December 31, 2008	**56**	**35,343**	**279,109**	**32,772**		**347,280**
Net values at December 31, 2008	**11,879**	**55,597**	**138,608**	**27,996**	**14,821**	**248,901**

The increase in tangible assets derives mainly from company acquisitions within the AEROSPACE division for nearly €36m (building extensions, new products, capacity and productivity capex) to support the strong growth of this division. The AUTOMOTIVE Division contributes to the progression of that item for nearly €20m (new products, injection machines and presses). The COSMETICS Division's investments, worth nearly €5.7m, are mostly devoted to the construction of the new Nogent-le-Phaye plant.
The change in scope results from the acquisition of the assets of LISI AUTOMOTIVE Shanghai.

b) Tangible assets held under a lease finance agreement

(in thousand euros)	Land	Buildings	Technical facilities equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2007		**5,513**	**13,288**			**18,802**
Acquisitions						
Disposals						
Scope changes						
Exchange rate changes			(2)			(2)
Gross values at December 31, 2008		**5,513**	**13,287**			**18,800**
Depreciation at December 31, 2007		**2,980**	**7,828**			**10,808**
Depreciation allowance		99	809			909
Depreciation reversals						
Scope changes						
Exchange rate changes			(1)			(1)
Depreciation at December 31, 2008		**3,079**	**8,637**			**11,717**
Net values at December 31, 2008		**2,434**	**4,650**			**7,083**

c) Operating lease agreements
The main assets required for operations that do not belong to the Group or its subsidiaries are industrial buildings and office space (head office). Other operating lease agreements mainly relate to office automation equipment.
The total annual expense is approximately €4m.
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	At 12/31/2008		Breakdown by instrument category				
(in thousand euros)	Net book value	Fair value	Fair value via earnings	Assets available	Loans and receivables	Debt at depreciated cost	Derivative instruments
Long-term investments	4,558	4,558			4,558		
Other long-term investments	141	141	141				
Trade and other receivables	126,939	126,939			126,939		
Short-term investments	30,222	30,222	30,222				
Cash and cash equivalents	25,665	25,665	25,665				
Total financial assets	**190,525**	**187,525**	**56,028**		**131,497**		
Long-term borrowings	84,399	84,399				84,399	
Other long-term financial liabilities (excl. PCA)	1,954	1,954			1,954		
Short-term borrowings	40,887	40,887				40,887	
Trade and other accounts payable	156,223	156,223			156,223		
Total financial liabilities	**283,463**	**283,463**			**158,177**	**125,286**	

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 via earnings	Assets available for sale	Loans and receivables	Debt at depreciated cost	Derivative instruments
Long-term investments	4,976	4,976			4,976		
Other long-term investments	219	219	219				
Trade and other receivables	118,764	118,764			118,764		
Short-term investments	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**		**123,740**		
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**			**148,406**	**171,541**	

As of January 1, 2008, the LISI Group has decided to centralize its cash through a cash pooling system (whereby subsidiary surpluses are systematically transferred to the parent company, and requirements are covered by the parent company in such a manner that daily cash positions are close to zero).
Arbitrations on cash and overdraft positions have made it possible do reduce the use of cash and cash surpluses by an amount almost identical between the two year-ends.

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, 2007	**9**	**4,512**		**463**	**4,986**
Acquisitions	1	345		161	506
Disposals		(1,085)		(55)	(1,139)
Scope changes					
Exchange rate changes		217		(2)	214
Gross values at December 31, 2008	**10**	**3,989**		**567**	**4,566**
Impairment at December 31, 2007		**8**			**8**
Provisions for impairment of assets					
Reversals of impairment provisions					
Impairment at December 31, 2008		**8**			**8**
Net values at December 31, 2008	**10**	**3,981**		**567**	**4,558**

Other non-current financial assets are primarily comprised of payments made for the life insurance contracts of the US companies, for €0.4m. Payments of deposits and guarantees amounted to €0.2 m.

2.5.1.5 Other long-term investments

(in thousand euros)	2008	2007
Long-term investments	141	219
Other debtors	**141**	**219**

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, 2007	**35,061**	**7,018**	**69,894**	**63,973**	**19,806**	**195,751**
Scope changes	146	150	73	224	28	621
– of which increases	*146*	*150*	*73*	*224*	*28*	*621*
– of which reductions						
Exchange rate changes	(208)	16	(67)	(172)	(46)	(476)
Changes in inventory	6,076	769	5,014	17,326	(246)	28,940
Reclassifications	(18)	603	(548)	(11)	(26)	
Gross values at December 31, 2008	**41,057**	**8,556**	**74,366**	**81,339**	**19,517**	**224,835**
Impairment at December 31, 2007	**3,743**	**450**	**2,773**	**14,419**	**1,020**	**22,405**
Scope changes						
– of which increases						
– of which reductions						
Impairment provisions	1,435	420	948	6,480	338	9,621
Reversals of impairment provisions	(317)	(449)	(1,124)	(5,551)	(624)	(8,065)
Exchange rate changes	(50)		(88)	(124)	(52)	(314)
Reclassifications	33			(23)	(11)	
Impairment at December 31, 2008	**4,843**	**421**	**2,510**	**15,202**	**671**	**23,648**
Net values at December 31, 2008	**36,214**	**8,135**	**71,856**	**66,137**	**18,845**	**201,187**

Regarding the raw materials item, volumes that were still significant at year-end, combined with a unit price that was declining and yet remained above that of end 2007, account for the positive move.
Inventories of tools and other procurement follow the same upward trend as the volumes related to the Group's activities.
Production in progress and finished products grew significantly in 2008 as a result of the expansion of the AEROSPACE Division's business activity. Concurrently, the AUTOMOTIVE Division, shocked by the brutal economic downturn of the second half-year, was unable to adjust its production capacities sufficiently, thereby generating a sharp increase in inventories.
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.
Value losses appear at December 31, 2008 at a level similar to that of N-1 due to the pursuit of the implementation of the calculation rules.

2.5.2.2 Trade and other receivables

(in thousand euros)	2008	2007
Gross debtors and apportioned accounts	104,574	103,596
Depreciation of trade and other apportioned accounts	(3,759)	(3,827)
Net debtors and apportioned accounts	**100,815**	**99,769**
State – Other taxes and duties	12,376	8,472
Social charges & employees	634	730
Accounts payable – advances, debtors	1,550	1,030
Deferred charges	3,850	2,986
Other	7,715	5,789
Other receivables	**26,124**	**18,995**
Total trade and other receivables	**126,939**	**118,764**

On the one hand, the aforementioned outstanding receivables were impacted, as in the previous year, by the effects of disposals of receivables, which stood at €47.1m at December 31, 2008, against €65.6m at December 31, 2007. These disposals took the form of factoring with conventional subrogation, but without recourse. The amount of disposals carried out exclusively in France brings the average payment term down to 60 days.
Overdue receivables not covered by provisions mainly concern major customers with which the Group has annual or pluriannual business agreements. On the basis of historic observations, the company considers the risk of non-collection margin, with non-hedged overdue receivables being mainly within less than one year.
On the other hand, the position of State-other taxes and duties, up sharply at December 31, 2008, results from the significant increases in tax advances on profits based on 2007 earnings, which were up significantly.
Accounts receivable and other debtors are within less than one year.

2.5.2.3 Other short-term investments

The reduction of this item is mainly due to the impact of compensations between surpluses and cash used during the period.
This item is mainly comprised of marketable securities held by the Group, in particular monetary SICAV (mutual funds) for €20.2m, negotiable certificates of deposit for €5.9m, guaranteed capital investments for €2m and a structured investment for €2.1m. The latter are recorded at their fair value, and value adjustments are recorded into the income statement. Except for the structured investment for which provisions for up to €0.8m were recorded at December 31st, the positions are not exposed, the main backing instruments guaranteeing the capital.

2.5.2.4 Cash and cash equivalents

The cash available as at December 31, 2008 stood at €25.7m. It was mainly comprised of current bank accounts in euros and currencies.

2.5.3 Shareholders' equity

The Group's shareholders' equity stands at €457.8m at December 31, 2008, against €425.3m at December 31, 2007, up €32.5m. This change takes into account the following main factors:

- + €56.2 m of Group's share of net profit,
- – €15.8 m of dividends paid in May 2008,
- – €7.9m relative to treasury shares and payments in shares.

2.5.3.1 Capital stock

Capital stock at year-end stands at €21,508K, broken down into 10,753,861 issued shares with a face value of €2.

The number of shares outstanding has changed as follows:

In number of shares	2008	2007
Outstanding at January 1st	10,753,861	10,210,783
Issue in cash		
Exercising of warrants (BSAR)		543,078
Exercising of options		
Outstanding at December 31st	10,753,861	10,753,861

2.5.3.2 Additional paid-in capital

Additional paid-in capital is broken down as follows:

(in thousand euros)	31/12/2008	31/12/2007
Additional paid-in capital	52,112	50,612
Contribution premiums	15,030	15,030
Merger premiums	2,711	2,711
Total	**69,853**	**68,353**

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

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 237,324 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 2008 financial year submitted to the Shareholders' General Meeting on April 29, 2009 for approval and the amounts per share break down as follows:

Total net dividend	2008	2007
Amount in million euros	12.9	15.8

This estimate is based on dividend-bearing shares as of the date of the Board meeting held February 19, 2009, or 10,753,861 shares.

The amount of (unrecognized) dividends for the 2008 financial year submitted to the Shareholders' General Meeting on April 29, 2009 for approval and the amounts per share break down as follows:

	2008	2007
Dividend per share in euros	1.20	1.50

2.5.4 Provisions

2.5.4.1 Changes in provisions break down as follows:

(in thousand euros)	At January 1, 2007	Provisions (net of reversals)	At December 31, 2007	Provisions	Reversals (amounts used)	Reversals (non used amounts)	Reclassifications	Entry into/ exit from consolidation scope	Translation differential	At December 31, 2008
Pensions and retirement	17,751	(1,600)	16,151	2,085	(2,459)				(710)	15,067
Environment-related risks	9,002	381	9,383	1,789	(2,131)	(52)	(40)		243	9,192
Disputes and other risks	5,962	(2,337)	3,625	12	(105)	(77)	(244)		(22)	3,189
Guarantees to clients	672	79	751	2,000	(15)	(4)			18	2,750
For taxes	1,072	(280)	792	99	(474)	(229)				188
Subtotal long-term provisions	**34,459**	**(3,757)**	**30,702**	**5,985**	**(5,184)**	**(362)**	**(284)**		**(471)**	**30,386**
Industrial reorganization	2,646	(1,160)	1,486	3,500	(378)				(95)	4,513
Disputes	543	348	891	580	(550)	(95)	116		(1)	941
Losses on foreign exchange rates										
For taxes	143		143	26	(143)					26
Other risks	440	3,169	3,609	1,773	(2,659)	(87)	168		(78)	2,726
Subtotal short-term provisions	**3,772**	**2,357**	**6,128**	**5,879**	**(3,730)**	**(182)**	**284**		**(174)**	**8,205**
Grand Total	**38,230**	**(1,400)**	**36,830**	**11,864**	**(8,914)**	**(544)**			**(645)**	**38,591**
Of which as current operating profit				*8,364*	*(8,593)*	*(544)*				
Of which as non-current operating profit				*3,500*	*(321)*					

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:

Recognition of liabilities links to requirements to uphold environmental standards in the various countries in which the company operates and more specifically with regard to soil pollution on industrial sites. The cost of monitoring and compliance in concert with local authorities makes up a large part of these provisions. 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 division. The assessment of the sums recognized takes account of specific local regulatory stipulations.

Other risks:

Liabilities recognized under this category take into account risks based on various reports (industrial, regulatory, corporate, 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, 2008 for defined benefit plans and the main assumptions employed in their measurement are as follows:

In €	Euro zone	USA	UK
Actuarial debt	13,486,102	7,956,670	9,330,494
Discount rate	5.50 %	6.50 %	6.30 %
Inflation – Wage increase	1.75% – 3.0%	N/A	2.9% – 3.9%

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 7.48% for British ones.

At December 31, 2008, the allocation of hedging assets was approximately 2/3 in shares and 1/3 in bonds.

