Groupe Carbone Lorraine
2002 Annual Report

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>Group profile

For more than a century, Carbone Lorraine has specialised in two main areas:

- electrical components for industrial electric and electronic equipment;
- specific applications of graphite and other advanced materials.

Its customers are primarily high-tech companies operating in the aerospace, automobile, electronics, electrical construction, chemicals, railway and processing industries. Well-established worldwide, the Group holds world-class positions in all its main markets.

Number one worldwide

Flux packages for electric motors

Anti-corrosion equipment

Number two worldwide

Brushes and brush-holders for electric motors

High-temperature applications of graphite

Industrial fuses

Number three worldwide

Magnets for automobile applications

Key indicators for 2002

Sales of €721 million

7,000 employees

A diversified shareholding

A worldwide presence on five continents and about 40 countries

All information contained herein regarding the Group's world ranking in its businesses as well as the Group's competitors are Carbone Lorraine's estimates.

>Interview with the Chairman

Following a lacklustre 2001, the predicted economic recovery failed to materialise during 2002. What impact did these conditions have on Carbone Lorraine?

Claude Cocozza: During the first half of 2002, Carbone Lorraine's sales performance was in line with our forecasts, i.e. broadly stable compared with the second half of 2001. Conversely, the recovery predicted by economists for the second half of the year failed to materialise, and our sales continued to contract. In this more depressed than expected environment, the Group showed good resilience and managed to keep its margins at a decent level, thereby illustrating the effectiveness of our strategy of profitable growth.

We seized the opportunity during 2002 to implement structural reforms aimed at boosting our profitability. They will enable us to keep on extending our competitivity by continuing our meticulous efforts of recent years to keep a tight grip on our cost base and our manufacturing processes, to improve our quality standards, to innovate and to forge close relationships with our customers.

Aside from this strategy, what specific measures have you taken to increase the Group's resilience?

C. C.: The emphasis we placed on our cost savings plan and on cash management sums up our approach during 2002. The cost savings plan, which was launched at the start of the year, targets annual savings of €20 million p.a. by 2004. The results achieved so far have lived up to our expectations, both in terms of timing and savings unlocked. We have reduced our overheads, pooled certain activities at more efficient sites and outsourced certain manufacturing processes.

At the same time, we have sought to promote cash generation throughout the Group, as this has become a key aspect of our strategy. Our target is to generate net cash flow from operating and investing activities of €50 million p.a. Consequently, we need to train our managers to achieve this goal. Operational managers now have to take into account our objective of continuously maximising the Group's cash generation in their daily business decisions. Carbone Lorraine, which has always been a profit-driven organisation, is thus making cash generation another of its strategic priorities.

Carbone Lorraine claims to be ready to capitalise on an economic recovery. But what are your priorities in the meantime?

C. C.: We are continuing to pursue our strategy of profitable growth, which means continuing to run a very tight ship in the short term, while investing for the medium and long term. As part of the savings plan, we will focus our efforts during 2003 on Magnets, which are suffering from the effects of heavy pricing pressures, and on Electrical Protection, where we are making fresh progress.

We will also continue to focus on cash generation, which is notably helping to finance our growth workshops. These encompass commercial expansion, as well as product innovation in each of our business segments. Our past efforts in these areas have made us more resilient to the tough conditions currently prevailing. Likewise, our current efforts and those that we will make in the future will enable us to capitalise to the full on the recovery once it arrives.

The concept of sustainable development is finding increasing favour in the corporate world. What is Carbone Lorraine doing in these areas?

C. C.: Carbone Lorraine has for a very long time adopted a responsible attitude in social and environmental matters. This is firmly entrenched in our corporate culture, and there is no difference in the way we treat our various units. We do exactly the same in Mexico and Asia as we do in Europe, in full compliance with local regulations. For instance, our safety standards affect all our employees in the same way. As far as the environment is concerned, a large number of our products directly help to promote sustainable development. This notably applies to our brakes for the environmentally-friendly transportation of trucks on wagons, as well as our brushes and brush-holders for wind power generators, which tap into a renewable source of energy.
Our commitment in this area is also reflected by our target of achieving ISO 14001 certification for all the Group's strategic sites within three years.

Ethical business practices figure among your corporate values, and yet the Group recently landed a fine for anti-competitive practices. What do you have to say on this matter?

C.C.: The fine levied by the European authorities that you are referring to is the result of a procedure that was initiated in the US during 1999 and settled in 2000. One final extension to this procedure is currently in progress in Europe. Since 1999, we have taken extremely bold measures to ensure that we comply with the regulations in force. Our compliance programme is one of the most extensive in the industry and includes training for a very large number of managers, as well as written undertakings by senior executives and external audits. We are thus drawing a line under the consequences of practices that we have no longer engaged in since 1999.

What makes you so confident about the future?

C.C.: The first factor—and the most important as far as I am concerned—is the motivation of our employees. Whenever I visit Carbone Lorraine's various units, I come across dynamic teams, who believe in their ability to succeed and are fully committed to their projects. Secondly, we will continue to reap the rewards of the streamlining measures that we took in 2002 and will continue to implement during 2003, as well as benefiting from the growth workshops in all our businesses. In addition, we are seeing the first signs of recovery in certain markets, especially in the electronics sector. Lastly, our high-energy braking business is continuing to expand at a very rapid clip.

Based on these factors, I am currently looking to the future with optimism.

>Key figures

Condensed income statement

€ m	1998	1999	2000	2001	2002
Sales	627.7	690.3	876.1	803.7	720.9
Operating income	69.3	68.1	101.4	76.0	59.6
Net financial income/(expense)	(8.9)	(13.5)	(30.1)	(24.6)	(14.1)
Income before tax and non-recurring items	60.4	54.6	71.3	51.4	45.5
Net income before non-recurring items, Group share	39.8	36.1	47.9	34.5	32.2
Net income, Group share	46.3	16.3	41.2	(8.1)	(10.8)

Condensed balance sheet

€ m Assets	1998	1999	2000	2001	2002
Intangible fixed assets	140.7	236.5	241.7	246.3	208.8
Property, plant and equipment	140.8	183.8	192.3	192.8	166.9
Financial assets	30.8	40.5	34.7	37.0	30.9
Current assets and cash	296.6	376.2	393.4	396.9	338.8
Total assets	**608.9**	**837.0**	**862.1**	**873.0**	**745.4**
Liabilities					
Shareholders' equity	248.9	270.8	313.6	295.3	246.3
Long-term provisions	26.5	36.7	39.4	41.2	35.5
Long-term debt	193.0	352.9	332.5	338.6	266.3
Other liabilities and short-term provisions	140.5	176.6	176.6	197.9	197.3
Total liabilities and shareholders' equity	**608.9**	**837.0**	**862.1**	**873.0**	**745.4**

Net cash flow generated by operating and investing activities

€ m	1998	1999	2000	2001	2002
	31.2	37.3	23.8	28.3	56.2

The Group's strong cash generation was attributable to the fall in the working capital requirement, particularly the substantial reduction in inventories, lower capital expenditure owing to economic conditions and the initial benefits of the cash management action plan.

Gearing

	1998	1999	2000	2001	2002
Net debt/shareholders' equity	0.64	1.19	0.96	1.07	0.96

The decline in gearing during 2002 was attributable to the Group's strong cash generation during the year, as well as the impact of the depreciation in the US dollar between year-end 2001 and year-end 2002 on the Group's debt.

Return on equity

In %	1998	1999	2000	2001	2002
Net income, Group share/shareholders' equity	19.1	6.2	13.3	(2.8)	(4.5)

The negative return on equity was attributable in 2001 and 2002 to the charges that pushed the Group's net income into negative territory.

ROCE

In %	1998	1999	2000	2001	2002
Operating income/capital employed (net fixed assets + WCR)	17.0	13.0	14.8	11.5	9.3

The deterioration in the economic environment depressed operating income, but the negative of this on ROCE was offset partially by a substantial improvement in the Group's working capital requirement and its tight grip on capital expenditure.

Analysis of sales by business segment

In %	
Electrical Applications	26
Permanent Magnets	15
Electrical Protection	27
Advanced Materials and Technologies	32

Analysis of sales by geographical region

In %	
Europe	50
North America	34
Asia	9
Rest of the world	7

Cash management

One of the key events of 2002 was the launch of a wide-ranging programme to raise managers' awareness of and train them in the techniques of cash management. This drive, which helps to ensure that cash is systematically taken into account in day-to-day decisions, is intended to maximise the Group's cash generation, which is a vital aspect of our organic and external growth strategy.

Initially, the Group's managers were consulted to decide which tools are best suited to each area. Guides were then published to help each manager implement this policy.

In concrete terms, the programme has led to the introduction of a system of daily cash forecasts for the following month. Each site manager knows at the start of the month how much cash will be required for the next 30 days. Each day, managers can track their actual cash position, which can be compared to budget so that the appropriate business decisions can be made.

Cash generation targets will be used to calculate the bonuses paid to all managers from 2003 onwards.
In addition, 2- and 3-month cash position forecasts are currently being introduced at all the Group's sites around the world.

Value creation

Value creation is tracked using two indicators, i.e. economic profit and return on capital employed.

Economic profit is calculated by deducting the cost of capital employed from operating income less normalised tax. Operating income is adjusted to give it a more economic and less accounting-oriented definition. The cost of capital employed takes into account the cost of debt and the returns required by shareholders. Economic profit is an internal management indicator that is notably used to calculate the variable portion of the remuneration paid to the managers of each business segment, which takes into account actual economic profit compared with the target set as part of the budgeting procedure.

Return on capital employed is operating income divided by capital employed. It is monitored on a Group-wide level as a value creation indicator. In 2002, the Group's capital employed came to 9.3%, compared with 11.5% in 2001. This decline was attributable to the deterioration in economic conditions, which led to a fall in operating income in spite of the productivity gains achieved.

>Carbone Lorraine and the stock market

Performance of Carbone Lorraine shares

Although they were caught up in the general downturn in the stock market, Carbone Lorraine shares fared slightly better overall than the leading French indices. They fell by 26%, compared with the 32% decline in the SBF 120 index.

Taking into account the poor worldwide economic conditions and political uncertainties, Carbone Lorraine shares held up relatively well during 2002 compared with other mid-cap industrial stocks and the Group's main rivals.

Shareholder relations

Carbone Lorraine's goal is to provide transparent information, which is also tailored to the needs of different types of shareholder, so that they all have the appropriate information for their investment decisions.

Every year, the Group organises three or four presentations for individual shareholders. In addition, the Group publishes two letters for shareholders updating them on the latest sales and earnings trends and providing insight into the Group's business activities. Lastly, the Group's Annual General Meeting in Paris is always a highlight of the calendar as far as relations with individual shareholders are concerned because they are able to meet the management team and ask open questions.

The Group's 2,000 employee shareholders are involved in the events that are organised for individual shareholders. They receive the Group's letters to shareholders. To improve their knowledge of the financial markets, the Group offers them free introductory courses about the stock market and displays the stock market performance of Carbone Lorraine shares at all its sites along with a commentary. Lastly, they receive an "Employee Investment Newsflash", which is intended to help them improve their knowledge of how the stock market works and how to maximise their savings.

For institutional investors, the Group organises regular information meetings when it publishes its sales and earnings figures. Management also meets institutional investors at roadshows in Europe and North America. At the end of December 2002, French institutional investors held 47% of the Group's share capital (with BNP Paribas owning a 21% interest), while institutional investors outside France held 26% of the share capital.

In addition, Carbone Lorraine's web site is a valuable source of in-depth information about the Group's business activities. It is regularly kept up to date with the latest press releases and documents published by the Group. It gives visitors access to stock market and financial data concerning Carbone Lorraine and allows them to produce customised stock market charts.

Carbone Lorraine received Second Prize at the *Fils d'Or* awards, which were organised by French investment weekly *La Vie Financière*. The prizes were awarded to companies with the best investor relations with individual shareholders based namely on the quality of their information and their responsiveness.

Carbone Lorraine was also nominated for the *Prix Cristal* award for financial transparency, which was organised by French investment weekly *Investir* under the aegis of the French National Association of Statutory Auditors. This nomination was the result of a selection process conducted by a panel comprising 15 or so personalities from the business and financial world based on an examination of all documents published by the Group.

Key dates in the 2002 financial communication calendar

Presentations for individual shareholders
March: Aix-en-Provence
October: Bordeaux
December: Paris

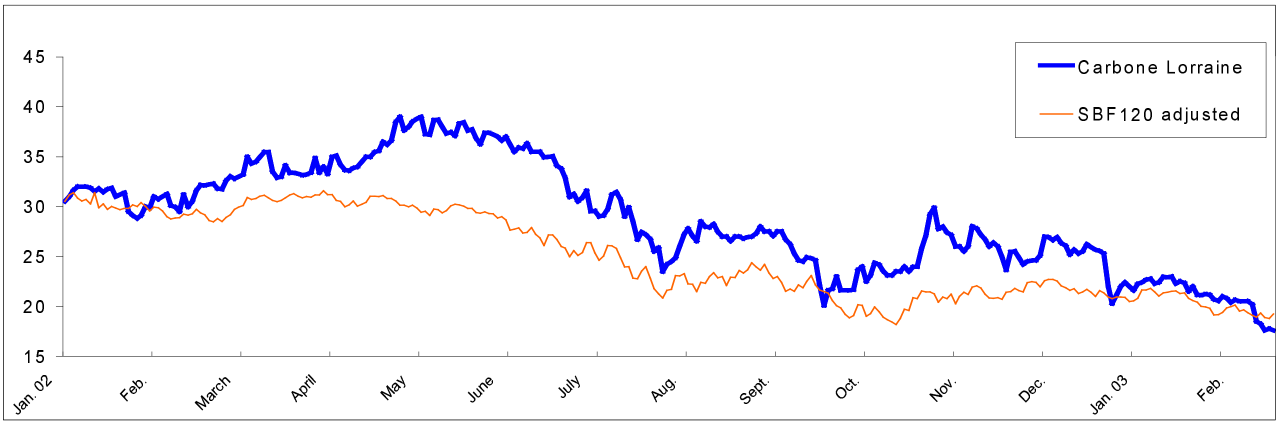
Meetings for financial analysts and press conferences
March and September
Quarterly conference calls on sales figures

Meetings for French and international institutional investors
March, April, September, October: Paris, London, Edinburgh, New York and Boston

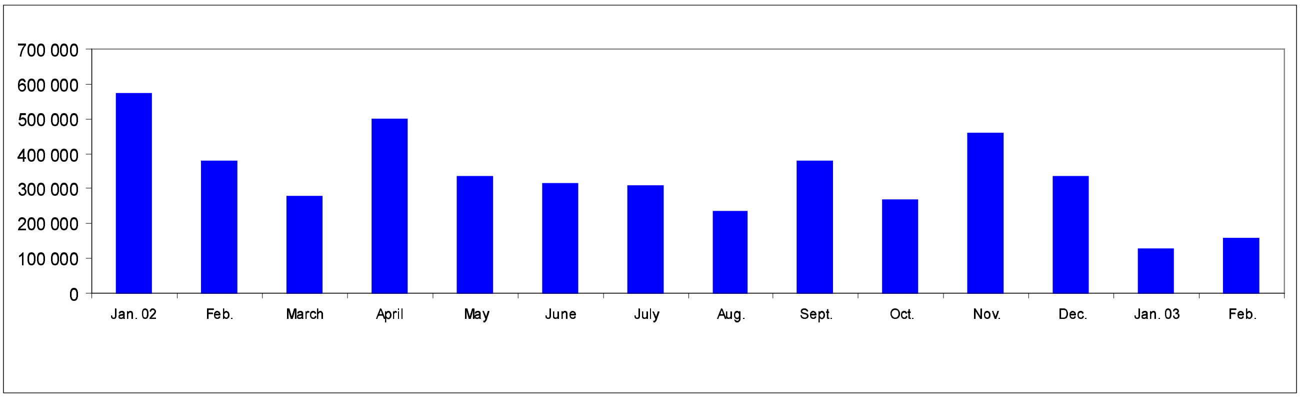
General Meeting of the Shareholders
May: Paris

Site visit
October: Pagny-sur-Moselle, coinciding with the plant's Open Day

Share price performance at end-February 2003



Trading volumes at end-February 2003



Carbone Lorraine share information

- Listing: Premier Marché-Deferred settlement
- Main reference indices: SBF 120 and Euronext 150
- Reuters code: CBLP.PA
- Bloomberg code: CRL FP
- Sicovam code: 3962
- The share is listed on NextPrime segment of Euronext

Share price data

	2000	2001	2002	Jan. 2003	Feb. 2003
Share price (€)					
High	55.95	52.45	39.48	23.00	20.65
Low	36.20	24.15	20.10	20.38	16.68
Average	46.57	41.47	29.78	21.82	18.46
Share price at end of period (€)	53.00	30.00	22.26	20.38	18.14
Number of shares at end of period	11,109,733	11,128,462	11,139,150	11,139,150	11,139,150
Market capitalisation at end of period (€ m)	588.80	333.85	247.95	227.01	202.06
Average number of shares traded per month	528,586	354,241	372,330	127,402	157,947

Net dividend per share

In €	1998	1999	2000	2001	2002
	0.88	0.88	1.06	0.80	0.60

Net income before non-recurring items (Group share) per share

In €	1998	1999	2000	2001	2002
	3.68	3.31	4.31	3.10	2.89

Ownership of the share capital at 31 December 2002

In %	
Individual shareholders	22.3
Employee shareholders	2.9
French institutional investors	47.4
- including BNP Paribas	21.1
International institutional investors	25.9
Treasury shares	1.5

>Corporate governance

In 1995, Carbone Lorraine set up two specialist committees within its Board of Directors, namely the Accounts Committee and the Remuneration and Appointments Committee. These lean committees, which make proposals and perform a supervisory role, participate in a collective approach to decision-making. In 2002, the turnout of the members at the Board of Directors and the two committees is of 86%. A third committee focusing on the Group's strategy was set up in early 2003.

Board of Directors

Eight directors sit on the Board, five of whom are independent. The Board of Directors met six times during 2002.

During the course of its various meetings, the Board of Directors systematically studied the trend in the Group's sales and earnings. As part of this analysis, it notably examined the savings measures implemented to bolster the Group's resilience to the deterioration in the economic environment.

The Board also examined several acquisition plans in order to lay down the basis on which these deals could go ahead. It approved a stock option programme. It also authorised individual packages for managers who were promoted or dismissed.

The Board was kept informed of developments in the investigations concerning the application of competition law, as well as of the compliance programme launched in 1999 to ensure that the Group's competitive practices are in line with the regulations in force.

Members of the Board of Directors

Claude Cocozza,

Chairman and CEO

Jean-Paul Bernardini

Jean-Pierre Capron

Robert Chauprade

Hervé Couffin

Jean-Paul Jacamon*

Jean-Claude Karpeles

Patrick Kron (until 31 December 2002)

Walter Pizzaferri

* Co-opted at the Board of Directors' meeting of 22 January 2003 to replace Patrick Kron, who resigned.

Members of the Executive Committee

Claude Cocozza

Michel Coniglio

Executive Vice President

Group Vice President, Advanced Materials and Technologies and Electrical Applications activities

Bernard Leduc

Group Vice President, Human Resources

Quality and Continuous Improvement

Marc Renart

Group Vice President, Electrical Protection activity

Jean-Claude Suquet

Group Vice President, Finance and Administration

The Accounts Committee

The Accounts Committee comprises three directors, namely Messrs Bernardini, Chauprade and Karpeles, two of whom are independent. It met on three occasions during 2002. From 17 March 2003, Mr Capron is due to replace Mr Chauprade, as a member and President of the Committee. The committee will be known as the Audit and Accounts Committee.

The Accounts Committee studied in depth the contents of the Group's financial statements and gave its seal of approval to the publication of the interim and annual reports after making the improvements that it deemed necessary. To this effect, the Accounts Committee met twice the Statutory Auditors.

The Accounts Committee also analysed the findings of the twelve internal audit assignments carried out during 2002. These assignments were carried out in line with the programme that it had set at the start of the year. They were intended to analyse the effectiveness of internal control at seven industrial sites and of the centralised management of the Group's treasury. They also covered four cross-functional issues relating to the Group as a whole, namely dependence on mission-critical suppliers, management of patents, brands and web site domain names, customer risk management and the compliance of outsourced operations with local and international regulations. The Accounts Committee will ensure that the action plans defined following these audits will be effectively implemented.

A detailed presentation was made mapping out the risks to which Carbone Lorraine is exposed following an in-depth analysis performed with the assistance of external experts, in liaison with the Group's operational and functional staff. This analysis did not reveal any major risks for the Group and has helped raise awareness of the measures that need to be taken to enhance the control of existing risks. The Risk Committee created within Carbone Lorraine following this detailed investigation reports on its actions to the Accounts Committee, which is involved in setting its annual work programme.

The Accounts Committee has also studied the arrangements for the implementation of new consolidation software, as well as the measures already being introduced by the Group so that it is ready to prepare its financial statements in line with IFRS from 2005, in accordance with the guidelines laid down by the European Union and Euronext.

The Appointments and Remunerations Committee

The Appointments and Remunerations Committee has four members, three of whom do not have any operational responsibility within the Group. It met twice during 2002. Its members are Messrs Capron, Cocozza, Couffin and Kron. From 17 March 2003, its members will be Messrs Chauprade (President), Cocozza, Couffin and Jacamon.

The Committee met on the first occasion to decide on the level of bonuses to be paid out for 2001 and to study the proposed changes to the Group's bonus system. It also analysed the Chairman's proposals concerning the bonus targets for 2002 and the Executive Committee's salaries (excluding the Chairman's) for 2002, after reading the report carried out annually by an independent consultant into the salaries paid to members of the Executive Committee and the Chairman. It submitted its own proposals on these issues to the Board of Directors, including recommendations regarding the Chairman's salary. It also proposed a new stock option plan, to be approved by shareholders at the Annual General Meeting.

It then met a second time to approve transactions between the Group and senior executives who have been made redundant.

The Committee was also consulted regarding changes in the Group's organisation structure (elimination of geographical regions), a senior executive's departure from the Executive Committee and the award of stock options based on the plan authorised by the General Meeting of the Shareholders.

Lastly, the Committee carried out a consultation process with a view to replacing a director who had resigned.

>Sustainable development

Corporate culture and responsibility hold the key to sustainable development

Our Group defines sustainable development as the need to make a contribution to balanced economic and social development that protects the environment. This imperative is one of the pillars of Carbone Lorraine's corporate culture, i.e. a responsible attitude shared by the entire management team on a daily basis. For instance, the Group has for some considerable time pursued a responsible social policy, which is notably reflected by the very low number of hours lost to industrial action at its sites in spite of the pace of restructuring necessitated by economic trends. The Group also proves to be proactive in environmental issues, as illustrated by its commitment to gain ISO 14001 certification for its strategic sites within the next three years and by the recent launch of lead-free brushes and of lead- and cadmium-free fuses, which represents a worldwide first.

Our economic responsibilities

Customers, shareholders and employees all contribute in their own way to the Group's development. By forging genuine partnerships with them, Carbone Lorraine ensures that its economic performance is sustainable.

