

**LE CARBONE LORRAINE**

Société Anonyme with a share capital of €22,404,780

Headquarters:

Immeuble La Fayette, 2/3, place des Vosges – La Défense 5 - 92400 Courbevoie  
572 060 333 R.C.S Nanterre

**UPDATE OF THE 2003 REFERENCE DOCUMENT**

(filed with the Autorité des Marchés Financiers on March 22, 2004 with number  
D.04-0303)

**filed with the Autorité des Marchés Financiers  
on September 14 2004**

Copies of the Reference Document and its update are available at the Company Le  
Carbone Lorraine, Immeuble La Fayette,  
2/3, place des Vosges, La Défense 5, 92400 Courbevoie,  
at Carbone Lorraine's website : [www.carbonelorraine.com](http://www.carbonelorraine.com),  
and at Autorité des Marchés Financiers' website : [www.amf-france.org](http://www.amf-france.org)

## **Table of contents**

- 1. Officer responsible for the update of the reference document and Auditors**
  - 1.1 Officer responsible for the update of the reference document
  - 1.2 Statement by the officer responsible for update of the reference document
  - 1.3 Auditors
    - 1.3.1 Statutory Auditors
    - 1.3.2 Alternate Auditors
    - 1.3.3 Statutory Auditors' report on the update of the reference document filed on March 22, 2004
- 2. Information about the activity and the half-year financial results (half-year report)**
  - 2.1 Description of the activity as of the end of June 2004
    - 2.1.1 Message from the Chairman
    - 2.1.2 Business review
    - 2.1.3 Results and outlook
  - 2.2 Summary consolidated financial results as of the end of June 2004
    - 2.2.1 Consolidated balance sheet
    - 2.2.2 Consolidated income statement
    - 2.2.3 Consolidated statement of cash flows
    - 2.2.4 Summary of the notes as of the end of June 2004
    - 2.2.5 Statutory Auditors' review report on the half-year consolidated condensed financial statements
- 3. General information about the Issuer and its share capital**
- 4. Risk management**
- 5. Corporate governance**
- 6. Recent trend and outlook**
  - 6.1 Recent trend
  - 6.2 Outlook

## **1. Officer responsible for the update of the reference document and Auditors**

### **1.1 Officer responsible for the update of the reference document**

Mr. Claude Coccozza, Chairman and Chief Executive Officer.

### **1.2 Statement by the officer responsible for the update of the reference document**

To the best of my knowledge, the information presented in the reference document filed on March 22, 2004 and updated by this document fairly reflects the current situation. It includes all the data required by investors to assess the net worth, activities, financial position, earnings and future outlook of Groupe Carbone Lorraine. No information likely to have a material impact on the interpretation of the document has been omitted.

Claude Coccozza  
Chairman and Chief Executive Officer

### **1.3 Auditors**

#### **1.3.1 *Statutory Auditors***

Deloitte Touche Tohmatsu  
185, avenue Charles de Gaulle – 92200 Neuilly-sur-Seine  
Date of first term: 1986  
Date of last renewal : 2004  
Duration: (term expires at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

KPMG Audit  
Département de KPMG S.A.  
Immeuble KPMG, 1, cours Valmy – 92923 Paris La Défense cedex.  
Date of first term: 2004  
Duration: (term expires at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

#### **1.3.2 *Alternate Auditors***

Société BEAS  
7-9, villa Houssay, 92524 Neuilly-sur-Seine Cedex.  
Date of first term : 2004  
Duration: (term expires at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

S.C.P. Jean-Claude André & Autres  
2 bis, rue de Villiers - 92309 Levallois-Perret Cedex  
Date of first term: 2004  
Duration: (term expires at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

### **1.3.3 Statutory Auditors' report on the update of the reference document filed on March 22, 2004.**

*(Free translation of a French language original for convenience purposes only. Accounting principles and auditing standards and their application in practice vary among nations. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices utilized by the statutory auditors in France with respect to such financial statements included in a "document de référence" may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and the auditors' report of which a translation for convenience purposes only is presented in this document are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.)*

In our capacity as statutory auditors of Le Carbone Lorraine S.A. and in application of the *Règlement* 98-01 of the "Commission des Opérations de Bourse", we have verified, in accordance with the professional standards applicable in France, the information relating to the financial position and the historical financial statements included in the "document de référence" filed with the AMF on March 22, 2004 under number D.04-0303 and its attached update.

These documents have been prepared under the responsibility of the Chairman of the Board of Directors. Our responsibility is to report on the fairness of the information relating to the financial position and the historical financial statements included therein.

Deloitte Touche Tohmatsu and Ernst & Young Audit have concluded in their report on the "document de référence" dated March 22, 2004 that they had no matters to report regarding the fairness of the information relating to the financial position and the historical financial statements presented in the "document de référence".

Our procedures have been performed in accordance with the professional standards applicable in France. Those standards comprised

- A verification that no event, that could impair the fairness of the information relating to the financial position and the historical financial statements included in the "document de référence" and that has not been subject to an update, occurred subsequently to the date of the report mentioned above;
- An assessment of the fairness of the information presented in the update relating to the financial statements and its consistency with the financial statements on which a report was issued by the statutory auditors. Our work also comprised the reading the other information contained in the update, in order to identify material inconsistencies with the information relating to the financial position and the historical consolidated financial statements and to report any apparent misstatement of facts that we may have uncovered in reading the other information based on our general knowledge of the company obtained during the course of our engagement, given that this update does not include any selected prospective data resulting from an organized process.

We have reviewed, in accordance with professional standards applicable in France, the half year consolidated condensed financial statements covering the period from January 1, 2004 to June 30, 2004, prepared in accordance with accounting principles generally accepted in France. The half year consolidated condensed financial statements are the responsibility of your Board of Directors.

Based on the procedures described above, we have no matters to report regarding the fairness of the information relating to the financial position and the historical financial statements included in the "document de référence" and its update.

## **2. INFORMATION ABOUT THE ACTIVITY AND THE HALF YEAR FINANCIAL RESULTS (HALF YEAR REPORT)**

### **2.1 Description of the activity as of the end of June 2004**

#### **2.1.1 *Message from the Chairman***

Dear Shareholders,

As I indicated in March, the first half of 2004 marked the starting point of a new period of earnings growth for the Group.

We made good progress with the final restructuring measures in our program, and the benefits are now starting to translate into higher operating income. This improvement will be ongoing during the second half.

Electrical Applications and Advanced Materials and Technologies kept their profitability at a high level. The faster-than-expected reorganization in Magnets makes up for the Electrical Protection lagging a few months behind schedule. The steep reorganization which the Electrical Protection went through promises a strong improvement of results.

We are now in good shape to return to a growth trajectory. Our expansion will be underpinned by the cyclical upswing, which is gaining strength in North America and now also getting underway in Europe. It will also get a strong boost from the array of organic growth projects that we have continued to work on. These highly profitable projects are set to create a significant stream of business, principally in Advanced Materials and Technologies and Electrical Protection. Depending on opportunities arising, these projects may be backed up by selective acquisitions.

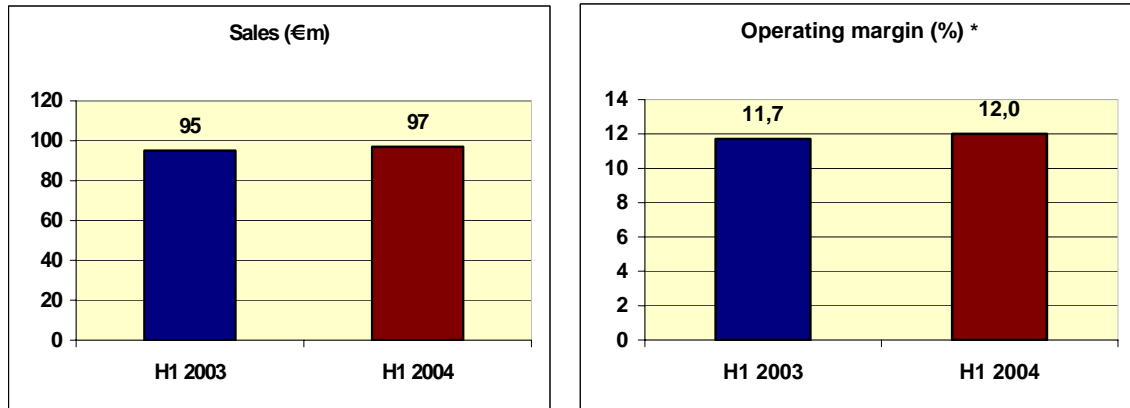
I firmly believe that exciting times lie ahead for our management and staff in the near future, as they will be spurred on by the enthusiasm of building the Group into a stronger force. Shareholders are also set to reap the rewards of our strategy of profitable growth through gains in the share price and dividend payments.

Claude Coccozza

Chairman and Chief Executive Officer

## 2.1.2 Business review

### Electrical Applications



\*Operating income/sales, before allocation of corporate overheads

The sales recorded by the Electrical Applications division rose by 3% on a like-for-like basis, driven mainly by higher sales of brushes and assemblies for small electric motors.

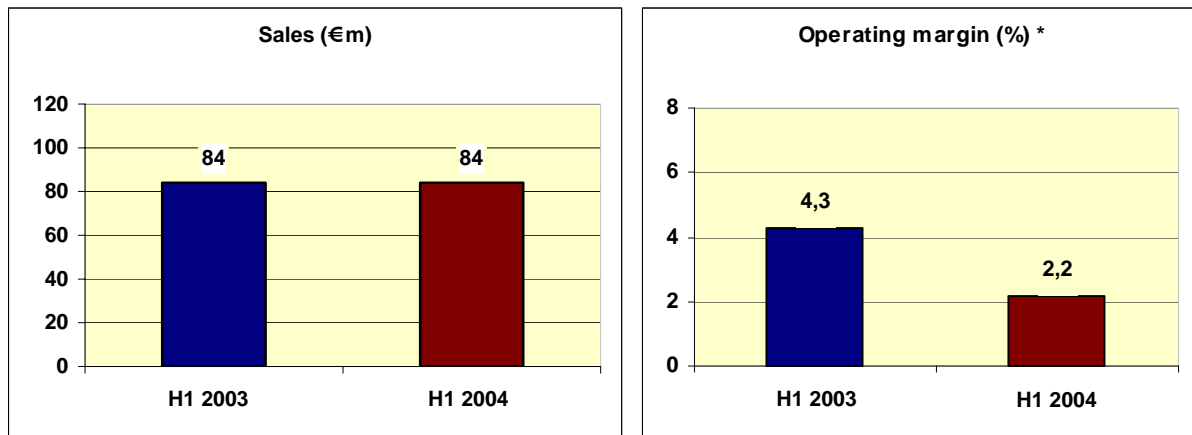
Our sales of brushes and brush-holders for industrial and traction motors remained broadly stable in Europe and North America. Divisional sales posted strong gains in the leading mining countries, especially Australia and South Africa, as well as in rail current collection.

