

**lisi**

LINK SOLUTIONS FOR INDUSTRY

**HALF-YEARLY  
REPORT**



**EARNINGS AT JUNE 30, 2010**

## ACTIVITY REPORT

### THE LISI GROUP'S HALF YEAR RESULTS FOR 2010 PRESENT A CLEAR RECOVERY AND THE CLEARANCE OF ITS DEBTS

- **Significant recovery of the LISI AUTOMOTIVE and LISI COSMETICS divisions which offsets the downturn of LISI AEROSPACE**
- **Sales up 4.5% to €381.1m**
- **Operating margin improved to 5.1%**
- **A return to positive net earnings: €12.0m compared to a net loss of €4.8m in 2009**
- **Debt reduction completed: net financial debt of €1.1m after a strong Free Cash Flow of €30.4m**

**Belfort, July 28, 2010** - LISI today announced its half year results for the period ending June 30, 2010.

6 months ending June 30		2010	2009	Change
<b>Key elements of the summarized income statement</b>				
Sales	€m	381.1	364.7	+4.5%
EBITDA	€m	43.9	42.4	3.5 %
EBIT	€m	19.2	15.6	23.2 %
Operating margin	%	5.1 %	4.3 %	
Profit for the period attributable to equity holders of the company	€m	12.0	- 4.8	NS
Diluted earnings per share	€	1.07	- 0.47	- 4.8
<b>Key elements of the summarized cash flow statements</b>				
Cash flow	€m	36.2	32.3	+ €3.9m
Net CAPEX	€m	21.8	26.2	- €4.4m
Free cash flow <sup>(1)</sup>	€m	30.4	14.6	+ €15.8m
<b>Key elements of the financial position</b>				
Net debt	€m	1.1	63.1	NS
Ratio of net debt to equity	%	0.2 %	14.4 %	

(1) Free cash flow: cash flow less net capex and changes in working capital requirements.

## **INCREASE IN SALES REFLECTS SIGNIFICANT RECOVERY OF LISI AUTOMOTIVE AND LISI COSMETICS DIVISIONS**

Millions EUR				Change	
<i>Sales</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010 / 2008</b>	<b>2010 / 2009</b>
Q1	181.4	183.1	226.1	-19.8%	-0.9%
Q2	199.7	181.6	223.6	-10.7%	10.0%
<i>6 months ending June 30</i>	<b>381.1</b>	<b>364.7</b>	<b>449.7</b>	<b>-15.3%</b>	<b>4.5%</b>

The increase in sales accelerated in the second quarter, reflecting a positive base effect, without however returning to the 2008 level for which the group is sized in industrial terms. For the first six months of the year, published sales were virtually identical to those calculated on a like for like basis in terms of scope and exchange rates. The proportion of export sales is stable at around 60%.

The entry into the scope of consolidation of the two companies acquired by LISI AUTOMOTIVE from Acument Global Technology France contributed €12.7m to the consolidated sales revenues, which largely offset the departure of SDU, which contributed sales of €6.7m in the first half of 2009.

### **GOOD PRODUCTION MANAGEMENT HAS ENABLED CONTROL OF WCRS**

For sales of €381.1m, consolidated production was €382.4m, i.e. a small surplus of €1.3m or 0.3% of sales. The Group deployed its *Lean Manufacturing* initiatives in all divisions to optimize industrial performance and working capital requirements: these are now about 88 days (as against 89 days in December 2009), with 98 days of sales in inventory (as against 92 days in December 2009).

### **CONTROL OF COSTS HAS ENABLED RESULTS TO BE SIGNIFICANTLY IMPROVED**

Directly attributable to the inflationary effect of certain consumption items such as raw materials and sub-contracting, the increase in purchases has been significant, but did not prevent an increase in EBITDA (up 3.5%) to 11.5% of sales.

Up 23% compared to the same period last year, growth in operating income is markedly faster than that of sales. It reflects the overall improvement in EBITDA strengthened by good management of supply items (down €3.3m in 2009 to 2010), while depreciation increased by €1.2m from last year.