Partnerships with customers

For Carbone Lorraine, customer satisfaction is the top concern and the Group has made it a key priority among the ten of its Quality and Continuous Improvement plan. It relates to the quality of its products, as well as the service it provides. For instance, the service rate, which reflects its ability to meet delivery times, increased at all the Group's sites and averaged 90% during 2002, with some units already having achieved the target of 100%. These figures are perhaps best illustrated by the lasting relationships that Carbone Lorraine has built with its main customers. Most of them, including the largest ones, were already on its customer roster five years ago (Valeo, Siemens, Imark, General Electric, ABB, Applied Materials, etc.). Carbone Lorraine's efforts to develop innovative solutions in electrical components and specialty graphite products have been instrumental in securing their loyalty. The entire process of developing innovative new products and building partnerships with customers is guided by the Group's resolve to support its customers' expansion and to anticipate their needs.

Partnerships with employees

Fostering the personal and collective commitment of employees to meeting common objectives is a central plank of Carbone Lorraine's human resources policy. Profit-related incentive payments are an additional way for the Group of forging stronger relationships with its employees. The remuneration of all the Group's managers is performance-related. In 2002, bonuses accounted for a larger proportion of their remuneration, while the number of employees receiving performance-related pay also increased. Performance-related pay is indexed to earnings, achievement of personal targets and, as from 2003, cash generation. Profit-related incentives and employee profit-sharing also form a key component of Carbone Lorraine's remuneration policy, as does the promotion of share ownership among its employees.

Key Indicators

Headcount by geographical region (at end-December)
2002
Total 7,010, including Europe 4,218 (2,477 in France) – North America: 2,020 – Asia: 286 – Rest of the world: 486

2001
Total 7,634, including Europe 4,365 (2,591 in France) – North America: 2,505 – Asia: 289 – Rest of the world: 475

2000
Total 7,822, including Europe 3,946 (2,495 in France) – North America: 3,104 – Asia: 294 – Rest of the world: 478

2.9% of the share capital is owned by employees
41% of employees are shareholders in countries where shares have been offered for sale

Partnerships with shareholders

Carbone Lorraine maintains a dynamic relationship with its shareholders through an extensive financial communications programme that is intended to foster broader understanding of the Group and enhance awareness of its business activities. The Group's shareholder presentations that are held across the length and breadth of France, visits to industrial sites, press releases and web site are all geared to achieving the same goal: delivering high-quality information to help investors make informed decisions. The Group's emphasis on transparency landed it a nomination for the *Prix Cristal* award for the transparency of its financial information during 2002, as well as Second Prize in the *Fils d'Or* awards for the quality of the company's investor relations with its individual shareholders.

Our social responsibilities

Several Group initiatives reflect the emphasis placed by Carbone Lorraine on its social responsibilities, which is shared by the entire management team. These initiatives fall into three categories: safety, business ethics and the continuous development of skills.

Safety

Key indicators

Number of accidents in the workplace causing sick leave to be taken per million hours worked

2002 : 6.7
2001 : 9
2000 : 11.2

Number of days sick leave taken following an accident in the workplace per thousand hours worked

2002 : 0.22
2001 : 0.21
2000 : 0.33

These two indicators, which are calculated for all consolidated companies within the Group, compare favourably with those in the chemicals and metal-working industries.

A commitment to safety in the workplace has been part of the Group's strategy for almost a decade. Keeping a grip on safety issues helps to bolster Carbone Lorraine's efficiency, professionalism and control over its processes. It also makes a significant contribution to the development and motivation of its workforce. Its ultimate goal is of course to achieve a zero accident rate.

The Group's safety policy was formally defined during 2001 in a widely distributed new safety handbook that lays down the methods to be implemented with the backing of the entire workforce. They include:

- close involvement of management on a daily basis;
- prevention in the field through the organisation and follow-up of security inspections by direct superiors;
- systematic analysis of accidents using the tree of causes method to avoid any repetitions;
- preparation and implementation of an annual plan to improve safety at each site.

Each month, the Executive Committee analyses the safety performance of the Group and of each of its sites (incidence of accidents irrespective of whether sick leave is taken, degree of severity). It is also kept informed of any accident in the workplace where sick leave is taken.

The Executive Committee's strong commitment to improving safety in the workplace prompted it to make a safety-related visit to the Evreux site during July 2002. It spent the day understanding and analysing the site's safety issues and considering measures to improve safety at this and all the Group's sites. This "safety day" will be repeated during 2003 at two other Group sites.

The Executive Committee has also stepped up the attention paid to safety issues at Group level by making adjustments to the Group Safety Committee. The role of this committee will now be to share methods and best practices group-wide by drawing on the experiences, culture and practices of the Group's various units around the world.

The improvement of safety in the workplace was also a major theme addressed during the annual meeting of the European Work Committee with the labour representatives of the European subsidiaries.

A number of areas of improvement were selected that will help improve safety, such as the designation, signposting and observance of special zones (storage, movements, etc.) and the definition of rules concerning the manual handling of containers (weight, size, stacking heights and manipulations).

Business ethics

Carbone Lorraine, a group with worldwide reach, abides by the local regulations and respects the culture of the countries in which it is established. Likewise, it wishes to work only with those companies that have the same ethical standards. Consequently, it carried out a worldwide audit of its subcontractors during 2002. This audit did not reveal any major failings. The Group refuses to condone child labour or the use of clandestine workers. It is careful not to impose excessively high workloads on its employees and not to engage in any discrimination. In the US, it has signed several charters against discrimination. Since it wishes to respect individuals' rights, the Group respects its workers' right to join a union. Given the lack of relevant indicators for each country, Carbone Lorraine intends to draw up a charter setting out its commitments and laying down rules that are applicable to all Group employees.

Carbone Lorraine is very keen that its employees should abide by an ethical code of individual and social responsibility. Consequently, it was extremely dismayed by the penalties for anti-competitive practices handed down by the US authorities during 2000 and by the European authorities during late 2002. These anti-competitive practices resulted from efforts to counter unfair competition namely from Asia. Since 1999, the Group has implemented a worldwide training programme for its managers to ensure that they fully comply with the legislation in this area. Teams of external lawyers carry out spot checks and audits regularly.

Continuous development of skills

Carbone Lorraine endeavours to adapt and enhance the skills of its employees to keep pace with economic developments and technological advances, to facilitate their professional development and to increase the employability of its workforce. It introduced a formal approach to the continuous development of skills several years ago, which has three key goals:

- identifying skills,
- personal interviews,
- professional training.

Identifying skills

Group companies have introduced a programme to define functions and business activities and to prepare a list of skills needed for each of them.

This approach enables employees to learn and then master the skills required to perform particular duties or to fill a certain position, to keep pace with the changing nature of their business activities or even to move into new areas.

Annual reviews

The annual review held between employees and their direct superior allows to:

- review their achievements during the past year and to set goals for the coming year;
- establish the employee's existing skills and to enhance them by identifying new training needs;
- ensure that the employee's personal targets are in kilter with those of the Group.

The Group's goal is to ensure that all its managers have an annual review. It achieved this target at most of its sites in France during 2002. It thus remains an objective for 2003, and the longer-term goal is to extend these annual reviews to all Group's employees. During 2002, an average of one out of every two of the Group's employees in France had an annual review.

Professional training

Enhancing and developing employees' skill set entails professional training. The Group arranges an average of 20 hours training per employee in France each year, which accounts for over 3% of total payroll costs.

Professional training, responsibility for which is decentralised to the various business units, should help to boost employee's performance by:

- reducing or eliminating the gap between the skills required and those actually possessed in a particular function or business area;
- fostering the development of a multi-skilled labour force,
- ensuring that employees' skill set keeps pace with change and promoting employability.

Our environmental responsibility

Protecting the environment is a constant priority for Groupe Carbone Lorraine. Over the years, we have made a string of major investments to identify and reduce the pollution-related impact of our business activities.

Carbone Lorraine's environmental policy

Our environmental policy was presented formally in a document for internal circulation in February 2001 laying down the Group's guiding principles. Over the past five years, the Group's efforts have focused on achieving a fresh reduction in residual pollution (emissions of dust and of gas pollutants) as well as reduction in water consumption. The current priorities are to minimise industrial risks and to introduce an Environmental Management System at the Group's sites based on ISO 14001 certification. They also include factoring environmental issues into the development of new products and raising awareness among employees about the case for sustainable development. A Risk Committee was set up during 2001, and its first contribution was to map the operational, financial and information-related risks facing Carbone Lorraine. Meanwhile, a Group Industrial Risk, Environmental and Safety Programme identified areas for improvement, which included the supply of alternative products that are entirely lead- and cadmium-free. Carbone Lorraine's commitment to achieving ISO 14001 certification as part of its QPC (Quality and Continuous Improvement) plan remains the top action of its environmental policy. Four major sites have already been certified, namely Pagny-sur-Moselle, Gennevilliers and Amiens in France and Gebze in Turkey. The Group aims for all its largest sites around the world to achieve certification by late 2004/early 2005.

A decentralised organisation

While it is up to the Group to set the general direction, site managers are responsible for drawing up an environmental policy geared to local conditions and consistent with Carbone Lorraine's commitments. Managers at the Gennevilliers and Amiens sites, which have taken a lead on the certification front, have already drawn up a document that will serve as a benchmark in this respect. For instance, the Gennevilliers site pledges to review its energy consumption and to reduce its consumption of water and gas by 20% over the next three years. Meanwhile, the Amiens site has resolved to minimise emissions and pollution in whatever form they take. Likewise, Ferraz Shawmut's site at Newburyport (US) has made minimising its energy consumption and encouraging recycling and waste-to-energy conversion its top priority.

The development of an environmentally-friendly approach

Carbone Lorraine's products and components contribute to the protection of the environment. For instance, the Group has played a role in the development of environmentally-friendly rail/road transportation and renewable sources of energy (wind power generators). Likewise, its ferrite magnets use iron oxides that are a by-product recovered from the manufacture of steel sheets. Our brushes for small electric motors and our braking components (shoes, pads, disks) are designed to maximise their durability so they last for longer.

At present, the Group's environment policy has five main goals:

1. reduce and control environmental and sanitary risks to ensure the long-term survival of businesses in their current locations in harmony with their neighbours and natural surroundings;
2. develop environmentally-friendly new products and thus make an active contribution to sustainable development;
3. take measures to reduce the consumption of energy, water and raw materials in an effort to help preserve resources for future generations;
4. introduce the pre-sorting of waste right across the board to facilitate waste-to-energy conversion or recycling and reduce the use of natural resources;
5. carry out a review of performance in environmental matters to quantify where a significant impact has been made and to assess the improvement in the performance of sites.

Groupe Carbone Lorraine's Environmental Policy

Carbone Lorraine endeavours to protect the environment and undertakes to:

1. **Comply with the regulations in force**, in the form of legal and other requirements related to its products and existing installations.
2. **Catalogue** potential **risks** affecting its installations and products, examine whether **prevention** is sufficient to **avoid any accidents** that may pose a threat to people in the neighbourhood or to the surrounding area (particularly to customers, the company's workforce and those living close to production sites).
3. **Visit installations periodically** to detect anomalies.
4. **Use incidents and best internal and external practices** to promote a **quality and continuous improvement** approach based **on sharing experiences.**
5. **Minimise emissions and pollutants** in all environments.
6. **Minimise consumption** of water, energy, raw materials and packaging and **encourage recycling or waste-to-energy conversion.**
7. Foster **progress through continuous improvement** by rolling out a **ISO 14001 Environmental Management System** at all the Group's major sites.

>Overview of Carbone Lorraine's businesses

Businesses	Activities	Main applications	Objectives
Electrical Applications ▪ Number two worldwide in brushes and brush-holders for electric motors ▪ Sales of €192 million ▪ 26% of total sales ▪ Main competitors : - Morgan Crucible (Great Britain) - Schunk (Germany)	Design, manufacture and marketing of brushes and assemblies including brushes, brush-holders and electronic components Assistance and maintenance	▪ Large motors: all industrial applications and robots, electrical generators for aviation, electric locomotives, etc. ▪ Small motors: auxiliary motors for cars (wipers, window lifts, ABS etc.), portable power tools (drills, etc.), small household appliances (vacuum cleaners, etc.)	Large motors: pursue an innovation-driven strategy in growth niches and expand in Asia Small motors: pursue quality improvements and develop brush-holder modules with new added functions
Permanent Magnets ▪ Number three worldwide in magnets for automobile applications ▪ Number one worldwide in flux packages for automobile electric motors ▪ Sales of €106 million ▪ 15% of total sales ▪ Main competitors : - TDK (Japan) - Hitachi (Japan)	Design, manufacture and marketing of ferrite magnets and flux packages for small electric motors	▪ Small motors: auxiliary motors for cars (wipers, window lifts, ABS etc.), portable power tools (drills, etc.), small household appliances (vacuum cleaners, etc.)	Continue the profitability improvement to Europe, expand in Asia and strengthen our offering with high-end grades
Electrical Protection ▪ Number two worldwide in industrial fuses ▪ Sales of €193 million ▪ 27% of total sales ▪ Main competitors : - Bussmann (USA)	Design, manufacture and marketing of industrial fuses and protection systems for motors and other electrical and electronic equipment	▪ Protection of industrial motors and electric and electronic equipment against short circuits and voltage surges ▪ Thermal protection of industrial electronic equipment ▪ Protection of electricity distribution grids	Continue the profitability improvement and the expansion in our business with customers in the distribution segment and users thanks to innovation and the quality of our products and services
Advanced Materials and Technologies ▪ Number one worldwide in anti-corrosion equipment ▪ Number two worldwide in high-temperature applications of isostatic graphite ▪ Sales of €230 million ▪ 32% of total sales ▪ Main competitors : - SGL Carbon (Germany) - Toyo Tanso (Japan)	Design, manufacture and marketing of: - anti-corrosion equipment based on graphite and noble metals (tantalum, titanium, etc.) and fluoride polymers (PTFE) for the chemicals and pharmaceuticals industries; - isostatic graphite solutions for high-temperature applications (semiconductors, aerospace, glass-industry, etc.); - high-energy braking materials based on graphite and carbon	▪ Storage (vessels, etc.), processing (heat exchangers, reactors) and distribution (tubing, pipes, etc.) of corrosive and hot fluids; ▪ Semiconductor production equipment and other refractory processes (dies, holders, etc.), electrodes for electrical discharge machining, kiln linings, etc. ▪ Braking for aerospace, rail, two-wheels and motor racing applications	Continue the development of a full line of multi-material solutions for corrosive and hot chemicals Develop new solutions geared to the expansion-related needs of our customers Pursue the international expansion of our expertise in high-energy braking

>Electrical Applications

Pertinent strategic decisions

Carbone Lorraine, which ranks second worldwide in brushes and brush-holders for electric motors, operates in two markets. In industrial motors, a segment that is currently maturing, the Group is the leader in expanding segments and is winning market shares where its geographical and commercial positions were not previously as strong thanks to the excellence of its development teams.

In the market for small electric motors, which are destined primarily for automobile applications, small household appliances and portable power tools, Carbone Lorraine's presence in assemblies through its AVO subsidiary represents a new source of growth for brushes and brush-holders.

Growth in sales of assemblies and market share gains partly offset the impact of the weakness in sales of brushes and brush-holders for industrial motors in Europe and North America.

A drive to find expanding segments

The brushes for industrial electric motors sub-segment represents a mature market, in which demand for replacement products is much stronger than for original equipment. Carbone Lorraine has positioned itself in four market segments, namely traction, general industry, aerospace and electricity generation. The Group has recently consolidated its positions in these various segments, scoring gains in fork-lift trucks, power generation, wind power generators and aerospace applications. Meanwhile, **brushes for small electric motors** for automobile applications continued to generate brisk demand, except during the final quarter. Carbone Lorraine was unable to capitalise fully on this trend owing to the difficulties experienced by its largest customer in the US, but still won new business in the region. By building new functionalities into brush-holders, Carbone Lorraine lays the foundations for growth drivers in the medium term.

Forging closer relationships with customers

Carbone Lorraine is strengthening its positions with its customers by focusing on the quality of its service and the excellence of its products, while maintaining a healthy level of profitability. In industrial motors, Carbone Lorraine continues to support the international expansion of its customers. The Group is expanding in Asia, particularly in China, as well as in North America by shoring up its sales network and leveraging the Ferraz Shawmut agents specialising in industrial electrical protection.

Its product range has been extended to include new applications in high-intensity rail current collection (e.g. TGV) and wire contacts.

Efforts to improve productivity

The Group's drive to modernise equipment at its automobile brush production site has started to pay off in Germany and North America, where the improvement in quality standards enabled the Group to consolidate its position. The Quality and Continuous Improvement plan, which has been implemented across the Group since 2000, includes a series of measures designed to bring it closer to a zero defect rate. As part of these efforts, the automatic quality control of each unit was introduced at the three main production sites for small electric motors, i.e. Farmville, Amiens and Frankfurt. The Brazilian site is likely to be equipped with the same quality control systems very shortly.

The transfer of the Spanish and South Korean workshops to Amiens increased the site's productivity by 10%.

The synergies forecast upon the acquisition of AVO, a specialist in the assembly of electrical components for automobile applications, have now been unlocked. In particular, they have helped to boost the performance of the Monterrey site in Mexico.

A plan to set up facilities in China is currently being considered. The goal is to follow the Group's customers wherever they expand and to continue to supply them using local sourcing. Ultimately, this platform will enable the Group to establish itself right across the Asian market.

The Electrical Applications in brief

- Number two worldwide

- Activities: brushes and brush-holders for industrial motors and small electric motors for consumer products

- Markets: general industry, aerospace, rail traction, energy, automobile applications, etc.

- Replacement market: 50% of sales

- Strengths: technological leadership and customer service

- Sales of €192 million

>Magnets

Recovery in margins

Carbone Lorraine, the world's third-largest manufacturer of magnets for cars, has managed to improve its operating performance in spite of heavy pricing pressures and the problems affecting its main customer in North America. During 2002, the Group posted a positive operating margin thanks to drastic cost reductions and diversification of its customer portfolio.

A market experiencing structural growth

The Group is benefiting from structural growth as a result of the growing amount of electrical equipment built into cars in an automobile market that is forecast to expand by an average of 2-3% p.a. in the coming years. This trend is being driven by comfort-oriented (seat motors, etc.), but first and foremost safety-related considerations (widespread introduction of ABS, etc.) and environmental priorities (engine controls, etc.). These new applications complement the traditional uses in starter motors, wipers and window lifts. The number of small electric motors used in automobile applications is thus increasing by 4-5% p.a. with growth rates varying from one application to another.

South Korea and Brazil were growth drivers during 2002

Business growth was very brisk in South Korea and Brazil. In South Korea, automobile output increased by 8%, and Carbone Lorraine was able to match this growth without any significant investment. In Brazil, the weakness of the local markets was to a great extent offset by growth in exports of electric motors and of vehicles triggered by the local currency depreciation.

Conversely, in North America, sales were depressed by the woes of Vesi, a subsidiary of Valeo and the main customer of Carbone Lorraine's Magnet division in the region. Nonetheless, Vesi emerged from Chapter 11 protection from its creditors in October 2002 and honoured most of its debts. In addition, the Group has continued the rapid diversification of its North American customer base.

In Europe, sales declined relatively little thanks to strong demand for flux packages (magnets pre-assembled in the motor casing), a market in which Carbone Lorraine has established itself as the world leader.

Significant industrial streamlining

The Nuevo Laredo plant in Mexico was the focus for the division's streamlining and cost reduction efforts during 2002. It was modernised and reorganised based the online production concept and now constitutes a major commercial advantage.

Substantial productivity gains were achieved at other sites thanks to tighter control of production processes and implementation of the savings plan initiated by the Group. This said, savings were partly offset by the strong pricing pressures brought to bear by South Korean and Chinese producers. This trend will mean that the division needs to make further adjustments, particularly in Europe.

Diversification of the customer portfolio

Carbone Lorraine, which maintains a close relationship with its customers from a commercial, technical and geographical standpoint, is continuing to diversify its customer portfolio in North America, Europe and Asia. The leading automotive equipment suppliers are its priority targets. Likewise, Carbone Lorraine is continuing its strategy of expansion in flux packages, which is being underpinned by an increasingly strong trend towards the outsourcing of assemblies by equipment suppliers.

Efforts to harness revenue synergies between divisions were stepped up during 2002, with the creation of a permanent work group providing a link between the magnets and the brush/brush-holder activities. Its target is to consolidate marketing research in the automobile market and to foster the sharing of information that directly helps to deepen the Group's knowledge of its customers and their needs and thus facilitates growth.

The Magnets in brief

- Number three worldwide in magnets for automobile applications
- Number one worldwide in flux packages for automobile electric motors
- Activities: magnets and flux packages for small electric motors
- Market: automobile
- Customers: Bosch, Delphi, Meritor, Siemens, Valeo, Visteon, etc.
- Strengths: unique worldwide coverage
- Sales of €106 million

>Electrical Protection

Electrical Protection has been consolidating its positions

While experiencing the fairly unprecedented phenomenon of a business slowdown affecting all its customer segments, Ferraz Shawmut, Carbone Lorraine's subsidiary specialising in industrial fuses, has successfully strengthened its market positions and consolidated its industrial facilities. In particular, sales were affected by the decline in spending on electrical equipment in North America and Europe. All in all, the contraction in its business was smaller than that in the market at large.

Still on track

In the long term expanding energy market, the Electrical Protection activity has continued to strengthen its positions in its core business, i.e. the fuse-based protection of industrial electrical and electronic equipment. It caters to the needs of manufacturers in the original equipment segment, as well as to those of distributors, with the replacement market accounting for close to 60% of its sales. Its strategy is to focus on building customer loyalty, enriching its product range, consistently improving its productivity and ramping up its presence in Asia, where sales continued to expand during 2002.

Streamlined manufacturing base

In view of the deterioration in the economic environment, a savings plan was introduced in 2002 and will continue to be applied during 2003. The European logistics platform at Saint-Bonnet-de-Mûre (France) entered service, after complex efforts to harmonise the European information systems. All the production sites, as well as customers are now linked up.

In a drive to focus on its core business, Ferraz Shawmut continued to outsource certain activities, such as the manufacture of plastic components, fibreglass tubes and metal components. In this way, the subsidiary unlocked substantial savings in the US and Europe. Refocusing of the business portfolio also made further progress with the disposal of lightning arrestors for medium-voltage grids and pyrobreakers (very rapid current limiters for medium-voltage applications).

At the same time, Ferraz Shawmut continued its drive to streamline its production facilities by pooling its manufacturing lines at Mannheim (Germany) and Provins (France), shutting down the La Verpillière plant (France) and transferring a production line at Newburyport (US) to Juarez (Mexico). The workshops in Tunisia and India are ramping up in line with their stated targets.

Lastly, Ferraz Shawmut has continued to implement the Group's "Quality and Continuous Improvement" plan. Major achievements during 2002 include the reduction (from several months to three weeks) in the time required to design and manufacture customised fuses at the Saint-Bonnet workshop in France, the creation of autonomous units and the introduction of a Top Star catalogue of 500 items that are guaranteed always to be available.