Sales of brushes for small electrical motors expanded in the European portable power tools and automobile markets, making up for the weakness of the North American automobile market. Sales of brushcards (assemblies of brushes and brush-holders for automobile auxiliary motors) continued to make strong headway in North America, thanks to the market share won by the wiper system launched in 2003 by a major customer to which Carbone Lorraine is a key supplier.

Against a backdrop of relatively sluggish industrial markets but strong growth in sales for automobile applications, the operating margin picked up slightly, rising from 11.7% to 12%.

The industrial reorganizations carried out during 2003, especially the pooling of brush production for automobile and household appliance applications at the Amiens plant (France) and the integration of Kirkwood's activities at our Farmwood plant (Virginia, US) are now close to completion and are set to start paying dividends during the second half of the year.

## Electrical Protection



\*Operating income/sales, before allocation of corporate overheads

Electrical Protection sales advanced by 4% on a like-for-like basis chiefly on the back of gains in North America and Asia.

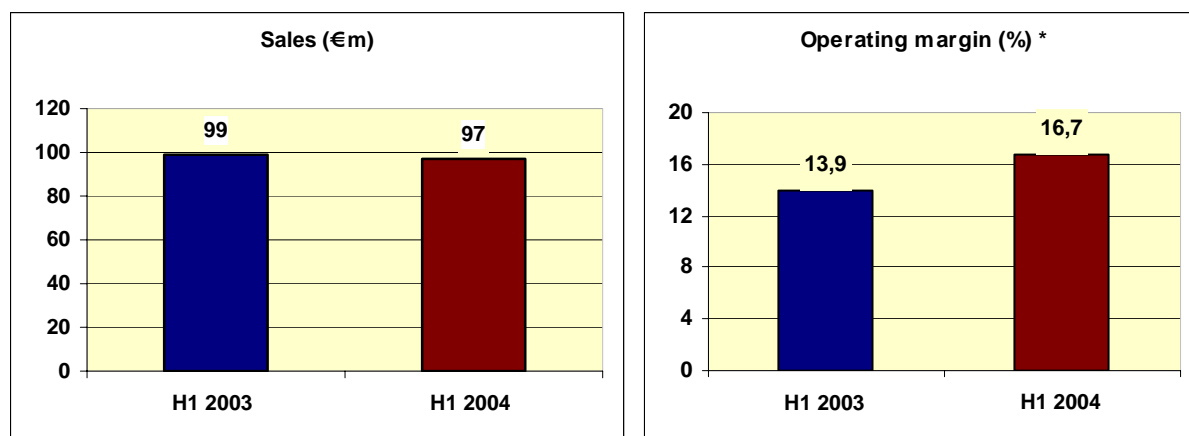
The extent of the restructuring measures in Europe delayed deliveries, dragging down the division's first-half sales performance. The Saint-Bonnet-de-Mûre plant (France) integrated the activities of the La Verpillière facility in 2002, followed by production previously handled by our two German sites (Mannheim, Eggolsheim) and our Spanish plant in Barcelona, which was switched during 2003 and early 2004.

Our restructuring program in North America was completed in 2003, with the focus then switching to Europe. As a result, the division is reaping the full benefit of the economic upswing, which is now showing up clearly at manufacturers and distributors. Sales in North America increased by 9% like-for-like during the first six months of the year.

Sales posted even stronger gains in Asia (Japan, China and India), led by rise in semiconductor protection fuses and bogie protection equipment, a segment in which the division holds strong positions.

All in all, firm performance in the US and Asia did not quite offset the impact of non-recurring charges linked to restructuring measures in Europe. The division's operating margin dropped back to 2.2% during the first half. This said, performance has picked up again since the second quarter, and by the end of 2004, the Electrical Protection division will have efficient manufacturing facilities set to drive very significant margin improvement, which will gain extra impetus from the economic recovery.

## Advanced Materials and Technologies



Operating income/sales,  
before allocation of corporate overheads

The Advanced Materials and Technologies division's sales rose by 2% like-for-like, led chiefly by high temperature applications of graphite, which posted a 12% surge in sales.

Sales of anti-corrosion equipment dipped primarily because of changes in the timing of sales compared with the previous year. Significant business volumes were invoiced during the first half of 2003, particularly in Asia, whereas the largest billings this year are expected to come in the second half. Excluding these effects, business was broadly stable. What's more, new orders rose by around 40% compared with the year-earlier period, paving the way for a significant increase in sales during late 2004 and early 2005.

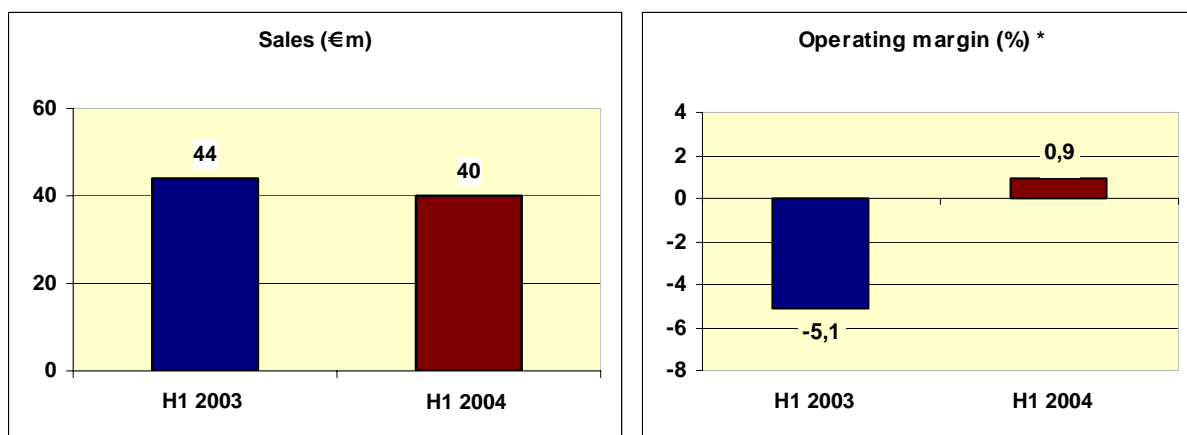
Brisk growth in high temperature applications of graphite was recorded in all regions and across all industries (i.e. semiconductors, general-purpose refractories, aerospace). In addition, the first half saw the division win a Supplier of the Year award from Sumco, a leading Japanese semiconductor company, which has encouraged us to develop our expertise in equipment for semiconductor production even further.

Our high-energy braking business posted further growth in rail and motorcycle applications, but experienced a slight decline in its sales on a like-for-like basis, again owing to an unfavorable base of comparison. The high sales of brake pads for the South Korean TGV project recorded during the first half of 2003 will not be repeated until 2005.

The operating margin, which was already at a high level, moved up by close to three points to 16.7% owing to the benefits of the restructuring carried out over the past three years and market share gains, particularly in high temperature applications of graphite.



## Magnets



Operating income/sales,  
before allocation of corporate overheads

Magnet sales declined by 5% on a like-for-like basis, showing however a 9% increase in sales of flux packages.

The fall in ferrite magnet sales derived from the streamlining and refocusing of the product portfolio on the most profitable product lines and on automated production in Europe. Restructuring in North America has now been completed, and sales were broadly stable. In Brazil, the division recorded a strong increase in magnet sales on the back of the development of the local automobile industry.

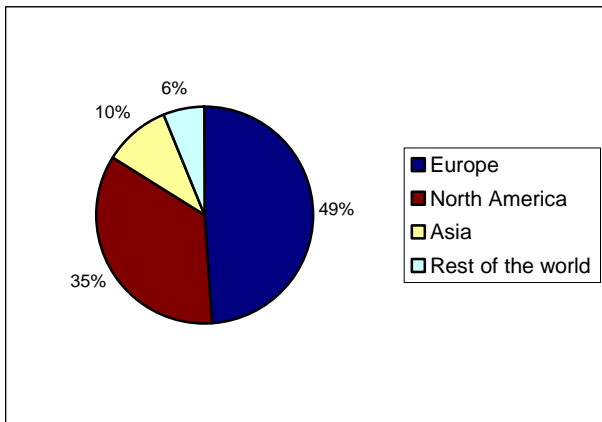
Flux package sales posted a sharp increase in Europe, as new customers were won over by the benefits of this product concept and by our expertise.

The division's focus on profitability paved the way for a six-point increase in its operating margin, which moved back just inside positive territory. This goal was achieved ahead of schedule in which a breakeven had been budgeted for the end of the year, thanks to the brisk progress of the restructuring measures in France and South Korea.

