2012 FINANCIAL REPORT

LINK SOLUTIONS FOR INDUSTRY

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1

GENERAL INFORMATION REGARDING THE COMPANY

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

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

Mr. Emmanuel Viellard
Deputy Chairman

1.2 STATEMENT BY THE PERSON IN CHARGE OF THE ANNUAL REPORT

"I certify, after taking all reasonable measures to that end, that the information contained in this annual report is, to my knowledge, consistent with reality, and includes no omissions likely to alter its meaning or interpretation.
I certify that, to the best of my knowledge, the accounts have been drawn up in accordance with the relevant accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the companies included therein taken as a whole, and the annual report in chapter 2 gives a true and fair view of the development of business, the profit or loss of the companies included therein taken as a whole together with a description of the principal risks and uncertainties that it faces. I have secured from our auditors, ERNST And YOUNG et autres and EXCO CAP AUDIT, a completion letter stating that they have verified the information regarding the financial situation and the financial statements provided in the annual report, and that they have read the entire annual report."

Paris, 28 March, 2013
Emmanuel Viellard
Deputy Chairman

1.3 STATUTORY AUDITORS

Regular auditors:
• EXCO CAP AUDIT represented by Serge Clerc
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 2016.

• ERNST & YOUNG et Autres represented by Henri-Pierre Navas
Tour First
1, Place des Saisons
TSA 14444
92037 PARIS LA DEFENSE Cedex
Appointed April 13, 1993. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 2016.

Alternate auditors:
• Mr. Philippe Auchet
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 2016.

• Cabinet AUDITEX
Tour First
1, Place des Saisons
TSA 14444
92037 PARIS LA DEFENSE Cedex
Appointed April 13, 1993. Mandate to expire during the Ordinary General Meeting ruling on the statements for financial year ending December 2016.

2 INFORMATION POLICY

2.1 PERSON IN CHARGE OF THE FINANCIAL INFORMATION

Mr. Emmanuel Viellard

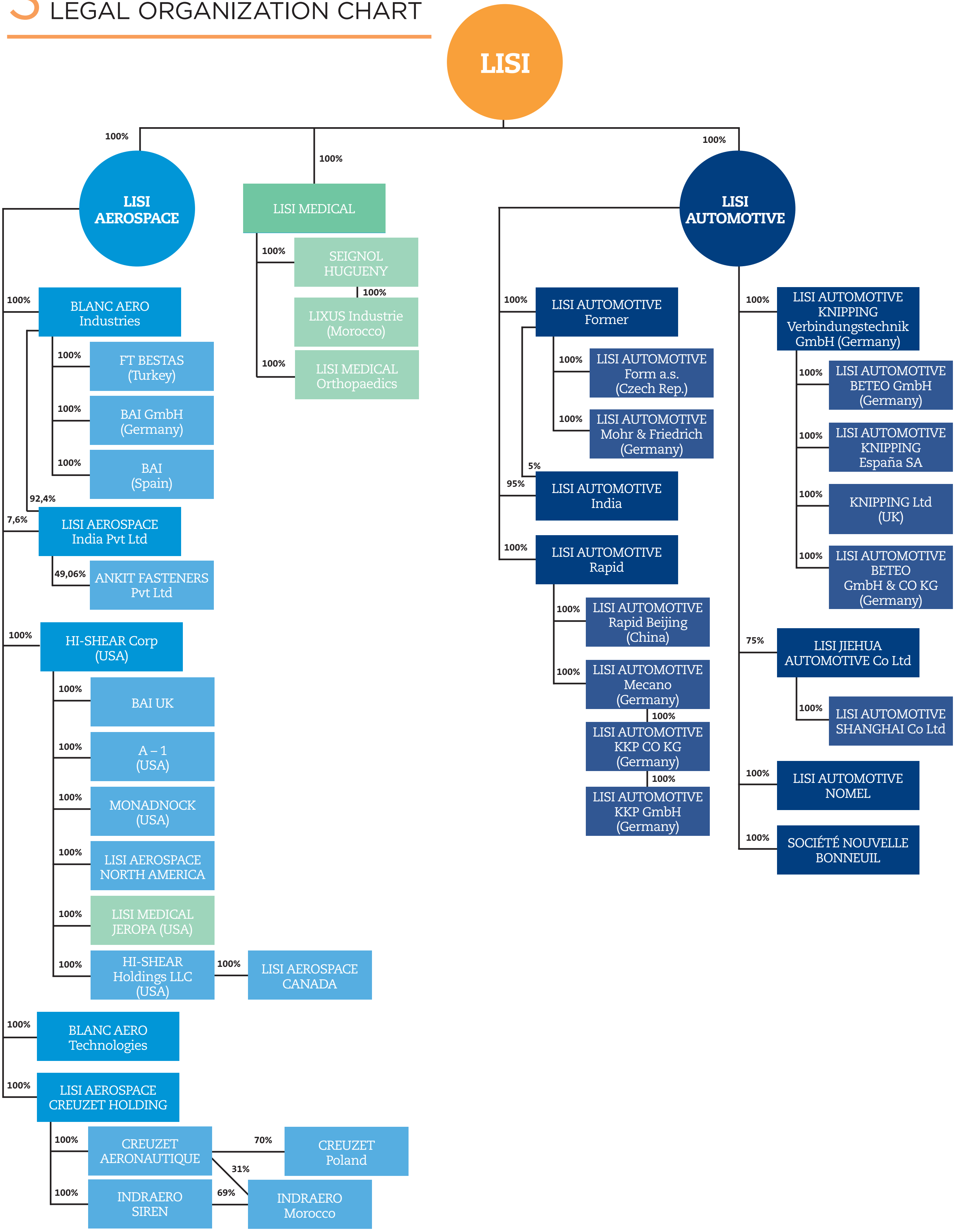
LISI
Le Millenium
18 rue Albert Camus
CS 70431
90008 BELFORT Cedex
Tel. : + 33 (0)3 84 57 00 77 / Fax: + 33 (0)3 84 57 02 00
Website: www.lisi-group.com
Email: emmanuel.viellard@lisi-group.com

2.2 DOCUMENTATION

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

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

3 LEGAL ORGANIZATION CHART



4 FUNCTIONAL ORGANIZATION CHART

LISI

LISI AEROSPACE

Fasteners

– Europe

Airframe
- Saint-Ouen-l'Aumône
- Vignoux-sur-Barengeon
- Rugby (UK)
- Bangalore (India)
- Tanger (Morocco)

Engines & Critical
- Villefranche-de-Rouergue
- Saint-Brieuc
- Izmir (Turkey)

– USA

Airframe
- Paramount (USA)
- Torrance (USA)

Engines & Critical
- Dorval (Canada)

– Specialty Fasteners
- City of Industry (USA)

Structural Components

– Engineered Components
- Beyssac
- Sedziszow Malopolski (Poland)

– Aerostructure & Aircraft equipment
- La Bourdine
- Colomiers
- Indraero Casablanca (Morocco)

LISI MEDICAL

Europe
- Neyron

USA
- Escondido

Orthopédie
- Herouville

LISI AUTOMOTIVE

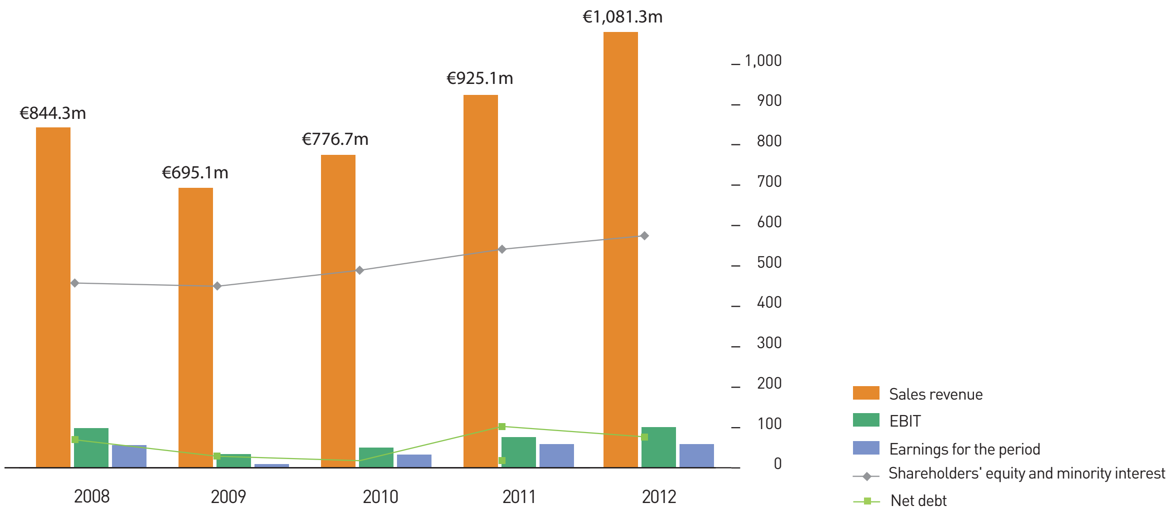
Threaded Fasteners
- Delle
- Dasle
- La Ferté Fresnel
- Saint-Florent
- Thiant
- Gummersbach (Germany)
- Kierspe (Germany)
- Vöhrenbach (Germany)
- Fuenlabrada (Spain)

Clipped solutions
- Puiseux
- Heidelberg (Germany)
- Mellrichstadt (Germany)
- Beijing (China)

Savety Mechanical Components
- Melisey
- Cjec (Czech Republic)
- Shanghai (China)

5 KEY FIGURES

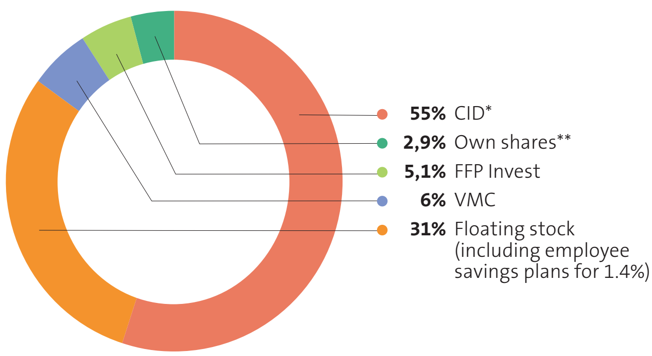
In €m	2012	2011	2010	2009	2008
Sales revenue	1,081.3	925,1	776,7	695,1	844,3
EBIT	100.4	76.6	49.5	34.2	98.9
Profit (loss) for the period	57.3	58.2	32.9	9.4	56.2
Shareholders' and minority interests' equity	576.0	542.5	490.3	450.6	458.6
Net debt	76.7	102.6	17.5	28.5	69.4



6 INFORMATION ABOUT THE ISSUER

6.1 BREAKDOWN OF SHARE CAPITAL

LISI share datasheet
ISIN code: FR 0000050353
Reuters: GFII.PA
Bloomberg: FII.FP
Compartment: B Eurolist
Stock marketplace: Euronext Paris
Number of shares: 10,786,494
Market capitalization at December 31, 2012: €666m
Indices: CAC® Small, CAC® Mid & Small,
CAC®-All tradable and CAC®-All Shares



* Including direct and indirect holdings:
VMC: 21.27%
FFP Invest: 18.97%
CIKO: 16.76%
** Reserved for performance share schemes.

LIQUIDITY OF THE SHARE:

Float capital turnover rate: 36%

Average number of shares traded per day in 2012: 4,628

Month	Closing price	Highest price	Lowest price	Session average	Transaction volume	No of shares traded during the month (1)
2010	**€**	**€**	**€**	**€**	**In €'000**	
January	38.80	40.00	34.31	37.16	3,041	80,625
February	36.50	39.10	34.13	36.62	1,897	52,303
March	42.15	44.35	36.50	40.43	3,547	88,903
April	46.50	50.00	41.50	45.75	4,331	93,581
May	40.21	48.20	37.01	42.61	3,519	83,674
June	42.40	44.45	39.50	41.98	5,501	133,133
July	45.30	45.46	39.50	42.48	2,524	59,835
August	43.80	45.90	43.00	44.45	1,062	23,889
September	49.81	49.90	43.54	46.72	3,647	76,251
October	50.47	52.40	48.60	50.50	4,456	87,935
November	49.90	52.30	49.42	50.86	1,787	35,509
December	50.29	52.80	49.64	51.22	2,571	49,560
2011						
January	55.00	60.80	50.08	55.44	8,874	155,881
February	59.92	60.30	55.00	57.65	7,751	134,192
March	60.53	65.50	55.70	60.60	9,879	161,298
April	65.55	65.99	58.02	62.01	3,594	56,894
May	63.00	66.15	62.00	64.08	2,743	43,192
June	64.75	64.75	60.55	62.65	5,665	90,230
July	68.50	69.99	61.00	65.50	7,945	123,141
August	56.00	70.18	52.62	61.40	9,837	170,847
September	51.20	56.05	47.00	51.53	7,005	138,027
October	58.40	59.72	48.50	54.11	6,703	123,637
November	52.01	58.00	48.50	53.25	7,280	137,172
December	50.75	53.99	46.21	50.10	4,688	93,661
2012						
January	59.00	60.70	49.41	55.06	5,256	95,817
February	62.50	62.50	58.70	60.60	8,460	139,454
March	62.90	64.58	61.30	62.94	5,599	88,659
April	56.55	63.30	55.81	59.56	6,038	102,875
May	50.34	56.51	48.01	52.26	5,119	100,284
June	46.70	50.70	44.13	47.42	2,900	60,493
July	53.10	54.00	43.80	48.90	4,255	89,142
August	53.22	56.70	52.51	54.61	3,958	72,228
September	53.29	53.50	51.95	52.73	2,542	48,138
October	51.21	55.60	50.08	52.84	4,348	82,433
November	56.00	56.50	49.58	53.04	9,389	180,982
December	61.70	61.70	55.80	58.75	7,167	124,159
2013						
January	64.98	66.70	59.90	63.30	7,286	115,582
February	71.92	73.73	62.71	68.22	10,024	146,418

(1) Excl. non-system.

Market Maker's Contract
The market-making contract complies with the ethical charter of the AFEI and is carried out by:

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

6.2 HISTORY

1777
Frédéric Japy sets up a watch movement factory in Beaucourt, near Montbéliard.

1796
Some years later MIGEON & DOMINE is founded in Morvillars in the Belfort region, later to become VIELLARD MIGEON et Compagnie (VMC).

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 each of the three divisions taking this name plus the name of its main business sector: The strategy of focusing on Core Business continues:
- Sale of non-strategic business lines (GFD, Ars Industries and the production unit at Aillevilliers),
- Acquisition of California's MONADNOCK (LISI AEROSPACE).

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

2005
Acquisition of KNIPPING in Germany (LISI AUTOMOTIVE). Opening of a factory in Canada (LISI AEROSPACE)
Sale of Gradel (LISI AUTOMOTIVE).

2007
Sale of 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), specializing in dental implants,
- SEIGNOL and INTERMED Application (Neyron – France) and LIXUS (Tangiers – Morocco), specializing in subcontracting of dental and orthopedic implants.

2008
LISI AUTOMOTIVE increases its presence in China and India with the creation of a second manufacturing plant in Shanghai dedicated to making threaded fasteners for the automotive industry.

2009
On April 1, 2009, the Group sold KNIPPING subsidiary SDU, which specialized in distributing technical products to mines and industry in Germany and Poland.

(1) Générale de Forgeage et Décolletage

2010

The Group returned to external growth with two major acquisitions:

- Acquisition by LISI AUTOMOTIVE of two French sites from the American Group, Acument Global Technologies, specializing in the manufacture of fasteners for the automotive industry.
- Purchase by LISI MEDICAL of a site producing hip replacements from the American Group, Stryker Corporation, a leading global provider of medical technologies. The agreement is accompanied by a five-year supply contract.

2011

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

- LISI COSMETICS was deconsolidated on January 1, 2011 following the sale completed as at April 6, 2011. For the record, the division generated a turnover of €52.8m in 2010.
- The Creuzet Group was purchased and consolidated as of July 1, 2011. It contributed €58.9m to the sales revenue over a six-month period.

2012

The LISI Group recorded a further increase in performance in terms of sales revenue and profit for the year 2012, thanks to the very significant growth of the Aerospace Division and despite the difficulties of the Automotive Division.

On May 29th, LISI AUTOMOTIVE sold 100% of its holdings in its subsidiary KNIPPING UMFORMTECHNIK GmbH to Gris Invest SAS for an amount of €2.8 million.

Merger of Indraero Morocco and Creuzet Morocco.

6.3 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

6.4 INCORPORATION AND TERM - ARTICLES OF ASSOCIATION

Incorporation and term

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

Purpose

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

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

Financial Year

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

Specific statutory clauses

Article 17 – Distribution of earnings

- Out of the distributable profit, all amounts the Shareholders' General Meeting shall decide to carry forward to the next year or allocate to the creation of extraordinary, contingency, or other funds, with or without a special allocation, shall be withdrawn first. The remainder is distributed between the shareholders, in proportion to the share capital held.

- Each shareholder may be granted the option of receiving payment in cash or in shares under the terms provided for by law, for all or part of the dividend or the advance on the dividend distributed.

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

- Shareholder meetings are held and deliberate in accordance with the applicable legal provisions. They meet at the head office or at any other location specified in the meeting notice.

- The Shareholders' Meeting is composed of all the shareholders, regardless of the number of shares they own, provided that the shares are fully paid-up. The right to attend in person or to be represented by proxy is subject:
  1. For registered shareholders, to the registration of their shares in a pure or administered personal account at least 5 days before the date of the Meeting;
  2. For holders of bearer shares, if any exist, to the submission within the same period of time, of a certificate established by the authorized proxy acknowledging the unavailability of the shares registered in the account until the date of the Meeting.
     However, the Board of Directors may, as a general rule, reduce or waive this time period.

- The Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by the oldest Deputy Chairman, or in the absence of a Deputy Chairman, by the most senior director present at the Meeting. Failing this, the Meeting may elect its own Chairman.

- Barring any legal or regulatory measures to the contrary, each member of the Shareholders' Meeting is entitled to as many share votes as he owns or represents, both in his own name and as a proxy, without limitation. However, certain shares have double the voting rights of other shares in view of the proportion of share capital they represent, namely:

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

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

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

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

Article 9 – Disclosure Requirements

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

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

- The company's shares are indivisible.

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

- Without prejudice to the provisions covered in article 356-1 of law no. 66-537 of July 24, 1966, any person who owns or acquires at least 3% of share capital either directly or indirectly, as set forth under the provisions of said article 356-1, must report the total number of shares that he owns by recorded delivery with confirmation of receipt to the company's registered office within 15 days of this 3% threshold being exceeded.

Shareholders are also required to inform the company within the same time period should their stake dip below the aforementioned thresholds.

In the event that beneficial share ownership is not reported in accordance with the aforementioned procedures, the shares that exceed the reporting threshold shall be deprived of voting rights for all Shareholders' Meetings held within a period of up to 3 months after the date the declaration of beneficial ownership is finally made in accordance with the proper procedures, by one or more shareholders who jointly own at least 5% of share capital, as recorded in the minutes of the Shareholders' General Meeting.

6.5 CONSULTATION OF CORPORATE DOCUMENTS

The corporate documents pertaining to LISI S.A. (by-laws, Shareholders' General Meeting reports, Auditors' reports and all documents available to shareholders) can be viewed upon request at the corporation's head office at the following address: Société LISI S.A., Le Millenium, 18 rue Albert Camus, CS 70431, 90008 BELFORT Cedex.

2

FINANCIAL SITUATION

1 OVERVIEW OF THE MAIN ACTIVITIES

1.1 LISI AEROSPACE

€592m
SALES REVENUE

5,205
STAFF

€38.5m
INVESTMENTS

Activity
Fasteners and assembly and structural components for the aerospace industry

Flagship 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, high strength superalloys), inserts and studs.

Special parts
Specialty non-structural fasteners (clip nuts, quarter turns, spacers, etc.), bolts, assembly equipment.

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

Structural components
Sheet metal or formed parts and composite structural parts, complex assembled subsets, integrated into the cell or the aircraft engine: blades, leading edges, beams, ferrules, inlet lips, helicopter floor, APU exhaust, etc. Indoor equipment for aircraft and helicopter unloaders.

Customers

Airbus;
Boeing;
Bombardier;
CFAN;
Dassault;
EADS;
Embraer;
Eurocopter;
Finmeccanica;
GEAE;
Pratt & Whitney;
Rolls Royce;
Safran;
Spirit;
Formula 1
and Nascar for Racing.

Competitors

ACB;
Alcoa Fastening Systems;
Alu Menzinken;
Breeze Eastern;
Dembiermont;
Doncaster;
Figeac Aero;
First Rikson;
Forge Ital;
Karlton-PCC;
Klune;
Lauak;
MacStarlite;
Manoir Aerospace;
Mettis;
MIFA;
On Board;
PFW;
Potez;
Precision Castpart Corp;
Slicom;
TECT;

1.2 LISI AUTOMOTIVE

€426.6m
SALES REVENUE

3,213
STAFF

€28.0m
INVESTMENTS

Activity
Fasteners and assembly components for the automotive industry

Flagship products

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

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

Mechanical safety components
Torsion bars; guide rods; brake hoses; parking brake system; seat mechanism pinions and linkage; engine and gearbox components; steering components; airbag system components.

Customers

BMW;
Daimler;
Ford;
Opel;
PSA;
Renault-Nissan;
VW-Audi;
Autoliv;
Bosch;
CBI;
Delphi;
Faurecia;
JCI;
Magna;
Plastic Omnium;
TI automotive;
TRW;
Visteon;
ZF;
BSH;
Franke;
Schneider.

Competitors

ABC;
Agrati;
TFA;
Bulten;
Emhart;
Fontana;
ITW;
Kamax;
Nedschroef;
A.Raymond;
RUIA;
SFS;
TRW Fasteners.

1.3 LISI MEDICAL

€65m
SALES REVENUE

475
STAFF

€11.6m
INVESTMENTS

Activity
Medical implant and auxiliary parts sub-contractor

Flagship products

LISI MEDICAL SEIGNOL – HUGUENY & JEROPA
Orthopedic, trauma, spinal, maxillofacial and dental implants and instruments.

LISI MEDICAL ORTHOPAEDICS
Orthopedic, trauma, spinal, maxillofacial and dental implants and instruments.

Customers

Stryker;
Zimmer;
Smith & Nephew;
Tornier;
LDR Medical;
Newdeal Integra;
Biomet;
Medacta;
Ace Surgical;
Biosense Webster

Competitors

Symmetry;
Orchid / Sandvick;
Greatbatch;
Paragon;
Accelent;
Teleflex / Tecomet;
Marle;
Norwood;
IMDS.

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

2.1 LISI CONSOLIDATED

The LISI Group recorded a further increase in performance in terms of sales revenue and profit for the year 2012, thanks to the very significant growth of the Aerospace Division and despite the difficulties of the Automotive Division. These positive results are reflected by the following figures:
- sales revenue of €1,081.3m, up +16.9%
- operating profit of €100.4m, up +29.0%
- net earnings per share of €5.47, up +18% on a comparable basis.

At constant exchange rates and scope of consolidation, growth was up 8.8%. It stood up throughout the year with the effect of a higher comparison base. It should be noted that the Group's scope of consolidation in 2012 was very similar to that of 2011 following a period of intense reorganization between 2010 and 2011.

Comments regarding Q4 business

	LISI Consolidated	of which LISI AEROSPACE	of which LISI AUTOMOTIVE	of which LISI MEDICAL
Q1	281.2	141.8	122.0	17.9
Q2	276.5	151.4	109.3	16.2
Q3	260.2	145.3	98.3	17.0
Q4	263.5	153.1	97.0	13.8
2012	**1,081.3**	**591.7**	**426.6**	**64.8**

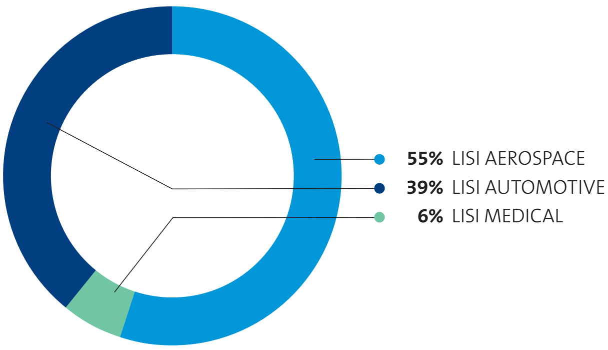
In Q4, the Group achieved sales of €263.5 million, against €245.0 million in 2011, up 7.5%. Over the quarter, while LISI AEROSPACE saw its growth slow down compared to the same period of the previous year which had achieved +77.5% due to the acquisition of Creuzet Aéronautique, it continued to increase in absolute terms (20.6% in Q4). The Group notes, however, a very clear adjustment of the automotive demand (-5.2% in Q4), as well as medical demand, which has suffered from the slowdown in orders at the end of the period (-15.1%). At constant scope and exchange rates, sales increased by 8.8% including an unfavorable dollar effect on the period, the scope effect being negligible.

Activity summary at December 31,

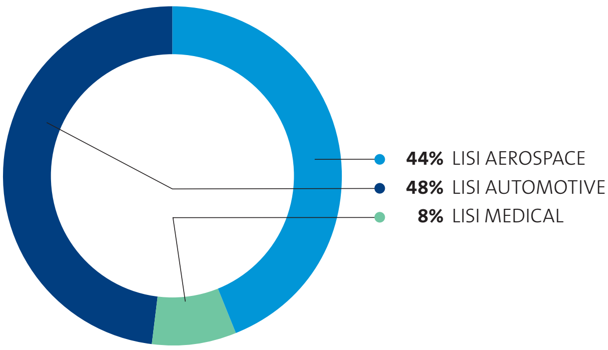
12 months ending December 31,		2012	2011*	Changes
Key elements of the income statement				
Sales revenue	€m	1,081.3	925.1	+16.9%
EBITDA	€m	154.8	122.1	+26.8%
EBITDA margin	%	14.3	13.2	+1.1 pts
EBIT	€m	100.4	78.1	+28.6%
Current operating margin	%	9.3	8.4	+0.9 pts
Earnings attributable to holders of company equity	€m	57.3	59.2	-3.2%
Net earnings per share	€	5.47	5.70	-4.0%
Key elements of the cash flow statements				
Operating cash flow	€m	119.7	95.3	+25.6%
Net CAPEX	€m	-78.4	-64.9	+20.8%
Operating free cash flow (FCF)[1]	€m	38.5	6.4	
Key elements of the financial structure				
Net debt	€m	76.7	102.6	- 25.2%
Ratio of net debt to equity		13.3%	19.1%	-5.8 pts

* The Group anticipated as at January 1, 2012 the implementation of the revised IAS 19. The 2011 statements have been restated accordingly.
1 Free cash flow: operating cash flow from operations less net capital expenditures and changes in working capital requirements. See Chapter 3 note 2.5.2.4 Cash and cash equivalents.

Breakdown of 2012 sales revenue



Breakdown of 2011 sales revenue



Following the acquisition of the Creuzet Aéronautique group and thanks to strong organic growth at LISI AEROSPACE, the Group now achieves over 55% of its sales revenues in the aerospace field, as against 44% in 2011; automotive business represents only 39%, as against 48% in 2011. LISI MEDICAL contributes 6% to the consolidated sales revenues.

The Group has for several years conducted a strategy to gain market share with its main customers by meeting their highest standards for reliability and innovation. During fiscal 2012, approximately 70 customers accounted for 80% of sales.

Highlights for fiscal 2012

The Group benefited from the reconfiguration of its scope carried out in 2011, including:

- Sales and production growth in the "Aerospace Fasteners" division, firstly in Europe, and then with a solid continuation during the year on the part of the American platform,
- Integration of 3 sites acquired with the Creuzet Aéronautique group, to create the "Structural Components" division. This resulted in the signing of major contracts on new programs A350 - A320 Neo - LEAP, etc., significant capital expenditures and the implementation of the Group's improvement plan,
- the consolidation of LISI MEDICAL (investments, "Lean manufacturing", commercial deployment),
- the industrial reorganization of LISI AUTOMOTIVE under way, with the necessary readjustment of costs. Following the disposal of KUT (Herscheid - Germany) in May 2012, the reorganization should continue in 2013 with the cost reduction and recovery plan for the Puiseux (France) site and the project to combine sites in the "nuts" business. On this last point, an initial briefing and consultation of the Central Works Council of LISI AUTOMOTIVE Former was held February 13, 2013. Management presented there the plan to gradually consolidate the production of nuts on two other sites, which would eventually imply the shutdown of the Thiant (Nord) site.

The investment level is very significant

2012 represents a new milestone in the ambitious capital expenditure program launched in 2010: the amount disbursed for investments amounted to €78.4 million (vs. €64.9 million in 2011) and was mainly allocated to new product development, productivity and quality, and to improving production conditions. As examples, the Group has:

- extended significantly the Marmande production site for LISI AEROSPACE Creuzet specializing in titanium products,
- kicked off the production of a new surface treatment line in Torrance (USA) for LISI AEROSPACE Fasteners USA,
- improved the critical situation of the bottlenecks at the Kierspe (Germany) plant for LISI AUTOMOTIVE,
- increased the capacity of certain lines and set up the prototyping unit at Caen for LISI MEDICAL.

Social and societal information (Art. R 225-105)

Throughout the year 2012, LISI Group subsidiaries complied with their regulatory obligations, both through the negotiation of labor agreements and the implementation of appropriate action plans: employment of older workers, gender equality, disabled workers, well-being at work, profit sharing bonus.

The LISI Group Senior Management became seriously involved at its highest levels in the areas of health, safety and the environment. At all levels, the LISI Group has as its objective to:

- reach the level of performance excellence in the areas of Health and Safety, while keeping control over the occupational hazards generated by its activities,
- make Workplace Safety a vector of continuous improvement, including in areas that are not directly related to it.

In order to ensure and achieve this goal, LISI has adopted HSE (Health Safety Environment) policy and organization to identify key areas for improvement, prioritize goals, and derive the appropriate actions. This policy and organization are based on the international OHSAS 18001 standard (international standard governing the management system of health and safety at work).

In 2012, at constant scope, the number of workplace accidents with work stoppage that involved an employee (TF0) was reduced to 8.0 per million hours worked, or 4.6% better than in 2011, and 13.7 for the number of work accidents with and without work stoppage (TF1), 12.6% less than in 2011. These constitute the best results achieved since 2005, when these statistics were first consolidated for the entire Group.

Several of the Group's sites have had no accident with work stoppage: Escondido (USA), Saint-Ouen l'Aumône, Lure, Gummersbach (Germany), Vignoux-sur-Barangeon, City of Industry (USA). Others have had no accident at all – whether with or without stoppage – e.g. Beijing (China), Casablanca Creuzet (Morocco), Cejc (Czech Republic), Paramount (USA), Tangier (Morocco).

To continue on this path of continuous improvement, all of the Group's sites should, by the end of 2013, have their management systems for health and safety at work certified as per the international OHSAS 18001 standard.

Finally, complementary remuneration tools have enabled some employees, depending on the social or taxation opportunities available, to benefit from supplementary pension schemes, company savings plans, the performance share allocation scheme and the profit-sharing bonus. In 2012, the LISI Group invested more than € 4 million to enable its employees to take advantage of these additional forms of compensation. In addition, bonuses paid or allocated in 2012 under profit-sharing and participation agreements amounted to over €11 million.

Head count

At December 31, 2012, the Group employed 8,909 employees, an increase of the total workforce of 397 people, which represents an improvement of 4.7% compared to 2011.

This increase of the total head count is due on the one hand, to a strong increase in the workforce of LISI AEROSPACE (528 more employees than in 2011 representing an increase of 11.3%) and on the other hand, to an adjustment of the head count within LISI AUTOMOTIVE (-99 persons / -3%) and LISI MEDICAL (-33 persons / -6.5%).

	2012	2011	Difference	as a %
LISI AEROSPACE	5,205	4,677	+528	+11.3%
LISI AUTOMOTIVE	3,213	3,312	-99	-3%
LISI MEDICAL	475	508	-33	-6.5%
LISI SA	16	15	+1	+6.7%
TOTAL	**8,909**	**8,512**	**+397**	**+4.7%**
Temporary employees	**563**	**627**	**-64**	**-10.2%**

Environmental information (Art. R 225-105)

For several years, the LISI Group was fully engaged in placing environmental issues at the heart of its corporate culture in order to turn them into intrinsic values.

The policy and organization put in place are based on the international standard ISO 14001 (international standard governing the management system of the environment).

At the end of 2012, excepting the recently acquired sites in Casablanca and Szediszsow (LISI AEROSPACE Creuzet - Poland), all other sites were certified according to the international standard ISO 14001.

Moreover, at the LISI Group level, environmental indicators are monitored semi-annually to assess the impact of the production facilities on the environment.

	LISI AEROSPACE		LISI AUTOMOTIVE		LISI MEDICAL		LISI Group		
Indicators for 2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**Trend**
Water consumption m^3 / €'000 produced	0.37	0.34	0.82	0.80	0.19	0.21	0.60	0.55	-8%
Battery consumption MWh / €'000 produced	0.20	0.15	0.39	0.41	0.13	0.15	0.30	0.28	-5%
Consumption of Hazardous Products kg / €'000 produced	0.24	0.14	0.26	0.34	-	-	0.23	0.23	0%
Waste generation kg / €'000 produced	9.9	9.2	42.5	46.5	5.1	6.5	27.4	27.3	0%

Data on a like-for-like basis: excluding Marmande, Argenton s/ Creuse, Casablanca, Szediszsow.