Commercial success stories

In North America, Ferraz Shawmut won market share thanks to the contract it signed last year with Affiliated Distributors. The subsidiary is now listed by over 80% of the network's distributors and received the Vendor of the Year award. It has also become a key supplier to Bombardier under a new contract to design and supply, until 2013, rail equipment worth €8 million.

In India, Ferraz Shawmut's commercial clout was increased as a result of two agreements signed with General Electric. The first was to supply semiconductor fuses to General Electric, while the second was an exclusive distribution agreement allowing Ferraz Shawmut to sell its full range of semiconductor fuses through General Electric's extensive distribution network in India counting over 230 distributors. Ferraz Shawmut also achieved further success during the year, including orders from Toshiba for fuses for wind power generators and orders for traction projects in China and Taiwan.

In addition, Alstom Transport, Siemens, Thales, Pintsch Bamag and Leroy-Somer placed their first orders for coolers in Europe, thereby backing up the wisdom of Ferraz Shawmut's decision to position itself in this product that neatly complements fuses for industrial semiconductors. Coolers, sales of which are growing at a faster pace than fuses, genuinely add value for equipment suppliers by allowing them to optimise the operation of semiconductors. Lastly, 2002 also saw the rapid take-off in North American sales of Smart Spot fuses with indicators, as well as the launch of TPMOV varistors and Finger Safe fuse-holders.

Lastly, in current collection, Ferraz Shawmut signed a major contract with Bombardier Transport to design and supply current collectors and current return devices for new metro units destined for the Paris regional transport authority.

Industrial targets for these enhanced and new products were achieved in spite of the economic slump.

The Electrical Protection in brief

- Number two worldwide in industrial fuses

- Activities: design, manufacture and marketing of industrial fuses and protection systems for motors and other electrical and electronic equipment

- Replacement market: 60% of sales

- Strengths: technological leadership, extensive product range, worldwide presence

- Sales of €193 million

>Advanced Materials and Technologies

A buoyant development despite a tough economic environment

After another encouraging year for all the activities during 2001, 2002 brought more mixed trends. Brakes again demonstrated their expansion potential with a steep increase in sales. Meanwhile, chemical engineering equipment and high-temperature applications benefited from the responsiveness of their sales teams, their technical expertise and their worldwide presence, which helped them weather the economic slowdown. As a result, Carbone Lorraine increased its market share and continued to land new contracts.

Putting high-grade materials to good use in anti-corrosion equipment

Carbone Lorraine designs and manufactures equipment that can withstand corrosion by hot fluids, including heat exchangers manufactured using graphite or noble metals, noble metal reactors and PTFE-coated piping systems. Since they are sensitive to trends in capital spending, sales of anti-corrosion equipment mirrored the downturn in spending in the North American chemicals and pharmaceuticals sectors.

As part of the Group's savings plan, the noble metals equipment business was pooled at a single site in California.

Expansion continued in China both in the local market as a platform for penetrating the Japanese market. The Shanghai workshop now boasts efficient production facilities manufacturing high-quality products. In India, the Group won market share thanks to its workshop located close to Madras.

Carbone Lorraine continued to extend its geographical coverage, which for instance helped it to land a major contract with Australian Magnesium Operations to cover most of the graphite needs of the new magnesium production plant being built in Queensland.

Quality is the Group's main competitive advantage in high-temperature applications

Capitalising on the exceptional resistance of graphite to very high temperatures, Carbone Lorraine manufactures and processes isostatic graphite to meet the needs of leading-edge technology sectors. In 2002, all the markets in which the Group was present experienced significant volume contractions. In this depressed environment, Carbone Lorraine managed to win substantial market share, particularly in electrical discharge machining. The Group's expansion in South Korea also gained momentum, particularly in electronics, and it recorded its first sales in the Japanese semiconductor market. Several large contracts were signed during the year, the full benefit of which is primarily likely to be felt during 2003. For instance, Carbone Lorraine was selected by US aerospace group Northrop for its competitiveness and for its ability to produce large-sized blocks of consistent quality for the manufacture of moulds. Its exclusive Europe-wide distribution deal for graphite components with Agié Charmilles, the worldwide leader in electrical discharge machining, bears testimony to the quality and breadth of Carbone Lorraine's range of ultra-fine graphite products.

At the same time, the Group has continued to develop its expertise in specialty graphite to meet the needs of its customers, stepped up its activities in Europe and broadened its outlets. Lastly, the ongoing efforts to improve the quality of its sales network have been accompanied by the organisation of exchange forums enabling the sales teams to gain a better understanding of their customers' requirements.

High-energy braking is on a roll

High-energy braking has lived up to the Group's hopes of rapid expansion, especially in sintered materials, i.e. composite materials made from powdered forms of graphite, ceramics and metal offering the performance required for their applications and very high resistance to wear and tear. For instance, Carbone Lorraine covered most of SNCF's requirements during 2002 by supplying high-performance pads that are compatible with existing rolling stock at competitive prices. Carbone Lorraine also landed a two-year contract with ÖBB, the Austrian national rail operator. This deal, which has strengthened Carbone Lorraine's leadership in rail/road transport systems in Austria, covers the sale of brake pads for wagons specially designed to carry trucks.

In addition, new solutions employing sintered materials have been developed to reduce noise emissions and boost the braking capacities of wagons. More than ever before in this segment, Carbone Lorraine is gearing up to make the most of future commercial development opportunities.

In the aerospace segment, sales of brake disks made from carbon/carbon composite materials, which are particularly well suited to absorbing and rapidly dissipating high levels of energy, held up well in spite of the industry slump.

Lastly, the development of high-end products for motorbikes has continued, leading to expansion into promising new markets, such as mountain bikes and rally cars.

The Advanced Materials and Technologies in brief

- Number one worldwide in anti-corrosion equipment

- Number two worldwide in high-temperature applications

- Activity: equipments and products based on carbon and specialty graphite

- Markets: fine chemicals, pharmaceuticals, refractories, electronics, high-energy braking (aerospace, rail, motorbikes)

- Replacement market: 30-100% of sales, varying from product to product

- Strengths: major expertise in graphite applications. Excellent cost positions

- Sales of €230 million

Board of Directors’ management Report

>Management Report - Review of operations

Introduction

Carbone Lorraine posted 2002 sales of €720.9 million, down 10.3% compared with the previous year. This sales contraction was attributable primarily to the downturn in economic conditions in North America, then in Europe during the second half of the year, together with unfavourable currency effects (weakening in the US dollar against the euro). It affected practically all the Group's businesses. On a like-for-like basis (i.e. on a comparable structure basis and at constant exchange rates), sales fell by 7.5%.

Notwithstanding this significant sales contraction, the drastic efficiency improvements and cost reduction measures introduced during 2001 enabled the Group to keep its operating margin up at 8.3% compared with 9.5% in 2001.

Divisional review

Sales in the **Electrical Applications** segment remained almost stable at €192 million. The strong growth in brush and brush-holder assemblies for small electric motors offset softer demand for brushes for industrial motors, which was caused by economic conditions. Even though automobile business was stronger overall, weak industrial demand during the second half, particularly in Europe, caused divisional sales to decline by 2% like-for-like over the full year.

Against this backdrop, the cost-cutting measures helped curb the impact on operating income both of the contraction in sales volumes and of harsh competition in brushes and brush-holders for small electric motors. Divisional operating income came to €22.4 million compared with €24.7 million in 2001, or 12% of sales.

Sales in the **Permanent Magnets** segment fell by 15% to €106 million in 2002. The contraction in sales was primarily driven by the difficulties affecting our main customer in North America and the disposal of the specialty magnets unit during the first half of 2001. On a like-for-like basis, sales dropped by 6%. This decline was attributable to weak demand in Europe and the fact that the division was unable to reap the full benefit of the expansion in the US automobile market, which was particularly buoyant during 2002 given the situation affecting its main customer in the region. The market also experienced heavy pricing pressures.

The division capitalized on its industrial base in South Korea and posted strong gains in Asia on the back of the buoyant market conditions (like-for-like growth of over 30%).

The flux packages business (magnet assemblies in motor casing) continued to post brisk growth in Europe.

Drastic cost-cutting measures, particularly in North America, which were introduced during 2001 and continued during 2002 (very large workforce reductions, modernization of industrial facilities) generated operating income of €3 million in 2002 (3% of sales), up from a loss of €3 million in 2001.

The **Electrical Protection** segment posted a 14% decline in its 2002 sales to €193 million. On a like-for-like basis, divisional sales fell by 11%. This downturn was seen across all the Group's geographical regions. After a relatively stable performance during the first half, electrical equipment distributors, particularly those in the US, reacted to the zero visibility prevailing in their markets by running down their inventories and adopting an extremely cautious restocking strategy. Likewise, the general weakness of spending on electrical equipment around the world was instrumental in the division's sales contraction.

In these challenging conditions, the division resolutely introduced the savings plan initiated in 2001 (restructuring of logistics in Europe, closure of a site in France, workforce reductions in the US and transfers of businesses) and took other measures to lower its breakeven point even further. In spite of these savings, the division was unable to keep its operating income at the same level as in the previous year. It came to €11.6 million, or 6% of sales, down from €21.8 million in 2001.

Sales in the **Advanced Materials and Technologies** segment fell back 12% to €230 million. On a like-for-like basis, divisional sales dropped by 9%. The chemicals, aerospace and semiconductor industries, which represent the division's main client markets, contracted very significantly during 2002. As a result, sales in the high-temperature applications of graphite and anti-corrosion equipment for chemicals and pharmaceuticals posted a like-for-like contraction of close to 10%.

Sales of high-energy braking components continued to post brisk growth in rail and motorcycle applications, but were hit by the weakness of the aerospace market. Nonetheless, this business posted like-for-like sales growth of over 13%.

Cost reductions in this already highly profitable division curbed the impact of the substantial volume decline on the operating margin. Operating income came to €34.9 million, down from €43.3 million in 2001. It accounted for 15.2% of sales.

Consolidated results

Sales

The consolidated sales posted by the Groupe Carbone Lorraine totalled €720.9 million in 2002. Changes in the scope of consolidation had little impact on sales during the year (with a net impact of +€3 million stemming from the acquisition of AVO's assemblies unit in May 2001 and the sale of the specialty magnets business in June 2001).

Currency effects came to -3%. They were mainly attributable to appreciation in the euro against the US dollar. On a like-for-like basis, the Group's sales declined by 7.5%.

Operating income

Operating income came to €59.6 million, down from €76.1 million in 2001. This decline was attributable primarily to the weakness in sales volumes and pricing pressures in certain activities. Their impact was reduced by the implementation of a major savings plan.

Operating income accounted for 8.3% of sales, down from 9.5% in 2001.

Net financial expense

Net financial expense declined significantly to €14.1 million from €24.6 million in 2001. This decrease was attributable primarily to the decline in interest rates and the reduction in the Group's average net debt. The decline was accentuated by positive currency effects deriving from the depreciation in the US dollar against the euro.

Interest cover, i.e. the ratio of financial expense to operating income, improved to 4.2x in 2002, up from 3.1x in 2001.

Income before tax and non-recurring items and net income, Group share

The fall in operating income translated into lower income before tax and non-recurring items, which dropped to €45.5 million from €51.4 million in 2001.

Net income, Group share before non-recurring items after the deduction of tax payable and minority interests in foreign companies came to €32.2 million, down from €34.5 million in 2001. The aforementioned cost-cutting measures curbed to a very great extent the decline in net income before non-recurring items, which came to 4.5% of sales compared with 4.3% in 2001 in spite of highly unfavourable economic conditions.

Non-recurring items represented an overall net charge of €36.9 million, compared with a net charge of €27.1 million in 2001. Net non-recurring charges primarily included a provision for litigation of €28.6 million, which is the estimated amount of all the financial penalties likely to arise from the proceedings underway in Europe and the US regarding anti-competitive practices that may affect certain Group activities, €11.8 million in net restructuring charges (mainly the Electrical Protection and Magnets segments) and €1.9 million in asset write-downs. The favourable outcome of the dispute with Valeo Electrical Systems Inc. in the US led to the write-back of €4 million from provisions. The disposal of industrial assets generated an after-tax capital gain of €2.5 million (premises in Milan, lightning arrestor business, etc.)

These non-recurring charges led to a net loss before goodwill amortization of €4.7 million, compared with net income of €7.4 million in 2001.

After €6.1 million in goodwill amortization, the Group posted a net loss of €10.8 million compared with a loss of €8.1 million in 2001.

Investment policy

Investments made during the past three fiscal years

Carbone Lorraine slowed down the pace of its capital spending during 2002 to contend with the unfavourable business conditions and the lack of visibility. Most of its investment was devoted to modernizing its production facilities, so that its cost-cutting measures resulted in efficiency improvements.

In 2000, the Group sold its computer magnets activity (France) for €36 million.

In 2001, the Group sold its specialty magnets activity (France) for €5 million and acquired the brush and brush-holder assemblies activity for small electric motors of AVO (France, Electrical Applications) for €23 million, payable within 4 years.

During 2002, the Group sold two small medium-voltage electrical protection businesses for €1 million.

€ m	2002	2001	2000
Increase in intangible fixed assets	(2.6)	(3.9)	(8.2)
Increase in property, plant and equipment	(23.2)	(31.5)	(29.8)
Increase in financial assets	(0.2)	(2.4)	(2.3)
Proceeds from sales of property, plant and equipment	1.6	1.4	2.3
Total	**(24.4)**	**(36.4)**	**(38.0)**
Net investment related to the impact of changes in the scope of consolidation	(2.8)	(4.1)	32.3

Net debt

Consolidated net debt posted a steep decline to €236.2 million at year-end 2002 from €314.9 million at year-end 2001. Of this €79 million decrease, €56.2 million was attributable to the Group's substantial net cash flow generated by operating and investing activities prior to the financing of acquisitions and dividend payments and around €36 million to the impact of currency fluctuations, primarily the fall in the US dollar. Net debt fell by 25% during 2002 and stood at 96% of shareholders' equity at year-end 2002, compared with 107% at year-end 2001.

	2002	2001	2000
Total net debt (€ m)	236.2	314.9	301.5
Net debt/shareholders' equity	0.96	1.07	0.96

Parent company results

Following the spin-off of its industrial plants and functional activities into new legal entities during 2001, the parent company houses the Group's long-term investment securities and financing activities, while charging subsidiaries for services related to the intangible fixed assets and property, plant and equipment that it owns.

In 2002, it posted an operating loss of €3.1 million, compared with a loss of €2.6 million in the previous year.

Net financial income of €22.6 million was higher than the €3.5 million recorded last year. This increase derived primarily from dividend payments from the plants that were spun off in 2001, the reduction in interest rates and the fall in currency losses owing to the appreciation in the euro against the US dollar.

Non-recurring items showed a net charge of €23.4 million owing primarily to a provision for litigations and impairment losses on investments in subsidiaries and affiliates and related loans.

The parent company showed a tax gain of €5.1 million in 2002 compared with €7.6 million in the previous year resulting from the tax consolidation of Le Carbone Lorraine S.A. and its French subsidiaries.

Net income for the period came to €1.2 million, down from €3.3 million in the previous year.

Relations between the parent company and its subsidiaries

Le Carbone Lorraine SA is a holding company that manages its investments in subsidiaries and affiliates and the Group's financing activities and charges subsidiaries for services related to the intangible fixed assets and property, plant and equipment that it owns.

The Groupe Carbone Lorraine is organised in four business segments, namely Electrical Applications, Permanent Magnets, Electrical Protection and Advanced Materials and Technologies. A member of the Executive Committee heads up each segment and has worldwide responsibility for the relevant business. The members of the Executive Committee in some cases hold directorships in companies related to their activities.

The Groupe Carbone Lorraine comprises 98 companies worldwide (including Le Carbone Lorraine SA) across 37 countries. The Group's largest plants are located in France and the US.

In 2002, Le Carbone Lorraine S.A. sold the entire amount of its shares in Carbone Lorraine Maroc (Morocco). It also sold two small medium-voltage Electrical Protection businesses for €1 million. No other acquisitions or asset disposals took place during 2002.

The Groupe Carbone Lorraine plans to make an acquisition in anticorrosion equipment (a unit of the Plastic Omnium Group, see note 22 "Subsequent events" in the notes to the consolidated financial statements).

Lastly, during 2002, Le Carbone Lorraine SA entered into a share sale agreement with one of its German subsidiaries, Carbone Lorraine GmbH.

Moreover, Carbone Lorraine North America set up in early 2003 an operation in the manufacture of automobile brushes in the US (joint venture with Kirkwood).

International

The sales contribution made by the Group's consolidated subsidiaries outside France came to €496 million in 2002, down 14% compared with 2001. On a like-for-like basis, the sales contributed by the Group's foreign subsidiaries declined by 9%.

In 2002, the Group derived 84% of its sales from outside France (i.e. sales generated by foreign companies and exports by French companies).

Human resources

The Group's consolidated headcount at year-end 2002 stood at 7,010 employees, 4,533 (65%) of whom work outside France. The reduction in the headcount between 2001 and 2002 came to 595, after taking into account changes in the scope of consolidation (an additional 20 staff). Adjusted for changes in the scope of consolidation, the year-end headcount was 615 lower (a reduction of 8.2% compared with 2001).

Employees at 31 December	2002	2001	2000
France	2,477	2,555	2,495
Europe (outside France) and Tunisia	1,741	1,781	1,435
North America (including Mexico)	2,020	2,505	3,104
Rest of the world	772	764	772
Total consolidated companies	**7,010**	**7,605**	**7,806**

Disclosure of directors' remuneration in accordance with the provisions of Article L. 225-102 of the French Commercial Code.

The total amount of compensation of benefits of any kind paid during 2002 to the eight directors of Le Carbone Lorraine, including the Chairman and CEO, came to €522,683, which breaks down as follows:

- remuneration paid to the members of the Board of Directors (excluding the Chairman and CEO) totalling €56,000 in directors' fees, or €8,000 paid to each member of the Board of Directors;
- remuneration paid to the Chairman and CEO for 2002 comprising a basic salary of €300,000, €151,590 as a performance-related bonus for 2002 (to be paid in 2003), €8,000 in director's fees and €7,093 in benefits in kind. The benefits in kind received by the Chairman and CEO include contributions towards the corporate executives social guarantee (*garantie sociale des dirigeants d'entreprise*).

In 2002, 9,000 share subscription options were granted to the Chairman and CEO. As for all the grantees, these options were contingent upon the attainment of a net income per share target before non-recurring items. Since this target was not met, the options were cancelled.

In application of the provisions of Decree no. 2002-221 of 20 February 2002 taken in application of Article L. 225-102-1 of the French Commercial Code.

At 31 December 2002, the consolidated headcount in France of the Groupe Carbone Lorraine stood at 2,477 staff, including six employees on fixed-term contracts. At the same date, the number of temporary staff employed by the Group was 112.

In France, 94 staff were hired during 2002, including 71 on permanent contracts. Engineers and executives accounted for around 20% of the new hires (16 staff).

During 2002, the La Verpillière site (155 employees) was shut down in order to maintain Ferraz Shawmut's competitiveness. This plant closure was attributable to the structural lack of competitiveness of the site's main activities (lightning arrestors, machining and electrical equipment), which was exacerbated by an abrupt downturn in business volumes during the second half of 2001. Against this backdrop, a plan to preserve jobs was put in place in conjunction with the union and employee representatives in a bid to minimize the number of redundancies. All in all, 103 employees were transferred to the nearby Saint-Bonnet-de-Mûre site, 12 took early retirement, 7 decided to leave the company to pursue personal projects and 33 were made redundant on economic grounds after refusing a transfer to the Saint-Bonnet-de-Mûre site. The redundancies were accompanied by individual measures to find new jobs for each of the relevant employees. Ferraz Shawmut undertook to find three offers of a permanent job within 30km of their home paying roughly the same salary for each of the affected employees.

Most of the Group's French sites signed agreements concerning more flexible working arrangements and a reduction in the working week.

In 2002, overtime totalled 19,164 hours, which represents less than 0.5% of the total number of hours worked in France.

The absentee rate, all professional categories combined, stood at 5.5%. The main cause of absenteeism was illness.

The Group's decentralized management approach has not prevented it from introducing since 1997 bodies for informing and consulting the employee representatives of all its French and European subsidiaries. During 2002, the meetings of the Group Works Council in France and the European Works Council provided a forum for dialogue with employee representatives concerning the Group's situation and strategic direction.

In 2002, the main agreements signed related to early retirement taken by employees.

The percentage of total payroll costs devoted to training averaged 3.3% in France.

AVO employs around one hundred handicapped employees at a special workshop in Poitiers (France).

The Group is currently introducing indicators that will provide a more detailed overview of the social implications of its business activities in France.

The Group has been pursuing a safety improvement policy for many years, which has led to a steady decline in the incidence of accidents in the workplace. In 2002, there were 93 occupational accidents causing sick leave to be taken across the Group as a whole (compared with 127 in 2001) and a total of 3,011 days sick leave (3,074 in 2001) was taken. The number of accidents in the workplace causing sick leave to be taken per million hours worked improved significantly from 8.9 at year-end 2001 to 6.7 at year-end 2002. The rate including accidents that did not cause sick leave to be taken also declined from 24.10 at year-end 2001 to 18.5 at year-end 2002. The number of days of sick leave taken following an accident in the workplace per thousand hours worked remained stable at 0.22.

The Group calls on subcontractors to manufacture its products to a limited extent. Industrial outsourcing charges amounted to €34 million in 2002. An audit carried out in 2002 did not reveal any breaches of the provisions of the key International Labour Organization agreements.

Environmental information

In accordance with the provisions of Decree no. 2002-221 of 20 February 2002 in application of Article L. 225-102-1 of the French Commercial Code.

Indicators concerning the Group's consumption of water, raw materials and energy, as well as the volume of waste and emissions it produced in France during 2002 are shown in the following table:

Indicators	2002	Unit	% chg. vs 2001
Water consumption	**756,056**	**m³**	**- 4%**
Energy consumption			
Electricity	97,344	MWh	- 1%
Gas	98,500	MWh	- 14%
Consumption of raw materials and metals (1)			
Wood	864	Tons	- 6%
Boxes	559	Tons	- 2%
Copper	792	Tons	+8%
Waste			
Wood 100% recycled	346	Tons	- 9%
Own boxes recycled	186	Tons	- 6%
Emissions			
Wastewater	630,375	m³	- 5%

(1) Consumption of other metals was less than 8 tons during 2002.

As part of its environmental protection strategy, Carbone Lorraine implemented a number of measures during 2002 to bring about a significant reduction in emissions into the atmosphere, water course and soil. It took introduced two measures of particular note during 2002. Firstly, the Gennevilliers plant (France) installed a filter to eliminate emissions of metallic particles (Pb, Sb, Cu, Ag and Sn) before they reached the incinerator. The plant also ended the outside storage of powders to avoid the risk of carbon and metal dust being blown away. Secondly, the Pagny-sur-Moselle plant (France) introduced a second dust extraction system to improve waste recycling.

All these measures taken by Carbone Lorraine to curb harmful emissions have made a significant contribution to preserving the natural equilibrium and to protecting fauna and flora in surrounding areas.