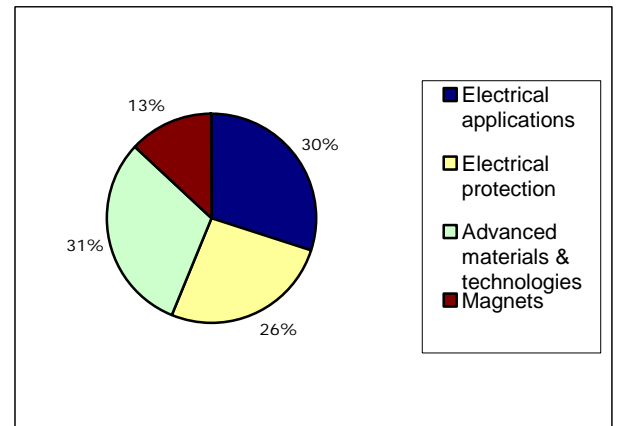
*N.B. Sales trends at each division are shown on a like-for-like basis.*

### 2.1.3 Results and outlook

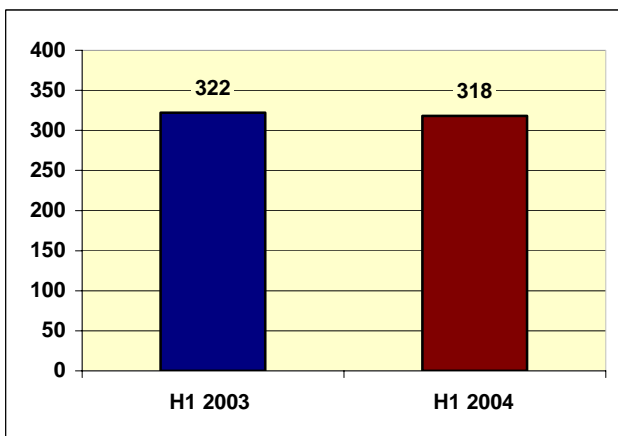
**Breakdown of H1 2004 net sales by geographical market**



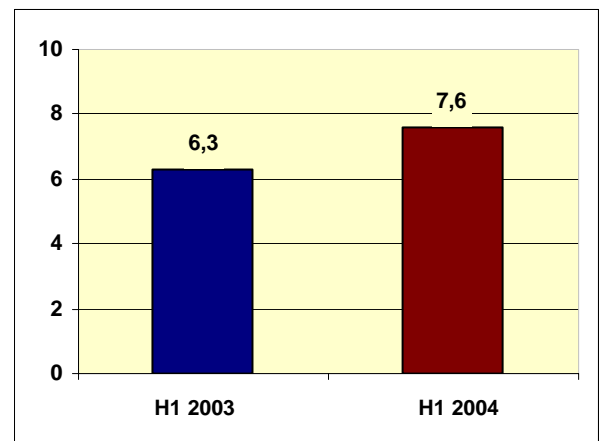
**Breakdown of H1 2004 net sales by business activity**



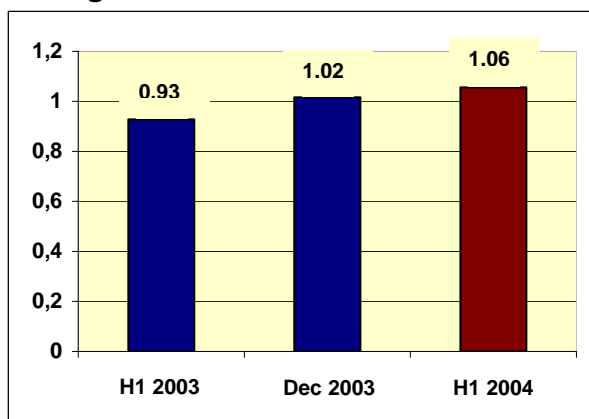
**Consolidated sales (€ m)**



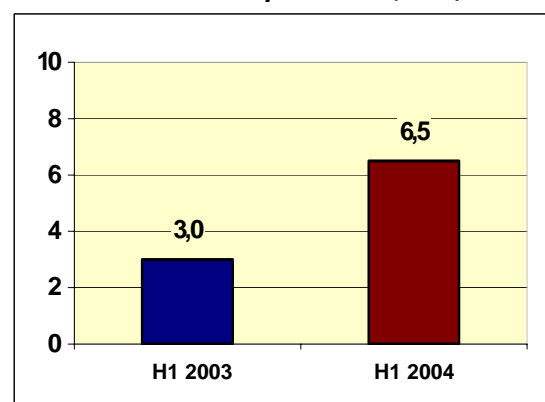
**Operating margin (%)**



**Gearing**



**Net income, Group share (€ m)**



Carbone Lorraine posted sales of €318 million during the first half of 2004, up 2% on a like-for-like basis compared with the first half of 2003. This increase was achieved in spite of an unfavorable base of comparison, since large orders of anti-corrosion equipment were billed during the first six months of 2003, whereas the equivalent orders this year will not be delivered until the second half. Excluding Magnets, where the business contraction was attributable to their redeployment plan, all the Group's other divisions posted sales growth.

A geographical analysis shows strong growth in North America running at close to 7% like-for-like. Trends in Europe are picking up slowly, with a 1% decline over the first half, but a firmer second-quarter performance. Performance in Asia (sales down 7%) was held back by the change in the timing of anti-corrosion equipment sales referred to above, while trends in high-energy braking, which was boosted by high sales to the South Korean high-speed train project in 2003, reverted to normal. Excluding anti-corrosion equipment, business in Asia showed like-for-like growth of 12%, with further growth anticipated in the region during the second half of the year.

The positive effects of our savings plan backed by the increase in sales allowed the Group's operating margin to improve by 1.3 points, rising to 7.6% of sales from 6.3% last year. In particular, the Advanced Materials and Technologies division posted a strong increase in its already high operating margin. The Electrical Applications division posted a modest improvement in its margin. The reorganization of the Electrical Protection division's production facilities cut into its margins in Europe, but they started rising again in the second quarter. Just ahead of schedule, the Magnets division reached breakeven point at the end of the first half.

Net financial expense was almost unchanged, with the increase in net debt being offset by lower borrowing costs.

As a result, net income, Group share before non-recurring items and goodwill amortization came to €13.6 million, up 24% compared with last year.

Non-recurring items after tax (€4.5 million) derived primarily from restructuring charges linked to the savings plan, especially those achieved through the production overhaul of the Electrical Protection division.

Taking into account these non-recurring items and goodwill amortization, the Group's net income (Group share) more than doubled, reaching €6.5 million, compared with €3.0 million in the year-earlier period.

The Group's debt increased by €19.5 million during the first half owing mainly to restructuring charges (€17 million) and currency effects (€4 million). Gearing rose only modestly, edging up to 106% from 102% at end-December 2003.

## **Outlook**

The recovery is now showing up across all our business activities in North America, and economic conditions appear to be firming up in Europe. Various growth opportunities have been identified in Asia, where we are continuing to strengthen our positions.

We also remain focused on improving our bottom-of-the-cycle margins by implementing our savings plan, particularly in the Electrical Protection division, for which we are reiterating our ambitious performance targets, albeit a few months behind our original schedule. By year-end 2004, our savings plan is set to exceed the target of €30 million in annual savings that we announced three years ago.

On the strength of this performance, we are able to reiterate our operating margin target of 8% for 2004 in spite of the increase in raw materials prices.

Further ahead, the Group's performance will be boosted by the various organic growth projects that we have been preparing over the past three years. We may also make selective acquisitions, depending on the opportunities that arise.

## 2.2 Summary consolidated financial results as of the end of June 2004

### 2.2.1 Consolidated balance sheet

<b>ASSETS</b>			
In millions of euros	June 30, 2004	Dec. 31, 2003	June 30, 2003
<b>FIXED ASSETS</b>			
Intangible assets			
– Goodwill	167.7	165.2	180.4
– Other intangible assets	14.5	14.4	15.7
Property, plant and equipment			
– Land	9.5	9.4	10.6
– Buildings	29.7	34.2	41.7
– Plant, equipment and other	68.0	66.7	87.5
– Fixed assets in progress	16.7	17.8	18.0
Financial assets			
– Investments in unconsolidated subsidiaries and affiliates	11.9	11.6	11.9
– Other financial assets	12.8	15.8	11.8
<b>TOTAL FIXED ASSETS</b>	<b>330.8</b>	<b>335.1</b>	<b>377.6</b>
<b>CURRENT ASSETS</b>			
– Inventories	119.2	113.8	122.8
– Trade accounts and related receivables	129.0	121.0	138.2
– Other receivables	44.0	36.0	44.5
– Financial receivables	2.5	0.3	2.5
– Marketable securities	1.3	2.5	4.9
– Cash and cash equivalents	19.6	25.4	16.5
<b>TOTAL CURRENT ASSETS</b>	<b>315.6</b>	<b>299.0</b>	<b>329.4</b>
<b>TOTAL ASSETS</b>	<b>646.4</b>	<b>634.1</b>	<b>707.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
In millions of euros	June 30, 2004	Dec. 31, 2003	June 30, 2003
<b>SHAREHOLDERS' EQUITY</b>			
– Share capital	22.4	22.4	22.3
– Additional paid-in capital, reserves and retained earnings	182.1	220.3	223.0
– Net income for the period (Group share)	6.5	(38.2)	3.0
– Cumulative translation adjustment (Group share)	(25.2)	(30.3)	(20.8)
<b>TOTAL</b>	<b>185.8</b>	<b>174.2</b>	<b>227.5</b>
– Minority interests	5.4	5.4	7.7
<b>SHAREHOLDERS' EQUITY AND MIN. INTERESTS</b>	<b>191.2</b>	<b>179.6</b>	<b>235.3</b>
– Long-term provisions	32.2	31.4	36.2
<b>LIABILITIES</b>			
– Long-term debt	212.8	185.9	201.7
– Trade accounts and related payables	72.9	67.3	59.2
– Other payables	52.1	54.2	66.9
– Current portion of long-term provisions	62.2	69.7	42.8
– Other liabilities	10.3	21.1	24.4
– Current portion of long-term debt	2.4	3.2	4.2
– Short-term advances	0.9	1.8	3.0
– Bank overdrafts	9.4	19.9	33.4
<b>TOTAL LIABILITIES AND PROVISIONS</b>	<b>455.2</b>	<b>454.5</b>	<b>471.8</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>646.4</b>	<b>634.1</b>	<b>707.0</b>