The table below details the changes, during financial 2008, of the actuarial debt, and the market value of the hedging assets (in €K):

Changes in actuarial debt	2008	2007
Actuarial debt at year start	35,753	37,130
Cost of services rendered during the year	427	1,315
Cost of accretion	1,880	1,833
Contributions paid by employees		94
Benefits paid	(1,377)	(1,900)
Discounts		(667)
Wind-ups		
Scheme changes		
Change in consolidation scope		
Translation differential	(2,538)	(1,895)
Actuarial losses (gains)	(3,371)	(157)
Actuarial debt at year end	**30,773**	**35,753**

Change in market value of hedging assets	2008	2007
Opening value	19,729	19,834
Contributions paid the Group	327	1,335
Contributions paid by employees		94
Benefits withheld from fund	(191)	(817)
Wind-ups		
Expected yield from assets	1,297	1,287
Translation differential	(2,770)	(2,101)
Actuarial gains (losses)	(4,712)	97
Closing value	**13,680**	**19,729**

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

	2008	2007
Non funded actuarial debt	(17,093)	(16,024)
Deferred actuarial losses (gains) recorded to the balance sheet	2,026	(129)
Unrecognized costs of past services		
Liabilities recognized at year end	**(15,067)**	**(16,153)**

The expense recognized in the operating income statement by the Group for 2008 for defined benefits plans came to €1.1 million and breaks down as follows (in €K):

	2008	2007
Cost of services rendered during the year	432	1,315
Cost of accretion	1,880	1,832
Yield expected from regime assets	(1,297)	(1,287)
Actuarial differences recognized during the year	121	50
Cost of past services		
Depreciation of transition assets	(3)	
Limitation of assets		
Reductions / Wind-ups		(661)
Change in consolidation scope		(151)
Recognized expense (revenue)	**1,135**	**1,098**

2.5.5 Other long-term liabilities

(in thousand euros)	2008	2007
Deposits and sureties received	38	61
Employee profit-sharing for the year	1,916	2,489
Deferred income	1,143	520
Total other long-term liabilities	**3,096**	**3,070**

2.5.6 Financial debt and financial risk management

Breakdown by accounting category and instrument class for financial liabilities is given in Notes 2.5.1.3 and 2.5.6.4.

2.5.6.1 Financial debt

a) Breakdown by nature

(in thousand euros)	2008	2007
Non-current share		
Mid-term loans	75,788	76,375
Debt related to lease agreements	1,106	2,388
Employee profit-sharing (frozen on a current account)	7,505	9,021
Subtotal non-current financial debt	**84,399**	**87,784**
Current share		
Banking facilities for operations	13,982	52,628
Mid-term loans	23,393	28,415
Debt Contracts Messaging Lease borrowings	2,206	2,542
Employee profit-sharing (frozen on a current account)	1,306	171
Subtotal current financial debt	**40,887**	**83,757**
Total financial debt	**125,286**	**171,541**

The reduction of operating bank facilities is due to arbitrations on cash and overdraft positions, which have made it possible to reduce cash uses and surpluses by similar amounts between the two year-ends.

The reduction of debt relates to the repayment of borrowings as per the contractual repayment timetables.

b) Breakdown by maturity date

(in thousand euros)	2008	2007
Borrowings		
below one year	23,393	28,415
between two and five years	70,202	71,375
over five years	5,586	5,000
Subtotal borrowings	**99,181**	**104,790**
Other financial creditors		
below one year	17,494	55,341
between two and five years	8,611	11,409
over five years		
Other debt subtotal	**26,105**	**66,751**
Borrowings and financial debts	**125,286**	**171,541**

c) Breakdown by currency

The various borrowings and loans taken out from credit institutions are denominated in euros or US dollars for US companies. The Group's bank debts therefore do not expose it to any foreign exchange risk.

d) Breakdown by interest rate category

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

Contracting entities	Nature of the loan	Fixed rate	Variable rate	Total items in €m	Capital remaining due at 12/31/2008 in €m	Maturity date	Rate or currency hedging instruments
LISI S.A	Syndicated loan [1]		Euribor over the drawing period + margin	35.0	25.0	2013	
	Conventional loan		Euribor 3 months + margin	10.0	10.0	2013	
	Conventional loan		Euribor 3 months + margin	10.0	10.0	2013	
HI-SHEAR Corporation	Syndicated loan [2]		Libor 3 months USD + margin	18.0	1.3	2009	Partly hedged by a SWAP and a CAP
LISI AEROSPACE	Conventional loan		Libor 3 months USD + margin	2.6	1.7	2010	Partly hedged by a SWAP and a CAP
LISI COSMETICS	Conventional loan		Euribor 3 months + margin	0.8	0.4	2012	Equipment pledging
	Conventional loan		Euribor 3 months + margin	1.0	0.5	2012	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.5	0.2	2010	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.6	0.2	2010	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.7	0.4	2011	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.8	0.5	2011	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	0.8	0.5	2011	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	3.5	3.5	2015	Intention letter by LISI S.A
LISI AUTOMOTIVE Former	Conventional loan		Euribor 6 months + margin	2.5	0.8	2010	
	Conventional loan		Euribor 3 months + margin	2.5	1.0	2010	
	Conventional loan		Euribor 3 months + margin	2.5	1.3	2011	
LISI AUTOMOTIVE Mohr und Friedrich	Conventional loan		Euribor 3 months + margin	0.8	0.1	2009	Intention letter by LISI AUTOMOTIVE Former
LISI AUTOMOTIVE	Conventional loan [3]		Euribor 6 months + margin	4.0	3.2	2012	Intention letter by LISI S.A
	Conventional loan [4]		Euribor 3 months + margin	4.0	3.2	2012	Intention letter by LISI S.A
	Conventional loan [5]		Euribor 3 months + margin	4.0	2.8	2012	Intention letter by LISI S.A
	Conventional loan		Euribor 3 months + margin	4.0	3.1	2012	Intention letter by LISI S.A
	Conventional loan [6]		Euribor 3 months + margin	3.0	1.1	2010	Intention letter by LISI S.A
Schrauben und Draht Union GmbH	Conventional loan	6.13 %		2.0	0.9	2017	
	Conventional loan		Euribor 1 month + margin	1.0	1.0	2009	
	Conventional loan		Eonia + margin	0.5	0.3	2011	
	Conventional loan		Euribor 6 months + margin	0.5	0.3	2010	
BETEO GmbH	Conventional loan	4.35 %		1.0	0.4	2011	
	Conventional loan		Euribor 6 months + margin	0.8	0.4	2011	
KNIPPING Espana S.A	Conventional loan		Euribor 3 months + margin	0.4	0.1	2010	
	Conventional loan		Euribor 3 months + margin	6.5	5.2	2018	
	Conventional loan		Euribor 3 months + margin	0.3	0.1	2010	
	Conventional loan		Euribor + margin	0.3	0.2	2011	
KNIPPING Umformtechnik GmbH	Conventional loan	7.05 %		1.1	0.3	2011	
SDV Technica Sp. Zoo	Conventional loan		Wibor + margin	0.6	0.6	2010	
KNIPPING Verbindungstechnik GmbH	Conventional loan	6.60 %		0.7	0.1	2009	Intention letter by LISI AUTOMOTIVE
	Conventional loan	4.25 %		0.6	0.3	2010	
	Conventional loan	1.50 %		1.1	0.4	2017	Intention letter by LISI AUTOMOTIVE
	Conventional loan	5.75 %		0.8	0.1	2009	Intention letter by LISI AUTOMOTIVE
	Conventional loan	4.10 %		1.2	0.6	2010	Intention letter by LISI AUTOMOTIVE
	Conventional loan	5.00 %		0.8	0.1	2009	
	Conventional loan	4.15 %		0.6	0.3	2010	
	Conventional loan	5.50 %		0.8	0.1	2010	
	Conventional loan		Euribor 3 months + margin	1.5	0.5	2009	

Contracting entities	Nature of the loan	Fixed rate	Variable rate	Total items in €m	Capital remaining due at 12/31/2008 in €m	Maturity date	Rate or currency hedging instruments
	Conventional loan		Euribor 3 months + margin	0.6	0.4	2010	
	Conventional loan		Euribor 3 months + margin	3.0	1.2	2010	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 6 months + margin	3.0	1.4	2011	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 3 months + margin	3.0	1.4	2011	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 3 months + margin	3.0	2.4	2012	Intention letter by LISI AUTOMOTIVE
	Conventional loan		Euribor 3 months + margin	3.0	1.2	2010	Intention letter by LISI AUTOMOTIVE
			TOTAL	**150.3**	**91.1**		

2.5.6.2 Related covenants

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

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

[1] LISI S.A. syndicated loan
Availability of this loan as a revolving credit that can be drawn down in euros or dollars for a sum equivalent to €35m (commitments A), and a revolving credit that can be drawn down in euros or dollars for a sum equivalent to €35m (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, 2008 was €25m.
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 August 7, 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 > to 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 financial 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 financial 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 financial debt Operating cash flow > 3.5 years

[6] LISI AUTOMOTIVE conventional loan
Early redemption:
- Net debt / EBITDA >= 2.5,
- Net debt / Shareholders' equity >= 1.2.

2.5.6.3 Actual sureties

(in millions euros)	Capital remaining due as at December 31, 2008
Guarantees and deposits	20.5
Mortgages and pledged assets	0.3
Total	**20.8**

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 €44.8m as part of:
   - The acquisition of MONADNOCK by Hi-Shear Corp for €18m in 2002 ($25m); the capital outstanding at December 31, 2008 being €1.3m ($1.9m),
   - The acquisition of the KNIPPING Group by LISI AUTOMOTIVE for €18.9m in 2005, the capital outstanding at December 31, 2008 being €13.4m,
   - The acquisition of equipment by LISI COSMETICS for a total of €2.1m 2005; the capital outstanding at December 31, 2008 being €0.9m,
   - The acquisition of equipment by LISI COSMETICS for a total of €2.3m 2006; the capital outstanding at December 31, 2008 being €1.4m,
   - the construction of a new plant by LISI COSMETICS for €3.5m in 2008; the capital outstanding at December 31, 2008 being €3.5m.
2. Pledging by LISI COSMETICS of tangible assets for their financing. The capital that remained due on December 31, 2008 amounted to €0.3m.

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)
s/intangible fixed assets	–	–	–	–	–	–	–
s/tangible fixed assets	2003	2012	2,150	–	300	47,484	0.63 %
s/financial assets	–	–	–	–	–	–	–
TOTAL	**–**	**–**	**2,150**	**–**	**300**	**47,484**	**0.63 %**

2.5.7 Deferred taxes

(in thousand euros)	2008	2007
Deferred tax assets	14,462	14,118
Deferred tax liabilities	(33,567)	(31,836)
Net deferred taxes	**(19,105)**	**(17,718)**

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. Loss carrybacks not recognized in the balance sheet at December 31, 2008, would generate deferred tax assets for €1.8m.

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 Consumption

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL 2008	TOTAL 2007
Consumption of goods	5,649	39,780	2,137		(1,266)	46,300	44,756
Consumption of raw materials	67,051	73,701	5,448		(9)	146,191	141,161
Tools	23,162	14,988	3,630		(119)	41,661	37,219
Other purchases	4,441	11,636	3,246	18		19,341	18,995
Total consumption	**100,303**	**140,106**	**14,461**	**18**	**(1,394)**	**253,493**	**242,130**

The significant upward progression, in 2008, of the main raw materials used by the divisions (steel, titanium, stainless steel), combined with the rise in volumes, mainly accounts for the increase in raw materials used. Other consumption items take into account the upward impact of volumes.

2.6.3 Other purchases and external expenses

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL 2008	TOTAL 2007
Subcontracting	14,400	35,178	2,357		(1)	51,934	54,808
Maintenance	8,576	14,842	1,620	213	(28)	25,222	24,345
Transport	4,118	9,478	877			14,473	15,448
Energy	5,458	10,518	1,676	9		17,661	16,556
Other external costs	29,903	19,356	2,667	1,905	(5,654)	48,177	41,017
Total other purchases and external costs	**62,454**	**89,372**	**9,197**	**2,126**	**(5,682)**	**157,467**	**152,173**

The stability of other purchases and external expenses results from the AUTOMOTIVE Division's control over outsourcing flows, down nearly €5m. On the contrary, energy and other external expenses contribute to the item's rise, particularly in the AEROSPACE Division.

2.6.4 Personnel expenses

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL 2008	TOTAL 2007
Temporary employees	9,014	5,895	1,574		(4)	16,479	17,698
Salaries and incentives	104,327	90,574	12,849	4,094		211,843	197,311
Layoff pay	740	700	70			1,510	454
Social contributions and taxes on salaries	38,509	32,193	6,329	778		77,809	71,841
Employee profit-sharing	1,916					1,916	2,489
Total payroll expenses	**154,506**	**129,362**	**20,821**	**4,872**	**(4)**	**309,557**	**289,793**

The increase, by nearly 6.8%, of personnel expenses, results from the increase in salaries and the recruitment plans launched by the AEROSPACE Division in the past two years (500 new recruits on average over the year). The AUTOMOTIVE Division displays stable personnel expenses compared to 2007.

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 employees. 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)	2008	2007	2006
R&D expenses	15.5	15.0	12.3
% of sales revenue	1.8 %	1.8 %	1.7 %

2.6.6 Non-recurring operating expenses and revenues

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

(in thousand euros)	2008	2007
Non-recurring operating income		
Sale price of fixed assets disposals	534	941
Reversals of restructuring provisions	67	751
Industrial reorganisation plan provision reversals	254	3,266
Disposal price of Monistrol-sur-Loire		300
Disposal price of Eurofast		20,000
Total	**855**	**25,258**
Non-recurring operating expenses		
Net book value of fixed assets disposals	(1,156)	(3,897)
Restructuring costs	(365)	(880)
Industrial reorganisation costs	(150)	(4,766)
Reserve allowance for industrial reorganisations	(3,500)	(1,360)
Assessed value of Eurofast		(8,932)
Total	**(5,171)**	**(19,835)**
Non-recurring revenue and expenses from operations	**(4,316)**	**5,423**

The rules for displaying and defining non-recurring expenses and revenues remain unchanged compared to December 31, 2007.
The construction of the non-recurring earnings main results from:
• restructuring costs in the divisions for –€3.7m,
• capital losses on disposals of industrial assets for –€0.7m.
To the company's knowledge, there are no other disputes, arbitrations, or non-recurring facts likely to have, or that have had in the recent past, a significant impact on the financial position, the earnings, the business, or the assets of the LISI Group.