Carbone Lorraine has embarked on a drive to secure ISO 14001 certification, which represents one of the key planks of its environmental policy. By the end of 2002, four major plants, i.e. three in France and one in Turkey, had already achieved certification. Other sites in France are gearing up to achieve ISO 14001 accreditation, namely Evreux, Saint-Bonnet-de-Mûre and Saint-Pierre d'Allevard. The Group has set itself the target of achieving ISO 14001 certification by 2005 for all its major sites around the world.

At the same time, Carbone Lorraine has made progress with ensuring that all its activities conform perfectly to the standards laid down in environmental legislation and regulations. In particular, retention equipment was added to all liquid storage facilities, the daily selective sorting of ordinary and hazardous industrial waste was introduced at the Amiens plant (France), a settling area was brought into service for effluents originating from the equipment used to clean the soil at the Gennevilliers site, and lightning protection systems and an action plan for the transportation of hazardous materials were introduced at the Pagny-sur-Moselle plant (France).

Management of environmental issues is deliberately decentralized within the Company to take into account the diversity of local circumstances. The Director of Industrial Risks, Environmental Affairs and Safety coordinates the measures taken at each site. Programmes have been implemented to train and raise the awareness of the entire workforce of plants that have received ISO 14001 certification. Executives have also received specific training from outside training organisations. These programmes will also be rolled out at other plants.

Expenditure on mitigating the impact of the Company's activities on the environment is managed globally as part of the Group's capital expenditure. The size of this spending is not significant because Carbone Lorraine has already taken appropriate measures to curb its environmental risks. It did not set aside any notable provisions for the environment during 2002. The Company did not have to pay any fines during the period as a result of a decision by the courts relating to environmental issues.

Outlook for 2003

The economic prospects in early 2003 look very uncertain indeed, even disregarding the threat of war in Iraq. Although some economists have claimed to have seen the first signs of recovery in the US, the economy still has a long way to go before it has absorbed the consequences of the financial and internet bubbles, which have been clearly tangible for Carbone Lorraine because they have curbed capital spending by industrial companies. Most of the main countries in Europe have seen a marked economic slowdown, which has significantly depressed our sales.

Against this backdrop, we are continuing to streamline our industrial base, as well as taking measures to boost cash generation. The success we achieved during 2002 is set to continue during 2003. The €20 million savings plan is due to reach its targets on schedule. This savings plan will be bolstered by further streamlining and process improvements. Plans to reorganize the industrial activities of the Electrical Protection segment and of the German brush for small electric motor business were announced at the beginning of 2003. Under these plans, production will be transferred to other Group sites.

In line with its policy of consolidating its positions, Carbone Lorraine made two small acquisitions in early 2003, which will have a major impact on the relevant activities. The first deal will release significant economies of scale at our Farmville plant (US) through the absorption of Kirkwood's automobile brush manufacturing business. The second will strengthen our positions in chemical engineering by adding a Teflon-lined products business to our Pagny-sur-Moselle site (France).

Lastly, the Group has set aside a provision this year for the likely financial consequences of its anti-trust litigation. It is cooperating fully with the European Commission to put a rapid end to the litigation currently underway and to draw a line once and for all under this legacy of the past. The very stringent compliance programme first introduced in 1999 ensures that the Group abides by the competition regulations in all the countries where it operates.

To sum up, although the environment remains unfavourable, we are still confident about our future prospects. We have already shown, particularly during 2002, that we have substantial resilience at the operating level. We have a proven ability to generate cash, and this has been secured in the long term through the introduction of appropriate methods right across the Group. Lastly, the uncertainties arising from our anti-trust legislation have now lifted to a great extent. Consequently, our Group is very well-placed to capitalize fully on any recovery in the economy or the stock market.

2003 financial communication agenda

Release of sales figures

13 May – 1st quarter sales

24 July – 2nd quarter sales

4 November – 3rd quarter sales

Release of results

18 March – 2002 annual results

16 September – 2003 half-year results

Presentation to individual shareholders

26 May – Strasbourg

6 November – Marseilles

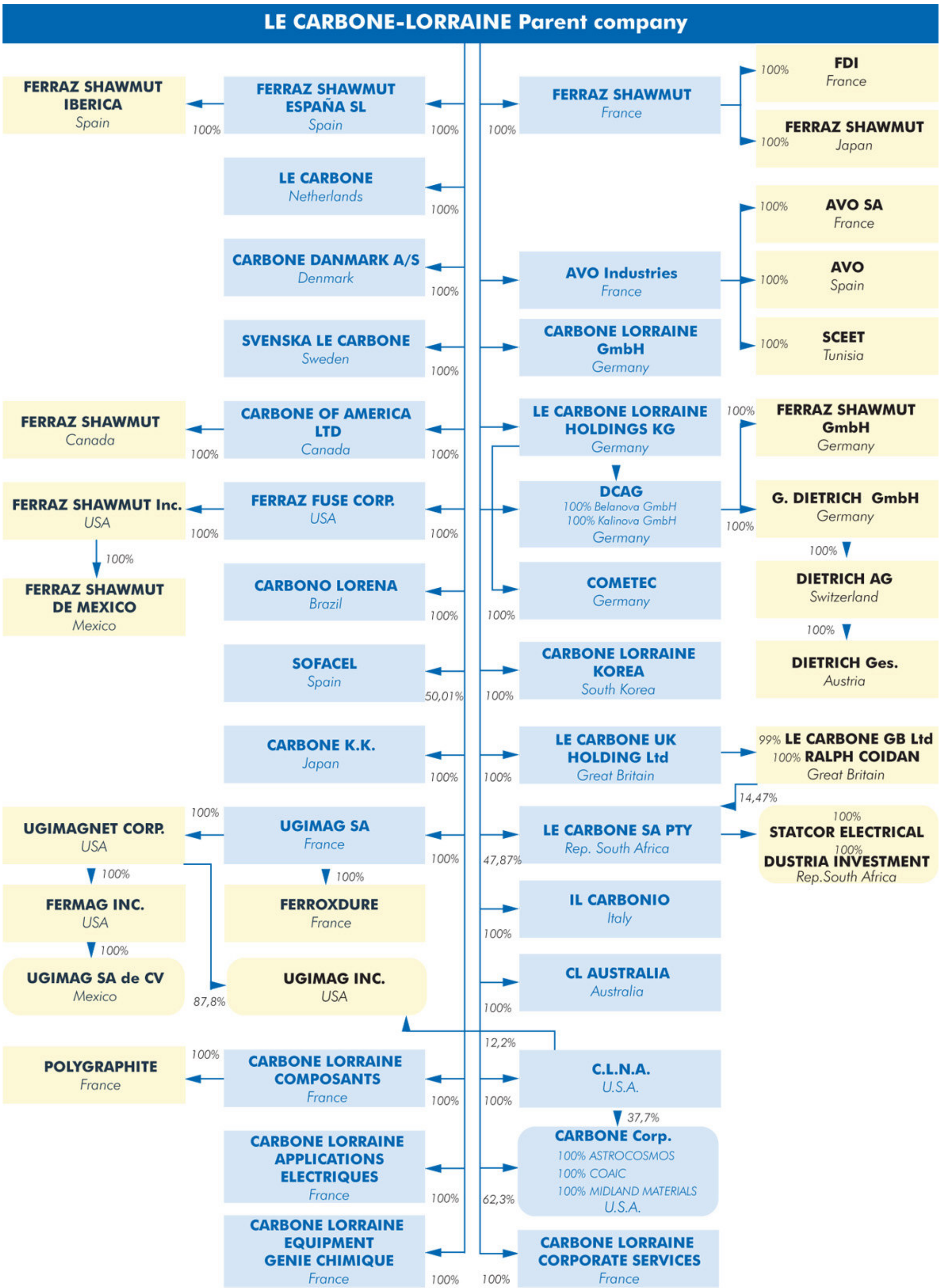
10 December – Montpellier

Annual General Meeting

5 May in Paris (first notice)

Consolidated financial statements

Scope of consolidation at 31 December 2002 - Le Carbone-Lorraine SA



List of consolidated companies

	% of voting rights held by the Group	% of the share capital owned by the Group
1, Le Carbone-Lorraine SA (France)	100	100
2. Carbone Lorraine Applications Electriques (France)	100	100
3. Carbone Lorraine Composants (France)	100	100
4. Carbone Lorraine Equipement Génie Chimique (France)	100	100
5. Carbone Lorraine Corporate Services (France)	100	100
6. AVO Industries (France)	100	100
- AVO SA (France)	100	100
- AVO (Spain)	100	100
- SCEET (Tunisia)	100	100
7. Ferraz Shawmut SA (France)	100	100
- FDI	100	100
8. Ugimag SA (France)	100	100
9. Ferroxdure (France)	100	100
10. Polygraphite (France)	100	100
11. Carbone Lorraine Holdings KG (Germany)	100	100
- Deutsche Carbone AG	100	100
- Belanova-Kalbach GmbH	100	100
- Kalinova-Kalbach GmbH	100	100
- Ferraz Shawmut GmbH (ex-Berg)	100	100
- Cometec	100	100
12. Carbone Danmark SA	100	100
13. G. Dietrich GmbH (Germany)	100	100
14. Dietrich AG (Switzerland)	100	100
15. Dietrich Ges. (Austria)	100	100
16. Carbone Lorraine GmbH (Germany)	100	100
17. Sofacel (Spain)	50	50
18. Ferraz Shawmut España	100	100
- Ferraz Shawmut Iberica	100	100
19. Le Carbone Holdings Ltd GB	100	100
- Le Carbone GB Ltd	100	100
- Ralph Coidan Equipment Ltd	100	100
- Ralph Coidan Ltd	100	100
20. Il Carbonio Spa (Italy)	100	100
21. Le Carbone-Lorraine (Netherlands) BV	100	100
22. Svenska Le Carbone (Sweden)	100	100
23. Carbone of America (LCL) Ltd (Canada)	100	100
24. Ferraz Shawmut Canada	100	100
25. Carbone Lorraine North America (USA) - Carbone Corp. - Carbone Of America Industries Corp. - Astrocosmos Metallurgical Inc. - Midlands Materials	100 100 100 100 100 100	100 100 100 100 100 100
26. Ferraz Fuse Corp. (US)	100	100
- Ferraz Shawmut Inc. (USA)	100	100
- Ferraz Shawmut de Mexico (Mexico)	100	100
27. Ugimagnet Corp. USA	100	100
- Ugimag Inc. US	100	100
- Fermag Inc.	100	100
- Ugimag SA de CV	100	100
28. Le Carbone-Lorraine Australia	100	100
29. Le Carbone KK (Japan)	100	100
30. Ferraz Shawmut Japan	100	100
31. Le Carbone (South Africa) PTY Ltd (RSA)	62.3	62.3
- Statcor Electrical	62.3	62.3
- Dustria Investment	62.3	62.3
32. Carbono Lorena (Brazil)	100	100
33. Carbone Lorraine Korea	100	100

The fiscal year of all these companies is the same as the calendar year.

Changes in the scope of consolidation over the last three years

The major changes that affected the consolidated financial statements in 2000, 2001 and 2002 are presented below:

- The following assets were fully consolidated for the first time during fiscal 2000:
  - the electrical applications activity of US company Superior Carbon, which was acquired in 2000;
  - Carbone Lorraine Korea, as a result of the acquisition in 1999 of the magnets activity of Tongkook of South Korea.

  The computer magnets assets of Ugimag Inc. and Ugimag AG (Switzerland), Ugimag Singapore and Ugimagnetics (Singapore) were deconsolidated following their disposal at the end of October 2000.
- The following assets were fully consolidated for the first time during fiscal 2001:
  - AVO's brush/brush-holder assemblies activity, which was acquired on 1 May 2001;
  - the following companies, which were spun off by Le Carbone-Lorraine SA (France):
  - Carbone Lorraine Applications Electriques (Electrical Applications),
  - Carbone Lorraine Composants (Components),
  - Carbone Lorraine Equipement Génie Chimique (Chemical Engineering Equipment),
  - Carbone Lorraine Corporate Services.

  Ugimag SA's specialty magnets assets were deconsolidated following their sale at the end of June 2001.
- Polygraphite, which was acquired at the end of 2001, was fully consolidated for the first time during fiscal 2002. Given the non significant size of this acquisition, no pro forma accounts have been established.

Earnings per share

Groupe Carbone Lorraine	2002	2001	2000
Number of shares	11,139,150	11,128,462	11,109,733
€m Income before tax and non-recurring items	45.5	51.4	71.3
Net income before non-recurring items	32.2	34.5	47.9
Net income before goodwill amortization	(4.7)	7.4	47.4
Net income, Group share	**(10.8)**	**(8.1)**	**41.2**
€ per share			
Income before tax and non-recurring items	4.1	4.6	6.4
Net income before non-recurring items	2.89	3.1	4.3
Net income before goodwill amortization	(0.4)	0.7	4.3
Net income, Group share	(1.0)	(0.7)	3.7
Fully-diluted net earnings (1)	**(0.9)**	**(0.7)**	**3.4**

(1) Net income, Group share/number of shares outstanding + share subscription options still to be exercised at the close of the fiscal year.

Le Carbone-Lorraine (parent company)	2002	2001	2000
Number of shares	11,139,150	11,128,462	11,109,733
€m Income before tax and non-recurring items	19.6	0.9	15.7
Net income	**1.2**	**3.3**	**17.7**
€ per share Income before tax and non-recurring items	1.76	0.08	1.4
Net income	**0.11**	**0.30**	**1.6**

Dividends paid during the past three fiscal years	2002	2001	2000
Dividend paid (€ m)	9.3	13.2	15.9
Net dividend in € per share*	0.6	0.8	1.06

** Paid during the following fiscal year.*

Consolidated balance sheet

ASSETS (€ m)	2002	2001	2000
FIXED ASSETS			
Intangible fixed assets			
– Goodwill	193.2	227.6	218.0
– Other intangible assets	15.6	18.7	23.7
Property, plant and equipment			
– Land	11.8	13.6	12.3
– Buildings	44.7	53.4	50.8
– Plant, equipment and other tangible assets	94.9	111.7	113.5
– Fixed assets in progress	15.5	14.1	15.6
Financial assets			
– Investments in unconsolidated subsidiaries and affiliates	13.6	16.1	17.6
– Other financial assets	17.3	20.9	17.2
TOTAL FIXED ASSETS	**406.6**	**476.1**	**468.7**
CURRENT ASSETS			
– Inventories	126.4	154.0	155.5
– Trade accounts and related receivables	142.5	170.3	161.0
– Other receivables	39.9	48.9	45.9
– Financial receivables	0.3	0.5	0.8
– Marketable securities	4.1	4.8	2.9
– Cash and equivalents	25.6	18.4	27.3
TOTAL CURRENT ASSETS	**338.8**	**396.9**	**393.4**
TOTAL ASSETS	**745.4**	**873.0**	**862.1**

LIABILITIES AND SHAREHOLDERS' EQUITY (€ m)	2002	2001	2000
SHAREHOLDERS' EQUITY			
– Share capital	22.3	22.3	22.2
– Additional paid-in capital, reserves and retained earnings	239.9	261.4	235.4
– Net income for the year (Group share)	(10.8)	(8.1)	41.2
– Cumulative translation adjustment (Group share)	(9.5)	15.9	10.5
TOTAL SHAREHOLDERS' EQUITY	**241.9**	**291.5**	**309.3**
– Minority interests	4.4	3.8	4.3
SHAREHOLDERS' EQUITY AND MINORITY INTERESTS	**246.3**	**295.3**	**313.6**
– Long-term provisions	35.5	41.2	39.4
LIABILITIES			
– Long-term debt	201.1	286.0	287.5
– Trade accounts and related payables	62.5	76.0	76.7
– Other payables	57.2	67.4	67.7
– Current portion of long-term provisions	47.2	17.6	14.5
– Other liabilities	30.4	36.9	17.7
– Current portion of long-term debt	27.7	11.0	15.7
– Short-term loans	2.3	3.0	0.1
– Bank overdrafts	35.2	38.6	29.1
TOTAL LIABILITIES AND PROVISIONS	**499.1**	**577.7**	**548.5**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**745.4**	**873.0**	**862.1**

Consolidated income statement - Groupe Carbone Lorraine

(€ m)	2002	2001	2000
Sales, net	720.9	803.7	876.1
Cost of sales	(499.6)	(560.6)	(594.8)
Gross income	**221.3**	**243.2**	**281.2**
Selling and marketing expense	(63.1)	(66.0)	(69.7)
Administrative and research expense	(61.9)	(61.5)	(68.1)
Other operating expenses and provisions	(3.2)	(3.8)	(5.9)
Operating income before depreciation and amortization	**93.1**	**111.9**	**137.5**
Depreciation and amortization	(33.5)	(35.9)	(36.2)
Operating income	**59.6**	**76.0**	**101.4**
Net financial expense	(14.1)	(24.6)	(30.1)
Income before tax and non-recurring items	**45.5**	**51.4**	**71.3**
Income tax	(12.8)	(16.4)	(23.6)
Minority interests	(0.5)	(0.5)	0.2
Net income before non-recurring items, Group share	**32.2**	**34.5**	**47.9**
Non-recurring items (after tax)	(36.9)	(27.1)	(0.6)
Net income before goodwill amortization	**(4.7)**	**7.4**	**47.4**
Goodwill amortization	(6.1)	(15.5)	(6.2)
Net income, Group share	**(10.8)**	**(8.1)**	**41.2**

Consolidated statement of cash flows

(€ m)	2002	2001	2000
CASH FLOW	**67.2**	**69.8**	**89.2**
Changes in the working capital requirement	19.1	(2.0)	(11.3)
Other changes	(5.7)	(7.6)	(7,8)
(A) Net cash flow generated by operating activities	**80.6**	**60.2**	**70.1**
INVESTING ACTIVITIES			
Increase in intangible fixed assets	(2.6)	(3.9)	(8.2)
Increase in property, plant and equipment	(23.2)	(31.5)	(29.8)
Increase in financial assets	(0.2)	(2.4)	(2.3)
Disposals of fixed assets	1.6	1.4	2.3
(B) Net cash flow used in investing activities	**(24.4)**	**(36.4)**	**(38.0)**
(C) Net cash flow generated by operating and investing activities	**56.2**	**23.8**	**32.1**
Net investments related to the impact of changes in the scope of consolidation	(2.8)	(4.1)	32.3
Non-recurring disposals of fixed assets	3.5		
(D) Net cash flow	**56.9**	**19.7**	**64.3**
Proceeds of capital increase	0.2	0.3	6.5
Net dividends paid to shareholders and minority interests	(14.1)	(17.0)	(10.4)
Non-operating cash flows	(0.4)	(2.3)	(9.9)
(E) Net change in long-term debt	**42.6**	**0.7**	**50.5**

Notes to the consolidated financial statements

Note 1 • Accounting policies and principles of consolidation

The consolidated financial statements of the 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 French commercial and public companies.

A – Consolidation basis

The consolidated financial statements of the Group include Le Carbone-Lorraine and all significant subsidiaries in which the Group directly or indirectly holds a controlling interest.

All companies within the scope of consolidation are fully consolidated.

B – Foreign currency translation

The financial statements of foreign subsidiaries are translated into euros according to the following method:

- balance sheet items are translated into euros at year-end exchange rates;
- income statement items are translated at the average annual exchange rate;
- translation differences (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 rate and net income calculated at the year-end exchange rate.

C – *Assets and liabilities denominated in foreign currencies*

Transactions denominated in a currency other than the Group's functional currency are booked at the exchange rate ruling on the transaction date. Assets and liabilities deriving from these transactions and appearing on the balance sheet 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 fixed assets

a) Goodwill

Goodwill, which is the difference between the purchase price of the shares and the market value of the net underlying assets purchased, is recorded as goodwill and 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 period not exceeding 5 years.

c) Patents and licences

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

E – Property, plant and equipment

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

Depreciation is calculated for property, plant and equipment under the straight-line method based the expected service life of the asset.

The periods used are as follows:

• 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 – Financial assets

Investments in unconsolidated subsidiaries and affiliates are carried at cost. In the event of a lasting decline in value, an impairment loss is recognized if 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 27 unconsolidated subsidiaries. Their primary business is to distribute goods produced by the consolidated companies, and including them in the scope of consolidation would not have a material impact on Group sales.

G – 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.

Provision is made for slow-moving inventories where economically justified.

H – 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.

I – Research costs

Research costs are expensed as incurred.

J– Pension plans and retirements indemnities

Group commitments under defined benefit pension plans and retirement indemnities are determined by 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 acquired 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 2000. The primary assumptions used were an interest rate of 6.0% and a general rate of increase in salaries of 2%.

K – Operating income

Operating income is shown before net financial expense, taxes and non-recurring items. The operating income for each business segment 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.

L – Deferred taxes

Accounting restatements or consolidation adjustments (depreciation, provisions, tax deductions) may affect the results of the consolidated companies. Timing differences between taxable income and restated accounting income 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.

M – Non-recurring items

Non-recurring items correspond to the charges and income generated that do not relate to the day-to-day management of the Group. They are characterized in general by their unusual and one-off nature.

Note 2 • Intangible fixed assets

(€ m)	2002	2001	2000
Goodwill			
Gross	231.9	266.3	240.2
– Amortization	(38.7)	(38.7)	(22.2)
= Net	**193.2**	**227.6**	**218.0**
Other intangible fixed assets	12.2	13.9	19.6
Deferred costs	3.4	4.8	4.1
Total	**208.8**	**246.3**	**241.7**

Goodwill, which relates primarily to acquisitions made by the Group in North America (€164.0 million at year-end 2002) and in the UK (€16.4 million), is amortized over a period of 40 years. Other goodwill related to smaller acquisitions is amortized over a period of 20 years.

The gross change in goodwill during 2002 is attributable partly to acquisitions made during the period (€1.2 million) and partly to the impact of currency translation adjustments (negative impact of €35.6 million).