### **Consolidated income statement**

<b>In millions of euros</b>	<b>June 30, 2004</b>	<b>Dec. 31, 2003</b>	<b>June 30, 2003</b>
Sales, net	317.7	629.4	321.8
Cost of sales	(221.1)	(439.0)	(222.9)
<b>Gross income</b>	<b>96.6</b>	<b>190.4</b>	<b>98.9</b>
Selling and marketing expense	(29.3)	(59.4)	(30.6)
Administrative and research expense	(29.4)	(58.2)	(30.0)
Other operating expense	(1.9)	(3.5)	(2.1)
<b>Operating income before depreciation and amortization</b>	<b>36.0</b>	<b>69.3</b>	<b>36.2</b>
Depreciation and amortization	(11.7)	(30.0)	(15.9)
<b>Operating income</b>	<b>24.3</b>	<b>39.3</b>	<b>20.3</b>
Net financial income/(expense)	(5.4)	(10.8)	(5.1)
<b>Income before tax and non-recurring items</b>	<b>18.9</b>	<b>28.5</b>	<b>15.2</b>
Current and deferred income tax	(5.1)	(7.3)	(3.4)
Minority interests	(0.2)	1.1	(0.4)
<b>Net income before non-recurring items, Group share</b>	<b>13.6</b>	<b>22.3</b>	<b>11.4</b>
Non-recurring items (after tax)	(4.5)	(54.8)	(5.7)
<b>Net income before goodwill amortization</b>	<b>9.1</b>	<b>(32.5)</b>	<b>5.7</b>
Goodwill amortization	(2.6)	(5.7)	(2.7)
<b>Net income, Group share</b>	<b>6.5</b>	<b>(38.2)</b>	<b>3.0</b>

### **Consolidated statement of cash flows**

<b>In millions of euros</b>	<b>June 30, 2004</b>	<b>Dec. 31, 2003</b>	<b>June 30, 2003</b>
<b>CASH FLOW</b>	<b>26.3</b>	<b>45.9</b>	<b>24.9</b>
Change in the working capital requirement	(8.5)	31.4	2.1
Other changes	(1.4)	(4.4)	(3.0)
<b>(A) Net cash flow generated by operating activities</b>	<b>16.4</b>	<b>72.9</b>	<b>24.0</b>
<b>INVESTING ACTIVITIES</b>			
Increase in intangible fixed assets	(1.3)	(2.6)	(2.2)
Increase in property, plant and equipment	(9.2)	(23.0)	(13.1)
Increase in financial assets	(0.9)	(0.1)	0.1
Disposals of fixed assets	0.6	1.9	0.7
<b>(B) Net cash used in investing activities</b>	<b>(10.8)</b>	<b>(23.8)</b>	<b>(14.5)</b>
<b>(C) Net cash flow generated by operating and investing activities before restructuring charges</b>	<b>5.6</b>	<b>49.1</b>	<b>9.5</b>
Restructuring charges	(17.3)	(7.1)	(3.4)
<b>(C) Net cash flow generated by operating and investing activities</b>	<b>(11.7)</b>	<b>42.0</b>	<b>6.1</b>
Net investments related to the impact of changes in consolidation	(9.7)	(10.1)	(4.6)
Non-recurring asset disposals	6.4	11.1	9.5
<b>(D) Net cash flow</b>	<b>(15.0)</b>	<b>43.0</b>	<b>11.0</b>
Proceeds of capital increase	0.0	1.3	0.0
Net dividends paid to shareholders and minority interests	(0.5)	(8.8)	(7.0)
Non-operating cash flows	(0.4)	(7.0)	(0.1)
<b>(E) Net decrease in debt</b>	<b>(15.9)</b>	<b>28.5</b>	<b>3.9</b>

## **2.2.4 Summary of the notes as of the end of June 2004**

### **Note 1 • Accounting policies and principles of consolidation**

The consolidated financial statements of Groupe Carbone Lorraine have been prepared in accordance with the accounting regulations as set forth in CRC rule 99-02 pertaining to the consolidated financial statements of commercial and public companies.

The half-year financial statements have been prepared in accordance with the same principles applied in preparing the annual consolidated financial statements and have thus been prepared in line with CRC rule 99-01 of March 18, 1999.

#### **A – Scope of consolidation**

The consolidated financial statements of the Group include Le Carbone Lorraine and all significant subsidiaries over which the Group exercises directly or indirectly significant management influence.

All companies within the scope of consolidation are fully consolidated.

#### **B – Foreign currency translation**

The financial statements of foreign subsidiaries are translated into euros using the following methods:

- Balance sheet items are translated at the exchange rates ruling at June 30, 2004.
- Income statement items are translated at the average exchange rate for the first six months of the year.
- Translation adjustments (the Group's share of which is booked under shareholders' equity) include the following:
  - the effect of changes in foreign exchange rates on balance sheet items;
  - the difference between net income calculated at the average exchange rates for the first six months and net income calculated at the exchange rates ruling at June 30, 2004.

#### **C – Foreign currency assets and liabilities**

Transactions denominated in currencies other than the functional currency are recorded at the exchange rate ruling at the transaction date. Assets and liabilities denominated in these other currencies are translated at the exchange rate ruling on the balance sheet date. Any gains and losses arising from currency translation are taken to the income statement for the period.

#### **D – Intangible assets**

##### **a) Goodwill:**

Goodwill, which is the difference between the purchase price of shares and the market value of the net underlying assets purchased, is amortized over a period not exceeding 40 years. The current amortization periods used are between 5 and 40 years.

##### **b) Start-up costs**

Start-up costs are amortized over a maximum of 5 years.

##### **c) Patents and licenses**

Patents and licenses are amortized over the period during which they are protected by law. Software is amortized over its estimated service life, which may not exceed 5 years.

## E – Property, plant and equipment

Property, plant and equipment is stated at purchase or production cost.

Property, plant and equipment is depreciated on a straight-line basis over the estimated service life of the asset.

The following depreciation periods have been applied:

Buildings:	20 to 50 years
Fixtures and fittings:	10 to 15 years
Plant and machinery:	3 to 10 years
Vehicles:	3 to 5 years

Property, plant and equipment financed by long-term leases with a value of over €1 million is booked under assets and amortized in line with the Group's accounting principles for property, plant and equipment. The financial commitments resulting from these leases are accounted for under long-term debt.

## F – Impairment

At each balance sheet date, where events or changes in market conditions are likely to have triggered impairment in the value of goodwill, intangible fixed assets, property, plant and equipment or deferred tax assets, their net value is reviewed according to the projected future operating performance of the corresponding business. Where necessary, an impairment loss is recognized to adjust the relevant items to their fair value.

## G – Financial assets

Investments in unconsolidated subsidiaries and affiliates are carried at cost. In the event of a lasting decline in their value, an impairment loss is recognized if their book value exceeds fair value, which is determined by reference to the share of net assets held and taking into account the medium-term development prospects.

There are 35 unconsolidated subsidiaries. Their primary business is to distribute goods produced by the consolidated companies. Including them in the scope of consolidation would not have a material impact on Group sales.

## H – Provisions for liabilities and charges

Provisions are set aside when at the end of a period the Group has an obligation to a third party, and it is probable or certain that it will give rise to an outflow of resources without any equivalent benefits being received in consideration.

This obligation may be legal, regulatory or contractual. It may also derive from the Group's practices or from public commitments giving rise to a legitimate expectation among the relevant third parties that the Group will assume certain liabilities.

## I – Inventories

Inventories are stated at the lower of cost, as determined by the weighted average cost method, and market price.

The only indirect costs taken into account in the valuation of work in progress and finished products are production-related expenses.

Impairment losses are recognized on slow-moving inventories where appropriate.

## J – Consolidated sales

Net sales includes sales of finished products and the related services, sales of scrap, sales of goods purchased for resale and invoiced shipping costs.

Income from other operations is recorded under the appropriate heading of the income statement, i.e. other revenues, financial income, non-recurring income, or as a deduction from (selling, general, administrative or research) expenses.

#### K – Research costs

Research costs are expensed as incurred.

#### L – Pension plans and retirements indemnities

Group commitments under defined benefit pension plans and retirement indemnities are determined on an actuarial basis using the projected benefit obligation method, which takes into account the economic conditions prevailing in each country. These commitments are funded by pension plans or provisions recorded on the balance sheet as rights are vested by employees.

With respect to the French companies:

- Pensions and retirement indemnities are paid by the appropriate agencies, which are funded by employer contributions as a proportion of total payroll costs. These employer contributions are accounted for in the individual financial statements of the relevant companies. In certain cases, companies may offer additional retirement benefits that are added to the pension paid by the specialized agencies;
- Provisions for unfunded retirement indemnities stipulated by collective bargaining agreements are accrued in the consolidated financial statements; a portion of these provisions was paid in 1998 to a guarantee fund managed by a specialized organization;
- All these commitments were calculated on the basis of an actuarial study conducted in 2003. The primary assumptions used were a discount rate of 5.5% and a general rate of increase in salaries of 2%.

#### M – Operating income

Operating income is shown before net financial expense, taxes and non-recurring items. The operating income for each division does not include any corporate overheads. These are deducted from the Group's operating income.

Corporate overheads correspond to the Group's expenditure on central corporate functions, which cannot be allocated directly to activities.

#### N – Deferred taxes

Accounting restatements or consolidation adjustments (depreciation, amortization, impairment losses, tax deductions) may affect the figures appearing on the balance sheets of the consolidated companies. Temporary differences between the taxable value of assets and liabilities and their restated book value give rise to the calculation of deferred taxes under the liability method.

Deferred taxes are recorded under assets or liabilities as a long or short-term item on the consolidated balance sheet as applicable.

No provision for withholding taxes is established for earnings for which no distribution is planned.

#### O – Non-recurring items

Non-recurring items represent expenses and income incurred outside the scope of the Group's ordinary activities. They are characterized in general by their unusual and one-off nature.



