ANNUAL REPORT 2004

CARBONE LORRAINE

Dedicated Innovation, Dedicated Partner

CARBONE LORRAINE

SOMMAIRE

Chapters 2 to 8 include all the information comprising the board of directors' report in accordance with article l. 225-102 of the French commercial code

A detailed summary of each chapter is shown in the relevant chapter index.

CARBONE LORRAINE

Annual Report 2004

CHAPTER

1 General overview of the Group

New visual identity

In keeping with its entrepreneurial spirit and tradition of innovation, Carbone Lorraine is embarking on an ambitious new challenge. The Group is introducing a new corporate image. It is adopting a new logo that captures the essence of Carbone Lorraine's philosophy and vision, which make the company an attractive, dynamic and resolutely forward-looking enterprise.

Its colors (purple, electric blue and orange) represents the Group's technological prowess. The flame embodies its momentum, impetus and drive. The typeface expresses Carbone Lorraine's corporate and international status.

This new banner reflects what sets the Group apart and its core values:

- Innovation & Growth
- Rigorous & Pro-active
- Robust & Forward-looking

Profile: Dedicated Innovation, Dedicated Partner

Expertise in advanced technology materials

Carbone Lorraine was one of the very first companies to develop the industrial applications of carbon and graphite more than a century ago. The Group now excels in the use of graphite and other advanced technology materials in highly demanding industrial environments and for critical electrical functions. It has put its ability to innovate at the service of its customers around the world and is developing applications that help harness new solutions.

Innovation in highly demanding environments

Carbone Lorraine develops and manufactures both components and complete systems. Its business activities are split evenly between original equipment and product replacement markets and are organized into two main product lines:

- the Advanced Materials and Technologies segment offers applications primarily based on graphite and carbon that deliver highly advanced technical solutions to its customers for highly demanding environments. High-temperature manufacturing processes, chemistry in corrosive fluids and gas environments and high-energy braking are the challenges taken up by Carbone Lorraine;
- the Electrical Components segment offers brushes and brush-holders for electric motors, industrial fuses and equipment protecting against voltage and current surges, as well as magnets.

Products and services for global leaders

Carbone Lorraine sells products protected by technological and service-related (ultra-rapid repairs, etc.) barriers to entry. Its customers usually buy solutions rather than actual products. Carbone Lorraine's customers include high-profile companies operating in the aerospace, automobile, electronics, electrical equipment, chemicals, rail and processing industries. In addition, Carbone Lorraine has an extensive network of local workshops which cover most geographical regions; they meet the maintenance needs of all kinds of industrial plants.

Carbone Lorraine ranks as world leader or number two worldwide in all its core businesses.

World leader

Graphite anti-corrosion equipment

Brushes and brush-holders for electric motors

Number two worldwide

High-temperature applications of isostatic graphite

Industrial fuses

Number three worldwide

Magnets for electric motors

Chairman's message: 2004, a stepping stone to the future

Over the past three years, we have reorganized our business processes, streamlined our cost base and restructured our plants. Our manufacturing facilities are now primed for a new period of expansion.

Through firmly focusing on our markets and our customers' needs, we have initiated a strategic program to step up the pace of our growth. Every aspect has been considered, from harvesting new ideas to putting them into practice, as well as earmarking sufficient human and financial resources.

In 2004, we have both satisfactory completed the savings plan we set in motion in 2001, and stepped up our efforts to achieve profitable growth fueled by our capital increase.

Restructuring programs nearing completion

For the past three years, a large part of our energies has been devoted to the major overhaul of our manufacturing organization. Thanks to the commitment shown by our entire workforce, we have completed a series of measures to redeploy our activities at plants that are most efficient and best able to meet the needs of our customers right around the world.

As a result, the Magnets division reached breakeven point again at operating level from the end of June 2004, ahead of schedule. We restructured or halted its uncompetitive production lines in France and so we are now able to look for partners to secure the division's future in favourable conditions.

These large-scale reorganizations enabled the Group to post an operating margin of 8.3% in 2004–well on the way towards our minimum target of 10%. We expect to reach our minimum margin objective in 2005, unless economic conditions suffer a significant degradation, which seems unlikely at present.

But we have set our sights much higher in the longer term: because we have lowered our fixed costs, the pace of our earnings growth should accelerate on the back of higher volumes driven by the economic upswing and by our expansion plans. At the top of the cycle, we are aiming to deliver an operating margin higher than 15%.

Resources to grow faster

Our financial strategy gives us the resources we need to realize our goals. Following the success of our capital increase in October, we can now implement our expansion plans, which should generate 150 million of euros in additional sales within five years.

To a great extent, these plans are oriented towards three avenues of organic growth, i.e. product and process innovation, geographical expansion, particularly in Asia, and brand labeling. We may also make some selective acquisitions in our core business to round out our geographical positions and our technology portfolio.

This said, Carbone Lorraine's aspirations are not confined to delivering a one-shot increase in sales. We also intend to accelerate the pace of its growth to 4-5% p.a. over the long term.

The full impact of our savings plan is set to show up in 2005, with our expansion projects picking up from 2006 and driving further growth in our earnings.

To reflect these new aspirations, we have redesigned our visual identity and our logo. They symbolize the growth dynamics of our Group. This tremendous drive to accelerate our profitable growth marks the beginning of an exciting period for Carbone Lorraine's management and employees. Rest assured that we will all do our very best to ensure that our shareholders benefit through our share price performance and the payment of dividends.

Claude Cocozza,

Chairman and Chief Executive Officer

Key figures: results laying the foundations for the future

Carbone Lorraine moved back onto a growth trajectory in 2004. Sales totaled 636 million of euros, up 4% like-for-like (i.e. at comparable structure and exchange rates) and up 1% compared with 2003.

Business was very brisk in the US, with sales advancing 7% like-for-like. The ramp-up in the Group's presence in Asia continues to bode well for the future.

The recovery in Europe was rather sluggish.

Stronger earnings power

In line with our guidance, the Group posted an operating margin of over 8% in spite of higher raw materials and energy costs.

At year-end 2004, the savings unlocked by our savings plan exceeded the annual target of 30 million of euros that we set three years ago. The Advanced Materials and Technologies and Electrical Applications divisions kept their margins up at a high level, while the Magnets division broke even at operating level. The Electrical Protection division completed its restructuring during early 2005.

As forecast, the non-recurring charges, which blighted results during previous years, were much lower in 2004.

As a result, Carbone Lorraine posted net income of 15 million of euros.

Financial dynamics geared towards growth

Carbone Lorraine has endowed itself with the resources to realize its ambitions. With a debt-to-equity ratio of 50% at year-end 2004, its financial situation is now in tune with its growth targets.

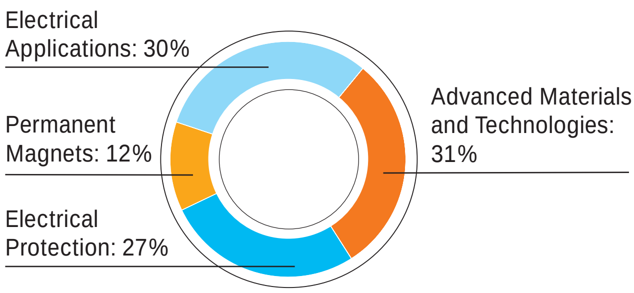
In 2003, the Group diversified its sources of financing by raising 85 million of dollars through a private placement with US institutional investors.

In October 2004, it raised a further 63 million of euros through a capital increase that proved highly successful among shareholders and with investors, as illustrated by the performance of the Group's share price, which increased after the transaction was completed.

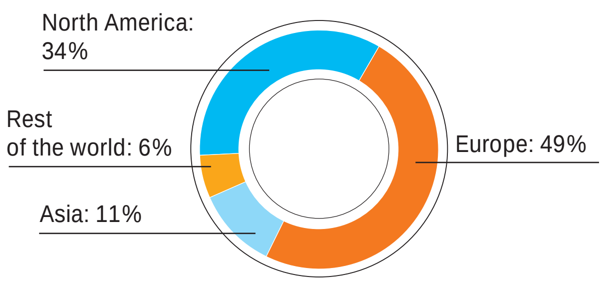
Lastly, taking advantage of attractive market conditions, Carbone Lorraine refinanced its multi-currency credit line one year ahead of schedule with a syndicate of 10 international banks in December. The size of the deal, which was initially expected to be for 200 million of dollars, was a great success and was in the end increased to 220 million of dollars.

Carbone Lorraine now has solid finances. With the cash generated by its business activities going forward, it has all the leeway it needs to pursue organic growth and acquisitions, should opportunities arise.

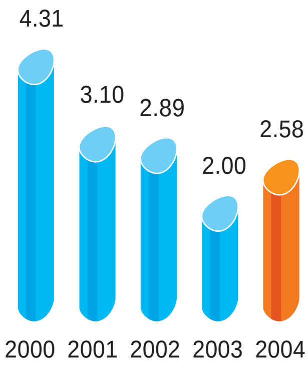
Divisional analysis of 2004 sales



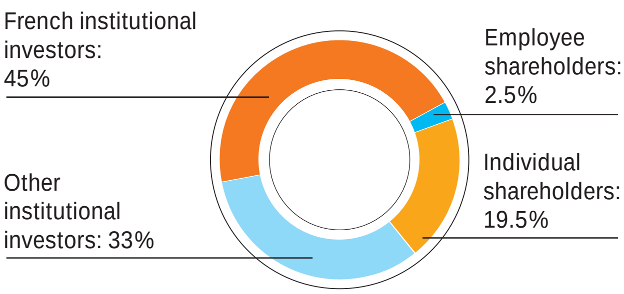
Geographical analysis of 2004 sales



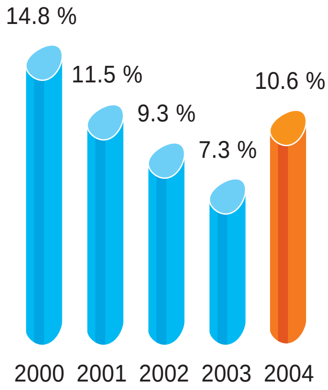
Net income per share before non-recurring items, Group share (in euros)



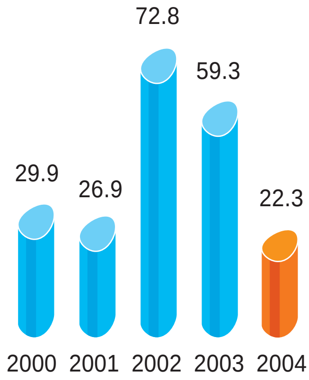
Ownership of the Group's capital



ROCE

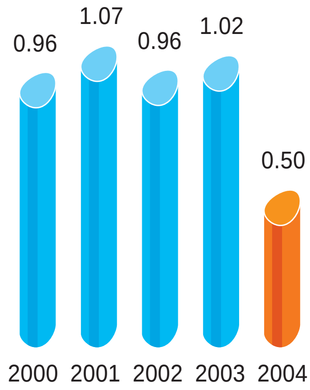


Cash flow generated by opertating and investing activities* (in millions of euros)



*Before restructuring costs

Debt-to-equity ratio



Value creation indicators

Value creation is tracked using two indicators, i.e. E.V.A. and return on capital employed.

E.V.A. is calculated by deducting the cost of capital employed from operating income less normalized tax expense. 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. E.V.A. is an internal management indicator that is notably used to calculate the variable portion of the remuneration paid to the managers of each division. It takes into account the gap between actual E.V.A. and the target set as part of the budgeting procedure. E.V.A. is also used in evaluating new investments.

Return on capital employed (ROCE) is operating income divided by capital employed. It is monitored on a Group-wide level as a value creation indicator. In 2004, the Group's return on capital employed came to 10.6%, compared with 7.3% in 2003. This raise was attributable to the increase in operational result linked with the positive impact of the savings plan and with the improvement of the economic environment.

Management by the cash

The cash focused action plan launched in 2002 to instill a genuine culture of cash focused management within the Group was continued during 2004. The goal of the plan is to maximize cash generation, since this forms a key pillar of our organic and acquisition-led growth strategy.

During 2004, the emphasis was placed on daily cash management by all the Group's plant managers. Audits were conducted to verify whether all of them are able to monitor their unit's cash position on a daily basis and whether they understand the reasons for any variance from their start-of-month forecasts. The purpose of this approach is to enhance cash management by making it more pro-active. The Group's Finance department provided assistance to managers who did not yet have the requisite systems to monitor their daily cash position in a satisfactory manner.

Business review: geared up for growth

Carbone Lorraine has chosen a worldwide industrial and marketing organization geared to trends in its markets and customer base, enabling it to improve its competitiveness and win new market positions.

Advanced Materials and Technologies

Graphite shows extraordinary properties: it can withstand temperatures of up to three thousand Celsius degrees and most corrosive agents. It conducts heat and electricity, boasts self-lubricating properties and may be purified to a very great extent. Carbone Lorraine genuinely excels in the industrial applications of this material.

Its extensive knowledge of how to use graphite, as well as its customers' constraints and needs has enabled it to broaden the range of materials it offers and to develop new applications for highly demanding industrial environments.

Hot growth prospects in high-temperature applications

The characteristics of isostatic graphite make it one of the few materials suitable for nearly every stage of the production of semiconductors, from the preparation of the monocrystal to the manufacture of microprocessors and various components. Certain components, such as LEDs, are being used for a growing number of applications, especially for traffic lights and dashboard displays, mobile phone screens and soon flat-screen televisions.

The graphites developed by Carbone Lorraine help its customers to make headway in their own markets.

In 2004, the Group scored noteworthy commercial successes in the US and in Asia, and its sales to the semiconductor industry advanced by 22%. The strengthening of the Group's positions in high-end graphite products for the manufacture of molds for electrical discharge machining (EDM) also contributed to the business expansion. To underpin growth in Asia, an isostatic tooling workshop and a flexible graphite workshop were set up close to Shanghai in China during early 2005.

Lastly, Carbone Lorraine is currently constructing an isostatic graphite block manufacturing unit in Chongqing, China. This new facility should ultimately double the Group's capacity.This unit, which is intended to serve the Asian market, is expected to supply the tooling workshops already established in India and China. This plan represents a key pillar of Carbone Lorraine's general expansion strategy.

Pioneering new technologies in anti-corrosion equipment

To handle the circulation and the storage of highly corrosive fluids, Carbone Lorraine has developed a very extensive range of equipment using the most efficient materials for this type of application, primarily comprising chemicals, pharmaceuticals and fertilizer production. Carbone Lorraine has rounded out its range of graphite solutions with equipment made of noble metals (tantalum, titanium and zirconium), which are employed in the toughest of environments. The Group has established itself as the technology leader in these markets and is constantly building on these positions.

The Group has broadened its offering to include turnkey installations. These involve delivering a function or a system rather than a single piece of equipment, such as hydrochloric acid synthesis units and exchange or distillation columns. It designs, performs the engineering, builds and starts up the systems or installations using the expertise it has acquired in its customers' applications.

The Group's activities in this field are dependent on capital spending trends in the chemicals, fertilizer and pharmaceutical industries. Presently, the market expands mainly in Asia, where the Group is the leader thanks in particular to its unit in Shanghai, which is growing quickly. Demand in Europe and North America chiefly comprises replacement spending. During 2004, the division sales rose slightly thanks to the delivery of a tantalum reactor to General Electric in Spain at the end of the year.

During 2004, Carbone Lorraine strengthened its leadership thanks to a technological breakthrough enabling it to produce 6m-long graphite tubes, whereas 4m tubes were the longest available on the market. By reducing the number of joints in its equipment, the Group has enhanced the reliability and life span of the heat exchangers, delivering improved safety and lower maintenance costs to its customers.

The new facility in Oxnard (California), which has set new standards for the construction of noble metals equipment, also harbors substantial growth prospects for the Group. It scored a remarkable success in this area when it gradually replaced glass lined steel reactors at Europe's largest polycarbonate production site (namely used in the "glass" of automobile lights) with tantalum equipment.

Lastly, Carbone Lorraine recently patented a process enabling it to produce steel equipment coated with noble metals, making for much more competitive solutions than conventional processes and opening up the prospect of substantial penetration in large markets currently served by traditional, much less efficient equipment.

Pole position in high-energy braking

The materials developed by Carbone Lorraine come into their own when heat needs to be dissipated very rapidly in a confined space in accordance with highly demanding safety standards, such as brakes for an Airbus or a TGV high-speed train.

During 2004, sales in the dollar zone of the aerospace market were reduced by a negative currency translation effect. This decline was offset by further growth in all other segments, particularly for rail, motorcycle and motor racing applications.

During 2004, sintered brakes for mountain bikes, a recent application, expanded very rapidly in both the original equipment and replacement markets. In the motorcycle segment, Carbone Lorraine is now focusing its efforts on developing its international distribution networks having established a strong reputation thanks to its success on racing circuits and the quality of its consumer products. Likewise, by sealing an exclusive technical partnership with the Peugeot Sport team in 2004, Carbone Lorraine has opened up new avenues of expansion now in motor car racing, which it is likely to turn into concrete gains in 2005.

The success it has achieved in high-speed train braking epitomizes the Group's technological leadership and its reputation for quality. By offering the best performance in terms of costs, product life span and services, Carbone Lorraine has become the supplier of brake linings for TGV high-speed trains in France and their KTX equivalent in South Korea. As a result of its reputation, it is now consulted on all new projects, including the Japanese Shinkansen.

Electrical Components

The conductivity of graphite lies behind the development of applications for direct current electric motors. Carbone Lorraine has extended its expertise to other critical electrical components, particularly industrial fuses. The Group has consolidated its positions by harnessing its ability to innovate and the performance of its manufacturing facilities.

Motoring ahead in Electrical Applications

Capitalizing on the conducting and self-lubricating properties of graphite, Carbone Lorraine has developed sliding electrical contacts. This expertise, which is used primarily in brushes for industrial and automotive electric motors, is also employed in rail traction and collection, as well as in many other industrial applications.

The brush and brush-holder market for industrial motors has reached maturity. It is now becoming primarily a service oriented business in which the ability to provide replacement products as rapidly as possible to local markets is a key success factor, hence the development of a network of local workshops throughout the world.

Aside from these replacement supplies, Carbone Lorraine is increasingly being called upon to use its expertise to diagnose motor malfunctions in the contact between brushes and the collector.

During 2004, Carbone Lorraine landed some major rail transportation contracts in North America, and its business in the region expanded by 10%.

The market for brushes and brush-holders for automobile applications is steadily expanding owing to the growing use of auxiliary motors in vehicles. Carbone Lorraine boasts highly effective logistics and marketing presence in Europe and North America.

Thanks to its three main manufacturing facilities at Amiens in France, Toronto in Canada and Farmville in Virginia, and its low-cost operations in Brazil, Tunisia, India and China, the Group is well-placed to cope with any technological advances and follow the geographical moves of its customers. Using its facilities in India and China as a platform, the Group can now serve the Asian automobile, electrical appliance and electrical power tool markets. New applications are being developed using Carbone Lorraine's expertise in sliding electrical contacts in the aerospace, medical, logistics and renewable energies (wind power) segments.

Electrical Protection, providing universal protection for people and assets

The division specializes in the development and manufacture of fuses and fuse-holders used to protect industrial equipment and power semiconductors. Fuses protect persons and equipment in many cases worth several million euros. The division has a worldwide presence and markets a very extensive range of products compliant with all local standards.

During 2004, the Electrical Protection division embarked upon a highly ambitious reorganization of its manufacturing base. As a result of this streamlining program, now nearing completion, the Group boasts facilities specializing in different types of production.

In Europe, the production of fuses complying with European standards has been centralized, with sophisticated and automated production taking place at the Saint-Bonnet-de-Mûre plant close to Lyon and other lines being manufactured in Tunisia.

In North America, based on the same production model, the Group has two workshops close to Boston and Toronto handling specific products with US standards and a mass production unit in Mexico, close to the border with Texas. In Asia, the Bangalore unit in India manufactures products to UK standards for India and other English speaking countries, while the site in Japan and the new Shanghai facility, which has been set up in conjunction with a Japanese partner, serve the local markets.

This manufacturing organization allows supporting the Group's major OEM and distributor customers around the world. At the same time, it has unlocked substantial productivity gains, which are now set to drive a major improvement in its financial performance, while continuing to strengthen its presence in its core business of fuses and enriching its fuse-centered product offering.

Return to breakeven point ahead of schedule in Magnets

Magnets made of ferrite, an iron oxide and strontium-based ceramic material, keep the small electric motors turning that are widely used in vehicles, electrical appliances and power tools. Capitalizing on its expertise in electric motors and its relationship with the leading OEM, Carbone Lorraine is the world's number three supplier of magnets for automobile applications. In this segment, Carbone Lorraine has to contend with the ramp-up of South Korean and more recently Chinese players, which have put prices under strong downward pressure.

Against this backdrop, the division has refocused its product portfolio and pooled production at its most efficient manufacturing facilities, while paying special attention to enhancing its customer service.

The restructuring of its operations enabled the division to return to breakeven point in 2004 at operating level.

Given the expansion in the market and the division's strong competitive positions, especially in flux packages, a segment in which it is the world leader, the Group is looking to find a suitable partner for the division to secure its future on the best possible footing.

Overview of business activities

Businesses	Activities	Main applications	Priorities
Advanced Materials and Technologies			
■ World number one in graphite anti-corrosion equipment World number two in high-temperature applications of isostatic graphite ■ Sales of M€200 ■ 31% of Group's sales ■ Main competitors: - SGL Carbon (Germany) - Toyo Tanso (Japan) - De Dietrich (France) - Robbin & Myers (US)	■ Design, manufacture and marketing of anti-corrosion equipment based on graphite, noble metals (tantalum, titanium, etc.) and fluoride polymers (PTFE) for the chemicals and pharmaceuticals industries; ■ Development of isostatic graphite solutions for high-temperature applications (semiconductors, aerospace, glass-industry, etc.); ■ Design, marketing and sale of high-energy braking components based on graphite and carbon	■ Processing (heat exchangers, reactors, etc.), storage (vessels, etc.), and distribution (tubing, pipes, etc.) of corrosive hot fluids; ■ Semiconductor production equipment and other refractory processes (dies, holders, etc.), electrodes for electrical discharge machining (EDM), kiln linings, etc. ■ Braking for aerospace, rail, mountain bikes and motorcycles and motor racing applications	■ Pursue the development of a full line of multi-material solutions for corrosive hot chemicals ■ Develop new isostatic graphite solutions geared to the specific needs of our customers ■ Expand sales in Asia ■ Pursue the international expansion of our expertise in high-energy braking
Electrical Applications			
■ World number one in brushes and brush-holders for electric motors ■ Sales of M€187 ■ 30% of Group's sales ■ Main competitors: - Morgan Crucible (UK) - Schunk (Germany)	■ Design, manufacture and marketing of sliding electrical contacts, brushes for electric motors and brushcards comprising brushes, brush-holders and electronic components ■ Diagnostics, assistance and maintenance	■ Large motors: all industrial applications and robots, power generators for aerospace applications, 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 innovation in expanding niches and expand base in North America and Asia ■ Small motors: Target performance improvements and develop brush-holder modules with enhanced functionality.
Electrical Protection			
■ World number two in industrial fuses ■ Sales of M€171 ■ 27% of Group's sales ■ Main competitors: - Bussmann (US)	■ Design, manufacture and marketing of industrial fuses, cooling devices and protection systems for motors, circuit-breakers, current collectors and other electrical and electronic equipment protecting people and assets	■ Protection of industrial motors and electric and electronic industrial equipment against short circuits and voltage surges ■ Thermal protection of industrial electronic equipment ■ Protection of electricity distribution grids ■ Electrical protection for people and assets	■ Complete restructuring measures in Europe ■ Pursue business development with equipment suppliers, distributors and users by emphasizing innovation and quality of products and services
Magnets			
■ World number three in magnets for automobile applications ■ Number one worldwide in flux packages for automobile electric motors ■ Sales of M€77 ■ 12% of Group's sales ■ Main competitors: - Hitachi (Japan) - TDK (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 in Europe ■ Sell the business

Corporate governance: a major commitment to good governance

Ten years ago in 1995, Carbone Lorraine's Board of Directors embraced the principles of good corporate governance by setting up two specialized committees, namely the Audit and Accounts Committee and the Appointments and Remuneration Committee. In early 2003, the Board of Directors' new internal regulations instituted a third committee focused on the Group's strategy.

The Board of Directors

Eight directors sit on the Board, five of whom are independent. The Board met seven times during 2004. During each meeting, the Board systematically analysed trends in the Group's sales and earnings. During 2004, it also monitored the progress of restructuring underway in the Magnets and Electrical Protection divisions and examined the organic growth plans proposed by the Group as part of its "Growth Plus" program, before giving them the go-ahead.

Internal regulations

The internal regulations lay down the role, composition and organization of the Board, as well as the decisions that it must approve. They state the role of the Board's three specialized committees and set up a code of conduct for those privy to privileged information.

Assessment of the Board's efficiency

In early 2004, the Board conducted the first review of its operations. The individual interviews held by a member of the Appointments and Remuneration Committee based on a questionnaire concluded that the Board is working in a satisfactory manner. They also highlighted several areas for improvement, on which the directors worked during 2004.

Members of the Board of Directors

Claude Cocozza, *Chairman and Chief Executive Officer*
Jean-Pierre Capron*
Robert Chauprade*
Hervé Couffin
Jean-Paul Jacamon*
Jean-Claude Karpeles*
Lise Nobre
Walter Pizzaferri*

*Independent directors

Audit and Accounts Committee

This committee, which comprises three directors, two of whom are independent, met six times during 2004. In particular, the Committee approved the elections taken for the first-time adoption of IFRS and set up the rules for the competitive tender for renewing the statutory auditors. The Committee approved the program of audits at seven manufacturing facilities and of three audits verifying implementation of the action plans drawn up after previous assignments. It also examined the work of the Risk Committee.

Appointments and Remuneration Committee

Four directors, two of whom are independent, sit on this committee which met 3 times during 2004 and discussed certain straightforward matters over the telephone and by correspondence. In particular, the Committee examined and approved the Chairman's proposed changes to the organization of the Group's management team and to the composition of the Executive Committee. It also studied ways of motivating and rewarding employees and senior managers following recent regulatory developments.

Strategy Committee

It comprises four directors, two of whom are independent. This committee met six times during 2004 to examine implementation of the divisions' strategies and to discuss the Group's strategy. In particular, the Committee examined the formal definition of the Group's strategy in Asia and approved the corresponding expansion plans and investments.

Executive Committee

The senior executives on the Executive Committee are responsible for running and overseeing the Group's day-to-day operations. During their monthly meetings, they analyse trends in sales, earnings and cash flow and determine the action to be taken where performance falls short of targets. The Executive Committee meets each divisional manager to conduct a detailed review of the division's business and planned developments.

Members of the Executive Committee

On January 1, 2005, the Executive Committee was strengthened by the arrival of three new members as a result of Michel Coniglio's retirement and the renewed emphasis on expansion from 2005 onwards. Luc Themelin and Ernest Totino came from the teams coached by Michel Coniglio, while Augustin Huret has spent his career in the automobile industry.

The Executive Committee has seven members:

Claude Cocozza, *Chairman and Chief Executive Officer*

Augustin Huret, *Group Vice President, Electrical Applications*

Bernard Leduc, *Group Vice President, Human Resources, Supervisor of the Quality and Continuous Improvement Project*

Marc Renart, *Group Vice President, Electrical Protection*

Jean-Claude Suquet, *Group Vice President, Finance and Administration, Supervisor of the Risk Department*

Luc Themelin, *Group Vice President, High-temperature Applications and Braking*

Ernest Totino, *Group Vice President, Anti-corrosion equipment, Supervisor of the Purchasing and Information Systems Departments*

Sustainable development: a long-term view of development

Sustainable development is predicated on a set of principles that are firmly anchored in the Group's corporate culture. For many years, Carbone Lorraine has pursued a socially responsible policy fostering the commitment of all its employees to the Group's mission.

The creation at the beginning of 2004 of a Risk department, which handles the global management of risks for the entire Group and reports back to the Audit and Accounts Committee of the Board of Directors, also demonstrates the Group's determination to incorporate sustainable development in its corporate governance programs.

Continuous action

The Group's human resource policy contributes on a daily basis towards improving the competitiveness of all its sites. These continuous efforts aim to develop employees' competencies through training programs geared to the changes in our business activities, to organize methods and to mobilize employees through performance target-based incentive plans.

An internal communications program focused on objectives, which are set on a site-by-site and even on an individual workshop basis, was initiated in 2004 and will gradually be deployed across the Group.