A breakdown by business segment is shown in the following table:

(€ m)	Opening balance			Movements			Closing balance		
	Gross	Amort.	Net	Acquisit.	Trans. adj.	Amort.	Gross	Amort.	Net
Electrical Applications	43.4	(7.3)	36.1	1.2	(3.0)	(1.2)	40.3	(7.2)	33.1
Electrical Protection	88.1	(5.5)	82.6	0.0	(11.4)	(2.1)	75.7	(6.6)	69.1
Magnets	15.5	(15.0)	0.5	0.0	(0.0)	(0.0)	13.5	(13.0)	0.5
Advanced Materials and Technologies	119.3	(10.9)	108.4	0.0	(15.1)	(2.8)	102.4	(11.9)	90.5
Total	**266.3**	**(38.7)**	**227.6**	**1.2**	**(29.5)**	**(6.1)**	**231.9**	**(38.7)**	**193.2**

Note 3 • Property, plant and equipment

(€ m)	2000	Additions	Disposals and other	Changes in scope of consolidation	Translation adjustment	2001
Land	13.1	1.5	(0.7)	0.4	0.0	14.3
Buildings	97.3	4.3	(16.4)	18.3	1.6	105.1
Plant, equipment and other fixed assets	332.4	21.3	(86.3)	85.7	5.6	358.7
Fixed assets in progress	15.6	9.5	(17.4)	6.0	0.4	14.1
Gross total	**458.4**	**36.6**	**(120.8)**	**110.4**	**7.6**	**492.2**

	2000	Additions	Write-backs and other	Changes in scope of consolidation	Translation adjustment	2001
Land	0.7	0.0	(0.1)	0.1	0.0	0.7
Buildings	46.5	3.8	(13.8)	14.6	0.6	51.7
Plant, equipment and other fixed assets	219.0	32.6	(68.9)	61.3	3.0	247.0
Total depreciation	**266.2**	**36.4**	**(82.8)**	**76.0**	**3.6**	**299.4**
Net value of property, plant and equipment	**192.2**	**0.2**	**(38.0)**	**34.4**	**4.0**	**192.8**

(€ m)	2001	Additions	Disposals and other	Changes in scope of consolidation	Translation adjustment	2002
Land	14.3	0.2	(1.1)	0.0	(0.9)	12.5
Buildings	105.1	1.3	(1.4)	0.0	(8.3)	96.7
Plant, equipment and other fixed assets	358.7	10.7	(6.3)	2.4	(23.7)	341.8
Fixed assets in progress	14.1	9.6	(7.0)	0.0	(1.2)	15.5
Gross total	**492.2**	**21.8**	**(15.8)**	**2.4**	**(34.1)**	**466.5**

	2001	Additions	Write-backs and other	Changes in scope of consolidation	Translation adjustment	2002
Land	0.7	0.1	(0.1)	0.0	0.0	0.7
Buildings	51.7	4.1	(1.0)	(0.0)	(2.8)	52.0
Plant, equipment and other fixed assets	247.0	24.9	(11.0)	1.7	(15.7)	246.9
Total depreciation	**299.4**	**29.1**	**(12.1)**	**1.7**	**(18.5)**	**299.6**
Net value of property, plant and equipment	**192.8**	**(7.3)**	**(3.7)**	**0.7**	**(15.6)**	**166.9**

Note 4 • Investments in unconsolidated subsidiaries and affiliates

(€ m)	2002	2001	2000
At year end, the unconsolidated shareholdings held by consolidated companies represented a gross book value of:	23.4	25.6	22.6
Less an impairment loss of:	(9.8)	(9.5)	(5.0)
Net book value	**13.6**	**16.1**	**17.6**
Other holdings	-	-	-

The impairment losses at year-end 2002 on investments in unconsolidated subsidiaries and affiliates relate primarily to the subsidiaries in Turkey and Argentina.

The main investments in unconsolidated subsidiaries and affiliates are as follows:

Name	% held	Gross value (€ m)	Net book value (€ m)
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	2.1
Elca Carbone Lorraine (India)	100	4.3	4.2
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.4
Ugimag Polska (Poland)	100	1.4	0.0
Carbone Lorraine Holding (Singapore)	100	1.1	0.4
Carbone Lorraine India	100	1.1	1.1
Nortroll (Norway)	34	0.8	0.8
Clisa (Mexico)	49	1.0	1.0
Carbone Lorraine Greece	100	0.6	0.6
Carbone Lorraine Information Systems (France)	100	0.5	0.5
Madras Carbone	51	0.5	0.5
Carbone Lorraine (Malaysia) SDN BHD	90	0.4	0.4
PCL Hungary	100	0.4	0.0
Carbone-Lorraine Chile	100	0.2	0.2
Carbone-Lorraine Shanghai (China)	100	0.2	0.2
Carbone Lorraine Mexico	100	0.2	0.2
Carbone-Lorraine Colombia	80	0.1	0.1
Carbone Materials Japan	100	0.1	0.1
Other holdings	–	1.8	0.8
Total		**23.4**	**13.6**

The as-yet unaudited sales and total net income of these companies stand respectively at around €22.1 million and €0.7 million.

Note 5 • Inventories

(€ m)	2002	2001	2000
Raw materials and other supplies	60.6	70.5	68.7
Work in progress	36.5	46.5	49.7
Finished goods	40.5	48.7	49.0
Gross value	**137.6**	**165.7**	**167.4**
Impairment loss	(11.2)	(11.7)	(11.8)
Net book value	**126.4**	**154.0**	**155.6**

The net book value of inventories fell by €27.6 million during 2002. Of this amount, €11.1 million is attributable to currency effects. At constant exchange rates, inventories decreased by 10.7% or €16.5 million.

Note 6 • Shareholders' equity (Group share)

(€ m)	Number of shares	Share capital	Additional paid-in capital, Reserves	Net income for the year	Cumulative translation adjustment	Total
Shareholders' equity at 31 Dec. 1999	**10,895,464**	**21.8**	**222.7**	**16.3**	**3.3**	**264.1**
Prior year's net income			16.3	(16.3)		0.0
Dividends paid			(9.5)			(9.5)
Capital increase	214,269	0.4	6.0			6.4
Net income (Group share)				41.2		41.2
Translation adjustment					7.1	7.1
Shareholders' equity at 31 Dec. 2000	**11,109,733**	**22.2**	**235.4**	**41.2**	**10.5**	**309.3**
Prior year's net income			41.2	(41.2)		0.0
Dividends paid			(15.8)			(15.8)
Capital increase	18,729	0.1	0.2			0.3
Net income (Group share)				(8.1)		(8.1)
Translation adjustment and other			0.4		5.4	5.8
Shareholders' equity at 31 Dec. 2001	**11,128,462**	**22.3**	**261.4**	**(8.1)**	**15.9**	**291.5**
Prior year's net income			(8.1)	8.1		0.0
Dividends paid			(13.1)			(13.1)
Capital increase	10,688	0.0	0.2			0.2
Net income (Group share)				(10.8)		(10.8)
Translation adjustment			0.5		(25.4)	(25.9)
Shareholders' equity at 31 Dec. 2002	**11,139,150**	**22.3**	**239.9**	**(10.8)**	**(9.5)**	**241.9**

In 2000, the capital increase resulted from:

- the capital increase reserved for employees, leading to the issuance of 199,998 new shares;
- the capital increase triggered by the exercise of subscription options granted to employees, leading to the issuance of 14,271 new shares.

In 2001, the capital increase resulted from the exercise of subscription options granted to employees, leading to the issuance of 18,729 new shares.

In 2002, the capital increase resulted from the exercise of subscription options granted to employees, leading to the issuance of 10,688 new shares.

Note 7 • Share capital

At 31 December 2002, the share capital, which comprised 11,139,150 shares, each with a nominal value of €2, was held as follows:

In %	
BNP Paribas	21.1
Free float	78.9

Note 8 • Changes in minority interests

(€ m)	
Minority interests at start of the year	3.8
Dividends paid	(1.0)
Net income	0.5
Changes in the scope of consolidation	1.0
Translation adjustment	0.1
Minority interests at 31 Dec. 2001	**4.4**

Note 9 • Long- and short-term provisions

The basis for and the evaluation of provisions were based on the facts known at 17 March 2003, i.e. the date of the Board of Directors' meeting called to close the books. Any subsequent events that were not known at this date would be liable to undermine in a potentially significant manner the core assumptions underpinning these provisions, as well as their evaluation.

(€ m)	2002		2001		2000	
	LT	CT	LT	CT	LT	CT
Provision for deferred income tax	7.8	2.2	13.7	2.9	10.0	1.0
Provisions for pensions and retirement indemnities	26.4	2.1	24.6	2.4	24.1	2.7
Other provisions for liabilities	1.3	42.9	2.7	12.3	4.6	10.8
including:						
- provision for restructuring	1.1	5.3	1.4	4.7	4.5	4.8
- provision for litigation	-	33.9	-	3.9	-	5.0
- impairment losses on fixed assets	-	2.5	-	2.9	-	-
- provision for sums owed to minority interests	-	-	0.8	-	-	-
- other provisions	0.2	1.2	0.5	0.8	0.1	1.0
Investment grants	0.1	-	0.2	0.0	0.7	0.0
Total	**35.6**	**47.2**	**41.2**	**17.6**	**39.4**	**14.5**

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

Note 10 • Net debt

(€ m)	2002	2001	2000
Long and medium-term debt	201.1	286.0	287.5
Current portion of long-term debt (excluding accrued interest)	24.7	2.4	2.0
Short-term loans	5.2	11.6	13.9
Bank overdrafts	35.2	38.6	29.1
Total gross debt	**266.2**	**338.6**	**332.5**
Marketable securities(*)	(4.1)	(4.8)	(2.9)
Short-term advances	(0.3)	(0.5)	(0.8)
Cash and equivalents	(25.6)	(18.4)	(27.3)
Total net debt	**236.2**	**314.9**	**301.5**

** Marketable securities include treasury shares held for the purpose of stabilizing the share price. These treasury shares accounted for 1.53% of the share capital at 31 December 2002. They were written down to the average share price for December 2002.*

Total net debt stood at €236.2 million at year-end 2002 compared with €314.9 million at year-end 2001. This decrease is primarily attributable to the Group's strong cash generation during the year (€56.9 million after the financing of investments, prior to the €14.1 million dividend payment) and the depreciation in the US dollar between 31 December 2001 and 31 December 2002, which had a negative impact of €36.1 million.

Net debt represented 96% of shareholders' equity at year-end 2002 compared with 107% at year-end 2001.

	2002	2001	2000
Total net debt (€ m)	236.2	314.9	301.5
Net debt/shareholders' equity	0.96	1.07	0.96

At 31 December 2002, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

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:

(€ m)	2002	2001	2000
Net debt at end of prior year	**314.9**	**301.5**	**322.4**
Net cash flow generated by operating and investing activities	(56.2)	(23.8)	(32.1)
Capital increase	(0.2)	(0.3)	(6.5)
Dividends paid	14.1	17.0	10.4
Impact of changes in the scope of consolidation	(0.7)	4.6	(20.4)
Non-operating cash flows	0.5	2.3	9.9
Translation adjustments and other	(36.2)	13.6	17.7
Net debt at end of year	**236.2**	**314.9**	**301.5**

In December 2000, the Group refinanced its debt with a USD 300 million credit line syndicated with an international pool of banks. At 31 December 2002, this credit line stood at €260.8 million, including a tranche of USD 195 million expiring in December 2005 and a tranche of USD 65.8 million expiring in December 2003.

The syndicated loan agreement stipulates that the Group's net debt to shareholders' equity and net debt to EBITDA ratios must remain respectively below 1.3x and 3.25x for the entire duration of the agreement. The credit margin varies according to the level of the net debt to shareholders' equity ratio.

At 31 December 2002, the total amount of confirmed credit lines came to USD 292.8 million, of which USD 64.8 million has not been drawn down, with the following expiry dates:

- USD 11.0 million: end-April 2003;
- USD 65.8 Million: December 2003;
- USD 195 million: December 2005;
- USD 21.0 million: January 2006.

Breakdown of long- and medium-term debt, including the current portion at 31 December 2002

(€ m)	Total	< 1 year	>1 and <5 years	> 5 years
Denominated in USD	161.2	19.1	142.1	
Denominated in EUR	50.9	4.1	46.8	-
Denominated in GBP	10.0	-	10.0	-
Denominated in KRW	1.5	1.5	-	-
Denominated in CAD	2.2	-	-	2.2
Total	**225.8**	**24.7**	**198.9**	**2.2**

Analysis of total net debt at 31 December 2002

By currency	€ m	%
EURO	32.5	13.8
USD	188.3	79.7
GBP	8.8	3.7
Other	6.6	2.8

By interest rate	€ m	%
Fixed	66.7	28.2
Variable	169.5	71.8

The Group's policy for managing interest rate risk consists solely in taking limited fixed-rate positions from time to time depending on trends in borrowing rates.

In December 1997, the Group purchased a 5-year cap on the 3-month Libor dollar rate for a nominal amount of USD 35 million, guaranteeing it a rate cap over the period of 6.12%. The premium agreed in December 1997 for the cap was recognized over the duration of the contract, which is 5 years. This contract expired in December 2002.

In June 1999, the Group purchased an interest-rate swap for a nominal amount of USD 60 million. The terms of this swap were that the Company paid a fixed rate of 6.38% and received 3-month USD Libor. The start date for the swap was 31 August 1999, and it had a maturity of 3 years. This contract expired in August 2002.

In February 2002, the Group purchased a swap for a nominal amount of USD 70 million. Under the terms of this swap, the Company pays a fixed rate of 3.4275% and receives 1-month USD Libor. The start date for the swap was 24 February 2002, and it has a maturity of 2 years.

All the Group's interest rate hedging activities are carried out by the parent company (LCL France).

Note 11 • Sales

Analysis of sales by business segment

	2002		2001		2000	
	€ m	%	€ m	%	€ m	%
Electrical Applications	192	26.6	193	24.0	186	21.2
Permanent Magnets	106	14.7	124	15.4	212	24.2
Electrical Protection	193	26.8	226	28.1	240	27.4
Advanced Materials and Technologies	230	31.9	261	32.5	238	27.2
Total	**721**	**100**	**804**	**100**	**876**	**100**

Analysis of sales by geographical region

	2002		2001		2000	
	€ m	%	€ m	%	€ m	%
France	117	16.2	118	14.7	104	11.9
Rest of Europe	239	33.2	260	32.3	262	29.9
North America	247	34.3	307	38.2	351	40.1
Asia	67	9.3	68	8.4	106	12.1
Rest of the world	50	7.0	51	6.4	53	6.0
Total	**721**	**100**	**804**	**100**	**876**	**100**

Note 12 • Operating income

Analysis of operating income and the operating margin by business segment

	2002		2001		2000	
	O. I. (€ m)	O. I./ sales* (%)	O. I. (€ m)	O. I./ sales* (%)	O. I. (€ m)	O. I./ sales* (%)
Electrical Components						
Electrical Applications	22.4	11.7	24.7	12.8	28.3	15.3
Permanent Magnets	3.1	2.9	(3.0)	(2.4)	9.2	4.3
Electrical Protection	11.6	6.0	21.8	9.7	26.4	11.0
Advanced Materials and Technologies	34.9	15.2	43.3	16.6	47.5	19.9
Corporate overheads	(12.4)	(1.7)	(10.8)	(1.3)	(10.0)	(1.1)
Total	**59.6**	**8.3**	**76.0**	**9.5**	**101.4**	**11.6**

**O.I./sales: operating income/sales*

The way corporate overheads are accounted for was altered during 2002 owing to the spin-off of Carbone Lorraine's French businesses into separate subsidiaries.

Note 13 • Capital employed

(€ m)	2002	2001	2000
Electrical Components			
Electrical Applications	120.4	131.1	130.8
Permanent Magnets	56.3	64.4	87.5
Electrical Protection	158.4	195.9	191.8
Advanced Materials and Technologies	213.4	255.4	239.8
Other	16.9	22.3	19.1
Total	**565.4**	**669.1**	**669.0**

Capital employed represents the sum of intangible fixed assets, property, plant and equipment, and the working capital requirement.

The decrease in capital employed during 2002 (by €103.7 million) is primarily attributable to currency effects (reduction of €60.6 million), the decline in fixed assets (by €23.0 million) and the contraction in the working capital requirement (by €20.1 million).

Note 14 • Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension plans and retirement indemnities) totalled €251.1 million in 2002 compared with €270.6 million in 2001.

The decrease in payroll costs attributable to changes in the scope of consolidation (disposals and acquisitions) came to €1.5 million. On a comparable structure basis and at constant exchange rates, payroll costs fell by 5.0% as a result of workforce reductions in North America.

In 2002, the compensation and benefits paid to members of the Board of Directors and the Executive Committee came to €1.3 million.

Breakdown of consolidated average headcount by employee category

Categories	2002	2001	2000
Engineers and managers	614	670	659
Technicians and supervisors	792	931	1,026
Employees	1,172	1,167	1,174
Plant workers	4,666	5,097	5,494
Total	**7,244**	**7,865**	**8,353**
o/w the impact of changes in the scope of consolidation	*120*	*(142)*	*1,201*

Breakdown of consolidated average headcount by geographical region:

Categories	2002	2001	2000
France	2,941	2,592	2,485
Rest of Europe	1,319	1,694	1,534
North America (including Mexico)	2,202	2,801	3,397
Asia	294	292	478
Rest of the world	488	486	459
Total	**7,244**	**7,865**	**8,353**

The average headcount fell by 621 employees in 2002. At comparable structure, the decrease was 741.

Note 15 • Other operating expenses and provisions

(€ m)	2002	2001	2000
Provisions for plant, modernization and adaptation	0.5		(0.2)
Employee profit-sharing and other incentives	(3.6)	(4.3)	(5.6)
Other changes in operating provisions	(0.1)	0.5	(0.1)
Total	**(3.2)**	**(3.8)**	**(5.9)**

Note 16 • Depreciation and amortization

(€ m)	2002	2001	2000
Intangible fixed assets	(4.4)	(4.6)	(4.0)
Property, plant and equipment	(29.1)	(31.3)	(32.2)
Total	**(33.5)**	**(35.9)**	**(36.2)**

Note 17 • Financial expense

(€ m)	2002	2001	2000
Interest on long and medium-term debt	(9.5)	(14.1)	(18.5)
Interest on short-term debt and other expenses	(5.8)	(9.0)	(9.0)
Amortization of debt issuance costs	(0.3)	(0.3)	(0.8)
Total financial expense	**(15.6)**	**(23.4)**	**(28.3)**
Financial income	1.2	2.9	0.8
Currency gains (losses)	0.3	(4.1)	(2.6)
Total net financial expense	**(14.1)**	**(24.6)**	**(30.1)**

The reduction in financial expense is primarily attributable to the reduction in interest rates and in the level of average debt.

Insofar as the various Group companies realize almost all their sales in their local currency, currency risk primarily affects intra-Group transactions.

Sales transactions are generally hedged with instruments whose maturity matches the customary payment terms. This currency exposure is covered mainly by the parent company Le Carbone-Lorraine France, which centralizes hedging requirements and performs the necessary transactions using conventional forward currency transactions to a great extent. The other types of transaction do not carry any risks.

Exposure to interest rate risks

A maturity analysis of the Group's financial assets and liabilities at 31 December 2002 is shown in the following table:

(€m)	< 1 year	>1 and <5 years	> 5 years
Financial Liabilities	65.2	198.9	2.2
Financial assets	(30.0)	-	-
Net position before hedging	35.2	198.9	2.2
Interest-rate swaps	-	(66.7)	-
Net position after hedging	35.2	132.2	2.2

If interest rates increased by 1% (100 basis points), financial expense related to net debt would increase by €1.7 million, potentially leading to a 12.1% increase on the net financial expense posted during 2002.

Note 18 • Current and deferred tax

(€ m)	2002	2001	2000
Current income taxes	(14.4)	(13.2)	(21.0)
Deferred income taxes	1.7	(3.1)	(2.5)
Withholding taxes	(0.1)	(0.1)	(0.1)
Total tax on operating items	**(12.8)**	**(16.4)**	**(23.6)**
Non-recurring current and deferred tax	8.0	4.8	1.3
Total tax expense	**(4.8)**	**(11.6)**	**(22.3)**

Le Carbone Lorraine SA, Carbone Lorraine Applications Electriques, Carbone Lorraine Composants, Carbone Lorraine Equipement Génie Chimique, Carbone Lorraine Corporate Services, Ferraz Shawmut SA, Ugimag, Ferroxdure and AVO are consolidated for tax purposes. There are two consolidated tax groups in the US, with one encompassing Carbone Lorraine North America and its subsidiaries (see scope of consolidation) and the other encompassing Ugimagnet, Ugimag Inc. and Fermag Inc., as well as two consolidated tax groups in Germany, with one comprising Le Carbone Holdings KG and Cometec and the other spanning DCAG, Dietrich GmbH and Ferraz Shawmut GmbH.

The Group's effective tax rate excluding non-recurring items was 28.0% in 2002 compared with 32.0% in 2001 and 33.1% in 2000.

The decline in the effective tax rate during 2002 is attributable to the research tax credit in France and the partial use of tax losses that were not accounted for as assets in 2001 against the earnings posted by the Magnets business in the US. Excluding these non-recurring items, the effective rate of current income tax for 2002 would have been 30%.

Detail of tax expense

(€ m)	2002
Net income, Group share	(10.8)
Goodwill amortization	6.1
Minority interests	0.5
Tax expense/(benefit)	4.8
Taxable income	**0.6**
Current income tax rate in France	35.43%
Theoretical tax benefit (expense) (taxable income x current income tax rate in France)	**(0.2)**
Difference between the income tax rate in France and other jurisdictions	1.0
Transactions qualifying for a reduced rate of taxation	(0.5)
Permanent timing differences	(7.0)
Impact of limiting deferred tax assets	(1.5)
Other	3.4
Actual tax benefit (expense)	**(4.8)**

The deferred tax assets and liabilities recorded on the balance sheet are as follows:

(€ m)	2002	2001	2000
Deferred tax assets (recorded under financial and current assets)	16.9	22.2	19.1
Deferred tax liabilities (recorded under provisions)	(10.0)	(16.7)	(11.0)
Net position	**6.9**	**5.5**	**8.1**

The movements during 2002 were as follows:

(€ m)	2002	Earnings	Other	Trans. adj.	2001
Provisions for retirement benefits	3.9	0.6			3.3
Provisions for restructuring	0.2	0.1			0.1
Depreciation and amortization	(4.0)	(1.4)	0.6	0.5	(3.7)
Regulated provisions	(4.6)	(0.4)			(4.2)
Impact of tax losses & other	11.4	2.0	(0.7)	0.1	10.0
Deferred tax – Net position	**6.9**	**0.9**	**(0.1)**	**0.6**	**5.5**

Note 19 • Non-recurring items after tax

(€ m)	2002	2001	2000
Impairment loss on investment securities	(0.4)	(5.2)	(1.9)
Retirement indemnity	(1.0)	(0.8)	(1.1)
After-tax capital gains on business disposals	2.5	2.3	3.5
Expense and provision for litigation	(28.6)	(1.3)	(1.2)
Other non-recurring income and expense	(9.4)	(22.1)	0.1
Total non-recurring items	**(36.9)**	**(27.1)**	**(0.6)**

In 2000, the capital gain derived from the sale of the rare earths magnets activity for IT and industrial applications.

In 2001, the impairment losses on investments related primarily to shareholdings in Argentina and Turkey.

The after-tax capital gains were recognized on the sale of the specialty magnets activity, as well as on the sale of the remainder of the rare earths magnets activity for IT and industrial applications.

Other non-recurring income and expense comprised impairment losses on assets (€13.9 million) concerning mainly the magnets activity in North America, restructuring costs (€5.7 million) and impairment losses on treasury shares (€1.2 million).

In 2002, the after-tax capital gains derived mainly from the sale of the Italian subsidiary's head office in Milan (€2.0 million).

Expense and provisions for litigation include an estimate of all the financial penalties that may arise from the proceedings currently in progress regarding anti-competitive practices potentially affecting some of the Group's activities. They thus include the €7 million fine that the European Commission meted out to the isostatic graphite business in December 2002. They also include an estimate of the likely consequences of the investigation that the European Commission recently launched into the brushes and mechanical products industry and of the class action lawsuits for compensation brought in the US by certain customers of the isostatic graphite and brushes activities.