Group sites implement several local actions to reduce their consumption of water and energy. These activities have helped to justify the reduction of water consumption per €'000 produced by 8% and energy consumption per €'000 produced by 5%.

Moreover, the LISI Group monitors the groundwater quality of its oldest, most risky sites in terms of pollution. In this area, the LISI Group observes strict compliance with local regulations. Thus, some industrial areas require regular monitoring of underground water quality.

To prevent any chronic pollution and in accordance with applicable regulations, the production sites dump their hazardous products on appropriate retentions and seek, to the extent possible, to replace them with other, less harmful products.

Waste production, meanwhile, remained stable at 27.3 kg per €'000 produced. The vast majority of the produced waste is recycled (metal and plastic).

2012 financial results

LISI AEROSPACE is the main contributor to the Group's results pending an improvement in the "Structural components" segment. The LISI AUTOMOTIVE division is sharply down due to adjusting production to the deteriorating market and continuing operating difficulties at some sites.

The LISI MEDICAL division still remains marginal in size and its results are down.

However, all management indicators are up, particularly in absolute value. Gross operating profit was up 26.8% to €154.8m, which is 14.3% of sales revenues. EBIT is up more significantly at €100.4m (+28.6%), which was 9.3% of sales revenues, as against €78.1m in 2011, despite write-downs of €55.6m, compared with €47.7m in 2011. So thanks to the excellent performance of LISI AEROSPACE as compared with the low point in 2010, the operating margin was up almost 1.0 point from one year to the next. At 9.3%, it was close to the nominal target of 10%.

Non-current expenses were fairly high for the 2012 financial year and reflect the consequences of the difficult and possibly long-term situation in the European automobile market. This has led to an impairment of intangibles of €3.4m in the clipped fasteners business. In addition, the Group has also made provisions for several environmental risks for getting up to standard and for some pockets of "historical pollution", which led to an additional provision of €5.6m.

Non-operating revenues are made up on the one hand of the cost of financing, which shows almost €1m in savings due to a drop in the rates of the non-hedged part, and on the other hand, foreign exchange fluctuations, which generated a profit for non-operating income in this financial year of €2.3m. This figure includes the positive effect of foreign exchange hedging of €1.2m. It should also be noted that effective hedging permitted maintaining operating income at €3.2m.

The tax bill reflects an average tax rate of 30.19% (excluding surplus and the Contribution on Companies' Added Value (CVAE), taking into account that the "Employment Competitiveness Tax Credit" economic tax measures in France do not affect the 2012 financial year and a certain number of provisions are not immediately deductible. This rate is accordingly up on 2011 (29.71%).

At €57.3m net income is accordingly virtually stable, while in 2011 it included almost €9.8m of capital gains from the disposal of LISI COSMETICS; on a comparable basis, it was up 18%.

Earnings per share were €5.47 as against €5.70 in 2011.

The financial structure is strengthening while allowing a very high level of investment

At €78.4m, which was 7.3% of sales revenues, the level of investment outlays has reached a high point that reflects the many new product development projects in the 3 divisions:

- increased capacity in the aerospace division
- renewal of the equipment and productivity efforts in the automotive division
- expanded technological capabilities in medical.

Consolidated working capital requirements remained virtually stable in absolute terms, and improved slightly in relative terms to less than 85 days. With cash flow at a good level at €119.7m, investments could be easily handled while maintaining a positive net Free Cash Flow of €38.5m, as compared with €6.4m in 2011.

The Group has accordingly been able to continue to reduce its borrowings, to post net borrowings of €76.7m (as against €102.6m at the end of 2011). Its financial structure is particularly strong since the ratio of net debt to equity of €576.0m ("gearing") stood at 13.3% against 19.1% last year.

Capital employed, even if it continues to increase to €738.3m (as against €709.9m in 2011), has been optimized: profitability has continued to rise for 3 successive years. ROCE is now 15.5% (as against 13.3% in 2011).

OUTLOOK: Ongoing dynamic outlook in aerospace, but more uncertain in automotive and in the recovery in medical

The American platform of LISI AEROSPACE Fasteners should take over from the European operations through the effect of the increased implementation of the new contract with Boeing. At the same time, LISI AEROSPACE's Structural components business ought to see growth at the same rate as the production of the major manufacturers. On the other hand, the automotive industry, on account of its heavy exposure to the European market, has an uncertain outlook, which, however, is nuanced by opportunities to take market share in Germany and new projects in general. The medical business ought now to demonstrate its full potential with the launch of major new developments.

The Group has just passed a strategic milestone by going beyond sales revenues of €1 billion. It has to continue to improve operating conditions to achieve a double-digit consolidated operating margin and keep Free Cash Flow clearly positive.

The deployment of the "LEAP" plan within the Group has facilitated implementation of "lean manufacturing" methods at all the sites with encouraging results at the pilot plants.

The Group's three divisions have to contribute to the target of improving operating profitability in 2013:

- The aerospace division still has growth potential in the USA and in the structural components business. Better use of production capacity at the Torrance plant should therefore lead to an improved contribution by the American platform. The subsidiaries Creuzet Aéronautique and Indraero Siren also ought to improve their contributions. On the other hand, Fasteners in Europe will no longer benefit from the volumes generated by setting up the A350 production line, which was significant in 2011 and 2012.

- The automotive division is ready to enter 2013 under difficult conditions, with business still lifeless at French car manufacturers and a situation of launching new products that is weighing on productivity. This division's ability to recover must be judged in the long-term, with performance remaining very low compared with historic figures.
- Business in the LISI MEDICAL division should become consolidated with the launch of several projects and the Group's desire to redeploy towards customers and segments that offer middle- and long-term growth.

At the same consolidation scope, the economic uncertainties do not allow us to hope for levels of growth in 2013 as dynamic as those in 2011 and 2012.

The Group has the advantage of a solid financial situation, which will allow it to grasp opportunities that might occur in the aerospace or medical fields and to continue its ambitious industrial investments plan in its three divisions. LISI is in this way demonstrating the validity of its long-term strategy model that is based on areas with quite different business cycles. Continued growth will remain balanced between internal and external growth, together with constant management efforts.

2.2 LISI AEROSPACE

In 2012, LISI AEROSPACE achieved sales revenue of €591.7m, up 45.1% compared to 2011.
The division's three strategic units have contributed to such strong growth:

- Kickoff of the Boeing Commercial Aircraft contract: the resulting growth acceleration of the US "Fasteners" platform was particularly noticeable in the second half (+26%).
- In Europe, strong business development and delivery of components for the A350. Representing more than the equivalent of a dozen chipsets, however, it slowed down gradually in the second half of the year (+20% in H2 and +12% in Q4).
- Consolidation and integration of the "Structural components" Business Unit which produces positive effects (business growth of +18% during H2 2012). In contrast, the fire at the Colomiers (Haute-Garonne) site disrupted activity and added complexity to the integration of Indraero Siren into the Group.

In addition, the division gained medium-term visibility with the completion of major contracts on platform structuring programs such as the A320 NEO and the A350 or the B787 or equipment such as GENX or LEAP engines. In 2012, Airbus was the division's top customer, although it was considerably caught up by Boeing (up 50% over last year), which now represents directly and indirectly about 20% of LISI AEROSPACE sales.

Market

EXPANSION OF THE AEROSPACE MARKET

The economic situation was very favorable, driven by aircraft of 100+ seats:

- increased rates on all of the range's aircraft both at Airbus and Boeing;
- acceleration of the new A380, B787 programs, despite the technical difficulties encountered by manufacturers;
- strong business development related to the A350, the A320 NEO, and the B737 MAX.

Upstream, the global air passenger traffic remains strong with an increase over the period of the same order of magnitude as in 2011, or 6% (source: IATA November 2012) and a fill factor of companies of 79% (against 78.1% in 2011). 31% of world traffic was carried out in Asia, as in previous years.

Airbus

For the 11th consecutive year, Airbus increased its production and delivered to 89 customers (of which 17 new ones) a record 588 units, up 10% compared to 2011 (534). The manufacturer exceeded its goal of 650 orders, capturing 914 gross orders. Its order book sets a new record with 4,682 units worth over $638 billion.

Deliveries break down into 455 single-aisle aircraft (421 in 2011) and 103 widebody aircraft (87 in 2011), highlighting the success of the A330 family whose monthly production rates have never been that significant (9.5 in 2012 and 10 scheduled for spring 2013). The A380 was produced in 30 units (26 in 2011).

Development and industrialization of the A350 XWB are continuing. The final assembly line is fully operational, and the first flight is expected during the first half of 2013.

The launch of the A320 NEO is going according to plan and most packages have been allocated during the year 2012.

The development phase of the A400M ends with more than 300 hours of operation and reliability of tests leading to the civil and military certification is planned for the first quarter of 2013. The first delivery is scheduled for the second quarter of 2013, with a total of four deliveries by the end of the year (3 for the French Air Force and for the Turkish army).

Boeing

Boeing ended the year 2012 with historically high performance, with 1,203 net orders for commercial aircraft (the second best year in its history) and 601 aircraft delivered, the best year since 1999. Such performance resulted from higher production rates and for the 737 program, an unprecedented number of orders (4,373 units) and deliveries:

- 1,124 net orders for the 737 family, with 914 orders for the 737 MAX,
- 46 B787s were delivered during the year,
- the 777 program totaled 83 deliveries,
- 31 aircraft in the Intercontinental and Cargo versions of the new 747-8 were delivered in 2012.

Other aircraft markets

The helicopter market was very well maintained, both for civilian and military programs, with a growing market benefiting from the acceleration of new programs.

Other markets such as business jets and regional aircraft remained sluggish during the period, a trend that is expected to continue in the short term.

Motorists

The aero-engine market was reorganized in 2012 and competition toughened between the various players. The market of engines for short-haul aircraft (A320 Neo, B737 Max) is growing rapidly because of the very large backlog of their respective manufacturers, Airbus and Boeing.

In this very important market in volume, competition is organized between Pratt & Whitney with its NGPF Pure Power engine and the GE-SNECMA alliance with its LEAP engine.

GE with its GP7000, GE90-115 range for widebody aircraft, the B777 and A380, is continuing its ramp-up.

Activity

In €m	2012	2011**	Changes
Sales revenue	591.7	407.6	+45.1%
EBIT	91.3	51.1	+78.4%
Operating cash flow	87.6	57.0	+53.6%
Net CAPEX	-38.5	-25.0	+54.0%
Registered employees at period end	5,205	4,677	+11.3%
Full time equivalent head count*	5,456	4,141	+31.8%

* Including temporary employees
** The Group anticipated as at January 1, 2012 the implementation of the revised IAS 19. The 2011 statements have been restated accordingly.

In a business with high fixed costs such as the aerospace components industry, the volume effect is key and may, when ramp-up conditions are met, generate the expected margin level to finance large investments and the working capital requirements. The level of activity between the various sites is balancing gradually, thereby contributing to a more harmonious overall result.

Up 78.4% compared to 2011, EBIT reached €91.3 million and the current operating margin stood at 15.4%, an increase of 2.9 percentage points in one year. This increase reflects the volume effect mentioned above, a positive exchange rate effect and hedging on the dollar (+€1.5 million) and a general improvement in productivity (+€5.5 million). The fact that the division was prepared since 2010, ahead of cycle, accounts for the fact that the recovery could be absorbed under such excellent conditions.

Hiring staff continued, concentrated on the Torrance site in the United States (+ 100), Izmir - Turkey (+ 80) an in Casablanca - Morocco (+84 people) to reach 5,456 full-time equivalents in December 2012.

Investments were supported and totaled €38.5 million disbursed over the period and €47.3 million of commitments. Among the investments made, one should mention the extension of the new plant in Marmande (Creuzet Aerospace) for around €8 million and the new surface treatment unit project in Torrance (USA) for approximately $11 million.

Free Cash Flow is very positive due to the good level of profitability but also to the significant effort on working capital in general and inventories in particular: these decreased by some 18 consumption days.

OUTLOOK

While no threat can be perceived on the aerospace to date, one should nevertheless assess the growth prospects taking into account the foreseeable inventory effects:

- European business should see a pause in growth after the last very dynamic 3 years and the development of the assembly line for the A350,
- activity in the United States still has a significant growth potential that could be put off by the B787's technical problems,
- finally, the "Structural components" business, which is more correlated with the assembly rates of its major customers Airbus, Safran and GE, and driven by the industrialization of new products and the positioning on aircraft and engine programs for tomorrow - contracts signed for the A350, the A320 NEO, the LEAP engine, the GE engines - should experience a new dynamic year.

In terms of profitability, the division reaches levels that ought to be consolidated. Business (volume effect) can not grow at the same growth rate as in 2012, while still remaining very strong, if production rate increases and developments of major projects keep their promises.

The amount of investments corresponding to such new projects and to capacity increases should be higher than in fiscal 2012.

2.3 LISI AUTOMOTIVE

LISI AUTOMOTIVE achieved sales of €426.6m in 2012. The decrease of 4.4% compared to the previous year reflects the following developments:

- Continuous deceleration of business over the period, but less rapidly than the European market, without collapsing at the end of the period (- 5.2% in Q4 2012).
- Difficulties adjusting productivity and fixed costs (50% are represented by labor) in the division's current structure.
- Reorganization efforts: disposal of KUT in May 2012 and close-down of the electric screw workshop at Delle at the end of the year. The effects of these measures on fixed costs in particular, should be felt from 2013.
- Slight drop in the volume of new products (10% in annualized revenue, compared to 13% for fiscal 2011, which was a rather busy year).
- Marked decrease in the sales revenue achieved with PSA, but market share gained with Renault, which helped limit this customer's decline. However, sales with VW and BMW are up without this being sufficient to compensate for the loss of activity from French manufacturers.
- Continued growth of the two Chinese LISI AUTOMOTIVE plants at a rate of about 23%.

Market

European registrations are steadily decreasing with a strong decrease in December (-16.3%) or -7.8% over the year (source ACEA - EU 27 + EFTA). This decrease has spared neither Germany (-16.4% in December, - 2.9% over the year) nor France (-13.9% in December); the only European market that remains positive is the UK (+5.3% in 2012 compared to 2011).

European sales by LISI AUTOMOTIVE customers fell sharply in Q4 and even more in December, displaying a decrease of -8.2% over the year and production of -7.6%. French customers are the most affected with PSA (-12.9%) and Renault-Dacia (-18.9%). In particular, the production of Renault's French factories was halved over the last 5 years. German customers were rather more resilient throughout the year (-1.1%), BMW (-1.4%) and Daimler (-2.2%).

Activity

In €m	2012	2011**	Changes
Sales revenue	426.6	446.3	-4.4%
EBIT	2.3	23.7	-90.2%
Operating cash flow	22.3	28.7	-22.2%
Net CAPEX	-28.0	-35.6	-21.3%
Registered employees at period end	3,213	3,312	-3.0%
Full time equivalent head count*	3,263	3,406	-4.2%

* Including temporary employees
** The Group anticipated as at January 1, 2012 the implementation of the revised IAS 19. The 2011 statements have been restated accordingly.

The drop in volumes weighs heavily on the absorption of fixed costs and especially productivity. Selling prices suffer inertia from the price reductions granted and negotiated in 2011, while wage increases have a chisel effect of more than €2 million.

In addition, the disposal of KUT deprives the division of €4.8 million in sales compared to 2011 and of a fixed charge coverage. One should also note a surcharge of €750k compared to 2011 to launch new products that will produce their effect in 2013.

The adjustment of variable costs (-9.6%) is correct, excluding the payroll (+0.7%). However, the drop in volumes affects the coverage of fixed costs that are down by only -2.2%. The adjustment efforts, which began to take effect at the end of the year, must accelerate in 2013.

Average annual manpower was down 143 out of a total of 3,263 (-4.2%), which is insufficient to accommodate the decrease in activity.

As a result, EBIT amounted to €2.3 million, compared to €23.7 million achieved in 2011. The operating margin is only 0.5%, against 5.3% in the previous year. This collapse is mainly due to the decrease in activity, the persistence of operating difficulties at Puiseux, the non-adjustment of fixed costs and significant accounting entries (non-monetary) in 2011 related to the integration of the Bonneuil and La Ferté-Fresnel sites (-€11.5 million compared to 2011).

Investment remained strong in terms of disbursements at €28.0 million in 2012 against €35.6 million in 2011. Commitments are at the same level of €29.3 million to address the significant efforts put forth to improve productivity and the necessary renewal of equipment (cold stamping), as well as the deployment of the Movex 3 management system.
However, Free Cash Flow was resilient (-€4.1 million) due to lower inventories, cash consumption remaining confined to the division's debt.

OUTLOOK

No recovery was perceptible in January and one should rather expect a stabilization of demand compared to the level of Q4.

If the firm JD Power (LMCA) expects a further decline in the European market in 2013 (-3.2%), it considers that the production of LISI AUTOMOTIVE customers in Eastern Europe and Asia should remain strong.

Orders for the new PSA platform, the ones captured from German manufacturers and from certain parts manufacturers, will help amortize the market decline expected especially in H1 2013.

The plan to adapt the "Focus" structures should help lower fixed costs in the second half of 2013. The "Albatros" plan aims to reduce by 40% the production surfaces at Puiseux (Val d'Oise) and reduce costs in significant proportions. Finally, concerning the "Nuts" plan, an analysis of the situation reveals a structural, sustainable decline in one of the division's activities, namely the manufacture of nuts for automobiles.

Therefore, in order to safeguard its competitiveness, LISI AUTOMOTIVE Former introduced an industrial and commercial project in the field of nuts.

An initial briefing and consultation of the Central Works Council of LISI AUTOMOTIVE Former was held February 13, 2013. Management presented there the plan to gradually consolidate the production of nuts on a limited number of sites, which would eventually imply the shutdown of the Thiant (Nord) site.

Aware of the social and human consequences that would result from stopping the activities of the Thiant site (107 employees concerned), LISI AUTOMOTIVE Former also introduced a Job Protection Plan reflecting its commitment to do its best to support its employees to the extent possible.

All these measures are very important and necessary to ensure the gradual recovery of the division's profitability, which should be noticeable only towards the end of 2013 and 2014.

Investment efforts will continue at the same level in 2012 in order to support all of the division's major projects and allow the necessary improvement in performance.

2.4 LISI MEDICAL

The year 2012 was characterized by the following main events:

- Orders from new clients and new structuring projects for LISI MEDICAL Orthopaedics with the significant strengthening of the "Development" teams.
- LISI MEDICAL Fasteners develops new capabilities in the field of Peek cages (spine) with promising opportunities.
- Continued repositioning of LISI MEDICAL Jeropa (USA) on the Spine and Trauma-ends segments with many projects under study.
- Slowdown in demand towards year end as a result of the implementation of the Excise Tax in the United States, resulting in difficulties in stabilizing the volumes, the context and the customers, while the product mix is evolving significantly.

Market

The decrease in the average annual growth of the global orthopedics and dentistry market, about 4% in 2012 compared to 7% in the post-crisis period, is particularly noticeable for the last segment. The orthopedics market is still very encouraging with the support of emerging countries.

In the last quarter of 2012, the net impact of the Obama plan measures in the United States has been significant. The lower reimbursements of medical expenses in Europe due to the deficit control policy, is an additional factor that slows down growth.

While the consolidation of outsourcing players in the medical implants industry seems to have reached a pause in 2012, the recovery of movements could occur as soon as their financial situation improves.

Activity

In €m	2012	2011**	Changes
Sales revenue	64.8	74.0	-12.4%
EBIT	2.8	5.4	-48.5%
Operating cash flow	3.1	5.5	-42.6%
Net CAPEX	11.6	4.2	+179.4%
Registered employees at period end	475	508	-6.5%
Full time equivalent head count*	511	596	-14.3%

* Including temporary employees.
** The Group anticipated as at January 1, 2012 the implementation of the revised IAS 19. The 2011 statements have been restated accordingly.

Both fastener sites at Neyron and Escondido (USA) were penalized by the decline of the dental segment without the development of new products being able to provide the necessary business to return to the breakeven point over the year. Complex projects in the field of spine or trauma require very long qualification and testing phases before LISI MEDICAL can start enjoying significant sales revenues.

On the other hand, the site of LISI MEDICAL Orthopaedics in Caen (Calvados) has worked a lot on the deployment of new activities and customers. The -12.4% decline in sales revenue is explained by the weakness of the dental segment and a unfavorable basis of comparison with 2011 which saw LISI MEDICAL Orthopaedics enjoy the positive accelerating effects of the Stryker contract for €6m. Excluding this effect, the residual drop is entirely due to the adjustment of the dental segment. The division's output was slashed by 18% to reduce inventories. At the same time, the division must keep intact, and even strengthen, its capacities for business projection and technical studies. Therefore, a full, 6-strong, development team, was integrated into LISI MEDICAL Orthopaedics in September; the sales force was also consolidated on the other sites. While conducting these programs, LISI MEDICAL maintained a satisfactory level of profitability: EBIT amounted to €2.8 million with an operating margin of 4.3%, compared with €5.4 million and 7.3% in 2011, respectively.

Free Cash Flow is slightly negative (-€1.2 million) and reflects the high level of investment of €11.6 million, which takes into account €4.7m for the acquisition of buildings and land at Neyron. The €6.9 million of equipment were mainly devoted to LISI MEDICAL Orthopaedics (€6.1 million) for the establishment of a knee and prototypes unit, and for robotic finishing means.

OUTLOOK

The recovery observed in January 2013 seems promising and should be confirmed.

Stopping partial unemployment was decided in January 2013 for all sites thanks to the development of new projects, and in particular with major customers in emerging markets.

LISI MEDICAL is today a coherent and consistent group with a long-term industrial approach totally dedicated to the needs of its major customers.

The year 2013 must prove the relevance of this approach in this demanding market for the production of medical implants.

3

CONSOLIDATED FINANCIAL STATEMENTS

1 FINANCIAL STATEMENTS

1.1 INCOME STATEMENTS

(in €'000)	Notes	12/31/2012	12/31/2011***
Pre-tax sales	**2.6.1**	**1,081,341**	**925,095**
Changes in stock, finished products and production in progress		9,105	25,668
Total production		1,090,446	950,763
Other revenues*		16,925	14,457
Total operating revenues		**1,107,371**	**965,221**
Consumed goods	2.6.2	(301,821)	(275,698)
Other purchases and external charges	2.6.3	(204,490)	(187,797)
Value added		**601,060**	**501,726**
Taxes and duties**		(8,674)	(7,687)
Personnel expenses (including temporary employees)		(437,578)	(371,952)
EBITDA		**154,808**	**122,087**
Depreciation		(55,560)	(47,718)
Net provisions		1,170	3,764
EBIT		**100,418**	**78,133**
Non-recurring operating expenses	2.6.6	(9,267)	(2,931)
Non-recurring operating revenues	2.6.6	47	10,645
Operating profit		**91,199**	**85,847**
Financing expenses and revenue on cash	2.6.7	(3,664)	(4,401)
Revenue on cash	*2.6.7*	*1,006*	*658*
Financing expenses	*2.6.7*	*(4,672)*	*5,059*
Other interest revenue and expenses	**2.6.7**	**1,295**	**1,588**
Other financial items	*2.6.7*	*15,413*	*9,942*
Other interest expenses	*2.6.7*	*(14,119)*	*(8,354)*
Taxes (of which CVAE Tax on Companies' Added Value)**	2.6.8	(31,715)	(24,808)
Profit (loss) from assets held for sale			805
Profit (loss) for the period		**57,115**	**59,030**
attributable as company shareholders' equity		57,287	59,177
Interest not granting control over the company		(172)	(147)
Earnings per share (in €):	**2.6.9**	**5.47**	**5.70**
Diluted earnings per share (in €):	**2.6.9**	**5.47**	**5.70**

* In order to provide readers of the financial statements with better information that is in accordance with international standards, in the 2012 financial statements the Company has continued classifying revenues related to CIR (Research Tax Credit) as "Other Revenues".

** As at December 31, 2012, in accordance with the CNC (National Accounting Committee) notice of January 14, 2010, the amount of CVAE (Tax on Companies' Added Value) was classified as "Corporate Taxes" (on profits) in the sum of -€5.6m.

*** The group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes..

STATEMENT OF OVERALL EARNINGS

(in €'000)	12/31/2012	12/31/2011*
Profit (loss) for the period	**57,115**	**59,030**
Other elements of overall earnings		
Exchange rate spreads resulting from foreign business	(3,907)	3,949
Change in fair value of cash flow hedging instruments	(53)	1,277
Actuarial gains and losses out of employee benefits	(4,652)	(2,721)
Restatements of treasury shares	48	113
Payment in shares	1,473	979
Other portions of global earnings, after taxes	**(7,091)**	**3,597**
Total overall income for the period	**50,024**	**62,627**

* The group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

1.2 STATEMENT OF FINANCIAL SITUATION

ASSETS

(in €'000)	Notes	12/31/2012	12/31/2011**
LONG-TERM ASSETS			
Goodwill	2.5.1.1	178,612	182,611
Other intangible assets	2.5.1.1	14,052	15,382
Tangible assets	2.5.1.2	343,896	326,872
Long-term financial assets	2.5.1.4	5,977	5,642
Deferred tax assets	2.5.7	14,289	24,685
Other long-term financial assets	2.5.1.5	937	24
Total long-term assets		**557,763**	**555,216**
SHORT-TERM ASSETS			
Inventories	2.5.2.1	246,711	238,879
Taxes – Claim on the state		49	915
Trade and other receivables	2.5.2.2	153,133	158,847
Other short-term financial assets	2.5.2.3	71,535	51,883
Cash and cash equivalents	2.5.2.4	30,625	45,675
Total short-term assets		502,053	496,199
TOTAL ASSETS		**1,059,816**	**1,051,415**

TOTAL EQUITY AND LIABILITIES

(in €'000)	Notes	12/31/2012	12/31/2011**
SHAREHOLDERS' EQUITY			
Capital stock	2.5.3.1	21,573	21,573
Additional paid-in capital	2.5.3.2	70,803	70,803
Treasury shares		(14,616)	(15,461)
Consolidated reserves		445,588	399,954
Conversion reserves		(2,383)	1,599
Other income and expenses recorded directly as shareholders' equity		(3,598)	(414)
Profit (loss) for the period		57,287	59,177
Total shareholders' equity - Group's share	2.5.3	**574,657**	**537,232**
Minority interests		1,360	1,458
Total shareholders' equity		**576,017**	**538,690**
LONG-TERM LIABILITIES			
Long-term provisions	2.5.4.1	64,054	53,850
Long-term borrowings	2.5.6.1	111,004	136,408
Other long-term liabilities	2.5.5	7,608	5,725
Deferred tax liabilities	2.5.7	23,511	37,625
Total long-term liabilities		**206,178**	**233,608**
SHORT-TERM LIABILITIES			
Short-term provisions	2.5.4.1	16,483	14,737
Short-term borrowings*	2.5.6.1	67,851	63,788
Trade and other accounts payable		188,093	194,711
Taxes due		5,194	5,882
Total short-term liabilities		**277,621**	**279,117**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,059,816**	**1,051,415**
** of which banking facilities*		*10,892*	*29,565*

** The group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

1.3 CASH FLOW MOVEMENT TABLE

(in €'000)	12/31/2012	12/31/2011*
OPERATING ACTIVITIES		
Net earnings	**57,115**	**59,030**
Elimination of net charges not affecting cash flows :		
- Depreciation and non-recurrent financial provisions	59,444	47,665
- Changes in deferred taxes	(1,966)	297
- Income on disposals, provisions for liabilities and others	8,326	(10,190)
Gross cash flow margin	**122,919**	**96,801**
Net changes in provisions provided by or used for current operations	(3,241)	(1,503)
Operating cash flow	**119,678**	**95,299**
Income tax expense (revenue)	33,681	24,511
Elimination of net borrowing costs	3,390	4,009
Effect of changes in inventory on cash	(6,030)	(33,562)
Effect of changes in accounts receivable and accounts payable	4,055	13,203
Net cash provided by or used for operations before tax	**154,774**	**103,459**
Taxes paid	(34,442)	(28,138)
Cash provided by or used for operations (A)	**120,332**	**75,321**
INVESTMENT ACTIVITIES		
Acquisition of consolidated companies	(10)	(100,000)
Cash acquired		5,569
Acquisition of tangible and intangible fixed assets	(79,268)	(65,182)
Acquisition of financial assets		
Change in granted loans and advances	(438)	(150)
Investment subsidies received		
Dividends received		
Total cash used for investment activities	**(79,716)**	**(159,764)**
Divested cash	744	(6,476)
Disposal of consolidated companies	2,805	31,920
Disposal of tangible and intangible fixed assets	857	277
Disposal of financial assets	1	22
Total cash from disposals	**4,407**	**25,742**
Cash provided by or used for investment activities (B)	**(75,309)**	**(134,021)**
FINANCING ACTIVITIES		
Capital increase	(16)	
Net disposal (acquisition) of treasury shares		
Dividends paid to shareholders of the Group	(13,531)	(10,913)
Dividends paid to minority interests of consolidated companies		
Total cash from equity operations	**(13,547)**	**(10,913)**
Issue of long-term loans	37,665	87,914
Issue of short-term loans	704	229
Repayment of long-term loans	(4,041)	(2,062)
Repayment of short-term loans	(37,079)	(18,520)
Net interest expense paid	(3,510)	(4,052)
Total cash from operations on loans and other financial liabilities	**(6,261)**	**63,509**
Cash provided by or used for financing activities (C)	**(19,808)**	**52,596**
Effect of change in foreign exchange rates (D)	(2,435)	122
Reclassification (D)	496	1,018
Changes in net cash (A+B+C+D)	**23,276**	**(4,964)**
Cash at January 1st (E)	67,993	72,957
Cash at year end (A+B+C+D+E)	91,269	67,993
Other short-term financial assets	71,534	51,883
Cash and cash equivalents	30,624	45,675
Short-term banking facilities	(10,892)	(29,565)
Closing cash position	**91,269**	**67,993**

* The group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

Disposals of consolidated companies resulted from the sale of KNIPPING UMFORMTECHNIK GmbH.

The underlying constituent of "Other current financial assets" may have maturities greater than three months but their availability can be achieved at any time and they do not pose a risk at the change in value.

1.4 STATEMENT OF SHAREHOLDERS' EQUITY

(in €'000)	Capital stock	Capital-linked premiums (Note 7.3)	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholders' equity	Profit for the period, group share	Group's share of shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at January 1, 2011*	**21,573**	**70,803**	**(15,202)**	**379,825**	**(2,392)**	**(62)**	**32,924**	**487,468**	**858**	**488,325**
Profit (loss) for the period N (a)							59,177	59,177	(147)	59,030
Translation differential (b)					3,991			3,991	(42)	3,949
Payments in shares (c)						979		979		979
Capital increase										
Restatements of treasury shares (d)			(259)			113		(146)		(146)
Restatements as per IAS19 (g)						(2,721)		(2,721)		(2,721)
Appropriation of N-1 earnings				32,924			(32,924)			
Change in methods				(1,428)				(1,428)		(1,428)
Change in scope									789	789
Dividends distributed				(10,913)				(10,913)		(10,913)
Reclassification										
Restatements of financial instruments (f)						1,277		1,277		1,277
Various (e)				(454)				(454)		(454)
Shareholders' equity at December 31, 2011*	**21,573**	**70,803**	**(15,461)**	**399,954**	**1,599**	**(414)**	**59,177**	**537,232**	**1,458**	**538,690**
of which total revenues and expenses posted for the period (a) + (b) + (c) + (d) + (e) + (f) + (g)					3,991	(352)	59,177	62,816	(42)	
Profit (loss) for the period N (a)							57,287	57,287	(172)	57,115
Translation differential (b)					(3,982)			(3,982)	75	(3,907)
Payments in shares (c)						1,473		1,473		1,473
Capital increase			(16)					(16)		(16)
Restatements of treasury shares (d)			861			48		909		909
Restatements as per IAS19 (g)						(4,652)		(4,652)		(4,652)
Appropriation of N-1 earnings				59,177			(59,177)			
Change in methods										
Change in scope				(12)				(12)		(12)
Dividends distributed				(13,531)				(13,531)		(13,531)
Reclassification										
Restatements of financial instruments (f)						(53)		(53)		(53)
Various (e)										
Shareholders' equity at December 31, 2012	**21,573**	**70,803**	**(14,616)**	**445,588**	**(2,383)**	**(3,598)**	**57,287**	**574,657**	**1,360**	**576,017**
of which total revenues and expenses posted for the period (a) + (b) + (c) + (d) + (e) + (f) + (g)					**(3,982)**	**(3,184)**	**57,287**	**50,121**	**75**	

* The Group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

2 NOTES

2.1 GROUP ACTIVITY AND KEY HIGHLIGHTS OF THE YEAR

The company LISI S.A. (hereinafter "the Company"), is a limited-liability corporation in French law, listed on the Paris stock exchange, whose head office is at the following address: "Le Millenium, 18 rue Albert Camus, CS 70431, 90008 BELFORT cedex".

The Group's consolidated accounts for the fiscal year ended December 31, 2012 include the Company, its subsidiaries and affiliates (which are together referred to as "the Group").

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

The highlights of the financial year are as follows:

• On May 29, 2012, the Group sold 100% of its holdings in its subsidiary KNIPPING UMFORMTECHNIK GmbH to Gris Invest SAS for an amount of €2.8 million.