Industrial efficiency drive

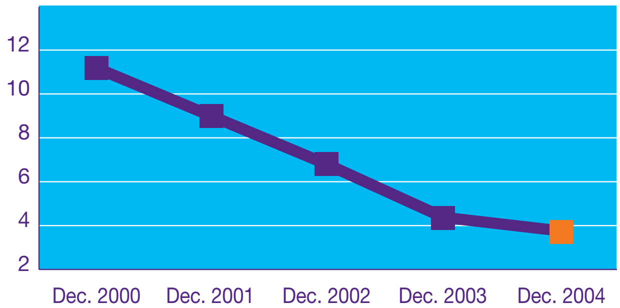
The restructuring of the manufacturing base initiated in 2004 should be completed in 2005. In Electrical Protection, the Eggolsheim and Mannheim plants in Germany and the Barcelona plant in Spain were closed down and their activities transferred to Saint-Bonnet-de-Mûre in France and El Fahs in Tunisia. The Magnets division has reduced its workforce in France at its Evreux and Saint-Pierre-d'Allevard sites. In each and every case, support packages tailored to the local culture and circumstances were offered and negotiations initiated with employee representatives.

Safety-oriented culture

Safety has long been a top priority for the Group. The decline in the frequency of occupational accidents continued during 2004.

Fresh initiatives were implemented to instill this safety-oriented culture right around the world at all the Group's manufacturing sites and during trips by its sales teams. Steps were also taken to reduce employees' exposure to noise.

(In ‰)	2004	2003	2002
Evolution of occupational accidents (TF1)	3,9	4,2	6,7



Global risk management

Carbone Lorraine has secured the resources it needs to pursue its policy of continuous improvement in terms of protecting people, its assets and the environment. The newly created Risk department continued to implement the initiatives introduced during previous years.

The Group's industrial processes do not represent a hazard liable to trigger major chemical reactions, and none of its sites have been classified under the Seveso directive. This said, all of them undergo regular audits and are constantly kept in line with the standards in force. Precise guidelines and regular training programs help to minimize the potential hazards identified.

The Group's main sites have embarked on the process of gaining ISO 14001 and OHSAS 18001 certification in line with their commitment to the environment and safety.

The Risk department also endeavors to mitigate the potential economic impact of all the risk factors identified. It analyses industrial risks to reduce their likelihood and their knock-on effects on business activities. It works in liaison with the Purchasing department to find alternatives to secure the supply chain, as well as securing the Group's information in general and access to sites and protecting its IT systems.

Carbone Lorraine and the stock market: strong performance in 2004

Carbone Lorraine shares posted another strong increase in 2004, notching up gains of 39% following on from a rally of 30% in 2003. The share's benchmark index, the SBF 120, advanced by 7% and 15% respectively over the same period.

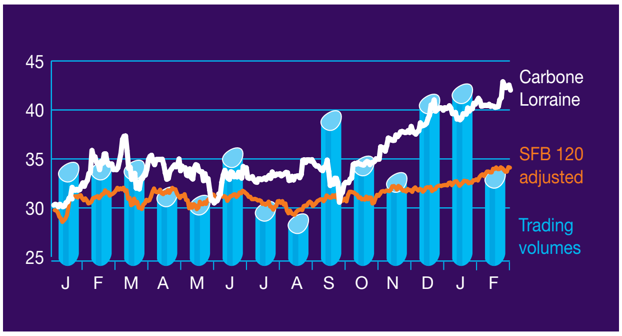
The announcement of the expansion plans, which justified the capital increase, drove up the share price, which peaked at €39.6 in December and closed for the year at €39.0.

This strong increase during the fourth quarter illustrates investors' confidence in the Group's strategy of profitable growth.

Technical details

- Listed on the Premier Marché of Euronext Paris
- NextPrime Segment
- Indices: SBF 120, CAC Mid100, Euronext 150
- SRI Europe index of socially responsible companies
- Eligible for deferred settlement and for inclusion in French PEA savings plans
- ISIN code: FR0000039620
- Share price on December 31,2004: €39.00
- 2004 high: €39.60
- 2004 low: €27.10

Share price performance and volumes as of end-February



After the strong gains recorded in 2004 (+39%), the share price shows a 5% increase at the end of February since the beginning of the year.

Trading volumes remain high reflecting investor's interest in the share.

2004 monthly average trading volume: 474,390

2005 monthly average trading volume (2 months): 684,431

Focus on investor relations

Carbone Lorraine maintains a dynamic relationship with its shareholders in order to improve their understanding of the Group's strategy, business activities and financial fundamentals.

The Group's investor relations strategy is predicated on a regular program of meetings and presentations, which are geared to meeting the specific expectations and needs of different categories of shareholders. For instance, Carbone Lorraine organizes:

- presentations in Europe and North America for institutional investors;
- meetings and seminars on specific themes for investment analysts and business and financial journalists;
- information and question-and-answer sessions with individual shareholders in France, backed up by a half-yearly newsletter;
- stock market induction courses and a newsletter for employee shareholders.

www.carbonelorraine.com

The web site provides a valuable source of in-depth information about the Group's business activities. All the documents published and press releases issued by the Group are also available online.

Our team works tirelessly to keep all our shareholders and all our financial partners informed. For further information, please contact us:

Investor Relations Department

Carbone Lorraine, Immeuble La Fayette

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e-mail: dri@carbonelorraine.com

Share price data

Share price (€)	February 2005	January 2005	2004	2003	2002
High	41.75	40.00	39.60	33.13	37.92
Low	38.5	37.26	27.12	13.26	19.31
Average	40.63	39.55	33.15	23.29	28.52
At end of period	40.88	39.60	39.00	28.00	21.38
Number of shares at end of period	**13,755,577**	**13,755,577**	**13,755,577**	**11,197,890**	**11,139,150**
Market capitalization at end of period (M€)	562.32	544.72	536.47	313.54	238.15
Average number of shares traded per month	442,282	926,579	474,390	377,486	387,602

Net dividend per share

(In €)	2004	2003	2002	2001	2000	1999
	0.55	0.0	0.60	0.80	1.06	0.88

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

(In €)	2004	2003	2002	2001	2000	1999
	2.58	2.00	2.89	3.10	4.31	3.31

Ownership of the share capital at December 31, 2004

as a %	
Individual shareholders	19.5%
Employee shareholders	2.4%
French institutional investors	45.1%
- including BNP Paribas	20.9%
International institutional investors	33.0%

Key events in the 2004 investor relations calendar

Sales reports

Full-year 2003 sales – January 28

First-quarter 2004 sales – May 12

Second-quarter 2004 sales – July 22

Third-quarter 2004 sales – November 4

Earnings reports

Full-year 2003 results – March 23

Interim 2004 results – September 14

Meetings for institutional investors

Throughout the year Europe and in North America

Presentations for individual shareholders

Lille – April 8

Toulouse – June 2

Metz – November 30

Paris – December 2

Annual General Meeting

Paris – 5 p.m. on May 13

Technical seminar for investment analysts and journalists

Paris – February 10 - Topic: High Energy Braking

Key events in the 2005 investor relations calendar

Sales reports

Full-year 2004 sales – January 25

First-quarter 2005 sales – April 19

Second-quarter 2005 sales – July 20

Third-quarter 2005 sales – November 2

Earnings reports

Full-year 2004 results – March 16

Interim 2005 results – September 14

Meetings for institutional investors

Throughout the year Europe and in North America

Presentations for individual shareholders

Bordeaux – May 17

Lyon – November 24

Nice – date to be set

Annual General Meeting

Paris – 5 p.m. on May 12

Technical seminar for investment analysts and journalists

Paris – June 8 - Topic: Anti-corrosion equipment

CHAPTER

2

Management report

Introduction

Carbone Lorraine posted 2004 sales of 636 million of euros, representing growth of 4% compared with the previous year on a like-for-like basis, i.e. at comparable scope and constant exchange rates, and growth of 1% on a reported basis.

All the divisions contributed to this sales growth except for the Magnets segment. The Electrical Protection division posted a strong increase of 8% on a like-for-like basis thanks to firm performance in North America and Asia. The Advanced Materials and Technologies division also recorded brisk growth, especially in electronics as well as Electrical Applications in brushes for industrial motors.

During 2004, Carbone Lorraine completed its savings plan, which paved the way for the Group to post an operating margin of 8.3%, up from 6.2% in 2003 and beating the original target of 8% in spite of the higher cost of raw materials, which reduced the operating margin by 0.7 percentage points.

Lastly, Carbone Lorraine's finances were strengthened considerably during the year thanks to the 63 million of euros capital increase in October to finance the Group's expansion plans, as well as the refinancing provided by a USD220 million credit line repayable in late 2009.

Review of operations

The **Advanced Materials and Technologies** division posted 2004 sales of 200 million of euros, up 5% on a like-for-like basis compared with the previous year. This healthy increase was driven by expansion in high-temperature applications of graphite for the electronics industry, as well as firm performance in refractory applications. In anti-corrosion equipment, the year ended on a positive note with a major delivery to General Electric in Spain. High-energy braking also made significant gains, but comparisons were skewed by the large deliveries to the South Korean high-speed train project in 2003. The divisional operating margin recorded a strong rise to over 17%, up from 15% in 2003.

The **Electrical Applications** division posted 2004 sales of €187 million, representing a like-for-like increase of 4% on 2003. Thanks to stronger economic momentum, brushes and brush-holders for industrial motors carved out significant gains in all regions, except for Europe. In brushes and brushcards for small motors, business grew in Europe, with automobile and power tool markets leading the way. It expanded only modestly in North America owing to the situation affecting US carmakers, which lost market share to their Japanese rivals. The operating margin remained stable compared with 2003 at close to 11%, with the impact of higher volumes offset by the substantial increase in raw materials costs, especially copper prices.

The **Electrical Protection** division recorded sales of 171 million of euros in 2004, up 8% on a like-for-like basis compared with 2003. Growth was particularly strong in Asia (Japan, China) in power semiconductor fuses, as well as in high-power circuit breakers and rail current collection. In North America, the division benefited from the significant recovery in the economy, recording strong growth in general-purposes fuses. The completion of the production overhaul in Europe, including the integration in Saint-Bonnet de-Mûre and Tunisia of the three German and Spanish plants caused some delays to deliveries in a generally lackluster economic environment. Since the first-half operating margin was heavily depressed by the effects of the reorganization in Europe, the full-year operating margin came to just over 4%, slightly below the 5% recorded in 2003. As the situation reverted to normal towards the end of the year, the division's margin should return to a healthy level in 2005 thanks to the full-year impact of the savings harnessed by the division.

The **Magnets** division posted 2004 sales of 77 million of euros, down 2% on a like-for-like basis compared with 2003. The decrease in sales was attributable primarily to efforts to refocus the European business on the most profitable production lines and products. Healthy growth in flux packages helped to partially offset this sales contraction. Sales moved higher in North America, but South America delivered the highest rate of growth thanks to the strength of the Brazilian market. The operating margin recorded a major improvement between 2003 and 2004, moving up from negative 8% to 2% in positive territory. The return to breakeven was driven chiefly by the impact of restructuring at both the French manufacturing facilities.

Consolidated results

Sales

The consolidated sales reported by Groupe Carbone Lorraine for 2004 came to 636 million of euros, representing an increase of 1% on a reported basis. Changes in the scope of consolidation had negligible impact, while currency effects were a negative 3% owing mainly to appreciation in the euro against the US dollar. On a like-for-like basis, sales grew by over 4%. Buoyed by the US economy, business in North America enjoyed strong expansion, with sales rising by over 7%. Sales in Europe increased at a slower pace of 3%, while top-line performance showed a decline in Asia owing to a highly negative base of comparison affecting the Advanced Materials and Technologies division (delivery in 2003 of brakes to the new South Korean high-speed train project and large anti-corrosion equipment orders). Adjusted for these effects, the Group's sales in Asia advanced by 20% in 2004.

Operating income

Carbone Lorraine's operating income came to 52.6 million of euros in 2004, up from 39.3 million of euros in 2003, representing an increase of 34%. This rise was driven primarily by the completion of the savings plan aimed at achieving savings of 30 million of euros in 2004 compared with the 2001 cost base. This cost reduction target was achieved in spite of the increase in raw materials costs, especially in copper and silver prices, and to a lesser extent in energy prices, which took their toll on the Group's income and meant that it did not reap the full benefit of volume gains. In addition, the weakness of the US dollar against the euro reduced the earnings contribution made by our strong performance in North America owing to a negative currency translation effect.

Even so, Carbone Lorraine's operating income came to 8.3% of sales, up from 6.2% in 2003.

Net financial expense

Net financial expense increased slightly to 11.3 million of euros, up from 10.8 million of euros in 2003. The reduction in net debt, owing in particular to the October capital increase, did not have an impact until late on in the year.

Interest cover, i.e. the ratio of financial expense to operating income, improved to 4.7x from 3.6x in 2003.

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

The rise in operating income fed through into income before tax and non-recurring items, which advanced by 45% to 41.3 million of euros from 28.5 million of euros in 2003.

Net income, Group share before non-recurring items after the deduction of income tax and minority interests in foreign companies came to 30.2 million of euros, up from 22.3 million of euros in 2003, representing 4.7% of sales compared with 3.6% in 2003.

Non-recurring items in 2004 represented an overall net charge of 9.9 million of euros, a steep decline on the 54.8 million of euros recorded in 2003. These net non-recurring items derived primarily from the finalization of restructuring measures, particularly in Magnets, with the announcement of the closure of the Evreux plant in 2005. After taking into account these net non-recurring charges and 5.1 million of euros in goodwill amortization, the Group posted net income of 15.2 million of euros, compared with a net loss of 38.2 million of euros in 2003.

Dividend

The Board of Directors will propose payment of a dividend of €0.55 per share at the Annual General Meeting of the shareholders. The total amount paid out would thus come to almost 7.6 million of euros, representing 50% of 2004 net income.

Investment policy

Investments made during the past three fiscal years

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

The main net investments during 2003 related to changes in the scope of consolidation resulted mainly from the annual payment due in respect of AVO, the joint venture with Kirkwood (brushes for small electric motors in the US), and the acquisition of the European fluorinated polymer-lined piping systems business from Plastic Omnium's Performance Plastics Products division. Exceptional asset disposals included Ferraz Shawmut's premises in Spain and the premises of the anti-corrosion equipment business in Camarillo (US).

In 2004, Carbone Lorraine continued to pursue its strategy of keeping a tight rein on investment spending. Capital expenditure was devoted primarily to modernizing existing manufacturing facilities in order to harness efficiency gains. The Group also prioritized the expansion of its business activities in Asia. Consequently, financial investment was devoted mainly to the capitalization of the Group's new units in Asia, chiefly in China.

Furthermore, the Group made the scheduled payments in connection with the acquisitions of AVO, 3P and Polygraphite (France). Non-recurring asset disposals comprised mainly the sale of Ferraz Shawmut's Newburyport site in the US.

(M€)	**2004**	**2003**	**2002**
Increase in intangible fixed assets	(2.5)	(2.6)	(2.6)
Increase in property, plant and equipment	(18.7)	(23.0)	(23.2)
Increase in financial assets	(2.4)	(0.1)	(0.2)
Proceeds from sales of property, plant and equipment	0.9	1.9	1.6
Total	**(22.8)**	**(23.8)**	**(24.4)**
Net investment related to the impact of changes in the scope of consolidation	(13.0)	(10.1)	(2.8)
Non-recurring disposals of fixed assets	6.3	11.1	3.5

Financing policy

A Group policy has been defined for financing, which implementation is coordinated by Carbone Lorraine's Finance and Administration department.

In most cases, Le Carbone Lorraine SA arranges borrowings and then makes loans to the various Group units. Part of this internal financing is carried out directly or indirectly through two cash pooling systems, one of which operates in Europe and the other in the US.

In 2003, the Group refinanced a bank loan due for repayment by means of private placements, enabling it to diversify its sources of financing and to extend the average maturity of its debt significantly.

In 2004, the Group refinanced the long-term portion of the syndicated loan due to expire in late 2005, replacing it with a new five-year syndicated loan.

Furthermore, the Group has confirmed credit lines, the size of which exceeds the amounts drawn down by a very large margin.

All the information about borrowings is stated in Note 10 to the consolidated financial statements.

Research policy

The Group's research policy is focused on the development of new products and on cost-cutting improvements. Research is managed by each division in relation to its specific development priorities.

The Group devotes around 3% of its sales to research and development in the form of the operating costs of teams fully dedicated to this activity plus costs of product development (materials, processes); this figure does not include spending related to this development work. Owing to the very nature of the Group's business activities, it is constantly involved in developing new solutions for its customers. The cost of this development work is not included in the figure of 3% because it is hard to separate from its ongoing technical and commercial activities.

Most of this expenditure is financed internally. This said, the Group receives subsidies from the French Industry

Ministry in connection with its “ Performance ” programs, which are intended to foster industrial development through technological innovation. These subsidies currently amount to 0.5 million of euros p.a.

One of the success stories of 2004 comprised the patents filed for the manufacture of more environmentally friendly lead-free brushes for small electric motors. The Group also secured another patent improving the metal brazing process for anti-corrosion equipment.

Net debt

Total net debt decreased by 31% in 2004 to 125.6 million of euros from 182.6 million of euros at year-end 2003, representing 50% of shareholders' equity at year-end 2004, down from 102% at end-2003.

This 57 million of euros decrease was attributable primarily to the capital increase at year-end 2004 and, to a marginal extent, to the positive impact of currency fluctuations.

Cash flow generated by operating and investing activities came to 22 million of euros. The bulk of restructuring charges related to the savings plan were laid out during 2004, when they amounted to 24 million of euros. Total net cash flow was therefore negative 8 million of euros after taking into account payment of the final amounts of consideration due on acquisitions made in previous years and the disposal of certain property assets.

	2004	2003	2002
Total net debt (M€)	125.6	182.6	236.2
Net debt/shareholders' equity	0.50	1.02	0.96

Parent company results

The sales and other revenues recorded by the parent company, Le Carbone Lorraine SA, amounted to 3.3 million of euros. These sales and other revenues derived from Carbone Lorraine SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and various other services.

The parent company posted an operating loss of 2.5 million of euros compared with a loss of 3.4 million of euros in 2003.

The decline in financial income to 9.0 million of euros from 23.4 million of euros in 2003 was attributable to unrealized currency gains recorded in 2003 when some of the dollar-denominated debt was refinanced with private investors in the US.

Income before tax and non-recurring items stood at 6.5 million of euros. The net non-recurring loss of 10.5 million of euros was chiefly attributable to the impairment loss recognized on the investment in the Magnets division.

The parent company recorded a tax benefit of 6.9 million of euros, which was paid by the French subsidiaries consolidated for tax purposes.

Taking all these items into account, the parent company posted net income of 2.9 million of euros.

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.

Le Carbone-Lorraine SA belongs to Groupe Carbone Lorraine, which encompasses 93 consolidated and unconsolidated companies in 34 countries. The Group's largest manufacturing facilities are located in France, the US and Mexico.

Groupe Carbone Lorraine is organized in four business divisions, namely Advanced Materials and Technologies, Electrical Applications, Electrical Protection and Magnets. Each division is overseen by one or more members of the Executive Committee. In some cases, the members of the Executive Committee hold directorships in companies belonging to their division.

During 2004, Carbone Lorraine Corporate Services absorbed Carbone Lorraine Information Système, which was owned by the Group and was not consolidated in 2003.

Operations outside France

The sales contribution made by the Group's consolidated subsidiaries outside France came to 428 million of euros in 2004, up 1.2% compared with 2003. On a like-for-like basis, sales contributed by the Group's subsidiaries outside France rose by 5.8%.

In 2004, the Group derived 85% of its sales from outside France (i.e. sales generated by foreign companies and exports by French companies).

First-time adoption of IAS/IFRS

Principles and options elected for the opening balance

In accordance with European regulation no. 1606/2002 issued by the Council of the European Union and the European Parliament, as well as IFRS 1 relating to the first-time adoption of IAS/IFRS as an accounting standard, the consolidated financial statements of Groupe Carbone Lorraine for the fiscal year ending on December 31, 2005 will be prepared using international accounting standards with comparative figures for fiscal 2004 based on the same accounting standards.

Accordingly, Group Carbone Lorraine's opening balance sheet at January 1, 2004 was prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The Group elected to adopt IAS 32 and IAS 39 from January 1, 2005 and took all the necessary measures, including adjustments to its management and treasury systems to meet the documentation requirements laid down in the new standards.

Carbone Lorraine may decide to change certain elections or accounting methods it has adopted in the event that the IASB publishes positions on existing standards or interpretations with a material impact on the restatements identified as necessary to date when the Group adopts IFRS for the first time (for the publication of its interim 2005 results).

The impact of the adoption of IAS/IFRS on the Group's consolidated balance sheet according to French GAAP is detailed in the following section.

A reconciliation of the effects caused by the transition to IFRS is described in the notes to the opening balance sheet.

A – Basis of consolidation

There are no changes in the scope of consolidation, and all the companies within the scope of consolidation are still fully consolidated, without any changes compared with French GAAP.

B – Foreign currency translation

There are no changes in the functional currencies or translation methods used.

In line with the options laid down in IFRS 1, cumulative translation gains and losses are left in a separate account, without any impact on shareholders' equity.

C – Goodwill

Goodwill that arose prior to January 1, 2004 was not restated in line with the option available in IFRS 1.

Goodwill is no longer amortized and was left at its net book value shown in the financial statements at December 31, 2003.

Impairment tests conducted on these assets in accordance with IAS 36 did not reveal the need for any additional impairment losses to be recognized.

D – Intangible assets

Intangible assets, primarily deferred costs, recorded on the Group's balance sheet at December 31, 2003 but not satisfying the criteria defined in IAS 38 were removed or reclassified under other balance sheet headings.

The amortization periods adopted for these non-current assets were not modified and reflect their expected useful life.

E – Leases

An analysis of the principal leases did not reveal the need for any restatements other than those already restated under French GAAP.

F – Research and development costs

An analysis of the projects underway at January 1, 2004 did not reveal any material research and development costs satisfying the criteria for capitalization laid down in IAS 38.

G – Property, plant and equipment

In accordance with IFRS 1, the Group elected to revalue all of its land holdings. External valuers conducted a valuation of some of the land holdings that it owns. The revaluation of certain land holdings led to a corresponding amount being credited to equity.

Other property, plant and equipment continued to appear on the balance sheet at cost price, with depreciation still based on its expected service life and asset category.

A detailed analysis of the components approach was undertaken, with no material impact identified.

H – Pension and other employee benefits

Previously the Group accounted for its pension and related obligations based on the rules laid down in CRC regulation no. 99-02. In accordance with IAS 19, the Group conducted an exhaustive survey of its pension obligations with the support of local actuaries, whose work was coordinated by a central actuary.

The obligations were calculated using the projected unit credit method based on uniform actuarial assumptions for each economic region.

In accordance with the options available for the first-time adoption of IFRS, unrecognized actuarial gains and losses and past service costs were recognized in full as a liability and charged to shareholders' equity.

Opening balance sheet at January 1, 2004

ASSETS

(M€)		French GAAP December 31, 2003	Impact of IAS/IFRS	IAS/IFRS January 1, 2004
NON-CURRENT ASSETS				
Intangible assets				
– Goodwill	(a)	165.2	7.1	172.3
– Other intangible assets	(b)	14.4	(8.9)	5.5
Property, plant and equipment				
– Land	(c)	9.4	24.3	33.7
– Buildings		34.2		34.2
– Plant, equipment and other	(d)	66.7	0.7	67.4
– Non-current assets in progress		17.8		17.8
Financial assets				
– Investments		11.6		11.6
– Other financial assets	(e)	7.5	(2.8)	4.7
– Non-current deferred tax assets	(f)	8.3	5.0	13.3
TOTAL NON-CURRENT ASSETS		**335.1**	**25.4**	**360.5**
CURRENT ASSETS				
– Inventories		113.8		113.8
– Trade receivables		121.0		121.0
– Other receivables	(g)	18.6	(0.2)	18.4
– Current deferred tax assets	(f)	17.4	(1.5)	15.9
– Current financial receivables		0.3		0.3
– Available-for-sale financial assets		2.5		2.5
– Cash and cash equivalents		25.4		25.4
TOTAL CURRENT ASSETS		**299.0**	**(1.7)**	**297.3**
TOTAL ASSETS		**634.1**	**23.7**	**657.8**

(a) Reclassification under goodwill of sundry purchased goodwill previously accounted for under other intangible assets.
(b) Reclassification of 7.1 million of euros in purchased goodwill under goodwill and of 0.7 million of euros in other intangible assets under property, plant and equipment, and cancellation of 1.1 million of euros in assets not satisfying the criteria laid down in IAS 38 through a charge to equity.
(c) Revaluation of land holdings, primarily at the Gennevilliers, Frankfurt, Brussels, Barcelona and Saint-Bonnet-de-Mûre sites.
(d) Reclassification of intangible assets as property, plant and equipment.
(e) 2.2 million of euros in actuarial gains and losses charged to equity and reclassification of 0.6 million of euros in funding assets, which were set off against employee benefits.
(f) The impact on non-current deferred tax assets reflects the additional amounts set aside to cover employee benefits. The impact on current deferred tax assets reflects the 1.2 million of euros set aside for employee benefits, the cancellation of 0.4 million of euros in intangible assets and revaluation of land holdings in Germany by 3.2 million of euros.
(g) Cancellation of deferred costs, which were charged to equity.

LIABILITIES AND EQUITY

(M€)		French GAAP December 31, 2003	Impact of IAS/IFRS	IAS/IFRS January 1, 2004
EQUITY				
– Capital		22.4		22.4
– Premiums, reserves and retained earnings		220.3	(0.5)	219.8
– Net profit for the period (attributable to shareholders)		(38.2)		(38.2)
– Cumulative translation adjustments (attributable to shareholders)		(30.3)		(30.3)
TOTAL		**174.2**	**(0.5)**	**173.7**
– Minority interests		5.4	0.5	5.9
EQUITY AND MINORITY INTERESTS	**(h)**	**179.6**	**0.0**	**179.6**
– Provisions	**(i)**	0.7	0.1	0.8
– Non-current personnel benefits	**(j)**	28.8	21.5	50.3
– Non-current deferred tax liabilities	**(k)**	1.9	4.8	6.7
Borrowings				
– Non-current borrowings		185.9		185.9
– Trade payables		67.3		67.3
– Other payables		54.2	(0.1)	54.1
– Current portion of provisions		66,7	(0.1)	66.6
– Current portion of employee benefits	**(j)**	2.5	(2.5)	0.0
– Current deferred tax liabilities		0.5		0.5
– Other liabilities		21.1		21.1
– Current portion of borrowings		3.2		3.2
– Short-term advances		1.8		1.8
– Bank overdrafts		19.9		19.9
TOTAL PROVISIONS AND BORROWINGS		**454.5**	**23.7**	**478.2**
TOTAL EQUITY AND LIABILITIES		**634.1**	**23.7**	**657.8**

(h) The total impact on equity breaks down as follows:

Equity at December 31, 2003 under French GAAP		**179,6**
Cancellation of intangible assets	**(b)**	(1.1)
Revaluation of land holdings	**(c)**	24.3
Cancellation of actuarial gains and losses	**(e)**	(2.2)
Assets funding employee benefits	**(e)**	(0.6)
Non-current deferred tax assets	**(f)**	5.0
Current deferred tax assets on asset cancellations	**(f)**	0.4
Current deferred tax assets on land	**(f)**	(3.2)
Current deferred tax assets on employee benefits	**(f)**	1.2
Cancellation of deferred costs	**(g)**	(0.2)
Employee benefits	**(j)**	(19.0)
Non-current deferred tax liabilities on land revaluation	**(k)**	(5.7)
Non-current deferred tax liabilities on actuarial gains and losses	**(k)**	0.9
Miscellaneous and rounding differences		0.2
Equity at January 1, 2004, IAS/IFRS		**179.6**

(i) Reclassification under employee benefits.
(j) Impact of calculating employee benefits under IAS 19.
(k) Impact of deferred tax liabilities on the revaluation of land holdings by 5.7 million of euros and on the cancellation of 0.9 million of euross in actuarial gains and losses on pension benefits.
(i) Reclassement en avantages au personnel.
(j) Impact de l'évaluation des avantages au personnel selon IAS 19.
(k) Impact des impôts différés passif sur la réévaluation des terrains pour 5.7 million of euros et sur l'annulation des écarts actuariels relatifs aux engagements de retraite pour (0.9) million of euros.

IAS/IFRS

For 2005, the Group has prepared its information and management systems so that it is able to publish its interim and annual consolidated financial statements in accordance with IAS/IFRS, with pro forma accounts for the same period of 2004.

Adoption of IAS 32 and IAS 39 from January 1, 2005 is not expected to have a material impact on the Group's financial statements.

Recent trends and outlook for 2005

Carbone Lorraine underwent a transition year in 2004, during which we completed our savings plan and launched a program to step up the pace of the Group's expansion. 2004 was also a year of economic recovery–brisk in North America and Asia, but weaker in Europe.

Trends in 2005 have started where they left off in 2004, without any signs of a major economic slowdown.