The other non-recurring income and expense comprises primarily restructuring costs (€11.8 million), the repayment of the Valeo receivables (€4.0 million) that were written off at the end of 2001, the negative impact of the impairment losses on treasury shares and on share purchase options (€1.6 million).

Note 20 • Off-balance sheet commitments

1 – Financial commitments and liabilities

(€ m)	2002	2001	2000
Commitments received			
Discounted notes not yet matured	0.0	0.0	1.6
Guarantees and endorsements	1.3	0.3	0.5
Other commitments received	1.2	2.2	2.9
Bank commitments	0.0	0.0	5.2
Total	**2.5**	**2.5**	**10.2**
Commitments given			
Discounted notes not yet matured	0.0	0.0	1.6
Collateralized debts and commitments	0.5	0.5	0.6
Guarantees and endorsements	7.8	4.3	1.8
Lease commitments	7.6	8.4	6.8
Guarantees	17.8	21.0	13.3
Payment guarantee on acquisition	8.4	9.1	0.0
Other commitments given	3.2	0.2	1.4
Total	**45.3**	**43.5**	**25.5**

The table above summarises the Group's off-balance sheet commitments. The largest caption, totalling €17.8m, relates to 'Guarantees', and includes a €16m guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

2 – Title retention clause

None

Note 21 • Valuation of financial instruments

Fair value was estimated for the majority of the financial instruments held by the Group based on the year-end market rates. It was either calculated by the Group or obtained from banking counterparties with which the financial transactions were entered into. These instruments are backed by borrowings (interest rates) or sales transactions that are certain or almost certain (currency) to occur. The nominal amounts shown for currency instruments represent the sum of net positions for each currency.

(€ m)	Value at 31/12/2002	Nominal value	Nominal value	Nominal value
	2002	2002	2001	2000
Interest rate instruments	(1.5)	66.7	107.8	102.1
Currency instruments	2.8	18.8	37.7	27.5

Note 22 • Subsequent events

Carbone Lorraine North America entered into a joint venture agreement with Kirkwood on 22 January 2003, under which the automobile and household appliance brush activities (excluding brushcards) of both companies are to be pooled. Kirkwood's business, which posted 2002 sales of USD 10 million, will be transferred to Farmville (US) by the end of 2003 at the latest.

Carbone Lorraine plans to acquire the fluorinated polymer-lined piping systems of the Performance Plastics Products (3P) division of the Plastic Omnium group. This business, which posted sales of €5 million in 2002, will be transferred to the Pagny-sur-Moselle (France) site. The transaction is likely to be finalized over the coming months, after consultation of the relevant employee bodies.

Plans to reorganize some of the industrial activities of the Electrical Protection segment and the German brush for small electric motors business were announced in early 2003. These plans may lead to the transfer of some production to other Group sites.

>Statutory auditors' report

Annual financial statements (year ended 31 December 2002)

In accordance with our appointment as auditors by your Annual General Meeting, we have audited the consolidated financial statements of Le Carbone Lorraine for the year ended December 31, 2002, presented on pages 36 to 53.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as at December 31, 2002, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

We have also performed the procedures required by law on the Group financial information given in the report of the Board of Directors. We have no comment to make as to the fair presentation of this information nor its consistency with the consolidated financial statements.

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

Paris and Neuilly,18 March 2003

The Statutory Auditors

Ernst & Young Audit
Gilles RABIER

Deloitte Touche Tohmatsu
Jean-Luc POUMAREDE Alain PENANGUER

Summary parent company's Financial Statements

Condensed income statement

On 1 May 2001, Le Carbone Lorraine decided to spin-off its three industrial plants at Gennevilliers, Pagny-sur-Moselle and Amiens, as well as its functional activities, into newly created subsidiaries. As a result, the various income statement line items for 2000, 2001 and 2002 are not directly comparable with those for previous years. The same goes for the balance sheet line items for 2000 and 2001.

(€ m)	2002	2001	2000
Sales and other revenues	3.1	18.1	158.1
Purchases and changes in inventories	(0.0)	(8.9)	(48.2)
Salaries, wages and payroll taxes	(1.4)	(3.6)	(49.9)
Other operating expense	(2.9)	(6.3)	(41.4)
Depreciation, amortization and provisions	(1.8)	(1.9)	(8.4)
Operating income	(3.0)	(2.6)	10.2
Net financial expense	22.6	3.5	5.5
Income before tax and non-recurring items	19.6	0.9	15.7
Non-recurring items	(23.4)	(5.2)	(0.8)
Income tax and employee profit-sharing	5.0	7.6	2.8
Net income	**1.2**	**3.3**	**17.7**

Condensed balance sheet

Assets			
(€ m)	2002	2001	2000
Intangible fixed assets and property, plant and equipment	2.1	2.8	35.3
Financial assets	427.9	456.9	384.7
Fixed assets	430.0	459.7	420.0
Inventories	–	–	29.9
Trade receivables	1.3	1.7	45.8
Other receivables	44.1	26.9	24.7
Cash and marketable securities	7.8	9.5	12.0
Foreign currency translation losses	13.2	27.1	15.5
Total assets	**496.4**	**524.9**	**547.9**

Liabilities And Shareholders' Equity			
Share capital	22.3	22.3	22.2
Additional paid-in capital and reserves	131.3	144.0	152.6
Retained earnings	0.2	0.1	(3.2)
Net income for the period	1.2	3.3	17.7
Shareholders' equity	155.0	169.7	189.3
Provisions for liabilities and charges	20.3	7.5	8.7
Long-term debt	247.8	304.9	291.3
Other liabilities	61.6	37.9	56.9
Foreign currency translation gains	11.7	4.9	1.7
Total liabilities and shareholders' equity	**496.4**	**524.9**	**547.9**

N.B. Complete financial statements of the parent company Le Carbone-Lorraine are available from Company headquarters at Immeuble La Fayette, 2-3 place des Vosges, 92400 Courbevoie (France).

Five-year financial summary

	2002	2001	2000	1999	1998
1. Share capital at year-end					
Share capital (€ m)	22.3	22.3	22.2	21.8	16.5
Number of shares outstanding (1)	11,139,150	11 ,128,462	11,109,733	10,895,464	10,785,937
Nominal value per share (1) (€)	2	2	2	2	1.52
2. Overall result of operations (€ m)					
Income before tax, depreciation, amortization, provisions and employee profit-sharing	21.7	1.5	19.5	27.6	22.4
Income tax	(5.0)	(7.6)	(2.8)	(1.3)	9.5
Net income after tax, employee profit-sharing, depreciation, amortization and provisions	1.2	3.3	17.7	14.6	5.8
Earnings distributed (2)	11.0	13.1	15.9	9.6	9.5
3. Overall result of operations per share (€)					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions	2.40	0.82	2.01	2.65	1.19
Net income after tax, depreciation, amortization and provisions	0.11	0.30	1.60	1.34	0.54
Dividend paid on each share	0.60	0.80	1.06	0.88	0.88
4. Employees (3)					
Average headcount	6	6	1,082	1,091	1,116
Total payroll costs (€ m)	1.0	2.5	34.9	32.3	33.3
Amount paid for welfare benefits (€ m)	0.4	1.2	14.5	14.3	14.1

(1) On 18 June 1998, the nominal value of shares underwent a five-for-one split from FRF50 to FRF10, and on 5 May 1999, the nominal value was converted into euros by changing its value from FRF10 to €2. The number of shares and the data relating to the per-share calculations have been restated for the years prior to 1999 to enable comparisons to be made.

(2) The earnings distributed include the payment of €4.2 million, €4.3 million and €2.6 million in dividend withholding tax for 2000, 2001 and 2002 respectively.

(3) The spin-off of Carbone Lorraine Corporate Services took place on 1 May 2001. As a result, the figures for Carbone Lorraine S.A. for 2002 are not directly comparable with those for 2001.

Change in Le Carbone-Lorraine's shareholders' equity

(€ m)	2002	2001	2000
Opening shareholders' equity at 1 January	169.7	189.3	179.1
Capital increase	-	-	-
Capital increase subscribed by employees	0.2	0.3	6.5
Dividend payment	(8.8)	(11.7)	(9.6)
Dividend withholding tax	(4.3)	(4.1)	-
Net income for the period	1.2	3.3	17.7
Change in regulated provisions	0.4	(5.5)	(0.6)
Investment grants	(0.0)	(0.5)	(0.1)
Amortization of capital increase expenses against additional paid-in capital	(0.1)	(0.1)	(0.2)
Excess of restated assets over 1976 historical cost	(3.3)	(1.3)	(0.3)
Provision set aside for pension plans and retirement indemnities by drawing on shareholders' equity	-	-	(3.2)
Closing shareholders' equity at 31 December	**155.0**	**169.7**	**189.3**

List of subsidiaries and shareholdings

Detailed Information (in millions of euros)	Capital	Additional paid-in capital and reserves	% of share capital owned	Book value in Carbone Lorraine SA's financial statements		Loans and advances	Guarantees and sureties given
				Gross	Net		
CONSOLIDATED SUBSIDIARIES (CONSOLIDATED SHAREHOLDERS' EQUITY AT 31/12/2002)							
Carbone Lorraine Corporate Services (France)	3.0	0.7	100	3.0	3.0		
Carbone Lorraine Applications Electriques (France)	25.4	6.1	100	25.4	25.4		
Carbone Lorraine Composants (France)	20.0	3.6	100	19.9	19.9		
Carbone Lorraine Equipement Génie Chimique (France)	17.3	3.4	100	17.3	17.3		
AVO S.A. (France)	0.3	15.1	100	13.1	13.1		
Ferraz Shawmut S.A. (France)	1.3	5.6	100	9.6	9.6	0.9	
Ugimag S.A. (France)	32.4	(34.2)	100	14.5	0.0	13.6	
Le Carbone Holdingsgesellschaft KG (Germany)	29.1	3.6	100	30.3	30.3	8.1	
Carbone Lorraine GmbH (Germany)	0.0	1.7	100	1.6	1.6		
Sofacel (Spain)	3.2	0.9	50	0.7	0.7		
Ferraz Shawmut España (Spain)	2.4	0.8	100	2.4	2.4	5.6	
Le Carbone Holdings (UK)	9.9	5.8	100	0.9	0.9	10.7	
Il Carbonio (Italy)	2.5	6.4	100	2.1	2.1		
Carbone Lorraine Nederland (Netherlands)	0.1	1.9	100	0.2	0.2		
Svenska Le Carbone (Sweden)	0.6	2.1	100	0.8	0.8		
Carbone Lorraine Australia (Australia)	0.7	0.8	100	0.7	0.7		
Carbone KK (Japan)	2.1	(3.5)	100	2.1	0.0		2.6
Carbone Lorraine Korea (South Korea)	12.1	0.3	100	12.1	11.5		
Carbone of America (Canada)	11.2	(3.1)	100	1.3	1.3	7.4	
CLNA (US)	23.6	37.9	100	115.6	115.6	4.5	
Ferraz Fuse Corp. (US)	27.9	4.0	100	27.9	27.9	82.7	
Carbono Lorena (Brazil)	39.1	(33.7)	100	21.7	20.1		
Carbone South Africa (Republic of South Africa)	1.0	0.7	62.3	1.1	1.1		
UNCONSOLIDATED SUBSIDIARIES (SHAREHOLDERS' EQUITY AS PER INDIVIDUAL FINANCIAL STATEMENTS AT 31 DECEMBER 2001)							
Carbone Lorraine SAIC (Argentina)	0.2	0.2	100	1.0	0.4		
Carbone Lorraine Information Systems (France)	0.5	0.0	100	0.5	0.5		
Carbone Lorraine Shanghai (China)	0.2	0.0	100	0.2	0.2		
Carbone Lorraine Grèce (Greece)	0.4	0.2	100	0.6	0.6		
Carbone Lorraine Hungaria (Hungary)	0.3	(0.1)	100	0.4	0.0		
Carbone Lorraine India (India)	1.0	0.1	100	1.1	1.1		
Elca Carbone Lorraine PVT Ltd (India)	0.3	0.5	100	4.3	4.1		
Carbone Lorraine Madras (India)	0.4	0.1	51	0.4	0.4		
Carbone Lorraine Malaysia (Malaysia)	0.4	0.0	90	0.4	0.4		
Carbone Lorraine Singapore Holding PTE Ltd (Singapore)	1.1	(0.7)	95	1.1	0.4		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	0.5	1.7	100	5.0	2.1		
Morganite Lorraine de Venezuela (Venezuela)	0.0	0.0	100	0.3	0.0		
OTHER UNCONSOLIDATED SUBSIDIARIES							
Subsidiaries (over 50%-owned)	1.3	3.0		0.8	0.8	1.0	
Shareholdings (10% to 50%-owned)	0.1	0.6		0.1	0.1		0.1
Other shareholdings (less than 10%-owned)	0.0	0.0		0.0			
TOTAL				**340.4**	**316.6**		

Legal and financial information

>Additional information

General information about Carbone Lorraine

Corporate name and headquarters

LE CARBONE-LORRAINE

Immeuble La Fayette

2-3, place des Vosges

La Défense 5 - 92400 Courbevoie - France

Form, nationality and law

The Company is a *Société Anonyme* incorporated under French law and governed notably by the law of 24 July 1966.

Incorporation and corporate life

The Company was incorporated on 1 January 1937 and shall be dissolved on 31 December 2035 unless its life is extended or it is dissolved early by a vote of an Extraordinary General Meeting.

Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in all countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

- carbon-based products, articles or equipment, whether or not they are combined with other materials;
- metal powders, articles made from these powders, special alloys and articles made from these alloys;
- electro-mechanical and electronic products;
- all industrial products, especially metallurgical, mechanical, plastic and elastomer products;
- all other products, articles or equipment that may be related to the above products:
  - either by using the latter to make the former,
  - or by developing research activities,
  - or through manufacturing processes, industrial applications or distribution networks.

In the area defined above, the Company may carry out all activities related to:

- raw materials, prepared materials, components and elements, spare parts, semi-finished and finished products, equipment, combinations of equipment, assemblies of all kinds and sizes combining equipment;
- all works,
- all technical methods.

The Company may also indirectly carry out operations related to technical, industrial and commercial activities. To this end, it may form any companies and groups of companies, acquire holdings in any companies and partnerships, contribute assets to the capital of any company and subscribe to the shares of any company, purchase or sell any shares, partnership shares, or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form, in any French or foreign companies or organizations.

Trade and Companies Register Code

RCS NANTERRE B 572 060 333 - APE CODE: 268 C.

Consultation of corporate documents

Corporate documents, especially the Articles of Association, financial statements and reports to General Meetings by the Board of Directors and the Statutory Auditors, may be consulted at the headquarters by contacting:

Jean-Claude Suquet

Group Vice President, Finance and Administration

LE CARBONE-LORRAINE

Immeuble La Fayette

2-3, place des Vosges

La Défense 5, 92400 Courbevoie (France)

Tel.: +33-1 46 91 54 19

Financial year

The fiscal year begins on 1 January and ends on 31 December of each year.

Statutory distribution of income (Article 26 of the Articles of Association)

At the end of each fiscal year, the Board of Directors prepares an inventory and the annual financial statements as set forth in Section II Book I of the French Commercial Code.

Net income for the fiscal year, as shown on the income statement, comprises the difference between the income and expense for the year, less depreciation, amortization and provisions.

At least one twentieth of net income for the fiscal year, less any prior losses, if any, is allocated to a reserve account known as the “legal reserve”.

When the amount in this reserve account reaches one tenth of the share capital, this deduction ceases to be mandatory but if, for any reason, the reserve account falls below one tenth of the share capital, the deduction resumes.

Income available for distribution consists of net income for the fiscal year less any prior losses and the amounts to be allocated to reserve accounts as stipulated by law, plus any retained earnings.

An initial dividend of 5% of the paid-up and unredeemed nominal value of the shares is distributed from income.
The shareholders may not demand payment of the dividend out of subsequent years’ income, should the income from one year, after the aforementioned deduction, make it impossible to make such a payment. In addition, the General Meeting of the Shareholders, upon the proposal of the Board of Directors, has the right to decide to deduct such amounts as it deems suitable, either for retained earnings or for reserves to be used as directed by the Board.

The balance is then divided among the shareholders without distinction.

The Ordinary General Meeting voting on the financial statements for the year has the option of granting each shareholder a choice between receiving all or part of the dividend or interim dividend in cash or in shares.

The Ordinary General Meeting of the Shareholders may in addition resolve to distribute sums drawn from the reserve accounts at its disposal. In this case, the decision must indicate explicitly the reserve accounts from which the amounts are to be drawn.

However, dividends are taken in priority from the year’s income available for distribution.

General Meetings of Shareholders (Article 25 of the Articles of Association)

Notice of meetings - Admission

General Meetings of shareholders are convened under the conditions laid down in law, and their proceedings are governed by the quorum and majority voting requirements stipulated in law.

The meetings are held at Company headquarters or at any other location specified in the notice convening the meeting. All shareholders owning at least one fully paid-up share may attend General Meetings.

To be entitled to attend the General Meeting, holders of bearer shares must present a certificate showing that their shares have been placed in a blocked account five days ahead of the scheduled date of the meeting.

The Board of Directors may always elect to shorten these time limits.

The General Meeting is chaired by the Chairman of the Board of Directors or, in his absence, by the Vice President or one of the Vice Presidents, or in their absence, by a director who has been specially designated by the Board. Otherwise, the General Meeting shall elect its own Chairman.

Minutes of the Meetings are drawn up and the Chairman of the Board, the Managing Director, the Secretary of the Board or a duly authorized person certifies copies of the minutes.

Disclosure thresholds (Article 11ter of the Articles of Association)

Pursuant to the Company's Articles of Association, shareholders are obliged to disclose any increase to above or decrease to below 1% of the share capital or of voting rights, or any multiple of this percentage.

Purchase by the Company of its own shares

(approved by the COB under no. 02-416 dated 18 April 2002)

The Combined General Meeting of Shareholders of 15 May 2002 authorized the Company, pursuant to Articles L 225-209 *et seq.* of the French Commercial Code, to trade in its own shares on the stock exchange in order:

- to stabilize the share price;
- to allocate or transfer shares to employees under employee profit-sharing plans, employee share ownership plans or corporate savings plans;
- to use them in connection with acquisitions or, more generally, to use them as part of the Group's asset and investment management policy.

The purchase price must not exceed €90 per share and the sale price must be no lower than €35 per share, subject to the adjustments associated with any capital transactions related to the Company's capital.

During 2002, the Company made use of this authorization to stabilize the share price. Under the authorization, 25,079 shares were purchased at an average share price of €34.99 and none were sold. The number of shares held by the Company at 31 December 2002 stood at 169,897, which represents 1.53% of the Company's share capital.

Another authorization to buy back shares will be proposed at the Combined General Meeting of Shareholders of 5 May 2003 (first notice).

Double voting rights

No shares carry double voting rights.

Risk management

Carbone Lorraine implements a risk management policy to protect its employees, its environment and all its assets. The Risk Committee, which was set up in 2001, pursues a policy of identifying risks and determining preventative measures that are intended to reduce their impact.

Industrial risks

The industrial processes used by the Group are not of a hazardous nature liable to trigger large-scale chemical reactions. Its plants do not have significant storage installations for gas or chemical products, and none is classified under the Seveso European directive. The sites subject to operating authorizations, notably concerning the regulation of ICPEs (classified installations) in France, comply fully with them.

During 2002, the Group carried out a survey of its strategic installations and is gradually drawing up contingency plans to shorten as far as possible the time it would take to roll out an alternative solution in the event of a disaster.

Environmental risks

The Group has put in place an ISO 14001-compliant environmental policy. As part of this policy, it catalogues potential risks relating to its industrial plants and products and carries out checks to ensure that the preventative measures implemented are sufficient to avoid any accidents potentially affecting the people and the environment in the surrounding area. Some of its sites have already secured ISO 14001 certification, and efforts are continuing to ensure that the Group's most important plants receive certification by 2005.

In-depth environmental audits are carried out with the assistance of specialized firms prior to the acquisition of any new site in France or abroad.

Raw materials risks

During 2002, the Group carried out a study to determine its raw materials risks, as well as its reliance on any suppliers whose failure would directly affect its production and the quality of deliveries to its customers.

This survey did not reveal any significant dependencies or sensitivity to the raw materials used. This said, specific action plans to diversify its sourcing and to secure supplier relationships will be implemented during 2003.

Country risks

The Group has industrial plants in countries considered to be at high risk (based on Coface's classification), i.e. in Turkey and Venezuela, Colombia and Argentina. These unconsolidated subsidiaries potentially represent a risk factor, albeit a very modest one given their size.

Insurance

The Group has put in place worldwide insurance programmes with prime insurance companies to cover its main property/business interruption, civil liability, and civil aviation and transport liabilities. These worldwide programmes provide all the Group's subsidiaries with guarantees and cover tailored to their needs.

The Group's civil liability (before and after delivery) and environmental insurance programme notably covers bodily injury, physical and consequential damage, site clearance and rebuilding costs, withdrawal costs, damage to property entrusted to the Group and pollution abatement costs subject to the usual deductibles, exclusions and restrictions. The programme comprises a master policy in France and local policies in certain countries.

The Group's property/business interruption insurance programme notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main sites as a result of any sudden and accidental events (such as a fire, storm, explosion, electrical damage, theft) subject to the usual deductibles, exclusions and restrictions. The programme comprises a master policy in France and local policies in certain countries.

The Group's insurance policy is determined by the General Management. In the harsh context of insurance market, the levels of cover are set depending on an assessment of the risks incurred for each subsidiary of the Group, in order to ensure the Company's continued survival.

Labour risks

The Company pays particular attention to the quality of its labour relations and to the development of dialogue with employees and unions. For instance, union representatives, employee representatives and the Group's Management meet each year as part of the Group Works Committee in France and the European Works Committee. In addition, the leaders of each of the unions at the Group's French plants meet with the Group's Vice President for Human Resources at least once each year.

When restructuring measures liable to have an impact on the workforce are contemplated, the planned solutions are studied in conjunction with the unions and employee representatives in accordance with the provisions of law. Appropriate measures are taken to reassign affected employees to new positions within or outside the Group.

To guard as best it can against the risk of losing expertise, the Group identifies the key men and women within its organization and pursues a human resources policy that is suited to maintaining their loyalty and/or ensuring that they can be replaced.

Financial market and financing risks

The Group's usual business policy is to hedge currency risks as soon as orders are taken or to hedge an annual budget. The main currency risk relates to intra-Group sales transactions. These risks are hedged by means of a netting system enabling the parent company to hedge its net exposure to each currency with prime financial institutions. To cover itself against these currency risks, the Group primarily uses futures contracts.

Borrowings are arranged by the relevant companies in local currencies, except in special circumstances. Borrowings in foreign currencies arranged by the parent company match loans in the same currencies to its subsidiaries.

To hedge its interest rate exposure, the parent company enters into hedging transactions with prime financial institutions, primarily structured as swaps and caps, which match existing borrowings.

Hedging transactions are centralized by the Group's Finance Department and are carried out under procedures laid down by the General Management.

The Group has not made any significant investments and is not exposed to any investment-related market risks.