After taking into account significant favorable events such as the reduction of financial expenses by €1.8 million, exchange gains on dollar to euro cash conversion operations of €2.7m (compared to a loss of €0.4m in 2009) and research tax credits of more than €2.0m at a level approximately the same as in 2009, net income was €12.0m compared to a loss of €4.8m in 2009.

The Group recorded a non-recurring charge of €2.0m representing the cost of closing some of its industrial sites in the context of combination operations.

## THE PRIORITY GIVEN TO FREE CASH FLOW HAS PAID OFF

Free cash flow in the first half of the year has benefited from a good level of cash flow (9.5% of sales, compared to 8.9% last year), and above all from good control of working capital requirements with an improvement of €7.4m, while the level of investment has remained above €20m. Consequently, cash generation has been significant at €25.4m, or 6.7% of sales.

The main investments concerned the following sites and projects:

- in the LISI AUTOMOTIVE division: the start of the new LISI AUTOMOTIVE Form plant (Czech Republic), the deployment of ERP Movex 2 and new facilities at La Ferté Fresnel (formerly Acument).
- in the LISI AEROSPACE division: facilities dedicated to new products for the A350, the end of the deployment of Movex in the United States and new nut manufacturing technologies.

## THE GROUP COMPLETED ITS DEBT REDUCTION ON JUNE 30, 2010.

After the distribution of €7.2m in dividends and the acquisition of two industrial sites from Acument Global Technology France, net debt now stands at just €1.1m. Liquid assets increased by €25.4m.

## LISI AEROSPACE (40 % of the consolidated total):

- Strong, steady recovery in air traffic
- Effects of postponements of new programs and reductions in inventories still noticeable
- Cost structure sized for the recovery

Millions EUR	Change				
<i>Sales</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010 / 2008</b>	<b>2010 / 2009</b>
Q1	76.2	104.5	103.2	-26.2%	-27.2%
Q2	78.0	95.0	97.7	-20.2%	-17.8%
<i>6 months ending June 30</i>	<b>154.2</b>	<b>199.5</b>	<b>200.9</b>	<b>-23.2%</b>	<b>-22.7%</b>

- **Strong, steady recovery in air traffic**

**Recovery has been confirmed every month both for passenger traffic, up 7.2 <sup>1</sup> % at the end of May 2010, and for freight, up 34.2%<sub>1</sub>. This increase represents a return to pre-crisis levels.**

Consequently, airlines have been placing new orders to increase their capacities: Airbus placed 131 orders during the period and Boeing placed 214. Rates of delivery have remained fairly high (472 aircraft delivered <sup>2</sup>), and have been virtually stable for four years.

Beyond the large aircraft market, which represents 60% of LISI AEROSPACE's business, other aircraft manufacturers' programs have maintained a reduced pace in all areas: business aviation, regional jets, and Maintenance and Repair Operations (MRO).

<sup>1</sup> Source: IATA statistics

<sup>2</sup> Source: Air & Cosmos

- **Effects of postponements of new programs and reductions in inventories still noticeable**

Difficult to quantify, the effects of postponements due to successive delays in new programs (B787, A380) have had a very significant effect on LISI AEROSPACE's activity. Given the inertia of the aviation industry and the delays in Airbus and Boeing programs, it is only in 2010 that orders for fasteners delivered in 2007 and 2008 will be gradually absorbed. Furthermore, LISI AEROSPACE's customers have all announced inventory reduction targets in the sector.

- **Slight sequential recovery**

The division's sales are still down 17.8% on the second quarter of last year, which is an unfavorable basis for comparison. However, at €78m, the quarter shows an increase compared to the fourth quarter of 2009. This recovery is more noticeable in Europe; levels of orders from distributors and OEMs in the U.S. remain depressed, with, for example, sales in dollars in the second quarter of 2010 down 27.3%.

The medical sector has recovered with strong growth of nearly 30% in the second quarter and 12.9% for the first half of the year after an even more significant increase in orders.

- **Cost structure sized for recovery**

Although the 22.7% drop in activity has affected the half year's direct and indirect costs, the division has maintained its capacity in preparation for the recovery that could occur rapidly and/or suddenly when the reduction in inventories has been completed.

Consequently, margins are temporarily under pressure at 4.0% of sales, well below normal earning power. In terms of contributions, it is the European activity that enables this level to be achieved, while the United States and Medical are balanced.