## Note 2 • Shareholders' equity (Group share)

In millions of euros	Number of shares	Share capital	Additional paid-in capital, reserves	Net income	Cumulative translation adjustment	Total
<b>Shareholders' equity at Dec. 31, 2002</b>	<b>11 139 150</b>	<b>22.3</b>	<b>239.9</b>	<b>(10.8)</b>	<b>(9.5)</b>	<b>241.9</b>
Prior period's net income			(10.8)	10.8		0.0
Dividends paid			(8.6)			(8.6)
Capital increase		0.0	0.0			0.0
Net income (Group share)				3.0		3.0
Translation adjustments and other			2.6		(11.3)	(8.8)
<b>Shareholders' equity at June 30, 2003</b>	<b>11 139 150</b>	<b>22.3</b>	<b>223.1</b>	<b>3.0</b>	<b>(20.8)</b>	<b>227.5</b>
Prior period's net income						0.0
Dividends paid			0.4			0.4
Capital increase	58 740	0.1	1.2			1.3
Net income (Group share)				(41.2)		(41.2)
Translation adjustments and other			(4.4)		(9.5)	(13.9)
<b>Shareholders' equity at Dec. 31, 2003</b>	<b>11 197 890</b>	<b>22.4</b>	<b>220.3</b>	<b>(38.2)</b>	<b>(30.3)</b>	<b>174.2</b>
Prior period's net income			(38.2)	38.2		0.0
Dividends paid			0.0			0.0
Capital increase	2 000	0.0	0.0			0.0
Net income (Group share)				6.5		6.5
Translation adjustments and other					5.1	5.1
<b>Shareholders' equity at June 30, 2004</b>	<b>11 199 890</b>	<b>22.4</b>	<b>182.1</b>	<b>6.5</b>	<b>(25.2)</b>	<b>185.8</b>

## Note 3 • Fixed assets

In millions of euros	June 2004	Dec. 2003	June 2003
Goodwill, net	167.7	165.2	180.4
Other intangible assets	14.5	14.4	15.7
<b>Intangible assets</b>	<b>182.2</b>	<b>179.6</b>	<b>196.1</b>
<b>Property, plant and equipment</b>	<b>123.9</b>	<b>128.1</b>	<b>157.8</b>
<b>Financial assets</b>	<b>24.7</b>	<b>27.4</b>	<b>23.7</b>
<b>Total fixed assets</b>	<b>330.8</b>	<b>335.1</b>	<b>377.6</b>

Total net fixed assets decreased by €4.3 million during the first six months of the year owing mainly to the following factors:

- an increase of €2.6 million in intangible assets, €4.9 million of which was attributable to currency fluctuations,
- a decrease of €4.2 million in property, plant and equipment, including an increase of €2.3 million attributable to currency fluctuations,
- a decrease of €2.7 million in financial assets, €2.5 million of which was attributable to deferred tax assets.

#### Note 4 • Long- and short-term provisions

In millions of euros	June 2004	June 2004	Dec. 2003	Dec. 2003	June 2003	June 2003
	LT	ST	LT	ST	LT	ST
Provision for deferred income tax	2.8	0.5	1.9	0.5	8.5	1.1
Provisions for pensions and retirement indemnities	28.6	2.5	28.6	2.2	26.7	1.9
Other provisions for liabilities	0.7	59.2	0.7	67.0	0.9	39.7
Investment grants	0.1		0.2		0.1	0.0
<b>Total</b>	<b>32.2</b>	<b>62.2</b>	<b>31.4</b>	<b>69.7</b>	<b>36.2</b>	<b>42.7</b>

Provisions for pensions and retirement indemnities relate primarily to unfunded benefits concerning French and German companies.

Other provisions for liabilities mainly include restructuring costs for various industrial plants (€5.5 million) and provisions to cover on the one hand the fines meted out to the Group by the European Commission for anti-competitive practices, in respect of which an appeal is currently being heard by the Court of First Instance in Luxembourg (€43 million), and on the other hand class-action lawsuits in the US (€8.3 million).

In the normal course of its business activities, the Group is involved in tax, regulatory and administrative proceedings in several countries where it operates. The outcome of these proceedings is uncertain. Based on the information available, the provisions already set aside cover all known and assessable risks as of the closing date.

#### Note 5 • Net debt

The Group's consolidated net debt increased by €19.5 million during the first half of 2004, including a €4.2 million rise attributable to currency fluctuations.

In millions of euros	June 2004	Dec. 2003	June 2003
Long and medium-term debt	212.8	185.9	201.7
Current portion of long-term debt (excluding accrued interest)	0.0	0.0	0.1
Short-term advances	3.3	5.0	7.2
Bank overdrafts	9.4	19.9	33.4
<b>Total gross debt</b>	<b>225.5</b>	<b>210.8</b>	<b>242.4</b>
Marketable securities	(1.3)	(2.5)	(4.9)
Short-term advances	(2.5)	(0.3)	(2.5)
Cash and equivalents	(19.6)	(25.4)	(16.5)
<b>Total net debt</b>	<b>202.1</b>	<b>182.6</b>	<b>218.5</b>

The change in net debt shown on the balance sheet can be reconciled with the change in net debt shown in the statement of cash flows as follows:

In millions of euros	June 2004	Dec. 2003	June 2003
<b>Net debt at end of prior period</b>	<b>182.6</b>	<b>236.2</b>	<b>236.2</b>
Net cash flow generated by operating and investing activities before restructuring charges	(5.6)	(49.1)	(9.5)
Restructuring charges	17.3	7.1	3.4
Capital increase		(1.3)	
Dividends paid	0.5	8.8	7.0
Impact of changes in the scope of consolidation	3.3	(1.0)	(4.9)
Non-operating cash flows	0.4	7.0	0.1
Translation adjustments and other	3.6	(25.1)	(13.8)
<b>Net debt at end of period</b>	<b>202.1</b>	<b>182.6</b>	<b>218.5</b>

## Note 6 • Non-recurring items after tax

In millions of euros	June 2004	Dec. 2003	June 2003
Impairment losses on investment securities	0.0	(2.5)	(1.5)
Retirement indemnities	(0.3)	(0.5)	(0.4)
Expenses and provisions for litigation	(1.4)	(25.1)	0.0
After-tax capital gains on fixed asset disposals	0.4	6.7	5.1
Other non-recurring income and expense	(3.2)	(33.4)	(8.9)
<b>Total non-recurring items</b>	<b>(4.5)</b>	<b>(54.8)</b>	<b>(5.7)</b>

- In the year to December 31, 2003, after-tax capital gains on fixed asset disposals derived mainly from the sales of real estate assets in Spain (Barcelona) and California (Camarillo) as part of the asset disposal program currently underway.  
Expenses and provisions for litigation reflect the additional provision of €25.1 million set aside to cover the €43 million fine meted out to the Group by the European Commission in late 2003, for which an initial provision of €18 million was set aside in 2002 and in respect of which the Group is now appealing to the Court of First Instance in Luxembourg.  
Other non-recurring income and charges include an impairment loss of €16.7 million after tax on the Magnets assets, as well as €19.3 million after tax in industrial restructuring charges related to the savings plan.  
Impairment losses on investment securities primarily relate to assets in Turkey, Malaysia and Mexico.
- In the six months to June 30, 2004, other non-recurring income and charges chiefly include €2.9 million in industrial restructuring charges, provisions for expenses related to the US class-action lawsuits and after-tax capital gains on the disposal of real estate assets in Australia and the Netherlands and of Ferraz Shawmut USA (€0.4 million).

## Note 7 • Segmental reporting

### Breakdown of sales by division

	June 2004		Dec. 2003		June 2003	
	€ m	%	€ m	%	€ m	%
Electrical Applications	97	30.4	184	29.3	95	29.5
Magnets	40	12.5	82	12.9	44	13.5
Electrical Protection	84	26.5	165	26.3	84	26.2
Advanced Materials and Technologies	97	30.6	198	31.5	99	30.8
<b>Total</b>	<b>318</b>	<b>100</b>	<b>629</b>	<b>100</b>	<b>322</b>	<b>100</b>

### Breakdown of operating income and the operating margin

	June 2004		Dec. 2003		June 2003	
	O. I. (€ m)	O. I./sales* (%)	O. I. (€ m)	O. I./sales* (%)	O. I. (€ m)	O. I./sales* (%)
Electrical Applications	11.5	12.0	20.2	10.9	11.1	11.7
Magnets	0.3	0.9	(6.3)	(7.8)	(2.2)	(5.1)
Electrical Protection	1.9	2.2	7.7	4.7	3.6	4.3
<b>Advanced Materials and Technologies</b>	<b>16.3</b>	<b>16.7</b>	<b>29.4</b>	<b>14.8</b>	<b>13.8</b>	<b>13.9</b>
Corporate overheads	(5.7)	(1.8)	(11.7)	(1.8)	(6.0)	(1.8)
<b>Total</b>	<b>24.3</b>	<b>7.6</b>	<b>39.3</b>	<b>6.2</b>	<b>20.3</b>	<b>6.3</b>

\* O.I./sales: Operating income before corporate overheads/sales

## **Note 8 • Preparation for the adoption of IFRS**

In accordance with the European regulations concerning international accounting standards and particularly IFRS 1, the initial application of IFRS as an accounting standard, the consolidated financial statements of Groupe Carbone Lorraine for the year ending on December 31, 2005 will be prepared using the international accounting standards with comparative figures for the 2004 fiscal year prepared using the same standards.

Against this backdrop, Groupe Carbone Lorraine initiated preparations for the adoption of the new accounting standards in 2002.

### **Progress of the project**

The first stage consisted in conducting a diagnostic assessment of the principal points of divergence between the accounting methods applied by the Group and IFRS with a view to identifying the IFRS liable to have an impact on the Group's financial statements or entailing major changes in its information system.

This stage was overseen by the central consolidation team together with Deloitte's assistance and was based chiefly on questionnaires sent out to all Group subsidiaries.

In addition, since 2002, programs have been organized in order to train and raise the awareness of all the Group's financial and accounting managers concerning IFRS-related issues.

During 2003, the project entered its active phase with the selection of the IFRS priority standards, choices between options and system adjustments. The operational diagnostic assessment and decisions as to how the IFRS will be applied are currently being finalized, with implementation procedures currently being drafted and the deployment phase scheduled to take place during the second half of 2004.

### **Potential effects on the opening balance sheet identified so far**

#### *Valuing employee benefits*

At present, the Group values these commitments on the basis of the rules set forth in CRC Rule 99-02. IAS 19 makes it obligatory to use the so-called retrospective approach based on coherent and consistent assumptions (harmonizing actuarial calculations, using discount rates suitable for each country, taking demographic data into account, etc.). Furthermore, financial assets used for hedging purposes are marked to market and capped according to specific rules.

#### *Goodwill*

Goodwill will no longer be amortized, but will have to undergo an annual impairment test. Any impairment losses related to goodwill be taken to operating income.

