GROUPE CARBONE LORRAINE

2004 Half-Year Report

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Board of Directors

Chairman and Chief Executive Officer

Claude Cocozza

Administrators

Jean-Pierre Capron

Robert Chauprade

Hervé Couffin

Jean-Paul Jacamon

Jean-Claude Karpeles

Lise Nobre

Walter Pizzaferri

Statutory Auditors

KPMG Audit

Deloitte Touche Tohmatsu

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.

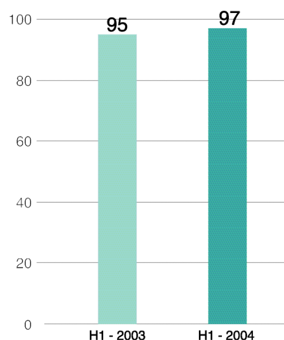
Electrical Applications and Advanced Materials and Technologies kept their profitability at a high level. The faster-than-expected reorganization in Magnets makes up for the Electrical Protection lagging a few months behind schedule. The steep reorganization which the Electrical Protection went through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

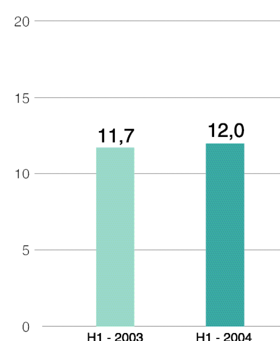
I firmly believe that exciting times lie ahead for our management and staff in the near future, as they will be spurred on by the enthusiasm of building the Group into a stronger force. Shareholders are also set to reap the rewards of our strategy of profitable growth through gains in the share price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

Claude Cocozza
Chairman and Chief Executive Officer

Electrical Applications



Sales (€m)



*Operating margin (%)**

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.

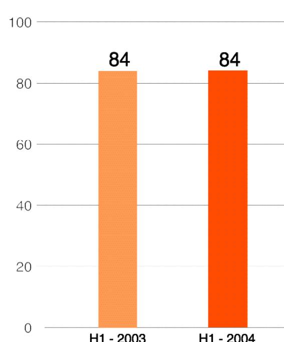
Our sales of brushes and brush-holders for industrial and traction motors remained broadly stable in Europe and North America. Divisional sales posted strong gains in the leading mining countries, especially Australia and SouthAfrica, as well as in rail current collection.

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.

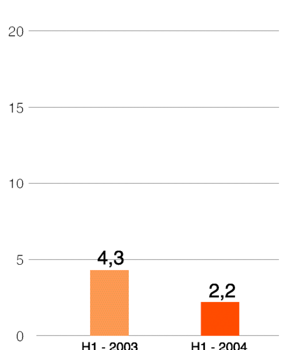
Against a backdrop of relatively sluggish industrial markets but strong growth in sales for automobile applications, the operating margin picked up slightly, rising from 11.7% to 12%.

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



Sales (€m)



*Operating margin (%)**

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

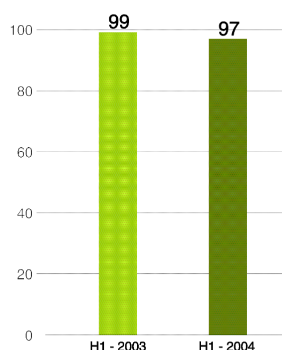
The extent of the restructuring measures in Europe delayed deliveries, dragging down the division's first-half sales performance. The Saint-Bonnet-de-Mûre plant (France) integrated the activities of the La Verpillière facility in 2002, followed by production previously handled by our two German sites (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.

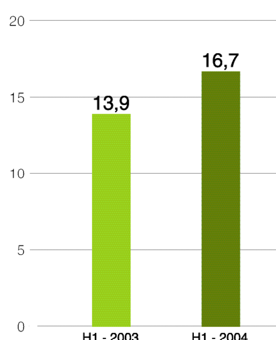
Sales posted even stronger gains in Asia (Japan, China and India), led by rise in semiconductor protection fuses and bogie protection equipment, a segment in which the division holds strong positions.

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



Sales (€m)



Operating margin (%)*

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.