• The goodwill of the Creuzet Group has been updated for the year 2012 (see Note 6.1.1 Goodwill).

2.2 ACCOUNTING RULES AND METHODS

The financial statements for year ending December 31, 2012 were approved by the Board of Directors on February 19, 2013 and will be submitted to the Combined General Meeting on April 25, 2013.

2.2.1 Background to the preparation of the consolidated financial statements for the 2012 financial year

In accordance with EU regulation 1606/2002 dated July 19, 2002, the LISI Group's consolidated financial statements have been prepared in line with IAS/IFRS international accounting standards as adopted by the European Union on December 31, 2012.

2.2.1.1 Standards, amendments and interpretations adopted by the EU and mandatory for reporting periods beginning on or after January 1, 2012

- The amendment to IFRS 7 "Disclosures - Transfer of Financial Assets": The application of this amendment has no material impact on the Group's consolidated financial statements as at December 31, 2012.
- The amendment to IAS 12 "Income Taxes - Deferred Tax: Recovery of Underlying Assets": this amendment is not applicable in the Group, therefore it has no impact on the Group's consolidated financial statements for fiscal 2012.

2.2.1.2 Standards, amendments and interpretations not mandatory for reporting periods beginning on or after January 1, 2012 but that may be anticipated by the Group

- Revised IAS 19: the Group has opted for early application of the revised IAS 19. The impact is detailed in Note 2.10 "Early Implementation of the revised IAS 19"

The revision of IAS 19 has as its main effects:

• to impose immediate recognition as shareholders' equity of non-recyclable actuarial gains and losses on post-employment benefits,

• to eliminate the recognition as income of the performance of plan assets on the basis of an expected rate of return (by imposing the same rate of return for investment grade bonds as the one used for stating liabilities at historical cost),

• to eliminate the spreading of past service costs,

• to improve disclosures by refocusing on the characteristics of plans and related risks.

The Group has not opted for the early implementation of the following standards, amendments and interpretations as of January 1, 2012:

- Amendment to IAS 1 "Presentation of other comprehensive income"
- Amendment to IFRS 7 "Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities"
- IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 28 "Investments in Associates"
- IFRS 13 "Valuation at Fair Value"
- IAS 32 "Presentation - Offsetting Financial Assets and Financial Liabilities"

2.2.2 Basis for the preparation of the financial statements

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

They are prepared on the basis of historical costs, with the exception of the following assets and liabilities which have been 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.

According to IFRS standards, certain accounting options involve taking positions based on judgment of assumptions that have an impact on the amounts of assets or liabilities, income or expenses, particularly regarding the following elements:

- durations of depreciation of fixed assets (notes 2.2.7.2 et 2.2.8.4),
- evaluations retained for impairment tests (note 2.2.8.5),
- evaluation of pension provisions and obligations (notes 2.2.14 and 2.2.15.1),
- valuation of financial assets at fair market value (notes 2.2.6, 2.2.8.6, 2.2.11 and 2.2.12),
- valuation of payments in equities (note 2.2.15.2),
- recognition of deferred tax assets (note 2.2.19.5).

These judgments and assumptions take into account the specific risks of the sectors concerned by LISI's activities, as well as general risks related to the economic context. The current period being characterized by greater volatility, the visibility is limited. Consequently, the forecasts used as a basis for such judgment and assumptions may differ from actual future achievements.

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.

The decisions made by the management regarding IFRS standards having a significant impact on the financial statements and estimates presenting a major risk of variation over subsequent periods mainly concern provisions (notes 2.2.14 and 2.5.4), deferred tax assets (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.).

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

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

Correlatively, the deferred tax was recorded as at January 1, 2010, for a net amount of €1.4m taken on the shareholders' equity of the Group. This stock deferred tax is included as the depreciation of fixed assets included in the calculation is recorded to the accounts. As at December 31, 2012 the balance of net deferred tax concerned stood at €0.7 million.

Treatment of the research tax credit

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

2.2.3 Consolidation principles

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. As at December 31, 2012, ANKIT Fasteners is consolidated via the proportional integration method. All the other companies are included in the consolidation scope in accordance with the full consolidation method.

2.2.4 Transactions excluded from the consolidated financial statements

Balance sheet balances, unrealized profits and losses, and income and costs arising from intra-group transactions have been excluded in preparing the consolidated financial statements.
Unrealized losses have been excluded in the same way as unrealized profits, on condition that they do not represent a loss of value.

2.2.5 Conversion methods for items in foreign currency

2.2.5.1 TRANSACTION IN FOREIGN CURRENCY

Transactions in foreign currencies are recorded in the books in the operating currency at the rate of exchange 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 TRANSLATING FINANCIAL STATEMENTS OF CONSOLIDATED SUBSIDIARIES AND JOINT VENTURES

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

2.2.6 Financial instruments

2.2.6.1 NON-DERIVATIVE FINANCIAL INSTRUMENTS

Non-derivative financial instruments include investments in equity instruments and debt securities, trade and other receivables, cash and cash equivalents, loans and debts, and trade and other payables. Non-derivative financial instruments are recognized in the accounts as indicated in the specific notes below: 2.2.8.6, 2.2.10, 2.2.11, 2.2.12, 2.2.16 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 by earnings. The profit or loss arising from the re-evaluation at fair value is immediately posted to the income statement.

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

2.2.7 Intangible assets

2.2.7.1 GOODWILL

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

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

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

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

Due to the nature of the LISI Group's research and development costs, most such costs do not meet the criteria for capitalization as intangible fixed assets; they are therefore recorded as expenses. The Group carries out regular assessments of major projects in order to identify any costs which could be capitalized.

2.2.7.3 OTHER INTANGIBLE ASSETS

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

2.2.8 Tangible assets

2.2.8.1 ASSETS OWNED BY THE LISI GROUP

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

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

2.2.8.2 ASSETS FUNDED THROUGH FINANCE LEASES

Leases which transfer virtually all the risks and benefits relating to the ownership of an asset to the Group are 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 furniture: 10 years
- IT hardware: 3 years

2.2.8.5 IMPAIRMENT OF ASSETS

Goodwill and intangible fixed assets of indefinite life-span are submitted to a depreciation test at each annual close (see note 2.2.7.2) and each time events or market-changing modifications indicate a risk of impairment. Other intangible assets fixed and tangible fixed assets are also subject to such a test at any time when there is a risk of loss of value.

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

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

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

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

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

Losses of value recognized under Goodwill are irreversible.

For the definition of Cash-Generating Units, the Group has retained the strategic combination of Business Units (B.U.) corresponding to the strategic segmenting and the reporting structure of the LISI Group.

The LISI AEROSPACE division is split into 7 CGUs:
• Europe B.U.,
• USA B.U,
• Specialty Fasteners B.U.,

- Engines and critical parts Europe B.U.,
- Engines and critical parts North America B.U.,
- Aerostructure and Aviation equipment B.U.,
- Technical components B.U.

The LISI AUTOMOTIVE division is split into 3 CGUs:
- Threaded fasteners B.U.,
- Mechanical components B.U.,
- Clipped solutions B.U.

The MEDICAL 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 in their current condition. Finished products and work in progress are valued at actual production cost over the period, including an appropriate portion of general costs based on normal production capacity.

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

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

2.2.10 Trade and other receivables

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

2.2.11 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 AFEI professional code of ethics recognized by the AMF (the French stock markets 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 REMUNERATIONS IN SHARES (STOCKS OPTIONS AND CONDITIONAL AWARD OF SO-CALLED PERFORMANCE SHARES)

Refer to note 2. .15 "Personnel benefits ».

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 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 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.
The requirements of IFRIC 14 do not fall within the scope of adjustments to be applied by the Group.

The Group has opted for the early adoption of the revised IAS 19 standard from January 1, 2012, actuarial gains and losses are recognized as other comprehensive income.
The excess or shortfall of the fair value of assets over the present value of bonds is recognized as assets or liabilities on the balance sheet. However, excess assets are only recognized on the balance sheet if they represent a future economic advantage for the Group.

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

2.2.15.2 SHARE-BASED PAYMENTS

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

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

In the case of plans for share-purchase options and bonus shares based on performance, these benefits correspond to the fair market value of the instruments awarded, and are valued using a 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 four years from the allocation date, in accordance with the vesting period of the rights contained in the plan rules, with regard to call option plans;
- over a period of two years from the allocation date, in accordance with the vesting period of the rights contained in the plan rules, with regard to the allocation of performance shares.

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 Debt

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

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

2.2.19.1 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 of non-consolidated companies is recognized in the income statement when the Group becomes entitled to receive payments, i.e., in the case of quoted securities, on the coupon date.

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

2.2.19.5 INCOME TAXES

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

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

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

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 consolidation scope makes profits in the near future.

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

2.2.19.6 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 Segment information

The LISI Group presents its segment information in accordance with the criteria defined by IFRS 8.
An operating segment is a component of an entity:

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

and

- for which discrete financial information is available.

The Group's activities in 2012 are spread over three business segments, in which the three divisions operate:

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

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

2.3 CONSOLIDATION PERIMETER

2.3.1 Changes in consolidation scope in the financial year 2012

The major scope changes are the following:

Disposal of KNIPPING UMFORMTECHNIK Gmbh

Exiting company	Type of change	Date of transaction	Date of deconsolidation
KNIPPING Umformtechnik GmbH	Disposal of 100% of equity interests	05/29/2012	06/01/2012

2.3.2 Impact on Group indicators of changes in scope that occurred in 2012

Exiting company	KNIPPING UMFORMTECHNIK GmbH	impact on the Group's indicators
Sales revenues 2011	€8.73m	0.94
EBIT 2011	€0.61m	0.80

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

2.3.3 Consolidation scope at year end

Companies	Head Office	Country	% of control	% interests
Holding company				
LISI S.A.	Belfort (90)	France	Parent company	
LISI AEROSPACE				
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
A1	Paramount (California)	USA	100.00	100.00
LISI AEROSPACE NORTH AMERICA	Torrance (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
LISI AEROSPACE India Pvt Ltd	Bangalore	India	100.00	100.00
ANKIT Fasteners Pvt Ltd	Bangalore	India	49.06	49.06
LIXUS Industrie	Tangiers	Morocco	100.00	100.00
LISI AEROSPACE CREUZET	Paris 12e (75)	France	100.00	100.00
CREUZET AERONAUTIQUE	Marmande (47)	France	100.00	100.00
INDRAERO SIREN	Argenton/Creuse (36)	France	100.00	100.00
INDRAERO Morocco	Casablanca	Morocco	100.00	100.00
CREUZET Poland	Sedziszow Malopolski	Poland	70.00	70.00
LISI AUTOMOTIVE				
LISI AUTOMOTIVE	Delle (Belfort (90)	France	100.00	100.00
SOCIETE NOUVELLE BONNEUIL	Delle (Belfort (90)	France	100.00	100.00
LISI AUTOMOTIVE Nomel	La Ferté Fresnel (61)	France	100.00	100.00
Lisi AUTOMOTIVE FORMER	Delle (Belfort (90)	France	100.00	100.00
LISI AUTOMOTIVE Mohr und Friedrich	Vöhrenbach	Germany	100.00	100.00
LISI AUTOMOTIVE Rapid	Puiseux Pontoise (Val d'Oise (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	Hong Kong	Hong Kong	100.00	75.00
LISI AUTOMOTIVE SHANGHAI Co. Ltd	Shanghai	China	100.00	75.00
LISI AUTOMOTIVE Knipping Verbindungstechnik GmbH	Kierspe	Germany	100.00	100.00
LISI AUTOMOTIVE BETEO GmbH	Gummersbach	Germany	100.00	100.00
LISI AUTOMOTIVE BETEO GmbH & CO KG	Gummersbach	Germany	100.00	100.00

Companies	Head Office	Country	% of control	% interests
LISI AUTOMOTIVE KNIPPING Espana S.A.	Madrid	Spain	100.00	100.00
KNIPPING Ltd	Solihull	UK	100.00	100.00
LISI MEDICAL Division				
LISI MEDICAL JEROPA INC.	Escondido (California)	USA	100.00	100.00
LISI MEDICAL	Neyron (Ain (01)	France	100.00	100.00
SEIGNOL / HUGUENY	Neyron (Ain (01)	France	100.00	100.00
LISI MEDICAL Orthopaedics	Hérouville Saint-Clair (14)	France	100.00	100.00

The following company was deconsolidated:

On June 1, 2012: Disposal of KNIPPING Umformtechnik GmbH

The following companies were merged:

On December 31, 2012 with retroactive effect as at January 1, 2012: CREUZET Morocco (absorbed) and INDRAERO Morocco (absorbing).

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 centrally administered by the Financial Department of the LISI Group. Cash flows are managed through a convention on cash pooling with the objective of maximum liquidity without risk. Current investments are monetary mutual funds, structured investments and remunerated 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.

Securities risk
LISI S.A's share portfolio is not a speculative, rather of investments and holdings, and accordingly no particular share represents a risk. As at December 31, 2012, the Group's balance sheet displays cash and cash equivalents for €30.6m. 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 121,223 own shares and the disposal of 185,047 own shares in 2012 result in a €0.9m 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, 2012, the LISI Group had several confirmed, unused medium-term bank credits for a total amount of €31 million. At December 31, 2012, the Group also had unused overdrafts amounting to €56 million. If one integrates these amounts to net cash of €91m, the LISI Group had €178 million as at December 31, 2012. Therefore, the Group considers its risk of liquidity to be low at December 31, 2012. The ratio of net debt to equity stood at 13.3% at December 31, 2012 against 19% at December 31, 2011, 1, as indicated below.

At 13.3% at December 31, 2012, the net debt to equity ratio was far below 120%, a limit that would be likely, according to certain bank covenants, to lead to the early repayment of past drawdowns.

(in €'000)	**12/31/2012**	**12/31/2011**
Other short-term financial assets	71,535	51,882
Cash and cash equivalents	30,625	45,675
Cash available [A]	**102,160**	**97,557**
Short-term banking facilities [B]	10,892	29,565
Net cash [A - B]	**91,268**	**67,992**
Credits	148,644	149,552
Other financial creditors	19,320	21,079
Debt [C]	**167,964**	**170,631**
Net debt [D = C + A - B]	**76,696**	**102,638**
Group equity [E] *	**574,657**	**537,232**
Debt ratio (expressed as %) [D / E]	**13,3%**	**19,1%**

* The group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

N. B.: 2010 reminder of the debt ratio as a %: 3.6%

The cash table for all financial liabilities is as follows:

Financial liabilities recorded on balance sheet	**At 12/31/2012**	**Breakdown of contractual flows not discounted on due date**			
(in €'000)	**Net value**	**Within less than one year**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	111,004		106,981	4,023	111,004
Other long-term financial liabilities (excl. PCA)	5,218		5,071	147	5,218
Short-term borrowings	67,851	67,851			67,851
Trade and other accounts payable	188,093	188,093			188,093
Total financial liabilities	**372,166**	**255,944**	**112,052**	**4,170**	**372,166**

Financial liabilities recorded on balance sheet	**Au 12/31/2011**	**Ventilation des flux contractuels non actualisés par échéance**			
(in €'000)	**Net value**	**Within less than one year**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Long-term borrowings	136,408		128,214	8,194	136,408
Other long-term financial liabilities (excl. PCA)	4,237		4,091	146	4,237
Short-term borrowings	63,788	63,788			63,788
Trade and other accounts payable	194,711	194,711			194,711
Total financial liabilities	**399,144**	**258,499**	**132,305**	**8,340**	**399,144**

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.

Hedging and market transactions on interest rates, exchange rates or securities using futures instruments are recorded in accordance with the provisions of CRBF rules nos. 88-02 and 90-15. Commitments relating to these transactions are posted to off-balance sheet accounts for the nominal value of the contracts. As at December 31, 2012, the sum of these commitments represented the volume of transactions that remained unsettled at year-end.

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

The commitments are detailed in paragraph 2.7.4.1 of this annual report.

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 policy to reduce its exposure to interest rate fluctuations, the Group partly 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. The Group took out such hedging positions in 2012 to the tune of €32.9m in order to profit from the observed decrease in rates. Therefore, as at December 31, 2012, its hedging position stood at €75.3m. The hedging rate at December 31, 2012 stood at 54.2%. 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, 2012 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 €'000)	31/12/12	31/12/11
Loans – variable rates	138,900	138,446
Short-term banking facilities	10,892	29,565
Other current and non-current financial assets	(35,892)	(24,472)
Cash and cash equivalents	(30,625)	(45,675)
Net position prior to management	**83,275**	**97,864**
Interest rate swap	75,353	51,500
Hedging	**75,353**	**51,500**
Net position after management	**7,922**	**46,364**

The approach taken consisted in taking into account as a calculation basis for the sensitivity to rates the net, lending and borrowing positions.
As at December 31, 2012, the impact of the non hedged portion of 100 basis points of variable rate change stood at +/- €0.1 million.

Commodities price fluctuation risk

This issue is dealt with in Chapter 5 § 4.6.1.

Currency risk
Due to its worldwide presence and its lines of business, the LISI Group is exposed to currency fluctuations.

The Group's main currencies for receivables, related to its customers' billing currencies, are the euro and the US dollar.

The main currencies for accounts payable, related to the production countries, are the euro, the US dollar, the pound sterling, the Canadian dollar and the Turkish pound and, to a lesser extent, the Czech crown, the Polish zloty, the Moroccan dirham, and the yuan.

In order to cover its exposure to currency risk, LISI has decided to hedge its main currencies.

LISI has thus hedged its net requirements in pounds sterling, Turkish lira and Canadian dollar for the years 2013 and 2014, and his well as its net surplus in dollars for 2013 to 2015.

The hedging was ensured by the use of optional instruments, that enable the Group to improve its visibility on profitability by neutralizing the changes in currency exchange rates.

2.5 DETAIL OF BALANCE SHEET ITEMS

2.5.1 Non-current assets

2.5.1.1 INTANGIBLE ASSETS

a) Goodwill

(in €'000)	Goodwill
Gross goodwill at December 31, 2011	**182,611**
Impairment at December 31, 2011	**0**
Net goodwill at December 31, 2011	**182,611**
Increase	2,406
Decrease	(2,300)
Changes in foreign exchange rates	(705)
Gross goodwill at December 31, 2012	**182,012**
Impairment at December 31, 2012	**(3,400)**
Net goodwill at December 31, 2012	**178,612**

The €2,300K decrease is associated with the sale of KNIPPING Umformtechnik GmbH.

The €2,406K decrease is associated with the discounting of the goodwill of the Creuzet Group for the fiscal year 2012. Risks relating to events or circumstances existing at the date of acquisition and that would have changed the accounting for the combination at the date of acquisition, if they had been known at that date, have been observed since December 31, 2011. In accordance with IFRS 3, the Group changed the goodwill accordingly.

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

The €3,400K impairment recorded at December 31, 2012 concerns the Clipped Solutions business unit of the LISI AUTOMOTIVE division.

As at December 31, 2012, the net value of goodwill broke down as follows:

	LISI AEROSPACE						
In €m	**Europe Unit B.U**	**Engines and critical parts Europe B.U**	**USA Unit B.U**	**Engines and critical parts North America B.U**	**Special products B.U**	**Structural components B.U.**	**Total**
Net goodwill	**1.1**	**3.3**	**20.0**		**7.5**	**38.9**	**70.8**
Intangible fixed assets with an undetermined useful life	None	None	None	None	None	None	
Result of the impairment test	NA - no sign of impairment	NA - no sign of impairment	No impairment	NA - no sign of impairment	No impairment	No impairment	
Key assumptions							
Cash flow within one year			Forecasts		Forecasts	Forecasts	
Cash flow within four years			Year strategic plan		Year strategic plan	Year strategic plan	
Discount rate after tax			7.00%		7.00%	7.00%	
Growth rate of flows not covered by the assumptions and			2.50%		2.50%	2.50%	

	LISI AUTOMOTIVE			
In €m	**Threaded fasteners B.U.**	**Mechanical components B.U.**	**Clipped solutions B.U.**	**Total**
Net goodwill	**20.1**	**1.4**	**40.3**	**61.7**
Intangible fixed assets with an undetermined useful life	None	None	None	
Trademarks	None	None	4.4	4.4
Result of the impairment test	**No impairment**	**NA - no sign of impairment**	**Impairment €3.4 million**	
Key assumptions				
Cash flow within one year	Forecasts		Forecasts	
Cash flow within four years	Year strategic plan		Year strategic plan	
Discount rate after tax	8.50%		8.50%	
Growth rate of flows not covered by the assumptions and	2.50%		2.50%	

In €m	LISI MEDICAL
Net goodwill	**46.1**
Intangible fixed assets with an undetermined useful life	None
Result of the impairment test	No impairment
Key assumptions	
Cash flow within one year	Forecasts
Cash flow within four years	Year strategic plan
Discount rate after tax	7.50%
Growth rate of flows not covered by the assumptions and	2.50%

The impairment tests relative to financial 2012 were materialized upon the closing of accounts: they have led to the recognition and the recording of an impairment loss of €3.4 million on the "Clipped Solutions B.U." CGU reflecting the impact of the difficult and potentially sustainable situation of the European automotive market.

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 2.50% to extrapolate the cash flow projections, and taking into account benchmark elements implemented within certain references, particularly in the automotive industry,
- an after-tax discount rate of 8.50% on the CGUs of LISI AUTOMOTIVE, and 7% on the CGUs of LISI AEROSPACE and 7.5% on the CGUs of LISI MEDICAL, 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. 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 2012 to 2016.

Sensitivity tests for the assumptions retained were undertaken and related to the major indicators factoring into these value tests: discount rates, elements contributing to cash flows (variation in working capital and investments). These sensitivity tests showed that the limit between the value in use and the net asset is attained for the variation in these calculation parameters:

LISI AEROSPACE
B.U. USA
Discount rate: + 11%
Decrease in cash flows: - 72%
Infinite growth rate: NA

B.U. Special Products
Discount rate: +38%
Decrease in cash flows: - 90%
Infinite growth rate: NA

B.U. Structural Components
Discount rate: +1.8%
Decrease in cash flows: -31%
Infinite growth rate: -2.1%

LISI AUTOMOTIVE
B.U. Threaded fasteners:
Discount rate: +2%
Decrease in cash flows: -28%
Infinite growth rate: NA

B.U. Clipped Solutions:
Discount rate NA
Decrease in cash flows: NA
Infinite growth rate: NA

LISI MEDICAL Division
B.U. Medical:
Discount rate: +2.2%
Decrease in cash flows: - 32%
Infinite growth rate: NA

b) Other intangible assets

(in €'000)	Concessions, patents and similar copyrights *	Other intangible assets	TOTAL
Gross values at December 31, 2011	**38,058**	**13,322**	**51,380**
Other net changes		(9)	(8)
Acquisitions	3,982	1,525	5,506
Disposals	(282)	(7)	(289)
Scope changes	(18)		(18)
Exchange rate spreads	1	(1)	(0)
Gross values at December 31, 2012	**41,740**	**14,829**	**56,570**
Depreciation at December 31, 2011	**30,508**	**5,490**	**35,998**
Depreciation allowance	3,790	3,253	7,043
Depreciation reversals	(329)	(180)	(509)
Scope changes	(17)		(17)
Exchange rate spreads	3	(1)	2
Depreciation at December 31, 2012	**33,955**	**8,563**	**42,518**
Net values at December 31, 2012	**7,785**	**6,267**	**14,052**

* Including the Rapid brand

The RAPID brand was valued when the company was acquired in August 2000 at its fair value of €8.3m, 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 increase in "Concessions, patents and similar rights" concerns mainly the implementation of the ERP Movex 3 in the LISI AUTOMOTIVE division for €3 million.

2.5.1.2 TANGIBLE ASSETS

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

(in €'000)	Land	Buildings	Technical facilities, equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2011	**15,248**	**121,562**	**597,253**	**74,311**	**19,091**	**827,465**
Other net changes	420	5,134	26,032	(166)	(31,421)	
Acquisitions	810	6,789	21,815	6,410	33,943	69,767
Disposals	(9)	(752)	(7,241)	(1,643)	(26)	(9,672)
Scope changes	(208)	(995)	(3,360)	(418)		(4,980)
Exchange rate spreads	1	20	(341)	(53)	(35)	(408)
Gross values at December 31, 2012	**16,262**	**131,758**	**634,158**	**78,441**	**21,552**	**882,172**
Depreciation at December 31, 2011	**447**	**51,303**	**419,702**	**45,765**	**12**	**517,228**
Other net changes	17	201	(274)	34	18	(4)
Depreciation allowance	468	6,067	36,077	5,945	178	48,736
Depreciation reversals	(1)	(601)	(6,923)	(1,184)	(26)	(8,735)
Scope changes		(327)	(2,862)	(320)		(3,508)
Exchange rate spreads		21	(312)	(35)	(2)	(327)
Depreciation at December 31, 2012	**931**	**56,665**	**445,408**	**50,206**	**180**	**553,389**
Net values at December 31, 2012	**15,331**	**75,093**	**188,751**	**28,236**	**21,373**	**328,783**

b) Tangible assets held under a lease finance agreement

(in €'000)	Land	Buildings	Technical facilities, equipment and tools	Other tangible assets	Current assets	TOTAL
Gross values at December 31, 2011		**10,590**	**18,600**			**29,190**
Other net changes						
Acquisitions						
Disposals			(11)			(11)
Exchange rate spreads		(14)	(6)			(20)
Net values at December 31, 2012		**10,576**	**18,583**			**29,159**
Depreciation at December 31, 2011		**2,452**	**10,102**			**12,554**
Other net changes						
Depreciation allowance		312	1,176			1,488
Depreciation reversals						
Scope changes						
Exchange rate spreads		(1)	5			4
Depreciation at December 31, 2012		**2,762**	**11,283**			**14,046**
Net values at December 31, 2012		**7,813**	**7,300**			**15,113**

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

c) Operating lease agreements

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

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

The total annual expense is approximately €7.5 million.

2.5.1.3 INVESTMENTS

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

Financial assets and liabilities recorded on balance sheet (in €'000)	At 12/31/2012		Breakdown by instrument category				
	Net value	Fair value	Fair value via earnings	Assets available for sale	Loans and receivables	Debt at depreciated cost	Instruments derivatives
Long-term financial assets	5,977	5,977			5,977		
Other long-term financial assets	937	937			937		
Trade and other receivables	153,133	153,133			153,133		
Short-term investments	71,535	71,535	67,542				3,993
Cash and cash equivalents	30,625	30,625	30,625				
Total financial assets	**262,207**	**262,207**	**98,167**		**160,047**		**3,993**
Long-term borrowings	111,004	111,004				109,332	1,672
Other long-term financial liabilities (excl. PCA)	5,218	5,218				5,218	
Short-term borrowings	67,851	67,851				67,851	
Trade and other accounts payable	188,093	188,093				188,093	
Total financial liabilities	**372,166**	**372,166**				**370,494**	

Financial assets and liabilities recorded on balance sheet (in €'000)	At 12/31/2011		Breakdown by instrument category				
	Net value	Fair value	Fair value via earnings	Assets available for sale	Loans and receivables	Debt at depreciated cost	Instruments derivatives
Long-term financial assets	5,642	5,642			5,642		
Other long-term financial assets	24	24	24				
Trade and other receivables	158,847	158,847			158,847		
Short-term investments	51,882	51,882	50,605				1,277
Cash and cash equivalents	45,675	45,675	45,675				
Total financial assets	**262,070**	**262,070**	**96,304**		**164,489**		**1,277**
Long-term borrowings	136,408	136,408	1,062			135,346	
Other long-term financial liabilities (excl. PCA)	4,237	4,237				4,237	
Short-term borrowings	63,788	63,788				63,788	
Trade and other accounts payable	194,711	194,711				194,711	
Total financial liabilities	**399,144**	**399,144**	**1,062**			**398,082**	

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

Level 1: Direct reference to published prices of a market asset,
Level 2: Valuation technique based on measurable data,
Level 3: Valuation technique based on non-observable data.

Classification of fair value by hierarchical level:

	December 31, 2012		
(in €'000)	**Level 1**	**Level 2**	**Level 3**
Long-term financial assets	5,977	-	-
Other long-term financial assets	937	-	-
Trade and other receivables	-	153,133	-
Short-term investments	71,535	-	-
Cash and cash equivalents	30,625	-	-

2.5.1.4 LONG-TERM FINANCIAL ASSETS

(in €'000)	Non-consolidated equity interests	Other long-term investments	Loans granted	Other financial assets	TOTAL
Gross values at December 31, 2011		**4,393**		**1,269**	**5,661**
Other net changes					
Acquisitions		556		51	607
Disposals				(177)	(177)
Scope changes					
Exchange rate spreads		(96)		1	(94)
Gross values at December 31, 2012		**4,854**		**1,144**	**5,996**
Impairment at December 31, 2011		**8**		**11**	**19**
Other net changes					
Provisions for impairment of assets					
Reversals of impairment provisions					
Scope changes					
Exchange rate spreads					
Impairment at December 31, 2012		**8**		**11**	**19**
Net values at December 31, 2012		**4,845**		**1,133**	**5,977**

2.5.1.5 OTHER LONG-TERM FINANCIAL ASSETS

(in €'000)	12/31/2012	12/31/2011
Other debtors	937	24
Total other long-term financial assets	**937**	**24**

2.5.2 Current assets

2.5.2.1 INVENTORIES

(in €'000)	Raw materials	Tools and other procurements	Work in progress	Finished and intermediary products	Goods	TOTAL
Gross value at December 31, 2011	**55,632**	**10,757**	**105,798**	**91,480**	**16,100**	**279,769**
Scope changes	(361)	(7)	(679)	(979)		(2,027)
- of which increases						
- of which reductions	*(361)*	*(7)*	*(679)*	*(979)*		*(2,027)*
Exchange rate spreads	(56)	(1)	(121)	(403)	(38)	(619)
Changes in inventory	(1,162)	(863)	3,738	5,430	(585)	6,559
Reclassifications	(5,596)	5,978	(6,391)	4,336	1,673	
Gross value at December 31, 2012	**48,457**	**15,864**	**102,345**	**99,864**	**17,150**	**283,680**
Impairment at December 31, 2011	**9,727**	**1,017**	**8,690**	**20,823**	**633**	**40,890**
Scope changes	(53)		(119)	(119)		(292)
- of which increases						
- of which reductions	*(53)*		*(119)*	*(119)*		*(292)*
Reserve allowance for impairment	1,960	676	1,205	3,294	1,639	8,775
Provision reversal for impairment	(1,642)	(1,011)	(3,374)	(6,209)	(98)	(12,333)
Exchange rate spreads	(12)	(0)	7	(35)	(29)	(69)
Reclassifications	189	935	(2,098)	974		
Impairment at December 31, 2012	**10,168**	**1,617**	**4,312**	**18,728**	**2,146**	**36,971**
Net book value at December 31, 2012	**38,290**	**14,247**	**98,033**	**81,137**	**15,004**	**246,711**

2.5.2.2 TRADE AND OTHER RECEIVABLES

(in €'000)	12/31/2012	12/31/2011
Gross debtors and apportioned accounts	129,755	134,300
Depreciation of trade and other apportioned accounts	(4,780)	(3,795)
Net debtors and apportioned accounts	**124,975**	**130,505**
State - Other taxes and duties	16,654	16,454
Social charges & employees	440	394
Accounts payable - advances, debtors	1,020	1,387
Deferred charges	3,161	3,343
Other	6,884	6,765
Other receivables	**28,158**	**28,342**
Total trade and other receivables	**153,133**	**158,847**

The reduction in outstanding receivables is due to the sale of receivables amounting as at December 31, 2012 to €52.2 million against €44.8 million as at December 31, 2011. The fair value of these transferred assets in accordance with the IFRS 7 definition is equal to their nominal value. These transfers are made in the form of factoring with conventional subrogation, without recourse, thereby removing any exposure to a risk of financial loss. There are two contracts for the assignment of receivables, one signed for an indefinite period, the other for a period of one year, automatically renewable. These contracts provide for the opportunity to transfer receivables up to an amount of €92 million.

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

2.5.2.3 OTHER SHORT-TERM FINANCIAL ASSETS

This item consists mainly of investment securities held by the Group and in particular monetary SICAV instruments, for a total of €31.9m, and negotiable security deposits of €35.7m. The latter are recorded at their fair value, and value adjustments are recorded into the income statement. These positions are not exposed, the main backing instruments guaranteeing the capital

2.5.2.4 CASH AND CASH EQUIVALENTS

The cash available as at December 31, 2012 stood at €30.6m. It was mainly comprised of current bank accounts in euros and currencies.

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

(in €'000)	2012	2011
Effect of the change in inventories	(6,030)	(33,562)
Effect of the change in cash flow imbalances of customers and other debtors	5,117	8,149
Effect of the change in cash flow imbalances of suppliers and other creditors	(1,063)	5,053
Effect of the change in cash flow imbalances for taxes	(761)	(3,627)
Change in working capital requirements	**(2,737)**	**(23,986)**

The free cash flow broke down as follows:

(in €'000)	2012	2011
Operating cash flow	119,678	95,298
Net CAPEX	(78,411)	(64,905)
Change in working capital requirements	(2,737)	(23,986)
Free Cash Flow	**38,530**	**6,407**

2.5.3 Shareholders' equity

The Group's shareholders' equity stood at €574.7m at December 31, 2012, against €537.2m at December 31, 2011, being an increase of €37.5 million. This change takes into account the following main factors:
+€57.3 m of income for the period attributable to holders of the company's shareholders' equity,
-€13.5m of dividends paid in May 2012,
+€2.4m relative to treasury shares and payments in shares,
-€4,7m related to actuarial gains and losses on employee benefits
-€0.1 of change in fair value of cash flow hedging instruments
-€0.1 m of miscellaneous restatements,
-€4 m of translation adjustment linked to variations in closing rates, particularly regarding the depreciation of the dollar.