#### *Financial instruments*

The adoption of IAS 32 and 39 from January 1, 2005 in relation to financial instruments is likely to have various consequences:

- The nominal value of issuance costs related to private placements, which are currently booked under deferred costs and spread over the duration of the placement, will be deducted from debt;
- Derivative instruments, which are currently booked under off-balance sheet commitments, will be stated at fair value on the balance sheet;
- The cost of treasury shares will be deducted from shareholders' equity irrespective of their intended future purpose. The value of shares in the Group held by subsidiaries, which is currently booked under marketable securities, will also be deducted from shareholders' equity.

### **Accounting for fixed assets at their fair value**

The Group is studying the option in IFRS 1, which allows certain tangible assets to be accounted for at their fair value at January 1, 2004.

### ***2.2.5 Statutory Auditors' review report on the half-year consolidated condensed financial statements***

#### **Period from 1 January to 30 June 2004**

As Statutory Auditors and as required by article L. 232-7 of the French Companies Act (Code de commerce), we have:

- reviewed the accompanying half year consolidated condensed financial statements of Le Carbone Lorraine, covering the period from 1 January to 30 June 2004 and
- verified the information contained in the half year management report.

The half year consolidated condensed financial statements are the responsibility of your Board of Directors. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. Those standards require that we perform limited procedures, to obtain an assurance, which is less than obtained in an audit, as to whether the half year consolidated condensed financial statements are free of material misstatement. We have not performed an audit as a review is limited primarily to analytical procedures and to inquiries of group management and knowledgeable personnel on information that we deemed necessary.

Based on our limited review, nothing has come to our attention that causes us to believe that the half year consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in France, do not present fairly, in all material respects, the financial position, the assets and liabilities of the Group as at 30 June 2004 and the results of its operations for the six month period then ended.

We have also verified, in accordance with professional standards applicable in France, the information contained in the half-year management report supplementing the half-year consolidated condensed financial statements submitted to our review.

We have no comment to make as to the consistency with the half-year consolidated condensed financial statements and the fairness of the information contained in the half-year management report.

*This is a free translation of the original French text for information purposes only.*

### **3. GENERAL INFORMATION ABOUT THE ISSUER AND ITS SHARE CAPITAL**

#### ***Combined General Meeting of May 13, 2004***

At the Combined General Meeting of May 13, 2004 (second notice) all resolutions which were presented in the Annual Report of the Company were passed.

#### ***Purchase by the Company of its own shares***

(approved by the AMF under n°04-285 dated April 15, 2004)

The Combined General Meeting of shareholders of May 13, 2004 (second notice) authorized the Company, pursuant to articles L 225-209 and *seq* of the French Commercial Code, to trade in its own shares on the stock exchange for the purpose of :

- stabilizing the share price through systematic trades against the current trend;
- granting or transfer shares to employees in connection with the employee profit-sharing plan, the employee share ownership plan or the Group Investment plan; and
- using shares in connection with acquisitions, to hold them, sell them or, more generally, to use them as part of an asset management and investment policy.

The maximum purchase price is set at €60 per share and the minimum selling price is set at €30 per share. These prices are set subject to adjustments related to any capital transactions affecting the Company's capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €66,425,880.

Since May 13, 2004 until the date of this document, the Company made use of this authorization to stabilize the share price. 70,364 shares were sold for an aggregate amount of €2,338,659.97, at an average price of €33.24.

Carbone Lorraine also acquired 25,079 shares at €40,15 per share under an options agreement entered into with a bank in connection with the leveraged capital increase reserved to employees in 2000. Under this options agreement, the Company is due to acquire 25,079 shares at €40,15 on June 15, 2004 and July 15, 2004 if the share price is below this level.

The number of shares held by the Company at August 31, 2004 stood at 12,691 which represented 0.11% of the Company's share capital.

#### ***Amount of the share capital***

At September 14, 2004, the share capital amounts to €22,404,780, divided into 11,202,390 shares, each with a nominal value of 2 euros and belonging to the same category.

#### ***Authorization to carry out a capital increase***

The Combined General Meeting of May 13, 2004 authorized the Board of Directors to:

- carry out the issue of shares of the Company as well as any securities of any nature (including debt securities) with preferential subscription right, giving access in any way whatsoever, either immediately or in the future, to shares of the Company; and

- carry out the issue of shares of the Company as well as any securities of any nature (including debt securities) without preferential subscription right, giving access in any way whatsoever, either immediately or in the future, to shares of the Company.

The nominal amount of increases of share capital that may be carried out immediately or in the future pursuant to the authorizations granted will not exceed €10 million. The validity period of the authorizations is 26 months. The authorizations render null and void the non used authorizations granted by the Combined General Meeting of May 15, 2002.

As a consequence of the authorizations granted and in order to comply with the provisions of article L 225-129 VII of the French Commercial Code which makes compulsory the vote of a resolution concerning a capital increase reserved for employees each time a resolution concerning an increase of the share capital is passed, the Combined General Meeting of May 13, 2004 also authorized the Board of Directors to increase the share capital by issuing shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount of the capital increases that may be carried out pursuant to this authorization will not exceed €230,000, i.e approximately 1% of the Company's capital. This authorization replaces and supercedes any previous authorizations and will remain valid until July 16, 2006.

### ***Summary of changes in the share capital***

<b>Dates</b>	<b>Description of the transaction</b>	<b>Share capital following the transaction</b>	<b>Additional paid-in capital</b>	<b>Total number of shares after the transaction</b>
05.05.1999	Conversion of the nominal value of the FRF10 shares to €2, see the Seventh Resolution of the Combined General Meeting of May 5, 1999	21,571,874	(5,128,819)	10,785,937
27.05.1999	Issue of 99,962 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	21,771,798	2,898,898	10,885,899
31.12.1999	Issue of 9,565 new shares each with a nominal value of €2 through the exercise of subscription options	21,790,928	170,470	10,895,464
15.06.2000	Issue of 199,998 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	22,190,924	5,799,942	11,095,462
31.12.2000	Issue of 14,271 new shares each with a nominal value of €2 through the exercise of subscription options	22,219,466	224,024	11,109,733
31.12.2001	Issue of 18,729 new shares each with a nominal value of €2 through the exercise of subscription options	22,256,924	292,041	11,128,462
31.12.2002	Issue of 10,688 new shares each with a nominal value of €2 through the exercise of subscription options	22,278,300	180,704	11,139,150
27.11.2003	Issue of 3,750 new shares each with a nominal value of €2 through the exercise of subscription options	22,285,800	63,512	11,142,900
23.12.2003	Issue of 54,990 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	22,395,780	1,110,798	11,197,890
15.04.2004	Issue of 2,000 new shares each with a nominal value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
20.08.2004	Issue of 2,500 new shares each with a nominal value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390

## **Market in the Company's shares**

Shares are admitted for trading on the Premier Marché of the Paris Stock Exchange and are eligible for the SRD (Deferred Settlement) service. Carbone Lorraine shares are also constituents of the SBF 120 and Next 150 indices.

A total of 11,202,390 shares are listed on the market.

<b>Carbone Lorraine shares</b>	<b>Nbr of shares traded (units)</b>	<b>Trading volumes (€ m) <sup>(1)</sup></b>	<b>Trading range <sup>(2)</sup></b>	
			<b>High (€)</b>	<b>Low (€)</b>
<b>2003</b>				
January	127,402	2.78	23.20	20.38
February	157,947	2.92	21.00	16.60
March	308,796	4.80	18	13.8
April	299,389	6.73	23	15.48
May	203,526	4.12	24.5	19.49
June	307,883	7.24	24.54	20.7
July	512,318	12.26	26.5	22.52
August	316,100	7.52	24	22.25
September	630,326	17.50	30	23.61
October	571,764	18.38	34.2	27.5
November	460,121	15.64	34.49	30.55
December	455,774	13.28	34.3	27.85
<b>2004</b>				
January	460,709	14.78	32.87	28.23
February	467,377	15.84	36.40	32.27
March	472,194	16.65	37.50	31.26
April	327,303	11.04	36.40	32.45
May	287,753	8.99	34.50	30.21
June	537,037	18.29	34.90	30.59
July	251,534	8.41	34.11	32.15
August	177,745	6.16	35.44	32.50

Source: Bloomberg.

(1) Based on the monthly average share price.

(2) Based on monthly intra-day highs and lows.

## **Shares giving access to the share capital**

The options still to be exercised at September 14, 2004, after taking into account cancellations, entitle their holders to acquire a total number of 667,333 shares, each with a nominal value of €2. Aside from subscription options, there are no other securities giving access to Carbone Lorraine's share capital.

## **Ownership and change in the ownership of the share capital**

At September 14, 2004, the Company's share capital is €22,404,780, divided into 11,202,390 shares each with a nominal value of €2.

The number of voting rights stood at 11,189,699, since treasury shares do not carry voting rights. There are no double voting rights.



## Share subscription options

Details of the share subscription plans											
	1995 plan Tranche 1	1996 plan Tranche 2	1997 plan Tranche 3	1998 plan Tranche 4	1999 plan Tranche 5	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2002 plan Tranche 9	2003 plan Tranche 10	TOTAL
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	Jan. 15, 1998	March 8, 1999	May 10, 2000	Sept. 15, 2000	Jan. 18, 2001	May 21, 2002	May 14, 2003	
Number of shares available for subscription	129,375	69,750	134,375	20,000	182,500	431,400	9,000	4,500	125,000	124,999	1,230,899
Start of exercise period	Jan-98	Jul-98	Jun-02	Jan-03	Mar-04	Mar-05	Sep-05	Jan-06	May-06	May-07	
Expiration date	Jun-05	Jun-06	Jun-07	Jan-08	Mar-09	Mar-10	Sep-10	Jan-11	May-12	May-13	
Subscription price	17.26	22.29	37.86	53.78	36.00	47.00	47.90	50.50	37.65	22.08	
Number of shares subscribed at Sept. 6, 2004	62,500	12,000									74,500
Options cancelled	7,500		2,500	15,000	22,500	265,900	6,000	3,000	125,000	41,666	489,066
<b>Options that may still be exercised</b>	59,375	57,750	131,875	5,000	160,000	165,500	3,000	1,500	-	83,333	667,333

*For the plans starting in 2000 or later, the right to exercise options granted has been made contingent upon the attainment of targets based on net income per share before non-recurring items.*

*265,900 options were cancelled in 2002 and partially replaced by the 2002 plan.*

## 4. RISK MANAGEMENT

### Litigation

The appeal procedure brought in February 2004 by Carbone Lorraine in the Court of First Instance of the European Community against the fine of €43.05 million awarded by the European Commission in December 2003 for brushes for electric motor and products for mechanical applications is still in progress. In this appellate procedure, Carbone Lorraine made no payment of the fine against the issuance of a bank guarantee.