2.6.7 Financial income or loss

(in thousand euros)	2008	2007
Financing expenses and revenue on cash		
Financing expenses and revenue on cash	1,397	4,899
Effect of changes to fair value of financial instruments*	(125)	(2,544)
Financing charges	(10,156)	(10,529)
Subtotal income from cash and cash equivalents	**(8,885)**	**(8,174)**
Other interest revenue and expenses		
Foreign exchange gains	6,009	3,087
Foreign exchange losses	(2,848)	(2,026)
Other	(315)	(1)
Subtotal financial income and expenses	**2,847**	**1,060**
Total	**(6,038)**	**(7,114)**

* on liquidated deferred capital bond in August 2007

2.6.8 Income tax

2.6.8.1 Income tax breakdown

Breakdown (in thousand euros)	Profit (loss) before tax	Restated tax	Earnings after tax
Current profit	94,055	(36,166)	57,890
Non-current operating income	(4,316)	890	(3,426)
Employee profit-sharing	(1,916)	627	(1,290)
Tax credit		208	208
Tax integration taxes		2,729	2,729
Profit (loss)	**87,823**	**(31,712)***	**56,111**

of which tax payable: €30,687K
of which deferred taxes: €1,025K

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)	30,237
Specific rate on disposal of equity interests	
Total theoretic tax	30,237
Tax exemption of foreign companies	(901)
DTA not activated	612
Tax credits of French subsidiaries	(1,022)
Tax rate differentials on overseas subsidiaries	851
Other	1,935
Recognized taxation	**31,712**
Apparent rate	36.06%

2.6.8.3 Tax rates applied by LISI Group companies

	2008	2007
Germany	30.00%	30.00%
UK	28.00%	28.00%
Canada	34.12%	34.12%
Spain	30.00%	30.00%
USA	40.00%	40.00%
France	34.43%	34.43%
Czech Republic	21.00%	21.00%

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.

2008	Net earnings in €K	Number of shares	Net income per share
Total stocks		10,753,861	
Treasury shares		(348,600)	
Basic earnings per share	56,229	10,405,260	5.40
Non-exercised warrants		237,324	
Net diluted earnings per share	56,229	10,642,584	5.28

2007	Net earnings in €K	Number of shares	Net income per share
Total stocks		10,472,285	
Treasury shares		(229,298)	
Basic earnings per share	67,553	10,242,987	6.60
Non-exercised warrants		237,324	
Net diluted earnings per share	67,553	10,480,311	6.45

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	Eliminations	TOTAL
31/12/08						
Income component						
Sales revenue by business sector	408,815	385,772	51,046	5,641	(7,021)	844,254
EBITDA	99,158	38,058	4,189	(1,102)		140,302
Depreciation allowance and provisions	15,167	24,054	2,906	(1)		42,126
EBIT	83,991	14,004	1,283	(1,101)		98,177
Operating profit	83,929	13,271	1,261	(4,602)		93,861
Profit for the period	55,067	3,956	877	(3,790)		56,111
Balance sheet component						
Working capital requirement	100,769	102,789	(1,994)	(867)		200,698
Net fixed assets	156,422	225,973	31,822	1,106		415,325
Acquisitions of fixed assets	38,454	21,453	5,754	10		65,671
31/12/07						
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 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
Profit for the period	56,409	10,022	1,987	(866)		67,553
Balance sheet component						
Working capital requirement	87,473	90,818	(1,457)	(3,963)		172,871
Net fixed assets	130,981	228,461	28,662	1,260		389,363
Acquisitions of fixed assets	18,859	20,797	4,382	195		44,232

2.7.1.2 Breakdown by business sector and by country

(in thousand euros)	AEROSPACE	AUTOMOTIVE	COSMETICS	Other activities	Eliminations	TOTAL
31/12/08						
Income component						
Revenue by destination area						
France, Germany, UK, Spain	195,856	286,580	49,142	5,714	(7,094)	530,198
Of which France	*124,815*	*136,305*	*39,737*	*5,714*	*(7,094)*	*299,477*
America	160,437	12,104	1,549			174,090
Other countries	52,522	87,088	355			139,965
Total	**408,815**	**385,772**	**51,046**	**5,714**	**(7,094)**	**844,253**
Balance sheet component						
Net fixed assets by destination area						
European Union	69,876	222,838	31,822	1,106		325,642
Of which France	*64,680*	*132,860*	*31,822*	*1,106*		*230,468*
North American continent	73,269					73,269
Africa	562					562
Asia	12,715	3,135				15,850
Total	**156,422**	**225,973**	**31,822**	**1,106**		**415,325**
Flows provided by or used for acquisition of fixed assets by destination area						
European Union	22,418	20,730	5,754	10		48,912
Of which France	*19,626*	*13,020*	*5,754*	*10*		*38,410*
North American continent	10,499					10,499
Asia	5,537	723				6,260
Total	**38,454**	**21,453**	**5,754**	**10**		**65,671**
31/12/07						
Income component						
Revenue by destination area						
France, Germany, UK, Spain	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*
America	122,656	13,399	622			136,677
Other 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**

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. The vesting period of the stock option plans set up by the Group after November 7, 2002 being expired at December 31, 2007, the 2008 income statement includes no expenses for these plans.

2.7.2.2 Conditional 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 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 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 fair value of these benefits has been calculated by independent actuaries and is recognized in the income statement on a straight-line basis throughout the entitlement acquisition period.

The fair value of the benefits thus granted is recognized in 2008 in Personnel expenses for €1.5m for the employees of the French companies, against shareholders' equity, and for €0.6m for the employees of foreign companies, against Social liabilities. This cost has not been allocated to the divisions, and remains an expense for LISI S.A.

2.7.2.3 Information relating to stock options and performance shares at year end, 2008

The table below shows information relating to outstanding stock options and performance shares on December 31, 2008.

	Number	Average weighted exercise price of options in €*
Options outstanding at year start	**133,610**	
Options allocated during the period	–	
Options cancelled during the period	(3,500)	
Options exercised during the period	(9,850)	20.33
Options that reached maturity during the period	–	
Options outstanding at year end	**120,260**	

* Average weighted price of share on the exercise date

The following table presents information about outstanding stock options by date at December 31, 2008:

Award date of options	Exercise price in €	Number of options outstanding at December	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	39,060	39,060	06/24/2011
06/27/2007	None	64,500	–	03/01/2012
Total		**120,260**	**55,760**	

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.

Remuneration of managers and directors

(in thousand euros)	Expenses for the period		Liabilities
	2008	2007	
Gross short-term benefits (salaries, bonuses, etc.)	790	783	
Post-employment benefits (IFC)	147	112	147
Other long-term benefits			
Termination benefits			
Equity compensation benefits	132	71	132
Total compensation	**1,069**	**966**	**279**

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 500 shares 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 given in the context of ordinary operations

In addition to the actual sureties stated in the note to this document (see Note 2.5.6.3), 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)	2008
Miscellaneous guarantees	1,021
Training entitlements	1,902
Balance of investment orders	28,110
Commitments made	**31,033**
Rate swap	762
Mutual commitments	**762**

Mutual commitments:

Reciprocal commitments are interest rate swaps to hedge variable rate loans (see Note 2.5.6.1. Financial Debt) contracted as part of the financing of external growth. At December 31, 2008, the features of the swap contracts were as follows:

Notional at 31/12/2008	Value €K	Date of departure	Maturity date	Lending rate	Net Present Value €K
KNIPPING Verbindungstechnik	462	15/12/04	15/12/09	Euribor 3 months	(1)
KNIPPING Verbindungstechnik	300	01/08/05	30/06/10	Euribor 3 months	(1)
				Total	**(2)**

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 €100K with a cap of $3,500K.

- 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. This clause was activated in 2009 and led to an additional payment of €0.8m.
  - 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: 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 €5,000K 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.

2.8 Exchange rates of currencies used by foreign subsidiaries

		2008		2007	
		Closing	Average	Closing	Average
Dollar	(USD)	1.3917	1.4726	1.4721	1.3797
Sterling	(GBP)	0.9525	0.8026	0.7334	0.6873
Chinese Yuan	(RMB)	9.4956	10.2028	10.7524	10.4551
Canadian dollar	(CAD)	1.6998	1.5656	1.4449	1.4663
Zloty	(PLN)	4.1535	3.5278	3.5935	3.7749
Czech crown	(CZK)	26.8750	25.0388	26.628	27.7325
Moroccan Dirham	(MAD)	11.2780	11.3475	11.3437	11.3437
Indian rupee	(INR)	67.7232	64.4046	57.9856	56.6764
Hong Kong Dollar	(HKD)	10.7858	11.4154	–	–

2.9 Important events occurring after year-end: Information on trends

No significant change in the Group's financial or business position has taken place since December 31, 2008.

4 Financial statements

1 – Company activity for the financial year, and outlook for the future

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

- strategic validation, external growth approach, action plans, resource allocation;
- outlining strategy in an annual budget plan;
- financial control and internal audit;
- financial and fiscal consolidation;
- financial optimization, centralized management of Group cash and investment and debt management;
- co-ordination of insurance, procurement, quality, research and development, health, safety and environment, human resources and investments;

Highlights of the period

- Signing, in April 2008, with the European Investment Bank, of an agreement to finance the R&D program of the AEROSPACE and AUTOMOTIVE divisions for €30m. At December 31st 2008, €20m had been used.
- Cash pooling in France and bank cash pooling in Europe system set up.
- Treasury share repurchase program, in accordance with the authorization granted by the General Meeting, implemented for €8.2m.

Earnings at December 31, 2008

The remarks below relate to the income statement for 2008.

- Operating revenue of €6.3m is largely composed of services invoiced to subsidiaries of LISI S.A. in the areas of business assistance, control and co-ordination. In 2008, such invoicing propagates to the subsidiaries the operating expenses of LISI S.A. affected by a coefficient of 10%; as the rebilling mode in N – 1 is based on a percentage of 1.5% of the added value. This figure also includes transfer of expenses at €0.4m. LISI S.A.'s sales revenue stands at €5.7m against €7.0m in 2007, down –18.4%.

- Operating expenses stand at €5.7m, up 5.7% on 2007.

- The operating profit thus drops from €1.9m to €0.6m.

- The financial result is positive at +€10m against +€21.7m in 2007. It is mainly made up of, regarding revenue, of the dividends from our subsidiaries for €17.0m, and regarding expenses, of interest on Group loans and current accounts for €3.6m, a provision on treasury shares for €5.1m and a provision for marketable securities depreciation of €0.7m.

- Dividends received by LISI AEROSPACE and LISI AUTOMOTIVE reached €17.0m, representing an 8% increase on the previous year.

- Extraordinary earnings of €0.1m do not include any significant items.

- Corporation tax constituted an expense of €2.5m, linked mainly to the effects of tax integration.

- Consequently, the net earnings of LISI S.A. are a profit of €13.2m against €22.8m in 2007, down –42%, which is mainly due to the decline of the financial earnings, attributable, among other things, to the provision on treasury shares for €5.1m.

- Shareholders' equity drops from €165m in 2007 to €161m at end 2008, after a dividend distribution of €15.8m for 2007 paid in May 2008.

- The closing cash position stands at €40.2m, marketable securities being mainly comprised of "SICAV" mutual funds (in €, GBP, and USD) and investments which are mainly based on guaranteed capital instruments. The net financial debt stands at +€6.4m at end 2008, against –€2m at end 2007.

Earnings appropriation

We propose that last year's profits of €13,204,614 be allocated as follows:

(in euros)	
profits for the financial year of	13,204,614
increased by the balance carried forward for a total of	40,625,518
giving distributable profit of	53,830,132
which we propose be allocated as follows:	
• as dividends to shareholders a sum of €1.20 per share, i.e	12,904,633
• remainder to be carried forward, for a total of	40,925,499

The dividend per share amounts to €1.20. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2 of the French General Tax Code, is €1.20.

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

	Face value of the share	Dividend
Financial year ended 12/31/05	2.00	1.08
Financial year ended 12/31/06	2.00	1.30
Financial year ended 12/31/07	2.00	1.50

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 2009

The dividends paid by our various subsidiaries and the preservation of Group royalties should enable LISI S.A. to pursue its policy aimed to support its subsidiaries.

Additional information

- Deductible expenses for tax purposes are made up of depreciation and hire of passenger vehicles and loan payments totaling €20,180.

- LISI S.A. has, through a market making agreement with an independent service provider, purchased 177,757 LISI shares for €10.1m and has sold 140,550 shares for €8.6m. At December 31, 2008, the number of shares held through market-making agreements was 55,367.

- The number of treasury shares held at December 31, 2008 is 481,901, including those shares held through market-making agreements. During the period, the company repurchased 239,245 shares in accordance with the authorization granted by the General Meeting of April 29, 2008, at an average price of €34.32 per share.