2.5.3.1 CAPITAL STOCK

Capital stock at year-end stands at €21,572,988, broken down into 10,786,494 issued shares with a face value of €2. No change has been recorded compared to December 31, 2011.

2.5.3.2 CAPITAL-LINKED PREMIUMS

Additional paid-in capital is broken down as follows:

Particulars of capital-linked premiums (in €'000)	12/31/2012	12/31/2011
Additional paid-in capital	53,062	53,062
Contribution premiums	15,030	15,030
Merger premiums	2,711	2,711
Total	**70,803**	**70,803**

2.5.3.3 CAPITAL MANAGEMENT

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

Instruments which provide access to the company's capital relate to the benefits conferred on managers and employees under certain conditions, as set out in Notes 2.6.9 and 2.7.2.

2.5.3.4 DIVIDENDS

The amount of (unrecognized) dividends for the 2012 financial year submitted to the Shareholders' General Meeting on April 25, 2012 for approval breaks down as follows:

Amount in €m	2012	2011
Total net dividend	15.1	13.5

This estimate is based on dividend-bearing shares as of the date of the Board meeting held February 19, 2013, or 10,786,494 shares.

The amount of (unrecognized) dividends for the 2012 financial year submitted to the Shareholders' General Meeting on April 25, 2013 for approval breaks down as follows:

Dividend per share in €	2012	2011
Dividend per share	1.40	1.30

2.5.4 Provisions

2.5.4.1 CHANGES IN PROVISIONS BREAK DOWN AS FOLLOWS:

(in €'000)	As at January 1, 2011	Provisions (net of reversals)	At December 31, 2011	Provisions	Reversals (amounts used)	Reversals (non used amounts)	Actuarial gains / losses out of shareholders' equity	Reclassifications	Entry into/exit from consolidation scope	TRANSLATION DIFFERENTIAL	At December 31, 2012
Pensions and retirement	20,438	6,717	27,155	2,154	(2,675)	(248)	5,984			(35)	32,336
Long-service medals	3,044	376	3,420	459	(99)	(28)					3,753
Environment-related risks	8,554	2,263	10,817	8,000	(2,458)	(208)		400		(75)	16,476
Disputes and other risks	3,464	2,128	5,594	1,690	(1,185)	(1,439)		(340)	(29)	(4)	4,288
Guarantees to clients	3,599	2,271	5,870	1,083	(347)	(248)					6,358
Restructuring	1,200	(1,200)									
Industrial reorganization	1,000	(850)	150		(50)	(100)					
For taxes	843		843								843
Subtotal long-term provisions	**39,023**	**9,151**	**53,849**	**13,386**	**(6,813)**	**(2,270)**	**5,984**	**60**	**(29)**	**(113)**	**64,054**
For loss on contract		600	600			(330)					270
Industrial reorganization	3,879	(2,555)	1,325	270	(336)	(21)				1	1,239
Restructuring	1,931	291	2,222	200	(1,822)						600
Environment-related risks	351	(18)	333	112	(106)						339
Disputes	974	6,637	161	223	(155)			4			233
For taxes	481	(225)	256	50	(310)			239	22	(1)	257
Other risks	7,590	2,250	9,840	7,123	(3,643)	(1,993)		2,231	(22)	10	13,545
Subtotal short-term provisions	**15,232**	**(496)**	**14,737**	**7,979**	**(6,373)**	**(2,344)**		**2,474**		**11**	**16,484**
Grand Total	**54,255**	**8,655**	**68,586**	**21,365**	**(13,186)**	**(4,614)**	**5,984**	**2,534**	**(29)**	**(102)**	**80,539**
of which as recurring operating profit				*15,865*	*(13,150)*	*(4,614)*					
of which as non-recurring operating profit				*5,500*	*(36)*						

The main provisions are in respect of:

- Pensions and retirement:

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

The Group has opted for early adoption of the revised IAS 19 standard from 1 January 2012. Therefore, all actuarial gains and losses are recognized in "Other comprehensive income" against provisions for pensions.

- 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. Due to environmental awareness of the legislator, the Group has set aside a number of provisions for environmental risks of upgrading and pockets of "historical pollution" for almost €5 million in the Automotive division and €3 million in the Aerospace division.

- Disputes and other risks:

This covers litigation or disputes with partners and service providers. Risk assessment has been calculated based on the estimated cost of the outcome of any dispute or possible transactions. Assessment of expected returns cannot be calculated as of yet.

- Industrial reorganization:

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

- Other risks:

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

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

2.5.4.2 PERSONNEL COMMITMENTS

Application of revised IAS 19 as at January 1, 2012

As indicated in Note 2.2 Accounting rules and methods, the LISI Group has opted for early adoption of the revised IAS 19 from 1 January 2012.

Therefore the financial statements for 2011 have been restated retrospectively in accordance with the new rules for comparison purposes.

The entire unfunded commitments at December 31, 2010 for employee benefits (actuarial gains and losses and past service costs) were recorded at January 1, 2011 against consolidated reserves for their amount net of tax.

The financial statements for 2011 have been subject to the following changes affecting operating income, taxes and other comprehensive income:

- Cancellation of amortization of actuarial gains and losses and past service costs recognized in the operating result,
- Immediate recognition in operating profit of past service costs incurred during the year, their spread being banned by the IAS 19 R standard,
- Evaluation of the expected return on assets using the same rate as the discount rate for liabilities,
- Recognition of actuarial gains and losses arising during the year in "other comprehensive income"
- Accounting of the impact of taxes on above-mentioned items.

Characteristics

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

Defined benefit plans

General description of the plans

Retirement allowance (France):

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

UK

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

The risks to which the plan exposes the company include: investment risk, inflation, longevity of pensioners, options, legislative.

USA

Hi Shear Corporation operates a defined benefit pension plan to which all employees who joined the company before

February 1991 are entitled. Plan assets are separate from the assets of the company and managed by a trust administered by a board of trustees.

The geographic breakdown of the Group's commitments to staff as at December 31, 2012 for defined benefit plans and the main assumptions employed in their assessment are as follows:

(in €'000)	Euro zone	USA	UK
Actuarial debt	26,611	9,444	17,889
Discount rate	2.80%	3.25%	4.30%
Inflation - Wage increase	2.50%	N/A	3.30%

The Group has opted for early adoption of the revised IAS 19 standard from January 1, 2012. Therefore, the rate of return on long-term funds is identical to the discount rate for actuarial liability. The rates of return thus employed are equal to 3.25% for American insurance plans and 4.30% for British ones.

As at December 31, 2012, the allocation of plan assets was approximately 69% in equities and 31% in bonds for the UK and 18% in equities, 47% bonds and 34% in other instruments.

The table below details the changes, during financial 2012, of the actuarial debt, and the market value of the hedging assets

(in €'000):

CHANGES IN ACTUARIAL DEBT	2012	2011*
Actuarial debt at year start	**47,894**	**40,147**
Cost of services	1,030	776
Cost of accretion	2,038	1,983
Benefits paid	(3,356)	(939)
Wind-ups	(187)	
Change in consolidation scope		1,985
Translation differential	151	(628)
Actuarial losses (gains)	7,079	4,569
Actuarial debt at year end	**54,647**	**47,894**

CHANGE IN MARKET VALUE OF HEDGING ASSETS	2012	2011*
Opening value	**20,738**	**19,710**
Contributions paid by the Group	1,336	573
Benefits withheld from fund	(2,121)	(273)
Expected yield from assets	881	987
Translation differential	172	(853)
Actuarial gains (losses)	1,305	593
Value at year end	**22,312**	**20,738**

* The group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

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

(in €'000)	12/31/2012	12/31/2011*
Liabilities recognized at year end	**(32,336)**	**(27,155)**

* The Group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

The expense recognized in the operating income statement by the Group for 2011 for defined benefits plans came to €2 million and breaks down as follows:

(in €'000)	2012	2011*
Cost of services	1,030	776
Cost of accretion	2,038	1,983
Expected yield from assets	(881)	(987)
Reductions / Wind-ups	(187)	
Change in consolidation scope		61
Recognized expense (revenue)	**1,999**	**1,832**

* The Group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

Three foreign affiliates of the LISI AEROSPACE division are concerned by the management of hedging assets. Actual performance of these assets is variable and ranges between 2% and 5%.

2.5.5 Other long-term liabilities

(in €'000)	12/31/2012	12/31/2011
Deposits and sureties received	147	146
Other long-term liabilities		23
Employee profit-sharing for the year	5,071	4,068
Deferred income	2,390	1,488
Total other long-term liabilities	**7,608**	**5,725**

2.5.6 Financial debt and financial risk management

The breakdown by accounting category and instrument class for financial liabilities is given in Notes 2.5.1.3.

2.5.6.1 DEBT

a) Breakdown by nature

(in €'000)	12/31/2012	12/31/2011
Non-current share		
Mid-term loans	96,338	119,864
Debt related to lease agreements	10,642	12,379
Employee profit-sharing (frozen on a current account)	4,023	4,166
Subtotal non-current debt	**111,004**	**136,408**
Current share		
Banking facilities for operations	10,892	29,565
Mid-term loans	52,301	29,689
Debt related to lease agreements	2,484	2,534
Employee profit-sharing (frozen on a current account)	2,174	2,001
Subtotal current debt	**67,851**	**63,788**
Total debt	**178,855**	**200,196**

b) Breakdown by due date

(in €'000)	12/31/2012	12/31/2011
Borrowings		
below one year	52,301	29,689
between two and five years	92,052	117,318
over five years	4,286	2,547
Subtotal borrowings	**148,639**	**149,552**
Other financial creditors		
below one year	15,550	34,099
between two and five years	10,725	16,544
over five years	3,940	
Other debt subtotal	**30,215**	**50,642**
Borrowings and debt	**178,855**	**200,197**

c) Breakdown by currency

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

d) Breakdown by interest rate category

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

Entities	Nature of the loan	Fixed rate	Variable rate	Total amount or not In €m	Capital remaining due at 12/31/2012 In €m	Maturity date	Items exist currency hedging or in currency
LISI S.A	Syndicated loan [1]		Euribor over the drawing period	35.0	5.0	2013	
	Conventional loan		Euribor 3 months + margin	10.0	10.0	2013	Covered by a swap
	Conventional loan		Euribor 3 months + margin	10.0	10.0	2013	
	Conventional loan		Euribor 3 months + margin	10.0	10.0	2014	Covered by a swap
	Conventional loan [2]		Euribor 3 months + margin	20.0	15.0	2016	Covered by a swap
	Conventional loan [2]		Euribor 3 months + margin	20.0	15.0	2016	Covered by a swap
	Conventional loan [2]		Euribor 3 months + margin	10.0	7.5	2016	Covered by a swap
	Conventional loan [2]		Euribor 3 months + margin	25.0	18.8	2016	Covered by a swap
	Conventional loan [2]		Euribor 3 months + margin	10.0	7.5	2016	Covered by a swap
	Conventional loan [2]		Euribor 3 months + margin	15.0	12.8	2017	
	Conventional loan [2]		Euribor 3 months + margin	10.0	8.5	2017	
INDRAERO SIREN	Conventional loan	3.80%		1.0	0.1	2013	
CREUZET AERONAUTIQUE	Conventional loan		Euribor 1 month + margin	3.9	3.7	2020	
LISI AUTOMOTIVE Former	Conventional loan		Euribor 3 months + margin	7.0	5.0	2017	Intention letter by LISI S.A
LISI AUTOMOTIVE Form as	Conventional loan		Pribor + margin	4.7	2.4	2014	Intention letter by LISI AUTOMOTIVE
LISI AUTOMOTIVE KNIPPING Espana S.A	Conventional loan		Euribor 3 months + margin	1.5	0.9	2020	
LISI AUTOMOTIVE KNIPPING Espana S.A	Conventional loan		Euribor 3 months + margin	5.0	2.4	2018	
LISI AUTOMOTIVE Shanghai	Conventional loan	5.88%		0.6	0.6	2013	
LISI AUTOMOTIVE KNIPPING Verbindungstechnik	Conventional loan	1.50%		1.1	0.2	2017	Intention letter by LISI AUTOMOTIVE
SEIGNOL / HUGUENY	Conventional loan		Euribor 3 months + margin	4.5	4.4	2024	
			Total	**204.3**	**139.7**		

2.5.6.2 RELATED COVENANTS

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

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

[1] LISI S.A. syndicated loan.
Provision of this credit in the form of a revolving credit available in euros or dollars for a sum equivalent to €35 million.

The total commitment will be automatically reduced on a straight line basis, in accordance with the depreciation table for August 7 of 2007 to 2013. LISI will not be able to draw again on all or part of the commitment, which will have been repaid. For this commitment, a draw down right of €35m was exercised and the remaining capital due on December 31, 2012 was €5m.

• Method used to calculate the margin:
Euribor or Libor + margin

Early redemption:
• Gearing ratio > than 1.2,
• Leverage ratio > than 3.5 (Net debt / EBITDA)

[2] LISI S.A. conventional loan
Early redemption:
• Gearing ratio > than 1.2,
• Leverage ratio > than 3.5 (Net debt / EBITDA)

2.5.7 Deferred taxes

(in €'000)	12/31/2012	12/31/2011
Deferred tax assets	14,289	23,596
Deferred tax liabilities	(23,511)	(38,387)
Net deferred taxes	**(9,222)**	**(14,791)**

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. Loss carrybacks not recognized in the balance sheet at December 31, 2012, would generate deferred tax assets for €5.1 million.

Deferred tax assets by early recoverability horizon

- 1 year	1 to 5 years	+ 5 years	Total
9,297	860	4,133	14,289

2.6 DETAIL OF MAIN INCOME STATEMENT ITEMS

2.6.1 Sales revenue

The breakdown of sales revenues by business segment and country is shown in Note 2.7.1, "Segment information".

2.6.2 Consumed goods

(in €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL 2012	TOTAL 2011
Consumption of goods	4,966	18,673	3,190	(1,196)	25,633	28,797
Consumption of raw materials	101,725	90,794	9,991	(57)	202,453	181,216
Tools	29,698	17,533	2,169	(37)	49,363	42,733
Other purchases	9,023	14,048	1,285	16	24,372	22,952
Total consumption	**145,412**	**141,048**	**16,635**	**(1,274)**	**301,821**	**275,698**

2.6.3 Other purchases and external charges

(in €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL 2012	TOTAL 2011
Subcontracting	23,992	36,271	3,129	(66)	63,326	63,338
Maintenance	17,903	16,720	1,945	232	36,799	31,452
Transport	7,741	9,856	335		17,932	17,520
Energy	9,663	15,436	736	9	25,844	22,392
Total other purchases and external costs	39,852	20,921	5,188	(5,379)	60,588	53,095
Total other purchases and external costs	**99,151**	**99,204**	**11,333**	**(5,204)**	**204,490**	**187,797**

2.6.4 Payroll expenses

(in €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL 2012	TOTAL 2011
Temporary employees	20,306	4,589	1,774	18	26,686	23,956
Salaries and incentives	159,254	108,672	17,767	2,256	287,950	245,394
Layoff pay	1,336	1,030	295		2,661	1,873
Social contributions and taxes on salaries	62,775	42,545	8,178	610	114,109	96,127
Employee profit-sharing	4,830		240		5,070	3,895
Pensions and long-service medals	376	543	181		1,101	707
Total payroll expenses	**248,877**	**157,379**	**28,435**	**2,884**	**437,578**	**371,952**

The increase in payroll expenses was primarily due to the high level of activity in Europe and the impact of the companies in the Structural Components segment, consolidated as of July 2011.

2.6.5 Research and development expenses

The LISI Group's mission is to carry out intensive research and development activities, both in developing new products and in using new materials. This research and development activity is carried out at various levels: either as part of a co-operative venture between research and design departments within our own divisions and those of our customers, or to develop or improve certain components or industrial processes. These are mainly comprised of personnel expenses dedicated to R&D services. Staff dedicated to R&D represent in 2012 some 2.4% of the Group's employees.

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

(In €m)	2012	2011	2010
R&D expenses	22.7	18.9	18.4
% of sales revenue	2.1%	2.0%	2.4%
Activated projects	0.2	0.7	1.0

2.6.6 Non-recurring operating expenses and revenues

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

(in €'000)	2012	2011
Non-recurring operating expenses		
Disposal of KUT	(196)	
Restructuring costs	(23)	
Industrial reorganization costs	(37)	(309)
Other costs	(111)	
Reserve allowance for industrial reorganizations	(5,500)	(1,000)
Provisions allowance for restructurings		(1,622)
Impairment of B.U. goodwill Clipped fasteners	(3,400)	
Total	**(9,267)**	**(2,931)**
Non-recurring operating revenues		
Gains from the disposal of LISI COSMETICS		9,838
Industrial reorganization plan provision reversals	36	807
Other revenues	11	
Total	**47**	**10,645**
Non-recurring revenue and expenses from operations	**(9,220)**	**7,714**

The rules for the presentation and definition of non-recurring income and expenses remain unchanged compared to December 31, 2011.

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

2.6.7 Non-operating profit

(in €'000)	2012	2011
Financing expenses and revenue on cash		
Revenue on cash	1,006	658
Impact of the change in fair value of interest rate hedges	(841)	(472)
Financing expenses	(3,831)	(4,587)
Subtotal income from cash and cash equivalents	**(3,664)**	**(4,401)**
Other interest revenue and expenses		
Foreign exchange gains	14,182	9,936
Foreign exchange losses	(13,035)	(8,354)
Impact of the change in fair value of interest rate hedges	1,231	
Other	(1,084)	6
Financial income and expenses	**1,295**	**1,588**
Non-operating profit	**(2,369)**	**(2,814)**

Financial income consists on the one hand of the cost of funding for -€3.7 million, which shows nearly €1 million of savings resulting from the drop in rates on the unhedged portion, from the effect of exchange rate changes for +€2.3 million including a positive effect of currency hedges for €1.2 million, and on the other hand of the effect of interest rate swaps for -€1 million.

2.6.8 Income tax

2.6.8.1 INCOME TAX BREAKDOWN

Breakdown (in €'000)	Profit loss before tax	Tax	Income from assets held for sale	Profit loss after tax
Income from ordinary operations	103,120	(28,401)		74,719
Non-recurring operating expenses and revenues	(9,220)	318		(8,902)
Employee profit-sharing	(5,070)	1,826		(3,245)
Tax credits		139		139
CVAE (TAX ON COMPANIES' ADDED VALUE)		(5,596)		(5,596)
Profit (loss) for the period	**88,830**	**(31,715)**		**57,115**

of which taxes due: - €28,224K
of which deferred taxes: + €1,966K

of which tax credits: + €139K

of which CVAE (Tax on Companies' Added Value): - €5,596K

2.6.8.2 PROOF OF TAX

(in €'000)	
Theoretic rate (on the basis of the French rate)	36.10%
Theoretic tax (on the basis of the French rate)	29,350
Total theoretic tax	**29,350**
Tax exemption of foreign companies	(389)
DTA not activated	(1,947)
Tax credit	(139)
Tax rate differentials on overseas subsidiaries	(3,109)
Deductible US taxes	(1,160)
Non deductible provisions	1,877
Non deductible dividends	434
Impairment of goodwill	1,264
Other	(66)
Recognized taxation	**26,114**
Apparent rate	30.19%

2.6.8.3 TAX RATES APPLIED BY LISI GROUP COMPANIES

(in €'000)	12/31/2012	12/31/2011
Germany	30.00%	30.00%
UK	23.00%	28.00%
Canada	34.12%	34.12%
Spain	30.00%	30.00%
USA	40.00%	40.00%
France	36.10%	36.10%
Czech Republic	19.00%	19.00%
China	25.00%	25.00%

2.6.9 Earnings per share

Earnings per share calculations are shown in paragraph 2.2.19.6.

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

2012 (in €'000)	Profit (loss) for the period	Number of shares	Net earnings per shares in €
Total stocks		10,786,494	
Treasury shares		(314,980)	
Basic earnings per share	**57,288**	**10,471,514**	**5.47**
Diluted earnings per share	**57,288**	**10,471,514**	**5.47**

2011 (in €'000)	Profit (loss) for the period*	Number of shares	Net earnings per shares in €*
Total stocks		10,786,494	
Treasury shares		(399,840)	
Basic earnings per share	**59,177**	**10,386,654**	**5.70**
Diluted earnings per share	**59,177**	**10,386,654**	**5.70**

* The Group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

2.7 ADDITIONAL INFORMATION

2.7.1 Segment information

The Group's business is broken down between three markets that include the following 3 operational sectors (divisions):

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

The “others” heading mainly consists of the holding company LISI S.A. and disposals.

2.7.1.1 BY LINE OF BUSINESS

(en milliers d'€)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	LISI COSMETICS	Other	TOTAL
12/31/2012						
Income component						
Sales revenue by business sector	591,664	426,565	64,838		(1,726)	1,081,341
EBITDA	119,585	27,233	4,979		3,010	154,808
Depreciation allowance and provisions	28,322	24,915	2,219		(1,066)	54,390
EBIT	91,263	2,318	2,760		4,077	100,418
Operating profit	91,163	(6,816)	2,774		4,078	91,199
Profit (loss) for the period	61,538	(12,435)	328		7,685	57,115
Balance sheet component						
Working capital requirement	178,903	66,006	15,057		7,319	267,285
Net fixed assets	245,317	223,897	73,073		252	542,537
Acquisitions of fixed assets	38,886	28,448	11,654		281	79,269
31/12/11						
Income component						
Sales revenue by business sector	407,606	446,348	74,033		(2,893)	925,095
EBITDA	73,950	39,415	8,376		346	122,087
Depreciation allowance and provisions *	22,895	15,692	2,946		2,421	43,954
EBIT*	51,055	23,723	5,428		(2,075)	78,133
Operating profit*	51,055	22,101	5,928		6,763	85,846
Profit (loss) for the period*	35,142	10,403	1,736	805	10,945	59,030
Balance sheet component						
Working capital requirement	153,698	63,254	22,433		3,757	243,143
Net fixed assets	231,841	232,011	66,469		187	530,508
Acquisitions of fixed assets	25,200	35,712	4,174		97	65,182

* The Group has opted for early application as of January 1, 2012 of the revised IAS 19; therefore, the financial statements for fiscal 2011 have been restated in accordance with the new rules for comparison purposes.

2.7.1.2 BREAKDOWN BY BUSINESS SECTOR AND BY COUNTRY

(In €'000)	LISI AEROSPACE	LISI AUTOMOTIVE	LISI MEDICAL	Other	TOTAL
31/12/12					
Income component					
Revenue by destination area					
European Union	375,732	365,814	53,641	(1,726)	793,462
of which France	*200,272*	*159,408*	*7,553*	*(1,491)*	*365,742*
Americas	189,833	21,307	9,279		220,419
Other countries	26,099	39,444	1,917		67,460
Total	**591,664**	**426,565**	**64,838**	**(1,726)**	**1,081,341**
Balance sheet component					
Net fixed assets by destination area					
European Union	142,167	219,794	61,929	776	424,666
of which France	*129,432*	*135,673*	*61,929*	*776*	*327,810*
North American continent	69,270		11,143		80,413
Africa	16,151				16,151
Asia	17,178	4,128			21,306
Total	**244,766**	**223,922**	**73,072**	**776**	**542,537**
Flows provided by or used for acquisition of fixed assets by destination area					
European Union	16,648	36,464	11,501	280	64,893
of which France	*13,597*	*28,147*	*11,501*	*280*	*53,525*
North American continent	8,340		153		8,493
Africa	1,164				1,164
Asia	3,508	1,210			4,718
Total	**29,660**	**37,674**	**11,654**	**280**	**79,269**
31/12/11					
Income component					
Revenue by destination area					
European Union	258,919	392,096	61,172	(2,884)	709,303
of which France	*132,415*	*176,098*	*10,273*	*(3,188)*	*315,598*
Americas	130,960	19,241	11,297		161,498
Other countries	17,719	35,011	1,564		54,294
Total	**407,598**	**446,348**	**74,033**	**(2,884)**	**925,095**
Balance sheet component					
Net fixed assets by destination area					
European Union	133,338	227,678	53,626	706	415,348
of which France	*124,482*	*138,575*	*53,626*	*706*	*317,389*
North American continent	69,001		11,622		80,623
Africa	13,629		1,224		14,853
Asia	15,351	4,332			19,683
Total	**231,319**	**232,010**	**66,472**	**706**	**530,507**
Flows provided by or used for acquisition of fixed assets by destination area					
European Union	17,999	34,510	3,293	97	55,899
of which France	*15,785*	*24,364*	*3,293*	*97*	*43,539*
North American continent	4,697		400		5,097
Africa	85		481		566
Asia	2,418	1,202			3,620
Total	**25,199**	**35,712**	**4,174**	**97**	**65,182**

2.7.2 Share-based payments

2.7.2.1 SHARE PURCHASE 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.

2.7.2.2 AWARD OF PERFORMANCE SHARES

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on July 28, 2010, 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: the achievement of these two criteria at the end of 2011, namely EBIT and sales revenue, resulted in the completion of 85% of that plan in 2012. The final cost was allocated to the divisions.

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on June 26, 2011, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting certain performance targets. The same went in 2012, insofar as the Board of Directors of October 24, 2012 renewed the opening of a new plan under similar conditions.

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 2012 in Payroll expenses for €1.5m for the employees of the French companies, against shareholders' equity, and for €0.5m for the employees of foreign companies, against Social liabilities. This cost was not allocated to divisions, and remains an expense at the LISI S.A. level until the definitive realization of the plan.

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

2.7.3.1 RELATED-PARTY INFORMATION

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

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

2.7.3.2 REMUNERATION OF MANAGERS AND DIRECTORS

(in €'000)	Expenses for the period 2012	Expenses for the period 2011	Liabilities At 12/31/2012
Gross short-term benefits (salaries, bonuses, etc.)	871	759	
Post-employment benefits (IFC)	306	229	306
Other long-term benefits			
Termination benefits			
Equity compensation benefits	63	43	63
Total compensation	**1,240**	**1,030**	**368**

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 2009 and 2010 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; Two additional conditions are also imposed in their case, namely, to acquire 200 shares at the end of the acquisition period and to keep a nominative portion of equity (200 shares) until the end of their function as mandated chief executives of the mother company.

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 (cf. 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 €'000	2012
Miscellaneous guarantees	174
Training entitlements	5,533
Balance of investment orders	50,557
Commitments made	**56,264**
Rate swap	79,400
Foreign exchange hedging	79,717
Reciprocal commitments	**159,117**

Reciprocal commitments:

Reciprocal commitments are interest rate swaps to hedge variable rate loans (cf. Note 2.5.6.1. Financial Debt) taken out to fund external growth. At December 31, 2012, the features of the swap contracts were as follows:

Notional at 12/31/2012	Face value In €'000	Departure date	Maturity date	Paying rate	Receiving rate	Net present value in €'000
LISI S.A.	10,000	02/06/2009	02/06/2014	2.7800%	Euribor 3 months	(328)
LISI S.A.	10,000	04/08/2009	10/08/2013	2.4900%	Euribor 3 months	(234)
LISI S.A.	15,000	09/30/2011	09/30/2016	2.0730%	Euribor 3 months	(403)
LISI S.A.	4,750	09/30/2011	09/30/2016	1.5900%	Euribor 3 months	(98)
LISI S.A.	4,750	12/30/2011	12/30/2016	1.3925%	Euribor 3 months	(83)
LISI S.A.	4,500	03/31/2012	06/30/2016	1.0750%	Euribor 3 months	(143)
LISI S.A.	15,000	05/31/2012	05/31/2017	1.0700%	Euribor 2 months	(384)
LISI AUTOMOTIVE Former	7,000	12/31/2010	12/29/2017	1.7450%	Euribor 3 months	(179)
Seignol Hugueny	4,500	09/28/2012	09/30/2014	1.3000%	Euribor 3 months	(60)
Creuzet Aeronautique	3,900	07/31/2012	07/31/2020	0.7750%	Euribor 1 month	(32)
					Total	**(1,944)**

2.7.4.2 COMMITMENTS RECEIVED AS PART OF ACQUISITIONS OF COMPANIES

LISI AUTOMOTIVE:
- In the context of the takeover of the sites of Acument La Ferté Fresnel, LISI AUTOMOTIVE was awarded by TEXTRON a guarantee to cover environmental risks likely to threaten a site with no industrial activity to date.
- As a liabilities hedging instrument, LISI AUTOMOTIVE enjoys a hedging instrument for any unrealized liabilities discovered over a two-year period as of the acquisition date.

2.7.4.3 GUARANTEES GIVEN AS PART OF THE DIVESTITURE OF LISI COSMETICS

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

2.7.4.4 OTHER COMMITMENTS

No other commitment has been given or received.

2.8 EXCHANGE RATES OF CURRENCIES USED BY FOREIGN SUBSIDIARIES

		2012		2011	
		Year end rate	Average rate	Year end rate	Average rate
US dollar	USD	1.3194	1.2932	1.2939	1.4000
Sterling	GBP	0.8161	0.8119	0.8353	0.8713
Yuan	CNY	8.2207	8.1451	8.1588	9.0301
Canadian dollar	CAD	1.3137	1.2906	1.3215	1.3805
Zloty	PLN	4.0740	4.1677	4.4580	4.1380
Czech crown	CZK	25.1510	25.1395	25.7870	24.5996
Moroccan Dirham	MAD	11.1604	11.1154	11.1351	11.2780
Indian rupee	INR	72.5600	69.0200	68.7130	65.5584
Hong Kong Dollar	HKD	10.2260	10.0296	10.0510	10.8960

2.9 POST-YEAR END EVENTS: INFORMATION ON TRENDS

After the deconsolidation of KUT (Herscheid – Germany) sold in May 2012, the reorganization of the LISI AUTOMOTIVE Division should continue in 2013 with the combination of sites in the "nuts" business. An initial briefing and consultation of the Central Works Council of LISI AUTOMOTIVE Former was held February 13, 2013. Management presented there the plan to gradually consolidate the production of nuts on a limited number of sites, which would eventually imply the shutdown of the Thiant (Nord) site (59).

2.10 EARLY APPLICATION OF REVISED IAS 19

This note summarizes the main impacts of the first application of the revised IAS 19 standard on equity and financial statements for the fiscal year 2011.