Thanks to the savings plan completed in 2004, the Group is expected to deliver an operating margin of 10% in 2005 except for a downturn in the general economy which appears unlikely today. Putting a definitive end to the period of restructuring, management will focus during 2005 on returning the industrial performance of the Electrical Protection division to a healthy level in Europe, as well as on shutting down the Evreux Magnets site in France.

At the same time, the largest of the organic growth projects that gave rise to the 63 million of euros capital increase in October are being launched.

Carbone Lorraine announced in mid-February that it is absorbing Astrad, the unit that markets and distributes motorcycle braking products, chiefly brake disks and pads. This acquisition will help to accelerate our expansion in motorcycle braking in France and to an even greater extent outside France, where there is much more scope for expansion.

In addition, the Group recently commissioned its new graphite anti-corrosion equipment workshop in Chennai, India. This unit is primarily intended to serve the local market where Carbone Lorraine now offers high-quality products at competitive prices.

Lastly, Carbone Lorraine announced in late February that it had secured the go-ahead from the Chinese authorities to build and operate an isostatic graphite block manufacturing unit in Chongqing, China. This new facility, which should ultimately double the Group's capacity, will employ technology developed in France. It is expected to deliver its first graphite blocks during 2006 to the fast-growing Asian markets. It will primarily serve the new tooling units that Carbone Lorraine is due to commission during the first half of the year in China and India. This project represents a key pillar of the Group's general expansion strategy.

These new ventures are likely to generate additional business volumes in 2006 and to an even greater extent from 2007. The goal is to generate 150 million of euros in additional sales within five years. The growth in business volumes over the next two or three years will further accentuate the benefits flowing from restructuring carried out by the Group over the past three years.

Since December 31, 2004, there has been no major change in the Group's cash position.

CHAPTER

3

Sustainable development

Economic and social responsibility

Carbone Lorraine's growth is founded on the trust it has earned from its customers, suppliers, shareholders and employees.

During 2004, Carbone Lorraine continued to develop its Human Resources policy. Its objective is to grow the professional talents of its employees to help them adapt to changes in its business and technological advances, while maintaining an ongoing dialog with them. Naturally, a commitment to safety remains a key aspect of this policy.

Securing the workforce's full commitment

Fostering the personal and collective commitment of employees to common objectives is one of the most important aspects of Carbone Lorraine's human resources policy. Profit-related incentive payments, performance-based remuneration and the development of employee share ownership contribute to this type of commitment from the Group's employees.

The bonuses paid to managers are indexed on achievement of value-creation targets and on personal targets concerning safety, successful execution of the savings plan and cash generation. This policy helps to ensure that the Group's values and strategic objectives guide its day-to-day business decisions.

Employee share ownership is also one aspect of the Group's policy of motivating its employees. Another capital increase reserved for employees, the sixth since 1995, was launched in late 2004. In sum, 46,328 shares, i.e. 0.35% of the share capital, were subscribed in 10 countries in Europe and North America. Carbone Lorraine intends to continue actively encouraging its employees to share in the Group's success by repeating this type of transaction on a regular basis.

A steady flow of internal communications to build trust with employees by keeping them regularly informed about developments affecting the Group is another tool used to win employees' minds and secure their full backing. The Group publishes CL Info, the Group's internal newsletter, CL Flash newsflashes (press releases, etc.), and the Infos Sites bulletins, which focus to a greater extent on local information. The Group's intranet has also been redesigned to make it a genuine communications tool, which is easier to use and better meets the needs of the Group's employees.

Developing employees' talents

The concept of reference jobs launched in 2003 is now fully operational. Efforts to map these standard job profiles, which were completed during 2004, identified 60 or so functions in around ten areas (management, sales, R&D, purchasing, etc.). This new system has enabled the Group to fine-tune its recruitment policy, to manage employees more consistently in relation to the scale of their contribution and to facilitate the development of their talents.

The Group continues to pursue its strategy of expanding the use of annual reviews between employees and their direct superior. Annual reviews are a time for employees and their managers to assess performance over the previous year, to set targets for the following year and define how to reach them, especially by identifying training needs. In broader terms, annual reviews help to identify opportunities for promotion within the Group.

During 2004, 47% of the Group's employees in France had an annual review, from plant workers to senior managers. Worldwide, the percentage stands at just below 44%. The Group's aim is for all the Group's employees to have a review of this type.

Efforts to enhance and develop employees' talents are also predicated on professional training. The program initiated in 2003 to provide project management training for employees likely to work on cross-divisional initiatives continued during 2004. In connection with the adoption of IFRS, all the Group's accounting and financial managers received specific new training during 2004. An internal control training program was also put in place. The objective is for all site managers to receive training by 2006. All in all, the Group devoted 1,3% of its total payroll during 2004 to training, i.e. an average of 14 hours of training per employee.

Guaranteeing the safety of employees and installations

In the opinion of Carbone Lorraine's management, a tight grip on safety issues is a sign of efficiency, professionalism and control over its business processes. It also makes a significant contribution to the development and motivation of its workforce, as well as promoting respect for others. The ultimate goal is of course to achieve a zero accident rate.

The Executive Committee, which has taken a lead in this area, reviews the safety record of each of the Group's sites on a monthly basis (incidence and severity of accidents irrespective of whether sick leave is taken). It is also kept informed of any accident in the workplace where working days are lost. Since 2002, the members of the Executive Committee have taken part in Safety Days at various sites giving them a greater understanding of and insight into the safety issues at the Group's major facilities. Subsequently, they define the action that needs to be taken to raise safety levels in conjunction with local management teams. During 2004, the Executive Committee participated in a Safety Day at the Pagny-sur-Moselle site (France). It is due to visit the El Fahs site (Tunisia) during 2005.

The Group Safety Committee, which is responsible for sharing the methods and best practices of various different sites, met twice during 2004. It introduced a safety audit program backed up with action plans for all the sites where incidence of occupational accidents causing sick leave to be taken is above the Group average. Ten or so sites were audited during 2004. In 2005, the Group Safety Committee is set to audit sites where incidence of occupational accidents with and without sick leave being taken is above the Group average.

The improvement of safety in the workplace is also a major topic that was addressed during the annual meeting of the European Works Committee comprising the labor representatives of the European subsidiaries. At its annual meeting in November 2004, the Committee emphasized the importance of safety visits by senior managers. The goal of these visits, which are initiated by the plant's senior manager, is to remind employees of safety imperatives, to take immediate action to eliminate hazards and, more generally, to improve safety standards in workshops and on the factory floor. A series of rules and tools have been rolled out across the Group, including safety audits, standard accident reporting forms, safety visits by senior managers and cause tree analysis of accidents, complementing the safety handbook distributed to the entire workforce.

The policy introduced in 2003 stating that all employees falling victim to an accident causing them to take time off work should meet with the Group's Chairman together with the manager of the relevant site and their direct superior was continued during 2004. These meetings, which are convened so that a cause tree analysis of the accident and a study of the measures implemented to prevent it from happening again can be conducted, are also intended to show the entire workforce the importance placed on occupational safety by the Group's management team. During 2004, the Chairman met with 38 accident victims and their direct superior.

The efforts made by the Group over the past few years led to a further decline in the frequency of accidents during 2004. Although the severity indicator showed an improvement compared with 2003, it remained higher than in 2002.

Number of accidents in the workplace causing sick leave to be taken per million man-hours (TF1)

2004	2003	2002
3.9	4.2	6.7

Number of accidents in the workplace with or without sick leave being taken per million man-hours (TF2)

2004	2003	2002
11.5	15.3	18.5

Number of working days lost to accidents in the workplace per thousand man-hours (TG)

2004	2003	2002
0.25	0.27	0.22

These three indicators, which are calculated for all the companies consolidated by the Group, compare very favorably with the equivalent figures for the chemicals and metal-working sectors in various countries.

Analysis of the Group's workforce

The Group has a major international presence, since more than two-thirds of its workforce are employed outside France. Its largest units in terms of the size of its workforce are France, the US, Mexico and Tunisia.

The size of the workforce decreased by around 4%, with the decline concentrated in Europe.

Geographical analysis of Carbone Lorraine's workforce at-end-December

Region/Country	2004	2003	2002
France	2,138	2,331	2,477
Germany	411	565	612
Austria	77	74	76
Spain	74	207	255
UK	153	167	186
Italy	98	100	109
Benelux countries	22	23	23
Scandinavia	35	39	45
Total Europe	**3,008**	**3,506**	**3,783**
Tunisia	**657**	**565**	**435**
US	998	943	979
Canada	242	241	246
Mexico	792	764	795
Total North America	**2,032**	**1,948**	**2,020**
Australia	47	51	38
South Korea	185	210	204
Japan	40	46	43,5
Total Asia	**272**	**307**	**286**
Brazil	429	355	337
South Africa	173	161	149
Total Rest of the world	**602**	**516**	**486**
TOTAL	**6,571**	**6,842**	**7,010**

Providing support for employees affected by restructuring

Against the backdrop of a fresh deterioration in economic conditions, Carbone Lorraine embarked on a savings plan in 2003 that led to a major reorganization of its manufacturing facilities during 2004. While implementing these restructuring measures, the Group focused in particular on the social implications of these changes. As part of this approach, the Group engaged in a constructive dialog with labor representatives. Internal communications initiatives were taken to support implementation of these measures and to explain the fundamental reasons why they were necessary.

During 2003, five sites in Europe were involved in restructuring plans, namely Eggolsheim and Mannheim in Germany (148 job cuts), Évreux and Saint-Pierre-d'Allevard in France (178) and Barcelona in Spain (115). The full impact of these restructuring measures showed up in the workforce data for 2004. Support measures tailored to the local culture and circumstances were offered and negotiated with union representatives.

For instance, in France and Spain, job-finding units were set up to help employees unable to secure another position within the Group find personalized outplacement solutions. The initiatives taken by the job-finding units included individual assessments and career guidance, assistance with finding job offers, help with preparation of CVs and coaching for job interviews. Assistance for employees intending to set up their own business was also put in place. Aside from financial assistance, these measures included personalized support from a specialized advisor to validate business plans and to support employees with their implementation. Specific gradual pre-retirement and early retirement programs were also put in place in France. The results of the outplacement initiatives at year-end 2004 are shown in the following table.

	France		Spain	
	Employees	%	Employees	%
Outplacements (new hires, transfers, new businesses created)	105	59	100	87
Age-related measures (retirement, early retirement)	47	26	-	-
Long-term training	7	4	7	6
Job search	19	11	8	7
Total	**178**		**115**	

In spite of all the efforts made, the restructuring carried out during 2004 failed to turn around the situation at Ferroxdure. In late 2004, a plan was announced to wind down magnet production at the Évreux site gradually by the end of 2005, with the loss of 106 jobs. Support measures for employees will be the Group's priority, as they were for all the restructuring programs implemented during 2004. A job-finding and retraining unit was set up in November 2004 so that each employee's circumstances can be taken into account as early as possible. Specific training measures have already been implemented and will be continued during 2005. At present, 30 Ferroxdure employees are on a training course that will gain them a new qualification.

Maintaining a quality-oriented approach

The top priority of Carbone Lorraine's Quality and Continuous Improvement (QPC) program, which was launched almost four years ago, is to achieve excellent customer service in terms of both product quality and services. To this end, various programs, such as initiatives to shorten delivery times and improve product quality, were rolled out at all the Group's sites. Consequently, the restructuring measures implemented in 2003 led to major improvements during 2004 in the organization of production and product flows to shorten lead times for customers.

The 5S program, which helps to improve working conditions in terms of efficiency, safety, quality and comfort through the introduction of order, tidiness, cleanliness and discipline rules, is also part of this approach. It aims to improve business performance by enhancing the reliability of all a company's operational and functional processes.

At the end of a close contest, in which 63 workshop and office teams from five continents participated, the 2003-04 "5S Challenge" was won by the Toronto Express workshop (Electrical Applications). The Carbone of America Toronto team's involvement in the field, as well as the first-class quality and productivity improvements it achieved as an integrated part of the overall plant's top-notch 5S program were the key factors in its victory. Given the success of the first contest, the second 5S Challenge for 2004-05 is now underway!

Business ethics

For the past six years, the Group has scrupulously complied with the anti-trust legislation in force in all the countries in which it operates. This was achieved thanks to a highly extensive regulatory compliance program. Application of this program in the field is verified thanks to on-the-spot audits carried out by lawyers from outside the Group.

The Group has also addressed areas not or only partially covered by the legislation. For instance, it put in place a Purchasing Charter in late 2003 emphasizing the transparency of its policy and of purchasing procedures at all levels of the Group, the selection of business partners and suppliers and best practices in supplier relationships. In the same vein, several anti-discrimination charters have already been signed in the US.

Outsourcing

The Group partially outsources the manufacture of its products. During 2004, outsourced manufacturing costs came to €25.4 million or 9% of the Group's total purchases.

Social data (operations in France)

Application of the provisions of Decree no. 2002-221 of February 20, 2002 in accordance with Article L. 225-102-1 of the French Commercial Code (operations in France)

Headcount at December 31

	2004	2003	2002
Headcount	2,138	2,331	2,477
o/w fixed-term contracts	23	11	6

New recruits

	2004	2003
New recruits	194	97
o/w fixed-term contracts	52	30

Most of the French facilities (excluding the Magnets division) hired new employees during 2004. The new hires came from right across the spectrum of socioprofessional categories. No special recruitment problems were reported.

Restructuring programs

The restructuring of the Évreux and Saint-Pierre-d'Allevard (Magnets) sites announced in September 2003 led to 178 job losses during 2004. Specific financial measures were taken to support the employees affected. In addition, the job-finding unit set up in connection with these plans is endeavoring to assist each employee with finding a new job outside the Group through career guidance, to identify job opportunities, to support them with setting up a new business and provide advice. Of the 178 employees affected, 105 have found another job outside the Group, 47 qualified for retirement or early retirement, seven are on long-term training courses and 19 are still looking for new employment.

Overtime

	2004	2003	2002
Overtime hours	25,693	22,416	19,164
% of hours worked	0.69%	0.56%	0.50%

Absenteeism

	2004	2003
Absenteeism rate	5.0%	5.8%
o/w illness	3.9 %	4.6%

During 2004, a total of 134 hours were lost to strikes, representing 0.004% of hours worked.

Temporary staff

	2004	2003	2002
Average headcount	411	173	163

Of the average headcount of 411 temporary staff in 2004, 280 (i.e. 68%) were assigned to the Saint-Bonnet-de-Mûre site (Electrical Protection) to help deal with the additional workload caused by the transfer and integration of fuse production lines from Germany and Spain.

Organization of working hours

The arrangements introduced under the agreement signed in December 2000 to make engineers and managers' working hours shorter and more flexible apply to most of the French managers. Their working hours are now calculated based on an annual total of 215 working days, which gives them an average of 13 days additional leave per year.

Arrangements for plant workers, white-collar employees, supervisors and technicians were agreed at all the French subsidiaries (except for Carbone Lorraine Applications Electriques and AVO). The actual reduction in their working hours is thus tailored to the specific circumstances of each business and its economic constraints (team work, night shifts, etc).

In 2004, 53 employees worked on a part-time basis, including 12 under gradual pre-retirement agreements.

Relations with labor bodies

In addition to the bodies that exist in each company to share information and discuss issues with labor representatives, the Group Works Council in France and the European Works Committee provide a forum for dialog and discussions with labor representatives concerning the Group's situation and strategic priorities in both France and Europe. The Group Works Council in France met twice during 2004, while the European Works Committee met on one occasion. In addition, the full and deputy members of the Group Works Council, as well as the central union delegates in France visited the brushcards division's plants and the El Fahs Electrical Protection facility in Tunisia during March 2004.

The collective bargaining agreements signed by the French subsidiaries during 2004 related to the annual salary negotiations for 2005 (six agreements) and employee incentive payments (four agreements).

Training

	2004	2003
As a % of the payroll	2.3%	2.6%
Average number of hours training per employee	14	11

Employment and integration of handicapped workers

AVO, a company specializing in the assembly of electrical components for the automobile sector, employs 86 handicapped workers (out of a total of 152 employees) at its sheltered workshop in Poitiers.

Environmental responsibilities

Environmental responsibility is clearly entrenched in Carbone Lorraine's corporate culture. All the Group's employees, from divisional management to plant workers, demonstrate their responsibility in the way they go about their activities.

This culture has been built through training and awareness-raising initiatives. The Group will continue to provide this training for all its employees.

Protecting the environment is first and foremost the responsibility of plant managers, who implement the Group's policy in this area. Naturally, they also have to take into account and comply with local constraints and regulations.

Carbone Lorraine's policy is predicated on an environmental charter, which has been made available to all its employees.

Certification policy

The Quality and Continuous Improvement (QPC) program was continued and even stepped up through the competitions organized between the Group's various companies. These contests were highly successful in terms of both the quality of the entries received and the large number of teams participating.

As part of the QPC program, ISO 14001 certification is the primary tool used by Carbone Lorraine to implement its commitment to a responsible environmental policy.

The Group's main sites are already working to achieve ISO 14001 certification. Seven facilities secured this accreditation during 2004, and more plants are due to be certified in 2005.

As stated in the previous reference document, certain facilities have taken this process even further by striving to achieve OHSAS 18001 (Occupational Health and Safety Assessment Series) certification. The plants at Ssangam in South Korea, Patrica in Italy and Pagny-sur-Moselle in France secured this certification during 2004.

Minimizing industrial risks

To improve management of potential risk factors, Carbone Lorraine set up a Risk and Internal Audit department during 2004. The risk-related role of this department consists in defining the risk prevention and mitigation policy, drawing up action plans and checking to make sure they are implemented.

In 2001, the operational, financial, strategic and information-related risks potentially facing Carbone Lorraine were mapped out. The Audit and Accounts Committee approved the proposal that this mapping analysis should be updated during 2005 with a view to ensuring that the measures implemented since 2001 have indeed reduced the scale of the previously identified risk factors and to increase risk prevention, as well as checking whether any new risk factors have emerged and, if necessary, implementing appropriate action plans.

Developing environmentally-friendly design

Environmental protection also applies to new activities, be they new manufacturing facilities, new production techniques or new products.

When designing new production lines, Carbone Lorraine endeavors to use best-in-class technologies to reduce as far as possible and if possible to eliminate gas, liquid and solid waste and discharges, as well as minimizing other nuisances, such as noise.

The Group recently acquired effective IT tools that are specially designed to ensure that it adopts an environmentally-friendly approach when developing new products.

Carbone Lorraine's environmental policy

Carbone Lorraine endeavors 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** to its installations and products, review whether **prevention** is sufficient to **avoid any accidents** that may pose a threat to people in the neighborhood 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. **Minimize emissions and pollutants** in all environments.
6. **Minimize consumption** of water, energy, raw materials and packaging and **encourage recycling and 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.

Environmental information (French operations)

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

The following indicators cover the scope of the Group's operations in France.

Indicators

	Unit	2004	2003	2002	% change vs. 2003
Water consumption	m^3	581,429	718,718	756,056	-19%
Energy consumption					
Electricity	MWh	86,491	95,503	97,344	-9%
Gas	MWh	83,547	99,940	98,500	-16%
Consumption of raw materials and metals					
Wood	metric tons	913	885	864	+3%
Cardboard	metric tons	562	485	559	+16%
Copper	metric tons	619	603	792	+3%
Waste					
Wood 100% recycled	metric tons	344	350	346	-2%
Clean cardboard recycled	metric tons	210	170	186	+24%
Non-hazardous industrial waste	metric tons	1,710	1,562	1,797	+9%
Emissions and discharges					
Wastewater	m^3	485,178	591,253	630,375	-18%

During 2004, the Magnets division scaled back its operations at the Évreux and Saint-Pierre-d'Allevard sites, leading to a reduction in their consumption of water (down 36% at both sites combined), electricity (down 19%) and gas (down 49%).

Conversely, the Saint-Bonnet-de-Mûre (Electrical Protection) site recorded higher business volumes owing notably to the transfer of manufacturing lines from Spain and Germany, which drove up its consumption of water (up 7%) and electricity (18%), as well as its non-hazardous industrial waste volumes (up 122%).

In 2004, 52% of water consumption was pumped in primarily from the natural environment at the Pagny-sur-Moselle and Saint-Pierre-d'Allevard facilities and 48% was purchased from the municipal provider to serve the other plants.

The decline in consumption was particularly significant at the Amiens, Évreux and Saint-Pierre-d'Allevard sites.

High business volumes at the Saint-Bonnet-de-Mûre facility sparked an increase in cardboard consumption.

Cardboard recycling increased by 24% in 2004 compared with 2003.

As part of the Group's commitment to the environment, the significant improvements and impact reductions achieved during 2004 at the Group's French sites were as follows:

Amiens

- Plan launched to eliminate emissions of volatile organic compounds (VOCs) planned for 2005 (primarily solvents used in the production of brushes for small electric motors).
- Two pyralene-containing transformers (PCBs) scrapped.
- Lead eliminated from original-equipment automobile brushes.

Gennevilliers

- All pyralene-containing transformers (PCBs) scrapped.
- ISO 14001 certification renewed in October 2004 for a further three years.
- Procedure and evacuation procedures introduced in the event of danger.
- Disposable rags replaced with recyclable washable towels.

Pagny-sur-Moselle

- Initiatives to reduce water consumption (more recycling, shutdown of graphitation kilns and shutdown of carbon electrolytic coppering installation).
- Shutdown of an old kiln and commissioning of new electric kilns fitted with an incinerator.
- ISO 14001 certification renewed in March 2004 for a further three years.
- Environmental concerns taken into account in industrial projects as part of the sustainable development program.

Évreux

- Consumption of municipal water reduced (shutdown of a washing unit).
- Gas consumption reduced by shutting down a kiln (down 58% in 2004).
- Production halted in Building B.
- Consumption of mold-release agent cut from 53 to 39 metric tons (a reduction of 26% in 2004).
- Awareness of selective sorting raised.

Saint-Pierre-d'Allevard

- Consumption of water pumped in from the natural environment reduced (greater use of recycling).
- Consumption of mold-release agent cut from 25.5 to 15 metric tons (a reduction of 41% in 2004 compared with 2003 and of 80% compared with 2001).

Ferraz Shawmut

- Special facilities created for storing hazardous products.
- Cardboard recycling improved significantly.
- Commitment made to an environmentally friendly approach to product development, including the acquisition of effective IT tools promoting this approach.

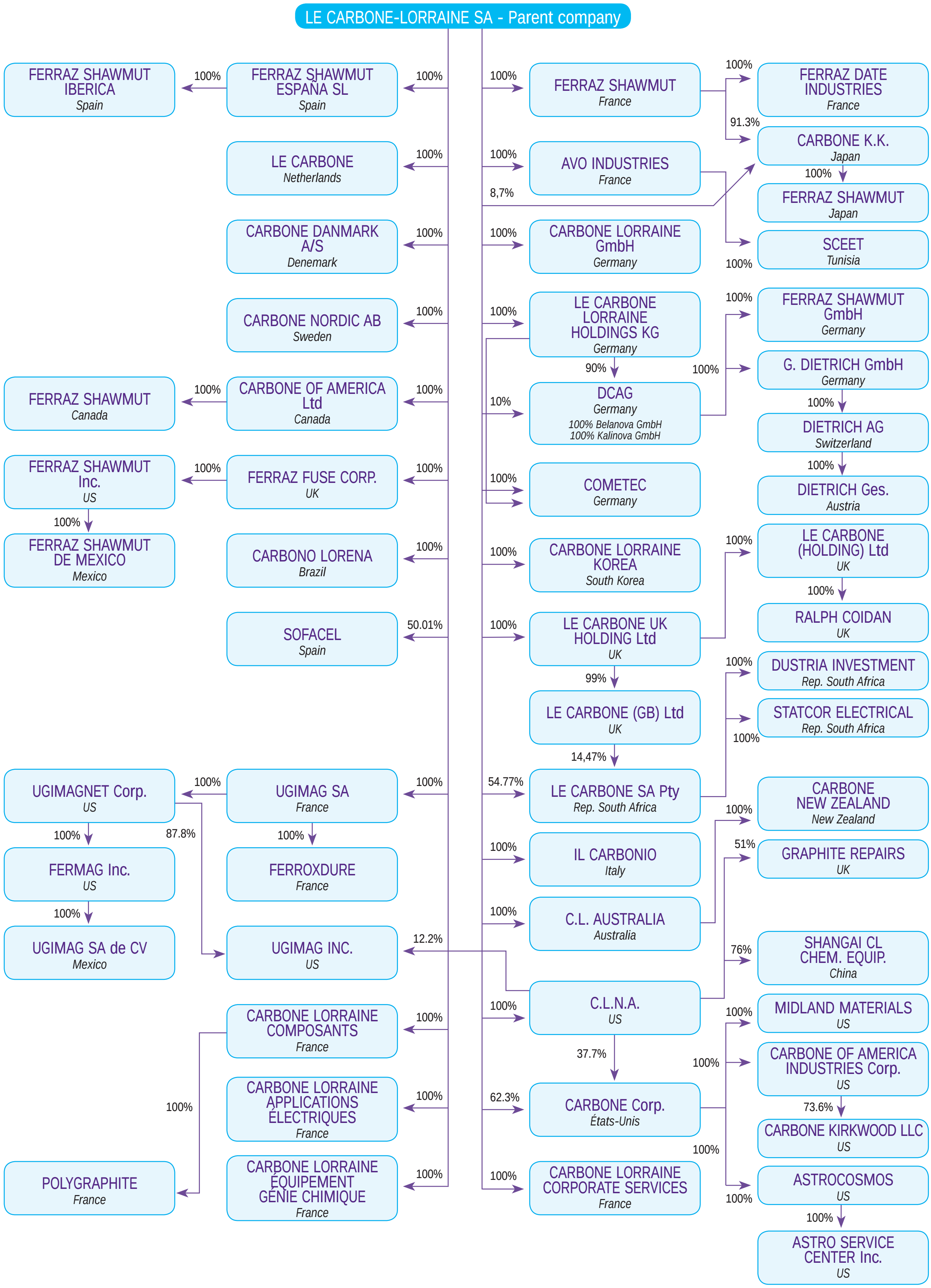
During 2004, Carbone Lorraine continued to pursue its ISO 14001 program, which represents one of the key pillars of its environmental policy. Seven major facilities were certified in 2004, and others are making the requisite preparations.

CHAPTER

4

Consolidated financial statements

Scope of consolidation at December 31, 2004 – Carbone Lorraine Group



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 Électriques (France)	100	100
3. Carbone Lorraine Composants (France)	100	100
4. Carbone Lorraine Équipement Génie Chimique (France)	100	100
5. Carbone Lorraine Corporate Services (France)	100	100
6. AVO SA (France)	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
- Le Carbone Ltd	100	100
- Ralph Coidan Ltd	100	100
20. Il Carbonio Spa. (Italy)	100	100
21. Le Carbone-Lorraine (Nederland) BV	100	100
22. Carbone Nordic AB (Sweden)	100	100
23. Carbone of America (LCL) Ltd (Canada)	100	100
24. Ferraz Shawmut Canada	100	100
25. Carbone Lorraine North America (US)	100	100
- Graphite Repairs	51	51
- Shanghai Carbone Lorraine Chemical Equipment Cy Ltd (China)	76	76
- Carbone Corp.	100	100
- Carbone of America Industries Corp.	100	100
- Carbone KirKwood LLC	73.6	73.6
- Astrocosmos Metallurgical Inc.	100	100
- Astro Service Center Inc.	100	100
- Midland Materials	100	100
26. Ferraz Fuse Corp. (US)	100	100
- Ferraz Shawmut Inc. (US)	100	100
- Ferraz Shawmut de Mexico (Mexico)	100	100
27. Ugimagnet Corp. (US)	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)	69.2	69.2
- Statcor Electrical	69.2	69.2
- Dustria Investment	69.2	69.2
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 2002, 2003 and 2004 are presented below:

- Polygraphite, which was acquired at the end of 2001, was fully consolidated for the first time during fiscal 2002.
- The Carbone Kirkwood LLC (US) joint venture and the European fluorinated polymer-lined piping systems business from Plastic Omnium's Performance Plastics Products division were fully consolidated for the first time during fiscal 2003. Given the non-material size of these acquisitions, no pro forma accounts were prepared.
- During 2004, Carbone Lorraine Corporate Services absorbed Carbone Lorraine Information Système, which was owned by the Group and was not consolidated in 2003.