2 – Financial statements

2.1 COMPANY INCOME STATEMENT

(in thousand euros)	Notes	2008	2007	2006
Pre-tax turnover		**5,701**	**6,990**	**6,495**
Operating income		**6,257**	**7,314**	**7,275**
External costs		(2,059)	(2,108)	(2,714)
Taxes and duties		(194)	(180)	(192)
Personnel expenses		(2,792)	(2,838)	(2,151)
Other charges		(85)	(70)	(59)
Depreciation, provisions		(545)	(173)	(665)
Operating profit		**582**	**1,945**	**1,494**
Financial earnings				
– from equity interests	3.3.1	19,490	17,137	14,094
– interest and similar expenses		5	370	526
– positive exchange differences		9	1	7
– from disposal of marketable securities		1,246	4,390	955
– reversals of provisions		97	5,000	71
Interest expenses				
– interest and similar expenses		(3,636)	(4,598)	(3,181)
– negative exchange rate differences			(157)	(60)
– from disposal of marketable securities		(1,387)	(298)	(146)
– provisions allowance		(5,849)	(106)	
Non-operating profit		9,976	21,739	12,265
Current profit before tax		**10,558**	**23,683**	**13,760**
Extraordinary earnings				
– on capital transactions				7
– bonuses on bond repurchases				2,293
– on management transactions			176	57
– reversals of provisions		192	143	175
Extraordinary charges				
– on capital transactions		(53)		(10)
– on management transactions			(18)	(8)
– provisions allowance			(46)	(82)
Extraordinary earnings		**139**	**255**	**2,432**
Income tax	3.3.2	2,508	(1,105)	29
NET EARNINGS		**13,205**	**22,833**	**16,221**

2.2 COMPANY BALANCE SHEET

Assets

(in thousand euros)	Notes	2008	2007	2006
Fixed assets				
Intangible fixed assets		183	183	180
Tangible fixed assets		1,801	1,844	1,689
Financial assets		175,880	166,704	160,293
Depreciation		(1,008)	(926)	(5,782)
Total net fixed assets	3.2.1 / 3.2.2	**176,856**	**167,805**	**156,381**
Short-term assets				
Clients and apportioned accounts	3.2.3	388	803	1,424
Other debtors	3.2.3	462	761	4,374
Subsidiaries' current accounts	3.2.3	42,624	14,665	4,487
Impairment of receivables				
Tax credit	3.2.3	5,288	3,367	
Marketable securities	3.2.4.1	45,356	58,109	37,702
Cash	3.2.4.2	706	14,728	2,011
Provisions for write-down of marketable securities	3.2.5	(5,849)	(97)	
Total short-term assets		**88,975**	**92,335**	**49,997**
Deferred charges		39	38	22
Deferred expenses on loan issue costs		170	208	245
Other deferred expenses				
Translation adjustment				
Total accruals		**209**	**246**	**267**
Total assets		**266,041**	**260,386**	**206,646**

Liabilities

(in thousand euros)	Notes	2008	2007	2006
Shareholders' equity				
Capital		21,508	21,508	20,422
Issue, merger, and contribution premiums		66,346	66,346	41,908
Reserves		19,588	19,479	19,417
of which legal reserve		*2,151*	*2,042*	*1,979*
Balance carried forward		40,626	34,696	31,516
Profit (loss) for the period		13,205	22,833	16,221
Controlled provisions		119	168	122
Total equity	2.4	**161,391**	**165,030**	**129,605**
Provisions for risks and charges	3.2.6	**2,525**	**1,370**	**1,513**
Debt				
Sundry loans and financial debts (*)	3.2.3	46,490	30,991	36,669
Subsidiaries' current accounts	3.2.3	48,552	54,473	30,455
Taxes due	3.2.3			2,554
Accounts payable	3.2.3	1,483	3,220	2,906
Tax and statutory payments	3.2.3	1,236	1,304	1,130
Other creditors	3.2.3	4,362	3,998	1,813
Total debt		**102,124**	**93,986**	**75,528**
Translation differential liabilities		2		
Total accruals		**2**		
Total liabilities		**266,041**	**260,386**	**206,646**
(*) of which short-term banking facilities		(673)	(50)	(445)

2.3 TABLE OF COMPANY CASH FLOWS

(in thousand euros)	2008	2007	2006
Operating activities			
Operating cash flow	19,233	18,014	14,376
Effect of changes in inventory			
Effects of changes in accounts receivable and accounts payable	(2,648)	971	(223)
Cash provided by or used for operations (A)	**16,584**	**18,985**	**14,153**
Investment operations			
Cash used to acquire tangible and intangible assets	(10)	(157)	(529)
Cash received from the disposal of tangible and intangible assets		1	57
Cash used to acquire financial assets		(1,809)	
Cash received from the disposal of financial assets			7
Net cash used for acquisitions and disposals of subsidiaries			
Cash payments and collections from loans to subsidiaries	(9,174)	(4,602)	(49)
Cash provided by or used for investing activities (B)	**(9,184)**	**(6,567)**	**(514)**
Financing operations			
Cash received from shareholders as part of a capital increase		25,525	14,633
Dividends paid to shareholders of the parent company	(15,793)	(12,979)	(10,403)
Cash received from new loans	20,808	932	50,226
Repayment of loans	(5,932)	(6,216)	(75,512)
Cash provided by or used for financing activities (C)	**(917)**	**7,262**	**(21,055)**
Effect of change in foreign exchange rates (D)			
Changes in cash (A+B+C+D) *	**6,483**	**19,681**	**(7,416)**
Cash at January 1st (E)	32,979	13,299	20,716
Cash at December 31st (A+B+C+D+E)	39,460	32,979	13,299
Marketable securities	45,356	58,109	37,702
Cash, subsidiaries' current accounts	43,330	29,393	6,498
Banking facilities, subsidiaries' current accounts	(49,226)	(54,523)	(30,900)
Closing cash position **	**39,460**	**32,979**	**13,299**

* 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 algebraic sum of the balance sheet assets and liabilities.

2.4 CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(in thousand euros)	
At 01.01.2007	**129,605**
Profit (loss) for the period	22,833
Dividends paid	(12,979)
Capital increase	25,524
Accelerated depreciation	46
At 12.31.2007	**165,030**
Profit (loss) for the period	13,205
Dividends paid	(15,793)
1st application of the CNC's order 2008-1 (1)	(1,001)
Accelerated depreciation	(49)
At 12.31.2008	**161,391**

(1) see Note 3.1 below

3 – Notes to company 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, 2008 was €266,041,480. The annual income statement showed a profit of €13,204,614.

The financial year runs over 12 (twelve) months, from January 1, 2008 to December 31, 2008.

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

3.1 Accounting rules and methods

The accounts for 2008 are drawn up in line with current French accounting regulations. The accounting rules and methods have been applied in line with the principle of prudence and with underlying assumptions which aim to provide an accurate picture of the company:
• the continuity of operations,
• permanence 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 the company accounts for financial 2008 are identical to those used for financial 2007, except for the implementation of CRC regulation 2008-17, which specifies the manner in which share purchase and subscription options and free share plans for employees, are to be recorded. According to that regulation, free share and stock option plans represent compensation items and, for those plans served by existing shares, the CNC points out the method for recognizing a provision and for staggering it throughout the rights acquisition period. This being a change in method, the effects are recorded as equity at January 1, 2008.
The preparation of its financial statements requires that LISI carry out estimates and produce assumptions likely to have an effect both on its own assets and liabilities and those of its subsidiaries and interests.
The latter are exposed both to the specific risks arising from their lines of business, and to more general risks related to the global context. That context has been strongly affected, in the past months, by a major economic crisis, particularly in the automotive industry. The degradation of the world market accelerated in the course of the 4th quarter of 2008.
All this makes it more difficult for LISI to appreciate any estimates or assumptions. Consequently, the amounts indicated in future financial statements are likely to differ from currently estimated figures.

In LISI S.A.'s financial statements, the judgments made and the assumptions chosen to apply the accounting methods, relate more specifically to equity securities, particularly when the valuations (see note b below) are based on the subsidiaries' forecast data.

a) Tangible fixed assets
Tangible fixed assets are valued at their acquisition 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 assets
Equity securities 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 depreciation provision is recorded to account for the discrepancy.
The value in use is calculated from each line of investment, based on the profitability and performance outlook for the companies concerned; on developments in the economic sectors in which they operate; and on their positions within these sectors.
The inventory value has been brought into line with the value in use calculated for the impairment tests, which did not show any loss in value.

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

d) Treasury shares
Treasury shares are recorded as marketable securities. Marketable securities are recognized at their acquisition cost or at their market value (average market price for the month of December) when they are treasury shares purchased for the purpose of adjusting share prices or shares not allocated to stock option or free share plans. For shares allocated to plans, CNC Regulation Nr. 2008-17 applies.

e) Free shares and options
When an expense relative to stock purchase options or free shares is likely, the risk is handled via a provision that is proportional to the rights acquired since the allocation date. If applicable, the resulting provision takes into consideration whether treasury shares are or are not allocated to the stock option or free share plans concerned.
The allowances, reversals, and expenses relative to free shares and stock options are displayed in the payroll expenses.

f) 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.

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

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

i) Taxes on profits
LISI S.A benefits from the tax integration regime enacted by the law of 31 December 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 / Deconsolidations	Gross value at year end
Intangible fixed assets				
Concessions, patents, licenses, etc.	183			183
Total	**183**			**183**
Tangible fixed assets				
Land	457		(53)	404
Buildings	747			747
Other tangible assets	639	10		649
Tangible assets in progress				
Total	**1,844**	**10**	**(53)**	**1,801**
Financial assets				
Equity interests and related receivables	166,656	10,488	(1,314)	175,830
– Of which LISI AUTOMOTIVE loan	*14,500*	*10,000*	*(1,000)*	*23,500*
– Of which LISI AUTOMOTIVE accrued interest	*314*	*488*	*(314)*	*488*
Other long-term investments	14			14
Borrowings and other debts	35	1		36
Total	**166,705**	**10,490**	**(1,314)**	**175,880**
Grand Total	**168,733**	**10,500**	**(1,367)**	**177,864**

3.2.2 Depreciation and impairment

(in thousand euros)	Opening balance	Provisions for period	Reversals for period	Closing balance
Intangible fixed assets				
Concessions, patents, licenses, etc.	110	51		161
Total	**110**	**51**		**161**
Tangible fixed assets				
Land	53		(53)	
Buildings	662	7		669
Other tangible assets	92	76		168
Total	**807**	**83**	**(53)**	**838**
Financial assets				
Depreciation on equity interests				
Other financial assets	8			8
Total	**8**			**8**
Grand Total	**926**	**135**	**(53)**	**1,008**

3.2.3 Maturity dates for receivables and debts

Receivables (in thousand euros)	Gross amount	Of which within less than one year	Of which within over one year
Trade receivables	388	388	
Other debtors	244	244	
Subsidiaries' current accounts	42,624	42,624	
Tax integration current accounts	218	218	
Tax credit	5,288	5,288	
Total	**48,762**	**48,762**	

Debt (in thousand euros)	Gross amount	Of which within less than one year	Of which within one to five years
Loans and debts from credit organizations	46,481	6,481	40,000
Sundry loans and financial debts	9		9
Subsidiaries' current accounts	48,552	48,552	
Taxes due			
Accounts payable	1,483	1,483	
Tax and statutory payments	1,236	1,236	
Tax integration current accounts	3,688	3,688	
Other creditors	674	674	
Total	**102,124**	**62,115**	**40,009**

3.2.4 Marketable securities and cash

3.2.4.1 Marketable securities

As of December 31, 2008, the figures for marketable securities were as follows:

(in thousand euros)	
481,901 LISI stocks *	17,265
SICAV and deposit certificates	28,091
Giving a gross total of	**45,356**

* 481,901 shares held as per the authorization to repurchase own shares within the limit of 10%, including those held through the market-making agreement.

The 'Marketable securities' item is primarily composed of money-market funds (accounting for €20.7m); capital guaranteed investments (€5.0m) and a structured investment (€2.2m).

As at 31 December, 2007, the company held €3m of structured investment. The latter was disposed of in July 2008, generating capital loss for €0.8m. The proceeds of this disposal was invested in a new structured vehicle, whose fair value at December 31st is €15m. The risk has been anticipated and is handled via a provision in the 2008 financial statements, the investment's maturity date being July 2011.

The net asset value of the "SICAV" stands at €20.7m at December 31, 2008.

3.2.4.2 Cash

This item is solely composed of bank balances.