In July 2004, the settlement agreement signed by Carbone Lorraine Of America Industries Corp (COAIC) regarding class actions brought in 2000 by certain customers in the US in graphite activities was definitively approved by the US court. Pursuant to this settlement agreement, COAIC agreed to pay as final settlement an indemnity of USD4,100,000. This indemnity ends all class actions brought in the graphite activities.

In August 2004, class actions brought in 2002 by certain customers in the field of brushes for electric motors in the US against COAIC were settled in general terms. This settlement agreement covers almost all the class actions brought against COAIC.

Based on the information available, the requisite provisions have been set aside for all the identified litigation in progress.

No other risk factor of any nature whatsoever has been identified that would have had or would be likely to have a material adverse effect on the Group's financial position, business activities or earnings.

There are no exceptional factors or disputes with a high probability of occurrence likely to have a material adverse effect on the earnings, financial position, assets or business activities of the Company or the Groupe Carbone Lorraine.

## 5. CORPORATE GOVERNANCE

### ***Compensation and benefits to officers in 2003***

The total amount of €611,497 which was paid to the officers and directors in 2003 breaks down as follows :

- €441,864 to the Chairman and Chief Executive Officer (including €15,315 in director's fees),
- €84,948.42 to Mr. Chauprade (director) in professional fees for a consulting and support assignment at the Electrical Protection Division. and
- €84,685 to the seven directors in directors' fees which were paid as follows :
  - o €15,315 to Mr. Jean-Paul Bernardini,
  - o €11,712 to Mr. Jean-Pierre Capron,
  - o €17,117 to Mr. Robert Chauprade,
  - o €10,811 to Mr. Hervé Couffin,
  - o €7,207 to Mr. Jean-Paul Jacamon,
  - o €9,910 to Mr. Jean-Claude Karpeles,
  - o €12,613 to Mr. Walter Pizzaferrì.

## 6. RECENT TREND AND OUTLOOK

### 6.1 Recent trend

**On July 22, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE POSTS SALES GROWTH OF 4% DURING THE SECOND QUARTER

Carbone Lorraine recorded significant sales growth during the second quarter of 2004. Its sales came to €161 million, up 4% on a like-for-like basis compared with the second quarter of 2003.

As a result, the Group posted consolidated sales of €318 million in the first half of 2004, up 2% on a like-for-like basis compared with 2003. This sales growth was achieved in spite of an unfavourable base of comparison since the first half of 2003 was boosted by substantial deliveries of anti-corrosion equipment, which, this year, are due to take place in the second half of the year. First-half sales showed a 1% decline on a reported basis owing to the impact of currency fluctuations.

Commenting on these figures, Claude Coccozza, Carbone Lorraine's Chairman and Chief Executive Officer, said: "*The first six months of 2004 brought a genuine upswing for Carbone Lorraine, which gained pace during the second quarter of 2004. On the strength of this performance, we are reiterating our target of an improvement in earnings during 2004, with an operating margin target of over 8%.*"

2004 sales (€m) *		H1 2004	% change vs. H1 2003**	Q2 2004	% change vs. Q2 2003**
Electrical Components	Electrical Applications	97	+3%	49	+4%
	Magnets	40	-5%	20	-3%
	Electrical Protection	84	+4%	44	+8%
Advanced Materials and Technologies		97	+2%	48	+2%
Group total		318	+2%	161	+4%

(\*) Unaudited data

(\*\*) On a like-for-like basis

#### *Electrical Components*

Electrical Applications: the pace of growth moved up a gear during the second quarter, with sales up 4% compared with the second quarter of 2003. The acceleration was tangible in brushes for both industrial motors and for small electric motors. Divisional sales came to €97 million during the first six months of 2004, up 3% compared with last year.

Magnets: sales declined by 3% during the second quarter compared with the year-earlier period, while first-half sales totalled €40 million. The decline of 5% compared with the first six months of 2003 was attributable mainly to streamlining of the product portfolio and a sharp focus on automated production in Europe.

Electrical Protection: sales growth gained pace during the second quarter when it reached 8% compared with the year-earlier period. Divisional sales totalled €84 million in the first half, up 4% compared with 2003. The blip in European sales was caused by restructuring measures implemented in late 2003 and early 2004. The division enjoyed a strong recovery in North America and posted very strong sales growth in Asia.

#### *Advanced Materials and Technologies*

Growth in High Temperature Applications of graphite gained momentum, reaching 16% during the second quarter. The pace of divisional sales growth was temporarily held back by an unfavourable base of comparison and stood at 2% on a like-for-like basis.

Overall, first-half sales in the Advanced Materials and Technologies division came to €97 million, up 2% compared with 2003. Growth reached 7% overall in High Temperature Applications of graphite and braking. In the Anti-corrosion Equipment segment, the strong growth in new orders should help to offset the decline seen during the first six months by the end of the year. New orders for anti-corrosion equipment were up by almost 40% at constant exchange rates and were recorded across all the Group's regions. These will pave the way for strong sales during the second half of the year as well as in early 2005.

#### **On July 20, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE VOTED SUPPLIER OF THE YEAR BY OCP, THE WORLD LEADER IN PHOSPHATE

Carbone Lorraine has received a Supplier of the Year award for 2003 from Office Chérifien des Phosphates (OCP) in Casablanca. Carbone Lorraine has worked with OCP for the past ten years and has established itself as the leading supplier of innovative and high-performance anti-corrosion equipment in the phosphoric acid segment.

#### *Recognized expertise in anti-corrosion equipment*

Carbone Lorraine is the world leader in equipment for handling hot and corrosive chemicals. It is the only manufacturer that can supply its customers with solutions based on the

performance of graphite or of reactive metals (tantalum, titanium...) depending on the chemical process used.

The anti-corrosive heat exchangers designed and manufactured by Carbone Lorraine for the production of phosphoric acid are made of graphite. They were developed to last longer in a highly corrosive environment, enabling customers to change them less frequently and thus to reduce costly maintenance shutdowns. The worldwide market for anti-corrosive equipment for phosphoric acid is worth around €50 million p.a.

*"We are proud of this award from a world-class group with which we have worked for over 10 years and whose quality, safety and environmental concerns we share"* commented Ernest Totino, Head of Carbone Lorraine's anti-corrosion equipment business.

*OCP is the world leader in the phosphates markets*

The OCP group, Morocco's largest company, is the world leader in the market for phosphates and derivative products. It is also the world's number one phosphates exporter, with market share of 28%.

The end applications of phosphates and derivative products, which are enjoying significant growth, include markets such as agrochemicals, fertilizer manufacturing and the food industry, particularly in sodas. »

#### **On July 6, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE RECEIVES AN AWARD FROM A LEADING SEMICONDUCTOR GROUP

Carbone Lorraine has been voted in the USA "2003 Supplier of the Year" by Sumco, a Japanese manufacturer that is one of the world's leading producers of semiconductors.

Sumco, formed from the merger between Sumitomo and Mitsubishi, specialises in the production of monocrystal silicon and silicon wafers used to manufacture semiconductors. During these processes carried out at very high temperatures, various purified graphite elements perform heating, thermal insulation and support functions.

Carbone Lorraine has demonstrated its ability to develop effective graphite solutions rapidly and to deliver efficient services in this fast-growing market where customer demands are high and where technological advances are constantly targeted.

*"We are proud to have won this award, which represents recognition for our efforts and encouragement for us to do everything we can to satisfy our customers"* commented Claude Coccozza, Carbone Lorraine's Chairman and Chief Executive Officer. *"The trust placed in us by our customers is enabling us to keep growing our business at a brisk pace and to win market share in a highly responsive and fast-moving sector."*

This award caps an excellent year for Carbone Lorraine in this sector during 2003 when growth reached close to 20%. 2004 is shaping up to be at least as good in graphite solutions for semiconductors, either silicon-based or based on other materials, the latter being needed to produce light-emitting diodes, a market expanding by over 40% p.a.

The award will be presented in a ceremony to be held in July 2004 at the Carbone Lorraine facility in Midland (Michigan), which specialises in the design and manufacture of advanced technology graphite solutions for the semiconductor industry. »

#### **On July 1, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE APPOINTS ERIC BONNEM AS VICE PRESIDENT OF INVESTOR RELATIONS

Carbone Lorraine has announced the appointment of Eric Bonnem as Vice President of Investor Relations.

Eric Bonnem will be responsible for financial communications. In this new role, he will manage and develop relationships with investors, shareholders and analysts. He will report

to Jean-Claude Suquet, Carbone Lorraine's Group Vice President, Finance and Administration.

Eric Bonnem is replacing Anne Mills, who is taking charge of Carbone Lorraine's internal communications.

#### *Brief biography*

Eric Bonnem, 36, graduated from the ESCP-EAP school and started his career in 1995 at Stratorg, a strategic consulting firm. He joined Carbone Lorraine's finance department in 1999 as Head of Strategic Studies. Since 2001, he has also been in charge of Strategic Planning and Controlling.

A photo is available upon request."

#### **On May 25, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE WINS NEW CONTRACTS IN ASIA

In line with its development strategy in Asia, Carbone Lorraine has won several anti-corrosion equipment contracts in Asia. These contracts are worth a total of 10€ million. The delivery will spread over the second half of 2004 and the first half of 2005.

Firstly, the Group will supply a Chinese customer with a reactor and two columns in zirconium to be used in manufacturing acetic acid for the plastics industry. A key factor influencing the customer's decision was Carbone Lorraine's new plant in Oxnard (California), which is the most advanced facility of its type in terms of state of art and size of the equipments it can manufacture. Several orders of the same type are anticipated over the next few months, also for China.