RESTATEMENT OF SHAREHOLDERS' EQUITY AS AT JANUARY 1, 2011

(in €'000)	Capital stock	Capital-linked premiums (Note 7.3)	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholders' equity	Profit for the period, group share	Group's share of shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity ater January 2011	**21,573**	**70,803**	**(15,202)**	**379,825**	**(2,392)**	**1,933**	**32,923**	**489,463**	**858**	**490,320**
Adjustment of the actuarial liability						(3,120)		(3,120)		(3,120)
Related deferred taxes						1,125		1,125		1,125
Shareholders' equity at January 1, 2011, restated of which total revenues and expenses posted for the period	**21,573**	**70,803**	**(15,202)**	**379,825**	**(2,392)**	**(62)**	**32,923**	**487,468**	**858**	**488,325**

RESTATEMENT OF SHAREHOLDERS' EQUITY AS AT DECEMBER 31, 2011

(in €'000)	Capital stock	Capital-linked premiums (Note 7.3)	Treasury shares	Consolidated reserves	Conversion reserves	Other income and expenses recorded directly as shareholders' equity	Profit for the period, group share	Group's share of shareholders' equity	Minority interests	Total shareholders' equity
Shareholders' equity at December 31, 2011	**21,573**	**70,803**	**(15,461)**	**401,231**	**1,658**	**3,025**	**58,225**	**541,054**	**1,458**	**542,512**
Adjustment of the actuarial liability					(92)	(7,071)	1,490	(5,673)		(5,673)
Related deferred taxes					33	2,356	(538)	1,851		1,851
Shareholders' equity at December 31, 2011, restated of which total revenues and expenses posted for the period	**21,573**	**70,803**	**(15,461)**	**401,231**	**1,599**	**(1,690)**	**59,177**	**537,232**	**1,458**	**538,690**

RESTATEMENT OF THE 2011 INCOME STATEMENT

(in €'000)	31/12/11	revised IAS19	12/31/2011 restated
Pre-tax sales	**925,095**		**925,095**
Changes in stock, finished products and production in progress	25,668		25,668
Total production	950,763		950,763
Other revenues *	14,457		14,457
Total operating revenues	**965,221**		**965,221**
Consumed goods	(275,698)		(275,698)
Other purchases and external charges	(187,797)		(187,797)
Value added	**501,726**		**501,726**
Taxes and duties **	(7,687)		(7,687)
Personnel expenses (including temporary employees)	(371,952)		(371,952)
EBITDA)	**122,087**		**122,087**
Depreciation	(47,718)		(47,718)
Net provisions	2,274	1,490	3,764
EBIT	**76,643**	**1,490**	**78,133**
Non-recurring operating expenses	(2,931)		(2,931)
Non-recurring operating revenues	10,645		10,645
Operating profit	**84,356**	**1,490**	**85,846**
Financing expenses and revenue on cash	(4,401)		(4,401)
Revenue on cash	*658*		*658*
Financing expenses	*5,059*		*5,059*
Other interest revenue and expenses	**1,588**		**1,588**
Other financial items	*9,942*		*9,942*
Other interest expenses	*(8,354)*		*(8,354)*
Taxes (of which CVAE (Tax on Companies' Added Value)**	(24,270)	(538)	(24,808)
Profit (loss) from assets held for sale	805		805
Profit (loss) for the period	**58,078**	**952**	**59,030**
attributable as company shareholders' equity	58,225	952	59,177
Interest not granting control over the company	(147)		(147)
Earnings per share (in €) :	**5,61**		**5,70**
Diluted earnings per share (in €) :	**5,61**		**5,70**

In €'000	Financial year 2011
Amortization of actuarial gains and losses	1,490
Depreciation of past service costs	
Change in plans	
Change in the rate of return on assets	
Deferred taxes	(538)
Total adjustment on net profit (loss)	**952**

TRANSITION FROM THE PUBLISHED COMPREHENSIVE INCOME STATEMENT TO THE RESTATED COMPREHENSIVE INCOME STATEMENT

(in €'000)	31/12/11	revised IAS19	12/31/2011 restated
Profit (loss) for the period	**58,078**	**952**	**59,030**
Other elements of overall earnings			
Exchange rate spreads resulting from foreign business	4,008	(59)	3,949
Change in fair value of cash flow hedging instruments	1,277		1,277
Actuarial gains and losses out of employee benefits		(2,721)	(2,721)
Restatements of treasury shares	113		113
Payment in shares	979		979
Other portions of global earnings, after taxes	**6,377**	**(2,780)**	**3,597**
Total overall income for the period	**64,455**	**(1,828)**	**62,627**
attributable as company shareholders' equity	64,644	(1,828)	62,816
Interest not granting control over the company	(189)		(189)

TRANSITION FROM THE PUBLISHED FINANCIAL SITUATION STATEMENT TO THE RESTATED FINANCIAL SITUATION STATEMENT ASSETS

(in €'000)	12/31/2011	revised IAS19	12/31/2011 restated
LONG-TERM ASSETS			
Goodwill	182,611		182,611
Other intangible assets	15,382		15,382
Tangible assets	326,872		326,872
Long-term financial assets	5,642		5,642
Deferred tax assets	23,596	1,089	24,685
Other long-term financial assets	24		24
Total long-term assets	**554,127**	**1,089**	**555,216**
SHORT-TERM ASSETS			
Inventories	238,879		238,879
Taxes – Claim on the state	915		915
Trade and other receivables	158,847		158,847
Other short-term financial assets	51,883		51,883
Cash and cash equivalents	45,675		45,675
Total short-term assets	496,199		496,199
TOTAL ASSETS	**1,050,326**	**1,089**	**1,051,415**

TOTAL EQUITY AND LIABILITIES

(in €'000)	12/31/2011	revised IAS19	12/31/2011 restated
SHAREHOLDERS' EQUITY			
Capital stock	21,573		21,573
Additional paid-in capital	70,803		70,803
Treasury shares	(15,461)		(15,461)
Consolidated reserves	401,231		401,231
Conversion reserves	1,658	(59)	1,599
Other income and expenses recorded directly as shareholders' equity	3,025	(4,715)	(1,690)
Profit (loss) for the period	58,225	952	59,177
Total shareholders' equity - Group's share	**541,054**	(3,822)	**537,232**
Minority interests	1,458		1,458
Total shareholders' equity	**542,512**	(3,822)	**538,690**
LONG-TERM LIABILITIES			
Long-term provisions	48,177	5,673	53,850
Long-term borrowings	136,408		136,408
Other long-term liabilities	5,725		5,725
Deferred tax liabilities	38,387	(762)	37,625
Total long-term liabilities	**228,697**	4,911	**233,608**
SHORT-TERM LIABILITIES			
Short-term provisions	14,737		14,737
Short-term borrowings	63,788		63,788
Trade and other accounts payable	194,711		194,711
Taxes due	5,882		5,882
Total short-term liabilities	**279,117**		**279,118**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**1,050,326**	1,089	**1,051,415**
** of which banking facilities*	*29,565*		*29,565*

TRANSITION FROM THE PUBLISHED CASH FLOW MOVEMENT TABLE TO THE RESTATED CASH FLOW MOVEMENT TABLE

(in €'000)	12/31/2011	revised IAS19	12/31/2011 restated
Operating activities			
Net earnings	**58,078**	**952**	**59,030**
Elimination of net charges not affecting cash flows :			
- Depreciation and non-recurrent financial provisions	47,665		47,665
- Changes in deferred taxes	(241)	538	297
- Income on disposals, provisions for liabilities and others	(8,700)	(1,490)	(10,190)
Gross cash flow margin	**96,801**		**96,801**
Net changes in provisions provided by or used for current operations	(1,503)		(1,503)
Operating cash flow	**95,299**		**95,299**
Income tax expense (revenue	24,511		24,511
Elimination of net borrowing costs	4,009		4,009
Effect of changes in inventory on cash	(33,562)		(33,562)
Effect of changes in accounts receivable and accounts payable	13,203		13,203
Net cash provided by or used for operations before tax	**103,459**		**103,459**
Taxes paid	(28,138)		(28,138)
Cash provided by or used for operations (A)	**75,321**	**(0)**	**75,321**
Investment activities			
Acquisition of consolidated companies	(100,000)		(100,000)
Cash acquired	5,569		5,569
Acquisition of tangible and intangible fixed assets	(65,182)		(65,182)
Acquisition of financial assets			
Change in granted loans and advances	(150)		(150)
Investment subsidies received			
Dividends received			
Total cash used for investment activities	**(159,764)**		**(159,764)**
Divested cash	(6,476)		(6,476)
Disposal of consolidated companies	31,920		31,920
Disposal of tangible and intangible fixed assets	277		277
Disposal of financial assets	22		22
Total cash from disposals	**25,742**		**25,742**
Cash provided by or used for investment activities (B)	**(134,021)**		**(134,021)**
Financing activities			
Capital increase			
Net disposal (acquisition) of treasury shares			
Dividends paid to shareholders of the Group	(10,913)		(10,913)
Dividends paid to minority interests of consolidated companies			
Total cash from equity operations	**(10,913)**		**(10,913)**
Issue of long-term loans	87,914		87,914
Issue of short-term loans	229		229
Repayment of long-term loans	(2,062)		(2,062)
Repayment of short-term loans	(18,520)		(18,520)
Net interest expense paid	(4,052)		(4,052)
Total cash from operations on loans and other financial liabilities	**63,509**		**63,509**
Cash provided by or used for financing activities (C)	**52,596**		**52,596**

(in €'000)	12/31/2011	revised IAS19	12/31/2011 restated
Effect of change in foreign exchange rates (D)	122		122
Effect of adjustments in treasury shares (D)	1,018		1,018
Changes in net cash (A+B+C+D)	**(4,964)**	**(0)**	**(4,964)**
Cash at January 1st (E)	72,957		72,957
Cash at year end (A+B+C+D+E)	67,993		67,993
Other short-term financial assets	51,883		51,883
Cash and cash equivalents	45,675		45,675
Short-term banking facilities	(29,565)		(29,565)
Closing cash position	**67,993**		**67,993**

4

COMPANY FINANCIAL STATEMENTS

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

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

- strategic validation, external growth procedure, action plans, resource allocation;
- outlining strategy in an annual budget plan;
- financial control and internal audit;
- financial and fiscal consolidation;
- financial optimization, centralized cash management for the Group, management of investments and financial liabilities, hedging of foreign currencies and interest rates,
- insurance coordination, procurement, quality, research and development, health safety and the environment, human resources and investments, as well as industrial improvement plans.

EARNINGS AT DECEMBER 31, 2012

The remarks below relate to the income statement for 2012.

- **In 2012, operating income amounted to €9.4m, compared with €10m in 2011 and was broken down as follows:**

  – **The sales revenues** of LISI S.A. amounted to €6.8m compared with €6.2m in 2011, an increase of +10.1%. They are essentially made up of services invoiced to the subsidiaries of LISI S.A. in respect of assistance, control and coordination of activities. In 2012, these invoices impacted on the subsidiaries, LISI S.A.'s operating costs increased by 10%.
  – **The other operating income** amounted to €2.6m in 2012, compared with €3.8m in 2011. This amount is due in part to the impact of the provision reversal regarding the performance share award plans of +€1.9m, a provision reversal for environmental risks of +€0.8m, and a provision reversal for charges of €0.2m.

- **The operating expenses** amounted to €7.0m in 2012, representing a decrease of 16.8% compared to 2011, mainly due to the fees item that included the fees for the acquisition and disposal of companies in N -1.

- **The operating result** therefore grew from +€1.6m in 2011 to +€2.4m in 2012.

- **The financial result** is positive, at +€13.3m, as compared with +€11.4m in 2011. Revenues consist primarily of dividends received from LISI AEROSPACE for €11.0m, dividends received from LISI AUTOMOTIVE for €2m, interest on Group current accounts for €2.0m and net capital gains on investments for €1.0m. In terms of expenses, interest charged on loans and group current accounts amounted to €3.5m; with the net exchange impact stabilizing at – €0.7m for 2012.

- **The extraordinary loss** stands at €-0.1m.

- The corporate income tax comprises tax income of + €1.6m, including a gain from the group taxation regime of €2.1m.

- Consequently, LISI S.A.'s net profit was €17.1m, as compared with €19.3m in 2011, i.e. a 11.2% drop.

- **Shareholder's net equity** rose from €180.7m in 2011 to €184.4m at the end of 2012. It was reduced by the distribution of the dividends paid in May 2012, for an amount of €13.5m in respect of the net income for 2011.

- **The cash and cash equivalents, excluding current accounts, at year-end** amounted to €82.2m, compared with €66.6m in 2011: this balance sheet item is still of classic composition, with money market funds and investments denominated in euros and dollars, and for the most part guaranteed in capital. Net financial debt is €11.2m at year end 2012, as compared with €-38.8m at year end 2011. This variation is mainly due to the disbursement for the acquisition of LISI MEDICAL shares from LISI AEROSPACE.

1.1 APPROPRIATION OF EARNINGS

We propose that last year's profits of €17,144,076 be allocated as follows:

In €	
profits for the financial year of	17,144,076
increased by retained earnings that stand at	58,682,443
giving distributable profit of	75,826,519
which we propose be allocated as follows:	
– to the shareholders, by way of dividends, the sum of €1.40 per share, being	15,101,092
– remainder to be carried forward, for a total of	60,725,427

The dividend for each share amounts to €1.40. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.40.

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

	Nominal value of the share	Dividend per share
Financial year ended 12/31/09	€2.00	€0.70
Financial year ended 12/31/10	€2.00	€1.05
Financial year ended 12/31/11	€2.00	€1.30

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

OUTLOOK FOR 2013

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

ADDITIONAL INFORMATION

- Deductible expenses for tax purposes are made up of depreciation and hire of passenger vehicles and loan payments totaling €16,629.

- LISI S.A. has, through a market making agreement with an independent service provider, purchased 121,223 LISI shares for €6.6m and has sold 137,862 shares for a sum of €7.5m. At December 31, 2012, the number of shares held through the market-making agreement was 12,541.

- Treasury stocks held at December 31, 2012 totaled 314,980 shares, including those related to the market-making contract.

- Trade payables excluding bills receivable amounted to €260k, 90% of which are settled immediately.

- LISI SA bought, as at November 9, 2012, LISI MEDICAL shares from LISI AEROSPACE at their net book value, or €33,337,000. The number of securities held is 3,333,700.

2 FINANCIAL STATEMENTS

2.1 INCOME STATEMENT

(In €'000)	Notes	2012	2011	2010
Pre-tax sales		**6,844**	**6,216**	**5,938**
Operating income		**9,433**	**9,978**	**6,302**
External costs		(1,947)	(3,158)	(2,268)
Taxes and duties		(354)	(233)	(210)
Personnel expenses		(3,834)	(3,023)	(2,752)
Other charges		(168)	(77)	(74)
Depreciation, provisions		(680)	(1,904)	(3,139)
Operating profit		**2,449**	**1,583**	**(2,141)**
Financial earnings				
- from equity interests	3.3.1	15,052	12,749	12,005
- interest and similar expenses				
- positive exchange differences		8,216	4,375	842
- from disposal of marketable securities		1,430	1,022	999
- reversals of provisions	3.2.5	44	344	2,076
Interest expenses				
- interest and similar expenses		(3,546)	(2,669)	(2,047)
- negative exchange rate differences		(7,514)	(3,716)	(2,054)
- from disposal of marketable securities		(417)	(682)	(51)
- provisions allowance		(1)	(44)	
Non-operating profit		13,265	11,379	11,770
Current profit before tax		**15,714**	**12,962**	**9,629**
Extraordinary earnings				
- on capital transactions			31,927	802
- on management transactions		1,647	730	
- Reversal of provisions				34
Extraordinary charges				
- on capital transactions			(27,401)	(227)
- on management transactions		(1,761)	(885)	
- provisions allowance		(24)	(2)	(13)
Extraordinary earnings		**(138)**	**4,369**	**596**
Tax on profits	3.3.2	1,568	1,977	(2,499)
NET EARNINGS		**17,144**	**19,308**	**7,726**

2.2 COMPANY BALANCE SHEET

ASSETS

(In €'000)	Notes	2012	2011	2010
Fixed assets				
Intangible fixed assets		303	232	198
Tangible fixed assets		1,478	1,268	1,309
Financial assets		168,368	139,306	171,263
Depreciation and impairment		(1,072)	(929)	(874)
Total net fixed assets	3.2.1 / 3.2.2	**169,076**	**139,877**	**171,896**
Short-term assets				
Clients and apportioned accounts	3.2.3	2,431	2,045	1,814
Other debtors	3.2.3	8,203	9,889	2,535
Subsidiaries' current accounts	3.2.3	174,495	149,655	40,224
Impairment of receivables				
Tax credit	3.2.3			
Marketable securities	3.2.4.1	79,460	64,445	73,580
Cash	3.2.4.2	2,764	2,111	798
Provisions for write-down of marketable securities	3.2.5		(44)	(344)
Total short-term assets		**267,354**	**228,101**	**118,606**
Deferred charges		64	13	38
Deferred expenses on loan issue costs		21	59	96
Other deferred expenses				
Translation adjustment assets		1		
Total accruals		**87**	**72**	**134**
Total assets		**436,516**	**368,050**	**290,637**

LIABILITIES

(In €'000)	Notes	2012	2011	2010
Shareholders' equity				
Share capital		21,573	21,573	21,573
Issue, merger, and contribution premiums		67,296	67,296	67,296
Reserves		19,595	19,595	19,588
of which legal reserve		*2,157*	*2,157*	*2,151*
Balance carried forward		58,682	52,904	56,098
Profit (loss) for the period		17,144	19,309	7,726
Regulated provisions		83	60	58
Total equity	2.4	**184,374**	**180,737**	**172,339**
Provisions for risks and charges	3.2.6	**864**	**2,437**	**3,619**
Debt				
Sundry loans and financial debts (*)	3.2.3	123,398	124,332	47,259
Subsidiaries' current accounts	3.2.3	122,184	53,036	54,621
Taxes due		1,960	3,111	6,573
Accounts payable	3.2.3	1,204	1,146	1,612
Tax and statutory payments	3.2.3	1,888	1,337	1,139
Other creditors	3.2.3	644	1,913	3,474
Total debt		**251,278**	**184,875**	**114,679**
Deferred income				
Translation differential liabilities		1	1	
Total accruals		**1**	**1**	
Total liabilities		**436,516**	**368,050**	**290,637**
(*) of which banking facilities		(3,138)	(1,948)	(1,986)

2.3 CASH FLOW MOVEMENT TABLE

(In €'000)	2012	2011	2010
Operating activities			
Operating cash flow	15,731	13,440	8,193
Effect of changes in inventory on cash			
Effect of changes in accounts receivable and accounts payable	(449)	(12,850)	12,882
Cash provided by or used for operations (A)	**15,282**	**590**	**21,075**
Investment operations			
Cash used to acquire tangible and intangible assets	(281)	(97)	(7)
Cash received from the disposal of tangible and intangible assets		7	797
Cash used to acquire financial assets	(2)		
Cash received from the disposal of financial assets	18		5
Net cash used for acquisitions and disposals of subsidiaries	(33,337)	31,920	
Cash payments and collections from loans to subsidiaries	4,260	4,616	3,313
Cash provided by or used for investment activities (B)	**(29,342)**	**36,445**	**4,108**
Financing operations			
Cash received from shareholders as part of a capital increase			1,015
Dividends paid to shareholders of the parent company	(13,531)	(10,913)	(7,216)
Cash received from new loans	25,093	82,384	268
Repayment of financing loans (C)	(27,332)	(5,273)	(5,295)
Cash provided by or used for investment activities (B)	**(15,769)**	**66,197**	**(11,227)**
Effect of change in foreign exchange rates (D)			
Changes in cash (A+B+C+D) *	**(29,829)**	**103,233**	**13,956**
Cash at January 1st (E)	161,227	57,995	44,039
Cash at December 31st (A+B+C+D+E)	131,397	161,227	57,995
Marketable securities	79,460	64,445	73,580
Cash subsidiaries' current accounts	177,259	151,766	41,022
Banking facilities, subsidiaries' current accounts	(125,322)	(54,984)	(56,607)
Closing cash position **	**131,397**	**161,227**	**57,995**

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

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

2.4 CHANGE IN SHAREHOLDERS' EQUITY

(In €'000)	
At 01.01.2011	**172,339**
Profit (loss) for the period	19,309
Capital increase	
Dividends paid	(10,913)
Accelerated depreciation	1
At 12.31.2011	**180,737**
Profit (loss) for the period	17,144
Capital increase	
Dividends paid	(13,531)
Accelerated depreciation	24
At 12.31.2012	**184,373**

3 NOTES TO THE COMPANY ACCOUNTS

LISI S.A. is a public limited company with a Board of Directors, with capital of €21,572,988 representing 10,786,494 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, 2012 was €436,515,863. The annual income statement showed a profit of €17,144,076.

The financial year runs over 12 (twelve) months, from January 1, 2012 to December 31, 2012.

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

3.1 ACCOUNTING RULES AND METHODS

The accounts for 2012 are drawn up in line with current French accounting regulations. The accounting rules and methods have been applied in line with the prudence principle and with underlying assumptions which aim to provide an accurate picture of the company:
- the continuity of operations;
- the comparability of accounting methods;
- the independence of financial years.

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

The accounting principles on which the company accounts for 2012 were drawn up are identical to those for 2011.

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

The latter are exposed both to specific, industry-related risks as well as risks relating to the wider international environment. In LISI S.A.'s financial statements, the estimates and forecasts involved in implementing accounting methods particularly affect equity investments, as valuations (see note b, below) are based on affiliates' forecast data.

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

	Economic depreciation	Fiscal depreciation
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 furniture	10 years straight line	10 years straight line

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

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

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

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

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

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

e) Free shares and options
Where an outflow of resources relating to share purchase options and free share awards on the basis of performance is probable, the amount of the future expense is provisioned in proportion to the rights acquired since the allocation date. Where relevant, provisions thus provided for take into account

whether or not treasury shares are allocated to share options or relevant free allocations.

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

f) Loans and receivables
Receivables are valued at their face value. A depreciation provision is recorded when the recoverable value is less than the book value.

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

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

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

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

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

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

3.2 DETAIL OF BALANCE SHEET ITEMS

3.2.1 Gross fixed assets

(In €'000)	Gross value at year start	Acquisitions	Disposals / Deconsolidations	Gross value at year end
Intangible fixed assets				
Concessions, patents, licenses, etc.	232	71		303
Total	**232**	**71**		**303**
Tangible fixed assets				
Land	156			156
Buildings	392			392
Other tangible assets	705	225		930
Tangible assets in progress	15		(15)	
Total	**1,268**	**225**	**(15)**	**1,478**
Financial assets				
Equity interests and related receivables	139,261	33,337	(4,260)	168,338
- Of which LISI AUTOMOTIVE loan	*14,750*		*(4,250)*	*10,500*
- Of which LISI AUTOMOTIVE accrued interest	*10*		*(10)*	
Other long-term investments	9			9
Borrowings and other debts	37	2	(18)	21
Total	**139,306**	**33,339**	**(4,278)**	**168,368**
Grand Total	**140,805**	**33,635**	**(4,293)**	**170,148**

The increase in financial assets for an amount of +€33.3m resulting from the acquisition of LISI MEDICAL shares from LISI AEROSPACE at their book value and the decrease in financial assets arises from intercompany loan repayments for -€4.3m.

3.2.2 Depreciation and impairment

(In €'000)	Amount at year start	Provisions	Reversals	Amount at year end
Intangible fixed assets				
Concessions, patents, licenses, etc.	190	34		224
Total	**190**	**34**		**224**
Tangible fixed assets				
Land				
Buildings	366	3		369
Other tangible assets	365	106		471
Total	**731**	**109**		**840**
Financial assets				
Depreciation on equity interests				
Other financial assets	8			8
Total	**8**			**8**
Grand Total	**929**	**143**		**1,072**

3.2.3 Maturity dates for receivables and debts

(In €'000)	Gross amount	Of less than one year	Of over one year
Trade receivables	2,431	2,431	
Other debtors	185	185	
Subsidiaries' current accounts	174,495	174,495	
Tax integration current accounts	8,018	8,018	
Tax credit			
Total	**185,129**	**185,129**	

Debt

(In €'000)	Gross amount	Of less than one year	Of one to five years
Loans and debts from credit organizations	123,398	50,398	73,000
Sundry loans and financial debts			
Other creditors	54	54	
Subsidiaries' current accounts	122,184	122,184	
Taxes due	1,960	1,960	
Suppliers	1,204	1,204	
Tax and statutory payments	1,888	1,888	
Tax integration current accounts	590	590	
Other creditors			
Total	**251,278**	**178,279**	**73,000**

3.2.4 Marketable securities and cash

3.2.4.1 Marketable securities

As at December 31, 2012, marketable securities were as follows:

(In €'000)	
314,980 LISI stocks*	11,954
SICAV and deposit certificates	67,506
Giving a gross total of	**79,460**

* 314,980 shares held, thanks to the option of buying back the company's own shares up to a 10% limit, including those held under the market-making contract.

The item "Marketable securities" essentially comprises money market funds for €35.7m and guaranteed-capital investments for €31.9m.

The total net asset value of marketable securities stood at €35.7m as at December 2012.

3.2.4.2 Cash

This item is solely composed of bank balances.

3.2.4.3 Cash and Net debt

(In €'000)	2012	2011	2010
Subsidiaries' current accounts	174,495	149,655	40,224
Marketable securities	79,460	64,445	73,580
Cash	2,764	2,111	798
Cash available [A]	**256,719**	**216,211**	**114,602**
Subsidiaries' current accounts [B]	122,184	53,036	54,621
Banking facilities for operations [B]	3,138	1,948	1,986
Net cash [A - B]	**131,397**	**161,227**	**57,995**
Borrowings and debt	120,260	122,383	45,273
Debt [C]	**120,260**	**122,383**	**45,273**
Net debt [D = C + B - A]	**(11,137)**	**(38,844)**	**(12,722)**

3.2.4.4 Inventory of marketable securities

a) Shares

(In €'000)	Gross book values	Provisions	Net book values
Equity interests			
French companies	157,837		157,837
Foreign companies	–	–	–
Total equity interests			**157,837**
Securities held for sale			
French companies	10	8	1
Foreign companies	–	–	–
Total marketable securities	**10**	**8**	**1**

b) Marketable securities

(In €'000)	Gross book values	Provisions	Net book values
Treasury stock	11,954		11,954
SICAV and deposit certificates	67,506		67,506
Total marketable securities	**79,461**		**79,461**

3.2.5 Provisions for impairment of short-term assets

(In €'000)	Amount at year start	Provisions for the period	Reversals the period	Amount at year end
Provisions for impairment	44		(44)	0
Total	**44**		**(44)**	**0**

3.2.6 Provisions for risks and charges

(In €'000)	Amount at year start	Provisions	Reversals used	Reversals unused	Amount at year end
Provision for environmental risks	807			(807)	
Provision for long service medals	5	1			6
Provisions for charges	450	150	(226)		374
Provision for stock options and the allocation of free shares	1,175	349	(1,041)		483
Total	**2,439**	**500**	**(1,267)**	**(807)**	**864**

Provisions for charges mainly cover the setting up of a project designed to reduce the number of accidents at work.

3.3 DETAIL OF MAIN INCOME STATEMENT ITEMS

3.3.1 Financial income from investments

(In €'000)	Amounts
Dividends received from subsidiaries	13,003
Dividends received outside the group	-
Interest from loans to subsidiaries	2,049
Total	**15,052**

3.3.2 Breakdown of corporation tax

(In €'000)	Profit (loss) current	Profit (loss) non-recurring	Profit (loss)
Pre-tax earnings	15,714	(138)	15,576
Income tax	(617)	46	(571)
Tax credits, IFA & miscellaneous	4		4
Tax integration taxes	2,135		2,135
Net earnings	**17,236**	**(92)**	**17,144**

The LISI Group benefits from the tax integration regime, which covers all its French subsidiaries. The tax integration agreement stipulates that tax gains should be retained at the parent company level. The overall amount of corporate income tax at December 31, 2012 is a tax income.

3.4 FINANCIAL COMMITMENTS

Financial guarantees given:

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

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

Commitment for compensation granted in favor of the buyer concerning any reassessments from the tax or environmental authorities during a period of two years with effect from the date of divestiture, subject to a deductible of €500k, to exceeding a minimum threshold of €35k and to an upper limit of €6m.

Financial derivatives:

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

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

Reciprocal commitments corresponding to interest rate swaps:

LISI S.A. has contracted interest rate swaps intended to hedge it against an increase in interest rates on variable rate loans. The details at December 31, 2012 are as follows:

ISSUER	Face value (in €'000)	Fixed rate	Maturity
BNP Paribas	5,000	1.5900%	September 2016
BNP Paribas	4,750	1.3925%	September 2016
BNP Paribas	9,500	1.0750 %	March 2017
Société Générale	15,000	2.0730%	September 2016
Société Générale	10,000	2.7800%	February 2014
Société Générale	15,000	1.0700%	May 2017
BECM	10,000	2.4900%	October 2013

3.5 SUBSIDIARIES AND HOLDINGS

3.5.1 Elements regarding related companies and holdings

	Amount concerning	
(In €'000)	related companies	companies with which the company has a participating interest
ASSETS:		
Provisions on equity shares		-
Receivables related to equity holdings	10,500	-
Debtors and apportioned accounts	2,430	-
Cash advances to subsidiaries	174,495	-
Tax integration current account	8,018	-
LIABILITIES:		
Subsidiaries' financial assistance	122,184	-
Tax integration current account	590	-
Advance payments from customers	-	-
Suppliers	138	-
Other creditors	-	-
INCOME STATEMENT:		
Services received	-	-
IT maintenance	17	-
Reserves for equity interests	788	-
Sales revenue with subsidiaries	6,832	-
Miscellaneous chargebacks	1,587	-
Revenues from subsidiaries' loans and current accounts	2,049	-
Revenues from equity interest	13,003	-
Reversal of provisions on equity interests	-	-

3.5.2 Subsidiaries and holdings (company data in €)

Companies	Share capital	Shareholders' equity and minority interests	Share of capital held (in %)	Gross value of the securities held	Provisions on the securities held	Net value of the securities held	Loans, advances granted by the company not yet repaid	Loans, advances received by the company not yet repaid	Amount of guarantees and sureties given by the company	Sales revenue excl. tax for the last financial year	Net Income or net loss for the last financial year	Dividends cashed by the parent company during the last financial year
Subsidiaries:												
LISI AUTOMOTIVE	31,690,000	106,863,032	100,00%	93,636,481		93,636,481	34,115,317			26,919,458	(2,548,890)	2,002,808
LISI AEROSPACE	2,475,200	50,332,055	100,00%	30,863,816		30,863,816	6,685,934			216,808,115	9,929,029	11,000,000
LISI MEDICAL	33,337,000	29,771,035	100,00%	33,337,000		33,337,000	27,521,103			1,570,867	(450,821)	

3.6 IDENTITY OF THE CONSOLIDATING COMPANY

Compagnie Industrielle de Delle (CID)
Limited company with share capital of €3,189,900
Head Office: 28 Faubourg de Belfort – BP 19 – 90101 DELLE Cedex
Compagnie Industrielle de Delle held 54.96% of the capital of LISI S.A. as at December 31, 2012.

3.7 ALLOCATION OF PERFORMANCE SHARES

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on July 28, 2010, 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: the achievement of these two criteria at the end of 2011, namely EBIT and sales revenue, resulted in the completion of 85% of that plan in 2012. The final cost was allocated to the divisions.

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on June 26, 2011, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting certain performance targets. The same went in 2012, insofar as the Board of Directors of October 24, 2012 renewed the opening of a new plan under similar conditions.

The fair value of the benefits granted is recognized as a provision in 2012 for an amount of €0.5m for the employees of the French companies. This cost was not allocated to divisions, and remains an expense at the LISI S.A. level until the definitive realization of the plan. The impact of the expense relating to the awards of free performance shares is included in the payroll expenses. for employees of LISI S.A. only.

Plans that impacted LISI S.A.'s accounts in 2012:

	Plan for 2010	Plan for 2011	Plan for 2012	Total
Allocation date	07/28/10	07/28/11	10/24/12	
Acquisition date	10/24/12	February-14	February-15	
Value in €'000 as at 12/31/2012	1,761	279	71	
Impact in €'000 on the company's financial statements at 12/31/2012 (not including social security contributions)	175	279	71	524
Number of shares awarded	47,185	44,200	52,650	

3.8 MISCELLANEOUS INFORMATION

- The company directors and executives have not been given any advances or credits.
- Remuneration of executives stood at €748,184 for the year 2012 (remuneration net of social security contributions, including the variable element and attendance fees).
- The total remuneration paid to the highest-paid individuals stood at €1,528,825.
- The workforce as of December 31, 2012 numbered 16 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 1,411 hours as at December 31, 2012. 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.
- Fees entered for the financial year ending December 31, 2012 for our auditors Ernst & Young and EXCO CAP AUDIT totaled €99,690.

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 €)	2008	2009	2010	2011	2012
Financial situation at year end					
Share capital	21,507,722	21,507,722	21,572,988	21,572,988	21,572,988
Number of shares issued	10,753,861	10,753,861	10,786,494	10,786,494	10,786,494
Number of convertible bonds	237,324	237,324	--	--	--
Total result of actual operations					
Pre-tax sales	5,701,221	5,042,665	5,937,895	6,215,920	6,843,565
Earnings before tax, depreciation and provisions	16,672,042	10,899,256	11,266,365	15,987,962	14,163,291
Income tax	(2,507,790)	(5,658,143)	2,498,851	(1,977,461)	(1,567,669)
Employee profit-sharing					
Profit after tax, depreciation and provisions	13,204,614	21,797,508	7,725,772	19,308,622	17,144,076
Distributed profit*	12,313,156	7,216,048	10,913,195	13,530,664	15,101,092
Result of operations per share					
Profit after tax, but before depreciation and provisions	1,78	1,54	0,81	1,67	1,46
Profit after tax, depreciation and provisions	1,23	2,03	0,72	1,79	1,59
Dividends allocated per share (net)	1,20	0,70	1,05	1,30	1,40
Personnel					
Average head count	13	13	13	13	16
Payroll	2,067,550	1,172,136	4,757,164	2,039,051	2,482,746
Benefits paid (social security, benefits, etc.)	724,561	689,460	897,505	983,773	1,350,914

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

5

RISK FACTORS

The company has carried out a review of the potential risks which could have an unfavorable effect on its business, its financial situation or its results (or on its capacity to achieve its objectives) and considers that there are no significant risks other than those disclosed.

1 RISK MANAGEMENT

1.1 FOLLOWING COSO GUIDELINES

Since 2004, the group has been mapping risks in line with COSO guidelines. More recently it has also been drawing upon the provisions of Article L-225.37 of the French Commercial Code on financial security and the recommendations of the French financial regulatory authority, the AMF. 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. Then a "top down" approach helped prioritize risks. Each risk identified is subject to an action plan which is updated quarterly. A link is automatically made to proactive initiatives for hazard prevention, insurance or accounting services.

1.2 STRENGTHENING COOPERATION WITH OUR INSURERS

The consistency of the relationship with insurers and risk classification has helped to structure the Group's prevention approach. Thus, all of the insurers' recommendations regarding damage to property are included in the Environmental Safety Improvement Plans and are subject to periodic monitoring by the Risk Monitoring Committee. Our insurers revisit a number of sites each year, looking both at damage to assets and environmental risks, and then present their recommendations which enhance our action plan. Since 2002, all significant sites have been audited several times, except those that were recently integrated in the Group, which have been audited only once. This ongoing improvement initiative is improving our prevention policy and enables us to optimize our insurance premiums.

1.3 DRAWING UP ACTION PLANS

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

2 INFORMATIONS ON ISSUER RISKS

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

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

LISI has no exposure risk related to the sovereign debt crisis in some states that display contrasting growth prospects.

2.1 OPERATING RISKS

2.1.1 Exposure to risk of natural disaster or industrial action

In common with any other company, the LISI Group could be disrupted by industrial strike action or natural disasters such as flooding, earthquake or even pandemic. Such events could negatively affect Group sales revenue or cause a substantial increase in expenses required to cover system maintenance or repair. However, due to the diversity of the sites, the LISI Group cannot be exposed for more than 10% of its overall business.