#### **LISI AUTOMOTIVE (53 % of the consolidated total):**

- European production picks up
- Recovery has continued in all market segments
- Areas for improvement and investments have enabled improved performances in Germany and with international OEMs
- Successful integration of ACUMENT plants

Millions EUR				Change	
<i>Sales</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010 / 2008</b>	<b>2010 / 2009</b>
Q1	94.4	68.6	109.7	-13.9%	37.6%
Q2	107.3	78.0	111.6	-3.9%	37.6%
<i>6 months ending June 30</i>	<b>201.7</b>	<b>146.6</b>	<b>221.3</b>	<b>-8.9%</b>	<b>37.6%</b>

## ▪ **European production picks up**

With a decline of 6.2% in June, the European market was flat over the half year (up 0.6%) after a promising start to the year. However, worldwide registrations should return to their 2008 levels in 2010 due to China and a recovery in the United States. Consequently, European manufacturers that are structural exporters to these areas have returned to a level of activity more suited to installed capacity.

Although the European market turnaround has been confirmed with a third consecutive month of decline in June, production for the Group's customers remains solid at 17.3% above the 2009 level, but still down 15.7% compared to 2008<sup>3</sup>. China continues to show impressive growth (up 53% compared to 2009<sup>4</sup>), even if the last few months indicate something of a slowdown.

## ▪ **Improved performances, particularly in Germany and with international OEMs**

In this context, LISI AUTOMOTIVE has posted half year activity of €201.7m, a marked increase of 37.6%. Adjusted to take into account the departure of SDU and arrival of the plants in Bonneuil and La Ferté Fresnel on 1 April 2010, growth was up 34.9% compared to 2009 but is still down 9.2 % compared to 2008.

The division's results reflect the following elements:

- ✓ the successful integration of the two Acument sites at Bonneuil and La Ferté Fresnel which were immediately incorporated into LISI AUTOMOTIVE's industrial capacity,
- ✓ the inauguration of the new LISI AUTOMOTIVE Form a.s plant in Cjec (Czech Republic) dedicated to components for international OEMs,
- ✓ the changeover to the new ERP Movex II
- ✓ the initial effects of the *Lean Manufacturing* approach with the deployment of JIT systems in French factories,
- ✓ decreased costs and improved manufacturing efficiency, enabling the generation of positive results in Germany and for OEMs, while some factories working for French manufacturers have not yet reached the group's standards.

The EBIT was €11.9m, representing a margin of 5.9%, compared to an operating loss of €19.0m in 2009, mainly driven by the factors mentioned above. With a €23m decrease in production on a like for like basis, the EBIT is down €5.3m compared to 2008. This demonstrates the effectiveness with which costs have been reduced over the last 18 months.

At €10.9m, free cash flow for the half year is after the investment of €9.6m dedicated to new products (OEMs), to increased capacity in China and to the deployment of ERP. Inventories have been well-managed with an improvement in rotation of the order of 25% since 2008. Furthermore, the integration of the two Acument sites had an impact of €5.0m on free cash flow with the establishment of WCRs for their operation.

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<sup>3</sup> Source: JD Power Pan-Europe and LISI AUTOMOTIVE calculation

<sup>4</sup> Source: Reuters PC

## LISI COSMETICS (7 % of the consolidated total):

- Strong recovery since March
- Marked improvement in market conditions

Millions EUR				Change	
<i>Sales</i>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2010 / 2008</b>	<b>2010 / 2009</b>
Q1	11.2	10.1	13.5	-17.0%	10.8%
Q2	14.6	8.8	14.7	-0.7%	65.3%
<i>6 months ending June 30</i>	<b>25.8</b>	<b>18.9</b>	<b>28.2</b>	<b>-8.5%</b>	<b>36.1%</b>

Activity increased significantly from March due to a combination of two factors:

- ✓ several new developments concerning all plants,
- ✓ recovery of orders for existing lines reflecting the end of inventory reductions, which we had been waiting for since the end of 2009.

The launches that have contributed to the increase in sales are: "Lady Million" by Paco Rabanne, "Blue" by Chanel, and "Dior Snow"(skincare). Further launches are currently in progress, which will have a significant impact on the second half of the year.