The Group's policy with regard to bank financing is to cover the entire amount of its borrowing requirement with confirmed credit lines. At 31 December 2002, the group had USD 293m in confirmed credit lines, including USD 77m due to expire in less than one year, with the remainder due to expire in late 2005/early 2006.

Equity risks

Marketable securities consist exclusively of 169,897 Carbone Lorraine shares held as treasury stock. A 10% fall in the Carbone Lorraine share price with respect to the average end-2002 price of €24.17 would drag pre-tax profit down by €0.4m.

Legal risks

Dependence of the Company:

Carbone Lorraine is not dependent on any patent, licence or supply contract that may materially affect its business activities or profitability.

Valeo ranks among the Group's main customers, especially the Magnets division in North America. Valeo accounts for 7% of consolidated sales. During 2002, Valero's US subsidiary, VESI, emerged from Chapter 11 protection from creditors that it entered in December 2001, which paved the way for two US subsidiaries of Groupe Carbone Lorraine to recover 95% of the amount of the claims that they had declared as part of this procedure.

No other customer accounts for more than 3,2% of sales.

Litigation

In December 2002, Carbone Lorraine received a fine of €6.97 million from the European Commission following an investigation into anti-competitive practices in the specialty graphite industry during the period between 1993 and 1998.

In 2002, Carbone Lorraine was informed by the European Commission that an investigation was being carried out concerning the market for brushes for electric motors and mechanical products. This latest investigation, as well as the one concerning the specialty graphite industry were launched following the investigation initiated by the US Justice Department during 1999 into graphite products, which was brought to a definitive end in 2000 by the signature of a settlement between COAIC and the US Justice Department.

COAIC is currently facing class action lawsuits brought by certain US customers in the US courts. The lawsuits following the settlement reached during 2000 between Carbone Of America Industries Corp. (COAIC) and the US Justice Department are likely to be concluded shortly. Other lawsuits were triggered by the announcement in November 2002 that Morgan Crucible Ltd had reached a settlement with the US Justice Department in connection with an investigation into anti-competitive practices in the US in certain types of brushes for electric motors.

Based on the information available, the requisite provisions have been set aside for all the identified litigation in progress concerning which a reasonable estimate of the likely cost can be made. Provision has been made for all the litigation referred to above.

Since 1999, the Group has implemented a worldwide programme to provide training for and raise the awareness of operational and commercial managers about competition legislation. Very stringent internal control measures and external audits ensure that competition legislation is scrupulously adhered to in all the countries where the Group is present.

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

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

General information about the share capital

Conditions

Changes in the share capital and the respective rights of the various categories of shares are made in accordance with the provisions laid down in law.

Amount and structure of the share capital (Article 6 of the Articles of Association)

On 31 December 2002, the share capital was set at € 22,278,300 divided into 11,139,150 shares, each with a nominal value of €2 and belonging to the same category.

Authorizations to carry out a capital increase

Combined General Meeting of 15 May 2002

The Combined General Meeting of Shareholders of 15 May 2002 authorized the Board of Directors to:

- issue shares and securities giving immediate or future access to shares of the Company with preferential subscription rights;
- issue, with no preferential subscription rights, convertible bonds, bonds with equity warrants attached and any securities giving immediate and/or future access to shares in the Company.

The maximum nominal amount of the immediate and/or future capital increases that may be carried out under this authorization is €10 million. This authorization, which cancels all previous authorizations, is valid until 14 July 2004. It was not used during 2002.

The Combined General Meeting of Shareholders of 15 May 2002 also authorized the Board of Directors to grant options giving the right to subscribe to new shares to all or some of the corporate executives and employees of Groupe Carbone Lorraine. The maximum number of new shares that may be issued through the exercise of the options granted is limited to 250,000 shares, each with a nominal value of €2, and at the most to the corresponding number of annual options cancelled under the plan authorized on 10 May 2000. The Board of Directors decided at its meeting on 21 May 2002 to make use of this authorization by granting certain Company managers options, allowing them to subscribe to a total of 125,000 shares, each with a nominal value of €2. As regards this authorization, the remainder that has not been used is of 125,000 options. The authorization remains valid until 14 July 2005. Exercise of these options was contingent upon the attainment of a target for net income per share before non-recurring items in 2002. This target having not been reached, these options cannot be raised and are therefore cancelled.

Combined General Meeting of 10 May 2000

The Combined General Meeting of Shareholders of 10 May 2000 authorized the Board of Directors to:

- issue shares and securities giving immediate or future access to shares of the Company with preferential subscription rights,
- issue, with no preferential subscription rights, convertible bonds, bonds with equity warrants attached and any securities giving immediate and/or future access to shares in the Company.

The maximum nominal amount of the immediate and/or future capital increases that may be carried out under this authorization is €10 million, it being specified that the nominal amount of the additional shares to be issued to preserve the rights of the holders of securities giving right to shares may be added to this nominal amount, in accordance with the law.

This authorization was not used and became null and void as a result of the latest Combined General Meeting on 15 May 2002.

The Combined General Meeting of Shareholders of 10 May 2000 also authorized the Board of Directors to issue shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount of the immediate and/or future increases in the share capital that may be carried out under this authorization is €800,000. This authorization is valid until 10 May 2003. It has not been used to date.

The Combined General Meeting of Shareholders of 10 May 2000 also authorized the Board of Directors to grant options giving the right to subscribe to new shares to all or some of the managers and employees of the Group. The maximum nominal amount of the capital increases authorized by this issue is limited to €870,000, that is 435,000 new shares, each with a nominal value of €2. The Board of Directors used this authorization in 2000 to grant 431,400 options. Rights to exercise these options were acquired in three equal instalments during 2000, 2001 and 2002 subject to the attainment of annual targets for net income per share before non-recurring items. The target for 2000 was reached, and so one-third of the options were granted. The remainder, i.e. 265,900 options, was cancelled and replaced partially by the latest plan decided by the Board of Directors on 21 May 2002. The authorization of 10 May 2000 became null and void as a result of the latest Combined General Meeting held on 15 May 2002.

Summary of changes in the share capital*

Dates	Description of the transaction	Share capital following the transaction	Additional paid-in capital	Total number of shares after the transaction
31.10.1997	Issue of 19,539 new shares each with a nominal value of FRF50 as a result of a capital increase reserved for employees	97,447,400	22,626,162	1,948,948
31.12.1997	Conversion of 26,862 convertible bonds (1988) into 27,483 new shares, each with a nominal value of FRF50	98,821,550	20,205,723	1,976,431
31.12.1997	Conversion of 46,289 convertible bonds (1993) into 47,213 new shares	101,182,200	20,779,332	2,083,644
19.06.1998	Stock split, see the Eleventh Resolution of the Combined General Meeting of 20 April 1998			10,118,220
31.12.1998	Conversion prior to the split of 128,330 convertible bonds (1993) into 654,720 new shares, each with a nominal value of FRF10	107,729,400	57,711,624	10,772,940
31.12.1998	Exercise of 1,437 options to prior to the split and 5,812 options after the stock-split, leading to the issuance of 12,997 shares, each with a nominal value of FRF10	107,859,370	1,378,575	10,785,937
05.05.1999	Conversion of the nominal value of the FRF10 shares to €2, see the Seventh Resolution of the Combined General Meeting of 5 May 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

**For dates after 5 May 1999, when the share capital was converted into euros, the amounts are shown in euros.*

Voting right certificates
Investment certificates

None.

Securities giving access to the share capital

Between July 1995 and December 2002, share subscription options were granted, 10,688 of which were exercised during 2002. The options still to be exercised at 31 December 2002, after taking into account cancellations, entitle their holders to acquire a total number of 592,250 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.

Changes in the ownership of the Group's share capital

% interest	31/12/02	31/12/01	31/12/00
BNP Paribas	21.1	21.1	21.1
Free float	77.4	77.6	78.4
Treasury shares	1.5	1.3	0.5
Total	**100.0**	**100.0**	**100.0**

Share capital

At 31 December 2002, the Company's share capital amounted to €22,278,300, divided into 11,139,150 shares each with a nominal value of €2.

The number of voting rights stood at 10,969,253.

The Company requested a survey by Sicovam of the holders of its bearer shares at 31 December 2002, which identified 26,560 shareholders.

Ownership of shares and voting rights at 31 December 2002

	Number of shares	% of share capital owned	% capital owned held
BNP Paribas	2,348,760	21.1	21.4
Free float, o/w:	8,620,493	77.4	78.6
- CDC	812,141	7.3	7.4
- Arnhold and S. Bleichroeder	576,000	5.2	5.2
- Employee shareholders	324,968	2.9	3.0
Treasury shares	169,897	1.5	-
Total	**11,139,150**	**100.0**	**100.0**

Ownership of shares and voting rights at 31 December 2001

	Number of shares	% of share capital owned	% capital owned held
BNP Paribas	2,348,760	21.1	21.4
Free float, o/w:	8,634,884	77.6	78.6
- CDC	778,392	7.0	7.0
- Employee shareholders	355,718	3.2	3.2
Treasury shares	144,818	1.3	-
Total	**11,128,462**	**100.0**	**100.0**

Ownership of shares and voting rights at 31 December 2000

	Number of shares	% of share capital owned	% capital owned held
BNP Paribas	2,348,760	21.1	21.2
Free float, o/w:	8,704,629	78.4	78.8
- Lazard Asset Management	561,035	5.0	5.0
- Employee shareholders	373,123	3.4	3.4
Treasury shares	56,344	0.5	-
Total	**11,109,733**	**100.0**	**100.0**

To the best of the Company's knowledge, BNP Paribas, Caisse des Dépôts et Consignations (CDC) and Arnhold and S. Bleichroeder Advisers, Inc. are the only shareholders with a stake and voting rights of over 5%.

Directors and company officers hold 4,366 shares. Employees own 2.9% of the share capital. At 31 December 2002, the number of shares held by employees through the Company's mutual fund (*fonds commun de placement*) stood at 213,874 shares, or 1.90% of the share capital.

A total of 141,500 share subscription options have been granted to company officers (i.e. members of the Executive Committee). Aside from these subscription options, no other securities give access to Carbone Lorraine's share capital.

Crossing of ownership disclosure thresholds

On 3 May 2002, the Société Générale group moved below the 1% capital ownership threshold. On 11 November 2002, Arnhold and S. Bleichroeder Advisers, Inc. moved above the 5% capital ownership threshold.

Based on the shares deposited with Sicovam at 31 December 2002, the group had 29,000 shareholders.

To the best of the Company's knowledge, ownership of the Company's capital at 31 December 2002 was as follows:

Individual shareholders: 22.3% (including employee shareholders: 2.9%); BNP Paribas: 21.1%; Other French investors: 26.3%; Other institutional investors: 25.9 % (US and UK investors respectively own 11% and 10% of the share capital).

The Company is not aware of any shareholders' agreements or other agreements concerning its share capital.

The Company directly owns 1.5% of its own shares.

In addition, no public tender or exchange offer, nor any guaranteed share price offer has been made concerning the Company's shares over the past three years. The Company has not initiated any such offers with regard to other companies over the same period.

Market in the Company's shares

Listing and share categories

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 also belong to the SBF 120 and Euronext 150 indices and is listed on NextPrime segment of Euronext.

11,139,150 shares are listed.

Trading over the past 18 months (*)

Carbone Lorraine shares	Nbr. of shares traded (units)	Trading volume (€m) (1)	Trading range (2) High (€)	Trading range (2) Low (€)
2001				
July	275,328	11.70	43.84	40.90
August	218,068	9.06	42.00	40.60
September	599,955	18.64	40.80	24.15
October	370,866	11.54	32.90	28.53
November	422,336	14.06	36.85	30.41
December	365,857	12.06	36.20	28.05
2002				
January	573,186	17.71	32.00	28.80
February	377,613	11.89	33.02	29.50
March	278,546	9.43	35.80	31.88
April	499,667	19.28	39.48	33.10
May	346,606	12.76	39.12	36.25
June	316,173	9.99	37.19	29.50
July	359,404	9.74	32.90	23.51
August	240,811	6.58	28.50	25.75
September	385,546	8.71	27.50	20.10
October	310,310	7.97	29.95	22.60
November	457,877	12.24	28.51	22.90
December	322,215	7.15	27.16	20.15
2003				
January	127,402	2.78	23.20	20.38
February	157,947	2.92	21.00	16.60

Source: Bloomberg.

(1) Based on the monthly average share price.

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

Dividend history

	Nbr of shares at year-end	Earnings per share (€) Net dividend	Earnings per share (€) Tax credit	Earnings per share (€) Total amount	Share price (€) High	Share price (€) Low	Share price (€) Year-end	Overall yield based on year-end share price
1998	10,785,937	0.88	0.44	1.32	93.39	32.32	40.40	3.28%
1999 (1)	10,895,464	0.88	0.44	1.32	57.70	34.01	46.80	2.82%
2000	11,109,733	1.06	0.53	1.59	55.95	36.20	53.00	3.00%
2001	11,128,462	0.80	0.40	1.20	52.45	24.15	30.00	4.00%
2002	11,139,150	0.60	0.30	0.90	39.48	20.10	22.26	4.04%

(1) Effective 5 May 1999, the nominal value of shares was increased to € 2 per share.

Dividend payments are time-barred as prescribed by law, that is five years after their payment. After this time, payments are made to the French Tax Administration.

The Third resolution of the Combined General Meeting due to be held on 5 May 2003 (first notice) proposes that a dividend of €0.60 per share be paid for fiscal 2002. This dividend will carry a tax credit of €0.30 per share, increasing the total revenue to €0.90.

Board of Directors, Executive Committee and Advisory Committees

Composition of the Board of Directors at 4 March 2003

Chairman:	
Claude Cocozza	Director and Chairman of:
Appointed on 6 March 1997	CARBONE LORRAINE NORTH AMERICA, UGIMAG SA
	Director of:
	Entreprise THIVENT, SOFACEL
	Member of the Supervisory Board of:
	Compagnie de FIVES-LILLE.
Directors:	
Jean-Pierre Capron (1)	
Appointed on 11 July 1995	Member of the Supervisory Board:
	TECHNIC-COFLEXIP
Robert Chauprade (1)	Manager of:
Appointed on 11 July 1995	SARL Robert CHAUPRADE Consultant
	Former Deputy Managing Director of:
	MATRA DEFENSE
	Former Chairman and Chief Executive Officer of:
	MATRA ELECTRONIQUE
Hervé Couffin	Chairman of:
Appointed on 11 July 1995	FINANCIERE FELIX SAS, AGZ Holding
	Member of the Executive Committee of:
	PARIBAS AFFAIRES INDUSTRIELLES (PAI)
	Director of:
	CEVA SANTE ANIMALE, ANTARGAZ, GERFIN SAS (Groupe GERFLOR), ENTREFLOR (S.A. Luxembourgeoise – Groupe GERFLOR), MAYROY (S.A. Luxembourgeoise – Groupe BEAUFOUR-IPSEN)
	Member of the Supervisory Board of:
	BEAUFOUR-IPSEN SAS
	Permanent representative of:
	PARIBAS PARCICIPATIONS
	Special Advisor to the Board of Directors of:
	BOUYGUES TELECOM (France)
Jean-Claude Karpeles (1)	Director General of:
Appointed on 5 May 1999	FIEEC, GIMELEC
	Manager of:
	ELEC Promotion SARL, GIMELEC Promotion SARL
	Director of:
	CPI Media, SCRELEC, S.A. Château de Campuguet
Patrick Kron (1)	Chairman of the Management Board of:
Appointed on 11 July 1995	IMERYS
Resigned on 31 December 2002	Chairman of:
	MIRCAL (France), IMERYS UK Ltd (UK), IMERYS USA, Inc. (USA), PLIBRICO SA (Luxembourg) and PLIBRICO GmbH (Germany)
	Director of:
	TIMCAL S.A (Switzerland), TREIBACHER (Austria), ALSTOM (France)
Jean-Paul Jacamon (1)	Chairman of:
Appointed on 1 January 2003	PECHINEY (France), STACI (France), AMEC (Great Britain)
	Manager of:
	MARLY CONSEIL, MARLY PICTURES, SARL JACAMON
Walter Pizzaferri (1)	Manager of:
Appointed on 5 May 1999	STRATORG
Jean-Paul Bernardini	Director of:
Appointed on 5 December 2001	INFOVISTA (France), ORANGE Holding A/S (Denmark) Permanent representative of:
	BANEXI Communication (France) as Special Advisor to BOUYGUES TELECOM (France), PAI Management (France) as Special Advisor to LD COM (France)

(1) Independent directors

At its meeting of 11 July 1995, the Board of Directors adopted an internal regulation stating that in addition to its legal powers the Board of Directors shall: i) approve the main strategic priorities each year and the medium-term objectives as part of a three-year plan, ii) examine the budget plans for the following year, iii) study action plans being considered, iv) set the overall investment budget and v) be kept informed of major investment programmes.

This internal regulation also lays down the responsibilities of the Accounts Committee and of the Appointments and Remunerations Committee, which are set forth below:

The Board of Directors met six times during 2002.

Committees set up by the Board of Directors

The Accounts Committee

In 1995, the Board of Directors set up an Accounts Committee, which is placed under its responsibility. The Accounts Committee comprises at least three and at most five members, who are appointed from among the members of the Board. The duties of this Committee, which meets at least twice each year, are:

- to examine and assess the financial documents released by the Company in connection with its annual financial statements;
- to ensure that recommendations made by the Statutory Auditors and the internal audit team are followed up;
- more generally, to examine any other issue related to the preparation, verification or publication of the Company's annual and interim, individual and consolidated financial statements;
- to monitor the effectiveness of the internal control and external audits of the Company,
- to apprise itself of the Report of the Group's Risk Committee.

At 31 December 2002, the Committee comprised Jean-Paul Bernardini, Jean-Claude Karpeles, an independent director, and Robert Chauprade, also an independent director, who chairs the Committee. From 17 March 2003, Jean-Pierre Capron, independant director, shall replace Robert Chauprade as a member Chairman of the Committee, which will be known as Audit and Accounts Committee.

The Accounts Committee met three times during 2002.

The Appointments and Remunerations Committee

In 1995, the Board of Directors set up a Appointments and Remunerations Committee, which is placed under its responsibility. The Appointments and Remunerations Committee comprises at least three and at most five members, who are appointed from among the members of the Board.

The Committee issues recommendations concerning:

- the appointment of new directors and new members of the Executive Committee,
- the remuneration paid to the Chairman and CEO and to members of the Executive Committee,
- the various additional benefits (pension, insurance cover) that may be included in these packages,
- the potential allocation of share subscription or purchase options (beneficiaries, number of shares, price) to senior executives.

At 31 December 2002, the Committee was made up of Jean-Pierre Capron and Hervé Couffin, both independent directors with no operational duties, alongside Claude Cocozza, who participates in discussions about issues that do not concern him personally. It was chaired by Patrick Kron until he resigned from the Board of Directors on 31 December 2002. From 17 March 2003, it will be chaired by Robert Chauprade, independent director.

The Appointments and Remunerations Committee met twice and was consulted four times during 2002.

Executive Committee

The Executive Committee, which defines the Group's strategy, has five members:

C. Cocozza	Chairman and Chief Executive Officer
M. Coniglio	Executive Vice President
	Group Vice President, Advanced Materials and Technologies and Electrical Applications divisions
B. Leduc	Group Vice President, Human Resources
	Quality and Continuous Improvement
M. Renart	Group Vice President, Electrical Protection division
J.-C. Suquet	Group Vice President, Finance and Administration

Fees paid to the Statutory Auditors and members of their networks incurred by the Group

In € million		Deloitte Touche Tohmatsu		Ernst & Young	
		Montant	%	Montant	%
Audit	Statutory audit, certification, review of the individual and consolidated financial statements	0.4	45	0.9	50
	Other accessory and audit engagements	0.3	33	0.3	17
Sub-total		**0.7**	**78**	**1.2**	**67**
Other services, etc.	Legal, tax, labour law	0.1	11	0.6	33
	Information technology	0.1	11	0.0	0
Sub-total		**0.2**	**22**	**0.6**	**33**
Total		**0.9**	**100**	**1.8**	**100**

Shares in the Company's capital held by directors and officers

The directors and officers hold a total of 4,366 shares in the Company's capital.

For the hole duration of his term of office, each director must hold at least 120 (one hundred and twenty) fully paid up shares in accordance with the provisions of article 17 of the Company's Articles of Association. These shares must be held in registered form.

Compensation and benefits

In accordance with the provisions of Article 225-102 of the French Commercial Code, the aggregate amount of compensation and benefits of any kind paid during 2002 to the eight directors of Le Carbone Lorraine, including the Chairman and CEO, came to €522,683, which breaks down as follows:

- remuneration paid to the members of the Board of Directors (except the Chairman and CEO) totalling €56,000 in directors' fees, or € 8,000 paid to each member of the Board of Directors (except the Chairman and CEO);
- remuneration paid to the Chairman and CEO for 2002 comprising €300,000 as basic remuneration, €151,590 as a performance-related bonus for 2002 (to be paid in 2003), € 8,000 in director's fees and €7,093 in benefits in kind. The benefits in kind received by the Chairman and CEO include contributions towards the corporate executives social guarantee (garantie sociale des dirigeants d'entreprise, GSC).

The aggregate amount of remuneration allocated to company officers (i.e. members of the Executive Committee) who are not directors came to €1,114,394 in 2002.

The remuneration paid to the company officers who are not directors comprised a basic remuneration of €766,792 plus benefits in kind with a value of €7,299 and variable amounts of €340,303 corresponding to performance-related bonuses for 2002 (to be paid in 2003). Basic remuneration is set by the Appointments and Remunerations Committee, after seeking advice from specialist consultants concerning market rates. The system for calculating bonuses paid to the Executive Committee takes into account achievements in relation to:

- the Group's Economic Profit targets (i.e. operating income after tax less the cost of capital employed);
- certain individual targets.

Options on the Company's shares granted to existing members of the Executive Committee

A total of 141,500 share subscription options have been granted to company officers.

A total of 10,688 options were exercised at a weighted average price of €35.42 (1995 and 1996 plans).

Company officers do not hold any subscription or purchase options on shares in Group subsidiaries.

Share subscription or purchase options granted to the CEO, the only member of both the Executive Committee and the Board of Directors							
	1995 plan	**1996 plan**	**1997 plan**	**1998 plan**	**2000 plan**	**2002 plan**	**Total**
Date of Board of Directors' meeting	11 July 95	20 June 96	17 June 97	08 March 99	10 May 00	21 May 02	
Number of shares available for subscription	12,500	6,250	12,500	15,000	30,000	9,000	**85,250**
Start of exercise period	Jan. 98	July 98	June 02	March 04	March 05	May 06	
End of exercise period	June 05	June 06	June 07	March 09	March10	May 12	
Subscription price	17.26	22.29	37.86	36.00	47.00	37.65	
Number of shares subscribed at 31 Dec. 2002							**-**
Options cancelled in 2002					20,000	9,000	**29,000**
Options that may still be exercised	**12,500**	**6,250**	**12,500**	**15,000**	**10,000**	**-**	**56,250**

Share subscription or purchase options granted to the 10 Group employees who are not directors to have been granted or to have exercised the large number of options							
	1995 plan	**1996 plan**	**1997 plan**	**1998 plan**	**2000 plan**	**2002 plan**	**Total**
Date of Board of Directors' meeting	11 July 95	20 June 96	17 June 97	8 March 99	10 May 00	21 May 02	
Number of shares available for subscription	31,875	17,000	40,625	46,250	105 000	41 000	**281,750**
Start of exercise period	Jan. 98	July 98	June 02	March 04	March 05	May 06	
End of exercise period	June 05	June 06	June 07	March 09	March 10	May 12	
Subscription price	17.26	22.29	37.86	36.00	47.00	37.65	
Number of shares subscribed at 31 Dec. 2002	29,375	2,250	-				**31,625**
Options cancelled in 2002	-	-	-	2,500	70,000	41,000	**113,500**
Options that may still be exercised	**2,500**	**14,750**	**40,625**	**43,750**	**35,000**	**-**	**136,625**

1) The 2000 and 2002 were made contingent upon the attainment of targets based on net income per share before non-recurring items.