Earnings per share

Carbone Lorraine Group

	2004	2003	2002
Number of shares	**11,690,661(1)**	**11,197,890**	**11,139,150**
(M€)			
Income before tax and non-recurring items	41.3	28.5	45.5
Net income before non-recurring items	30.2	22.3	32.2
Net income before goodwill amortization	20.3	(32.5)	(4.7)
Net income, Group share	**15.2**	**(38.2)**	**(10.8)**
€ per share (1)			
Income before tax and non-recurring items	3.5	2.5	4.1
Net income before non-recurring items	2.58	2.00	2.89
Net income before goodwill amortization	1.7	(2.9)	(0.4)
Net income, Group share	1.3	(3.4)	(1.0)
Fully-diluted net earnings(2)	**1.2**	**(3.2)**	**(0.9)**

(1) The number of shares was calculated taking into account the capital increases carried out during 2004 on a pro rata temporis basis. The actual number of shares outstanding at December 31, 2004 was 13,755,577.
(2) 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)

	2004	2003	2002
Number of shares	**11,690,661 (1)**	**11,197,890**	**11,139,150**
(M€)			
Income before tax and non-recurring items	6.5	20.0	19.6
Net income	**2.9**	**(14.4)**	**1.2**
€ per share			
Income before tax and non-recurring items	0.55	1.78	1.76
Net income	**0.21**	**(1.28)**	**0.11**

Dividends paid in respect of the last three fiscal years

	2004	2003	2002
Dividend paid (M€)	7.57	0.0	9.3
Dividende net en € par action[(1)(2)]	0.55	0.0	0.6

(1) The number of shares was calculated taking into account the capital increases carried out during 2004 on a pro rata temporis basis. The actual number of shares outstanding at December 31, 2004 was 13,755,577.
(2) Paid during the following fiscal year.

Consolidated balance sheet

ASSETS

(M€)	2004	2003	2002
FIXED ASSETS			
Intangible fixed assets			
– Goodwill	152.5	165.2	193.2
– Other intangible fixed assets	13.5	14.4	15.6
Plant, property and equipment			
– Land	9.3	9.4	11.8
– Buildings	27.5	34.2	44.7
– Plant, equipment and other	74.7	66.7	94.9
– Fixed assets in progress	6.9	17.8	15.5
Financial assets			
– Investments in unconsolidated subsidiaries and affiliates	13.3	11.6	13.6
– Other financial assets	17.2	15.8	17.3
TOTAL FIXED ASSETS	**314.9**	**335.1**	**406.6**
CURRENT ASSETS			
– Inventories	118.6	113.8	126.4
– Trade accounts and related receivables	122.8	121.0	142.5
– Other receivables	40.7	36.0	39.9
– Financial receivables	1.3	0.3	0.3
– Marketable securities	0.6	2.5	4.1
– Cash and cash equivalents	27.4	25.4	25.6
TOTAL CURRENT ASSETS	**311.4**	**299.0**	**338.8**
TOTAL ASSETS	**626.3**	**634.1**	**745.4**

LIABILITIES AND SHAREHOLDERS' EQUITY

(M€)	**2004**	**2003**	**2002**
SHAREHOLDERS' EQUITY			
– Share capital	27.5	22.4	22.3
– Additional paid-in capital, reserves and retained earnings	239.8	220.3	239.9
– Net income for the year (Group share)	15.2	(38.2)	(10.8)
– Cumulate translation adjustment (Group share)	(37.5)	(30.3)	(9.5)
TOTAL	**245.0**	**174.2**	**241.9**
– Minority interests	5.2	5.4	4.4
SHAREHOLDERS' EQUITY AND MINORITY INTERESTS	**250.2**	**179.6**	**246.3**
– Long-term provisions	32.5	31.4	35.5
LIABILITIES			
– Long-term borrowings	132.9	185.9	201.1
– Trade accounts and related payables	72.3	67.3	62.5
– Other payables	45.8	54.2	57.2
– Current portion of long-term provisions	63.4	69.7	47.2
– Other liabilities	7.2	21.1	30.4
– Current portion of long-term debt	2.7	3.2	27.7
– Short-term advances	1.6	1.8	2.3
– Bank overdrafts	17.7	19.9	35.2
TOTAL LIABILITIES AND PROVISIONS	**376.1**	**454.5**	**499.1**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**626.3**	**634.1**	**745.4**

Consolidated income statement

(M€)	**2004**	**2003**	**2002**
Consolidated sales	**636.0**	**629.4**	**720.9**
Cost of sales	(441.8)	(439.0)	(499.6)
Gross income	**194.2**	**190.4**	**221.3**
Selling and marketing costs	(58.2)	(59.4)	(63.1)
Administrative and research costs	(55.9)	(58.2)	(61.9)
Other operating costs and additions to provisions	(4.4)	(3.5)	(3.2)
Operating income before depreciation and amortization (EBITDA)	**75.7**	**69.3**	**93.1**
Depreciation and amortization	(23.1)	(30.0)	(33.5)
Operating income	**52.6**	**39.3**	**59.6**
Net financial income/(expense)	(11.3)	(10.8)	(14.1)
Income before tax and non-recurring items	**41.3**	**28.5**	**45.5**
Current and deferred income tax	(10.7)	(7.3)	(12.8)
Minority interests	(0.4)	1.1	(0.5)
Net income before non-recurring items, Group share	**30.2**	**22.3**	**32.2**
Non-recurring items after tax	(9.9)	(54.8)	(36.9)
Net income before goodwill amortization, Group share	**20.3**	**(32.5)**	**(4.7)**
Goodwill amortization	(5.1)	(5.7)	(6.1)
Net Income Group Share	**15.2**	**(38.2)**	**(10.8)**

Consolidated statement of cash flows

(M€)	2004	2003	2002
CASH FLOW	**58.9**	**56.2**	**79.4**
Change in the working capital requirement	(9.2)	31.4	19.1
Other changes	(4.7)	(4.4)	(1.3)
(A) Net cash generated by operating activities	**45.0**	**83.2**	**97.2**
INVESTING ACTIVITIES			
Increase in intangible fixed assets	(2.5)	(2.6)	(2.6)
Increase in property, plant and equipment	(18.7)	(23.0)	(23.2)
Increase in financial assets	(2.4)	(0.1)	(0.2)
Disposals of fixed assets	0.9	1.9	1.6
(B) Net cash used in investing activities	**(22.7)**	**(23.8)**	**(24.4)**
(C) Net cash flow generated by operating and investing activities before restructuring costs	**22.3**	**59.4**	**72.8**
Restructuring costs	(23.7)	(17.4)	(16.6)
(D) Net cash flow generated by operating and investing activities	**(1.4)**	**42.0**	**56.2**
Net investments related to the impact of changes in the scope of consolidation	(13.0)	(10.1)	(2.8)
Non-recurring disposals of fixed assets	6.3	11.1	3.5
(E) Net cash flow	**(8.1)**	**43.0**	**56.9**
Proceeds from issue of new shares	62.0	1.3	0.2
Net dividends paid to shareholders and minority interests	(0.5)	(8.8)	(14.1)
Non-operating cash flows	(3.8)	(7.0)	(0.4)
(F) (Increase)/decrease in net debt	**49.6**	**28.5**	**42.6**

Outlays related to restructuring costs (whether or not covered by provisions) are shown under restructuring costs. The format of the cash flow statements for 2002 and 2003 has thus been altered accordingly.

Notes to the consolidated financial statements

Note 1 Accounting policies and principles of consolidation

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

A – Basis of consolidation

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 adjustments (the Group's share of which is booked under shareholders' equity) include the following: i) the effect of changes in exchange rates on balance sheet items, and ii) 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 LICENSES

Patents and licenses are amortized over the period for which they are protected by law. Software is amortized over its probable service life, which may not exceed five 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 on 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 of euros is booked under assets and amortized in line with the Group's accounting principles for property, plant and equipment. The financial commitments resulting from these leases are accounted for under long-term debt.

F – Impairment

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

G – Investments in unconsolidated subsidiaries and affiliates

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

H – Provisions for liabilities and charges

Provisions are recorded when at the end of the fiscal year the Group is under an obligation to a third party that is likely or certain to trigger an outflow of funds to the third party, without any equivalent benefit being anticipated by the Group.

The relevant obligation may be legal, regulatory, or contractual in nature. It may also derive from the Group's business practices or from its public commitments where the Group has created a legitimate expectation among such third parties that it will assume certain responsibilities.

I – Inventories

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

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.

J – Consolidated sales

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

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

K – Research and development costs

Research costs are expensed as incurred. Development costs satisfying the criteria laid down in the accounting standards are capitalized on the balance sheet.

L – Pension plans and retirement indemnities

Group commitments under defined benefit pension plans and retirement indemnities are calculated 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 complementing 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 agency.

All these commitments were calculated on the basis of an actuarial study conducted in 2003. The primary assumptions used were an interest rate of 5.50% and a general salary inflation rate of 2%.

M – Operating income

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

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

N – Deferred taxation

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 set aside for earnings for which no distribution is planned.

O – Non-recurring items

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

Note 2 Impairment loss recognized on the Magnet business

The Group conducted a valuation of its Magnets division at December 31, 2003 with the assistance of an external company and recognized an impairment loss of 24.5 million of euros on these assets before tax, thereby writing off the corresponding goodwill and intangible assets.

This valuation of the Magnets division was not called into question at December 31, 2004 by the latter's results in the year to December 31, 2004 and the outlook for future years. Accordingly, no change in asset impairment was recorded with respect to the 2003 level.

Note 3 Intangible fixed assets

(M€)	**2004**	**2003**	**2002**
Goodwill			
Gross value	195.1	204.9	231.9
Amortization	(42.6)	(39.7)	(38.7)
Net value	**152.5**	**165.2**	**193.2**
Investing activities			
Other intangible assets	10.6	11.9	12.2
Deferred costs	2.9	2.5	3.4
Total	**166.0**	**179.6**	**208.8**

Goodwill relates primarily to Carbone Lorraine North America and Ferraz Shawmut (129.3 million of euros at year-end 2004), AVO (14.6 million of euros) and the UK (15.2 million of euros).

It 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 between 2003 and 2004 is attributable chiefly to currency translation adjustments (negative impact of €10.1 million). A breakdown by division is shown in the following table:

	2004 opening balance			Movements in 2004			2004 closing balance		
(M€)	Gross	Amort	Net	Acquisit	Trans. adj.	Amort	Gross	Amort	Net
Advanced Materials and Technologies	90.7	(12.3)	78.4	0.2	(4.2)	(2.4)	85.7	(13.7)	72.0
Electrical Applications	38.2	(7.6)	30.6	-	(0.5)	(1.1)	37.4	(8.4)	29.0
Electrical Protection	63.6	(7.4)	56.2	0.1	(3.2)	(1.6)	60.0	(8.5)	51.5
Magnets	12.4	(12.4)	0.0	-	-	-	12.0	(12.0)	0.0
Total	**204.9**	**(39.7)**	**165.2**	**0.3**	**(7.9)**	**(5.1)**	**195.1**	**(42.6)**	**152.5**

Note 4 Property, plant and equipment

Gross value *(M€)*	2002	Acquisitions	Disposals and other	Changes in scope of consolidation	Translation adjustment	2003
Land	12.5	0.3	(1.3)	0.0	(0.9)	10.6
Buildings	96.7	2.3	(4.7)	0.0	(6.4)	87.9
Plant, equipment and other	341.8	14.8	(27.8)	2.1	(18.7)	312.2
Fixed assets in progress	15.5	15.7	(12.1)	0.0	(1.3)	17.8
Gross total	**466.5**	**33.1**	**(45.9)**	**2.1**	**(27.3)**	**428.5**

Depreciation *(M€)*	2002	Additions	Write-backs and other	Changes in scope of consolidation	Translation adjustment	2003
Land	0.7	0.0	0.5	0.0	0.0	1.2
Buildings	52.0	3.4	0.5	0.0	(2.2)	53.7
Plant, equipment and other	246.9	22.5	(10.8)	0.0	(13.1)	245.5
Total depreciation	**299.6**	**25.9**	**(9.8)**	**0.0**	**(15.3)**	**300.4**
Net value of property, plant and equipment	**166.9**	**7.2**	**(36.1)***	**2.1**	**(12.0)**	**128.1**

**Including an impairment loss of 21.8 million of euros recognized on the property, plant and equipment of the Magnets division.*

Gross value *(M€)*	2003	Acquisitions	Disposals and other	Changes in scope of consolidation	Translation adjustment	2004
Land	10.6	-	(0.2)	-	0.2	10.6
Buildings	87.9	1.3	(7.1)	-	(1.5)	80.6
Plant, equipment and other	312.2	17.3	(1.9)	-	(5.5)	322.1
Fixed assets in progress	17.8	5.2	(16.0)	-	(0.1)	6.9
Gross total	**428.5**	**23.8**	**(25.2)**	**-**	**(6.9)**	**420.2**

Depreciation *(M€)*	2003	Additions	Write-backs and other	Changes in scope of consolidation	Translation adjustment	2004
Land	1.2	0.1	-	-	-	1.3
Buildings	53.7	2.8	(2.7)	-	(0.7)	53.1
Plant, equipment and other	245.5	17.2	(11.8)	-	(3.5)	247.4
Total depreciation	**300.4**	**20.1**	**(14.5)**	**-**	**(4.2)**	**301.8**
Net value of property, plant and equipment	**128.1**	**3.7**	**(10.7)**	**-**	**(2.7)**	**118.4**

Note 5 Investments in unconsolidated subsidiaries and affiliates

(M€)	**2004**	**2003**	**2002**
At year end, the unconsolidated shareholdings held by consolidated companies had a gross book value of	22.9	21.7	23.4
Less an impairment loss of	(9.6)	(10.1)	(9.8)
Net book value	**13.3**	**11.6**	**13.6**
Other shareholdings	-	-	-
Total	**13.3**	**11.6**	**13.6**

The impairment losses recognized on investments at year-end 2004 related primarily to assets in Turkey, Argentina and Singapore.

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

Name	**% held**	**Gross value (M€)**	**Net book value (M€)**
Elca Carbone Lorraine (India)	100	6.8	6.6
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
Carbone Lorraine India	100	1.1	1.1
Nortroll (Norway)	34	0.8	0.5
Clisa (Mexico)	49	0.7	0.7
Carbone Lorraine Greece	100	0.6	0.6
Madras Carbone (India)	51	0.5	0.5
Carbone-Lorraine Hungaria (Hungary)	100	0.4	0.1
Ferraz Electric Protection Hinode (China)	70	0.3	0.3
Carbone-Lorraine Chile (Chile)	100	0.2	0.2
Carbone-Lorraine Shanghai (China)	100	0.2	0.2
GMI Metaullics (US)	25	0.2	0.2
Carbono Lorena de Mexico S.A.	100	0.2	0.0
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Carbone Materials Japan	100	0.1	0.1
Other shareholdings	–	0.9	0.2
Total		**22.9**	**13.3**

The as-yet unaudited sales and net income of these companies totaled respectively around 36.9 million of euros and 1.4 million of euros. Their impact on the consolidated financial statements is not material. The sales posted by all these companies would amount to less than 4% of consolidated sales.

Note 6 Inventories

(M€)	2004	2003	2002
Raw materials and other supplies	54.3	51.9	60.6
Work in progress	35.2	33.6	36.5
Finished goods	39.4	38.7	40.5
Gross value	**128.9**	**124.2**	**137.6**
Impairment loss	(10.3)	(10.4)	(11.2)
Net value	**118.6**	**113.8**	**126.4**

Net inventories increased by 4.8 M€ in 2004, taking into account a 2.7 M€ decrease attributable to currency effects. At constant exchange rates, inventories increased by 7.5 M€ (i.e. a 6.6% rise). The inventory to sales ratio stood at 70 days, up two days compared with the position at year-end 2003. This change primarily reflected precautionary inventories built up in connection with restructuring at the Electrical Protection business in Europe.

Note 7 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 Dec. 31, 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 Dec. 31, 2002	**11,139,150**	**22.3**	**239.9**	**(10.8)**	**(9.5)**	**241.9**
Prior year's net income			(10.8)	10.8		0.0
Dividends paid			(8.2)			(8.2)
Capital increase	58,740	0.1	1.2			1.3
Net income (Group share)				(38.2)		(38.2)
Translation adjustment and other			(1.8)		(20.8)	(22.6)
Shareholders' equity at Dec. 31, 2003	**11,197,890**	**22.4**	**220.3**	**(38.2)**	**(30.3)**	**174.2**
Prior year's net income			(38.2)	38.2		
Dividends paid						
Capital increase	2,557,687	5.1	56.9			62.0
Net income (Group share)				15.2		15.2
Translation adjustment and other			0.8		(7.2)	(6.4)
Shareholders' equity at Dec. 31, 2004	**13,755,577**	**27.5**	**239.8**	**15.2**	**(37.5)**	**245.0**

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

In 2003, the capital increase resulted from the exercise of subscription options granted to employees, leading to the issuance of 3,750 new shares and the subscription of 54,990 new shares in connection with the capital increase reserved for employees.

In 2004, the capital increase resulted from:

- subscription of 2,489,420 new shares in connection with the public share offering, which raised 63 M€ (before taking in account 2.6 M€ in expenses related to the issue of shares);
- subscription of 46,328 new shares in connection with the issue of shares reserved for employees, which raised 1.3 million of euros;
- and the exercise of subscription options granted to employees, leading to the issuance of 21,939 shares for 0.3 million of euros.

Note 8 Share capital

At December 31, 2004, ownership of the share capital, which comprised 13,755,577 shares, each with a par value of €2, was as follows:

	%
BNP Paribas	20.9
Free float	79.1

Note 9 Changes in minority interests

(M€)	
Minority interests at start of the year	5.4
Dividends paid	(0.5)
Net income	0.4
Changes in the scope of consolidation	-
Translation adjustment	(0.1)
Minority interests at Dec. 31, 2004	**5.2**

Note 10 Long-term and short-term provisions

	2004		2003		2002	
(M€)	LT	ST	LT	ST	LT	ST
Provisions for deferred income tax	3.3	0.6	1.9	0.5	7.8	2.2
Provisions for pensions and retirement indemnities	27.9	5.4	28.6	2.2	26.4	2.1
Other provisions for liabilities	1.1	57.4	0.7	67.0	1.3	42.9
including:						
- provision for restructuring	0.9	8.1	0.5	15.4	1.1	5.3
- provision for litigation	0.1	48.9	-	50.2	-	33.9
- impairment losses on fixed assets	-	-	-	-	-	2.5
- other provisions	0.1	0.4	0.2	1.4	0.2	1.2
Investment grants	0.2	-	0.2	-	0.1	-
Total	**32.5**	**63.4**	**31.4**	**69.7**	**35.6**	**47.2**

Long and short term

(M€)	2003	Additions	Uses	Changes in scope of conso.	Other	Transl. adjust.	2004
Provisions for deferred income tax	2.4	(0.4)	1.0	-	1.1	(0.2)	3.9
Provisions for pensions and retirement indemnities	30.8	2.7	(4.4)	-	4.5	(0.3)	33.3
Other provisions for liabilities	67.7	12.1	(19.9)	-	(1.1)	(0.3)	58.5
including:							
- provision for restructuring	15.9	10.5	(17.4)	-	-	-	9.0
- provision for litigation	50.2	2.4	(2.4)	-	(1.0)	(0.2)	49.0
- Other provisions	1.6	(0.8)	(0.1)	-	(0.1)	(0.1)	0.5
Investment grants	0.2	0.1	(0.1)	-	-	-	0.2
Total	**101.1**	**14.5**	**(23.4)**	**-**	**4.5**	**(0.8)**	**95.9**

Provisions for pensions, supplementary pensions, retirement indemnities and other related benefits to Group employees or directors are calculated as in previous years using actuarial methods that take into account the economic conditions prevailing in each country and the assets set aside through contributions paid to the relevant agencies. Provisions for pensions and retirement indemnities recorded on the balance sheet amounted to 33.3 million of euros at December 31, 2004.

In accordance with Conseil National de la Comptabilité (CNC) recommendation no. 2003-R01 issued on April 1, 2003 regarding rules for accounting for and valuing pension obligations and similar benefits, which applies to fiscal years beginning from January 1, 2004, the Group commissioned a uniform actuarial assessment of all its pension obligations and similar benefits in line with the arrangements described in this recommendation. Its total commitments worked out at 90.2 million of euros at December 31, 2004 (compared with 87.1 million of euros at January 1, 2004 using the same valuation methods) and the fair value of the corresponding assets came to 40.4 million of euros at December 31, 2004 (compared with 36.9 million of euros at January 1, 2004 using the same valuation methods).

At year-end 2002, provisions for litigation mainly covered the European anti-trust risks (7 million of euros for the isostatic graphite activities, 18 million of euros for the brush business) and class-action lawsuits in the US (7 million of euros).

Provisions at year-end 2003 primarily covered the total fine imposed to the Group by the European authorities (43 million of euros) and class-action lawsuits in the US (6 million of euros). There have been no notable developments in the US class-action lawsuits since the end of 2002. The same provision has thus been maintained in US dollars. The change in the provision in euro terms compared with year-end 2002 is thus attributable solely to changes in the euro/US dollar exchange rate.

Provisions for litigation at year-end 2004 primarily covered the total fine imposed to the Group by the European authorities (43 million of euros) and class-action lawsuits in the US (4.4 million of euros). Provisions for restructuring were chiefly those set aside in 2004 for the Magnets division (7.4 million of euros).

Note 11 Net debt

(M€)	2004	2003	2002
Long and medium-term debt	132.9	185.9	201.1
Current portion of long-term debt (excluding accrued interest)	0.0	0.0	24.7
Short-term advances	4.3	5.0	5.2
Bank overdrafts	17.7	19.9	35.2
Total gross debt	**154.9**	**210.8**	**266.2**
Marketable securities(*)	(0.6)	(2.5)	(4.1)
Financial receivables	(1.3)	(0.3)	(0.3)
Cash and equivalents	(27.4)	(25.4)	(25.6)
Total net debt	**125.6**	**182.6**	**236.2**

** Marketable securities included treasury shares held for the purpose of stabilizing the share price during 2002 and 2003. The Group no longer held any treasury shares at December 31, 2004.*

Total net debt stood at 125.6 million of euros at year-end 2004 compared with 182.6 million of euros at year-end 2003. Apart from the impact of the capital increase (see note 6), debt increased by 5 million of euros during 2004. This slight increase was attributable primarily to the substantial restructuring costs incurred in 2004, which amounted to 24 million of euros.

Total net debt accounted for 50% of shareholders' equity at year-end 2004 compared with 102% at year-end 2003. The bulk of this very strong improvement was attributable to the capital increase.

	2004	2003	2002
Total net debt (M€)	125.6	182.6	236.2
Net debt/shareholders' equity	0.50	1.02	0.96

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€)	2004	2003	2002
Net debt at end of prior year	**182.6**	**236.2**	**314.9**
Net cash generated by operating and investing activities	1.4	(42.0)	(56.2)
Capital increase	(62.0)	(1.3)	(0.2)
Dividends paid	0.5	8.8	14.1
Net impact of changes in the scope of consolidation	6.7	(1.0)	(0.7)
Non-operating cash flows	3.8	7.0	0.5
Currency translation adjustments and other	(7.4)	(25.1)	(36.2)
Net debt at end of year	**125.6**	**182.6**	**236.2**

In December 2000, Carbone Lorraine arranged a USD300m syndicated loan with a pool of international banks to refinance its debt. This loan was structured in two tranches, namely a one-year USD105 million tranche extendible twice until December 2003 and a five-year USD195 million tranche.

The USD105 million tranche was repaid by Carbone Lorraine during June 2003, shortly ahead of its due date. This tranche was refinanced by means of a USD85 million private placement subscribed by US investors, including a USD65 million tranche with a final maturity of 10 years and a USD20 million tranche with a final maturity of 12 years. The average duration of the private placement is around eight years because it is repayable in installments. Carbone Lorraine pays a fixed rate of interest every six months. Following the purchase of interest rate swaps, Carbone Lorraine receives these fixed-rate interest payments from a bank and pays a variable interest rate plus a margin.

The USD195 million tranche was repaid in January 2005 following the signature in late December 2004 of a new five-year USD220 million syndicated loan.

In addition, a bilateral USD21 million credit line was repaid ahead of its due date and refinanced using the syndicated loan.

At December 31, 2004, the Group’s confirmed credit lines stood at USD305 million, USD139 million of which was not drawn down.

Confirmed credit lines at December 31, 2004

(MUSD)	Interest rate	Amount	Amount drawn down at Dec. 31, 2004	Maturity date
Syndicated loan*	**Variable**	**220**	**81**	**December 2009**
US private placement, Tranche A	**Fixed**	**65**	**65**	**May 2013**
- including		9.3	9.3	May 2007
		9.3	9.3	May 2008
		9.3	9.3	May 2009
		9.3	9.3	May 2010
		9.3	9.3	May 2011
		9.3	9.3	May 2012
		9.3	9.3	May 2013
US private placement, Tranche B	**Fixed**	**20**	**20**	**May 2015**
- including		4.0	4.0	May 2011
		4.0	4.0	May 2012
		4.0	4.0	May 2013
		4.0	4.0	May 2014
		4.0	4.0	May 2015
Total		**305**	**166**	

** At December 31, 2004, the Group had still drawn down some of the 2000 syndicated loan, even though the new (2004 syndicated loan) had already been signed. Consequently, the table shows amounts drawn down on the 2000 syndicated loan together with the amount and due date of the 2004 syndicated loan.*

The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a lending margin. The margins on the 2004 syndicated loan are fixed and no longer depend on the net debt/shareholders' equity ratio. A fixed rate of interest is paid to investors in the US private placements. This fixed rate was swapped into a variable rate of interest for the entire duration of the private placements.

Covenants relating to confirmed borrowings

In connection with its various confirmed borrowings, Carbone Lorraine has to comply with a number of obligations, which are customary with this type of lending arrangement. Should it fail to comply with some of these obligations, the banks or investors (for the US private placements) may oblige Carbone Lorraine to repay the relevant borrowings ahead of schedule. Under the cross-default clauses, early repayment of a significant borrowing may oblige the Group to repay other borrowings immediately.

Carbone Lorraine has to comply with the following covenants at June 30 and December 31 each year:

Financial covenants consolidated financial statements)	**Net debt/EBITDA****	**Net debt/ shareholders' equity****	**EBITDA/ net interest expense****
Covenants	*The ratio must be:*	*The ratio must be:*	*The ratio must be:*
- US private placement	< 3.25	< 1.3	> 3
- 2000 syndicated loan (repaid in January 2005)	< 3.25	< 1.3	-
- 2004 syndicated loan	-	<1.3	-
Actual ratios			
December 31, 2004			
- US private placement	1.78	0.51	10.57
- 2000 syndicated loan	1.77	0.54	-
- 2004 syndicated loan	-	0.51	-
December 31, 2003			
- US private placement	2.83	1.02	8.22
- 2000 syndicated loan	2.83	1.09	-
*December 31, 2002**	2.76	1.04	-

** Solely the 2000 syndicated loan.*
***Method for calculating the covenants. In line with the accounting rules, the net debt shown in the financial statements uses year-end exchange rates to calculate the euro-equivalent value of debt denominated in foreign currencies. For the purposes of the covenants, net debt does not take into account financial receivables and has to be recalculated at the average EUR/USD exchange rate in the event of a difference of over 5% between the average exchange rate and the closing exchange rate. In a special derogation from this rule, this restatement need not be made when calculating the net debt/shareholders' equity ratio for the purposes of the private placement agreement or for the 2004 syndicated loan. In addition, to calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported during the first six months of the year multiplied by two.*

The new syndicated loan agreement signed in December 2004 provides for just one financial covenant regarding the net debt/shareholders' equity ratio.

At December 31, 2004, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Operating receivables and payables all mature in less than one year. A breakdown in long-term debt by maturity is shown below:

Breakdown of long- and medium-term debt, including the current portion at December 31, 2004

(M€)	**Total**	**< 1 year**	**> 1 et < 5 years**	**> 5 years**
Denominated in USD	96.0	-	54.0	42.0
Denominated in EURO	28.9	-	28.9	-
Denominated in GBP	7.8	-	7.8	-
Denominated in CAD	0.2	-	0.2	-
Total	**132.9**	**-**	**90.9**	**42.0**

Of the 90.9 million of euros in debt due to mature in between one and five years' time, 66.2 million of euros had a maturity of over four years at December 31, 2004.

Analysis of total net debt at December 31, 2004

By currency	%	By interest rate	%
€	26.5	Fixed	35.1
USD	69.2	Variable	64.9
Other	**4.3**	-	-

Interest rate risk management

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 February 2002, the Group purchased a two-year swap with a nominal amount of 70 million of US dollars. Under the terms of this swap, the Company pays a fixed rate of 3.4275% and receives 1-month USD Libor. The swap matured in February 2004.

In May 2003, the Group purchased several interest-rate swaps with an aggregate nominal amount of 85 million of US dollars to turn the interest payable on the private placements into a variable rate. Under the terms of these swaps, the Company receives the interest payable to the investors and pays 3-month USD Libor plus a credit margin. The starting date of the swap was May 28, 2003 and the swap has the same duration as the private placement.

In May 2003, the Group purchased several 3-year interest-rate swaps with an aggregate nominal amount of 60 million of US dollars. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 2.565% and receives 3-month USD Libor.