With regard to existing products, there has been a notable increase in orders for several major fragrance lines such as "212" by Carolina Herrera, "Allure Homme Sport" by Chanel, and for make-up products, orders for small bottles for Chanel LIP GLOSS, which has boosted activity at the Aurillac plant.

Consequently, sales are up 36.1% for both metals and plastics activities. New products represent 17% of activity for the period. Despite this sharp increase in production, service levels have remained in line with customers' expectations.

Operating profit improved every month to reach €1.3m, corresponding to 5 % of sales on 30 June 2010. The generation of free cash flow followed this trend to reach €2m, corresponding to a very satisfactory 7.9%.

The division has thus benefited from significant investments in 2008 and 2009 and in particular from the new plant in Nogent.

## OUTLOOK

The continuation, or even acceleration, of the Group's growth currently remains subject to the expected recovery of the aviation industry. A likely hypothesis would be a gradual turnaround in Europe during the second half of the year due to strong integration from Airbus and good inventory control, growth of the A380 and the industrial launch of the A350.

However, the situation in the United States is still sluggish due to greater exposure to regional programs (Embraer, Bombardier), distributors and OEMs. Consequently, the current level of performance of the LISI AEROSPACE division could continue for the rest of the year.

The second key point in terms of outlook concerns the magnitude of the decline in European automobile market. The first estimates for the whole of 2010 assessed this at 10%, but these have gradually been revised upwards, and are currently at around 8% <sup>5</sup>. The market would thus be down 20% for the second half of the year. It is difficult to accurately forecast the impact of the decline in the market on LISI AUTOMOTIVE's customers' levels of production. The outlook for the order book remains solid until October, especially in Germany. The raw materials market, which is a good advance indicator, nevertheless shows a lull compared to the increases announced in the first quarter. These elements of uncertainty call for a degree of caution regarding LISI AUTOMOTIVE's outlook for the second half of the year. In the longer term, applications for electric vehicles, the transfer of developments in the automobile industry to other industrial sectors (construction, rolling stock, etc.) and the extension of the group's industrial base in China with an ambitious investment program constitute real vectors of growth.

Finally, LISI COSMETICS should continue its current performance throughout the second half of the year.

The Group is pursuing its long-term improvement plans which are based on:

- ✓ flexibility and adaptation to a shorter forecasting horizon,
- ✓ the *Lean Manufacturing* project, which should lead to reduced costs and WCRs
- ✓ the improvement of structural industrial projects in all divisions,
- ✓ continued external growth.

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#### Future announcements will appear after the close of Euronext Paris

Q3 2010 Financial Report: October 27, 2010

*The LISI share price is listed on the Eurolist compartiment B market and is part of the CAC MID 100 – Next 150 index under the ISIN code: FR 0000050353*

Reuters Code: GFII.PA

Bloomberg code: FII FP



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<sup>5</sup> JD Power Source