3.2.4.3 Cash and Net Financial debt

(in thousand euros)	2008	2007
Subsidiaries' current accounts	42,624	14,665
Marketable securities	45,356	58,109
Cash	706	14,728
Cash available [A]	**88,686**	**87,502**
Subsidiaries' current accounts [B]	48,552	54,473
Banking facilities for operations [B]	673	50
Net cash [A – B]	**39,460**	**32,979**
Borrowings and financial debts	45,817	30,941
Financial debt [C]	**45,817**	**30,941**
Net financial debt [D = C + B - D]	**6,357**	**(2,038)**

3.2.4.4 Inventory of marketable securities

a) Shares

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

b) Bonds and equivalents

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

c) Marketable securities

(in thousand euros)	Gross book values	Provisions	Net book values
Treasury stock	17,265	5,119	12,146
Secured short tem securities deposit certificates	28,091	730	27,361
Total marketable securities	**45,356**	**5,849**	**39,507**

3.2.5 Provisions for impairment of short-term assets

(in thousand euros)	Opening balance	Provisions for financial year	Withdrawals made over financial year	Closing balance
Provisions for impairment	97	5,849	97	5,849
Total	**97**	**5,849**	**97**	**5,849**

Provisions for impairment of LISI treasury shares held as part of the market-making and share buy back programs (at the average market price of December, i.e. €26.04) for a total of €5,119k

3.2.6 Provisions for risks and charges

(in thousand euros)	Opening balance	1st application of CNC order 2008-17	Provisions for period	Reversals for period used	Closing balance
Provisions for risks	1,227		300	(77)	1,450
Provisions for tax	143			(143)	
Provision for stock options and the allocation of free shares		1,001	74		1,075
Total	**1,370**	**1,001**	**374**	**(220)**	**2,525**

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

3.3 Detail of main income statement items

3.3.1 Financial income from investments

(in thousand euros)	Amounts
Dividends received from subsidiaries	16,995
Interest from loans to subsidiaries	2,495
Total	**19,490**

3.3.2 Corporation tax breakdown

(in thousand euros)	Income from ordinary operations	Income from extraordinary operations	Accounting income
Earnings before tax	10,558	139	10,697
Corporation tax	(14)	1	(13)
Tax credits, IFA & miscellaneous	(208)		(208)
Tax integration taxes	2,729		2,729
Net earnings	**13,065**	**140**	**13,205**

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 €2.5m as of December 31, 2008.

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 in which the company holds stakes
ASSETS:		
Provisions on equity shares	–	–
Receivables related to equity holdings	23,988	–
Debtors and apportioned accounts	365	–
Cash advances to subsidiaries	42,624	–
Tax integration current account	218	–
LIABILITIES:		
Subsidiaries' financial assistance	48,552	–
Tax integration current account	3,688	–
Advance payments from customers	674	–
Accounts payable	31	–
Other creditors	–	–
INCOME STATEMENT:		
Services received	–	–
IT maintenance	15	–
Reserves for equity interests	1,731	–
Sales revenue with subsidiaries	5,633	–
Revenues from subsidiaries' loans and current accounts	2,495	–
Revenues from equity interest	16,995	–
Reversal of provisions on equity interests	–	–

3.5.2 Subsidiaries and holdings (company data in €)

Companies	Capital stock	Shareholders' equity and minority interests	Share of capital held (as a %)	Gross book value of securities held	Provisions on securities held	Net book value of securities held	Outstanding loans granted by the company	Outstanding loans received by the company	Sum of guarantees and deposits granted by the company	Preceding year's revenue excluding tax	Preceding year's net profit or loss	Dividends received by parent company over preceding year
Subsidiaries:												
LISI AUTOMOTIVE	31,690,000	110,739,791	100%	93,636,481		93,636,481	52,052,883			23,370,382	7,711,811	6,002,086
LISI AEROSPACE	2,475,200	56,977,072	100%	30,863,816		30,863,816		27,928,000		97,991,937	9,953,237	10,992,997
LISI COSMETICS	5,330,640	16,128,540	100%	27,341,048		27,341,048		5,056,000		51,045,977	1,146,839	

3.6 Identity of the consolidating company

Compagnie Industrielle de Delle (CID)
Limited company 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, 2008.

3.7 Miscellaneous information

- The company directors and executives have not been given any advances or credits.
- Remuneration of executives stood at €714,224 for the year 2008 (remuneration net of social security contributions, including the variable element and attendance fees).
- The total remuneration paid to the highest-paid individuals stood at €1,609,654.
- The workforce as of December 31, 2008 numbered 13 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 734 hours as of December 31, 2008. 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 €0.2m 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.

4 – Financial results for LISI S.A. over the past five years (articles 133, 135 and 148 of the Decree on Commercial Companies)

NATURE OF INDICATIONS (in euros)	2004	2005	2006	2007	2008
Financial situation at year end					
Share capital	19,793,668	19,793,668	20,421,566	21,507,722	21,507,722
Number of shares issued	9,896,834	9,896,834	10,210,783	10,753,861	10,753,861
Number of convertible bonds	1,066,685	1,066,685	780,402	237,324	237,324
Total result of actual operations					
Net revenues	5,133,638	5,648,417	6,495,402	6,989,653	5,701,221
Earnings before tax, depreciation and provisions	11,995,522	16,116,234	16,623,351	19,119,431	16,672,042
Corporation tax	(1,366,336)	(336,648)	(28,838)	1,105,085	(2,507,790)
Employee profit-sharing					
Profit after taxes, depreciation and reserves	7,485,903	15,684,834	16,221,185	22,832,807	13,204,614
Distributed profit*	8,678,813	10,402,657	12,978,681	15,793,449	12,904,633
Profit from operations per share					
Profit after tax, but before depreciation and provisions	1.35	1.66	1.63	1.68	1.78
Profit after tax, depreciation and provisions	0.76	1.58	1.59	2.12	1.23
Dividends allocated per share (net)	0.90	1.08	1.30	1.50	1.20
Personnel					
Average head count	9	9	10	12	13
Payroll	1,328,850	1,210,667	1,539,301	1,895,104	2,067,550
Benefits paid (social security, benefits, etc.)	496,856	526,634	611,748	703,516	724,561

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

5 Risk factors

For several years now the LISI group has actively been working towards achieving excellence in the areas of Health, Safety, Environment (HSE) and the prevention of all types of operational hazards. We are therefore taking steps to limit our environmental impact and guarantee employees and service-providers safe and sanitary working conditions, whilst identifying and reducing the industrial risks linked with the group's goods and services.

The LISI Group HSE structure

In 2008 we made a number of changes to the way in which industrial, professional and environmental hazards are managed.

Throughout the course of the year, the group has established a new policy and drawn up clear directives to standardize the management of health, safety and environment issues across all its entities.

A new HSE manual which describes this organizational structure and draws together all these new directives has been presented to all group managers and circulated to all relevant staff.

The LISI group is thus promoting company-wide awareness of the fact that a commitment to environmental protection, reducing staff exposure to work-related hazards and limiting the occurrence of accidents is not just about fulfilling regulatory obligations, but above all is about taking the opportunity to improve the performance of teams and manufacturing tools and thereby ensure sustainable business activity.

Based on the principle of continuous improvement and incorporating ISO 14001 and OHSAS 18001 standard compliance, this new manual sets out the exact processes, methods and tools which need to be implemented at each production site, in order to:

- identify hazards and regulatory irregularities;
- define environmental and safety objectives;
- draw up action plans to achieve fixed objectives;
- instil a sense of responsibility and active involvement in all staff through safety and environment training schemes and by maintaining ongoing HSE communications;
- to manage the risks attached to each task, product or activity by establishing instructions which are comprehensible to all;
- to set up a human and technological organization which can deal with any emergency situation;
- following instructions and parameters illustrating improvements in the areas of health, safety and environment.

As of January 2008. LISI has been conducting internal safety and environmental audits at its manufacturing sites in order to assist them in implementing directives from the new HSE manual.

LISI Group Objectives

Throughout 2008, the LISI group has shown a clear commitment to achieving excellent Health, Safety and Environment standards, by setting itself some ambitious goals:

- to ensure that the rate of lost-time occupational accidents is down to less than 10 by the end of 2009,
- ensure ISO 14001 certification for all group factories before the end of 2010,
- to ensure all entities follow the new HSE manual directives and guidelines.

Performance indicators

The LISI Group intends to monitor environmental and safety performance indicators at all of its industrial sites so it can measure the impact of its HSE policy over time.

Precise indicators have been defined:

- water and energy consumption;
- waste volumes;
- occupational accident and illness levels;
- HSE training.

1 – Environment

1.1 Environmental management

LISI Group's approach to environmental management covers such issues as identifying instances of regulatory non-compliance, implementing energy-reduction solutions and ISO 14001 certification at all industrial sites.

1.2 Achieving regulatory compliance

All of LISI's French sites have been conducting regulatory compliance audits since the start of 2008.

In the first instance, these audits have allowed us to identify all the relevant regulatory texts, as well as those relating to safety at work.

The second phase of the project then consists of evaluating the extent to which our plants and organizations comply with these texts and to thence draw up compliance action plans.

1.3 Toward reducing energy consumption

Our commitment to reducing energy consumption is well illustrated by the 3-year project to update the pickling line at Grandvillars.

The improvement in energy consumption observed in this modernization exercise speaks for itself.

	2006	2009
Water consumption	10 m³/h	2 m³/h
Acid consumption	18 liters/tons	6 liters/tons
Waste	2,000 tons	800 tons
Natural gas costs	€440k	€370k
Production	210 tons /day	302 tons/day

1.4 Towards ISO 14001 certification

LISI's aim is to gain ISO 14001 certification at all Group industrial facilities by 2010. To date, 11 LISI production sites have achieved ISO 14001 certification. These include sites at Delle, Grandvillars, Lure and Thiant for France; Bochum, Gummersbach, Heidelberg, Herscheid and Mellrichstadt for Germany ; Fuenlabrada for Spain.

Most of the group sites have drawn up a roadmap for ISO 14001 certification by the end of 2010.

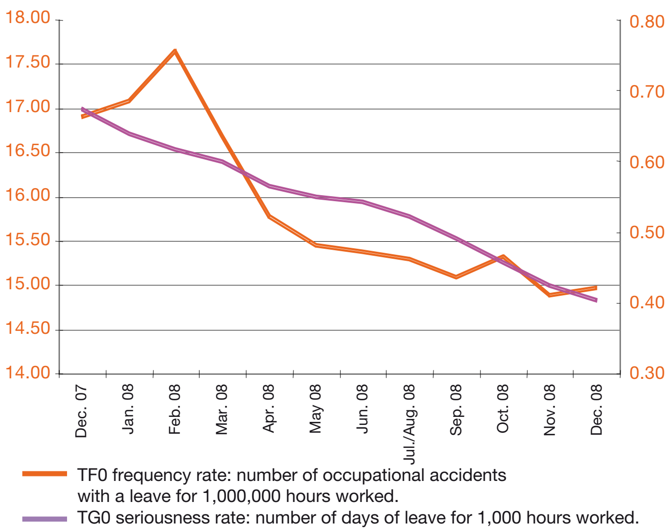
2 – Health safety

2.1 Reducing occupational accidents

LISI is genuinely committed to improving working conditions for Group employees and to reducing occupational accidents.

There are two indicators which allow us to monitor industrial site safety:
• the lost-time injury frequency rate (TF0)
• the accident severity rate (TG0)

In 2008, both TF0 and TG0 indicators fell considerably, to 14.97 and 0.4 respectively.



2.2 Cultural change

The LISI group has set itself the ambitious goal of reaching and sustainably maintaining a lost-time accident frequency rate (TF0) of less than 10 by year end of 2009.

To attain this goal, there will of course have to be infrastructure changes, as well as a change in culture to bring about a shift in ways of thinking and behaving within the workforce.

To encourage this change in culture, the LISI group is rolling out a method to assist sites in reducing the number of accidents at work.

This accident-reduction method is based around four areas for improvement: communication, training, stringency and the involvement of all staff.

Safety protocol plans have already been implemented at the group's most critical sites.

At the Saint-Ouen l'Aumône site, for example, the protocol plans have been a success: the number of accidents at work has dropped from 18 in 2007 to 5 in 2008.

3 – Risk management

3.1 Following COSO guidelines

Since 2004, the group has carried out a monthly monitoring report following COSO guidelines to organize its risk mapping initiative. Having identified and listed risks at the level of each individual unit (production or distribution sites) the group classifies consolidated risk 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 to proactive initiatives for risk prevention, insurance or accounting services.
The group has recently completed its hazard management preparation phase, in accordance with article L225-37 of the French Commercial Code on Financial Security, and the French financial markets authority, the AMF.
Since 2004, the group has had an Audit Committee which periodically reviews hazard control procedures.

3.2 Increased cooperation with insurers

This initiative has clarified the relationship with the insurers and has allowed us to put preventative measures in place. 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 revisit a dozen sites each year to assess not only damages and goods but also environmental risks; they then present their recommendations which are then fed into the action plan.
Since 2002, all major sites have been audited by the insurers. Therefore there is a continuity of progress which ensures that the prevention policy is as efficient as possible, as well as ensuring that insurance premiums are optimized.

3.3 Drawing up action plans

Health, environment and hazard prevention action plans cover risk identification, preventative measures, asset protection and operational quality control within the group. The overall initiative is run by the company heading the LISI group in the areas of HSE, internal quality control and, recently, 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,
• credit, liquidity, market, and currency 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 result in a decline of the Group's sales revenue or a substantial rise of the expenses necessary for the maintenance or repair of facilities.

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 €9.2m. Concrete measures are being taken to prevent soil pollution on old sites, including carrying out monitoring activities in concert with the local authorities, on the one hand, and implementing retrofitting work, on the other hand.