2.1.2 Acquisitions

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

2.2 STRATEGIC RISKS

These risks are identified as major risks likely to compromise durably the completion of the strategic plan as described in paragraph 1.1. All identified risks which are classified in the "HIGH RISK" category of occurrence are the subject of insurance coverage (cf. paragraph 3.1) or of a corrective action plan and are treated as a priority by the managements of the various divisions.

2.3 ENVIRONMENTAL RISKS

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

As part of the manufacturing sites' compliance program, and in the absence of any ongoing legal disputes, the Group has made provisions for an overall sum of €8.1m. 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 €4.9 million has been established which relates to the assessed cost of decontaminating the Torrance site (California – USA) which suffered TCE (solvent) pollution several years ago (before 1975). The process that is currently in progress involves pumping and filtering underground water downstream from the site. This treatment has facilitated processing over 15 metric tons of TCE in shallow pollution, and over 7 metric tons in the layers further from the surface. The estimated amount at December 31, 2012, facilitates handling of treatment in accordance with the techniques recommended by our advisors. Liaison with the authorities has led to the swift closure of the soils file and to the acceptance of measures taken with regard to the deepest waters.

As part of the Social and Environmental Responsibilities requirements, LISI AUTOMOTIVE undertakes to reduce the impact of its activities on the environment and to ensure healthy, safe working conditions for all its employees and service providers, as part of the Global Compact. Commitment No. 7 states that "businesses are encouraged to apply the precautionary approach to environmental challenges". Commitment No. 8 plans to undertake "initiatives to promote greater environmental responsibility". Finally, Commitment No. 9 promotes "the development and dissemination of environmentally friendly technologies". In order to comply, LISI AUTOMOTIVE has implemented three specific measures: standardization of practices and definition of indicators, risk management organized around the COSO benchmark and implementation of action plans for environmental safety.

2.4 LEGAL RISKS

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

Except for the disputes referred to above, for a period covering at least the last 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.

2.5 IT-RELATED RISKS

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

2.6 OTHER RISKS

2.6.1 Raw materials risks

The LISI Group is potentially exposed to changes in the costs of the raw materials (steel, alloys, plastics, aluminum, and titanium) used in the course of its business activities. Nevertheless, the Group estimates that such price increases are unlikely to impact negatively on its profit margins. Indeed, some commercial contracts include price-revision formulae which allow selling prices to be varied in accordance with changes to raw material costs. Suppliers work to limited time frames based on guaranteed-price contacts. At December 31, 2012, the LISI Group uses no financial instruments to manage its future exposure to changes in the costs of such raw materials. It can still benefit from agreements with suppliers to hedge against annual or multi-year periods to limit the impact of fluctuations in ore prices.

2.6.2 Energy-related risks

To cover its energy costs, the Group entered into a supply contract with electricity company EDF for its French sites (due to expire in 2015).
For foreign sites, similar contracts have also been entered into, particularly in Germany and the UK.

2.6.3 Commercial risks

For the record, the Group manufactures several thousand different items using various raw materials (steels, alloys, aluminum, various plastics, titanium, etc.) and employing a range of technologies (cold and hot forming machines, forming, 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 38 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.

2.6.4 Customer-related risks

Looking at the figures for 2012, only 7 clients accounted for more than 5% of the LISI Group's consolidated sales. Our 10 largest customers accounted for 51.5 % of total sales; this list includes clients of all 3 divisions, LISI AEROSPACE, LISI AUTOMOTIVE and LISI MEDICAL. Our 38 largest customers accounted for 75% of sales.

Figures for our 3 largest customers have evolved as follows:

	2012	2011	2010
CUSTOMER A	15.1%	12.0%	7.8%
CUSTOMER B	8.7 %	8.3%	9.0%
CUSTOMER C	6.1 %	7.1%	6.9%

2.6.5 Product-related risks

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

2.6.6 Supplier-related risks

As a general rule and in view of the nature of its manufacturing activities, the company does not rely exclusively on any one supplier or strategic subcontractor. The 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 2012, the various operations outsourced by the Group's sites represented approximately 5.9% of the consolidated sales revenue.

2.6.7 Currency risks

The Group may have certain exposures to variations in currencies such as the US dollar, the Canadian dollar, the pound sterling, the Turkish pound or the Polish zloty. In order to reduce this level of risk, the LISI Group hedges the risk of variations by using the necessary instruments, such as forward sales at fixed rates for an estimated amount corresponding to its final exposure (see note on hedging in the Notes). These risks are further detailed in Chapter 3, paragraph 2.4.

2.6.8 Interest rate risk

The Group has hedged a significant part of the interest rate risk on its loans by swapping variable rates for fixed rates.

3 INSURANCE POLICY

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

3.1 PROPERTY DAMAGE INSURANCE

As of January 1, 2013, this policy covered own and others' installations, as well as operating losses in the event of a claim. The deductible is stated by claim and amounts to €0.1m, and this for a maximum coverage amount of €1,157,641,958 for the buildings and equipment, €228,554,947 for merchandise, and €642,330,419 for operating losses.

3.2 THIRD-PARTY LIABILITY INSURANCE

It covers personal injuries and equipment and intangible losses which may occur during operations, as well as losses after delivery for an amount of €15.2m per claim and per year for the first line. The Group also has an Excess contract for which the amount is €7.6m in addition to the first line.

A civil liability insurance policy covers the specific risks related to medical devices for an amount after delivery of €5m per loss and per year for the first line. The Group also has an Excess contract for which the amount is €10m in addition to the first line. The aforementioned insurance policies intervene for the 3rd and 4th lines, respectively.

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

3.3 CORPORATE OFFICERS' LIABILITY INSURANCE

The Group is covered by a directors' liability insurance policy for all its subsidiaries up to €7.7m per year.

6

CORPORATE SOCIAL RESPONSIBILITY

1 LABOR-RELATED ISSUES

1.1 EMPLOYMENT

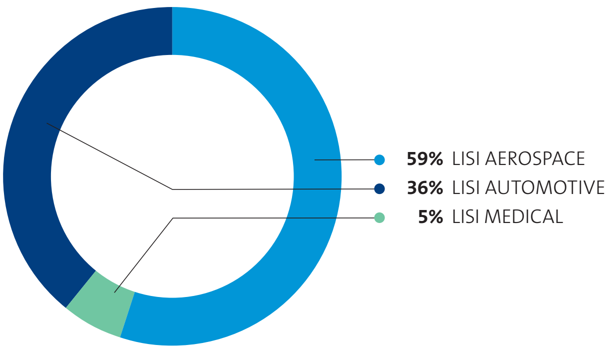
1.1.1 Total workforce

At December 31, 2012, the Group employed 8,909 employees, an increase of the total workforce of 397 people, which represents an improvement of 4.7% compared to 2011.
This increase of the total head count is due on the one hand, to a strong increase in the workforce of LISI AEROSPACE (528 more employees than in 2011 representing an increase of 11.3%) and on the other hand, to an adjustment of the head count within LISI AUTOMOTIVE (-99 persons / -3%) and LISI MEDICAL (-33 persons / -6.5%).

Data at end December:

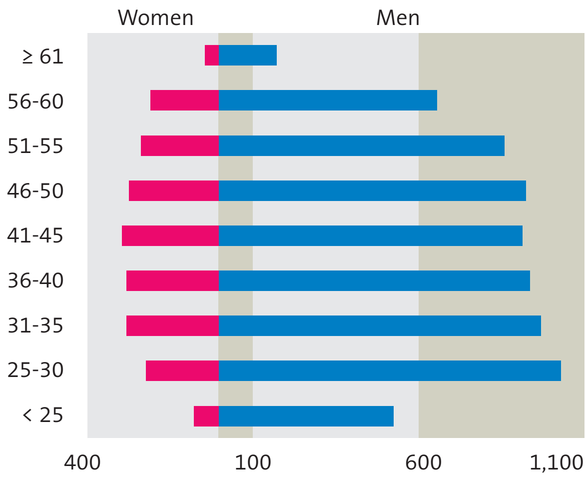
	2012	2011	Difference	as a %
LISI AEROSPACE	5,205	4,677	+528	+11.3%
LISI AUTOMOTIVE	3,213	3,312	-99	-3%
LISI MEDICAL	475	508	-33	-6.5%
LISI SA	16	15	+1	+6.7%
Total	8,909	8,512	+397	+4.7%

Head count by division



1.1.2 Distribution of employees by gender, age and geographical area

1.1.2.1 By age



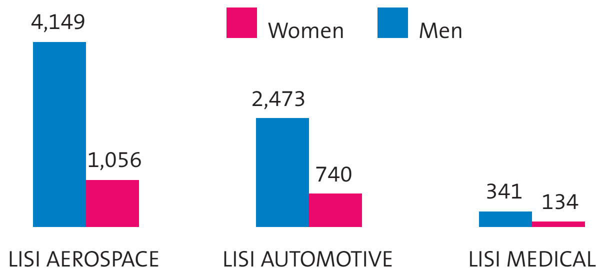
The age pyramid shows a homogeneous distribution of the workforce across the various age brackets between 30 and 55. Employees under the age of 30 account for over 20% of the workforce.

More generally, those under 40 account for nearly half of the Group's workforce (48.6%).

1.1.2.2 By gender

The Group employs approximately 2,000 women (1,932 against 1,867 in 2011), but the percentage of women remains low in 2012, with women accounting for 21.75% of the Group's total workforce, or about the same proportion as in the industrial world of metallurgy (20%) (Source: UNEDIC – Insee).

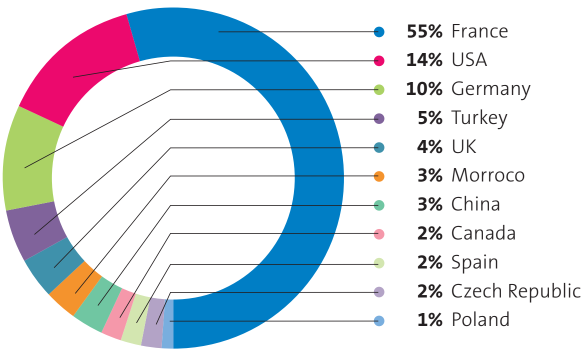
Breakdown of staff by gender



1.1.2.3 By geographic area

The LISI Group employs 8,909 individuals across 11 different countries. Due to its history, the company has strong presence in France. Indeed, most of the Group's workforce is based in France (4,840 employees or 55% of the workforce), but its external growth induces significant presence in the United States (1,251 people or 14%) and Germany (844 people or 10%).

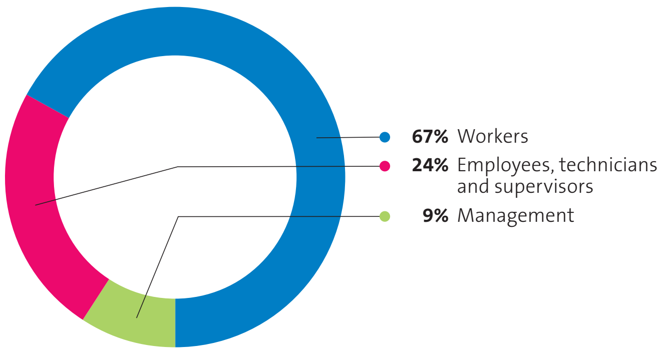
Country	Registered December 2012	Breakdown
France	4,840	55%
USA	1,251	14%
Germany	844	10%
Turkey	479	5%
UK	354	4%
Morocco	260	3%
China	233	3%
Canada	206	2%
Spain	170	2%
Czech Republic	140	2%
Poland	132	1%



1.1.2.4 By socio-professional category

Manual workers represents 2/3 of the Group's total workforce. Employees, technicians and supervisors are in 1/4. Senior staff, meanwhile, accounted for 25% of the workforce. Management staff, meanwhile, accounted for 9% of the workforce.

	2011	2012	%	Difference
Workers	5,772	5,939	66.66%	+167
Employees, technicians and supervisors	1,979	2,168	24.33%	+189
Management	761	802	9%	+41
Total	**8,512**	**8,909**	**100%**	**+397**



1.1.3 Hiring and firing

The recruitment strategy of the Group is based on anticipation of requirements and the identification of the key competencies for each of the businesses.

Throughout the year 2012, the Group's growth has been accompanied by a significant number of new hires, in particular at LISI AEROSPACE.

A total of 1,289 new employees have joined the Group, or nearly 15% of the current workforce.

Regarding the departures in the year 2012, LISI experienced a total of 321 resignations or 3.6% of its workforce as at December 31, 2012 and 34 negotiated departures. Resignations account for over a third of departures and remain the most common cause of departure from the company. The Group proceeded to a total of 138 dismissals for personal reasons (disciplinary or other).

Anxious to preserve employment within the various Group entities, LISI strives to implement all preventive measures meant to avoid the requirement for redundancies. Thus reducing overtime, reducing the use of temporary work or implementing partial unemployment at some of its entities, are all measures that have limited the number of redundancies to 18 departures in 2012.

GROUP TOTAL	
Total new recruits	**1,289**
of which Management	121
Total departures	**884**
of which Management	98
Departures by motive	
Resignations	321
Negotiated departures	34
Redundancies (disciplinary or other)	138
Layoffs	18
Other motives for departure	372
International mobility	
number of expats as at 12/31/2012	16
number of impats as at 12/31/2012	3

1.1.4 Compensation and changes

In France, the annual negotiations on salaries resulted in the award to employees of an average of 2.4% of the payroll, granted in the form of a general increase on the one hand and 0.8% of the total payroll costs reserved for individual increases.

In addition to the increase in the basic salary, the negotiations also allowed for the implementation, in line with the specificities of each of the plants, measures concerning minimum salaries, the value of the seniority bonus and even on the number of days granted for the most long-standing employees.

These changes should be compared with an inflation rate of 1.3% on a sliding annual basis over 2012.

In line with previous years, the group remains attached to the idea of fair salaries based on employees contributions and the results obtained. Hence, a significant proportion of salaries is linked to performance and distributed in particularly via incentive bonuses, participation in the results and profit-sharing bonuses.

Employees also have savings plans that consist of various mutual funds to which they may allocate all or part of their rights, or make voluntary contributions. These payments qualify as appropriate, to matching contribution from the employer.

For 2012, the sums awarded to the employees in respect of incentive bonuses, participation and profit-sharing represented €11,458k, or almost 3.86% of the total payroll costs of the Group.

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

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

GROUP TOTAL	Amount in €
Total payroll (excluding social contributions)	296,782,321
Incentive paid in 2012	4,806,048
Profit-sharing awarded for 2012	5,195,963
Sharing bonus	1,190,251
Employer contribution to Group savings scheme	266,085

Identifying and retaining talent is a major challenge for the LISI Group. As such, executives or owners of key positions in the organization receive a share award program conditional on the medium-term performance of the company. This method of variable remuneration enables them to partner closely with the company's performance results over several years.

1.2 ORGANIZATION OF WORKING TIME

1.2.1 Organization of working time

The work of production staff is most frequently organized in two (2x8) or three (3x8) daily shifts. Depending on the site, substitution teams are likely to be implemented on weekend days.

In 2012, the site of Rugby (England) successfully deployed a new work organization to optimize the use of production tools. The "4 on/4 off shift pattern" is a cycle consisting of four 12-hour working days followed by 4 days off. The work schedule thus increased from 37.5 hours to 42 hours on average weekly, allowing a higher level of production on the site. This system was introduced upstream to employees and its implementation is based on individual agreements signed in advance with each affected employee.

Overtime accounted for more than 900,000 hours in 2012, or 6.2% of hours worked. This number of hours is mainly due to the heavy workload on LISI AEROSPACE sites (727,745 extra hours, or nearly 80% of the Group's total overtime).

In France, the senior staff follows the principle of a flat number of days per annum (218), thereby acquiring days off. Depending on entities, executives can use some of these days in the form of a co-investment to benefit from employer-funded training activities.

1.2.2 Absenteeism

In 2012, the absenteeism rate is 4% across the LISI Group.
Various measures are taken at the divisions to reduce the number of hours lost:
- at most units, incentive agreements include an absenteeism indicator,
- interviews are conducted upon the employee's return to identify the levers of progress that will help prevent further absences (eg work on ergonomics, gestures and posture training, adaptation of team schedules),
- communication actions are put in place to educate staff on the impact of unanticipated absences on production cycles.

In France, LISI Group employees benefit from Réhalto's services to prevent psychosocial risks and stress or even to accompany their return to active life.

This listening and support platform, composed of psychologists available 24x7, allows any employee of the Group to obtain the assistance of a qualified professional to overcome their problems and find a solution to their difficulties, be they of a personal, professional, family or addiction-related nature.

With a simple phone call, any employee can make contact, in full confidentiality, with a psychosocial worker in their region. The employee can benefit from up to 12 hours of paid consultations.

1.3 LABOR RELATIONS

1.3.1 The organization of social dialogue, including the staff information, consultation and negotiation procedures:

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

Training actions are also implemented for the local management in order to make them aware of the importance of maintaining good quality social dialogue.

Besides, specific committees meet regularly to discuss and make progress on the various issues for which they were formed. This is the case in particular for the complementary health insurance committee, the gender equality committee, the future employment and skills management committee, and the training committee.

1.3.2 Review of collective agreements

The list of collective agreements in 2012 is as follows:
LISI AUTOMOTIVE Former: Signing of 4 agreements (Incentive, Gender Equality, Disabled Workers, Management Planning for Employment and Skills) by all unions,
LISI AUTOMOTIVE KKP (Mellrichstadt): Signing of a "Pre-Retirement" Agreement,
LISI AUTOMOTIVE Rapid (Puiseux): Signing of a "Saturday and Sunday" Agreement,
BLANC AERO INDUSTRIES Villefranche de Rouergue: Signing of a "Friday Saturday Sunday / Saturday Sunday Monday" Agreement,
LISI AEROSPACE Creuzet: Signing of a "Seniors" agreement and a "Profit-Sharing" Agreement ,
BLANC AERO INDUSTRIES: Signing of a "Wellness at Work" Agreement.
France:
- Mandatory annual negotiations
- Agreement or DUE[1] regarding the profit-sharing bonus

LISI MEDICAL Fasteners: Signing of a "Profit-Sharing, Participation and Savings Plan" Agreement,
LISI MEDICAL Orthopaedics:
- "Gender Equality" DUE
- "Wellness at Work" DUE

1.4 HEALTH & SAFETY

1.4.1 Health & safety at work

The LISI Group Senior Management became seriously involved at its highest levels in the areas of health, safety and the environment.
At all levels, the Group has as its objective to:
- reach the excellence level of performance in the areas of Health and Safety, while keeping control over the occupational hazards generated by its activities.
- make health - safety a vector of continuous improvement, a means to move forward, including in areas that are not directly related to it.

In order to ensure and achieve this goal, LISI has adopted HSE (Health Safety Environment) policy and organization to identify key areas for improvement, prioritize goals, and derive the appropriate actions. This policy and organization are based

[1] DUE : Unilateral decision of the Employer

on the international OHSAS 18001 standard (international standard governing the management system of health and safety at work).

The acceptance and dedication of each employee of the Group are actively sought in the process of improving the safety of our sites.

In June 2011, an HSE Forum brought together the Management of each division, all the Site Directors and the HSE Managers and the LISI Group; they have set for themselves ambitious, yet realistic, goals. In particular:

- Each production plant must obtain certification for its workplace health and safety management system in accordance with the international referential OHSAS 18001 by an independent certification body by the end of 2013,
- The frequency rate of workplace accidents with and without time off work (TF1) for all the sites must fall below 10, and this, by including temporary workers working on behalf of the business by the end of 2013.

Achieving these goals involves a number of actions.

First of all **technically**, LISI is constantly working to improve its workstations. Thus, in 2012, LISI invested € 5.6 million in the field of safety and the environment, including for the safety of its machinery and for the implementation of ergonomic facilities and assistance in handling. For example, the Delle 2 site worked in cooperation with the operators to make changes to the sorting tables. Many sites, such as LISI AUTOMOTIVE Knipping in Kierspe or LISI AEROSPACE in Saint-Ouen l'Aumône, have also invested in handling aid equipment.

Then, from an **organizational** point of view, the sites implement a health and safety management system that is compliant with the international standard OHSAS 18001. At the end of 2012, 7 sites out of 38 are already certified to ISO 18001 (Caen, Grandvillars, Heidelberg, Izmir, Kierspe, Rugby, Shanghai).

But it is from the **behavioral** standpoint that the LISI Group has chosen to put up the greatest efforts. Indeed, knowing that 73% of accidents with work stoppage have a behavioral component - whether conscious or unconscious - LISI wanted to develop activities that would directly address each and everyone's responsibility in the occurrence of accidents. The point here is mainly to give security the place it deserves: it should be the primary concern at the heart of workshops, since there are the place where the vast majority of accidents occur.
The actions can be broken down into two distinct and complementary categories:

1) many sites have implemented a process of "safety meetings". The objective is to strengthen the dialogue between management and operators. Indeed, managers, whether operational or not, should organize one such meeting. They observe a workshop operator and report both good practices and any dangerous situations. After the observation period, a dialog is initiated with the operator so that he can also become aware of these dangerous situations. From there, he is in the best position to determine the best way to eliminate the danger; he is therefore the one who, through a discussion with the manager, can find out the best protection against the risk observed.

2) LISI has decided to go further in the process by developing a program to change the safety culture with a consultant. This began in late 2011 at four pilot sites and really took off in 2012, with promising results. The program begins with an assessment of the safety culture through a questionnaire that each employee must complete. The survey is anonymous which allows everyone to express themselves freely. After analyzing the results, the staff of each department meet at dialog workshops, whose purpose is to review best practices and areas for improvement. With the help of the consultant, each one then works to remove unsafe behavior at 2 levels:
   - eradicating conscious unsafe behavior by assisting local managers in their dealings with their employees. This approach is carried out through experience sharing sessions and reflections on the values of safety at work.
   - reducing unconscious unsafe behavior through joint sessions during which the consultant makes the workers aware of risks and dangers. Through training, the purpose here is to change behaviors and the safety approach within the workshops.

Each employee, whether operator or manager, builds this safety culture. Everyone should participate in creating a work environment where risk is under control. And each employee must also pay attention to their own safety as well as that of their colleagues.

1.4.2 Review of the agreements with trade unions or employee representatives on health and safety at work

The agreements on health and safety that were signed in 2012 include:
LISI AUTOMOTIVE KKP (Mellrichstadt): Signing of a "Pre-retirement agreement",
LISI MEDICAL Orthopaedics: "Wellness at Work" DUE,
BLANC AERO INDUSTRIES: Signing of a "Wellness at Work Agreement".

1.4.3 Accidents at work, including their frequency and severity, and occupational diseases

The establishment of a genuine safety culture takes time. However, LISI recorded a steady improvement in the field of safety with the work conducted in three areas: technical, organizational, and human.

In 2012, at constant scope, the number of workplace accidents with work stoppage that involved an employee (TF0) was reduced to 8.0 per million hours worked, or 4.6% better than in 2011, and 13.7 for the number of work accidents with and without work stoppage (TF1), 12.6% less than in 2011. These constitute the best results achieved since 2005, when these statistics were first consolidated for the entire Group.

Certain Group sites have not had any accidents with work stoppage: City of Industry, Escondido, Gummersbach, Lure, Saint-Ouen l'Aumône, Vignoux s/ Barangeon. Others have had no accident at all - either with or without work stoppage - including Beijing, Casablanca Creuzet, Cejc, Paramount, Tanger. However, the LISI Group observes 17 occupational diseases throughout its sites, despite the efforts made in terms of ergonomics and management of workstations.

The severity rate TG0, which represents the number of days lost due to an accident per thousand hours worked, was stabilized at a low level in 2012. Indeed, LISI divided this rate by 4 since 2005 to 0.23 in December 2012.

It is the growing involvement of all employees that today allows the LISI Group to show an improvement in safety performance. Each employee plays a major role.

1.5 TRAINING

The Group attaches particular importance to the training of its employees and considers that the enforcement of employees skills is a major factor for the improvement of quality, efficiency and competitiveness.

LISI ensures that each employee, regardless of his/her age or position, has access throughout his career to the training courses necessary for the construction of his career path and his adaptation to changes in the businesses.

Thus, 5,462 employees benefited from training courses during 2012 (or 61% of the employees of the Group) and more than 274,000 hours of training were completed, or 1.85% of the total hours worked, which represents a growth rate of 36% in comparison with 2011.

Purchases of external training totaled € 2,913,705 or 1% of the Group's total payroll. This figure is an increase of 7.4% compared to 2011.

LISI actively pursues its contribution to the integration of young people into the labor market by allowing large numbers of students to come and discover the business and its activities, whether through the completion of internships or periods of apprenticeship.

During 2012, LISI welcomed 408 interns, 216 apprentices and 63 work experience contracts across all its divisions.

GROUP TOTAL	
Total hours of training (internal & external)	274,188
of which Individual Training Entitlement	4,526
Number of employees trained (at least 7 hours of training over the year)	5,462
External training expenses (billing only)	2,913,705
Number of interns recruited in 2012	481
Number of apprentices recruited in 2012	216
Number of work experience contracts signed in 2012	63

By division:

LISI AEROSPACE

In line with previous years, training in 2012 was mainly focused on the following areas:

- **Trade skills**: develop skills in each job, ensuring the transfer of knowledge and know-how,
- **Health, Safety and Environment**: fundamentals and compliance with regulations, develop a culture of risk prevention, educate managers to psychosocial risks, improve the ergonomics of workstations,
- **Quality and continuous improvement**: ensure the level of quality expected by our customers, deploy the principles of Lean Manufacturing and Six Sigma,
- **Languages**: French / English to facilitate exchanges both between colleagues and with our suppliers and customers,
- **Management**: via the dedicated LKI program.

LISI AUTOMOTIVE

The year 2012 shows the continued efforts in training focused on 3 main areas:

- meet the requirements of our markets and our strategy in the areas of safety (improving working conditions, deployment of ergonomic tools), continuous improvement (5S, SMED, etc. training), and quality,
- further actions over several years including trades training (thermal treatment, cold forging, machining), qualification courses and careers, the integration of new recruits, management, languages (English, German and French to facilitate exchanges between the various sites), staff awareness on safety and environmental issues,

- support people affected by the developments of financial, industrial and sales management tools.

In addition, special attention is paid to the implementation of training needs identified in individual and professional interviews, and more particularly to senior employees who may encounter difficulties in their job or in their work environment.

LISI MEDICAL

The training actions conducted in 2012 correspond to the following guidelines:

- **Trades training**: develop skills in each job, ensuring the transfer of knowledge and know-how,
- **Health, Safety and Environment**,
- **Languages and office automation**: English, German, Office pack ,
- **Quality**: 8D, AMDEC process,
- **Continuous improvement**: Lean Manufacturing (5S, SMED, VSM - Visual Management System...), Six Sigma tools (GRR, capability analysis, experimental design, hypothesis testing),
- **Management**,
- Individual training identified during the annual performance evaluation interviews and senior employee career interviews.

In major training sessions, the LISI Group primarily established:

LISI AEROSPACE

- Via the LISI AEROSPACE Knowledge Institute (LKI), training of 552 participants in 60 sessions since the launch in 2011,
- Development of Aerospace Boilermaker CQPM.

LISI AUTOMOTIVE

- Provision of qualifying training courses: forging, rolling, machining, laminating, thermal treatment,
- Supervisors sector: because management is key to improving performance, LISI AUTOMOTIVE has initiated since 2005 in cooperation with the AFPI, a training course targeted at its supervisors. On December 11th, the 11 people from the 2012 promotion received the degree which crowns "Supervisors Performance", a 19-day training cycle that started at the beginning of the year and includes the following modules: communication and animation, practice of progress tools, management and organization, quality, safety and social relations. The 2013 session will start in February.

1.6 DIVERSITY AND EQUAL OPPORTUNITY / EQUAL TREATMENT

The LISI Group sees diversity as an asset, the exchange of ideas and points of view being a source of progress for the company and an asset vis-à-vis its competitors.

The fight against discrimination of any kind is an essential prerequisite for these different profiles, whether by age, gender, ethnic origin, religious or other beliefs, to flourish in their professional lives and give the best of themselves, confident that they will not be judged on their differences.

Several agreements have been reached with the unions in this regard. The main ones are listed below.

- Policy implemented and action taken in favor of gender equality (Gender Equality Agreements),
- Policy implemented and action taken in favor of the employment and inclusion of people with disabilities (eg, use of CAT, etc.),
- Policy implemented and action taken for the fight against discrimination:
  - **LISI AUTOMOTIVE Former**: Gender Equality Agreement and Disabled Workers Agreement signed by all the unions,
  - **LISI AUTOMOTIVE KKP (Mellrichstadt)**: Team schedule specially adapted for mothers,
  - **LISI MEDICAL Orthopaedics**: "Professional Equality between Men and Women" DUE.

1.7 PROMOTION AND ENFORCEMENT OF THE FUNDAMENTAL PROVISIONS OF ILO CONVENTIONS

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

Respect for freedom of association and for the right to collective bargaining, the elimination of discrimination in respect of employment and occupation, forced or compulsory labor and the effective abolition of child labor, are issued that are monitored during the site audits and to which management is highly sensitized.

LISI is also a signatory of the United Nations - Global Compact, which includes these themes in its principles 3, 4, 5 and 6.

2 ENVIRONMENTAL POLICIES

2.1 GENERAL ENVIRONMENTAL POLICY

2.1.1 The organization of the Company to take into account environmental issues and, where appropriate, approaches to assessment or environmental certification

Nowadays, the improvement of working conditions such as reducing the environmental footprint, are performance indicators that are as important as the economic and financial indicators.

For several years, the LISI Group was fully engaged in placing social and environmental issues at the heart of its corporate culture in order to turn them into intrinsic values.

Like for Health and Safety at Work, the LISI Group Senior Management is mobilized at the highest level and involved in the field of Environment.

The policy and organization put in place are based on the international standard ISO 14001 (international standard governing the management system of the environment).

Thus, at the end of 2012, with an exception of recently acquired Casablanca and Sediszow sites, all other sites are certified according to ISO 14001.

2.1.2 Employee training and information in terms of environmental protection

The LISI Group relies heavily on the skills of all employees to achieve excellence in Health - Safety at Work and Environment. Only each individual behavior can help it build a genuine enterprise HSE culture.

That is why, LISI has decided to continue investing in Human Beings. In fact, 0.3% of hours worked are devoted to HSE training.

Actually, the men and women that make up a company are its key ambassadors in all areas, and their dedication to the company's operations is an asset on which LISI intends to capitalize.

2.1.3 The resources devoted to the prevention of environmental risks and pollution

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

Division	Amounts invested in HSE in 2012
LISI AEROSPACE	€2,474k
LISI AUTOMOTIVE	€2,824k
LISI MEDICAL	€301k
LISI Group - Total	**€5,599k**

Notable investments include:

- The establishment of a "0 releases" treatment plant in Marmande - LISI AEROSPACE - €208 k,
- The establishment of a paint residue processing machine in Fuenlabrada - LISI AUTOMOTIVE - €200 k,
- The improvement of the automated system of the detoxification station of the La Ferté Fresnel plant - LISI AUTOMOTIVE - €75 k,
- The establishment of an scrubber oil separator on the staff car park in Caen - LISI MEDICAL - €60 k,
- The replacement of the effluent treatment station in Villefranche de Rouergue - LISI AEROSPACE - €17 k,
- The replacement of the hot water tanks of the changing rooms with solar tanks in Villefranche de Rouergue - LISI AEROSPACE - €5 k.

2.1.4 The amount of provisions and guarantees for environmental risks, provided that such disclosure is not likely to cause serious harm to the company in an ongoing dispute

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

Division	Amount of HSE provisions for 2012
LISI AEROSPACE	€9,747 k
LISI AUTOMOTIVE	5,915 k
LISI MEDICAL	€95 k
LISI Group	€700 k
LISI Group - Total	**€16,817 k**

2.2 POLLUTION AND WASTE MANAGEMENT

2.2.1 Measures to prevent, reduce or repair emissions to air, water and soil that seriously affect the environment

LISI closely monitors the direct impact its direct production sites may have on the environment. The best technology is sought to reduce the environmental footprint and to anticipate potential regulations.

The surface treatment lines generally benefit from these technologies because their atmospheric emissions and wastewater discharges may affect the surrounding environment if they are not controlled.

For that reason, the LISI AUTOMOTIVE plant in Kierspe has a bio-filter for treating atmospheric waste from the surface treatment line. The LISI AEROSPACE plant at Villefranche de Rouergue has also invested in the efficiency of its wastewater treatment station.

The LISI Group's sites are all ISO 14001 certified. Therefore, a detailed analysis of the environmental impact, the so-called "Environmental Analysis", is carried out by each of them. To maintain this certification, the sites must implement actions to reduce the environmental footprint of those activities or tasks identified as the most significant.

2.2.2 Measures to prevent, recycle, and eliminate waste

Waste production in 2012 remained stable compared to 2011, with a symbolic decrease of 0.1%.

The share of sorted waste was the same as last year, 95.4%. The remaining portion concerns domestic waste generated by production-related activities (toilets, cafeterias, etc.).

LISI AUTOMOTIVE is the largest producer of waste. This is due to the large quantities of materials used and produced. But LISI AUTOMOTIVE is also the division that best sorts its waste, with 97% of waste sorted.

The LISI AEROSPACE division is not far behind, because, in one year, the proportion of waste sorted has increased from 83% to 90%.