2) 2/3 of the 2000 plan were cancelled and the 2002 plan was cancelled because the target for net income per share before non-recurring items was not reached.

Agreements regulated by Article L 225-38 of the French Commercial Code

In 1998, the Company entered into a service agreement with a director for a consulting assignment giving rise to a daily fee. This assignment was extended to another Group activity during 1999, and it continued during 2000, 2001 and 2002.

Loans and guarantees granted to officers and directors

None.

Employee incentive plans

Incentive and profit-sharing plans

Employee incentive agreement

Further to the spin-off of its subsidiaries on 2 May 2001, Carbone Lorraine SA and Carbone Lorraine Corporate Services entered into a new joint employee incentive agreement for 2001, 2002 and 2003 dated 14 June 2001.

The aggregate amount of employee incentives depends on the level of the consolidated income posted by the Groupe Carbone Lorraine as a percentage of Group sales.

For the purpose of calculating employee incentives, consolidated income before tax and non-recurring items is capped at 9% of sales.

(€ 000s)	2002*	2001*	2000	1999
Amounts allocated to employees	230	228	2,500	2,333
Number of employees concerned	48	49	1,082	1,105

** The scope of the new agreements introduced following the spin-off transaction of 2 May 2001 has changed relative to previous agreements.*

Employee profit-sharing

Further to the spin-off of its subsidiaries on 2 May 2001, Carbone Lorraine Corporate Services entered into a new employee profit-sharing plan dated 14 June 2001 in accordance with Articles L 442-2 and R 442-2 of the French Labour Code.

(€ 000s)	2002	2001
Amounts allocated to employees	35	84
Number of employees concerned	44	44

The total amounts paid to employees under the incentive plan and the employee profit-sharing plan may not exceed 8.5% of the Company's total annual payroll cost for the relevant year.

Options and Group Investment Plan

The Combined General Meetings of Shareholders of 22 May 1995, 22 April 1997, 20 April 1998 and 10 May 2000 granted financial authorizations to develop stock ownership among employees through a Group Investment Plan and through share subscription options plans.

Capital increases reserved for employees are allocated to employees participating in the Group Investment Plan through a FCPE (corporate mutual fund) for French employees and through direct shareholdings for non-French employees.

Group Investment Plan

At the Extraordinary General Meeting of 20 April 1998, the Board of Directors was authorized to increase the share capital, on one or more occasions, through the issue of shares reserved for employees, notably as part of a Group Investment Plan. The maximum nominal amount authorized was FRF3 million (equivalent to €457,347.05).

On 18 January 2000, the Board of Directors made use of the unused balance of the authorization it was granted at the Extraordinary General Meeting of 20 April 1998 by launching the subscription of a reserved capital increase representing 200,000 new shares at a price of €31 each. The capital increase reserved for employees during 2000 was presented in a COB-approved prospectus (approved under no. 00-567 dated 14 April 2000). The subscription period between 17 April 2000 and 12 May 2000 led to the subscription of 199,998 new shares, representing a capital increase of €399,996, with additional paid-in capital amounting to €5,799,942. The shares qualified for dividend rights from 15 June 2000, the date of completion of the capital increase.

At the Combined General Meeting of 10 May 2000, the Board of Directors was authorized to increase the share capital, on one or more occasions, through the issue of shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount authorized was €800,000. This authorization was not used and expires on 9 May 2003.

No issue of shares reserved for employees took place during either 2001 or 2002.

Options

At the Extraordinary General Meetings of 22 May 1995, 22 April 1997, 10 May 2000 and 15 May 2002, the Board of Directors was authorized to grant, on one or more occasions, share subscription options to all or some managers in the Company or affiliated companies.

The employee categories benefiting from these options are determined by the Board of Directors each time that it makes use of the authorization.

Upon the proposal of the Remuneration and Appointments Committee, the Board of Directors has offered 103 Group managers since 1995 the possibility of acquiring 658,500 shares (after taking into account cancellations; see the following table).

Based on the authorizations granted, the unused balance of new options granted at 31 December 2002 stood at 125,000 shares.

Share subscription options

	1995 plan	1996 plan	1997 plan	1998 plan	1999 plan	2000 plan	2000 plan	2001 plan	2002 plan	Total
Date of Board of Directors' meeting	11 July 95	20 June 96	17 June 97	15 Jan. 98	8 March 99	10 May 00	15 Sept. 00	18 Jan. 01	21 May 02	
Number of shares available for subscription	129,375	69,750	134,375	20,000	182,500	431,400	9,000	4,500	125,000	**1,105,900**
Start of exercise period	Jan 98	July 98	June 02	Jan. 03	March 04	March 05	Sept. 05	Jan. 06	May 06	
End of exercise period	June 05	June 06	June 07	Jan. 08	March 09	March 10	Sept. 10	Jan. 11	May 12	
Subscription price	17.26	22.29	37.86	53.78	36.00	47.00	47.90	50.50	37.65	
Number of shares subscribed at 31 Dec. 2002	55,500	10,750								**66,250**
Options cancelled in 2002	7,500		2,500	15,000	22,500	265,900 (*)	6,000	3,000	125,000	**447,400**
Options that may still be exercised	**66,375**	**59, 000**	**131,875**	**5,000**	**160,000**	**165,500**	**3,000**	**1,500**	**-**	**592,250**

For the plans 2000 to 2002, the right to exercise options granted has been 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 revised plan for 2002.

>Combined General Meeting of 5 May 2003 (first notice)

Board of Directors' report

Ladies and Gentlemen,

We have convened this Combined General Meeting in order to:

- approve the Company's financial statements and the consolidated financial statements for 2002 and appropriate net income,
- authorize the Company to trade in its own shares in accordance with the regulations in force;
- modify the aggregate amount of the annual allocation of directors' fees,
- ratify the appointment of a director who has been co-opted,
- authorize the Board of Directors to carry out capital increases through an issue of shares reserved for employees participating in the Group Investment Plan.

Meeting to be held in ordinary session

Appropriation of net income

The Board of Directors proposes the payment of a net dividend of €0.60 per share. If approved, net income for fiscal 2002 would be appropriated as follows:

Source	(€ 000s)
Retained earnings	174
Net income for the period (profit)	1,212
Deduction from additional paid-in capital	7,939
Total	**9,325**
Appropriation	**(€ 000s)**
Legal reserve	2
Dividend as per the Articles of Association (5% of the share capital)	1,114
Additional dividend	5,570
Dividend withholding tax	2, 639
Total	**9,325**

The dividend will be paid from 19 June 2003.

A comparison with dividends paid in previous years is shown in the following table:

(€)	Net dividend	Tax credit	Total dividend
1998	0.88	0.44	1.32
1999	0.88	0.44	1.32
2000	1.06	0.53	1.59
2001	0.80	0.40	1.20

Regulated agreements

Pursuant to the provisions of Article L 225-40 of the French Commercial Code, the Statutory Auditors have presented a special report on agreements regulated by Article 225-38 of the French Commercial Code.

Share repurchases by the Company

At the Ordinary General Meeting of 15 May 2002, the Company was authorized to trade in its own shares in accordance with Article L 225-209 of the French Commercial Code.

During 2002, the Company made use of this authorization to stabilize the share price. Under the authorization, 25,079 shares were purchased at an average share price of €34.99 and none were sold. The number of shares held by the Company at 31 December 2002 stood at 169,897, which represents 1.53% of the Company's share capital. Trading costs amounted to €3,758.51.

The Board of Directors wishes to renew the authorization granted by the Ordinary General Meeting of 15 May 2002 to trade in the Company's own shares under the conditions provided for Article L 225-209 of the French Commercial Code and to delegate responsibility to the Company's General Management for purchasing shares between a maximum purchase price of €40 per share and a minimum selling price of €15 per share. The proposed price range reflects the performance of the share price over the past two years. The Company reserves the right to use the authorized programme in its entirety.

The Board of Directors intends to use this authorization, in order of priority, to:

- stabilize the share price, through systematic trades against the current trend in the share price;
- grant or transfer shares to employees under employee profit-sharing, employee share ownership or the corporate savings plans;
- use the shares in connection with acquisitions,
- implement an asset and investment management policy.

This authorization would be valid until the General Meeting of the Shareholders called to approve the accounts for 2003. In no case shall this authorization remain valid for more than 18 months.

Aggregate amount of the annual allocation of directors' fees

The General Meeting of 22 April 1997 set the aggregate amount of the annual allocation of directors' fees at FRF400,000 (i.e. €60,980). This amount has therefore remained unchanged for the past six years. The Board of Directors proposes increasing the aggregate amount of the annual allocation of directors' fees to €100,000 to reflect the increased involvement required of directors as a result of the development of corporate governance.

Ratification of a co-opted director

The Board of Directors proposes that the provisional appointment of Jean-Paul Jacamon as a director made by the Board of Directors at its meeting on 22 January 2003, to replace Patrick Kron who has tendered his resignation, be ratified for the remaining duration of the latter's term of office, that is until the General Meeting called to vote on the financial statements for the year ending 31 December 2006. Jean-Paul Jacamon held various positions within the French public administration, before moving to the Schneider group, where he was Managing Director and Executive Vice-President until October 2001. Consequently, he has a wealth of experience in the electro-mechanical and electronics industry that is invaluable for the Group.

Meeting to be held in extraordinary session

Capital increase reserved for employees

The Extraordinary General Meeting of 10 May 2000 delegated to the Board of Directors the powers required to carry out capital increases through an issue of shares reserved for employees participating in the Group Investment Plan. The maximum aggregate amount of the capital increases was set at €800,000. The Board of Directors has not used this authorization and has not therefore carried out any capital increase reserved for employees participating in the Group Investment Plan.

In a bid to expand employee share ownership further and as an incentive for employees to achieve success for the Company, we again propose delegating to the Board of Directors the powers required to carry out capital increases through an issue of shares reserved for employees participating in the Group Investment Plan.

The maximum aggregate amount of the capital increases would be fixed at €230,000. This authorization would be valid for a period of 26 months.

Draft resolutions

Resolutions to be voted on in ordinary session

First resolution – Approval of the company's financial statements

After reading the Board of Directors' management report and hearing the reports of the Statutory Auditors on the balance sheet and the financial statements for the Company's 2002 fiscal year, the General Meeting approves the financial statements as presented, all the transactions reflected by these financial statements, the valuations included therein and the allowances made to depreciation accounts and provisions.

It therefore records the net income for the period as €1,212,297.78.

Second resolution – Approval of the consolidated financial statements

After reading the Board of Directors' management report and hearing the reports of the Statutory Auditors on the balance sheet and the consolidated financial statements for 2002, the General Meeting approves the statements as presented, all the transactions reflected by the consolidated financial statements, the valuations included therein and the allowances made to depreciation accounts and provisions.

It therefore records a consolidated net loss for the period of €10,800,000.

Third resolution - Appropriation of the company's net income

Upon the proposal of the Board of Directors, the General Meeting resolves to appropriate net income for the period, which amounts to €1,212,297.78, plus retained earnings of €173,781.20, representing a total amount of €1,386,078.98 as follows:

- Legal reserve: €2,137.60
- Income available for distribution: €1,383,941.38

The General Meeting sets the dividend for the year at €0.60 per share, to which is added, under the conditions laid down by the regulations in force, an *avoir fiscal* tax credit of €0.30, raising the total amount of the dividend to €0.90. Of the amounts distributed as a dividend, €1,383,941.38 will be drawn from income available for distribution and €5,299,548.62 from additional paid-in capital. The dividend withholding tax of €2,639,350.00 payable as a result of this distribution will be drawn from additional paid-in capital.

The dividend will be paid from 19 June 2003.

A comparison is shown between this dividend and dividend payments made in the previous three fiscal years (adjusted for the five-for-one stock split) in the following table:

(€)	Net dividend	Tax credit	Total dividend
1999	0.88	0.44	1.32
2000	1.06	0.53	1.59
2001	0.80	0.40	1.20

Fourth resolution – Approval of the Statutory Auditors' report

After hearing the report prepared by the Statutory Auditors in accordance with the provisions of Article L 225-40 of the French Commercial Code, the General Meeting acknowledges and approves its contents.

Fifth resolution – Purchase of Carbone Lorraine shares

After hearing the Board of Directors' report and having familiarized itself with the COB-approved prospectus, the General Meeting authorizes the Board of Directors under the conditions stipulated in Article L 225-209 of the French Commercial Code to acquire a number of shares representing up to 10% of the shares comprising the Company's share capital, or 1,113,915 shares.

The General Meeting resolves that share purchases may be carried out to stabilize the share price, to grant or transfer shares to employees in connection with the employee profit-sharing plan, employee share ownership plan or the corporate savings plan, to use shares in connection with acquisitions or, more generally, to use them as part of an asset and investment management policy.

The maximum purchase price is set at €40 per share and the minimum selling price is set at €15 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 €44,556,600.

Share purchases, sales and transfers may be carried out at any time and by any means, including the use of options and through acquisitions from identified third parties.

Shares acquired in accordance with this resolution may, in part or in their entirety, be kept, sold or transferred by any means. They may also be cancelled through a capital reduction under the conditions laid down in law.

This authorization is valid until the General Meeting called to vote on the financial statements for 2003. In no case will this authorization remain valid for more than 18 months.

The General Meeting grants full powers to the Board of Directors, with the option of delegating them to the Chairman, to place all stock market orders, enter any into agreements, carry out all formalities and, generally speaking, do whatever is required to apply this authorization.

Sixth resolution – Annual allocation of directors' fees

In accordance with Article 22 of the Articles of Association, the General Meetings resolves to set at €100,000 the aggregate amount of the annual allocation of directors' fees for years from fiscal 2003 inclusive. This decision shall remain valid until the General Meeting decides otherwise.

Seventh resolution – Ratification of a co-opted director

The General Meeting ratifies the provisional appointment of Mr Jacamon as a director made by the Board of Directors at its meeting on 22 January 2003, to replace Patrick Kron who has tendered his resignation, for the remaining duration of the latter's term of office, that is until the General Meeting called to vote on the financial statements for the year ending 31 December 2006.

Eighth resolution – Powers to carry out the formalities

Full powers are granted to the bearer of a copy or excerpts of these minutes to carry out all the legal formalities.

Resolutions to be voted on in extraordinary session

Ninth resolution – Capital increase reserved for employees participating in the Group investment plan

In accordance with the provisions of Article L 443-5 of the French Labour Code and Article 225-129-VII of the French Commercial Code and after hearing the Board of Directors' management report and the special report of the Statutory Auditors, the General Meeting authorizes the Board of Directors to increase, on one or more occasions based solely on these deliberations, the share capital through an issue of shares in cash, subscription of which will be reserved for participants in the Group Investment Plan.

The General Meeting resolves that the nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed a maximum amount of €230,000, or 1% approx. of the capital of the Company.

The General Meeting resolves to waive the preferential subscription rights of shareholders to any new shares to be issued to employees participating in the Group Investment Plan.

The size of each capital increase may not exceed the amount of the shares subscribed by employees individually or through the mutual fund.

The General Meeting grants full powers to the Board of Directors, which may be delegated to the Chairman, under the conditions laid down in law, to carry out this authorization, on one or more occasions, notably for the purpose of determining whether the issues shall be made directly to the aforementioned beneficiaries or through collective investment undertakings, defining the amounts to be issued, setting the dates for the issues, including the opening and closing dates for subscriptions, determining the issue price of the shares in accordance with the legislation and regulations in force, setting the date from which the shares to be issued will carry dividend rights and how they shall be paid-up, it being specified that they must be paid up within a period not exceeding three years, recognizing the completion of the capital increase proportionately to the number of shares actually subscribed, requesting the listing of the shares to be issued on the stock market everywhere required, making the requisite amendments to the Articles of Association resulting from use of this authorization and, more generally, determining the terms and conditions of transactions carried out pursuant to this resolution, making any adjustments needed in accordance with the provisions of law and the regulations and taking any appropriate measures and entering into any agreements to ensure the successful completion of the planned issues.

The period during which the Board of Directors may, on one or more occasions, use this authorization is set at 26 months from the present day.

The Board of Directors shall also have full powers, should it deem necessary, to set off any expenses incurred in connection with the capital increases against additional paid-in capital and to draw from this account the amounts required to raise the legal reserve to the level of one-tenth of the share capital after the capital increase.

This authorization replaces and supersedes that granted by the Combined General Meeting of 10 May 2000 in its Ninth Resolution.

> Special Report of the Statutory Auditors
on certain related party transactions

(year ended 31 December 2002)

In our capacity of statutory auditors of your Company, we are required to report on certain contractual agreements with certain related parties of which we have been advised.

We are not required to ascertain whether any other contractual agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of agreements indicated to us. It is not our role to comment as to whether they are beneficial or appropriate. It is your responsibility, under the terms of Article 92 of the March 23, 1967 Decree, to evaluate the benefits resulting from these agreements prior to their approval.

We hereby inform you that we have not been advised of any agreements concluded during the year ended 31 December 2002 which would be covered by Article L.225-38 of French Company Law.

In accordance with the March 23, 1967 Decree, we have been advised that the following agreements, approved in prior years, remained effective in the year ended 31 December 2002.

With Robert Chauprade, Director

Nature and purpose

Agreement between Le Carbone Lorraine and Robert Chauprade concerning a support and consulting assignment for the Electrical Protection division.

Terms and conditions

The total amount paid to Robert Chauprade during the financial year in respect of his assignment was 66 229 euros.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

Paris and Neuilly, 18 March 2003

The Statutory Auditors

Ernst & Young Audit — **Gilles RABIER**

Deloitte Touche Tohmatsu — **Alain PENANGUER**, **Jean-Luc POUMAREDE**

> Report of the Statutory Auditors

on the increase in capital with cancellation of preferential subscription rights reserved for employee-members of the Group's savings scheme

(Ninth Resolution)

In our capacity as statutory auditors of Le Carbone Lorraine S.A. and in compliance with Article L.225-135 and L. 225-138 of French Company Law (Code de Commerce), we hereby report on the proposed reserved increase in capital of €230,000 upon which you are called to vote.

This increase in capital, which is submitted for your approval in accordance with Article L. 225-129 VII of French Company Law (Code de Commerce), is reserved for the employees of Carbone Lorraine, S.A. and affiliated entities, members of the group's savings scheme.

Your Board of Directors, on the basis of its report, proposes that it be empowered to determine the conditions of this operation and requests that you waive your preferential subscription rights.

We have reviewed the proposed increase in capital in accordance with French professional standards. These standards require that we perform a review of the methods used to determine the amount of exercise price.

Under Article L.443-5 of French Company Law (Code de Commerce), the exercise price of the new issue will be equal to the average share price taken over 20 trading days of the regulated market on which the Company shares are listed, preceding the date the Board of Directors meet to determine the opening date for subscriptions, and may not be reduced by more than 20% [or 30% in the case of a voluntary savings scheme implemented under Article L.443-1-2 of French Company Law (Code de Commerce)].

Subject to a subsequent review of the conditions for the proposed increase in capital, we have nothing to report on the methods used to determine the amount of exercise price provided in the Directors' Report.

As the exercise price has not yet been determined, we do not express an opinion on the final conditions for the increase in capital and, consequently, on the proposed cancellation of preferential subscription rights, the principal of which is, however, inherent to the operation submitted for your approval.

In accordance with Article 155-2 of the law of March 23, 1967, we will issue a supplementary report when the increase in capital has been performed by your Board of Directors.

Paris and Neuilly, 18 March 2003

The Statutory Auditors

Ernst & Young Audit — **Gilles RABIER**

Deloitte Touche Tohmatsu — **Alain PENANGUER**, **Jean-Luc POUMAREDE**

>Officer responsible for the financial report and Auditors

Officer responsible for the financial report

Claude Cocozza

Chairman of the Board of Directors

Statement by the officer

To the best of my knowledge, the information presented in 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 Cocozza

Auditors

Statutory Auditors

Deloitte Touche Tohmatsu

183, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending 31 December 2003).

Ernst & Young Audit

Tour Ernst & Young Audit

Faubourg de l'Arche - 92037 - Paris La Défense 6

Date of first term: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending 31 December 2003).

Alternate auditors

Michel Bousquet

6, avenue du Belvédère - 78100 Saint-Germain-en-Laye

Date of first term: 1992

Date of last renewal: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending 31 December 2003).

Gabriel Galet

Ernst & Young Audit

Tour Ernst & Young Audit

Faubourg de l'Arche - 92037 - Paris La Défense 6

Date of first term: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending 31 December 2003).

> Statement by the Statutory Auditors

Auditors' report on the "document de référence"

(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).

As statutory auditors of Le Carbone Lorraine Company and as required under Rule 98-01 of the Commission des Opérations de Bourse, we have performed procedures on the information contained in the "document de référence" relating to the historical financial statements of the company, in accordance with professional standards applicable in France.

The company's Chief Executive Officer is responsible for the preparation of the "document de référence". Our responsibility is to report on the fairness of the information presented in the "document de référence" with respect to the financial statements.

Our work has been performed in accordance with professional standards applicable in France. Those standards require that we assess the fairness of the information presented relating to the financial statements and its consistency with the financial statements on which we have issued a report. Our work also includes reading the other information contained in the "document de référence", in order to identify material inconsistencies with the information presented with respect to the 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, knowing that this "document de référence" does not include selected prospective data.

We have audited in accordance with professional standards applicable in France the individual financial statements and the consolidated financial statements for each of the December 31, 2000, 2001 and 2002 years ended, prepared in accordance with accounting standards generally accepted in France and approved by the Board of Directors. We expressed an unqualified opinion on such financial statements and our report did not include any emphasis of matter paragraph.

Based on the procedures performed, we have no matters to report regarding the fairness of the information relating to the financial statements presented in the "document de référence".

Paris and Neuilly, 31 March 2003

The Statutory Auditors

Ernst & Young Audit	Deloitte Touche Tohmatsu	
Gilles RABIER	**Alain PENANGUER**	**Jean-Luc POUMAREDE**

Officer responsible for the information

Jean-Claude Suquet
Le Carbone-Lorraine
Immeuble La Fayette
2-3, place des Vosges
La Défense 5, 92400 Courbevoie
Tel.: + 33-1 46 91 54 19