More specifically, a sum of €5.4 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. So far, 15 tons of TCE in layers relatively close to the surface have been treated using the process, as well as 7 tons located deeper under the surface. The estimated amount at December 31, 2008, facilitates handling over 10 years of treatment in accordance with the techniques recommended by our advisors. Recent contacts with Torrance's municipal authorities cause us to believe that this project should be achieved within a reasonable timeframe.

4.4 Legal risks

The Group is involved in a small number of legal disputes with third parties (non 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 positions are determined and reviewed by third-party and in-house specialists.

Except for the disputes referred to above, for a period covering at least the last twelve months, no governmental, legal, or arbitration proceedings (including any proceedings of which the Group is aware, which is pending or of which it is threatened) are to be reported that may have or have recently had significant effects on the Group's financial situation or profitability.

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. Furthermore, the Group has covered risks of disruption, malfunctions, or forced use of its IT systems with a specific insurance policy.

4.6 Other risks

a) Raw material risks

The LISI Group is potentially exposed to changes in the costs of the raw materials (steel, plastics, aluminum, and titanium) used in the course of its business activities. Nevertheless, the Group estimates that such price increases are unlikely to impact negatively on its profit margins. Indeed, some 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. At December 2008, the LISI Group uses no financial instruments to manage its future exposure to changes in the costs of such raw materials.

b) Energy risks

To cover its energy costs, the Group entered into a supply contract with electricity company EDF for its French sites, known as the "TRTAM contract", which is due to expire in 2010. For foreign sites, annual contracts have also been entered into, particularly in Germany and the USA.

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 36 LISI sites around the world. 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 2008, only 2 clients accounted for more than 5% of the LISI Group's consolidated sales. Our 10 largest customers accounted for 39.5 % of total sales; this list includes clients of all 3 divisions, AEROSPACE, AUTOMOTIVE and COSMETICS. Our 72 largest customers accounted for 75% of sales.

Figures for our 3 largest customers have evolved as follows:

	2008	2007	2006
CUSTOMER A	7.5 %	8.9 %	9.5 %
CUSTOMER B	9.4 %	9.0 %	12.25 %
CUSTOMER C	4.6 %	5.7 %	5.7 %

e) Product risks

The LISI Group is exposed to the risk of warranty or civil liability claims by its customers regarding products sold. It is also exposed to the risk of warranty claims in case of a product defect resulting in damages. To protect itself against such risks, as described in paragraph 5 below, the LISI Group has third party liability cover for use of its products after delivery. The LISI Group's liability is often limited to compliance with the specifications or customer specifications that cannot be extended to mastery of the actual application. However, the insurance policy taken out may not suffice to cover all the financial consequences arising from such claims, particularly in the USA.

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 2008, the various operations outsourced by the Group's sites represented approximately 6.2% 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, 2009, 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 €0.1m with maximum cover of €849m million for buildings and equipment and €175m for goods.

b) Civil liability insurance

Covers any physical, material or immaterial damage that may occur during the course of operations, as well as damage after delivery, for a sum of €15.2 million per loss and per annum for the first line. 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 €305m per annum (flight stoppages are covered up to $125m 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 is covered by a directors' liability insurance policy for all its subsidiaries up to €7.7 million.

6 Information regarding the Company and corporate governance

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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, 2008, 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 12/31/2008: €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

* Conversion of warrants at end December 2007.

1.1.3 Authorized share capital not yet issued

On April 27, 2007, the Shareholders' Extraordinary Meeting authorized 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, 2008, 829,361 warrants had been converted. 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:

	Net dividend in euros
2004	0.90
2005	1.08
2006	1.30
2007	1.50
2008 (1)	1.20

(1) Subject to the decision of the Ordinary General Meeting of April 2009. The date for payment of dividends has been set to May 7, 2009.

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 on the payment date.

1.2 Stock repurchase program

1.2.1 In place December 31, 2008

On April 29, 2008, 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 29, 2009.

Thus, LISI S.A. plans to launch a stock repurchase program for the following purposes, in decreasing order of importance:

- to increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the professional code of ethics recognized by the French market authority (AMF);
- to grant stock options or free shares to employees and corporate officers of the company and/or its consolidated group;
- to retain and use shares as consideration or payment for potential acquisitions;
- to cancel purchased shares, subject to the approval of the Shareholders' Extraordinary Meeting to be called at a later date.

The following terms apply to this authorization:

- the company may repurchase its own shares for a maximum price of €100, not including transaction fees,
- the company may sell all or some of the shares purchased for a minimum unit price of €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.

Under the above-mentioned share repurchase program, in 2008 LISI S.A. acquired 417,002 treasury shares, i.e. 3.9%. The number of own shares held by LISI S.A. stands at 481,901.

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 01/01/2008	215,299	37.11
Shares acquired in 2008	417,002	43.99
Shares disposed of in 2008	150,400	58.36
Shares held at 12/31/2008	481,901	35.82
Of which shares assigned to the stock options program	*426,534*	
Of which available	*55,367*	

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 or free shares to employees and corporate officers 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 €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 3 years

1.3.1.1 Breakdown of share capital and voting rights

Descriptions	2008			2007			2006		
	as % of capital	as % of voting rights	as number of shares	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	68.3	5,928,724	55.1	67.3	5,928,724	58.1	68.6	5,928,724
VMC	6.0	7.4	641,675	6.0	7.2	641,675	6.3	7.3	641,675
Other corporate officers	0.2	0.2	40,964	0.3	0.3	32,644	0.3	0.2	27,029
TOTAL FOR CORPORATE OFFICERS	**61.3**	**75.9**	**6,611,363**	**61.4**	**74.8**	**6,603,043**	**64.7**	**76.1**	**6,597,428**
of which directors	*0.14*	*0.09*	*14,740*	*0.12*	*0.08*	*12,990*	*0.09*	*0.05*	*8,840*
FFP	5.1	6.0	550,000	5.1	5.9	550,000	5.0	5.8	515,000
FMR Corp et Fidelity				–	–	–	4.9	2.9	499,378
Treasury stock	4.5		481,901	2.0	–	215,299	2.4	–	243,296
Employees	1.0	0.6	107,000	0.9	0.6	101,698	1.0	0.6	103,500
Public	28.1	17.5	3,003,597	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**	**10,753,861**	**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, 2008, it holds: 55.1% of the share capital and 68.3% 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, 2008, VMC, Route des Forges 90120 MORVILLARS, holds: 6.0% of the share capital and 7.4% of the voting rights. At the same date, it holds indirectly 15.28% of the capital of LISI S.A.
- At December 31, 2008, FFP, 75 avenue de la Grande Armée 75116 PARIS, holds: 5.1% of the share capital and 6% of the voting rights. At the same date, it holds indirectly 13.88% of the capital of LISI S.A.

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

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

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, 2008, LISI S.A. held 481,901 of its own shares, or 4.5% 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 the operating expenses for the period, multiplied by a coefficient; these charge-backs are broken down proportionally to each division's added value.

Data with related companies are as follows:

(In thousand euros)	Amount concerning	
	Related companies	Companies with which the company has an ownership relationship
ASSETS:		
Provisions on equity shares	–	–
Receivables related to equity holdings	23,988	–
Debtors and apportioned accounts	365	–
Cash advances to subsidiaries	42,624	–
Tax integration current account	218	–
LIABILITIES:		
Subsidiaries' financial assistance	48,552	–
Tax integration current account	3,688	–
Advance payments from customers	674	–
Suppliers	31	–
Other creditors	–	–
INCOME STATEMENT:		
Services received	–	–
IT maintenance	15	–
Reserves for equity interests	1,731	–
Sales revenue with subsidiaries	5,633	–
Products peppers, loans and peppers from subsidiaries	2,495	–
Revenues from equity interest	16,995	–
Reversal of provisions on equity interests	–	–

Significant intra-group items include:

- On the assets side:
  - – receivables relating to equity interests: LISI S.A. advanced, as a mid-term loan, €25m 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 expenses, the capital remaining due at December 31, 2008 being €3.5m. A €10m loan taken out in April 2008 for a period of 7 years, amortizable, with 2 years' deferred repayment to face its growing working capital requirements,
  - – 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 2008.

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 2008 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.

	KPMG Audit		Exco Cap Audit		Foreign auditors		Sécafi Alpha [1]	
	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	33	39	18	18				
– Fully consolidated subsidiaries	98	72	100	113	627	462		
Other due diligence and services								
– Holding company							19	19
– Fully consolidated subsidiaries						71	57	51
Sub-Total	131	111	118	131	627	533	76	70
Other services rendered by the networks to the fully consolidated subsidiaries								
Legal, tax, and social					171	156		
Miscellaneous services								
Sub-Total		2			171	156		
TOTAL	**131**	**113**	**118**	**131**	**798**	**689**	**76**	**70**

(1) Group committee

2 – Corporate governance

LISI is a "société anonyme" (limited company) with a Board of Directors, governed by French law, in particular the provisions of Book II of the Commercial Code, and a number of provisions of the regulatory section of the Commercial Code. The company has set up measures aiming to comply with the market recommendations regarding the corporate governance principles (refer to the Board Chairman's report).

2.1 Tasks and operating procedures of the Board of Directors

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

Tasks of the Board of Directors

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

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

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

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

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

The Board of Directors will ensure that its composition, as well as its work, is representative of LISI S.A.'s share ownership structure. The Board may decide to create Committees, to which it can submit questions in order to obtain advice. It sets out the composition and powers of the Committees, who carry out their work under the Board's authority.

Director's code of ethics

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

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 they are 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, 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. Within the scope of this advisory role, the Compensation Committee submits all proposals to the Board relating to incentive and profit-sharing schemes for the Group's top management, in particular with regard to the parent company's stocks options policies, the corresponding terms and conditions, as well as the terms of eligibility.

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 Ms. Lise Nobre, Messrs. Eric André, Gilles Kohler and Thierry Peugeot.

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

The Committee meets a minimum of twice a year. Its work leads to the drafting of a written report that allows the Board to remain fully informed, thus facilitating its deliberation.
The Committee met twice in 2008 and all its members were present. It presented its recommendations to the Board on the following points:

- 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. Eric André, 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 2008 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 relating to the consolidation perimeter and to the off-balance sheet risks described in the appendix to the consolidated financial statements was sent to the Audit Committee, which submitted a report on its work to the Board of Directors.

2.5 The Strategic Committee

The Strategic Committee is made up of 5 members, the majority of which cannot be corporate officers. Members of that Committee are Ms. Lise Nobre, Messrs. Gilles Kohler, Jean-Philippe Kohler, Emmanuel Viellard, and Pascal Lebard.
The Committee met twice in 2008 and all its members were present.

2.6 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.

2.7 Employees

2.7.1 Head count

2.7.1.1 Registered employees at period end by category

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

	2008	2007	N/N-1 difference
Management	672	619	8.6%
Supervisors	730	651	12.1%
Staff and workers	5,666	5,242	8.1%
Total	**7,068**	**6,512**	**8.5%**

2.7.1.2 Registered employees at period end by division

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

	2008	2007	N/N-1 difference
LISI AEROSPACE	3,565	3,057	16.6%
LISI AUTOMOTIVE	3,033	2,953	2.7%
LISI COSMETICS	457	490	–6.7%
Holding company	13	12	8.3%
Total	**7,068**	**6,512**	**8.5%**
Temporary staff engaged	351	417	–15.8%

2.7.1.3 Geographic breakdown of staff

As of December 31, 2008, the breakdown of Group staff was as follows: there were 3,486 staff employed in France, representing 49% of total staff; 3,582 staff were employed outside France, representing 51% of total staff, of which 22% in Europe (excluding France), 22% in North America and 7% in Asia.

2.7.1.4 2008 Turnover

Equivalent full-time average wage	Voluntary departures	Turnover rate
7,328	425	5.8%

2.7.2 Incentive schemes, profit-sharing and stock options

2.7.2.1 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):

2008	2007	2006
1.9	2.5	3.1

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, 2008, the "LISI en action" plan consisted entirely of LISI shares, for a total of 107,000 shares, and had 1,334 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 1% as at December 31, 2008.

2.7.2.2 Stocks options

a) Stock option plans

Various decisions at the Shareholders' General Meeting have authorized the Board of Directors to agree to share subscription or purchase options. Only the authorization given to the General Shareholders' Meeting on April 27, 2007, for 38 months and involving 20,000 shares, is valid.

b) Stock options

Plans in place as at December 31, 2008:

Date of Shareholders' General Meeting Board of Directors	Category Plan number	Number of shares assigned	Of which corporate officers	Of which members of the Management Committee	Of which 10 top employees	Residual number of beneficiaries	Exercise period	Subscription or purchase price	Options exercised at 01/01/2008	Options exercised in 2008	Options cancelled	Options remaining at 31/12/2008
Authorization of 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	18,440	0	11,200	5,060
Authorization of 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	22,860	0	5,000	11,640
Authorization of 02.28.2001												
06.25.2003	A Plan Nr. 4	163,000	10,000	47,500	12,500	25	06.26.2007 06.24.2011	€20.33	78,090	9,850	36,000	39,060
Authorization of 04.27.2007												
06.27.2007	G Plan Nr. 5	68,000	8,500	16,000	10,500	74	03.01.2010 03.01.2012	None	0	0	3,500	64,500

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 gross income from ordinary operations (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.