The LISI MEDICAL division, in turn, only accounts for 1.4% of the waste.

The production plants principally generate metallic waste (65% of the total quantity of waste produced). These are sold for recycling.

2.2.3 Taking into account noise and other forms of pollution specific to an activity

The LISI Group's sites follow and record all complaints - whether formal or informal, official or not - issued by stakeholders.

Thus, 8 complaints were recorded throughout the Group's sites. Most are related to the occurrence of outbreaks of fire and olfactory or visual impact on the neighborhood.

Each complaint receives a reply - written or otherwise - sent to the party concerned.

Sites concerned	Complaint	Reason
Lure	1	Question asked on the telephone regarding the site's atmospheric discharges
Marmande	1	Complaint on the telephone about the noise generated by dumping waste to bins
Argenton s/ Creuse	4	2 complaints regarding a fire at the Colomiers plant 2 telephone calls regarding noise from the St Marcel plant
Poland	2	2 letters from the owner of the building regarding 2 minor outbreaks of fire

2.3 SUSTAINABLE USE OF RESOURCES

2.3.1 Water consumption and water supply according to local constraints

Water is little used in the manufacturing processes implemented at the sites. It is mainly involved in parts washing and surface treatment. However, most process waters are recycled. In addition, local initiatives are encouraged. For example, at LISI AUTOMOTIVE's Cejc site, improved monitoring of the phosphating line baths and the change of showers and toilets (bringing the flow rate down from 10 liters/minute to 6 liters/minute), have reduced the site's consumption by 16%.

All these initiatives have resulted in an aggregate reduction of water consumption of 8%, in relation to production, at constant structure throughout the Group (ie not including the Marmande, Argenton s/ Creuse, Casablanca, and Sediszow sites) between 2011 and 2012. Each division has helped contribute to reducing consumption.

2.3.2 The consumption of raw materials and the measures taken to improve the effectiveness of their use

The LISI Group is very cautious about the consumption of raw materials and works to optimize the use of these resources.

The manufacturing sites primarily use metals, and to a lesser extent on plastics.

The metal work is done mainly by deformation - cold forging and hot stamping - causing no loss of material aside from adjustments. More sites work daily to optimize their material resources (waste reduction, SMED to reduce losses during the adjustment phases, etc.). Finally, the waste generated by the final stages of production (machining, sharpening) are sorted and sent for 100% materials recovery.

Regarding the plastic, the production sites that use this resource recover and sort their plastic waste (core samples, scrap). Such waste is then crushed and reintroduced into the production lines, to the maximum extent required by our customers.

2.3.3 Energy consumption, measures to improve energy efficiency and use of renewable energy

Energy consumption is also down. Tighter control of our consumption and awareness of our production teams play a key role in this decrease in our impact on the consumption of energy resources. Sites are pursuing their waste cutting activities.

For example, the LISI AEROSPACE plant at Saint-Ouen l'Aumône implemented a campaign of detection of compressed air leaks by ultrasound, with the assistance of a specialist company. In total, 44 leaks were identified and eliminated, generating a saving of 63,636 kWh/year (or 0.8% of annual consumption). That same site reduced its consumption of gas by 204,930 kWh/year, thanks to isolation of the pipes in the heating plant.

2.4 CLIMATE CHANGE

2.4.1 Emissions of greenhouse gases

In accordance with the Grenelle II law and its implementing decrees, LISI has established an Assessment of Greenhouse Gases for its legal entities with more than 500 people.

Thus, in France, Blanc Aero Industries released the carbon equivalent of 2,276 tons of CO2, Creuzet 2,348 tons of CO2, Indraero 5,542 tons of CO2, Former 15,606 tons of CO2, being a total of 25,772 tons of CO2 for these entities.

The analysis in the report shows that the main source of release of Greenhouse Gases is related to energy consumption.

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

3 SOCIETY-RELATED ISSUES

3.1 TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE COMPANY'S BUSINESS

The LISI Group is firmly rooted in France, particularly in Franche Comté. Indeed, of the Group's 38 production sites, 17 are located in France (48%) of which 5 in Franche Comté, the Company's birthplace. These 17 French sites represent 55% of the workforce.

At foreign sites, the vast majority of employees come from the local population, thus contributing to the development of the local economic and social fabric.

The LISI Group employs 16 expatriates, or 0.18%, out of 8,909 employees in total. This very low proportion shows that the site use mostly local people. Expatriates are mostly managers, which also ensures compliance with Group's operating rules.

3.2 RELATIONSHIPS WITH PERSONS OR ORGANIZATIONS INTERESTED IN THE COMPANY'S BUSINESS

3.2.1 The conditions for dialogue with those persons and organizations:

The international standards ISO 14001 and OHSAS 18001 have as one of their basic principles, dialog with the Interested Parties. LISI has based its system of environmental, health, and safety management on these standards.

Thus, individuals and/or organizations interested in the company's business have been identified by the sites, as well as their expectations. All requests receive are subject from the sites.

3.2.2 Partnership and sponsorship activities

The LISI Group is a major economic player in all areas where it operates. It thus contributes to local employment and to local and regional development.

A significant number of employees also contribute to the dynamism of associations, clubs, clusters, networks and other professional organizations.

Such professional organizations include the GIFAS (the Group of French Aerospace Industries) for LISI AEROSPACE, AFFIX

(Association of Manufacturers of Mechanical Fasteners) and DSV (Deutsche Schraubenverband) for LISI AUTOMOTIVE and SNITEM (National Union of the Industry of Medical Technology) for LISI MEDICAL.
LISI is also regularly involved in networks to help 2nd and 3rd level suppliers develop by sharing best practices in terms of industrial excellence, as is the case, for example, with the Vehicle of the Future Segment (segment of excellence in the automotive industry) or the Club of CEOs of the South Territory.

In addition, LISI encourages local partnerships and exchanges, particularly the development of close relationships with schools, universities and the top colleges (Engineering, Management, etc.) in order to anticipate, for each division, the future requirements in terms of employment and skills.

LISI MEDICAL has thus established the FOREM (one training session/one job) in partnership with the AFPI, Pôle Emploi (the French employment agency) and the chamber of commerce. This approach consists in training operators on a Turner Miller CQPM, in order for them to secure a job once they are trained successfully.

LISI AUTOMOTIVE has developed in partnership with AFPI a specific program for Strikers (Career training, Quiz, etc.).

LISI AEROSPACE regularly takes part in various career and employment fairs (local events, meetings organized at the initiative of UIMM or National Education in high schools, ...) so as to introduce the various occupations in the aeronautics industry.

As part of a reflection initiated by the sub-prefecture of Marmande on the difficulties of local recruitment, LISI AEROSPACE Creuzet introduced to the companies in the sector, the professionalization paths implemented which helped to train 15 operators on machining. Following such experience feedback, it was decided to launch the same type of action in the Marmande area, with the financial support of the State as part of an Operational Preparation for Employment.
Workers will be recruited based on the Simulation Recruitment Method, deployed by Pôle-Emploi, with prerequisite levels approved by machining professionals from the partner companies.

3.3 SUBCONTRACTORS AND SUPPLIERS

The LISI Group is part of a "win - win" sustainable partnership with its suppliers and subcontractors to ensure mutual, long-term success.

Aside from economic considerations (quality, competitiveness and continuous improvement), the Suppliers Charter established by the Group dictates the terms of partnership in accordance with the principles of ISO 14001, which are addressed during audits for selecting new suppliers.

The approval and implementation of the 10 principles of the United Nations' "Global Compact" program (Corporate Social Responsibility principles that include Human Rights, Labor Standards, Environment and the Fight against Bribery) are also mentioned in the Suppliers Charter.

The Group's Purchasing Policy includes a section on ethics, sustainable development and corporate responsibility, with the application of the "Global Compact" principles and the requirement for ISO 14001 and OHSAS 18001 certification, in particular for our strategic suppliers.

3.4 LOYAL PRACTICE

3.4.1 Actions taken to prevent bribery

The LISI Group has built its growth on compliance with laws and best practices. Each division is responsible vis-à-vis the Group's Senior Management for the proper performance of its subsidiaries and employees. Relationships with third parties are dictated by the Group's scoping procedures, which are implemented by the Divisions through the dissemination of division-specific procedures. For example, LISI disseminates and updates a Purchasing and Supplier Relations procedure, which specifies for example the limits and authorization thresholds for donations and gifts.

The Group's employees are trained on business Ethics through a specific module of the LISI Knowledge Institute. In addition, the Supplier Charter that complies with the principles set out in the United Nations' Global Compact program, is widely distributed to all LISI stakeholders.

3.5 HUMAN RIGHTS

3.5.1 Actions taken in favor of human rights

The LISI Group has joined the Global Compact. The first and second principles of the Global Compact concerning Human Rights, namely:

1. Businesses should support and respect the protection of international law on human rights within their sphere of influence; and

2. They should ensure that their own corporations are not accomplices of human right violations.

4 CORRELATION TABLE

Labor-related issues

Subject	Sub-topic	Par.
Employment	Total workforce	§ 1.1.1
	Distribution of employees by gender, age and geographical area	§ 1.1.2
	Hiring and firing	§ 1.1.3
	Compensation and changes	§ 1.1.4
Organization of working time	Organization of working time	§ 1.2.1
	Absenteeism	§ 1.2.2
Labor relations	The organization of social dialogue, including the staff information, consultation and negotiation procedures	§ 1.3.1
	Review of collective agreements	§ 1.3.2
Health & Safety	Health & safety at work	§ 1.4.1
	Review of the agreements with trade unions or employee representatives on health and safety at work	§ 1.4.2
	Accidents at work, including their frequency and severity, and occupational diseases	§ 1.4.3
Training	Training policies implemented	§ 1.5
	The total number of training hours	§ 1.5
Diversity and equal opportunity / equal treatment	The policy implemented and the action taken for gender equality	§ 1.6
	Policy implemented and measures taken for employment and inclusion of people with disabilities	§ 1.6
	Implemented and action taken for the fight against discrimination	§ 1.6
Promotion and enforcement of fundamental provisions of ILO Conventions	Respect for freedom of association and the right to collective bargaining	§ 1.7
	The elimination of discrimination in respect of employment and occupation	§ 1.7
	The elimination of forced and compulsory work	§ 1.7
	The effective abolition of child labor	§ 1.7

Environmental aspects

Subject	Sub-topic	Par.
General environmental policy	The organization of the Company to take into account environmental issues and, where appropriate, approaches to assessment or environmental certification	§ 2.1.1
	Employee training and information in terms of environmental protection	§ 2.1.2
	The resources devoted to the prevention of environmental risks and pollution	§ 2.1.3
	The amount of provisions and guarantees for environmental risks, provided that such disclosure is not likely to cause serious harm to the company in an ongoing dispute	§ 2.1.4
Pollution and waste management	Measures to prevent, reduce or repair emissions to air, water and soil that seriously affect the environment	§ 2.2.1
	Measures to prevent, recycle, and eliminate waste	§ 2.2.2
	Taking into account noise and other forms of pollution specific to an activity	§ 2.2.3
Sustainable use of resources	Water consumption and water supply according to local constraints	§ 2.3.1
	The consumption of raw materials and the measures taken to improve the effectiveness of their use	§ 2.3.2
	Energy consumption, measures to improve energy efficiency and use of renewable energy	§ 2.3.3
Climate Change	Emissions of greenhouse gases	§ 2.4

Society-related issues

Subject	Sub-topic	Par.
Territorial, economic and social impact of the company's business	In terms of employment and regional development	§ 3.1
	On neighboring and local populations	§ 3.1
Relationships with persons or organizations interested in the company's business	The conditions for dialogue with those persons and organizations	§ 3.2.1
	Partnership and sponsorship activities	§ 3.2.2
Subcontractors and suppliers	The consideration, in the company's purchasing policy, of social and environmental challenges	§ 3.3
	The importance of outsourcing and consideration in relationships with suppliers and subcontractors for their social and environmental responsibility	§ 3.3
Loyal practice	Actions taken to prevent bribery	§ 3.4.1
Human rights	Actions taken in favor of human rights	§ 3.5

7

INFORMATION REGARDING THE COMPANY AND CORPORATE GOVERNANCE

1 COMPANY INFORMATION

1.1 CAPITAL STOCK

1.1.1 Amount of capital stock

Share capital taken up by shareholders and fully paid-up, as at December 31, 2012, amounted to €21,572,988, divided into 10,786,494 shares with a face value of €2 of the same category.

1.1.2 Changes in capital stock over the past 5 years

Date of Shareholders' 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 12/31/2012: €21,572,988 divided into 10,786,494 shares with €2 face value								
02/10/04	07/28/10	Capital increase by conversion of warrants	€3,616	€81,360	1,808	€2	10,786,494	€21,572,988
04/29/09	04/28/10	Capital increase reserved for employees	€61,650	€868,649	30,825	€2	10,784,686	€21,569,372
02/10/04	02/20/08*	Capital increase by conversion of warrants	€299,588	6,740 730 €	149 794	€2	10,753 861	21,507,722 €
02/10/04	12/21/07	Capital increase by conversion of warrants	€169,592	€3,815,820	84,796	€2	10,604,067	€21,208,134
02/10/04	08/29/07	Capital increase by conversion of warrants	€255,292	€5,744,070	127,646	€2	10,519,271	€21,038,542
02/10/04	06/27/07	Capital increase by conversion of warrants	€361,684	€8,137,890	180,842	€2	10,391,625	€20,783,250
02/10/04	02/22/07	Capital increase by conversion of warrants	€30,000	€675,000	15,000	€2	10,210,783	€20,421,566
02/10/04	12/20/06	Capital increase by conversion of warrants	€498,926	€11,225,835	249,463	€2	10,195,783	€20,391,566
02/10/04	06/23/06	Capital increase by conversion of warrants	€43,640	€981,900	21,820	€2	9,952,166	€19,892,640
02/10/04	06/23/06	Capital increase reserved for employees	€55,332	€1,122,686.58	27,666	€2	9,924,500	€19,849,000

* Conversion of warrants at end December 2007.

1.1.3 Authorized share capital not yet issued

At December 31, 2012 there are more valid delegations granted by the Shareholders' General Meeting to the Board in the area of capital increases.

1.1.4 Potential warrants

At December 31, 2012, there are no more warrants providing access to capital.

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

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

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

	Net dividend in €
2008	1.20
2009	0.70
2010	1.05
2011	1.30
2012 (1)	1.40

(1) Subject to the decision of the Ordinary General Meeting of April 25, 2013. The date for payment of dividends has been set at May 7, 2013.

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

1.2 STOCK REPURCHASE PROGRAM

1.2.1 In place at December 31, 2012

On April 26, 2012, the Shareholder's mixed 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 26, 2013.

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

- To increase the activity of the stock on the market by an Investment Services Provider via a liquidity contract in accordance with the professional code of ethics recognized by the AMF (the French 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 following terms apply to this authorization:

- The company may not repurchase its own shares for more than €100, 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 €69,984,500.

Under the above-mentioned share repurchase program, in 2012 LISI S.A. acquired 121,223 treasury shares, i.e 1.1 %. The number of own shares held by LISI S.A. stands at 314,980.

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

	Number of shares	Average weighted price in €
Shares held at 01/01/2012	**378,804**	**38.48**
Shares acquired in 2012	121,223	54.83
Shares awarded in 2012	(47,185)	37.32
Shares disposed of in 2012	(137,862)	54.46
Shares held at 12/31/2012	**314,980**	**37.95**
Of which shares allocated to remuneration in shares	*302,439*	
Of which available	*12,541*	

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

1.2.2 New stock repurchase program

The next Shareholders' General Meeting will be offered to renew its program to repurchase LISI S.A. shares, in accordance with the new rules applicable since the entry into force of European Rules 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. 539,324 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 €100 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

	2012			2011			2010		
	as a % of capital	as a % of voting rights	in number of shares	as a % of capital	as a % of voting rights	in number of shares	as a % of capital	as a % of voting rights	in number of shares
CID	55.0	69.3	5,928,724	55.00	69.6	5,928,724	55.0	67.8	5,928,724
VMC	6	7.5	640,675	6.00	7.5	641,675	6.0	7.3	641,675
Other corporate officers	0.4	0.5	48,167	0.4	0.4	51,364	0.4	0.4	47,764
TOTAL CORPORATE OFFICERS	**61.4**	**77.2**	**6,617,566**	**61.4**	**77.5**	**6,621,763**	**61.4**	**75.5**	**6,618,163**
of which directors	0.22	0.20	23,450	0.20	0.19	21,540	0.17	0.15	18,540
FFP INVEST	5.1	3.2	550,000	5.1	3.1	550,000			
FFP							5.1	6.1	550,000
Treasury shares	2.9		314,980	3.5		378,804	3.9		420,876
Employees	1.4	0.9	152,500	1.4	0.9	146,500	1.4	0.9	152,570
Public	29.2	18.7	3,151,448	28.6	18.5	3,089,427	28.3	17.5	3,044,885
GRAND TOTAL	**100.0**	**100.0**	**10,786,494**	**100.0**	**100.0**	**10,786,494**	**100.0**	**100.0**	**10,786,494**

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, 2012, it holds: 55% of the share capital and 69.3% of the voting rights.

CID's capital is held in almost equal proportion by three family shareholder groups through family holdings. While family ties exist between shareholders, they are not directly related.

- At December 31, 2012, VMC, Route des Forges 90120 MORVILLARS, holds directly: 6.0% of the share capital and 7.5% of the voting rights. At the same date, it holds indirectly 15.27% of the capital of LISI S.A., i.e. in total 21.27% of the capital.
- At December 31, 2012, FFP, 75 avenue de la Grande Armée 75116 PARIS, holds: 5.1% of the share capital and 3.2% of the voting rights. At the same date, it holds indirectly 13.87% of the capital of LISI S.A., being a total of 18.97% of the capital.

– The sole activity of CIKO, 28 faubourg de Belfort 90100 DELLE is the ownership of LISI and CID shares. At December 31, 2012, it holds directly: 0.2% of the share capital and 0.3% of the voting rights. At the same date, it holds indirectly 16.56% of the capital of LISI S.A., being a total of 16.76% of the capital.

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 (1.4% 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.

1.3.1.4 Collective retention commitments
"Dutreil" agreement (article 885 I of the General Tax Code) regarding LISI S.A. securities

Under Article 885 of the General Tax Code ("CGI"), a commitment to retain shares was subscribed for a period of two years and one day from December 17, 2010 by Compagnie Industrielle de Delle ("CID"), Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard. This commitment is renewed by tacit agreement from one year to another as of December 19, 2012. This commitment involves 5,929,125 shares and 11,857,849 LISI S.A. voting rights, broken down as follows:

	Shares	% capital	Voting rights	% voting rights
CID	5,928,724	55.0%	11,857,448	69.60%
Mr. Gilles Kohler	200	0.00%	200	0.00%
Mr. Jean-Philippe Kohler	1	0.00%	1	0.00%
Mr. Emmanuel Viellard	200	0.00%	200	0.00%
Total	**5,929,125**	**55.0%**	**11,857,849**	**69.60%**

So as to be able to benefit from the tax break as regards Solidarity Tax on Wealth, the Compagnie Industrielle de Delle, Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard have individually made a commitment to keep their shares in LISI S.A. for a period of four years, on the expiry of the two-year retention period stipulated in the collective commitment.

"Jacob" agreement (article 787 B of the General Tax Code) regarding LISI S.A. securities

Under Article 787 B of the General Tax Code ("CGI"), a commitment to retain shares was subscribed from December 17, 2010 for a period of two years and one day by Compagnie Industrielle de Delle ("CID"), Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard. This commitment involves 5,929,125 shares and 11,857,849 LISI S.A. voting rights, broken down as follows:

	Shares	% capital	Voting rights	% voting rights
CID	5,928,724	55.0%	11,857,448	69.60%
Mr. Gilles Kohler	200	0.0%	200	0.00%
Mr. Jean-Philippe Kohler	1	0.0%	1	0.00%
Mr. Emmanuel Viellard	200	0.0%	200	0.00%
Total	**5,929,125**	**55.0%**	**11,857,849**	**69.60%**

So as to be able to benefit from the tax break as regards inheritance and gift tax, the Compagnie Industrielle de Delle, Mr. Gilles Kohler, Mr. Jean-Philippe Kohler and Mr. Emmanuel Viellard have individually made a commitment to keep their shares in LISI S.A. for a period of four years. At the end of the two-year retention period, the commitment will be tacitly renewable by periods of one year, year on year, as stipulated in the collective commitment.

On the date of this document, these commitments made under article 885 I bis and article 787 B of the General Tax Code have been kept.

It is also stated that interests held in CIKO CID, stand at 48,013 shares out of a total of 159,495 at December 31, 2012.

1.3.2 LISI S.A. shareholding.

The latest TPI analysis ("Identifiable bearer security"), conducted on January 31, 2008, identified 2,343 shareholders on the floating capital, which accounted for approximately 32% of the total number of shares. At that date, the breakdown was as follows:

- French institutional investors: 137 holding 11.7% of the capital stock,
- International institutional investors: 111 holding 15.7% of the capital stock,
- French and international individual shareholders: 2,095 holding 2.6% of the capital stock.

1.3.3 LISI S.A. treasury shares.

As at December 31, 2011, LISI S.A. held 378,804 of its own shares, or 3.5% 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 number of services and skills relating to central functions, such as legal and fiscal support, financial support, management controls, procedures and audits, insurance management and assistance with human resources, health, safety, and environmental matters. The three divisions pay LISI S.A. a normal level of compensation for these services, based on the operating expenses incurred for the period, multiplied by a coefficient; these charge-backs are broken down proportionally to each division's added value.

Data with related companies are as follows:

(In €'000)	Amount concerning related companies	Amount concerning companies with which the company has an ownership relationship
ASSETS:		
Provisions on equity shares		
Receivables related to equity holdings	10,500	-
Debtors and apportioned accounts	2,430	-
Cash advances to subsidiaries	174,495	-
Tax integration current account	8,018	-
LIABILITIES:		
Subsidiaries' financial assistance	122,184	-
Tax integration current account	590	-
Advance payments from customers	-	-
Suppliers	138	-
Other creditors	-	-
INCOME STATEMENT:		
Services received	-	-
IT maintenance	17	-
Reserves for equity interests	788	-
Sales revenue with subsidiaries	6,832	-
Miscellaneous chargebacks	1,587	-
Revenues from subsidiaries' loans and current accounts	2,049	-
Revenues from equity interest	13,003	-
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 of €10 million which was entered into on July 15, 2005 for a period of seven years, redeemable on or after July 15, 2011 for a full refund on April 1, 2016, allowed it to partially finance the acquisition in July 2005 of Germany's KNIPPING. A €10 million loan was taken out in April 2008 for a period of 7 years, amortizable, with 2 years' deferred repayment to face its growing working capital requirements, the capital outstanding at December 31, 2012 being €4 million.
- cash advances to group subsidiaries as part of the Group's cash agreement,
- the current accounts for the fiscal integration of tax receivables of the companies consolidated within the group.

• On the liabilities side:

- cash granted to group subsidiaries within the group cash management agreement,
- the current accounts for the fiscal integration of tax receivables of the companies integrated within the group.

• On the income statement:

- invoices for services and management fees from LISI S.A. to its various subsidiaries,

-dividends received by LISI S.A. during the financial year 2012.

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 2012 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:

	Ernst & Young		Exco Cap Audit		Foreign auditors		Sécafi Alpha (1)	
	Amount		Amount		Amount		Amount	
(In €'000)	**N**	**N-1**	**N**	**N-1**	**N**	**N-1**	**N**	**N-1**
Audit								
Auditors, certification, review of individual and consolidated financial statements								
- Holding company	77	76	23	20				
- Fully consolidated subsidiaries	744	512	250	148	6	65		
Other due diligence and services								
- Holding company	18							18
- Fully consolidated subsidiaries	12		24	23	40	24	118	111
Sub-Total	**852**	**588**	**296**	**191**	**46**	**89**	**118**	**129**
Other services rendered by the networks to the fully consolidated subsidiaries								
Legal, tax, and social					4	127		
Miscellaneous services					11			
Sub-Total					**15**	**127**		
TOTAL	**852**	**588**	**296**	**191**	**61**	**216**	**118**	**129**

(1) Group committee.

2 COMPANY 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 in particular to the Board Chairman's report).

The LISI Group is a member of the AFEP MEDEF corporate governance code, whose recommendations it meets. Such membership has been confirmed by the Board of Directors.

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 systematically 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 appoints 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 behave 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 end for the following year.

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

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

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

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

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

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

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

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

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

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

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

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

2.2 INTERNAL RULES OF THE BOARD OF DIRECTORS

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

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

Board meetings:

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

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

Invitations to board meetings that are issued by either the Chairman or the Secretary of the Board can be by letter, 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 CEO of LISI S.A. regarding the compensation policy applied to the senior managers of each Group subsidiary. 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. Members of this Committee are Ms. Lise Nobre, Messrs. Thierry Peugeot and Patrick Daher. The Committee is chaired by Mrs. Lise Nobre.

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

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

The Committee met three times in 2012. 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 rules 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 review 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 Christian Peugeot. The Committee is chaired by Mr. Eric André.

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 2012. 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 this Committee are Mrs. Lise Nobre, Messrs. Gilles Kohler, Jean-Philippe Kohler, Emmanuel Viellard and Pascal Lebard. The Committee is chaired by Mr. Gilles Kohler.

The Committee met once in 2012.

2.6 INDEPENDENT DIRECTORS AND DIRECTORS LINKED TO THE COMPANY

As per the principles advocated by the AFEP/MEDEF code, the directors of the LISI Group SA are qualified independent directors when their status meets the following six criteria:

- not being an employee or corporate officer of the company, not being an employee or director of the parent company or of a company that it consolidates and not having held such status for the previous five years;

- not being a corporate officer of a company in which the company directly or indirectly holds a director's mandate or in which an employee designated as such or a corporate officer (current or having been so for less than five years) holds a director's mandate;

- not being a major client, supplier, investment banker or financial banker significant for the company or its group, or for whom the company or its group represents a major portion of business;

- not being a close relative of a corporate officer;

- not having been a company auditor for the previous five years;

- not having been a company director for more than twelve years.

In concrete terms, holders of the role of independent director are people who are not linked directly or indirectly to the reference shareholders which are CIKO, FFP and VIELLARD MIGEON & CIE (details in paragraph 2.8.1 of this document).

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:

	2012	2011	DIFFERENCE N/N-1
Management	802	761	5.4%
Supervisors	747	822	-9.1%
Staff and workers	7,360	6,929	6.2%
Total	**8,909**	**8,512**	**4.7%**

2.7.1.2 Registered employees at period end by division

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

	2011	2010	DIFFERENCE N/N-1
LISI AEROSPACE	5,205	4,677	11.3%
LISI MEDICAL	475	508	-6.5%
LISI AUTOMOTIVE	3,213	3 312	-3.0%
Holding company	16	15	6.7%
Total	**8,909**	**8,512**	**4.7%**
Temporary staff engaged	563	627	-10.2%

2.7.1.3 Geographic breakdown of staff

The table below shows the breakdown of staff by geographic area:

	2011	as a %	2010	as a %
France	4,840	54%	4,727	56%
Europe (excl. France)	1,640	18%	1,638	19%
North American continent	1,457	16%	1,312	15%
Africa	260	3%	205	2%
Asia	712	8%	630	7%
Total	**8,909**	**100%**	**8,512**	**100%**

2.7.1.4 Consolidated sales revenue

EFTAW*	Voluntary departures	Turnover rate
9,245	321	3.47%

* Equivalent full-time average wage.

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):

2012	2011	2010
5.1	3.9	1.0

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 actions" for its French companies. This plan facilitated participation in 2001, 2004 and 2006 in a capital increase reserved for employees in the sums of €1.47m, €0.8m, €1.18m, and €0.9m, respectively.

For other years, the PEG was renewed in the form of a repurchase of shares.

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

Benefits granted to employees under the Group savings pan are recorded to the income statement and assessed in accordance with IFRS 2.

As at December 31, 2012, the "LISI en actions" plan consisted entirely of LISI shares, for a total of 152,500 shares, and had 1,515 members.

In 2012, the Group savings plan was renewed in the form of a share repurchase program.

c) Employee shareholding

The percentage of share capital held by the Group's employees stood at 1.4% as at December 31, 2012.

2.7.2.2 Compensation in shares

a) Free shares granting plan

As a reward to several employees who have spent the majority of their working lives employed within the LISI Group, and who have actively contributed to its development, the Board of Directors, in its meeting of October 24, 2012, with the permission of the General Meeting of April 29, 2009, decided to allocate 300 LISI company shares, freely and without condition, to four Group employees. The plan stipulates that shares thus allocated shall be held for two years, during which period they may not be sold on.

b) Performance shares plan

Plan of 2010:

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on July 28, 2010, with the permission of the General Meeting of April 29, 2009, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting all or part of certain performance targets: reaching on December 31, 2011 two criteria, namely consolidated EBIT in excess of 6% of consolidated sales, and consolidated sales revenue in excess of €800m. The maximum allocated number of shares is 60,900 existing shares and concerns 123 French employees.

In order for the number to be equal to the number of shares originally allocated, performance indicators need to be fully respected. Where performance targets are not met, the number of shares will be reduced accordingly. The plan also stipulates that shares thus allocated shall be held for two years, during which period they may not be sold on.

As far as the corporate officers are concerned, the Board of Directors decided:
1) In order to receive at maturity all or part of the Performance Shares to which they are entitled, each of the corporate officer directors shall, at the end of the acquisition period, acquire 200 Company shares.
2) The corporate officer directors shall retain 200 of any shares which may have been allocated to them registered in their own name, and until the termination of their employment.

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

On February 15, 2012, the Board of Directors observed that performance targets had only been partially met; as a result only 85% of shares or bonuses will actually be allocated.

Plan of 2011:

Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on October 26, 2011, with the permission of the General Meeting of April 29, 2009, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting all or part of certain performance targets: reaching on December 31, 2013, one criterion, namely Net Asset Value of at least €900 million. If the Net Asset Value is between €900m and €1,275 million, the shares would be allocated in part. If the Net Asset Value is higher than €1,275m, the shares would be allocated in full. The maximum allocated number of shares is 48,150 shares and concerns 143 French employees.

The plan also stipulates that shares thus allocated shall be held for two years, during which period they may not be sold on.

As far as the corporate officers are concerned, the Board of Directors decided:
1) In order to receive at maturity all or part of the Performance Shares to which they are entitled, each of the corporate officer directors shall, at the end of the acquisition period, acquire 200 Company shares.
2) The corporate officer directors shall retain 200 of any shares which may have been allocated to them registered in their own name, and until the termination of their employment.

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

Plan of 2012:
Acting on the recommendation of the Compensation Committee, LISI's Board of Directors decided, on October 24, 2012, with the permission of the General Meeting of April 29, 2009, to allocate performance shares to members of the Executive Committee and to members of the main Management Committees for the three LISI Group divisions, subject to their meeting all or part of certain performance targets: reaching on December 31, 2014, one criterion, namely Net Asset Value of at least €900 million. If the Net Asset Value is between €900m and €1,220 million, the shares would be allocated in part. If the Net Asset Value is higher than €1,220m, the shares would be allocated in full. The maximum allocated number of shares is 52,550 shares and concerns 156 French employees.
The plan also stipulates that shares thus allocated shall be held for two years, during which period they may not be sold on.
As far as the corporate officers are concerned, the Board of Directors decided:
1) In order to receive at maturity all or part of the Performance Shares to which they are entitled, each of the corporate officer directors shall, at the end of the acquisition period, acquire 200 Company shares.
2) The corporate officer directors shall retain 200 of any shares which may have been allocated to them registered in their own name, and until the termination of their employment.

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

c) Information relating to share-purchase options and the awarding of shares based on performance on December 31, 2012.

The table below shows the information relating to share-purchase options and performance-based shares outstanding as at December 31, 2012:

	Number	Average weighted exercise price of options in €
Options outstanding at year start	104,100	
Options allocated during the period	52,850	
Options cancelled during the period	(12,915)	
Options exercised during the year	(47,185)	37.32
Options that reached maturity during the period		
Options outstanding at year end	96,850	

The following table presents information about outstanding stock options by date as at December 31, 2012:

Allotment Date of Options	Exercise price in €	Number of options outstanding at December 31, 2012	Residual contractual term
07/28/11	None	44,200	02/26/14
10/24/12	None	52,350	February 2015
10/24/12	None	300	February 2015
Total		**96,850**	

d) Plans in place as at December 31, 2012:

Date of Shareholders' General Meeting Board of Directors	Categor Plan number	Number of shares assigned	Of which corporate officers	Of which 10 top employees	Residual number of beneficiaries	Exercise period	Subscription or purchase price	Options exercised at 01/01/2012	Options exercised in 2012	Options cancelled	Options remaining at 12/31/2012
Authorization of 04.29.2009											
07.28.2010	G Plan Nr. 7	60,900	2,600	8,750	0	07.28.2012 07.28.2014	None	0	46,585	14,315	0
Authorization of 04.29.2009											
07.28.2010	G Plan Nr. 7 bis	600	0	600	0	07.28.2012 07.28.2014	None	0	600	0	0
Authorization of 04.29.2009											
10.26.2011	G Plan Nr. 8	48,150	3,450	7,800	134	02.26.2014 02.26.2016	None	0	0	3,950	44,200
Authorization of 04.26.2012											
10.24.2012	G Plan Nr. 9	52,550	3,750	8,000	155	*	None	0	0	200	52,350
10.24.2012	G Plan Nr.9 bis	300	0	300	1	*	None	0	0	0	300

* Beginning on the date of the Board of Directors that approves the 2014 results (February 2015) - end 2 years later.