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

(M€)	Total	Expiring in more than one year	Expiring in more than five years
Variable-rate long-term debt*	154.9	90.9	42.0
Financial assets	29.3	-	-
Net exposure before hedging	**125.6**	**90.9**	**-**
Fixed-rate hedge	44.0	44.0	-
Net exposure after hedging*	**81.6**	**46.9**	**42.0**

** After the fixed-for-variable swap on the US private placements.*

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their December 31, 2004 level, an increase of 100 basis points in variable interest rates during 2005 would increase the Group's borrowing costs by 0.8 million of euros.

Note 12 Sales

Analysis of sales by division

	2004		2003		2002	
	M€	%	M€	%	M€	%
Advanced Materials and Technologies	200	31	198	32	230	32
Electrical Applications	188	30	184	29	192	26
Electrical Protection	171	27	165	26	193	27
Magnets	77	12	82	13	106	15
Total	**636**	**100**	**629**	**100**	**721**	**100**

Analysis of sales by geographical region

	2004		2003		2002	
	M€	%	M€	%	M€	%
France	96	15	96	15	117	16
Rest of Europe	217	34	208	33	240	34
North America	212	34	215	34	260	36
Asia	71	11	76	12	67	9
Rest of the world	40	6	34	6	37	5
Total	**636**	**100**	**629**	**100**	**721**	**100**

Note 13 Operating income

Analysis of operating income and the operating margin by division

	2004		2003		2002	
	OI (M€)	OI/sales* as a %	OI (M€)	OI/sales* as a %	OI (M€)	OI/sales* as a %
Advanced Materials and Technologies	35.0	17.5	29.4	14.8	34.9	15.2
Electrical Applications	19.8	10.6	20.2	10.9	22.4	11.7
Electrical Protection	7.4	4.3	7.7	4.7	11.6	6.0
Magnets	1.7	2.2	(6.3)	(7.8)	3.1	2.9
Corporate overheads	(11.3)	(1.8)	(11.7)	(1.8)	(12.4)	(1.7)
Total	**52.6**	**8.3**	**39.3**	**6.2**	**59.6**	**8.3**

** OI/sales: operating income before corporate overheads/sales.*

Note 14 Divisional analysis of capital employed at year-end

(M€)	2004	2003	2002
Advanced Materials and Technologies	**193.8**	**192.9**	**213.4**
Electrical Components			
Electrical Applications	123.1	110.5	120.4
Electrical Protection	125.2	128.4	158.4
Magnets	29.6	31.3	56.3
Other	-	-	16.9
Total	**471.7**	**463.1**	**565.4**

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

The increase in capital employed in 2004 (of 8.6 million of euros) was driven primarily by the reduction in non-operating liabilities (up 23.2 million of euros, including a 13.0 million of euros rise in acquisition-related liabilities) offset partially by negative currency effects (15.1 million of euros).

The Other line item corresponded in 2002 to deferred tax assets which were allocated to the relevant business activities from 2003.

Note 15 Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension plans and retirement indemnities) totaled 223.5 million of euros in 2004 compared with 225.4 million of euros in 2003.

On a comparable structure basis and at constant exchange rates, payroll costs increased by 1.0% as a result of redundancy payments in connection with the restructuring of the Electrical Protection and Magnets segments. Excluding these payments, payroll costs declined by 6.8%.

Breakdown of consolidated average headcount by employee category

Categories	2004	%	2003	%	2002	%
Engineers and managers	548	8%	628	9%	614	8%
Technicians and supervisors	808	12%	802	11%	792	11%
White-collar employees	988	15%	1,062	15%	1,172	16%
Plant workers	4,454	65%	4,550	65%	4,666	65%
Total	**6,798**	**100%**	**7,042**	**100%**	**7,244**	**100%**
o/w impact of changes in the scope of consolidation	-		90		120	

Breakdown of consolidated average headcount by geographical region

Regions	2004	%	2003	%	2002	%
France	2,202	32%	2,388	34%	2,506	35%
Rest of Europe (incl. Tunisia)	1,755	26%	1,769	25%	1,754	24%
North America (incl. Mexico)	2,008	30%	2,057	29%	2,202	30%
Asia	283	4%	321	5%	294	4%
Rest of the world	550	8%	507	7%	488	7%
Total	**6,798**	**100%**	**7,042**	**100%**	**7,244**	**100%**

At comparable scope, the headcount declined by 244 employees.

Note 16 Other operating expenses and provisions

(M€)	2004	2003	2002
Provisions for plant, modernization and refurbishment	-	-	0.5
Employee profit-sharing and other incentives	(4.0)	(3.8)	(3.6)
Other changes in operating provisions	(0.4)	0.3	(0.1)
Total	**(4.4)**	**(3.5)**	**(3.2)**

Note 17 Depreciation and amortization

(M€)	2004	2003	2002
Intangible fixed assets	(3.0)	(4.1)	(4.4)
Property, plant and equipment	(20.1)	(25.9)	(29.1)
Total	**(23.1)**	**(30.0)**	**(33.5)**

Depreciation declined in 2004 owing mainly to impairment losses recognized on the Magnets division at year-end 2003, which had an impact of 5.1 million of euros.

Note 18 Financial expense

(M€)	2004	2003	2002
Interest on long and medium-term debt	(6.3)	(7.7)	(9.5)
Interest on short-term debt and other financial expense	(4.1)	(3.9)	(5.8)
Amortization of debt issuance costs	(0.4)	(0.4)	(0.3)
Total financial expense	**(10.8)**	**(12.0)**	**(15.6)**
Financial income	0.5	1.3	1.2
Currency gains (losses)	(1.0)	(0.1)	0.3
Total net financial expense	**(11.3)**	**(10.8)**	**(14.1)**

Note 19 Current and deferred tax

(M€)	2004	2003	2002
Current income taxes	(7.0)	(5.1)	(14.4)
Deferred income taxes	(3.7)	(2.2)	1.7
Withholding taxes	**-**	**-**	**(0.1)**
Total tax on operating items	(10.7)	(7.3)	(12.8)
Non-recurring current and deferred tax	4.9	17.1	8.0
Total tax expense	**(5.8)**	**9.8**	**(4.8)**

In France, 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, 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 three consolidated tax groups in Germany comprising Le Carbone Holdings KG and Cometec, DCAG, Dietrich GmbH and Ferraz Shawmut GmbH.

The Group's effective tax rate excluding non-recurring items was 25.9% in 2004 compared with 25.6% in 2003 and 28.0% in 2002.

Analysis of tax expense

(M€)	2004
Net income, Group share	15.2
Goodwill amortization	5.1
Minority interests	0.4
Tax expense/(benefit)	5.8
Taxable income	**26.5**
Current income tax rate in France	35.43%
Theoretical tax benefit (expense) (taxable income x current income tax rate in France)	**(9.4)**
Difference between the income tax rate in France and other jurisdictions	1.1
Transactions qualifying for a reduced rate of taxation	0.3
Permanent timing differences	2.0
Impact of limiting deferred tax assets	0.1
Other	0.1
Actual tax benefit (expense)	**(5.8)**

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

(M€)	2004	2003	2002
Deferred tax assets (recorded under financial assets and working capital requirement)	28.0	25.7	16.9
Deferred tax liabilities (recorded under provisions)	(3.9)	(2.4)	(10.0)
Net positions	**23.9**	**23.3**	**6.9**

The deferred tax movements during 2004 were as follows:

(M€)*	2003	Earnings	Other	Translation adjustment	2004
Provisions for retirement benefits	4.3	(0.6)	-	-	3.7
Provisions for restructuring	2.9	(0.5)	-	-	2.4
Depreciation and amortization of fixed assets	(5.6)	(2.4)	(0.4)	0.8	(7.6)
Tax-regulated provisions	(4.6)	0.4	-	-	(4.2)
Impact of tax losses & other	26.3	4.3	-	(1.0)	29.6
Deferred tax – Net position	**23.3**	**1.2**	**(0.4)**	**(0.2)**	**23.9**

(+ liability/- asset)

Note 20 Non-recurring items after tax

(M€)	2004	2003	2002
Impairment losses on investment securities	-	(2.5)	(0.4)
Additions to retirement indemnities	(0.8)	(0.5)	(1.0)
After-tax capital gains on asset disposals	1.3	6.7	2.5
Expenses and provisions for litigation	(2.1)	(25.1)	(28.6)
Other non-recurring income and expense	(8.3)	(33.4)	(9.4)
Total non-recurring items	**(9.9)**	**(54.8)**	**(36.9)**

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

Expense and provisions for litigation included an estimate of all the financial consequences of the proceedings in progress regarding anti-competitive practices affecting some of the Group's activities. They thus included the 7 million of euros fine that the European Commission meted out to the isostatic graphite business in December 2002. They also included an estimate of the likely consequences of the investigation that the European Commission had 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 brush activities.

The other non-recurring income and expense comprised primarily restructuring costs (11.8 million of euros), the repayment of the Valeo receivables (4.0 million of euros) 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 of euros).

In 2003, expenses and provisions for litigation included the additional provision of 25.1 million of euros set aside to cover the fine meted out to the Group by the European Commission, for which an initial provision of 18 million of euros was set aside in 2002 and in respect of which the Group decided to appeal in the Court of First Instance in Luxembourg.

Other non-recurring income and charges amounting to 33.4 million of euros included an impairment loss of 16.7 million of euros after tax on the Magnets assets, as well as 19.3 million of euros after tax in industrial restructuring charges related to the savings plan.

Impairment losses on investment securities (2.5 million of euros) primarily related to assets in Turkey, Malaysia and Mexico.

After-tax capital gains on business disposals (6.7 million of euros) mainly derived from the sales of the real estate of the Spanish (Barcelona) and US (Camarillo) subsidiaries under the asset disposal program currently underway.

In 2004, non-recurring income and charges after tax amounted to a net charge of 9.9 million of euros. The principal contributors were:

- expenses and provisions for litigation, which included 2.2 million of euros in additional provisions set aside to cover costs arising from the US class-action lawsuits;

- after-tax capital gains on business disposals (1.3 million of euros), which included sales of real estate in the US (Newburyport) and France (Crolles) as part of the asset disposal program;
- other non-recurring income and charges (8.3 million of euros), which included industrial restructuring charges (9.9 million of euros after tax), 5.5 million of euros of which related to Magnets and 2.8 million of euros to Electrical Protection.

Note 21 Commitments and contingencies

1 – Financial commitments and liabilities

(M€)	2004	2003	2002
Commitments received			
Guarantees and endorsements	0.4	0.4	1.3
Other commitments received	3.1	2.8	1.2
Total	**3.5**	**3.2**	**2.5**
Commitments given			
Collateralised debts and commitments	0.3	0.3	0.5
Irrevocable operating lease and finance lease commitments	16.2	6.1	7.6
Market guarantees and endorsements	11.4	8.5	7.8
Payment guarantees on acquisition	-	7.3	8.4
Other guarantees	62.5	16.8	17.8
Other commitments given	2.3	3.2	3.2
Total	**92.7**	**42.2**	**45.3**

The above table summarizes the Group's commitments and contingencies.

NATURE

The largest item totaling 62.5 million of euros relates to "Other guarantees", which includes a 43 million of euros guarantee issued to the European Commission as a result of the fine handed down by the European Commission in respect of which the Group has currently lodged an appeal before the Court of First Instance of the European Communities. This guarantee has enabled the Group to postpone payment of the fine for the duration of the appeal procedure. It is due to expire on December 31, 2006, but may be extended with the consent of the guarantor banks depending on the date of the Court's ruling. This line item also includes a guarantee of 16 million of euros covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

The irrevocable operating lease and finance lease commitments line item includes future lease payments certain to fall due before the Group has the option of canceling a lease. The increase in commitments is attributable to the sale of buildings by the Group as a result of partial or complete plant shutdowns followed by the leasing of more appropriate sites.

MATURITY

Market guarantees generally last for less than one year, except for a few market guarantees the duration of which does not exceed three years.

The irrevocable lease and finance lease commitments, guarantees and other commitments given line items generally have durations in excess of one year. The largest commitments are: the 43 million of euros guarantee given to the European Commission due to expire in December 2006, the 16 million of euros guarantee covering the cash pooling system, which will remain in place for the entire duration of the cash pooling agreements, the lease commitments for two manufacturing facilities in the US totaling 8.5 million of euros with durations of between eight and ten years.

INTERNAL CONTROL

Under the Group's internal control framework, Group companies are not authorized to enter into transactions giving rise to commitments and contingencies without obtaining the prior approval of the Group's Finance department and, where appropriate, of the Chairman and Chief Executive Officer or the Board of Directors. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding 150,000 euros with a maturity of two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the account consolidation procedure.

As far as the Company is aware, no material commitments or contingencies under the accounting standards in force have been omitted.

2 – Title retention clause

None.

Note 22 Valuation of financial instruments

The fair value of the majority of the financial instruments held by the Group was estimated 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 conducted. These instruments match borrowings (interest rates) or sales transactions that are certain or almost certain (currency) to occur.

(M€)	Value at Dec. 31, 2004	Nominal amount 2004	Nominal amount 2003	Nominal amount 2002
Interest rate instruments	-0.6	106.5	170.2	66.7
Currency instruments	0.7	8.3	4.6	18.8

Currency exposure by currency

The net exposure by currency shown below represents the Group's transaction flows at December 31, 2004. The assets and liabilities represent the net amount of Group companies' billings denominated in foreign currencies translated into euros from their local currency. To maintain consistency with the definition of the assets and liabilities, off-balance sheet positions represent the hedges assigned to billings. The hedges assigned to orders and budgets are not stated in the following table. A currency is not shown where the relevant assets and liabilities have a value of less than 0.5 million of euros.

(M€)	USD	GBP	JPY	CAD	KRW	BRL	MXN	SEK
Assets	6.7	-1.6	1.7	-1.7	-2.4	-0.5	0	-0.8
Liabilities	1.1	1.4	-0.1	0.6	1.1	1.3	-0.9	0.1
Net position before hedging	**7.8**	**-0.2**	**1.6**	**-1.1**	**-1.3**	**0.8**	**-0.9**	**-0.7**
Off-balance sheet positions	**3.8**	**0**	**0.7**	**-0.3**	**0**	**0**	**0**	**0**
Net position after hedging	**4.0**	**-0.2**	**0.9**	**-0.8**	**-1.3**	**0.8**	**-0.9**	**-0.7**

The trend in currencies against the euro has a translation-related impact in euros on the income statements of companies that do not have the euro as their functional currency. It also has an impact on future sales and purchases, with the exception of future sales and purchases that are hedged in the budget. Given the strong currency fluctuations seen in 2004, especially in the euro/US dollar exchange rate, these two effects had a negative impact of around 4 million of euros on 2004 operating income.

The net position after hedging on billings also has an impact on the Group's financial statements. An unfavorable one-percent shift in the euro relative to the aforementioned currencies would have a negative impact of 0.1 million of euros based on billings on the balance sheet at December 31, 2004.

Note 23 Subsequent events

None.

Statutory auditors' report

on the consolidated financial statements Year ended December 31, 2004

This is a free translation into English of the statutory auditors' reports issued in the French language and is provided solely for the convenience of English speaking readers. The statutory auditors' report includes for the information of the reader, as required under French law in any auditor's report, whether qualified of not, an explanatory paragraph separate from and presented below the audit opinion discussing the auditors' assessment of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account caption or on information taken outside of the consolidated financial statements. Such report should be read in conjunction and construed in accordance with French law and French auditing professional standards.

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Le Carbone Lorraine for the year ended December 31, 2004.

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.

Opinion on the consolidated financial statements

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 assets, liabilities, financial position and results of the consolidated group of companies in accordance with the accounting rules and principles accepted in France.

Justification of our assessments

In accordance with the requirements of article L.225-235 of the Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring to your attention the following matter:

Section 1.F in the notes to the accounts, describes the accounting policy relating to the exceptional depreciation of assets in the case of an event which may trigger an asset impairment.

In relation to our review of the accounting policies followed by your company, we have verified the appropriateness of these accounting policies, noted above, and we have reviewed the information described in the notes to the accounts. In addition we have ensured the correct application of the policies described.

Our assessments on this matter were made in the context of our audit of the consolidated financial statements taken as whole and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

Specific verifications

In accordance with professional standards applicable in France, we have also verified the information given in the Group management report. We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

CHAPTER

5

Summary parent company financial statements

Condensed income statement

(M€)	2004	2003	2002
Sales and other revenues	3.3	3.7	3.1
Purchases and changes in inventories	(0.0)	(0.0)	(0.0)
Salaries, wages and payroll taxes	(1.3)	(1.1)	(1.4)
Other operating expenses	(3.5)	(4.2)	(2.9)
Depreciation, amortization and additions to provisions	(1.0)	(1.8)	(1.8)
Operating income	(2.5)	(3.4)	(3.0)
Net financial income/(expense)	9.0	23.4	22.6
Income before tax and non-recurring items	6.5	20.0	19.6
Non-recurring items	(10.5)	(39.4)	(23.4)
Income tax and employee profit-sharing	6.9	5.0	5.0
Net income	**2.9**	**(14.4)**	**1.2**

Condensed balance sheets

ASSETS

(M€)	2004	2003	2002
Intangible fixed assets and property, plant and equipment	0.7	1.4	2.1
Financial assets	373.4	358.7	427.9
Total fixed assets	374.1	360.1	430.0
Inventories	-	–	–
Trade receivables	0.3	1.0	1.3
Other receivables	39.9	48.9	44.1
Cash and marketable securities	2.4	5.6	7.8
Foreign currency translation losses	5.3	5.0	13.2
Total assets	**422.0**	**420.6**	**496.4**

LIABILITIES

(M€)	2004	2003	2002
Share capital	27.5	22.4	22.3
Additional paid-in capital and reserves	167.4	124.3	131.3
Retained earnings	(0.2)	1.1	0.2
Net income for the period	2.9	(14.4)	1.2
Shareholders' equity	197.6	133.4	155.0
Provisions for liabilities and charges	7.5	27.3	20.3
Long-term debt	145.6	198.9	247.8
Other liabilities	55.5	50.6	61.6
Foreign currency translation gains	15.8	10.4	11.7
Total liabilities and shareholders' equity	**422.0**	**420.6**	**496.4**

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

Five-year financial summary

	2004	2003	2002	2001	2000
1. Share capital at year-end					
Share capital (M€)	27.5	22.4	22.3	22.3	22.2
Number of shares outstanding	13,755,577	11,197,890	11,139,150	11,128,462	11,109,733
Nominal value per share (€)	2	2	2	2	2
2. Overall result of operations (M€)					
Income before tax, depreciation, amortization, provisions and employee profit-sharing	7.3	23.4	21.7	1.5	19.5
Net income after tax, employee profit-sharing, depreciation, amortization and provisions	2.9	(14.4)	1.2	3.3	17.7
Earnings distributed (1)	7.6	0.0	9.3	13.2	15.9
3. Overall result of operations per share (€) (2)					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions	0.84	2.54	2.40	0.82	2.01
Net income after tax, depreciation, amortization and provisions	0.25	(1.29)	0.11	0.30	1.60
Dividend paid on each share	0.55	0.0	0.60	0.80	1.06
4. Employees (3)					
Average headcount	6	6	6	6	1,082
Total payroll costs (M€)	1.0	0.7	1.0	2.5	34.9
Amount paid for welfare benefits (M€)	0.3	0.4	0.4	1.2	14.5

(1) The earnings distributed include the payment of 4.2 million of euros, 4.3 million of euros and 2.6 million of euros in dividend withholding tax for 2000, 2001 and 2002 respectively.
(2) Earnings per share were calculated based on 11,690,661 shares, which includes the capital increases carried out during 2004 on a pro rata temporis basis.
(3) The spin-off of Carbone Lorraine Corporate Services took place on May 1, 2001. As a result, the figures shown for Carbone Lorraine S.A. in 2002 are not directly comparable with those for 2001. The same applies to 2000 and 2001.

Change in Le Carbone-Lorraine's shareholders' equity

(M€)	2004	2003	2002
Opening shareholders' equity at January 1	133.4	155.0	169.7
Capital increase subscribed by employees	1.6	1.3	0.2
Capital increase through public share offering	63.0	-	-
Dividend payment	-	(6.6)	(8.8)
Dividend withholding tax	-	(1.6)	(4.3)
Net income for the period	2.9	(14.4)	1.2
Change in tax-regulated provisions	(0.2)	(0.2)	0.4
Amortization of capital increase expenses against additional paid-in capital	(2.7)	(0.1)	(0.1)
Excess of revalued assets over 1976 historical cost	(0.2)	-	(3.3)
Levy of 2.5% on long-term capital gains reserves	(0.2)	-	-
Closing shareholders' equity at December 31	**197.6**	**133.4**	**155.0**

List of subsidiaries and shareholdings

DETAILED INFORMATION (M€)	Share capital	Additional paid-in capital and reserves	% of share capital owned	Book value in Le Carbone Lorraine SA's financial statements		Loans and advances	Guarantees and sureties given
				Gross	Net		
CONSOLIDATED SUBSIDIARIES (consolidated shareholders' equity at Dec. 31, 2004)							
Carbone Lorraine Corporate Services (France)	3.6	1.0	100	3.6	3.6		
Carbone Lorraine Applications Électriques (France)	25.4	(5.9)	100	25.4	25.4		
Carbone Lorraine Composants (France)	20.0	7.4	100	19.9	19.9		
Carbone Lorraine Équipement Génie Chimique (France)	17.3	2.5	100	17.3	17.3		1.7
AVO S.A. (France)	0.2	13.4	100	16.1	16.1	2.5	
Ferraz Shawmut S.A. (France)	21.3	(6.3)	100	29.6	29.6		
Ugimag S.A. (France)	41.4	(36.9)	100	65.5	0.0		
Le Carbone Holdingsgesellschaft KG (Germany)	29.1	(10.5)	100	30.3	13.3	0.4	0.6
Carbone Lorraine GmbH (Germany)	0.0	0.0	100	0.1	0.1		
Sofacel (Spain)	3.2	(0.5)	50	0.7	0.7		
Ferraz Shawmut España (Spain)	2.4	(1.6)	100	2.4	2.4	1.4	
Le Carbone Holdings (UK)	9.9	1.5	100	0.9	0.9	7.8	
Il Carbonio (Italy)	2.5	2.4	100	4.6	4.6		
Carbone Lorraine Nederland (Netherlands)	0.1	0.9	100	0.2	0.2		
Carbone Nordic AB (Sweden)	0.8	0.2	100	1.0	1.0		
Carbone Lorraine Australia (Australia)	0.7	1.8	100	0.7	0.7		
Carbone KK (Japan)	0.1	0.2	8.7	3.0	0.9		2.1
Carbone Lorraine Korea (South Korea)	12.1	(1.2)	100	12.1	11.5		
Carbone of America (Canada)	11.2	3.4	100	1.3	1.3		
Carbone Lorraine North America (US)	23.6	14.1	100	115.6	115.6	0.7	
Ferraz Fuse Corp. (US)	44.8	(1.8)	100	44.8	44.8	13.5	1.8
Carbono Lorena (Brazil)	39.1	(32.4)	100	21.7	20.1		
Carbone South Africa (Republic of South Africa)	1.0	1.8	54.77	0.8	0.8		
UNCONSOLIDATED SUBSIDIARIES (shareholders' equity as per individual financial statements at December 31, 2003)							
Carbone Lorraine SAIC (Argentina)	0.1	0.6	100	1.0	0.8		
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	(0.2)	100	0.4	0.1		
Carbone Lorraine Mauritius (Mauritius)	0.2	0.0	100	2.5	2.5		
Carbone Lorraine India (India)	0.8	0.1	100	1.1	1.1		
Elca Carbone Lorraine PVT Ltd (India)	0.3	0.7	100	4.3	4.1		
Carbone Lorraine Madras (India)	0.3	0.3	51	0.4	0.4		
Carbone Lorraine Singapore Holding Pte Ltd (Singapore)	0.9	(0.8)	95	1.1	0.1		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	0.4	0.7	100	5.0	1.0		
OTHER UNCONSOLIDATED SUBSIDIARIES							
Subsidiaries (over 50%-owned)	1.1	1.6		0.6	0.6	0.5	0.5
Shareholdings (10% to 50%-owned)	0.3	0.4		0.2	0.2	0.2	
Other shareholdings (less than 10%-owned)	0.0	0.0		0.0	0.0		
TOTAL				**435.0**	**342.3**	**26.8**	**6.3**

CHAPTER

6

Legal and financial information

Risk management

During 2004, a Group Risk and Internal Audit Department was set up to:

- define a risk prevention and mitigation policy, propose action plans and check up on their execution;
- verify the effectiveness, consistency and compliance of accounting and financial procedures and information systems.

To pursue good corporate governance, this Risk and Internal Audit Department reports back to the Risk Committee, as well as to the Board of Directors' Audit and Accounts Committee.

Lastly, a decision was made to update the mapping assessment of the Group's risk factors during 2005, since the original assessment dates back to 2001.

Industrial risks

In line with initiatives taken during previous years, the Risk Committee endeavored to identify all the business risks that may arise at what are considered to be the Group's core facilities. As a result of this analysis, the Group implemented action plans to reduce the severity and/or likelihood of these risks. Some of these action plans were completed, while others are still underway. Measures focused to a great extent on securing the key equipment used at facilities supplying most of the Group's other sites with semi-finished products.

This type of initiative will be rolled out at a larger number of facilities during 2005.

In conjunction with specialists from our insurers, visits were made to assess the level of fire prevention and protection at the Group's principal manufacturing facilities in France and the US. The recommendations made following these visits increased the level of fire prevention and fire protection resources, where appropriate.

Technology risks

A contingency plan to mitigate the risks arising from the unavailability of the Group's IT systems was announced in the previous reference document. This plan was rolled out and tested successfully with regard to the major IT systems based in Europe. During 2005, a similar program is scheduled to take place for systems based in North America.

To secure the IT base and tighten up users' security, IT security teams were strengthened.

Environmental risks

During 2004, the Group continued to pursue its policy of securing ISO 14001 certification for its largest facilities.

As stated previously, the industrial processes used by the Group are not of a hazardous nature liable to trigger large-scale chemical reactions.

Work is currently underway to eliminate the use of potential pollutants or to curtail their use very strictly so as not to harm the environment. For instance, one of the Group's largest manufacturing facilities in France has totally discontinued using PCBs for electric transformers and the use of sulfuric acid has been totally scrapped at another major plant.

Raw materials risks

The Group has endeavored to find another procurement source for its key high-volume or mission-critical raw materials where it is currently served by a monopoly supplier or to enter into medium- to long-term supply agreements with other suppliers to secure its supply chain.

From a more general standpoint, the purchasing teams redoubled their efforts to diversify the Group's procurement sources and to secure the best purchasing terms from its suppliers.

Country risks

The Group has manufacturing facilities in countries considered to be at high risk (based on the OECD's classification), i.e. in Argentina, Colombia, Turkey and Venezuela. 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 programs with prime insurance companies to cover its main property/ business interruption, civil liability, environmental, civil aviation and transport risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs.

The Group's civil liability (before and after delivery) and environmental insurance program notably covers bodily injury, physical and consequential damage, site clearance and rebuilding costs, withdrawal costs, damage to property entrusted with the Group and pollution abatement costs subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries (notably the US and Canada). The total amount of premiums paid by Groupe Carbone Lorraine during the 2004 fiscal year in respect of its civil liability, environmental and civil aviation insurance program came to €1,076,120

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants 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 program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €80,000,000 with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by Groupe Carbone Lorraine during the 2004 fiscal year in respect of this insurance program came to €1,241,394.

Under the Group's transport insurance program, Carbone Lorraine and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5,000,000 per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The total amount of premiums paid by Groupe Carbone Lorraine during the 2004 fiscal year in respect of this insurance program came to €75,000.

The Group's insurance policy is determined by the General Management. To protect the Group's future, the levels of coverage are set depending on an assessment of the risks incurred by each subsidiary of the Group. Given that the insurance market has started to stabilize, the levels of coverage adopted in 2004 were unchanged on the previous year.

Labor risks

The Company pays particular attention to the quality of its labor relations and to 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 envisaged 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 prepared action plans with respect to the key men and women within its organization during its management reviews and introduced measures to maintain their loyalty and/or ensure that they can be replaced.

Tax risks

The Group undergoes regular tax audits by the tax authorities in the countries in which it operates.

Financial market and financing risks

Currency 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. To cover itself against these currency risks, the Group primarily uses futures contracts and purchases options.

The Group's usual policy is to arrange borrowings in local currencies, except in special circumstances. Borrowings in foreign currencies arranged by the parent company match loans made in the same currencies to its subsidiaries.

For consolidation purposes, the income statement and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the year-end rate. The impact of this currency translation may be significant. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's shareholders' equity and debt. All other factors remaining equal, the depreciation in the currency against the euro in 2004 led to a reduction in the Group's shareholders' equity and debt. The Group does not specifically hedge its net foreign assets.

Except in special and non-material cases, hedging is centralized by the parent company. It is carried out under strict guidelines laid down by management. The way hedges are valued is described in Note 22 to the consolidated financial statements.