# LISI Group consolidated income statement

<i>(In €'000)</i>	<i>30/06/2010</i>	<i>30/06/2009</i>	<i>31/12/2009</i>
<b>Pre-tax sales</b>	<b>381 051</b>	<b>364 678</b>	<b>695 071</b>
Changes in stock, finished products and outstanding□	1 359	(16 256)	(26 427)
Total production	382 409	348 423	668 644
Other revenues	10 067	4 829	7 428
<b>Total operating revenues</b>	<b>392 476</b>	<b>353 251</b>	<b>676 072</b>
Consumption	(103 492)	(92 475)	(171 505)
Other purchases and external charges	(84 544)	(65 662)	(127 823)
<b>Value added</b>	<b>204 440</b>	<b>195 115</b>	<b>376 743</b>
Taxes and duties	(3 941)	(5 861)	(10 260)
Personnel expenses (including temporary employees)	(156 643)	(146 878)	(278 705)
<b>EBITDA</b>	<b>43 856</b>	<b>42 375</b>	<b>87 779</b>
Depreciation	(23 557)	(22 384)	(43 577)
Net provisions	(1 056)	(4 365)	(10 013)
<b>EBIT</b>	<b>19 244</b>	<b>15 626</b>	<b>34 188</b>
Non-recurring operating expenses	(2 087)	(12 499)	(12 473)
Non-recurring operating revenues			500
<b>Operating profit</b>	<b>17 157</b>	<b>3 127</b>	<b>22 214</b>
<b>Financing expenses and revenue on cash</b>	<b>(1 584)</b>	<b>(3 341)</b>	<b>(4 197)</b>
<i>Revenue on cash</i>	229	215	326
<i>Financing expenses</i>	(1 813)	(3 556)	(4 524)
<b>Other interest revenue and expenses</b>	<b>2 742</b>	<b>(448)</b>	<b>(1 080)</b>
<i>Other financial items</i>	10 252	2 326	4 433
<i>Other interest expenses</i>	(7 509)	(2 774)	(5 513)
Taxes	(6 392)	(4 307)	(7 800)
<b>Profit for the period</b>	<b>11 923</b>	<b>(4 969)</b>	<b>9 137</b>
Attributable as company shareholders' equity	12 006	(4 828)	9 422
Interest not granting control over the company	(83)	(141)	(285)
<b>Earnings per share (in €):</b>	<b>1.07</b>	<b>(0.47)</b>	<b>0.92</b>
<b>Diluted earnings per share (in €) :</b>	<b>1.07</b>	<b>(0.47)</b>	<b>0.92</b>

<i>(In €'000)</i>	<i>06/30/2010</i>	<i>06/30/2009</i>	<i>12/31/2009</i>
<b>Profit for the period</b>	<b>11 923</b>	<b>(4 969)</b>	<b>9 137</b>
<b>Other elements of overall earnings</b>			
Exchange rate spreads resulting from foreign business	23 366	(141)	(2 271)
Tax charge on other portions of global income	-	-	-
<b>Other portions of global earnings, after taxes</b>	<b>23 366</b>	<b>(141)</b>	<b>(2 271)</b>
<b>Total overall income for the period</b>	<b>35 289</b>	<b>(5 110)</b>	<b>6 866</b>
Attributable as company shareholders' equity	35 397	(4 964)	7 165
Minority interests	(108)	(146)	(299)

# LSI Group consolidated balance sheet

## ASSETS

<i>(In €'000)</i>	<i>30/06/2010</i>	<i>31/12/2009</i>	<i>30/06/2009</i>
<b>LONG-TERM ASSETS</b>			
Goodwill	130 905	124 316	126 269
Other intangible assets	16 684	13 060	13 782
Tangible assets	262 023	258 362	256 744
Long-term financial assets	6 509	5 472	4 725
Deferred tax assets	13 779	6 901	13 646
Other long-term financial assets	100	100	138
<b>Total long-term assets</b>	<b>430 001</b>	<b>408 211</b>	<b>415 304</b>
<b>SHORT-TERM ASSETS</b>			
Inventories	167 194	147 473	167 251
Taxes – Claim on the state	2 175	5 219	8 626
Trade and other receivables	149 279	103 531	118 824
Other short-term financial assets	86 409	63 916	37 171
Cash and cash equivalents	20 914	20 582	22 596
<b>Total short-term assets</b>	<b>425 971</b>	<b>340 721</b>	<b>354 467</b>
<b>TOTAL ASSETS</b>	<b>855 971</b>	<b>748 933</b>	<b>769 771</b>