As far as the corporate officers are concerned, the Board of Directors decided that during their term of employment, they must retain 500 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 2008

Between January 1 and December 31, 2008, 9,850 options were exercised as purchase options.

In 2008, none of the 10 top employees who are not corporate officers, exercised any stock options.

2.8 Administrative bodies

2.8.1 Composition of the Board of Directors and the specialized Committees

The Group's Board of Directors is comprised of 10 members, 4 of whom are independent.

		Director independent	Date appointed	Date mandate expires
Board of Directors				
Chairman of the Board of Directors	Gilles KOHLER		1985	GENERAL MEETING 2009 [1]
Members of the Board of Directors:	Emmanuel VIELLARD		2000	GENERAL MEETING 2013 [3]
	Eric ANDRE	X	2002	GENERAL MEETING 2014 [4]
	Lise NOBRE	X	2008	GENERAL MEETING 2014 [4]
	Christian PEUGEOT		2003	GENERAL MEETING 2013 [3]
	Patrick DAHER	X	2008	GENERAL MEETING 2009 [1]
	Pascal LEBARD	X	2005	GENERAL MEETING 2011 [2]
	Compagnie Industrielle de Delle represented by Thierry PEUGEOT		1977	GENERAL MEETING 2013 [3]
	SAS CIKO represented by Jean-Philippe KOHLER		2002	GENERAL MEETING 2009 [1]
	VIELLARD MIGEON & Cie represented by Christophe VIELLARD		2000	GENERAL MEETING 2009 [1]
Secretary of the Board of Directors	Maître Olivier Perret (corporate tax regulations)			
Audit Committee				
Members of the Audit Committee:	Emmanuel VIELLARD			
	Christophe VIELLARD			
	Eric ANDRE			
Compensation Committee				
Members of the Compensation Committee:	Gilles KOHLER			
	Thierry PEUGEOT			
	Lise NOBRE			
Strategic Committee				
Members of the Strategic Committee:	Gilles KOHLER			
	Jean-Philippe KOKLER			
	Emmanuel VIELLARD			
	Pascal LEBARD			
	Lise NOBRE			

[1] Ordinary General Meeting slated to rule in 2009 on the financial statements for the period ended December 31, 2008.
[2] Ordinary General Meeting slated to rule in 2011 on the financial statements for the period ended December 31, 2010.
[3] Ordinary General Meeting slated to rule in 2013 on the financial statements for the period ended December 31, 2012.
[4] Ordinary General Meeting slated to rule in 2014 on the financial statements for the period ended December 31, 2013.

2.8.2 Information regarding the members of the Board of Directors

2.8.2.1 The members of the Board of Directors

Gilles KOHLER, age 55, Chairman and CEO of LISI.

He heads the Board of Directors, the Compensation Committee, and the Strategic 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 HUGUENY 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.

Emmanuel VIELLARD, age 45, Deputy Chairman and Deputy CEO of LISI.

He attends the Board of Directors, the Audit Committee, and the Strategic 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 Technologies SAS,
- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of HUGUENY SAS,
- Member of the Management Committee of LISI MEDICAL 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),
- Chairman of the Board of Directors of FSH WELDING GROUP.

Eric ANDRE, age 60, Director of LISI.

He attends the Board of Directors and the Audit Committee.

Eric André 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 NATEXIS France,
- Director of R. DI GIOIA Cie.

Christian PEUGEOT, age 55, 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 46, 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 DLMD SAS,
- Chairman of Pascal LEBARD INVEST SAS,
- Chairman of Fromagerie de l'Etoile SAS,
- Chairman of Greysac SAS,
- Chairman of BOCCAFIN SAS,
- Director of Club Méditerranée,
- Director of BOCCAFIN Suisse SA,
- Director of Société Générale de Surveillance (Geneva),
- 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 51, 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 Société Foncière Financière et de Participation - FFP,
- 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 48, 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 HUGUENY SAS,
- Member of the Management Committee of LISI MEDICAL SAS.

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

Christophe VIELLARD, age 67, 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):
- Chairman of the Board 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.

Patrick DAHER, age 59, Director of LISI.

He attends the Board of Directors.

Patrick Daher 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 and CEO of DAHER Company,
- Chairman and CEO of SOGEMARCO-DAHER,
- Chairman of DAHER MTS,
- Permanent Representative of DAHER MTS and Director of OCEANIDE,
- Director of CREDIT DU NORD,
- Director of DAHER INTERNATIONAL DEVELOPMENT,
- Director of DAHER AEROSPACE Ltd,
- Director of DAHER INC.

Lise NOBRE, age 43, Director of LISI.

She attends the Board of Directors, the Compensation Committee, and the Strategic Committee.

Lise Nobre has held the following other mandates and functions:

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

Outside the LISI Group (in France and abroad):
- Chairwoman of the Supervisory Board of FTE (Germany),
- Chairwoman of GLOBAL CLOSURE SYSTEMS France SAS.

2.8.2.2 Family ties

The only family ties between the individuals listed above are the following:
Gilles Kohler and Jean-Philippe Kohler are brothers.

2.8.2.3 No conflicts of interest

To the Company's knowledge, there are no current or potential conflicts of interest 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."

2.8.2.4 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.

2.9 Compensation and interests of corporate officers

2.9.1 Directors' fees

The Shareholders' General Meeting, held on April 29, 2008, fixed the annual directors' fees for members of the Board of Directors at €106,250, from the start of the financial year, January 1, 2008.

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 2008, directors' fees amounted to €85,000 and the attendance rate stood at 90.7%.

The table below shows fees and remunerations paid to directors:

Board members	Directors' fees paid in 2007 by LISI S.A. (in euros)	Directors' fees paid in 2008 by LISI S.A. (in euros)
Gilles KOHLER	8,750	16,250
Emmanuel VIELLARD	7,500	16,250
Roland BURRUS	3,750	3,750
Christian PEUGEOT	2,500	7,500
Christophe VIELLARD	7,500	13,750
Jean-Philippe KOHLER	5,000	12,500
Thierry PEUGEOT	8,750	15,000
Pascal LEBARD	7,500	13,750
Eric ANDRE	7,500	15,000
Patrick DAHER		2,500
Lise NOBRE		8,750
Total	**58,750**	**125,000**

2.9.2 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 2008:

Corporate officers	Number of LISI shares held directly	Number of LISI shares held indirectly
Directors		
Gilles KOHLER	6,515	
Emmanuel VIELLARD	8,225	
Christian PEUGEOT	1	
Christophe VIELLARD (permanent representative of VMC)		641,675
Jean-Philippe KOHLER (permanent representative of CIKO)	5,000	21,153
Thierry PEUGEOT (permanent representative of CID)	25	5,928,724
Pascal LEBARD	10	
Patrick DAHER	10	
Lise NOBRE	20	
Eric ANDRE	5	
Total	**19,811**	**6,591,552**

2.9.3 Directors' Compensation

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. The tables summarizing the compensation and options and shares allocated to each corporate officer director of LISI S.A. are as follows in €:

Gilles KOHLER Chairman and CEO of LISI S.A.	2007	2008
Compensation due for the period	423,381	427,888
Valuation of the options allocated during the period	None	None
Valuation of the performance shares allocated during the period *	73,500	None
Total	**496,881**	**427,888**

Emmanuel VIELLARD Deputy Chief Executive Officer of LISI S.A.	2007	2008
Compensation due for the period	378,193	384,822
Valuation of the options allocated during the period	None	None
Valuation of the performance shares allocated during the period *	73,500	None
Total	**451,693**	**384,822**

* Valued at the closing price on December 31, 2008, or €24.50

The tables summarizing the compensation of each corporate officer director of LISI S.A. are as follows in €:

Gilles KOHLER Chairman and CEO of LISI S.A.	Amounts for 2007		Amounts for 2008	
	due	paid	due	paid
Fixed compensation	259,932	250,872	278,188	273,452
Variable compensation	150,000	120,000	135,000	150,000
Exceptional compensation	None	None	None	None
Directors' fees	10,000	8,750	11,250	16,250
Benefits in kind *	3,449	3,449	3,449	3,449
Total	**423,381**	**383,071**	**427,888**	**443,152**

* Benefits in kind: Car

Emmanuel VIELLARD Deputy Chief Executive Officer of LISI S.A.	Amounts for 2007		Amounts for 2008	
	due	paid	due	paid
Fixed compensation	231,189	220,823	250,318	246,166
Variable compensation	135,000	107,547	120,000	135,000
Exceptional compensation	None	None	None	None
Directors' fees	8,750	7,500	11,250	16,250
Benefits in kind *	3,254	3,254	3,254	3,254
Total	**378,193**	**339,124**	**384,822**	**400,670**

* Benefits in kind: Car

LISI S.A. has not committed itself to these corporate officers to pay compensation, indemnities, or benefits, due or likely to be due as a result of such corporate officers taking on, resigning from, or changing functions.

2.9.4 Benefits in kind paid to directors

In 2008, Mr. Gilles Kohler and Mr. Emmanuel Viellard benefited from a company car.

2.9.5 Stock subscription or purchase options allocated during the period to each corporate officer director

No stock subscription or purchase options were allocated during financial 2008.

2.9.6 Stock subscription or purchase options exercised during the period by each corporate officer director

In 2008, the corporate officers exercised the following options:

Corporate officer	Number of shares purchased	Price in euros	Year allocated
Emmanuel VIELLARD	2,000	20.33 Plan Nr.4	2003

2.9.7 Performance shares allocated to each corporate officer manager

No performance shares were allocated during financial 2008.

2.9.8 Performance shares that became available during the period for each corporate officer manager

No performance shares became available during financial 2008.

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 and the recommendations issued by the French AMF, this report contains details of the preparation and organization of the Board's tasks, the limitation of the powers entrusted to the Vice-President, the principles and rules applied to determine the benefits in kind granted to the corporate officers, and of the internal control procedures that have been set up within the Group.

This report was submitted to the Board of Directors of February 19, 2009.

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 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.
- The sessions that discuss strategic issues are presented to the Strategic Committee, which has met beforehand.

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 Limitation of powers

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 1.1.
Present on the Board of Directors are 4 independent directors, in compliance with the Bouton report. There are also 3 specific committees in existence: the Compensation Committee, the Audit Committee and the Strategic Committee, both of which are responsible for supervising the work of General Management in these 3 fields. Each committee reports its work to the Board of Directors.

1.3 Management structure

The Chief Executive Officer and the Vice President rely on an Executive Committee grouping the directors of the various divisions and the internal controls director, in total 16 people. The Executive Committee meets quarterly to assess the progression of the Group's various projects.

1.4 Compensation and benefits in kind

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

1.5 Internal control procedures

The internal control procedures applied within the LISI Group are part of the corporate governance approach, in accordance with the latest recommendations of the French AMF, particularly regarding its application details for small and mid-caps (VaMPs). Nevertheless, it is important to emphasize that the Group has had an Audit Committee, an audit unit and a structured approach for approximately the five past financial years.

1.5.1 Definition of the internal control

The internal control procedures applied within the Group are meant to ensure that:

- The management actions and operations at all levels of the management units are in line with the orientations and objectives set by the General Management;
- These actions comply with applicable laws and rules and are in line with the values adopted by the Group companies;
- The accounting and financial information reflects fully and faithfully the Group's economic situation.

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.

As any other control method, this prevention system is not comprehensive. Consequently, it cannot provide an absolute guarantee that the risks are totally eliminated.

1.5.2 Description of the internal control environment

General description:

The general environment of the internal control 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 deployed a uniform reporting and information system in each division using an identical procedure each time.

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

- Production, inventories, flow management,
- Quality,
- Health, Safety and Environmental,
- Staff, payroll
- Accounting, management control and cash flow,
- Purchasing and investments,
- Sales.

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

Supervisory bodies:

- Decision-making committees: the Group's Board of Directors is the most senior decision-making entity. The group's Executive Committee channels the information to the divisions, which are themselves organized in such a way that enables their management to carry out the Group's decisions at individual department level.

- The Audit Committee, which comprises an independent director, reviews, in the presence of the external auditors and the person in charge of the internal audit, the overall environment for risk management and tracking at the time of the publication of financial statements.

- The internal audit unit comprises the Group internal audit manager assisted by an auditor. Depending on the scale and nature of the task to be performed, internal and external partners may be co-opted to round off the team.

- Coordination with the external auditors is particularly close in order to direct controls specifically towards areas that have been identified as being high-risk and to allocate sufficient time to the task.

- Certain functions considered critical are followed throughout the various departments of the Group: financial management, cash management, consolidation, legal secretarial work, insurance coverage, safety policy, environmental policy, procurement policy, and 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 convergent risk-mapping process. 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 systematic, comprehensive annual review. The priority action plans for the main risks identified in each division are validated within the budget of the following year.

• The safety and environment risks Committee, set up in 2001, identifies and lists the inherent risks, and then takes the corrective action required.

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: elementary management units, B.U.s, 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 procurement or expenditure commitment that deviates from the budgetary authorizations is subject to 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 managed at Group level.

• The pay process is managed at operational unit level and is regularly reviewed both by the internal audit unit and by external auditors.

• The Health, Safety, and Environment (HSE) process is subjected to a monthly review of management indicators (industrial accident rates, non-compliances, etc.) and the major resulting action plans.