Interest-rate risks

The Group's principal exposure is to US interest rates. Hedging is conducted on a centralized basis by the parent company and implemented on a case-by-case basis by the finance department subject to the authorization of the Chairman and Chief Executive Officer. A breakdown of hedges and the Group's interest-rate exposure is shown in Note 11 – Net debt. The way hedges are valued is outlined in Note 22 to the consolidated financial statements.

Counterparty risks

All hedging transactions are entered into with prime financial institutions. The Group has no material marketable securities and is not exposed to counterparty risks on such securities. In terms of credit risk, the Group has introduced an insurance program covering its principal companies in the US and France against the risk of non-payment for financial or political reasons. Hedging varies between 0 and 90% of invoiced amounts from customer to customer. With the exception of Valeo (6.1% of sales in 2004), the Group considers that there is no particular concentration of credit risk with a single counterparty.

Liquidity risks

The Group's policy is to use mostly confirmed borrowings for amounts that are significantly larger than its net debt. During 2003, the Group extended the maturity of its borrowings and diversified its sources of financing by carrying out a private placement with US investors. Furthermore, the Group refinanced in December 2004, i.e. one year ahead of its due date, its USD195 million syndicated loan, replacing it with a new USD220 million syndicated facility repayable in December 2009. The Group formally requested the cancellation of its old syndicated loan in January 2005.

With respect to its various borrowings, the Group needs to comply with certain financial criteria, described in Note 11 to the consolidated financial statements. Failure to satisfy these financial criteria could trigger the immediate repayment of the relevant borrowings. Under cross-default clauses, the early repayment of a significant borrowing may trigger the early repayment of other borrowings.

Equity risks

The Group no longer held any of its own shares at December 31, 2004 and did not subscribe any shares in listed companies.

Having sold options, the Group may be bound to acquire 25,079 Carbone Lorraine shares in July 2005 for €40.15 per share unless the share price on July 15, 2005 is above this level. The Group's maximum commitment arising on these options (i.e. around 1 million of euros) is shown under commitments and contingencies. An impairment loss is recognized on the income statement, if the valuation of these options is negative for the Group.

Legal risks

Dependence of the Company

Carbone Lorraine is not dependent on any patent, license or supply contract that may have an adverse material effect on its business activities or profitability.

Valeo ranks among the Group's main customers, especially of the Magnets division in North America. Valeo accounts for 6.1%, Siemens for 3.4% and Bosch for 3.1% of consolidated sales.

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

Litigation

The appeal procedure made by Carbone Lorraine in February 2004 with the EU Court of First Instance regarding the 43.05 million of euros fine imposed by the European Commission in December 2003 for anti-trust practices in brushes for electric motors and products for mechanical applications is still in progress. When it made its appeal, Carbone Lorraine did not pay the fine handed down by the European Commission, but instead issued a bank guarantee for the amount of the fine. Owing to the length of the appeal procedure, Carbone Lorraine envisages paying part of the fine during 2005, as this will help to reduce the costs implied by appeal without affecting the outcome of the proceedings, which relate to the full amount of the fine.

In July 2004, the settlement agreement signed by Carbone of America Industries Corp. (COAIC) in connection with the class-action lawsuits instigated in 2000 by certain customers regarding its graphite activities was definitively approved by the US courts. Under the terms of this agreement, COAIC agreed to pay a full and final settlement of USD4,100,000.

In August 2004, a settlement in principle of USD6 million was agreed with regard to the class-action lawsuits brought in 2002 by certain customers in the US against Carbone of America Industries Corp. (COAIC) in certain categories of brushes for electric motors. This agreement, which covers almost all the class-action lawsuits brought against COAIC, still needs to be submitted for the approval of the Federal court.

Besides, Carbone of America Ltd (Canada) is a party to a lawsuit initiated by some customers in Canada against main manufacturers of carbon brushes. This lawsuit is a consequence of the fine of CAD1,000,000 paid by Morgan Crucible Ltd in July 2004 for anti-trust practices for the period 1995-1998 in the field of carbon brushes for traction applications. This lawsuit should end in 2005 and the risk is not material.

Since 1999, the Group has implemented a worldwide compliance program 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 complied with to in all the countries where the Group is present.

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

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

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

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)

At December 31, 2004, the share capital amounted to €27,511,154 divided into 13,755,577 shares, each with a nominal value of €2 and belonging to the same category

Authorizations to carry out a capital increase

Annual General Meeting of May 13, 2004

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

- issue shares and securities of any type whatsoever in the Company (including debt securities) giving immediate or future access by any means whatsoever to shares in the Company with preferential subscription rights;
- issue shares and securities of any type whatsoever in the Company (including debt securities) giving immediate or future access by any means whatsoever to shares in the Company without preferential subscription rights;

The maximum nominal amount of the immediate and/or future capital increases that may be carried out under these authorizations is 10 million of euros. These authorizations are valid for a period of 26 months. They replace and supersede the authorizations granted by shareholders at the Combined General Meeting of May 15, 2002, which were not used.

Pursuant to the authorization granted by shareholders at the Combined General Meeting of May 13, 2004, the Board of Directors decided at its meeting on September 13, 2004 on the principle of a capital increase in cash with preferential subscription rights for shareholders in an amount not exceeding 63 million of euros inclusive of additional paid-in capital and also decided to confer full powers upon the Chairman and Chief Executive Officer to carry out this issue. Pursuant to this authorization, the Chairman and Chief Executive Officer decided on September 14, 2004 to increase the share capital by 2,489,420 shares, each with a nominal value of €2, by issuing the new shares for €25.30 in cash, with preferential subscription rights for shareholders based on a ratio of two new shares for each nine shares held. The subscription period ran from September 23, 2004 to October 6, 2004 inclusive. The characteristics and terms of said capital increase were presented in a prospectus approved by the AMF under no. 04-759 dated September 14, 2004.

At the close of the subscription period, the 2,489,420 new shares had been subscribed in full by way of right and by way of applications for excess shares. All the share subscriptions were fully paid-up and the proceeds from the issue were lodged with the depositary, Crédit Agricole Investor Services Corporate Trust, which issued a certificate of deposit dated October 19, 2004 as provided for in law and under the terms of which the depositary duly certified that it had received a total amount of €62,982,326, representing €58,003,486 in additional paid-in capital plus the nominal value of the 2,489,420 new shares, each with a nominal value of €2, i.e. €4,978,840.

Pursuant to the previous authorizations and in accordance with the provisions of Article L. 225-119 VII of the French Commercial Code, which requires that a capital increase reserved for employees be put to a vote by shareholders upon each decision to carry out a capital increase, the Combined General Meeting of shareholders on May 13, 2004 also authorized the Board of Directors to issue shares reserved for employees belonging to the Group Investment Plan. The maximum nominal amount of the capital increases that may be carried out under this authorization may not exceed €230,000, i.e. approximately 1% of the Company's share capital. This authorization will remain valid until July 13, 2006. It replaces and supersedes the authorization granted by shareholders at the Combined General Meeting on May 14, 2003, which was used in part on October 3, 2003 by the Board of Directors to issue 54,990 new shares representing an increase in the share capital of €109,980. Using the authorization granted by the General Meeting of May 13, 2004, the Board of Directors decided at its meeting on September 13, 2004 to offer employees of the European and North American subsidiaries the option of subscribing 60,000 new shares priced at €27.40, representing 80% of the average opening price of the shares in the 20 stock market sessions preceding said Board of Directors' meeting. This transaction was presented in a prospectus approved by the AMF (no. 04-875 dated November 8, 2004). At the close of the subscription period, 46,328 new shares had been issued, representing a capital increase of €92,656, with additional paid-in capital amounting to €1,176,731.20.

Combined General Meeting of May 15, 2002

The Combined General Meeting of shareholders on May 15, 2002 also authorized the Board of Directors to grant options giving the right to subscribe new shares in the Company to company officers and employees. The maximum number of new shares that may be issued through the exercise of the options granted is limited to 250,000, each with a nominal value of €2, and at the most to the corresponding number of options cancelled under the plan authorized on May 10, 2000.

The Board of Directors decided at its meeting on May 21, 2002 to make use of this authorization by granting certain Company managers options allowing them to subscribe a total of 125,000 shares, each with a nominal value of €2. Exercise of these options was contingent upon the attainment of a target for net income per share before non-recurring items in 2002. Since this target was not reached, these options could not be exercised and were duly cancelled. At its meeting on May 14, 2003, the Board of Directors decided to make further use of this authorization by granting certain Company managers options entitling them to subscribe a total of 124,999 shares, each with a nominal value of €2. Exercise of these options was contingent upon the attainment of targets for net income per share before non-recurring items in 2003. Since these targets were met only partially, one-third of these options was cancelled.

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
May 5, 1999	Conversion of the nominal value of the FRF10 shares to €2, see the Seventh Resolution of the Combined General Meeting of May 5, 1999	21,571,874	(5,128,819)	10,785,937
May 27, 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
Dec. 31, 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
June 15, 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
Dec. 31, 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
Dec. 31, 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
Dec. 31, 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
Nov. 27, 2003	Issue of 3,750 new shares each with a nominal value of €2 through the exercise of subscription options	22,285,800	63,512	11,142,900
Dec. 23, 2003	Issue of 54,990 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	22,395,780	1,110,798	11,197,890
April 15, 2004	Issue of 2,000 new shares each with a nominal value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
Aug. 20, 2004	Issue of 2,500 new shares each with a nominal value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390
Oct. 19, 2004	Issue of 2,489,420 new shares each with a nominal value of €2 through a capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
Dec. 16, 2004	Issue of 46,328 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,476,276	1,176,731.20	13,738,138
Dec. 31, 2004	Issue of 17,439 new shares each with a nominal value of €2 through the exercise of subscription options	27,511,154	254,260.62	13,755,577

Voting right certificates

None.

Investment certificates

None.

Pledges of shares

None

Shareholders' agreements

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

Securities giving access to the share capital

Between July 1995 and December 2004, share subscription options were granted, 21,939 of which were exercised during 2004. The options still to be exercised at December 31, 2004, after taking into account cancellations, entitle their holders to acquire a total number of 631,282 shares, each with a nominal value of €2. Aside from subscription options, there are no other securities giving access to Carbone Lorraine's share capital.

Ownership of the share capital

The Company's share capital at December 31, 2004 amounted to €27,511,154, comprising 13,755,577 shares each with a nominal value of €2.

The number of voting rights at December 31, 2004 stood at 13,755,577, since the Company no longer holds any of its own shares.

No shares carry double voting rights.

The number of share subscription options granted to company officers and still outstanding stood at 158,884, taking into account the cancelled options. Aside from these share subscription options, no other securities give access to Carbone Lorraine's share capital.

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 for other companies over the same period.

Disclosure thresholds

January 15, 2004: Arnhold and S.Bleichroeder Adviser, LLC increased its stake by 1%, raising its total interest in Carbone Lorraine's share capital to 8.07%.

September 16, 2004: Arnhold and S.Bleichroeder Adviser, LLC reduced its position, lowering its total interest to 6.75% of Carbone Lorraine's share capital and to 6.79% of voting rights.

December 7, 2004: Arnhold and S.Bleichroeder Adviser, LLC reduced its position, cutting its total interest to 5.80% of Carbone Lorraine's share capital and to 5.81% of voting rights.

December 13, 2004: Arnhold and S.Bleichroeder Adviser, LLC reduced its position to below the 5% disclosure threshold, cutting its total interest to 4.91% of Carbone Lorraine's share capital and to 4.92% of voting rights.

January 10, 2005: Arnhold and S.Bleichroeder Adviser, LLC reduced its position, cutting its total interest to 3.48% of Carbone Lorraine's share capital and voting rights.

February 17, 2005: Arnhold and S.Bleichroeder Adviser, LLC reduced its position, cutting its total interest to 1.9% of Carbone Lorraine's share capital and voting rights.

Changes in ownership of the share capital

Shareholders	December 31, 2004			December 31, 2003			December 31, 2002		
	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights	Number of shares	% of share capital	% of voting rights
BNP Paribas	2,874,916	20.9%	20.9%	2,348,760	21.0	21.1	2,348,760	21.1	21.4
Free float, of which	10,880,661	79.1%	79.1%	8,791,154	78.5	78.9	8,620,493	77.4	78.6
- French institutional investors other than BNP Paribas	*3,328,850*	*24.2%*	*24.2%*	*2,701,602*	*24.1*	*24.2*	*2,927,385*	*26.3*	*26.7*
- individual shareholders	*2,682,337*	*19.5%*	*19.5%*	*2,278,863*	*20.4*	*20.5*	*2,481,300*	*22.3*	*22.6*
- employee shareholders	*330,134*	*2.4%*	*2.4%*	*359,372*	*3.2*	*3.2*	*324,968*	*2.9*	*3.0*
- international institutional investors	*4,539,340*	*33%*	*33%*	*3,451,317*	*30.8*	*31.0*	*2,886,840*	*25.9*	*26.3*
Treasury shares	0	0	0	57,976	0.5	0	169,897	1.5	0
Total	**13,755,577**	**100**	**100**	**11,197,890**	**100**	**100**	**11,139,150**	**100**	**100**

Changes in ownership over the past three years

The Company requested a survey by Euroclear of the holders of its bearer shares at December 31, 2004, which identified 26,662 shareholders.

To the best of the Company's knowledge, ownership of its share capital at December 31, 2004 was as follows: BNP Paribas, the core shareholder, held 20.9% of the capital, while the free float of 79.1% broke down as follows:

- French institutional investors other than BNP Paribas held 24.2% of the capital;
- the 24,876 individual shareholders held 19.5% of the capital;
- employee shareholders held 2.4% of the capital;
- institutional investors outside France held 33% of the capital;
- directors and company officers held 4,942 registered shares, and directors held 14,450 shares via Carbone Lorraine FCPE, representing a total of 0.14% of the share capital;
- the Company no longer holds any treasury shares.

As far as the Company is aware, no shareholders other than BNP Paribas and Caisse des Dépôts et Consignations own more than 5% of the Company's share capital and voting rights.

Over the past three years, there has been an increase in the proportion of the share capital owned by institutional investors outside France. Individual shareholders still hold a large interest in the share capital, albeit a smaller one than previously.

Market in the Company's shares

Shares are admitted for trading on the Premier Marché of the Paris Stock Exchange and are eligible for the SRD (Deferred Settlement) service. Carbone Lorraine shares are also constituents of the CAC Mid100 and Euronext 150 indices.

A total of 13,755,577 shares are listed on the market.

Carbone Lorraine shares	Nbr of shares traded (units)	Trading volumes (1)	Trading range (2)	
			High	Low
2003				
July	533,333	12.27	25.5	21.6
August	329,066	7.52	23.1	21.4
September	656,182	17.50	29.0	22.7
October	595,217	18.38	32.9	26.4
November	478,995	15.65	33.1	29.4
December	474,470	13.28	33.0	26.8
2004				
January	479,607	14.78	31.6	27.1
February	486,548	15.84	35.0	31.0
March	491,563	16.65	36.0	30.0
April	340,729	11.04	34.9	31.2
May	299,556	8.99	33.1	29.0
June	559,066	18.29	33.5	29.4
July	261,852	8.41	32.8	30.9
August	185,036	6.15	34.0	31.2
September	774,578	24.17	33.6	28.7
October	514,078	17.26	33.9	31.1
November	429,807	15.67	37.0	33.8
December	870,264	33.79	39.6	36.1
2005				
Janvier	926,579	36.65	40.0	37.3
Février	442,282	17.97	41.8	38.5

(1) Based on the monthly average share price.
(2) Based on monthly intra-day highs and lows.

	Nbr of shares at year-end	Earnings per share (In €)			Share price (In €)			Overall yield based on year-end share price
		Net dividend	Tax credit	Total amount	+ High	+ Low	Year-end	
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%
2003	11,197,890	0	0	0	34.49	13.80	29.15	n/a
2004	13,755,577	0.55	-	0.55	39.60	27.12	39.03	1.41%

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.

With respect to fiscal 2004, the Third Resolution of the Combined General Meeting of May 12, 2005 provides for payment of a dividend of €0.55 per share.

Corporate governance

Composition of the Board of Directors at March 15, 2005

Names	Date of first appointment	Most recent renewal date	End of term of office	Other positions held
Claude COCOZZA DoB: June 1, 1947 Chairman and Chief Executive Officer	June 8, 1993	May 2, 2001	Annual General Meeting 2007	**Director and Chairman of:** Carbone Lorraine North America, Ugimag SA **Director of:** Entreprise Thivent, Sofacel
Jean-Pierre CAPRON* DoB: September 19, 1943 Director, Member of the Audit and Accounts Committee	July 11, 1995	May 2, 2001	Annual General Meeting 2007	**Director General of:** Stolt Offshore SA **Former General Administrator** of the French Atomic Energy Commission (CEA) **Former CEO** of Renault Véhicules Industriels and of Fives-Lille
Robert CHAUPRADE* DoB: August 25, 1935 Director, Member of the Appointments and Remuneration Committee, Member of the Strategy Committee	March 19, 1991	May 2, 2001	Annual General Meeting 2007	**Manager of:** SARL Robert Chauprade Consultant **Former Deputy Managing Director of:** Matra Défense **Former Chairman and Chief Executive Officer of:** Matra Electronique
Hervé COUFFIN DoB: October 26, 1951 Director, Member of the Appointments and Remuneration Committee Member of the Audit and Accounts Committee	May 22, 1995	May 2, 2001	Annual General Meeting 2007	**Managing Partner of:** HC Conseil **Special advisor to the Boards of:** Neuf Telecom, Bouygues Telecom, Antargaz, AGZ Holding (Groupe ANTARGAZ) **Director of:** Gerfin SAS (Groupe Gerflor), Entreflor (Luxembourg-based company - Groupe GERFLOR), Ipsen (Luxembourg-based company), Compagnie Franco-Tunisienne des Petroles (Tunisian company)
Jean-Paul JACAMON* DoB: August 5, 1947 Director, Member of the Appointments and Remuneration Committee	January 22, 2003		Annual General Meeting 2007	**Director of:** Alcan (Canada), Staci (France), AMEC (UK) **President of the Supervisory Board of:** Bonna Sabla, Gardiner Group **Former managing director of** Schneider Electric
Jean-Claude KARPELES* DoB: June 15, 1940 Director, Member of the Audit and Accounts Committee	April 6, 1999		Annual General Meeting 2005	**General delegate:** FIEEC, Gimelec **Manager of:** Elec Promotion SARL, Gimelec Promotion SARL **Director of:** CPI Media, Screlec, SA du Château de Campuget **Member of:** Paris Chamber of Commerce and Industry
Lise NOBRE DoB: June 26, 1965 Director, Member of the Strategy Committee	March 16, 2004 Co-opted to replace Jean-Paul Bernardini		Annual General Meeting 2007	**Director of:** Mivisa (Spain), Twistoff (Spain), Bormioli Rocco (Italy)
Walter PIZZAFERRI* DoB: August 20, 1957 Director,Member of the Strategy Committee	April 6, 1999		Annual General Meeting 2005	**Managing director and director of:** Stratorg Alliance Group **Manager of:** Tercara, Les Verrières de Montagnac

** Independent Director*

Board of Directors

MEMBERS OF THE BOARD OF DIRECTORS

Claude Cocozza, Chairman and Chief Executive Officer

Jean-Paul Bernardini*

Jean-Pierre Capron (independent director)

Robert Chauprade (independent director)

Hervé Couffin

Jean-Paul Jacamon (independent director)

Jean-Claude Karpeles (independent director)

Lise Nobre**

Walter Pizzaferri (independent director)

* Until March 16, 2004

** Co-opted at the Board of Directors' meeting of March 16, 2004 to replace Jean-Paul Bernardini, who resigned.

A director is said to be independent where he or she has no direct or indirect link with Carbone Lorraine, such as being an employee, chairman, managing director or major shareholder, and is not affiliated in any way with a major shareholder or affiliated with a major and/or usual trading or financial partner of the company.

The Board of Directors has eight members, five of whom are independent directors. The Board met seven times during 2004. At each meeting, the Board reviewed trends in the Group's sales and earnings. It also considered the progress made with restructuring underway in Magnets and Electrical Protection. The Board approved the interim and annual financial statements after meeting with the Statutory Auditors.

The Board of Directors was given a presentation by each division of the adjustments that it intends to make to its previously defined strategy. It also studied the organic growth projects planned by the Group as part of its *Croissance Plus* (Growth Plus) program and gave the go-ahead for the principal projects after a specific review of each one attended by the relevant divisional manager.

The Board of Directors was also kept informed of developments in the anti-trust litigation. In early 2005, it met with the lawyer in charge of the appeal of the European Commission's decision lodged with the Court of First Instance in Luxembourg.

In addition, the Board of Directors approved the proposals drawn up by the Audit and Accounts Committee concerning the renewal of the Statutory Auditors' appointment.

It set the terms and conditions for the launch of the capital increase with preferential subscription rights, as well as those for capital increase reserved for employees.

It approved the terms and conditions for the refinancing of a syndicated loan facility provided by 10 international banks.

The Board of Directors ratified the proposals made by the Appointments and Remuneration Committee concerning the remuneration paid to Executive Committee members.

The Board adopted the same Committee's proposal regarding the procedure for evaluating how it operates.

The approach adopted consists in individual interviews with each of the directors by an independent director designated by the Board to assess how it currently operates and to identify areas for improvement. This program was implemented for the first time in early 2004 and was initiated again in early 2005.

Committees set up by the Board of Directors

Audit and Accounts Committee

MEMBERS OF THE AUDIT AND ACCOUNTS COMMITTEE

Jean-Pierre Capron (Chairman – independent director)

Jean-Paul Bernardini*

Hervé Couffin**

Jean-Claude Karpeles (independent director)

* Until March 16, 2004

** From March 16, 2004

The Audit and Accounts Committee comprises three directors, two of whom are independent. The committee met six times during 2004.

The Committee conducted an in-depth review of the Group's consolidated 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 end, it met with the Statutory Auditors on several occasions, both with and without management being present.

The Committee approved the audit program conducted during 2004. It comprised audit assignments at seven manufacturing facilities and three follow-up audits to ensure that the action plans drawn up after previous audits had been implemented. A Group-wide cross-functional audit was also carried out throughout 2004 to assess the reliability of daily cash management by each plant manager.

The Audit and Accounts Committee also reviewed the work of the Risk Committee. One of the goals of the initiatives implemented during 2004 was to avoid over-reliance on certain production facilities and on key suppliers. A campaign to tighten up access to manufacturing facilities was also introduced, as well as a program to increase the protection of IT systems.

The Committee drew up a competitive procedure to appoint new Statutory Auditors. As part of this procedure, the Committee heard submissions from the five audit firms that made the most attractive bids from a quality of service and pricing standpoint. Following a review, the Committee recommended to the Board of Directors that Deloitte and KPMG should be the Group's next statutory auditors. This recommendation was ratified by the Board of Directors.

The Committee approved the elections made for the first-time adoption of IFRS with regard to the 2004 opening balance and studied the terms and conditions for the capital increase proposed to the Board of Directors. In early 2005, it made a recommendation to the Board of Directors concerning implementation of a liquidity agreement to enhance the liquidity of trading in Carbone Lorraine shares.

Strategy Committee

MEMBERS OF THE STRATEGY COMMITTEE

Walter Pizzaferri (Chairman – independent director)

Robert Chauprade (independent director)

Claude Cocozza

Lise Nobre*

* Co-opted at the Board of Directors' meeting of March 16, 2004 to replace Jean-Paul Bernardini, who resigned.

The Strategy Committee comprises four members, two of whom are independent. The Committee met on six occasions during 2004 to examine the latest adjustments to and implementation of the divisions' strategies and to discuss the Group's strategy.

With regard to the Group's strategy, the Committee examined:

- the formal definition of the Group's strategy in Asia and approved the corresponding expansion plans and investments;
- the proposals for a working party comprising senior managers from various divisions responsible for identifying and assessing the potential of expanding new industrial and geographical sectors (Growth Plus program);
- the results of the study conducted by a consultant comparing Carbone Lorraine with a dozen or so highly successful companies on the growth front and approved the corresponding conclusions drawn by the Group's management regarding the methods that should be employed or improved and regarding the Group's organization.

The Committee also made preparations for a review by the Board of three major investment projects.

Appointments and Remuneration Committee

MEMBERS OF THE APPOINTMENTS AND REMUNERATION COMMITTEE

Robert Chauprade (Chairman – independent director)

Claude Cocozza

Hervé Couffin

Jean-Paul Jacamon (Chairman – independent director)

The Appointments and Remuneration Committee has four members, two of whom are independent. Claude Cocozza is a member of this Committee, but he does not take part in deliberations that directly concern him. The Committee met three times during 2004 and also discussed certain straightforward issues over the telephone and by correspondence.

The Committee discussed how the Board of Directors should be evaluated. Based on the recommendations of professional associations and customary practice at other companies, it drew up a questionnaire tailored to Carbone Lorraine. This questionnaire was used as the basis for interviews held with each member of the Board by Jean-Paul Jacamon, an independent director who sits on the Committee. It produced a report that was debated by the Board of Directors and based on which areas of improvement were identified.

The Committee issued an opinion on whether or not each member of the Board is independent.

The Committee duly noted that Jean-Paul Bernardini tendered his resignation from his position as director and proposed that the Board should co-opt Lise Nobre to replace him.

The Committee examined and approved the Chairman's proposed changes to the organization of the Group's management team, particularly the composition of the Executive Committee, to reflect the emphasis placed on expansion of the Group and retirements.

The Committee proposed the terms on which a senior manager who has left the Group may continue to provide the benefit of his assistance.

The Committee considered various aspects of how best to motivate and reward the Group's senior managers. It suggested to the Board during 2004 that shareholder authorization should not be solicited with regard to the issue of stock options pending clarification of the relevant accounting treatment of stock options under IFRS.

It reviewed the study carried out by an independent consultant comparing the salaries paid to Carbone Lorraine's Executive Committee members to the going market rates at comparable companies. It proposed the salaries to be paid to Executive Committee members during 2004 accordingly. It examined the Chairman's salary and recommended to the Board that it should be left unchanged during 2004. The Chairman did not attend these later discussions.

The Committee proposed the bonus targets for 2004, while factoring in the strong level of earnings growth anticipated.

It also proposed the level of the bonuses to be paid to senior managers for 2003 based on the targets set and the results achieved by the Group and each beneficiary. The Chairman did not attend discussions during which his personal performance targets were set and measured.

The Committee set the salaries to be paid to the new Executive Committee members during 2005.

The Committee examined and discussed on ways of motivating and rewarding employees and senior executives. The Committee recommended the Board to initiate the award of free stocks of the company as from 2005 and to request authorization from shareholders at the Annual General Meeting by submitting the appropriate resolutions.

It examined possible improvements to the Executive Committee's bonus system to ensure that it remains ambitious and a source of motivation.

It requested a review of the various different ways of providing for senior executives' pensions during 2005.

Based on a comparative study by the Group's consultant of the level of directors' fees paid for attendance at Board and Committee meetings, the Committee suggested to the Board of Directors that it should put forward a resolution at the Annual General Meeting proposing an increase in directors' fees.

Executive Committee

The composition of the Executive Committee was changed as of January 1, 2005 following Michel Coniglio's retirement and the renewed emphasis on expansion from 2005 onwards.

Michel Coniglio contributed to the Group's success for over 30 years and recorded some highly remarkable achievements in the graphite and carbon industries. The development of numerous senior Group executives sits alongside his record of industrial and commercial accomplishments. Two of the new Executive Committee members, namely Luc Themelin and Ernest Totino, came from teams trained by Michel Coniglio. Luc Themelin has been in charge of the Braking division since 1997 and has also overseen the European business of the High Temperature Applications division since 2003. Ernest Totino is in charge of the Anti-Corrosion Equipment division since 2000, business line where he has spent his entire career. As far, Augustin Huret, he has always worked in the automobile sector, primarily with Michelin, Renault and General Electric. He joined the Group in autumn 2004.

MEMBERS OF THE EXECUTIVE COMMITTEE AT JANUARY 1, 2005:

Claude Cocozza, Chairman and Chief Executive Officer

Augustin Huret, Group Vice President, Electrical Applications

Bernard Leduc, Group Vice President, Human Resources and Director of the Quality and Continuous Improvement (QPC) program

Marc Renart, Group Vice President, Electrical Protection

Jean-Claude Suquet, Group Vice President, Finance and Administration, Supervisor of the Risk Department

Luc Themelin, Group Vice President, High-Temperature Applications and Braking

Ernest Totino, Group Vice President, Anti-Corrosion Equipment, Supervisor of the Purchasing and Information Systems departments

The Executive Committee comprises seven senior managers whose role is to run and supervise the Group's day-to-day operations. It meets every month. It conducted a detailed analysis of the monthly earnings and cash generation trends at each division and examined the remedial measures implemented where actual performance falls short of budget. Each divisional management team gave an annual presentation of its position and the progress it has made to the Executive Committee.