A = purchase
G = free

2.8 ADMINISTRATIVE BODIES

2.8.1 Composition of the Board of Directors and the specialized Committees

The Group's Board of Directors consists of 10 members, four of whom are independent under the criteria specified by the AFEP/MEDEF Code.

		Independent director	Date of appointment	Term of office expires
Board of Directors				
Chairman of the Board of Directors	Gilles Kohler		1985	GENERAL MEETING 2015 [4]
Members of the Board of Directors:	Emmanuel Viellard		2000	GENERAL MEETING 2013 [2]
	Eric André	X	2002	GENERAL MEETING 2014 [3]
	Lise Nobre	X	2008	GENERAL MEETING 2014 [3]
	Christian Peugeot		2003	GENERAL MEETING 2013 [2]
	Patrick Daher	X	2008	GENERAL MEETING 2015 [4]
	Pascal Lebard	X	2005	GENERAL MEETING 2017 [1]
	Compagnie Industrielle de Delle represented by Thierry Peugeot		1977	GENERAL MEETING 2013 [2]
	SAS CIKO represented by Jean-Philippe Kohler		2002	GENERAL MEETING 2015 [4]
	VIELLARD MIGEON & Cie represented by Christophe Viellard		2000	GENERAL MEETING 2015 [4]
Secretary of the Board of Directors	Maître Olivier Perret (Fiscalités sociétés)			
Audit Committee				
Members of the Audit Committee:	Eric André			
	Christophe Viellard			
	Christian Peugeot			
Compensation Committee				
Members of the Compensation Committee:	Lise Nobre			
	Thierry Peugeot			
	Patrick Daher			
Strategic Committee				
Members of the Strategic Committee:	Gilles Kohler			
	Jean-Philippe Kohler			
	Emmanuel Viellard			
	Pascal Lebard			
	Lise Nobre			

[1] Ordinary General Meeting slated to rule in 2017 on the financial statements for the period ended December 31, 2016.
[2] Ordinary General Meeting slated to rule in 2013 on the financial statements for the period ended December 31, 2012.
[3] Ordinary General Meeting slated to rule in 2014 on the financial statements for the period ended December 31, 2013.
[4] Ordinary General Meeting slated to rule in 2015 on the financial statements for the period ended December 31, 2014.

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 59, Chairman and CEO of LISI.
He chairs the Board of Directors and attends 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 LISI AUTOMOTIVE SAS,
- Chairman of LISI AUTOMOTIVE Former SAS,
- Chairman of LISI AUTOMOTIVE Rapid SAS,
- Chairman of LISI AUTOMOTIVE Nomel SAS,
- Director of HI-SHEAR Corporation (USA),
- Member of the Management Committee of LISI AEROSPACE SAS,
- Member of the Management Committee of LISI AEROSPACE CREUZET SAS,
- Member of the Management Committee of CREUZET AERONAUTIQUE SAS,
- Member of the Management Committee of INDRAERO SIREN SAS,
- Member of the Management Committee of BLANC AERO Technologies SAS,
- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of LISI MEDICAL SAS,
- Member of the Management Committee of LISI MEDICAL Orthopaedics SAS.

Outside the LISI Group (in France and abroad):
- Chairman of the Board of Directors of Compagnie Industrielle de Delle.

Emmanuel Viellard, age 49, Deputy Chairman and Deputy CEO of LISI.
He attends the Board of Directors 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 LISI AEROSPACE SAS,
- Chairman of LISI AEROSPACE CREUZET 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 AUTOMOTIVE Nomel SAS,
- Member of the Management Committee of CREUZET AERONAUTIQUE SAS,
- Member of the Management Committee of INDRAERO SIREN SAS,
- Member of the Management Committee of BLANC AERO Technologies SAS,
- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of LISI MEDICAL SAS,
- Member of the Management Committee of LISI MEDICAL Orthopaedics SAS.

Outside the LISI Group (in France and abroad):
- Chairman of Financière VIELLARD SAS,
- CEO of VIELLARD MIGEON & Cie,
- Chairman of the Board of Directors of FSH WELDING GROUP,
- Member of the Management Committee of VMC PECHE SAS,
- Director of Compagnie Industrielle de Delle,
- Director of FSH WELDING India (India)
- Chairman of RAPALA-VMC OYJ (Finland)
- Permanent representative of VMC at the Management Committee of:
- Ets REBOUD ROCHE SAS
- SELECTARC Industries SAS,
- FP SOUDAGE SAS
- FSH WELDING France SAS
- De PRUINES Industries SAS
- Judge at the Belfort Commercial Court and President of the chamber of sanctions,

Eric André, age 64, 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):
- Director of TIPIAK S.A.

Christian Peugeot, age 59, Director of LISI.
He attends the Board of Directors and the Audit Committee.

Christian 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):
- Vice President and Deputy Chairman of Etablissements PEUGEOT Frères,
- Director of FFP,
- Director of Compagnie Industrielle de Delle,
- Deputy Chairman of the Football Club of Sochaux-Montbéliard,
- Permanent representative of FFP at the Board of Directors of SEB,
- Management proxy of Peugeot Média Production.
- Manager of BP GESTION,
- Manager of RP INVESTISSEMENTS,
- Manager of SC LAROCHE.

Pascal Lebard, age 50, Director of LISI.
He attends the Board of Directors and the Strategic Committee.

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

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

Outside the LISI Group (in France and abroad):
- Director - CEO of SEQUANA,
- Chairman of Arjowiggins SAS,
- Chairman of Antalis International SAS,
- Chairman of DLMD SAS,
- Chairmain of Pascal Lebard Invest SAS,
- Chairman of BOCCAFIN SAS,
- Chairman of Antalis Asia Pacific Pte Ltd (Singapore),
- Chairman of AW Trading (Shanghaï) Co Ltd,
- Director of Arjowiggins HKK 1 Ltd (Hong Kong),
- Director of Arjowiggins HKK 3 Ltd (Hong Kong),
- Director of Greysac SAS,
- Director of Club Méditerranée,
- Director of Permal Group Ltd (Great Britain).
- Member of the Supervisory Board of Eurazeo PME
- Member of the Supervisory Board of CEPI (Confederation of European Paper Industries)

Thierry Peugeot, age 55, 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 FFP,
- Director of Société Anonyme de Participations,
- Director of Compagnie Industrielle de Delle,
- Director of FAURECIA,
- Director of L'Air Liquide S.A.,
- Director of Immeubles et Participations de l'Est.
- Director of GEFCO.

Jean-Philippe Kohler, age 52, Permanent representative of CIKO at the Board of LISI.
He attends the Board of Directors and the Strategic Committee.

Jean-Philippe Kohler 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 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 AUTOMOTIVE Nomel SAS,
- Member of the Management Committee of LISI AEROSPACE CREUZET SAS,
- Member of the Management Committee of CREUZET AERONAUTIQUE SAS,
- Member of the Management Committee of INDRAERO SIREN SAS,
- Member of the Management Committee of LISI AEROSPACE SAS,
- Member of the Management Committee of BLANC AERO Industries SAS,
- Member of the Management Committee of BLANC AERO Technologies SAS,
- Member of the Management Committee of LISI MEDICAL SAS,
- Member of the Management Committee of LISI MEDICAL Orthopaedics SAS.

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

Christophe Viellard, age 71, 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 Ets REBOUD ROCHE SAS,
- Member of the Management Committee of SELECTARC Industries SAS,
- Member of the Management Committee of FP SOUDAG SAS,
- Member of the Management Committee of FSH WELDING France SAS,
- Director of Compagnie Industrielle de Delle,
- Director of RAPALA-VMC OYJ (Finland),
- Director of FSH WELDING GROUP,
- Manager of Groupement Forestier des Lomonts.

Patrick Daher, age 63, Director of LISI.
He attends the Board of Directors and the Compensation Committee.

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 Compagnie DAHER,
- Chairman and CEO of SOGEMARCO-DAHER,
- Chairman of DAHER MTS,
- Director of CREDIT DU NORD,
- Deputy Director of DAHER INTERNATIONAL DEVELOPMENT,
- Chairman of the Supervisory Board of the Main Marseille Seaport.

Lise Nobre, age 47, Director of LISI.
She heads the Board of Directors, the Compensation Committee, and the Strategic Committee.

Lise Nobre 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 Supervisory Board of VIRGIN STORES
- Member of the Supervisory Board of Groupe Partouche SA
- Manager and member of the Board of managers de GP LUX INVESTISSEMENTS SARL
- Representative of Butler Capital Partners at the Board of Directors of ADIT
- Executive Vice President of DOC SA
- Member of the Board of Directors of Butler SafeTechnologies Suisse
- Manager of SARL Lumen Equity.

2.8.2.2 Family ties
The only direct family ties between the aforementioned individuals are the following:
Gilles Kohler and Jean-Philippe Kohler are brothers.

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

2.8.2.4 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 PAY AND INTERESTS OF CORPORATE OFFICERS

2.9.1 Directors' fees

The Shareholders' General Meeting, held on April 26, 2012, fixed the annual directors' fees for members of the Board of Directors at €220,000, from the start of the financial year, January 2012.

The directors' duties are compensated in the form of directors' fees at meetings of the Board of Directors and other committees of which they are members. Directors' fees for each director are €3,000 per Board and per Committee and are dependent on the beneficiaries' regular attendance. For fiscal 2012, the fees paid to directors amounted to € 75,000 and the attendance rate was 83%.

The table below shows the directors' fees paid in:

Board members	Directors' fees paid in 2011 by LISI S.A. (in euros)	Directors' fees paid in 2012 by LISI S.A. (in euros)
Gilles KOHLER	7,500	6,000
Emmanuel VIELLARD	7,500	6,000
Christian PEUGEOT	2,500	3,000
Christophe VIELLARD	8,750	9,000
Jean-Philippe KOHLER	7,500	6,000
Thierry PEUGEOT	7,500	12,000
Pascal LEBARD	7,500	6,000
Eric ANDRE	10,000	9,000
Patrick DAHER	7,500	12,000
Lise NOBRE	10,000	6,000
Total	**76,250**	**75,000**

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 at December 31, 2012:

Corporate officers	Number of LISI shares held directly	Number of LISI shares held indirectly
Gilles Kohler	13,820	
Emmanuel Viellard	9,630	
Christian Peugeot	1	
Christophe Viellard (permanent representative of VMC)		640,675
Jean-Philippe Kohler (permanent representative of CIKO)	9,493	21,153
Thierry Peugeot (permanent representative of CID)	25	5,928,724
Pascal Lebard	10	
Eric André	5	
Patrick Daher	10	
Lise Nobre	20	
Total	**33,014**	**6,590,552**

2.9.3 Directors' Compensation

Managers Corporate officers	Employment contract		Additional pension scheme		Allowances or benefits due or likely to be due as a result of the termination or change in functions		Allowances relative to a non-competition clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Gilles Kohler								
Function: Chairman and CEO		X		X		X		X
Term of office start: 1985								
Term of office end: 2015								
Emmanuel Viellard								
Function: Deputy Chairman		X		X		X		X
Term of office start: 2000								
Term of office end: 2013								

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.

In 2012, the variable portion of executive compensation is capped at 65% of the fixed remuneration. The allocation formula for the criteria used to determine the variable portion is as follows:

- Operating margin for 20% of the fixed remuneration,
- Free Cash Flow rate representing 20% of the fixed remuneration,
- Share left at the discretion of the Compensation Committee, representing 25% of the fixed remuneration.

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

Gilles KOHLER **Chairman and CEO of LISI S.A.**	**2012**	**2011**
Compensation due for the period	461,449	407,785
Valuation of the options allocated during the period*	None	None
Valuation of the performance shares allocated during the period *	117,230	88,813
Total	**578,679**	**496,597**

* Valuation at closing price of December 31, 2011, i.e. €50.75 and 12/31/2012: €61.70.

Emmanuel VIELLARD **Deputy Chief Executive Officer of LISI S.A.**	**2012**	**2011**
Compensation due for the period	429,747	366,412
Valuation of the options allocated during the period*	None	None
Valuation of the performance shares allocated during the period *	114,145	86,275
Total	**543,892**	**452,687**

* Valuation at closing price of December 31, 2011, i.e. €50.75 and 31/12/2012: €61.70 .

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

Gilles KOHLER **Chairman and CEO of LISI S.A.**	**Amounts for 2012**		**Amounts for 2011**	
	due	**paid**	**due**	**paid**
Fixed compensation	308,828	305,048	287,664	286,139
Variable compensation	135,000	135,000	135,000	100,000
Exceptional compensation	None	None	None	None
Directors' fees	15,000	6,000	7,500	7,500
Benefits in kind *	2,621	2,621	2,621	2,621
Total	**461,449**	**448,669**	**432,785**	**396,260**

* Benefits in kind: company car.

Emmanuel VIELLARD **Vice-Président Directeur Général de LISI S.A.**	**Amounts for 2012**		**Amounts for 2011**	
	due	**paid**	**due**	**paid**
Fixed compensation	286,276	277,282	254,941	253,711
Variable compensation	125,000	124,450	117,700	89,000
Exceptional compensation	None	None	None	None
Directors' fees	15,000	6,000	7,500	7,500
Benefits in kind *	3,471	3,471	3,471	3,471
Total	**429,747**	**411,203**	**383,612**	**353,682**

* Benefits in kind: company 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 granted to the managers

In 2012, 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 2012.

2.9.6 Share subscription or purchase options exercised during the period by each corporate officer manager

In 2012, the corporate officers did not exercise any options:

2.9.7 Performance shares allocated to each corporate officer manager

Performance Shares granted by the General Meeting of Shareholders during the fiscal year, to each corporate officer, by the issuer and for all Group companies	Plan number and date	Number of shares awarded during the fiscal year	Valuation of shares in accordance with the method used for the consolidated financial statements (in euros)	Acquisition date	Date of availability	Minimum performance conditions required to achieve 50% allocation
Gilles KOHLER Function: Chairman and Chief Executive Officer	Nr.: 8 Date: 10/26/2011	1,750	53,988	02/26/2014	02/26/2016	Plan Nr.8 ANAV (adjusted net asset value) at least equal to €900m
	Nr.: 9 Date: 10/24/2012	1,900	58,615			
Total		**3,650**	**112,603**			
Emmanuel VIELLARD Fonction: Deputy Chairman	Nr.: 8 Date: 10/26/2011	1 ,700	22,636	02/26/2014	02/26/2016	Plan Nr.9 ANAV (adjusted net asset value) at least equal to €900m
	Nr.: 9 Date: 10/24/2012	1,850	57,073			
Total		**3,550**	**79,708**			

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

In 2012, the following performance shares became available:

	Plan number and allocation date	Number of shares that became available during the period	Acquisition date	Date of availability	Conditions
Gilles KOHLER Function: Chairman and Chief Executive Officer	Nr.: 7 Date: 07/28/2010	1,105	07/28/2012	07/29/2014	200 shares were purchased at the time of the grant. 200 shares will be held in registered form until the termination of the office of President and CEO
Total		**1,105**			
Emmanuel VIELLARD Function: Deputy Chairman	Nr.: 7 Date: 07/28/2010	1,105	07/28/2012	07/29/2014	200 shares were purchased at the time of the grant. 200 shares will be held in registered form until the termination of the office of Deputy Chairman
Total		**1,105**			

8

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)

In accordance with the provisions of article L 225-37 of the French Commercial Code on Financial Security, and the recommendations of the French financial markets authority (AMF), this report sets out the conditions governing the preparation and organization of the Board of Directors' work, limitations to the Chief Executive Officer's power, the principles and rules governing the determining of the allowances in kind granted to the corporate officers as well as internal control procedures implemented within the Group.

This report was submitted to the Board of Directors on February 19, 2013.

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

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

1.1.3 Preparation of tasks

- Prior to each Board meeting, participants receive a file that has – as far as possible- been duly documented so that they may adequately prepare for the meeting.
- Meetings that require the approval of annual and half-yearly financial statements are accompanied by a presentation by the Audit Committee, which will have met prior to the meeting.
- Meetings on the subject of compensation are accompanied by a presentation by the Compensation Committee, which will have met prior to the meeting.
- Meetings dealing with strategic issues are accompanied by a presentation by the Strategic Committee, which will have met prior to the meeting.

1.1.4 Decision-making process

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

1.2 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 AFEP/MEDEF Code. There are also 3 specific committees in existence: the Compensation Committee, the Strategic Committee and the Audit Committee, both of which are responsible for supervising the work of General Management in these 3 fields. Each committee will submit a report on their work to the Board of Directors.

1.3 MANAGEMENT STRUCTURE

The Chairman/Chief Executive Officer and the Vice President work with an Executive Committee of 15 people, drawing together divisional managers and internal control management. This Executive Committee meets every quarter for briefing meetings on the Group's latest progress in each area.

1.4 COMPENSATION AND BENEFITS IN KIND

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

1.5 INTERNAL CONTROL PROCEDURES

The LISI Group's current internal control procedures fall form part of its corporate governance policy as drawn up in accordance with the latest French financial markets authority (AMF) guidelines for small- and mid-caps businesses.

1.5.1 Defining internal control procedures

The Group's current internal control procedures are designed to ensure that:

- Administrative acts or those implementing operations at all management unit levels are carried out within the scope of the guidelines and aims set out by the General Management;
- These acts comply with all relevant laws and regulations and adhere to the values enshrined by the Group's companies;
- All accounting and financial data reflect exhaustively and honestly 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 with any control system, this preventative scheme is not exhaustive. Consequently, it cannot provide any absolute guarantee that all risks have been completely eliminated.

1.5.2 Description of the internal control environment

General description:

The wider internal control environment is based on a decentralized organization within each division. An Executive Committee is responsible for ratifying a global policy, which must then be channeled down to each individual department.

The Group has set out a number of procedures, summarized in an internal Group control manual, which is available to all relevant Group staff via an intranet site. This manual is supplemented by a Group accounting procedures manual. In addition, the Group has deployed a uniform reporting and information system in each division using an identical procedure each time.

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

- Production, stock, flow management,
- Quality,
- Health, Safety and Environmental,
- Personnel, payroll,
- Accounting, management control and cash flow,
- purchasing and investments,
- Sales.

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

Supervisory bodies:

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

- The Audit Committee, which includes an independent administrator, is acquainted, in concert with the external auditors and the internal audit manager, with the general management and risk management environment at the time of publication of each financial statement.

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

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

- Certain tasks identified as critical are monitored in the Group in a cross-departmental manner: financial management, accounts management, consolidation, legal services, insurance cover, security policy, environmental policy, purchasing policy and human resources management.

Group baseline:

- Each division has set up a value charter based on a common set of values.

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

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

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

Risk-mapping and monitoring processes

- The Group is engaged in a convergent risk-mapping process. This methodology is currently employed throughout the Group and down to the level of the basic Management Units. It is subject to a complete and systematic review once a year. The priority action plans for the main risks identified in each division are validated within the budget of the following year.

- The health, safety and environmental risks committee, set up in 2001, identifies and indexes inherent risks, then initiates the necessary corrective actions.

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: business units (B.U.); Group and Divisions.

- The monthly consolidation of management indicators, the income statement, the balance sheet and the funding table allow a precise measure to be obtained within a short time of year-end. This facilitates the decision-making process.

- The purchasing and investment process falls within the scope of the strategic and budgetary mechanism. Any purchasing or investment commitment that deviates from the budget authorizations must have prior approval at the appropriate level.

- The sales and contract process is reviewed specifically by the local teams, BUs, divisions or the Group depending on the materiality level, before the actual commitment is made.

- The Cash Flow-Finance process also requires specific commitments. So for instance all financial investments are managed at Group level.

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

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

2012 achievements and Outlook

- The Internal Audit Department has developed this year a new Internal Control Repository, which is based on a self-declaratory Questionnaire showing all the processes in the Internal Control Manual: Purchases, Capital Expenditures, Sales, Inventories, Cash, and Human Resources. Audits were then used to validate the level of internal control achieve in each of the business units. Specific monitoring will be ensured for all those whose level of internal control does not approach or exceed 80% of the score established on that questionnaire, which comprises 130 questions.

- In addition, certain initiatives were conducted to provide assistance to insufficient monitoring and accounting reporting in some companies recently acquired by the group.

- 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.

- On the sidelines of the Internal Control Unit, the HSE Audit Unit (Health, Safety and Environment) coordinates its HSE work at Group level and conducts HSE audits at all sites. Furthermore, initiatives will be conducted jointly with Internal Control to measure the effectiveness of the Maintenance process at sites.

- Moreover, LISI's General Management have set up a centralized accounts management system. Its main function consists of setting up a global cash pool which manages cash flows and surpluses, and exchange rate risks.

- Finally, other inter-departmental initiatives have been pursued, such as:
  - The inclusion of performance indicator and cash flow tables in the Group's integrated management system,
  - The control of commitments to major investments,
  - More systematic application of the legal review process,
  - The implementation of a crisis management procedure.

- The Group deems that the internal control management methods are satisfactory. Thanks to the Internal Control Questionnaire deployed across the group entities, a standard repository is now established. Internal audits will from now on focus on a Risk Management approach, and will therefore target either:
  - those entities whose score at the Questionnaire remains insufficient (<80%);
  - those entities that joined the LISI Group recently;
  - when organizational changes have been implemented;
  - on topics identified as risky.

Conclusion

Initiatives taken to strengthen internal control levels have led to recommendations being approved and carried out by the relevant personnel and to deadline. Subsequent follow-up procedures make it possible to ensure they are applied properly.

This constitutes a permanent progress initiative for the Group. Relying on knowledge that can always be improved and the strong involvement of those in charge of key processes, it facilitates the development and improvement of internal control over time.

Gilles Kohler
Chairman of the Board of Directors

2 AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE, ON THE CHAIRMAN OF THE LISI BOARD'S REPORT - FINANCIAL YEAR ENDED DECEMBER 31, 2012

To Shareholders,

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, 2012.

It is for the Chairman to draw up and submit for the Board of Directors' approval a report giving an account of the internal control and risk management procedures set up within the company, and giving any other information required under Article L.225-37 of the French Commercial Code with particular reference to corporate governance issues.

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 and risk management procedures for the preparation and processing of accounting and financial information and

- to testify that the report includes the other information required under Article L.225-37 of the Commercial Code, while acknowledging that it is not our duty to verify the authenticity of this other data.

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

INFORMATION REGARDING INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES RELATING TO THE DRAWING-UP AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

Standards governing professional practice require that due diligence procedures be carried out to assess the honesty of information regarding internal control and risk management procedures relating to the drawing up and processing of accounting and financial information contained in the Chairman's report. These careful evaluations largely consist of:

- familiarizing ourselves with the internal control and risk management procedures for the drafting and processing of the accounting and financial information behind the information presented in the Chairman's report and other existing documentation;

- familiarizing ourselves with the work on which existing information and documentation is based;

- ascertaining whether appropriate information on serious lapses in internal controls regarding the drafting and processing of accounting and financial information which we may have found within the scope of our mission are appropriately included in the Chairman's report.

Based upon the work done, we have no observations to make concerning the information and declarations in respect of the company's internal control and risk management 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 French Commercial code.

ADDITIONAL INFORMATION

We attest that the Chairman of the Board of Directors' report includes the other information required under Article L.225-37 of the French Commercial Code.

Exincourt and Paris-La Défense, March 28, 2013

The Auditors

EXCO CAP AUDIT
Serge Clerc
Partner

ERNST & YOUNG ET AUTRES
Henri-Pierre Navas
Partner

3 AUDITORS' SPECIAL REPORT ON REGULATED CONVENTIONS AND COMMITMENTS - YEAR ENDED DECEMBER 31, 2012

Dear Shareholders,

In our capacity as auditors of your company, we will now present our report on regulated agreements.

It is for us to let you know, based on the information delivered to us, the essential features and conditions applicable to the agreements and commitments of which we have been informed or which we would have discovered in the context of our assignment, without having to express our opinion as to their usefulness or their justification, nor to investigate the existence of other agreements or commitments. It is for you, in accordance with the provisions of Article R. 225-31 of the French Commercial Code, to assess the relevance involved in the conclusion of these agreements prior to their approval.

Besides, it is for us, if applicable, to deliver to you the information provided for in Article R. 225-31 of the French Commercial Code regarding the execution, over the period elapsed, of the agreements and commitments already approved by the General Meeting.

We have implemented the due diligence measures deemed necessary for this mission as outlined by France's national audit regulatory body, the Compagnie nationale des commissaires aux comptes.

AGREEMENTS AND COMMITMENTS SUBJECTED TO THE GENERAL MEETING'S APPROVAL

We inform you that we have not been notified of any agreement or commitment authorized during the period elapsed to be subjected to the General Meeting's approval as per the provisions of article L. 225-38 of the French Commercial Code.

AGREEMENTS AND COMMITMENTS ALREADY APPROVED BY THE GENERAL MEETING

We inform you that we have not been informed of any agreement or commitment already approved by the General Meeting whose implementation would have been continued during the period elapsed.

Exincourt and Paris-La Défense, March 28, 2013

The Auditors

EXCO CAP AUDIT	ERNST & YOUNG ET AUTRES
Serge Clerc	Henri-Pierre Navas
Partner	Partner

4 AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS - FINANCIAL YEAR ENDED DECEMBER 31, 2012

To Shareholders,

In compliance with the terms of our appointment by your General Meeting, we hereby present our report for the year ended December 31, 2012, on:

- the control of the consolidated accounts of the LISI Company, as attached to this report;
- justifications for our assessments;
- the specific verification stipulated under law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED 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 verifying, through surveys or other selection methods, the items supporting the figures and information which feature in the consolidated accounts. It also involves assessing those accounting principles followed, the significant estimates made and the overall presentation of the accounts. We consider that the items we have gathered form both a sufficient and an appropriate basis for our opinion.

We certify that the consolidated financial statements for the period are, in regards to the IFRS standards as adopted in 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.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

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, the valuation of financial instruments and deferred taxes, stated in Notes 2.2.2, 2.2.8.5, 2.2.14, 2.2.6 and 2.2.19.5 in the appendix. For all these estimates, we have assessed the data and assumptions on which they are founded, reviewed randomly the calculations made by the company, reviewed the available material, and verified that the notes to the annex provide appropriate information regarding the assumptions retained by the company.

At each year-end the Company regularly performs an impairment test for goodwill and assets without a defined useful life, and also measures if there is an index of loss of value of long-term assets, in accordance with the methods described in Notes 2.2.7.1, 2.2.8.5 and 2.5.1.1 to the financial statements. We have reviewed the conditions under which this impairment test was conducted, as well as the cash flow forecasts and assumptions used, and have verified that the above-mentioned notes 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 to the Appendix to consolidated financial statements provide appropriate information.

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

III. SPECIFIC VERIFICATION

We have also, in accordance with the professional standards applicable in France, specifically verified, as required by law, the information provided in the management report.

We have no comments to make on their sincerity and consistency with the consolidated financial statements.

Exincourt and Paris-La Défense, March 28, 2013

The Auditors

EXCO CAP AUDIT	ERNST & YOUNG ET AUTRES
Serge Clerc	Henri-Pierre Navas
Partner	Partner

5 AUDITORS' GENERAL REPORT – FINANCIAL YEAR ENDED DECEMBER 31, 2012

To Shareholders,

In compliance with the terms of our appointment by your General Meeting, we hereby present our report for the year ended December 31, 2012, on:

- the control of the annual accounts of the LISI Company, as attached to this report;
- the justification of our assessments;
- specific verifications and legally required information.

The annual accounts have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. OPINION ON THE ANNUAL ACCOUNTS

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 annual accounts do not contain any significant anomalies. An audit involves verifying, through surveys or other selection methods, the items supporting the figures and information which feature in the consolidated accounts. It also involves assessing those accounting principles followed, the significant estimates made and the overall presentation of the accounts. We consider that the items we have gathered form both a sufficient and an appropriate basis for 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.

II. JUSTIFICATION OF OUR ASSESSMENTS

As per article L. 823-9 of the Commercial Code regarding the justification of our assessments, we inform you that:

Your company sets up provisions for the impairment of equity interests when their value in use appears to be less than their net book value, as described in paragraph b "Financial fixed assets" of Note 3.1 "Accounting rules and methods" in the appendix. Our work consisted in assessing the data and assumptions on which these estimates rely, reviewing the company's calculations, and examining management's approval procedures for these estimates.

As part of our assessment, we have verified the reasonable nature of such estimates.

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.

III. VERIFICATIONS AND SPECIFIC INFORMATION

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

We have no comments to make on the sincerity and consistency with the annual statements, of the information given in the Board of Directors' management report, or that given in the documents addressed to shareholders relating to the group's financial situation and the annual statements.

With regard to the information supplied in application on the provisions of Article L.225-102-1 of the Commercial Code on payments and bonuses paid to corporate officers as well as on commitments approved in their favor, we have checked their consistency with the accounts or with the data used in the drawing-up of these accounts, and, where relevant, with the items gathered by your company from companies controlling or controlled by your company. On the basis of our work, we vouch for the precision and honesty of this information.

In application of the law, we have made sure that all information relating to the acquisition of stakes and control and to the identity of those who hold the corresponding capital has been provided for you in the management report.

Exincourt and Paris-La Défense, March 28, 2013

The Auditors

EXCO CAP AUDIT	ERNST & YOUNG ET AUTRES
Serge Clerc	Henri-Pierre Navas
Partner	Partner

6 DRAFT RESOLUTIONS

ORDINARY GENERAL MEETING OF APRIL 25, 2013

AGENDA

UNDER THE AUTHORITY OF THE ORDINARY GENERAL MEETING

– Review and approval of the annual financial statements for the period ended December 31, 2012;

– Approval of consolidated financial statements for the period ended December 31, 2012;

– 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;

– Reappointment of directors;

– Authorization for the Company to repurchase its own shares;

UNDER THE AUTHORITY OF THE EXTRAORDINARY GENERAL MEETING

– Proxies for the Board of Directors to issue shares for cash within the limit of €2 million (nominal + premium); cancellation of preemptive subscription rights;

– Proxies;

– Miscellaneous questions.

DRAFT RESOLUTIONS

UNDER THE AUTHORITY OF THE ORDINARY GENERAL MEETING

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, 2012, as they are presented, with profits of €17,144,076, 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 €16,629.

2nd resolution – Approval of consolidated financial statements

Having listened to the reading of Board of Directors' report and the Auditors' general report, the Shareholders' General Meeting approves, as they are presented, the consolidated financial statements set out in accordance with article L. 233-16 et seq. of the French Commercial Code, showing profits of €57,287,850.

3rd Resolution - Approval of the conventions covered by Article L225-38 of the 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 2012, and to the Auditors for their term of office.

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	€17,144,076
increased by retained earnings to a total of	€58,682,443
To give a total of	**€75,826,519**

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

as dividends to shareholders a sum of €1.40 per share,	
for the total of payable on May 7, 2013	€14,660,119.60
the remainder to the retained earnings account, for the total of	€61,166,399.40
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 €1.40. The value of the dividend eligible for 40% deduction, as covered by article 158-3-2° of the French General Tax Code, is €1.40.

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, 2009:	dividends eligible for the 40% allowance: €0.70
Financial year ended December 31, 2010:	dividends eligible for the 40% allowance: €1.05
Financial year ended December 31, 2011:	dividends eligible for the 40% allowance: €1.30

6th resolution - Reappointment of a director

The General Meeting renews the appointment as Director of Mr. Emmanuel Viellard 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, 2018.

7th resolution - Reappointment of a director

The General Meeting renews the appointment as Director of Mr. Christian Peugeot 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, 2018.

8th resolution - Reappointment of a director

The General Meeting renews the appointment as Director of COMPAGNIE INDUSTRIELLE DE DELLE, whose permanent representative is Mr. Thierry Peugeot, 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, 2018.

9th resolution – Share repurchase program

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

- cancels the purchase authorization given on April 27, 2012:
- 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 1,078,649 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 539,324 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.

The following terms apply to this authorization:

- The company may not repurchase its own shares for more than €100, 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 €76,366,900.

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.

UNDER THE AUTHORITY OF THE EXTRAORDINARY GENERAL MEETING

10th resolution

The General Meeting, after having heard the report of the Board of Directors and the special report of the Statutory Auditors, noting that the share capital is fully paid, authorizes the Board of Directors, under the provisions of Articles L225 -138 et seq. of the Commercial Code and L.3332-18 et seq. of the Labor Code, to issue, in one or more installments, new shares for cash, reserved for group employees participating in the company's mutual fund.

The issued shares must correspond to one or more capital increases to an overall maximum of €2 million, issue premium included.

The period during which the Board of Directors shall be authorized to proceed with the issuance of these shares is twenty-six months from this date.

The General Meeting decides to waive preferential subscription rights for new shares to be issued in favor of the employees participating in the company's mutual fund, created for this purpose and governed by Article 20 of the Law of December 23, 1988.

The General Meeting grants all powers to the Board of Directors to implement this authorization, within the limits and under the conditions specified above, in particular to:

- set the subscription price of the new shares;
- determine the amount of shares to be issued, the duration of the subscription period, the effective date of the new shares, and more generally all the terms of each issue;
- confirm the completion of the capital increases up to the amount of shares that will be actually applied for;
- proceed with the formalities and amend the bylaws accordingly;
- and generally, take all necessary steps for the completion of capital increases in accordance with applicable laws and regulations.

11th 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.

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