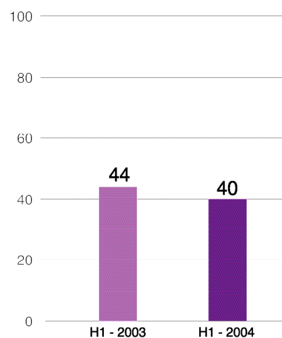
Sales of anti-corrosion equipment dipped primarily because of changes in the timing of sales compared with the previous year. Significant business volumes were invoiced during the first half of 2003, particularly in Asia, whereas the largest billings this year are expected to come in the second half. 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.

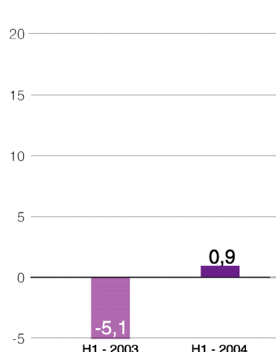
Our high-energy braking business posted further growth in rail and motorcycle applications, but experienced a slight decline in its sales on a like-for-like basis, again owing to an unfavorable base of comparison. The high sales of brake pads for the South KoreanTGV project recorded during the first 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



Sales (€m)



Operating margin (%)*

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.

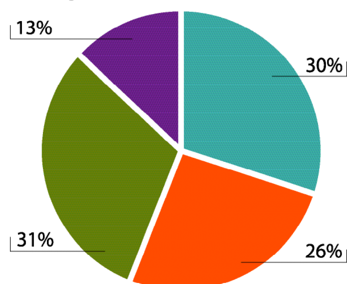
Flux package sales posted a sharp increase in Europe, as new customers were won over by the benefits of this product concept and by our expertise.

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.

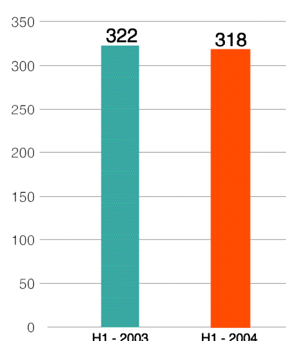
Operating margin : Operating income/sales, before allocation of corporate overheads

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

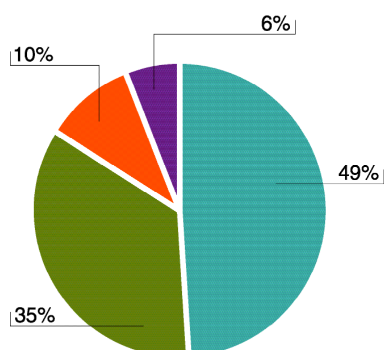
Results and outlook



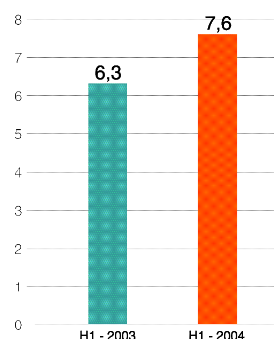
Breakdown of H1 2004 net sales by business activity



Consolidated sales (€m)



Breakdown of H1 2004 net sales by geographical market



Operating margin (%)

Results

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.

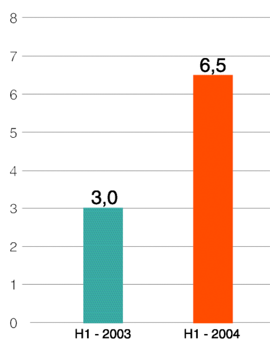
Net financial expense was almost unchanged, with the increase in net debt being offset by lower borrowing costs.

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.

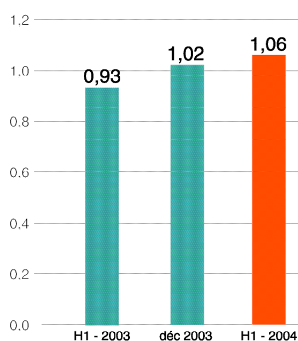
Non-recurring items after tax (€4.5 million) derived primarily from restructuring charges linked to the savings plan, especially those achieved through the production overhaul of the Electrical Protection division.

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



Net income, Group share (€m)



Gearing

(€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 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.