2008 achievements and outlook

• The internal audit team has worked at the same pace as in 2007, with approximately 17 audit assignments and a dozen recommendations tracking assignments. More particular attention was given this year to the Medical division. Besides, the Maintenance process has been added to the scope of actions. 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 improved performance 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.

• 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 2009.

• Alongside the Internal Audit unit, the HSE (Health, Safety and Environment) unit has taken its full functions at Group level to coordinate HSE actions and conduct the HSE audit assignments throughout the sites.

• Besides, LISI's General Management has hired a Group Treasurer. His main tasks include handling the cash pooling set up at the end of 2008, handle cash flows and cash surpluses, and make sure that interest rate and currency risks are under control.

• Lastly, other Group projects have been pursued, including:
  – 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;
  – The setting up of the crisis management procedure.

Conclusion

In 2008, the actions carried out to strengthen internal control have led to recommendations, validated and handled by the operating executives concerned within the relevant timeframes. Subsequent follow-up procedures make it possible to ensure they are applied properly.

The Group thus places itself in an ongoing progression approach. Relying on a broader knowledge of the production sites and subsidiaries and the strong dedication of operating executives in the key processes, it thus 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, 2008

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, 2008.

It is for the Chairman to establish and submit to the approval of the Board of Directors, a report describing the internal control and risk management procedures set up within the company, and giving the other details required by articles L. 225-37 of the Commercial Code, regarding, in particular, the corporate government system.

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 and to certify that the report contains the other information required by article L. 225-37 of the Commercial Code, it being specified that it is not for us to verify the truthfulness of this other information.

We have carried out our work in accordance with the professional standards in use in France.

Information regarding the internal control procedures relative to the establishment and processing of the accounting and financial information

The standards of the profession require the implementation of due diligence reviews meant to assess the truthfulness of the information regarding the internal control procedure relative to the establishment and processing of the accounting and financial information contained in the Chairman's report. These careful evaluations largely consist in:

- 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;
- Reviewing the evaluation process set up and ascertain the quality and sufficient nature of its documentation, regarding the information relative to the assessment of the internal control procedures;
- Determining whether major deficiencies of the internal control relative to the elaboration and processing of the accounting and financial information, which we would have pinpointed through our work, are covered by appropriate information in the Chairman's report.

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

Additional information

We certify that the report of the Chairman of the Board of Directors contains the other information required by article L. 225-37 of the Commercial Code.

Paris La Défense, March 31, 2009.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 31, 2009

Exco Cap Audit

Pierre Burnel
Partner

3 – Auditors' special report on regulated conventions and commitments

Year ended December 31, 2008

Ladies and Gentlemen,

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 determine the existence or otherwise of these conventions.

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 31, 2009.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 31, 2009.

Exco Cap Audit

Pierre Burnel
Partner

4 – Auditors' report on the consolidated financial statements

Financial year ended December 31, 2008

Ladies and Gentlemen,

In carrying out the mission entrusted to us by your Shareholders' General Meeting, we hereby present you with our report for the financial year ended December 31, 2008, relating to:

- The audit of the annual statements of LISI S.A., as attached to this report;
- The justifications for our assessments;
- The specific verification required by law.

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 have carried out our work in accordance with the professional standards in use 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, through surveys or using other selection methods, the elements that support the amounts and data contained in the consolidated statements. It also involves assessing the accounting principles followed and any significant estimates used in the drafting of financial statements. We consider the elements we have collected to be sufficient and appropriate to base our opinion.

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

Justifications for our assessments

As stipulated by Article L.823-9 of the Commercial Code regarding the justification of our opinion, we would like to point out to you that.

The accounting estimates used for the preparation of the financial statements at December 31, 2008, have been made in a context where it was clearly difficult to assess the economic outlook. These circumstances are described in Note 2.2.2 of the appendix to the consolidated financial statements. This is the uncertain context in which, in accordance with the provisions of article L.823-9 of the Commercial Code, we inform you of our own assessments.

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 of 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 in the appendix 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, 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 2.5.11 provide appropriate 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 of 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 31, 2009.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 31, 2009.

Exco Cap Audit

Pierre Burnel
Partner

5 – Auditors' General report

Financial year ended December 31, 2008

Ladies and Gentlemen,

In carrying out the mission entrusted to us by your Shareholders' General Meeting, we hereby present you with our report for the financial year ended December 31, 2008, relating to:
- The audit of the annual statements of LISI S.A., as attached to this report;
- The 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 have carried out our work in accordance with the professional standards in use 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, through surveys or using other selection methods, the elements that support the amounts and data contained in the annual statements. It also involves assessing the accounting principles followed and any significant estimates used in the drafting of financial statements. We consider the elements we have collected to be sufficient and appropriate to base our opinion.
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.
Without challenging the opinion expressed above, we call your attention to note 3.1 of the appendix describing the change in method resulting from the implementation, by your company, of the CNC Rule No.2008-17 regarding the recognition of stock option and free share plans.

Justifications for our assessments

As stipulated by Article L.823-9 of the Commercial Code regarding the justification of our opinion, we would like to point out to you that:

Changes in accounting methods

In assessing the accounting rules and methods followed by your company, we are assured of the validity of the change in accounting method mentioned above and the description given of it in notes 2.4 and 3.1 of the appendix.

Accounting estimates

The accounting estimates used for the preparation of the financial statements at December 31, 2008, have been made in a context where it was clearly difficult to assess the economic outlook. These circumstances are described in Note 3.1 of the appendix to the annual statements. This is the uncertain context in which we inform you of our own assessments.
The assessments we have made regarded the appropriate nature of the accounting methods applied and the reasonable nature of the significant estimates chosen, particularly regarding equity securities and provisions for the depreciation of such securities set up by your company when their net book value is higher than their value in use, as specified in Note 3.1.b of the appendix to the annual statements.
The opinions expressed fall within the scope of our audit of the annual financial statements taken as a whole. Therefore, they have contributed to the forming of our opinion, as set out in the first part of this report.

Verifications and specific information

We have also proceeded to the specific verifications set out by law.
Except for the effects of the facts mentioned above, we have no comments 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 favor 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 31, 2009.

Salustro Reydel
Member of KPMG International

Marie Guillemot
Partner

Exincourt, March 31, 2009.

Exco Cap Audit

Pierre Burnel
Partner

6 – Draft resolutions

COMBINED GENERAL MEETING OF APRIL 29, 2008

Agenda

Ordinary general meeting's tasks

- Review and approval of the annual financial statements for the period ended December 31, 2008;
- Approval of consolidated financial statements for the period ended December 31, 2008;
- Approval of the conventions covered by articles L225-38 et seq. of the French Commercial Code;
- Discharge to the Directors and Auditors;
- Appropriation of earnings;
- Ratification of the co-optation of a director;
- Renewal of the directors' mandates;
- Authorization for the Company to repurchase its own shares;
- Determination of directors' fees;

Extraordinary general meeting's tasks

- Authorization to be given to the Board of Directors, to issue shares in cash within the limit of €2,000,000 (face value + additional paid-in cash); removal of the preemptive right;
- Allocation of free shares; authorization to be given to the Board of Directors to proceed to this allocation of free shares;
- Proxies;
- Miscellaneous questions.

Draft resolutions

Ordinary general meeting's tasks

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, 2008, as they are presented, with profits of €13,204,614, 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 € 20,180.

2nd resolution – Approval of consolidated financial statements

The General Meeting, after hearing the reading of the Board's report and the Auditors' general report, approves, as they have been laid out, the consolidated statements established in accordance with the provisions of articles L. 233-16 and subsequent of the Commercial Code at December 31, 2008, showing a profit of €56,229,114.

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 L225-38 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 2008, 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	€13,204,614
Increased by retained earnings To a total of	€40,625,518
To give a total of	**€53,830,132**

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

As dividends to shareholders A sum of €1.20 per share, For the total of Payable on May 7, 2009	€12,904,633
The remainder to the retained earnings account, For the total of	€40,925,499

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 €1.20. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.20.

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, 2005:	dividends eligible for the 40% allowance: €1.08
Financial year ended December 2006:	dividends eligible for the 40% allowance: €1.30
Financial year ended December 2007:	dividends eligible for the 40% allowance: €1.50

6th resolution – Co-optation of a director
The General Meeting ratifies the co-options as director of Mr. Patrick DAHER, living 33 Chemin du Plateau de Malmousque – 13007 MARSEILLE, to replace Mr. Roland BURRUS, a decision made by the Board of Directors in its session of April 22, 2008.

7th resolution – Director renewal
The General Meeting renews the appointment as Director of Mr. Gilles KOHLER 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, 2014.

8th resolution – Director renewal
The General Meeting renews the appointment as Director of Mr. Patrick DAHER 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, 2014.

9th resolution – Director renewal
The General Meeting renews the appointment as Director of VIELLARD MIGEON & Cie 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, 2014.

10th resolution – Director renewal
The General Meeting renews the appointment as Director of CIKO 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, 2014.

11th 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 29, 2008;
- Gives its authorization, in accordance with articles L225-209 et seq. of the French Commercial Code, to the Board of Directors, to proceed, by whatever means it deems appropriate, to 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 L225-209 of the Commercial Code.

This authorization is subject to the following condition:
- The company may not repurchase its own shares for more 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. €50, is €53,769,305.

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.

12th 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.

Extraordinary general meeting's tasks
13th resolution – Authorization to issue new shares
The General Meeting, after hearing the reading of the Board's report and the Auditors' report, noting that the share capital is entirely paid in, authorizes, the Board of Directors, as per the provisions of articles L225-138 of the Commercial Code and L443-5 of the Labor Code, to proceed, in one or several steps, to the issue of new shares in cash, reserved to Group employees who are member of the company employee savings plan.

The shares issued must correspond to one or several capital increases for an overall maximum amount of €2,000,000, including the additional paid-in capital.

The period during which the Board of Directors will be authorized to proceed to the issue of such shares in twenty-six months as of today.

The General Meeting decides to eliminate the shareholders' preemptive right on the new shares that will be issued to the benefit of employees who are members of the company's savings plan, which was set up for that purpose and is governed by article 20 of the law of December 23, 1988.

14th resolution – Authorization to allocate shares

The General Meeting, after reviewing the Board's report and the Auditors' special report, in accordance with articles L225-197-1 and subsequent of the Commercial Code:

- Authorizes the Board of Directors to proceed, in one or several steps, to the benefit of the beneficiaries belonging to the category it determines among the company's employees and corporate officers referred to in article L225-197-1, II° of the Commercial Code, and the employees and corporate officers of related companies in accordance with the provisions of article L225-197-2 of the Commercial Code, to the allocation of free shares of the company;
- Decides that the Board of Directors will determine the number of free shares likely to be allocated to each beneficiary, and the conditions and, if applicable, the criteria for allocating such shares;
- Decides that the total number of free shares allocated may not exceed 300,000 shares or 2.79% of the company's share capital to date, subject to possible adjustments aimed to maintain the rights of the allottees, but without being able to exceed the overall limit of 10% of the company's share capital to date;
- Decides that the allocation of such shares to their beneficiaries will become final, subject to meeting the conditions or criteria possibly set by the Board of Directors, at the end of a vesting period of at least two years, during that period the beneficiaries will not be the holders of the shares allocated to them and the rights resulting from such allocation will not be non transferable;
- Decides that in case of death of the beneficiaries during that two-year period, the heirs of the deceased beneficiaries may ask to benefit from the free shares within the six months following the death, the shares will be acquired definitively by them and will be delivered to them only at the end of the vesting period and subject to the allocation conditions set by the Board of Directors being met;
- Decides that, in the case where free shares are allocated to corporate officers or employees of related companies and where such companies would cease to be related to LISI SA during that two-year period, the Board of Directors of LISI SA may decide, at its discretion, to maintain the allocation rights of the beneficiaries at the end of the vesting period, subject to the fulfillment of the other conditions;
- Decides that, during that two-year period, in case of dismissal or resignation, or revocation for the corporate officers, the beneficiaries lose their entitlement to the allocation of free shares, in case of retirement or disability forcing them to quit their functions within the company or the related company, the beneficiaries will keep their entitlement to the allocation of free shares on the acquisition date set by the Board of Directors, subject to the other allocation conditions being met;
- Acknowledges that, at the end of the vesting period defined above and subject to the conditions and criteria set by the Board, if applicable, being met, the allocation of free shares will be done using existing shares that the company will have acquired for that purpose, in accordance with the provisions of article L.225-208 of the Commercial Code;
- Decides that upon the expiration of that two-year period, the shares will be definitively allocated to their beneficiaries, but will be non transferable and must be kept by the latter for a minimum of two years;
- Delegates full authority to the Board of Directors, with the ability to subdelegate in accordance with legal provisions, to implement this authorization and, more generally, take all action necessary, particularly regarding the setting up of measures intended to preserve the rights of the beneficiaries, by proceeding to an adjustment of the free shares allocated according to the various transactions on the Company's share capital that would take place during the vesting period, to decide whether the corporate officers may sell the shares they have thus received prior to the end of their office, or to set the number of registered shares they must keep up until the end of their office;
- Sets to thirty-six months, as of today, the validity of this authorization.

15th 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.