The Executive Committee also monitored progress made with the restructuring and expansion programs launched as part of the Booster plan. In addition, it:

- discussed and adopted the divisional and Group budgets;
- defined the investment program and authorized spending on each major investment project;
- regularly monitored the *Croissance Plus* (Growth Plus) program and carried out a detailed analysis of the main projects;
- analyzed the findings of the comparative study by an outside firm to identify the best practices that will help to facilitate identification and then accelerate implementation of new expansion projects (drafting of an action plan geared to Carbone Lorraine);
- reviewed the major research and development priorities being explored with the divisional heads of Research and Development;
- monitored work performed with an outside firm to improve sales forecasting;
- selected the options proposed to the Audit and Accounts Committee for the adoption of IFRS with respect to the preparation of the 2004 opening balance;
- examined management succession plans for the Group's divisions and main subsidiaries and mapped out desirable career opportunities for its key executives and new skills that they first need to acquire;
- continued to pursue the Group's safety policy, including visits by the Executive Committee to a manufacturing facility to work on safety issues with the local management team;
- analyzed the operation of the Executive Committee and made improvements.

Compensation and benefits

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

The aggregate amount of compensation and benefits of all kinds paid during 2004 to the eight directors of Le Carbone Lorraine, including the Chairman and CEO, came to €569,616, which breaks down as follows:

- remuneration paid to the members of the Board of Directors (excluding the Chairman and Chief Executive Officer) totaling €85,714 in directors' fees, allocated on a pro rata basis to members of the Board of Directors according to their attendance at Board meetings and the various Committees run by the Board of Directors. These directors' fees will be paid in 2005. They will be allocated between the eight members of the Board of Directors as follows:

(In €)	2004	2003
Jean-Paul Bernardini	5,714	15,315
Jean-Pierre Capron	12,381	11,712
Robert Chauprade	14,286	17,117
Claude Cocozza	14,286	15,315
Hervé Couffin	11,429	10,811
Jean-Paul Jacamon	11,429	7,207
Jean-Claude Karpeles	12,381	9,910
Lise Nobre	7,619	NA
Walter Pizzaferri	10,476	12,613
Total	**100,000**	**100,000**

- remuneration paid to the Chairman and Chief Executive Officer (gross amount):

	2004	2003
Basic salary	309, 000	309,000
Performance-related bonus	150,000	107,640
Bonus as a % of the basic salary	48.54%	35%
Benefits in kind	10,616	9,909
Directors' fees	14,286	15,315
Total	**483,902**	**441,864**

1) The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
2) Directors' fees for 2004 will be paid in 2005.
3) Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

The amounts stated above include all the compensation and benefits of any kind received by the directors from companies controlled by Carbone Lorraine within the meaning of Article L. 233-16.

No stock options were granted to the Chairman and Chief Executive Officer during 2004.

Compensation paid to company officers (Executive Committee members) who are not directors (gross amounts in €)

	2004	2003
Basic salary	765,000	754,000
Performance-related bonus	321,680	272,590
Benefits in kind	14,577	14,593
Total	**1,101,257**	**1,041,183**

1) The bonus, which varies between 0% and 80% of the basic salary, is paid in year n+1.
2) Benefits in kind correspond to a company car.

Proposals for basic salaries are made to the Board of Directors by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on going market rates.

The bonus system for the Executive Committee, including the Chairman and Chief Executive Officer, is based on performance in relation to:

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

Furthermore, members of the Executive Committee, including the Chairman and Chief Executive Officer qualify for top-up pension payments. This regime guarantees pension income of 55% of the basic reference received salary during the final three years prior to retirement plus a flat-rate of 50% of bonuses, provided that the relevant person is still employed by the Group upon their retirement. Top-up pension payments are capped at 15% of this basic reference salary.

Options granted on the Company's shares

In 2004, no options were granted to the Chairman and Chief Executive Officer, to company officers, or to members of the Board of Directors.

The Chairman and Chief Executive Officer exercised 13,014 options in 2004. No options were exercised by members of the Board of Directors.

A total of 158,884 stock options, or 1.16% of the share capital, remain to be exercised by members of the Board of Directors, including by the Chairman and Chief Executive Officer. Members of the Board of Directors have no options to purchase or to subscribe for shares in subsidiaries of the Group.

A total of 58,829 stock options remain to be exercised by the ten employees of the Group who hold the largest number of stock options and who are not officers.

Share subscription options granted to the CEO, the only member of both the Executive Committee and the Board of Directors

	1995 plan	1996 plan	1997 plan	1999 plan	2000 plan	2003 plan	TOTAL
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	May 14, 2003	
Number of shares available for subscription	13,014	6,507	13,014	15,617	31,234	9,370	**88,756**
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	May-05	May-07	
End of exercise period	Jun-05	Jul-06	Jun-07	Mar-09	May-10	May-13	
Subscription price	16.58	21.41	36.36	34.58	45.14	21.21	
Number of shares subscribed at Dec. 31, 2004	13,014	-	-	-	-	-	**13,014**
Options cancelled	-	-	-	-	20,822	3,123	**23,945**
Options that may still be exercised	**0**	**6,507**	**13,014**	**15,617**	**10,412**	**6,247**	**51,797**

Subscription options granted to members of the Executive Committee excluding the CEO

	1995 plan	1996 plan	1997 plan	1999 plan	2000 plan	2003 plan	TOTAL
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	May 14, 2003	
Number of shares available for subscription	23,427	11,715	23,427	28,633	74,960	27,486	**189,648**
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	May-05	May-07	
End of exercise period	Jun-05	Jul-06	Jun-07	Mar-09	May-10	May-13	
Subscription price	16.58	21.41	36.36	34.58	45.14	21.21	
Number of shares subscribed at Dec. 31, 2004	23,427	-	-	-	-	-	**23,427**
Options cancelled	-	-	-	-	49,972	9,162	**59,134**
Options that may still be exercised	**-**	**11,715**	**23,427**	**28,633**	**24,988**	**18,324**	**107,087**

Subscription options granted to the 10 Group employees to have been granted or to have exercised the largest number of options

	1995 plan	1996 plan	1997 plan	1999 plan	2000 plan	2003 plan	TOTAL
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	May 14, 2003	
Number of shares available for subscription	20,824	7,550	14,967	14,967	29,672	-	**87,980**
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	May-05	May-07	
End of exercise period	Jun-05	Jul-06	Jun-07	Mar-09	May-10	May-13	
Subscription price	16.58	21.41	36.36	34.58	45.14	21.21	
Number of shares subscribed at Dec. 31, 2004	12,494	-	-	-	-	-	**12,494**
Options cancelled	-	-	-	-	16,657	-	**16,657**
Options that may still be exercised	**8,330**	**7,550**	**14,967**	**14,967**	**13,015**	**-**	**58,829**

1) The number of options as well as the subscription price of options was adjusted to take into account the capital increase in late 2004.
2) The right to exercise options granted from 2000 was made contingent upon the attainment of targets based on net income per share before non-recurring items

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

During 2004, the Company entered into a agreement with BNP Paribas and Calyon in connection with the September 2004 capital increase.

Loans and guarantees granted to officers and directors

None.

Employee incentive agreements

Employee incentive agreements related to the Group's earnings are in place at most of its French subsidiaries, as well as in certain subsidiaries in the US and the rest of Europe. The methods used to calculate employee incentives vary from company to company and from country to country. They include both financial (operating income, EBIT and EVA) and, in some cases, technical criteria, such as safety improvements, customer service, scrap rates, etc.

(In thousand of euros)	2004	2003	2002	2001	2000
Amounts allocated to employees	2,493	2,577	2,454	2,372	2,500
Number of beneficiaries	2,526	2,240	3,422	4,093	1,082

For fiscal 2000, the scope includes Carbone Lorraine SA. From fiscal 2001, the scope includes the entire Group.

Employee profit-sharing

Profit-sharing agreements are in place at all the Group's subsidiaries in France with more than 50 employees, in accordance with Articles L. 442-2 and R. 442-2 of the French Labor Code.

(In thousand of euros)	2004	2003	2002	2001	2000
Amounts allocated to employees	1,520	1,278	1,187	1,917	0
Number of beneficiaries	720	1,336	1,078	1,963	-

For fiscal 2000, the scope includes Carbone Lorraine SA. From fiscal 2001, the scope includes all the Group's subsidiaries in France.

Options and Group Investment Plan

Since 1995, financial authorizations to develop stock ownership among employees through a Group Investment Plan and share subscription option plans have been granted on a regular basis by the Extraordinary General Meeting.

Group Investment Plan

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.

At the Combined General Meeting of May 14, 2003, 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 €230,000. The Board of Directors made use of this authorization on October 3, 2003 by opening the subscription period for a reserved capital increase leading to the issuance of 55,000 new shares for €22.20. At the close of the subscription period, 54,990 new shares were issued, representing an increase in the share capital of €109,880.

At the Combined General Meeting of May 13, 2004, 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 €230,000. This authorization, which replaced and superseded the authorization granted at the Combined General Meeting of May 14, 2003 and was used in part by the Board of Directors on October 3, 2003, is valid until July 13, 2006.

The Board of Directors made use of this authorization on September 13, 2004 by opening the subscription period for a reserved capital increase leading to the issuance of 60,000 new shares for €27.40. This transaction was presented in a prospectus approved by the AMF (no. 04-875 dated November 8, 2004). At the close of the subscription period, 46,328 new shares were issued, representing an increase in the share capital of €92,656 and of €1,176,731.20 in additional paid-in capital. These shares qualify for dividend payments from January 1, 2004.

Share subscription options

At the Extraordinary General Meetings of May 22, 1995, April 22, 1997, May 10, 2000 and May 15, 2002, the Board of Directors was authorized to grant, on one or more occasions, share subscription options to all or some of the Company's officers or those of affiliated companies. The employee categories benefiting from these options are to be determined by the Board of Directors each time that it makes use of the authorization.

Upon the proposal of the Appointments and Remuneration Committee, the Board of Directors has regularly offered sixty or so Group managers since 1995 the possibility of subscribing 631,182 shares (after taking into account cancellations). In 2004, no options were granted and 21,939 options were exercised at a weighted average price of €16.85.

STOCK OPTIONS

	1995 plan Tranche 1	1996 plan Tranche 2	1997 plan Tranche 3	1999 plan Tranche 5	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2003 plan Tranche 10	TOTAL
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	Sept. 15, 2000	Jan. 18, 2001	May 14, 2003	
Number of shares available for subscription	134,703	72,635	139,909	190,025	449,145	9,370	4,685	130,163	**1,130,635**
Subscription price	16.58	21.41	36.36	34.58	45.14	46.01	48.50	21.21	
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	May-05	Sep-05	Jan-06	May-07	
Expiration date	Jun-05	Jun-06	Jun-07	Mar-09	May-10	Sep-10	Jan-11	May-13	
Number of shares subscribed at Dec. 31, 2004	82,514	12,498	-	-	-	-	-	-	**95,012**
Options cancelled	14,966	3,645	9,761	35,141	285,151	6,246	3,123	46,408	**404,441**
Options that may still be exercised	**37,223**	**56,492**	**130,148**	**154,884**	**163,994**	**3,124**	**1,562**	**83,755**	**631,182**

1) The number of options as well as the subscription price of options was adjusted to take into account the capital increase in late 2004.
2) Tranches 4 and 9 were cancelled in their entirety.
3) The right to exercise options granted from 2000 was made contingent upon the attainment of targets based on net income per share before non-recurring items.

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

		Deloitte		KPMG	
(In thousand of euros)		*Amount*	*%*	*Amount*	*%*
Audit	Audit individual and consolidated accounts	561	77	534	91
	Other accessory assignments and other audit assignments	168	23	50	9
Sub total		**729**	**87**	**584**	**91**
Other Services	legal,fiscal and social	48	43	0	**-**
	Information technologies	0	-	0	-
	Internal audit	0	-	0	-
	Others (only if > 10% of audit fees)	64	57	60	100
Sub total		**112**	**13**	**60**	**9**
TOTAL		**841**	**100**	**644**	**100**

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

The directors and officers hold a total of 4,942 shares in the Company's capital.

The directors hold a total of 14,450 shares through the FCPE (corporate mutual fund).

In accordance with Article 17 of the Articles of Association, each director must hold at least 120 shares for the entire duration of his or her term of office. These shares must be held in registered form.

Chairman of the Board of Directors' report on internal control

This report was prepared by the Chairman of the Board of Directors in accordance with the provisions of Article L. 225-37 of the French Commercial Code for the fiscal year ended december 31, 2004.

Under the responsibility of the Board, it is incumbent upon management to determine and implement appropriate and effective internal control procedures. In accordance with the law, the purpose of this report is to present the preparations made for and organization of the work performed by the Board of Directors, as well as the internal control procedures in place within Groupe Carbone Lorraine.

Preparation and organization of the work performed by the Board of Directors

The preparation and organization of the Board of Directors' work, as well as any restrictions on the powers of the Chairman and Chief Executive Officer are described in the Corporate Governance section of the reference document. As stated in this chapter, the Board of Directors is backed up by three specialized committees making proposals and exercising control, namely the Audit and Accounts Committee, the Strategy Committee and the Appointments and Remuneration Committee.

Principal internal control procedures implemented by Groupe Carbone Lorraine

1- Definition of internal control

Internal control is defined at Carbone Lorraine as a process implemented by the Board of Directors, management and employees to run the Group rigorously and effectively.

This definition implies:

- complying with the policies defined by the Group, as well as with the legislations and regulations in force;
- safeguarding its assets;
- preventing fraud and errors;
- producing accurate and complete financial information.

To this extent, Groupe Carbone Lorraine's definition of internal control is comparable to the international standard laid down by COSO (Committee of Sponsoring Organizations of the Treadway Commission), whose findings were published in the US during 1992. One of the objectives of an internal control system is to prevent and control business-related risks and the risk of errors and fraud, particularly in the accounting and finance departments. Like all control systems, it does not provide absolute assurance that these risks have been completely eliminated.

2- Internal control framework

Since it has a manufacturing base spanning around 40 countries on five continents, Groupe Carbone Lorraine monitors the effectiveness of its internal control framework by means of:

- policies and procedures;
- evaluation and supervisory systems and committees.

2.1. POLICIES AND PROCEDURES

Internal control handbook

Carbone Lorraine has formalized and circulated an internal control handbook to all its subsidiaries. This handbook encompasses all the internal control procedures applicable at Group units. To make sure that it is accessible right around the world, this document is available online on the Group's intranet. It covers the following points:

- a business ethics charter laying down how employees should behave within the Group (integrity, honesty, confidentiality, conflicts of interests) and outside the Group (compliance with legislation, insider information, competition, commitment to political or charitable causes);
- powers and commitments, as well as the principles of the segregation of duties;
- all the fundamental internal controls to be implemented to ensure the efficient operation of the main business processes:
  - sales/customers,
  - purchases/suppliers,
  - inventories,
  - personnel/payroll,
  - investments/fixed assets,
  - IT;
- All the fundamental internal controls to be implemented to ensure the reliability of the accounting systems, reporting and financial statements with regard to the following objectives:
  - safeguarding assets,
  - compiling an exhaustive record of accounting transactions,
  - making sure transactions correspond to reality,
  - complying with the dates on which transactions are recorded,
  - correctly stating assets and liabilities,
  - confidentiality.

The Group's internal control department is responsible for verifying the proper application of the Internal Control Handbook and regularly reports its findings to the Audit and Accounts Committee. During 2004, the department conducted eleven assignments in line with the program defined at the start of the year. The purpose of these assignments was to analyze the effectiveness of the internal control framework at seven manufacturing sites, to conduct follow-up audits at three sites audited in 2003 and to study cash tracking and analysis by managers at the Group's various units.

Risk management

During 2001, the Group carried out a risk survey, which led it to map out its risk factors, which were classified into four categories:

- strategic risks
- operational risks
- information-related risks
- financial risks.

Within each category, the potential risk factors were ranked depending on their potential impact and likelihood of occurrence.

The Risk Committee, which was set up in 2001, conducts an annual analysis of the risks and proposes improvements to tighten up risk control. It reports to the Chairman and Chief Executive Officer, as well as to the Audit and Accounts Committee on the action it has taken. The work performed each year by the Risk Committee is summarized in the Corporate Governance section of the reference document. The risk management policy is described in the "Risk management" section of the reference document. This work did not bring to light any major risk factors for the Group and provided valuable insight into the measures to be taken to enhance the control of existing risks.

Accounting and financial internal control

Groupe Carbone Lorraine's Finance and Administration department is backed up by the finance departments of the business divisions (Advanced Materials and Technologies, Electrical Applications, Electrical Protection, Magnets). These departments are in contact with each business unit's finance department. This organization allows targets to be set and accounting and financial information to be collected and analyzed at different levels of the organization.

In addition to the internal control procedures described above, the key accounting and financial internal control procedures implemented within the Group are as follows:

Accounting and consolidation

Carbone Lorraine circulates and updates a "guide to accounting and consolidation principles" for use by Group companies. It lists all the consolidated accounts and describes what they are used for. It also defines the valuation methods used by the Group. It lays down the rules that need to be followed by the consolidated sub-groups.

Groupe Carbone Lorraine started making preparations for the transition to IAS/IFRS in 2002.

The first stage consisted in assessing the main points of divergence between the accounting methods applied by the Group and the IAS/IFRS standards with a view to identifying the standards likely to have a material impact on the Group's financial statements or to require major changes to its information system.

This stage was overseen by the central consolidation team with assistance from an outside firm and took place primarily based on questionnaires sent to all the subsidiaries and reviewed at head office level.

What's more, from 2002 onwards, training was arranged to inform and raise awareness among all the Group's finance and accounting staff.

In 2003, the project entered an active stage when the priority IAS/IFRS standards were determined, elections made and information systems adapted.

In 2004, the IAS/IFRS consolidation handbook was drafted and the opening balance sheet finalized with the assistance of the various different units. Once the opening balance sheet had been finalized, the entries required for the transition from French GAAP to IAS/IFRS were booked for all the relevant units so that they can monitor and document them going forward.

The Group is currently in the process of finalizing its consolidated financial statements for the periods to June 30, 2004 and to December 31, 2004 in accordance with IAS/IFRS so that it is in a position to publish its interim consolidated financial statements for the six months to June 30, 2005 and consolidated financial statements for the year to December 31, 2005 with comparative figures for the same period of 2004 prepared in accordance with the same accounting standards.

A group-wide consolidation software and a standardized reporting package facilitate the reporting on a consistent basis of accounting and financial data required by General Management and by investors.

Management control and strategic planning

At the start of each year, the Group's Executive Committee decides on the key initiatives that need to be launched by each division to achieve the goals set. It receives a monthly update and analysis of these action plans.

The budgeting process is carried out once yearly for the following two years. The budget is then submitted for approval by the Group's Executive Committee and then by the Board of Directors.

Forecasts are made each quarter on a rolling basis for the following four quarters. This process allows adjustments to be made for trend reversals and thus helps to speed up the decision-making process for remedial measures.

A strategic plan setting the priorities for the next few years is produced on an annual basis. It is presented to the Strategy Committee and then to the Board of Directors.

Treasury and financing

The treasury and financing department manages Groupe Carbone Lorraine's treasury on a centralized basis. To control risks, Group procedures are in place, notably concerning currency management, cash pooling, netting, the issuance of guarantees, customer risk management and the hedging of raw materials prices.

Group guidelines concerning high-risk countries and payment methods recommended in these countries are updated on a regular basis.

The Group has pursued a major drive to develop its culture of management by the cash over the past few years, mainly at manager level. Managers are now involved in the day-to-day management of their unit's cash position. The goal is to raise decision-makers' awareness of the importance of cash, to give them the tools they need to adapt their management to their unit's finances and to make their cash forecasts more reliable. An audit conducted during 2004 showed the extent to which managers are now involved in a daily basis in the management of their unit's cash position and measured the quality of their cash forecasting.

Other factors contributing to the Group's internal control framework

Although there is no direct link with the accounting and financial aspects, the Group's human resources management, sustainable development policy and quality-related procedures also make an essential contribution to the policies defined by the Group.

Human resources procedures

From an internal control standpoint, the Group's human resources policy is structured around:

- management reviews providing a regular update on all the Group's managers to enhance their career opportunities and to identify the Group's key men and women;
- annual reviews that enable business unit managers to assess the performance of their employees and to set targets for the following year together with them.

Lastly, performance-related bonuses are calculated using clearly defined rules. A compliance audit of this issue is due to be conducted during 2005.

Sustainable development

Carbone Lorraine has long pursued a responsible approach to environmental, economic and social affairs. Aside from the economic aspects, which remain a constant priority for the development of all companies, we endeavor to pursue new social and environmental initiatives. This commitment is described in greater detail in the "Sustainable development" section of the reference document.

Quality assurance procedures

Groupe Carbone Lorraine is pursuing a Group-wide quality policy as part of the Quality and Continuous Improvement (QPC) plan launched in 2000. This Group-wide plan is underpinned by ten priorities ranging from technical organization to employee involvement and including customer satisfaction, a quality assurance system, internal communications, production and purchasing. Work in each of these priority areas focuses on proven methods. For instance, the methods used to improve production include 5S, SMED, KANBAN, HOSHIN, SPC, etc.

It is worth noting that the 5S method, which involves the introduction of rules concerning order, tidiness and cleanliness of workstations laid down in the QPC plan, does not apply solely to the workshops, but also to the Group's offices. Each year, a worldwide 5S challenge rewards the Group's best-performing workshops and offices.

Several Group-wide quality indicators are monitored by each plant:

- customer satisfaction service rate:
  - average response time to offers,
  - customer satisfaction surveys;
- non-quality costs;
- productivity indicators.

2.2. EVALUATION AND SUPERVISORY SYSTEMS AND COMMITTEES

The Board of Directors of Groupe Carbone Lorraine has set up an Audit and Accounts Committee, the composition, number of meetings and main duties of which are described in the Corporate Governance section. More specifically, it plays a vital role in the management of the Group's internal control framework since its duties include:

- reviewing and assessing all issues relating to the production, verification and publication of financial documents by the Company in connection with its annual financial statements;
- validating the annual internal audit program and ensuring that the recommendations made by the Statutory Auditors and internal audit department are followed up;
- keeping itself informed of and monitoring risk management. In this area, it draws on the work performed by the Risk Committee.

The Group's internal audit function, whose role is to ensure that procedures are followed correctly, reports to the Audit and Risk department and to the Audit and Accounts Committee.

Measures implemented during 2004 and action plan for 2005

During 2004, the internal audit department implemented the audit program approved by the Audit and Accounts Committee and analyzed the external audit reports. It oversaw implementation of the action plans needed to remedy any deficiencies that came to light.

These audits did not reveal any serious internal control failings or deficiencies.

In addition, the principal changes in internal control during 2004 were as follows:

- a Risk and Internal Audit department was set up to tighten up risk control within the Group. The department's role is to:
  - define a risk prevention and mitigation policy, propose action plans and oversee their implementation,
  - verify the effectiveness, consistency and compliance of procedures and accounting and financial systems,
  - update the risk mapping assessment during 2005.

- the deployment of the self-assessment tool initiated in 2003 was continued during 2004. Internal control training was also provided to about ten plant managers. The goal is to train all plant managers by the end of 2006;
- an internal control letter for all plant managers was sent out asking them to give a formal undertaking that the principal internal control points are applied properly at their units;
- the training provided for all plant managers so that they can undertake a self-assessment of their unit's internal control, as well the annual signature by each of them of a letter confirming that their unit's internal control is working effectively is set to lead to substantial progress in our risk control program, implementation of which is due to be completed by the end of 2006.

Statutory auditors' report

prepared in accordance with article L.225-235 of the Commercial Code, on the report prepared by the President of the Board of Le Carbone Lorraine S.A., on the internal control procedures relating to the preparation and processing of financial and accounting information

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as statutory auditors of Le Carbone Lorraine S.A., and in accordance with article L. 225-235 of the Commercial Code, we report to you on the report prepared by the President of your company in accordance with article L. 225-37 of the Commercial code for the year ended 31 December 2004.

Under the responsibility of the Board, it is for management to determine and implement appropriate and effective internal control procedures. It is for the President to give an account, in his report, notably of the conditions in which the duties of Board of Directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information and assertions set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information and assertions set out in the President's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information and the assertions given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the President of the Board's report, prepared in accordance with article L. 225-37 of the Commercial Code.

CHAPITRE

7

Combined General Meeting

of May 2, 2005 (first notice) and May 12, 2005 (second notice)

Board of Directors' report

To the Shareholders,

We have convened this Combined General Meeting in order to:

- approve the Company's financial statements and the consolidated financial statements for 2004 and appropriate net income;
- approve the transfer of the amounts recorded at December 31, 2004 in the long-term capital gains account to a discretionary reserve account;
- authorize the Company to trade in its own shares in accordance with the new regulations in force;
- renew the appointments of two members of the Board of Directors;
- change the aggregate amount of the annual allocation of directors' fees;
- authorize the Board to carry out capital increases either by issuing ordinary shares or any other securities giving access to the Company's share capital with or without preferential subscription rights or by capitalizing additional paid-in capital, reserves or retained earnings;
- authorize the Board of Directors to carry out capital increases through issues of shares reserved for employees participating in the Group Investment Plan;
- authorize the Board of Directors to allot free new or existing shares in the Company to company officers and employees, or certain categories thereof.

Meeting to be held in ordinary session

Transfer of the amounts recorded at December 31, 2004 in the long-term capital gains account to a discretionary reserve account

Article 39 IV of law no. 2004-1485 of December 30, 2004 (amended finance law of 2004) stipulates that amounts of up to 200 million of euros recorded in the long-term capital gains reserve on the balance sheet at the end of the first fiscal year after December 31, 2004 must be transferred to another discretionary reserve account by December 31, 2005.

In addition, a non-recurring tax of 2.5% is to be paid on the amounts transferred to said discretionary reserve account.

In accordance with the provisions of Article 39 IV of law no. 2004-1485 of December 30, 2004, the Board of Directors proposes that the amount of €7,859,198.66 recorded on the Company's balance sheet at December 31, 2004 should be transferred from the long-term capital gains reserve to a discretionary reserve account. The one-off exit tax of 2.5% triggered by this transfer to the discretionary reserve account, which amounts to €1,239,933 and which is taken to losses carried forward at December 31, 2004, will be drawn from said discretionary reserve account.

Appropriation of the Company's net income

The Board of Directors proposes payment of a dividend of €0.55 per share. If approved, appropriation of 2004 earnings would be as follows:

Source	*(In thousand of euros)*
Net income for the year	2,859
Amount drawn from additional paid-in capital	4,850
Total	**7,709**

Appropriation	*(In thousand of euros)*
Statutory reserve	143
Dividend	7,566
Total	**7,709**

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

(In €)	**Net dividend**	**Tax paid to French Treasury**	**Total dividend**
2000	1.06	0.53	1.59
2001	0.80	0.40	1.20
2002	0.60	0.30	0.90
2003	-	-	-
2004	0.55	-	0.55

The dividend will be paid as from May 26, 2005.

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 L. 225-38 of the French Commercial Code.

Share repurchases by the Company

At the Combined General Meeting of May 13, 2004 (second notice), the Company was authorized to trade in its own shares in accordance with Article L. 225-209 et seq. of the French Commercial Code.

The Company has used said authorization since May 13, 2004 to stabilize the share price on the stock market. Pursuant to this authorization, 83,055 shares were sold at an average price of €33.41 for a total amount of €2,806,212.97. Trading costs amounted to €18,653.96. The Company does not held any of its own shares at December 31, 2004.

Moreover, Carbone Lorraine acquired 25,079 shares for €40.15 per share under an options agreement entered into with a bank upon the leveraged capital increase reserved for employees in 2000. Under the options agreement, the Company is bound to acquire 25,079 shares for €40.15 on July 15, 2005 if the share price is below this level on this date.

The Board of Directors requests authorization for the Company to trade in its own shares under the conditions provided for in Article L. 225-209 et seq. of the French Commercial Code and European regulation 2073-2005 of December 22, 2003 and to delegate powers to the Company's General Management to purchase shares representing up to 10% of the number of shares comprising the Company's share capital, i.e. 1,375,558 shares, at a maximum purchase price of €80 per share. The proposed maximum price takes in account the share price over the past two years. Given this maximum price, the aggregate amount of share purchases may not exceed €110,044,640.

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

- enhance trading in and the liquidity of the Company's shares by engaging the services of an investment service provider under a liquidity agreement in accordance with the AFEI's charter;
- allot or sell shares to employees under employee profit-sharing plans, bonus share issues carried out in accordance with the provisions of Articles L. 225-197-1 to L. 225-197-3 and stock option plans;
- allot shares in connection with the conversion or exchange of securities (including debt securities) giving access to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel them through a reduction in share capital in accordance with the provisions of the French Commercial Code.

This authorization is valid until the General Meeting called to vote on the financial statements for 2005. In no case will this authorization remain valid for more than 18 months. This authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 14, 2003.