Carbone Lorraine's ability to offer its customers reduced lead times and to meet them by allocating production to several different sites operating simultaneously has also enabled it to win a contract for six Poly tubes® for delivery to a customer in Taiwan. These graphite-tube heat exchangers will be used to process sulfuric acid in the production of viscose, a basic material used in the textiles industry. It is worth to note that this order represents the renewal of previous contracts with the same customer, with which the Group has now been working for about 15 years.

Commenting on these new contracts, Claude Coccozza, Carbone Lorraine's Chairman and Chief Executive Officer said "*Carbone Lorraine is proud of the trust of its customers -for decades in certain cases. It encourages us to develop our customer satisfaction policy even further.*" He added "*These contracts also bear testimony to the Group's excellent positions in the anti-corrosion equipment segment in Asia, a region poised for very strong expansion. This success has been founded on our manufacturing presence in the region, a strategy that we are currently replicating in all our business activities.*»

#### **On May 12, 2004 the Company circulated the following press release:**

« FIRST-QUARTER 2004 SALES: €157 MILLION

During the first quarter of 2004, Carbone Lorraine posted consolidated sales of €157 million, which represented a stable performance on a like-for-like basis compared with the first quarter of 2003.

Commenting on these figures, Claude Coccozza, Carbone Lorraine's Chairman and Chief Executive Officer, said: "*During the presentation of our 2003 results, I indicated that we anticipated a small contraction in our first-quarter sales. The stable performance we have achieved is thus good news confirming the gradual improvement in economic conditions. With the smooth progress of our savings plan, we should be able to improve our operating margin by at least two points during 2004, in line with our forecasts.*"

First-quarter 2004 sales		€ m	% chg.* vs. Q1 2003
Electrical Components	Electrical Applications	48	+2%
	Magnets	19	-8%
	Electrical Protection	41	0%
Advanced Materials and Technologies		49	+2%
Group total		157	0%

(\*) on a like-for-like basis

#### *Electrical Components*

Electrical Applications sales rose by 2% compared with the first quarter of 2003 to €48 million, with major gains in brush/brush-holder assemblies for the automobile industry. Sales of brushes for industrial motors remained stable.

The Magnets division continued its drive to streamline its product portfolio in Europe, favoring margin improvement over volumes, which fell by 8% to €19 million. Implementation of the workforce reduction plan is continuing on schedule, which will pave the way for an improvement in earnings from the first half of 2004.

Electrical Protection sales remained stable compared with the first quarter of 2003 at €41 million. They rose very sharply in North America and Asia, but declined in Europe owing to economic conditions and the disruption caused by restructuring measures in progress.

#### *Advanced Materials and Technologies*

Sales in Advanced Materials and Technologies came to €49 million, up 2% compared with the first quarter of 2003. This growth was driven by very strong performance in high-temperature applications and braking, which posted an overall increase of 9%, especially in electronics and rail braking. Anticorrosion equipment, which was affected by an unfavorable base of comparison effect related to the major deliveries recorded in the first quarter of 2003, posted a 15% increase in new orders compared with last year, which will have a positive impact on its sales from the second half of the year onwards. »

#### **On April 27, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE, A PARTNER WITH NASA

Through its Ferraz Shawmut subsidiary, which specializes in the design and sale of industrial fuses, Carbone Lorraine recently signed a contract worth around USD 600,000 with NASA to design and build medium voltage DC switches for NASA Ames Research Center in Moffett Field, California.

These unique switches are part of a major drive to modernize Ames Center research facilities. The switches will be used in the Arc Jet Research Laboratory, which tests spacecraft's heat resistant materials.

Carbone Lorraine, which had already supplied NASA with high-voltage fuses and medium voltage switches, intends to develop new equipment for space exploration programs in the NASA Ames Research Center. Last year NASA successfully tested the first Ferraz Shawmut rectifier bridge, and approved this design for the entire 20 MW DC Arc Jet Laboratory power supply.

Carbone Lorraine's contribution to space exploration also includes the presence of brushes on the two Mars rovers currently exploring the Red planet. To withstand the extreme conditions, these brushes were specially designed to operate in an atmosphere- and humidity-free environment. The Carbone Lorraine brushes were, for instance, "doped" with

a specific lubricant to enable the rovers to move reliably 40 meters per day in an absolute vacuum.

*« We are particularly proud of being involved in this fantastic adventure” said Claude Coccozza, Carbone Lorraine’s Chairman and Chief Executive Officer. “The fact that our products are now on Mars is a shining example of our ability to rise to the most demanding challenges. »*

These developments underline Carbone Lorraine’s ability to offer its customers advanced technology solutions, even in extremely exacting environments. »

**On March 30, 2004 the Company circulated the following press release:**

« CARBONE LORRAINE IS THE EXCLUSIVE SUPPLIER OF BRAKE LININGS FOR THE SOUTH KOREAN TGV HIGH-SPEED TRAIN PROJECT  
ASIA IS CARBONE LORRAINE’S NUMBER ONE GROWTH MARKET

Ahead of the inauguration of the first TGV in South Korea, Carbone Lorraine is proud to reiterate that it is the exclusive supplier of brake linings for the 46 units of this new high-speed train.

The Group works with Alstom, which supplies the TGV units, and provided original equipment for the construction stage in South Korea. It will also supply replacement brake linings for a two-year period.

At the outset, 40 TGV units will be in service, each carrying almost 1,000 passengers on board. Further ahead, up to 100 TGV units will be used during peak periods.

Carbone Lorraine has been working on this project since 1993 in close partnership with Alstom. The technical specifications are highly demanding because of the country’s geographical constraints and because of the number of stops, which mean that trains have to brake frequently. As a result, the replacement market will be a substantial one—potentially one third the size of the French market in the future.

Carbone Lorraine also supplies brake linings for TGVs in France and Spain, as well as for the Eurostar and Thalys trains. These references certainly helped to influence Alstom’s choice for the South Korean project, as did the technical quality and competitiveness of Carbone Lorraine’s products, which are bolstered by its ability to innovate. Its solid presence in South Korea was also a key factor in that the end customer wanted to increase the local content and to take advantage of its local facilities, which make it an attractive option for replacement and maintenance orders.

The alliance between Alstom and Carbone Lorraine may be extended to China, since Alstom is bidding to supply the train units for the Peking to Shanghai high-speed link.

*Carbone Lorraine’s expansion in Asia*

The proportion of Carbone Lorraine’s sales deriving from Asia is growing rapidly. Its sales in the region increased by close to 25% during 2003, and the region contributed 12% of its total sales.

Carbone Lorraine is currently building up its manufacturing presence in China to cater more effectively to the booming Chinese market and to step up its penetration of other Asian markets. By the end of 2004, Carbone Lorraine will have seven workshops in China, four in India and two in South Korea. Its goal is to double the percentage of sales deriving from Asia over the next five years. »

**On March 23, 2004 the Company circulated the following press release:**

« 2003 RESULTS

- STRONG RESILIENCE AT OPERATING LEVEL - NET LOSS ATTRIBUTABLE TO NON-RECURRING CHARGES
- MAJOR REDUCTION IN DEBT - NEW PERIOD OF MARGIN IMPROVEMENT STARTING IN 2004

Carbone Lorraine's Board of Directors met on March 16, 2004 to approve the accounts for fiscal 2003.

Commenting on the Group's results for fiscal 2003, Claude Coccozza, Carbone Lorraine's Chairman and Chief Executive Officer said:

*"In persistently depressed business conditions, Carbone Lorraine delivered further proof of its strong resilience at operating level during 2003. Its net loss was attributable entirely to provisions covering the fine meted out by the European Commission and to an impairment charge related to the Magnets division. As a result of these decisions, we have now put these two issues behind us.*

*2004 will mark the beginning of a new period of earnings growth for Carbone Lorraine. We forecast improvement in the Group's margins this year, even if business conditions remain the same. And if the economic recovery does occur, our earnings growth will be even stronger."*

#### *Condensed income statement*

<i>(€ m)</i>	2002	2003
Sales	721	629
Operating income	59.6	39.3
Operating margin (%)	8.3%	6.2%
Net income before non-recurring items <i>(Group share)</i>	32.2	22.3
Net non recurring items	(36.9)	(54.8)
Net income/(loss) <i>(Group share)</i>	(10.8)	(38.2)

#### *Consolidated sales: €629 million*

Primarily as a result of a volume contraction, 2003 sales showed a decline of 7% on a like-for-like basis compared with the previous year. Excluding Magnets and Anti-corrosion equipment, which benefited from special conditions in 2002, the decline in sales came to just 3%.

#### *Operating income: €39 million*

Carbone Lorraine's operating income held up well in spite of the volume contraction owing to the successful implementation of the savings plan. The plan produced a complementary contribution of €12 million to the operating income, a total figure higher than expected. As a result, the operating margin contracted by just two percentage points to 6.2% even though sales fell by 7 points.

#### *Net non-recurring items: €55 million*

Non-recurring items were high and showed a net charge of €55 million, but these charges will enable the Group to start 2004 with a clean slate and in good shape. The principal non-recurring items were as follows:

- a provision for anti-trust litigation of €25 million covering the full amount of the European Commission's fine, which the Group is vigorously contesting;
- an impairment loss of €17 million recognized on the Magnets division;
- €19 million in restructuring charges related to implementation of the savings plan;
- €7 million in capital gains on asset disposals.

#### *Net loss: €38 million*

Net income before non-recurring items came to €22 million. Owing to the heavy non-recurring charges, the Group posted a net loss of €38 million.

#### *Dividend*

To avoid drawing on reserves, the Board of Directors will not propose payment of a dividend to the General Meeting of the Shareholders in respect of 2003. The Group intends to resume dividend payments from next year.



*Net debt: down 23%*

Strong cash generation coupled with currency fluctuations contributed to the 23% reduction in net debt to €183 million at December 31, 2003 from €236 million at year-end 2002.

*Outlook*

A new period of earnings growth is set to start for the Group in 2004, even if economic conditions remain on a par with those prevailing last year. This earnings growth will be driven by the full benefits of the savings plan that has been implemented since 2002.

The pace of earnings growth will be even stronger if the first signs of an economic recovery turn into a full-fledged upswing. »

## **6.2 Outlook**

This information is to be found in the Company's report on consolidated half-year financial statements.