Condensed consolidated financial statements

CONSOLIDATED ASSETS

In millions of euros

	June 30, 2004	Dec. 31, 2003	June 30, 2003
ASSETS			
FIXED ASSETS			
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
TOTAL FIXED ASSETS	**330.8**	**335.1**	**377.6**
CURRENTASSETS			
– 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
TOTAL CURRENT ASSETS	**315.6**	**299.0**	**329.4**
TOTAL ASSETS	**646.4**	**634.1**	**707.0**

	June 30, 2004	Dec. 31, 2003	June 30, 2003
LIABILITIES AND SHARE HOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
– 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)
TOTAL	**185.8**	**174.2**	**227.5**
– Minority interests	5.4	5.4	7.7
SHAREHOLDERS' EQUITYAND MIN. INTERESTS	191.2	179.6	235.3
– Long-term provisions	32.2	31.4	36.2
LIABILITIES			
– 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
TOTAL LIABILITIES AND PROVISIONS	**455.2**	**454.5**	**471.8**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**646.4**	**634.1**	**707.0**

CONSOLIDATED INCOME STATEMENT - GROUPE CARBONE LORRAINE

In millions of euros

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

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros

	June 30, 2004	Dec. 31, 2003	June 30, 2003
CASH FLOW	**26.3**	**45.9**	**24.9**
Change in the working capital requirement	(8.5)	31.4	2.1
Other changes	(1.4)	(4.4)	(3.0)
(A) Net cash flow generated by operating activities	**16.4**	**72.9**	**24.0**
INVESTING ACTIVITIES			
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) Net cash used in investing activities	**(10.8)**	**(23.8)**	**(14.5)**
(C) 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)
(C) Net cash flow generated by operating and investing activities	**(11.7)**	**42.0**	**6.1**
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
(D) Net cash flow	**(15.0)**	**43.0**	**11.0**
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)
(E) Net decrease in debt	**(15.9)**	**28.5**	**3.9**

Summary of the notes to the condensed consolidated financial statements

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 paidin in capital, réserves	Net income	Cumulative translation on adjustment	Total
Shareholders' equity at Dec. 31, 2002	**11 139 150**	**22.3**	**239.9**	**(10.8)**	**(9.5)**	**241.9**
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)
Shareholders' equity at June 30, 2003	**11 139 150**	**22.3**	**223.1**	**3.0**	**(20.8)**	**227.5**
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)
Shareholders' equity at Dec. 31, 2003	**11 197 890**	**22.4**	**220.3**	**(38.2)**	**(30.3)**	**174.2**
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
Shareholders' equity at June 30, 2004	**11 199 890**	**22.4**	**182.1**	**6.5**	**(25.2)**	**185.8**

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
Intangible assets	**182.2**	**179.6**	**196.1**
Property, plant and equipment	**123.9**	**128.1**	**157.8**
Financial assets	**24.7**	**27.4**	**23.7**
Total fixed assets	**330.8**	**335.1**	**377,6**

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		Dec. 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
Total	**32.2**	**62.2**	**31.4**	**69.7**	**36.2**	**42.7**

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
Total gross debt	**225.5**	**210.8**	**242.4**
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)
Total net debt	**202.1**	**182.6**	**218.5**

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
Net debt at end of prior period	182.6	236.2	236.2
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)
Net debt at end period	**202,1**	**182,6**	**218,5**

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)
Total non-recurring items	**(4.5)**	**(54.8)**	**(5.7)**

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
Total	**318**	**100**	**629**	**100**	**322**	**100**

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
Advanced Materials and Technologies	16.3	16.7	29.4	14.8	13.8	13.9
Corporate overheads	(5.7)	(1.8)	(11.7)	(1.8)	(6.0)	(1.8)
Total	**24.3**	**7.6**	**39.3**	**6.2**	**20.3**	**6.3**

* 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.

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.

Investor Relations
2-3, place des Vosges
92400 Paris La Défense
Tel. : +33 (0)1 46 91 54 48
Fax : +33 (0)1 46 91 54 07
finance@carbonelorraine.com
www.carbonelorraine.com