## TOTAL EQUITY AND LIABILITIES

<i>(In €'000)</i>	<i>30-juin</i>	<i>31-déc</i>	<i>30-juin</i>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	21 573	21 508	21 508
Share premium	70 803	69 853	69 853
Treasury shares	(16 050)	(16 264)	(16 378)
Consolidated reserves	379 792	378 745	378 554
Conversion reserves	8 729	(14 662)	(12 542)
Other income and expenses recorded directly as shareholders' equity	2 525	2 159	2 138
Profit for the period	12 006	9 422	-4 828
<b>Total shareholders' equity - Group's share</b>	<b>479 377</b>	<b>450 764</b>	<b>438 307</b>
Minority interests	-233	-125	634
<b>Total shareholders' equity</b>	<b>479 143</b>	<b>450 639</b>	<b>438 941</b>
<b>LONG-TERM LIABILITIES</b>			
Long-term provisions	37 676	28 463	30 052
Long-term borrowings	78 931	76 528	87 684
Other long-term liabilities	5 629	1 545	1 075
Deferred tax liabilities	33 995	28 934	33 280
<b>Total long-term liabilities</b>	<b>156 231</b>	<b>135 470</b>	<b>152 091</b>
<b>SHORT-TERM LIABILITIES</b>			
Short-term provisions	15 198	8 069	5 532
Short-term borrowings*	29 491	36 432	35 210
Trade and other accounts payable	171 218	116 515	133 861
Taxes due	4 691	1 807	4 136
<b>Total short-term liabilities</b>	<b>220 597</b>	<b>162 823</b>	<b>178 739</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITY</b>	<b>855 971</b>	<b>748 933</b>	<b>769 771</b>
<i>*of which banking facilities</i>	<i>10 910</i>	<i>13 495</i>	<i>12 826</i>

# LISI Group consolidated cash flow table

(In €'000)

30/06/2010 31/12/2009

## Operating activities

<b>Net earnings</b>	<b>11 923</b>	<b>9 137</b>
Elimination of net charges not affecting cash flows:		
- Depreciation and non-recurrent financial provisions	23 927	55 447
- Changes in deferred taxes	-622	2 882
- Income on disposals, provisions for liabilities and others	3 736	1 604
<b>Gross cash flow margin</b>	<b>38 963</b>	<b>69 070</b>
Net changes in provisions provided by or used for current operations	-2 760	7 642
<b>Operating cash flow</b>	<b>36 204</b>	<b>76 712</b>
Income tax expense (revenue)	7 015	4 918
Elimination of net borrowing costs	1 216	4 111
Effect of changes in inventory on cash	(7 380)	41 600
Effect of changes in accounts receivable and accounts payable	17 137	(15 773)
<b>Net cash provided by or used for operations before tax</b>	<b>54 191</b>	<b>111 568</b>
Taxes paid	(824)	(7 175)

**Cash provided by or used for operations (A)** **53 365** **104 390**

## Investment activities

Acquisition of consolidated companies	(1 000)	(1 451)
Cash acquired	304	21
Acquisition of tangible and intangible assets	(22 092)	(49 465)
Acquisition of financial assets		(474)
Change in granted loans and advances	(145)	(946)
Investment subsidies received		
Dividends received	2	4
<b>Total cash used for investment activities</b>	<b>(22 930)</b>	<b>(52 312)</b>
Disposed cash		2 800
Disposal of consolidated companies		1 500
Transfer of tangible and intangible assets	292	456
Disposal of financial assets	5	2
<b>Total cash from disposals</b>	<b>296</b>	<b>4 758</b>

**Cash provided by or used for investment activities (B)** **(22 634)** **(47 554)**

## Financing activities

Capital increase	1 015	0
Net disposal (acquisition) of treasury shares		
Dividends paid to shareholders of the Group	(7 216)	(12 313)
Dividends paid to minority interests of consolidated companies		
<b>Total cash from equity operations</b>	<b>(6 201)</b>	<b>(12 313)</b>
Issue of long-term loans	5 785	16 401
Issue of short-term loans	101	1 161
Repayment of long-term loans	(2 869)	(4 315)
Repayment of short-term loans	(8 732)	(23 206)
Net interest expense paid	(923)	(4 664)
<b>Total cash from operations on loans and other financial liabilities</b>	<b>(6 639)</b>	<b>(14 622)</b>

**Cash provided by or used for financing activities (C)** **(12 840)** **(26 935)**

Effect of change in foreign exchange rates (D)	5 806	(1 628)
Impact of restatements (D)	1 712	826

**Changes in net cash (A+B+C+D)** **25 409** **29 099**

Cash at January 1st (E)	71 003	41 904
Cash at year end (A+B+C+D+E)	96 413	71 003
Other short-term financial assets	86 409	63 916
Cash and cash equivalents	20 914	20 582
Short-term banking facilities	(10 910)	(13 495)
<b>Closing cash position</b>	<b>96 413</b>	<b>71 003</b>