Renewal of the term of office as a director of Jean-Claude Karpeles

Since the term of office of Jean-Claude Karpeles, who was appointed for the first time on April 6, 1999, expires at the close of this General Meeting, the Board of Directors proposes renewing the term of office as a director of Jean-Claude Karpeles for a further period of six years until the close of the Annual General Meeting called to approve the financial statements for fiscal 2010. Since 1999, Jean-Claude Karpeles has played an active role in the work of the Company's Board of Directors and the Audit and Accounts Committee. He provides valuable support to the Company thanks to his expertise and knowledge of the electrical industry.

Renewal of the term of office as a director of Walter Pizzaferri

Since the term of office of Walter Pizzaferri, who was appointed for the first time on April 6, 1999, expires at the close of this General Meeting, the Board of Directors proposes renewing the term of office as a director of Walter Pizzaferri for a further period of six years until the close of the Annual General Meeting called to approve the financial statements for fiscal 2010. Walter Pizzaferri specializes in business strategy, organization and performance enhancement. His participation in the work of the Board of Directors and the Strategy Committee, which he chairs, enables the Company to benefit from his vast experience in these fields.

Aggregate amount of the annual allocation of directors' fees

The General Meeting of May 5, 2003 set the aggregate amount of the annual allocation of directors' fees at €100,000. The Board proposes increasing the aggregate amount of the annual allocation of directors' fees to €150,000 for each of the next three years to reflect the directors' increased workload and the larger number of committee meetings and conference calls. An aggregate annual allocation of €150,000 would represent an annual allocation of €21,000 for each of the Company's seven directors, in line with the median allocation paid by SBF 120 constituent companies to their directors (Hays survey). From 2005 onward, the Chairman and CEO will not received directors' fees anymore.

Resolutions to be voted on in extraordinary session

Delegation of powers to the Board of Directors to carry out increases in the share capital, either through the issue of ordinary shares or any other securities giving access to the share capital with or without preferential subscription rights or through the capitalization of additional paid-in capital, reserves or retained earnings.

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

- issue shares in the Company and securities of any type whatsoever (including debt securities) giving immediate or future access by any means whatsoever to shares in the Company with preferential subscription rights;
- issue shares in the Company and securities of any type whatsoever (including debt securities) giving immediate or future access by any means whatsoever to shares in the Company without preferential subscription rights.

The maximum nominal amount of the immediate and/or future capital increases that may be carried out under these authorizations is 10 million of euros. These authorizations are valid for a period of 26 months. They replace and supersede the authorizations granted by shareholders at the Combined General Meeting of May 15, 2002, which were not used.

Pursuant to the delegation granted by shareholders at the Combined General Meeting of May 13, 2004, the Board of Directors decided at its meeting on September 13, 2004 on the principle of a capital increase in cash with preferential subscription rights for shareholders in an amount not exceeding 63 million of euros inclusive of additional paid-in capital and also decided to delegate full powers to the Chairman and Chief Executive Officer to carry out this issue. Pursuant to this delegation of authority, the Chairman and Chief Executive Officer decided on September 14, 2004 to increase the share capital by 2,489,420 new shares, each with a nominal value of €2, by issuing the new shares for €25.30 in cash, with preferential subscription rights for shareholders based on a ratio of two new shares for each nine shares held. The subscription period ran from September 23, 2004 to October 6, 2004 inclusive. The characteristics and terms of said capital increase were presented in a prospectus approved by the AMF under no. 04-759 dated September 14, 2004.

At the close of the subscription period, the 2,489,420 new shares had been subscribed in full by way of right and by way of applications for excess shares. All the share subscriptions were fully paid-up and the proceeds from the issue were lodged with the depositary, Crédit Agricole Investor Services Corporate Trust, which issued a certificate of deposit dated October 19, 2004 as provided for in law and under the terms of which the depositary duly certified that it had received a total amount of €62,982,326, representing €58,003,486 in additional paid-in capital plus the nominal value of the 2,489,420 new shares, each with a nominal value of €2, i.e. €4,978,840.

In accordance with the provisions of Articles L. 225-129-2 and L. 228-92 of the French Commercial Code, the shareholders are requested to delegate powers to the Board of Directors to carry out one or more capital increases:

- through the issue in France or outside France of ordinary shares in the Company and any other securities (including debt securities) giving immediate or future access to ordinary shares in the Company with preferential subscription rights;
- through the issue in France or outside France of ordinary shares in the Company and any other securities (including debt securities) giving immediate or future access to ordinary shares in the Company without preferential subscription rights.

The maximum nominal amount of the immediate and/or future increases in the share capital that may be carried out under these authorizations is 10 million of euros.

Shareholders are also requested to delegate powers to the Board of Directors to carry out one or more increases in the capital through the capitalization of reserves, additional paid-in capital or any other means by which capitalization is possible in accordance with the law and the Articles of Association and in the form of allotment of free shares.

The aggregate amount of increases in the share capital pursuant to this authorization may not exceed the amount recorded in said reserves, additional paid-in capital and earnings accounts when the capital increase takes place.

These authorizations cancel the unused amounts of all previous delegations of the same kind.

These authorizations are valid for a period of 26 months.

Capital increase reserved for employees participating in the Group Investment Plan

Pursuant to the resolutions concerning capital increases with and without preferential subscription rights, and in order to comply with the provisions of Article L. 225-129-6 of the French Commercial Code, which makes it compulsory to secure shareholders' approval upon each decision to carry out a capital increase reserved for employees, the Board of Directors proposes replacing the authorization concerning capital increases reserved for employees participating in the Group Investment Plan granted to the Board of Directors by the Combined General Meeting of May 13, 2004, even though said resolution has been used only partially and still remains valid.

The Board of Directors was authorized at the Combined General Meeting of May 13, 2004 to issue shares reserved for employees participating in the Group Investment Plan up to a maximum nominal amount of €230,000. This authorization remains valid until July 13, 2006. At its meeting on September 13, 2004, the Board of Directors made use of this authorization by offering employees at Group subsidiaries in Europe and North America the option of subscribing 60,000 new shares priced at €27.40, representing 80% of the average opening price on the stock market during the

20 sessions preceding said meeting. This transaction was presented in a prospectus approved by the AMF (no. 04-875 dated November 8, 2004). At the close of the subscription period, 46,328 new shares had been issued, representing a capital increase of €92,656, with additional paid-in capital amounting to €1,176,731.20.

Shareholders are again requested to delegate powers to the Board of Directors to carry out one or more increases in capital through issues of shares subscribed in cash reserved for employees participating in the Group Investment Plan. The maximum aggregate amount of the capital increases would be restricted to €275,000, i.e. approximately 1% of the share capital. This authorization would be valid for 26 months.

Should it be approved, this authorization will cancel the previous authorization granted at the Combined General Meeting of May 13, 2004, and will entail the explicit waiver by shareholders of their preferential subscription right in favor of the beneficiaries.

Allotment of free shares

To promote employee share ownership, the French finance law for 2005 introduced new arrangements for allotment of free shares to employees and company officers. Shareholders are requested to allow the Group's employees and senior managers to benefit from these new arrangements by authorizing the Board of Directors to allot free new or existing shares in the Company to company officers and employees and those of Group companies, or certain categories thereof. The Board of Directors intends to replace stock options with allotment of free shares because the latter's dilutive impact is much weaker than the former's, even though the value granted to beneficiaries is the same.

The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents 0.36% of the share capital.

The Board of Directors will determine the beneficiaries of the allotment of free shares, as well as the terms and conditions and, where appropriate, the criteria for the award of shares. It will also set the duration of the vesting period, at the end of which the allotment of shares will become definitive, and the duration for which shares granted must be held, it being stipulated that the length of said periods may not be less than two years from the date of allotment by the Board of Directors for the vesting period and two years from the definitive grant date for the holding period.

This authorization is valid for 38 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 Company's balance sheet and the financial statements for 2004, 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 net income for the period of €2,858,631.52.

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 consolidated balance sheet and financial statements for 2004, 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 consolidated net income for the period of €15,170,000.

Third resolution – Transfer to a reserve account

After hearing the report of the Board of Directors, the General Meeting decides, in accordance with the provisions of Article 39 IV of French Finance law no. 2004-1485 of December 30, 2004, to transfer the amount of €7,859,198.66 recorded on the Company's balance sheet at December 31, 2004 in the long-term capital gains account to a discretionary reserve account. The one-off exit tax of 2.5% payable upon this transfer to the discretionary reserve account, which was taken to losses carried forward at December 31, 2004, will be drawn from said discretionary reserve account.

Fourth 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 year, which amounts to €2,858,631.52 as follows:

- statutory reserve: €142,931.57;
- income available for distribution: €2,715,699.95.

The General Meeting sets the dividend payable for fiscal 2004 at €0.55 per share. For this dividend, €2,715,699.95 will be drawn from income available for distribution, with the remainder being drawn from additional paid-in capital.

The dividend is due to be paid as from May 26, 2005.

As required by law, the General Meeting notes that the following dividends were paid during the previous three fiscal years:

(In €)	Net dividend	Tax credit	Total dividend
2001	0.80	0.40	1.20
2002	0.60	0.30	0.90
2003	-	-	-

Fifth 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.

Sixth resolution – Purchase of Carbone Lorraine's shares

After hearing the Board of Directors' report and having familiarized itself with the prospectus approved by the AMF, the General Meeting authorizes the Board of Directors under the conditions stipulated in Article L. 225-209 et seq. of the French Commercial Code to acquire, on one or more occasions and by any means, a number of shares representing up to 10% of the shares comprising the Company's share capital, or 1,375,558 shares.

The General Meeting resolves that share purchases may be carried out to:

- enhance trading in and the liquidity of the Company's shares by engaging the services of an investment service provider under a liquidity agreement in accordance with the AFEI's charter;
- allot or sell shares to employees under employee profit-sharing plans, bonus share issues carried out in accordance with the provisions of Articles L. 225-197-1 to L. 225-197-3 and stock option plans;
- allot shares in connection with the conversion or exchange of debt securities giving access to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel them through a reduction in share capital in accordance with the provisions of the French Commercial Code.

The maximum purchase price is set at €80 per share. This price is set subject to adjustments related to any transactions affecting the Company's capital. In view of the maximum purchase price set hereby, the aggregate amount of share purchases may not exceed €110,044,640.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement with an investment services provider.

This authorization is valid until the General Meeting called to vote on the financial statements for 2005. In no case will this authorization remain valid for more than 18 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 13, 2004.

The General Meeting grants full powers to the Board of Directors, with the option of delegating them to the Chairman and Chief Executive Officer, 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.

Seventh resolution – Renewal of the term of office as a director of Jean-Claude Karpeles

The General Meeting decides to renew the term of office as a director of Jean-Claude Karpeles for a further period of six years until the close of the Annual General Meeting called to approve the financial statements for fiscal 2010.

Eighth resolution – Renewal of the term of office as a director of Walter Pizzaferri

The General Meeting decides to renew the term of office as a director of Walter Pizzaferri for a further period of six years until the close of the Annual General Meeting called to approve the financial statements for fiscal 2010.

Ninth resolution – Annual allocation of directors' fees

In accordance with Article 22 of the Articles of Association, the General Meeting sets at €150,000 the aggregate amount of the annual allocation of directors' fees from 2005 inclusive. This decision remains valid until the General Meeting called to approve the financial statements for fiscal 2007.

Tenth resolution – Powers to carry out 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

Eleventh resolution – Delegation of powers to the Board of Directors to decide on increases in the share capital, either through the issue of ordinary shares or any other securities giving access to the share capital with preferential subscription rights or through the capitalization of additional paid-in capital, reserves or retained earnings.

After reading the Board of Directors' management report and the report of the Statutory Auditors, the General Meeting, deliberating in accordance with the provisions of Articles L. 225-129-2 and L. 228-92 of the French Commercial Code:

1 – Delegates to the Board of Directors the powers required to increase the Company's share capital by issuing on one or more occasions either in France or outside France, the Company's ordinary shares and any securities of any nature (including debt securities) giving access in any way whatsoever, either immediately or in the future, to the Company's ordinary shares. Securities other than shares may also be denominated in foreign currencies or in any other currency units determined by reference to a basket of several currencies.

2 – Resolves that the shareholders may exercise their preferential subscription right by way of right under the conditions provided for in the French Commercial Code. In addition, the Board of Directors will have the option of granting shareholders the right to subscribe excess securities in addition to those that they may subscribe by way of right, in proportion to the subscription rights that they hold and, in any case, in an amount not exceeding the number they request.

If subscriptions by way of right and, where appropriate, those for excess securities, are not sufficient to absorb the total number of shares or securities being issued as defined above, the Board of Directors may in the order it deems appropriate use one or other of the following options:

- limit the issue to the amount subscribed provided that this amount accounts for at least three-quarters of the original size of the issue;
- allocate freely all or part of the unsubscribed shares;
- offer all or part of the unsubscribed shares to the public.

3 – Resolves that the issue of the Company's share subscription bonds in accordance with Article L 228-91 et seq. of the French Commercial Code may take place either by means of a subscription offer under the conditions provided for above or by means of a bonus issue to existing holders of shares.

4 – Notes that, where appropriate, the aforementioned authorization automatically leads to the waiver by shareholders of their preferential share subscription right to which their securities entitle them in favor of holders of securities giving future access to shares that may be issued.

Resolves to remove the preferential subscription right of shareholders to shares issued through the conversion of bond or through the exercise of bonds.

5 – Delegates to the Board of Directors for a period of 26 months the powers required to increase the Company's share capital on one or more occasions through the capitalization of additional paid-in capital, reserves, retained earnings or any other means by which capitalization is possible in accordance with the law and the Articles of Association and in the form of bonus share issues.

Resolves that the total amount of capital increases that may be carried out pursuant to this authorization, plus the amount required to protect the rights of holders of securities giving access to shares in accordance with the law, may not exceed the amount recorded in the aforementioned reserve, additional paid-in capital and earnings accounts when the capital increase take place.

6 – Resolves that the Board of Directors will have full powers, which may be delegated to its Chairman, under the conditions laid down in law, to carry out this authorization, especially for the purpose of determining the dates and terms of the issues, as well as the form and characteristics of the securities to be issued, to set the price and terms of the issues, to define the amounts to be issued, to set the date from which the shares to be issued will carry dividend rights, even retrospectively, to determine how the shares or other securities issued shall be paid up and, where appropriate, to stipulate the conditions under which they may be repurchased on the stock market and the possibility of suspending exercise of the bonus share rights attached to the securities to be issued for a period not exceeding three months, and determine the conditions under which the rights of holders of securities giving future access to the share capital shall be protected in accordance with the provisions of law and the regulations. In addition, the Board of Directors or its Chairman may, where appropriate, set off any amounts against additional paid-in capital accounts, notably expenses incurred as a result of issues, and generally make any appropriate arrangements and enter into any agreements to ensure the successful completion of the planned issues and recognize the capital increase(s) resulting from any issue carried out pursuant to this authorization and amend the Articles of Association accordingly.

In the event of the issue of debt securities giving access either immediately or in the future, to shares in the Company, the Board of Directors shall have full powers, which may be delegated to the Chairman, to determine notably whether or not they will be subordinated, to set their interest rate and interest payment terms, their maturity, which may be determined or not, a fixed or variable redemption price with or without a premium, the repayment terms depending on market conditions and the terms under which these securities shall give access to the Company's shares.

7 – Resolves that this authorization renders null and void all previous authorizations of same kind for unused amounts.

The authorization granted to the Board of Directors is valid for a period of 26 months following this General Meeting.

Twelfth resolution – Delegation of powers to the Board of Directors to carry out capital increases through the issue of ordinary shares or any other securities giving access to the share capital without preferential subscription rights for shareholders.

After reading the Board of Directors' management report and the report of the Statutory Auditors, the General Meeting, deliberating in accordance with the provisions of Articles L. 225-129-2, L. 225-135 and L. 228-92 of the French Commercial Code:

1– Delegates to the Board of Directors the powers required to carry out, on one or more occasions, in the proportions and at the times it deems appropriate, both in France and abroad, the issue of shares of the Company, as well as of any securities of whatever nature (including debt securities) giving access in any way whatsoever immediately and/or in the future to the Company's shares.

2 – Resolves to remove shareholders' preferential right to subscribe to the securities to be issued, it being stipulated that the Board of Directors may grant shareholders the option of priority subscription to all or part of the issue for the period and under the conditions that it determines. This priority subscription right will not give rise to the issuance of negotiable rights, but may, if the Board of Directors considers it to be appropriate, be exercised both by way of right and for excess shares.

3 – Resolves that if subscriptions by shareholders and the public do not absorb the full amount of an issue of shares or securities as defined above, the Board may limit, where appropriate, the size of the issue to the amount subscribed provided that this amount accounts for at least three-quarters of the originally planned size of the issue.

4 – Notes that, where appropriate, the aforementioned authorization automatically leads to the waiver by shareholders of their preferential share subscription right to which their securities entitle them in favor of holders of securities giving future access to the Company's shares that may be issued.

Resolves to remove the preferential subscription right of shareholders to shares issued through the conversion of bonds or through the exercise of warrants.

5 – Resolves that the amounts paid or due to be paid to the Company for each of the shares issued pursuant to the aforementioned authorization, after taking into account, in the event of the issue of standalone share subscription warrants, the issue price of said warrants, shall be at least equal to the lower limit as laid down in law.

6 – Resolves that the issue price of shares will be no less than the weighted average opening share price on the stock market for the three sessions prior to the day on which it is set, less the discount provided for in law.

7 – Resolves that the Board of Directors will have full powers, which may be delegated to the Chairman, under the conditions laid down in law, to carry out this authorization, notably for the purpose of determining the dates and terms of the issues, as well as the form and characteristics of the securities to be issued, to set terms of the issues, to define the amounts to be issued, to set the date from which the shares to be issued will carry dividend rights, even retrospectively, to determine how the shares or other securities issued shall be paid up and, where appropriate, to stipulate the conditions under which they may be repurchased on the stock market and the possibility of suspending exercise of the bonus share rights attached to the securities to be issued for a period not exceeding three months, and to determine the conditions under which the rights of holders of securities giving future access to the share capital shall be protected in accordance with the provisions of law and the regulations. In addition, the Board of Directors or its Chairman may, where appropriate, set off against additional paid-in capital accounts expenses incurred as a result of issues and generally make any appropriate arrangements and enter into any agreements to ensure the successful completion of the planned issues and recognize the capital increase(s) resulting from any issue carried out pursuant to this authorization and amend the Articles of Association accordingly.

In the event of the issue of debt securities giving access either immediately or in the future, to shares in the Company, the Board of Directors will also have full powers, which may be delegated to the Chairman, to determine notably whether or not they will be subordinated, to set their interest rate and interest payment terms, their maturity, a fixed or variable redemption price with or without a premium, the repayment terms depending on market conditions and the terms under which these securities shall give access to the Company's shares.

8 – Resolves that this authorization renders null and void for the unused amounts all previous authorizations of same kind.

The authorization granted to the Board of Directors is valid for a period of 26 months following this General Meeting.

Thirteenth resolution – Overall limit on authorizations

After hearing the Board of Directors' report and assuming that the aforementioned Eleventh and Twelfth resolutions are adopted, the General Meeting resolves that the nominal amount of increases in the share capital that may be carried out immediately and/or in the future pursuant to the authorizations granted under the aforementioned two resolutions may not exceed 10 million of euros, it being stipulated that this nominal amount may be increased where appropriate by the nominal amount of additional shares to be issued to protect the rights of holders of securities giving access to the Company's shares, in accordance with the French Commercial Code. The aforementioned ceiling does not apply to increases in capital through the capitalization of reserves referred to in Paragraph 5 of the Eleventh Resolution.

Fourteenth resolution – Capital increase reserved for employees participating in the Group Investment Plan

To comply with the provisions of Article L. 225-129-6 of the French Commercial Code, the General Meeting, after hearing the Board of Directors' report and the report of the Statutory Auditors, authorizes the Board of Directors to increase the share capital, on one or more occasions, and at its sole discretion, by issuing shares subscribed in cash reserved for employees participating in the Group Investment Plan, deliberating in accordance with the provisions of Article L. 443-5 of the French Labor Code and Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code.

The General Meeting resolves that the nominal amount of the capital increases that may be carried out pursuant to this delegation may not exceed €275,000, i.e. approximately 1% of the Company's capital.

The subscription price of the new shares in the Company to be issued by the Board of Directors pursuant to this authorization will have to be determined in accordance with the provisions of Article L. 443-5 of the French Labor Code.

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 number of shares actually subscribed by employees, either 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 the French Commercial Code, 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 new shares to be issued in accordance with the restrictions specified in 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 issued on the stock market, 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. In addition, the Board of Directors may, where appropriate, offset any issue-related expenses against additional paid-capital.

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.

This authorization replaces and supersedes that granted by the Combined General Meeting of May 13, 2004 in its Thirteenth Resolution.

Fifteenth resolution – Allotment of free shares

The General Meeting, after hearing the Board of Directors' report and the Statutory Auditors' report, authorizes the Board of Directors, in accordance with the provisions of Article L. 225-197-1 to L. 225-197-5 of the French Commercial Code, to allot at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof, new or existing shares in the Company under the terms and conditions referred to in Article L. 225-197-2 of the French Commercial Code.

Company officers and employees and those of affiliated companies, who own more than 10% of the Company's capital and those who would own over 10% of the Company's capital as a result of the bonus share issue are excluded from receiving this allotment of shares.

The Board of Directors may use the aforementioned authorization on one or more occasions for a period of 38 months from the date of the present General Meeting.

The total number of shares that may be granted pursuant to this authorization may not exceed 50,000 or currently 0.36% of the share capital.

The Board of Directors will determine the beneficiaries of the aforementioned allotment of shares, as well as the terms and conditions and, where appropriate, the criteria for the award of shares. The Board of Directors will also set the duration of the vesting period, at the end of which the grant of shares will become definitive, and the duration for which shares granted must be held, it being stipulated that the length of said periods may not be less than two years from the date of grant by the Board of Directors for the vesting period and two years from the definitive grant date for the holding period.

Sixteenth 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.

General information about Carbone Lorraine

Corporate name and headquarters

LE CARBONE-LORRAINE
Immeuble La Fayette
2-3, place des Vosges
92400 PARIS-LA DÉFENSE

Form, nationality and law

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

Incorporation and corporate life

The Company was incorporated on January 1, 1937 and shall be dissolved on December 31, 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 other countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

1. carbon-based products, articles or equipment, whether or not they are combined with other materials;
2. metal powders, articles made from these powders, special alloys and articles made from these alloys;
3. electro-mechanical and electronic products;
4. all industrial products, especially metallurgical, mechanical, plastic and elastomer products;
5. 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 techniques.

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 whatsoever, in any French or foreign companies or organizations.

Trade and Companies Register Code

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

Access to corporate documents

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

M. Jean-Claude SUQUET

Group Vice President, Finance and Administration

Carbone Lorraine
Immeuble La Fayette
2-3, place des Vosges
92400 Paris La Défense (France)
Tel.: +33(0)1 46 91 54 19

Fiscal year

The fiscal year begins on January 1 and ends on December 31 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 statutory 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 were to fall below one tenth of the share capital, the deduction would resume.

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, render 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 called to approve the financial statements for the year has the option of granting each shareholder the 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 AMF under decision no. 04-285 of April 15, 2004)

The Combined General Meeting of Shareholders of May 13, 2004 (second notice) 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 through systematic trades against the current trend;
- grant or transfer shares to employees in connection with the employee profit-sharing plan, the employee share ownership plan or the Group Investment plan;
- use shares in connection with acquisitions, to hold them, sell them or, more generally, to use them as part of an asset management and investment policy.

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

Since May 13, 2004, the Company has used said authorization to stabilize its share price. Pursuant to this authorization, it sold 83,055 shares for a total amount of €2,806,212.97, representing an average sale price of €33.41.

Moreover, Carbone Lorraine acquired 25,079 shares for €40.15 per share under an options agreement entered into with a bank in connection with the leveraged capital increase reserved for employees in 2000. Under the options agreement, the Company is due to acquire 25,079 shares for €40.15 on July 15, 2005 if the share price is below this level on this date.

At December 31, 2004, the Company did not hold any of its own shares.

Another authorization to buy back shares will be proposed at the Combined General Meeting of Shareholders of May 3, 2005 (first notice) and of May 12, 2005 (second notice).

Double voting rights

No shares carry double voting rights.

Statutory auditors' report on regulated agreements

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as statutory auditors of your Company, we hereby present to you our report on the regulated agreements.

In accordance with article L.225-40 of the Commercial Code we have been advised of the agreement which has been previously authorised by your Board of Directors.

We are not required to ascertain whether any other agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of the agreements of which we were notified. It is not our role to determine 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 arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in agreement with the underlying documentation from which it was extracted.

• Person concerned by the agreement

The company Paribas Affaires Industrielles (Group BNP Paribas), shareholder of your company, represented by Mrs. Lise Nobre.

• Purpose of the agreement

On September 14, 2004 your company entered into a “Guarantee Contract” agreement with the companies BNP Paribas and Calyon, as Associated Leaders, for the subscription of its shares in the context of the share capital increase for €.62 982 326, performed in September 2004.

• Terms and conditions of the agreement

This agreement was authorized by the board of directors on September 13, 2004.

The «contract of guarantee» stipulates that the company must allocate to the Associated Leaders commissions of direction, guarantee, counter and subscription which are paid by the company Carbone Lorraine S.A. to with Crédit Agricole Investor Services - Corporate Trust on behalf of the Associated Leaders. These commissions are divided between the Leaders as agreed between them, this payment being legal tender with regard to all the Associated Leaders.

The commissions and expenses under this agreement paid overall to the company Crédit Agricole Investor Services-Corporate Trust in 2004 amount to a total of €.1 664 263 (incl. VAT).

Specific statutory auditors' report

on the free attribution of shares, existing or to be created, to employees or directors

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as statutory auditors of your Company, and in compliance with Article L.225-197-1 of the French Commercial Code (Code de commerce), we hereby report on the proposed free attribution of shares, existing or to be created, to employees or directors of Le Carbone Lorraine S.A. and its affiliated companies (as defined in Article L.225-197-2).

Your board of Directors proposes that it be empowered to attribute free shares, existing or to be created. It is the board's responsibility to prepare a report describing this proposal. Our responsibility is to present our observations, if any, on the information provided in this report.

We have performed the procedures we considered necessary in order to ascertain that the proposed terms are in line with the legal requirements.

We have nothing to report on the information provided in the report prepared by the Board of Directors as it relates to the proposed free attribution of shares.

Statutory auditors' report

on the issuance of shares and various securities with and without waiver of preferential subscription rights

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as statutory auditors of your Company, and in compliance with the French Company Law (Code de commerce) and particularly articles L.225-135, L.228-92 and L.228-95, we hereby report on the proposed issuance of shares, with and without waiver of preferential subscription rights, and other securities upon which you are called to vote.

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

The maximum amount of capital increase resulting from this issuance may not exceed €.10,000,000.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify the methods used for determining the issuance price.

Subject to a subsequent examination of the condition for the proposed increase in capital, we have nothing to report on the methods used for determining the share price provided in the Board of Directors' report.

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

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

Statutory auditors' report

on the increase in capital with waiver of preferential subscription rights reserved for employees members of the Group's Savings Scheme

This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

In our capacity as statutory auditors of your Company, and in compliance with Article L.225-135 of the French Company Law (Code de commerce), we hereby report on the proposed increase in capital of a maximum of €.275,000, reserved for the employees members of the Group's Savings Scheme, upon which you are called to vote. This increase in capital is submitted for your approval in accordance with Article L.225-129 of the French Company Law and Article L.443-5 of the French Labor Law (Code du travail).

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

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify the methods used for determining the issuance price.

Subject to a subsequent examination of the condition for the proposed increase in capital, we have nothing to report on the methods used for determining the share price provided in the Board of directors' report.

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

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

Officer responsible for the report and Auditors

Officer responsible for the 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: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

KPMG Audit - Département de KPMG S.

Immeuble KPMG, 1 cours Valmy – 92923 Paris La Défense cedex

Date of first term: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

Alternate Auditors

Société BEAS

7-9 villa Houssay, 92524 Neuilly-sur-Seine Cedex

Date of first term: 2004

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 December 31, 2009).

S.C.P. Jean-Claude André & Autres

2 bis rue de Villiers - 92309 Levallois-Perret Cedex

Date of first term: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009).

Officer responsible for information

Jean-Claude Suquet

Le Carbone-Lorraine - Immeuble La Fayette

2-3, place des Vosges - La Défense 5 - 92400 Courbevoie

Tel. : + 33 (0)1 46 91 54 19

Statement by the statutory auditors
on the “Document de Référence” dated 15 March 2005

(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.)

We draw your attention to the requirement that statutory auditors explain in their reports on the financial statements of all French companies the assessments made in the course of their audit in order to form their opinion on the financial statements. Such explanations, that have no equivalent in other financial markets, are required for all audit reports, whether or not qualified.

In our capacity as statutory auditors of Le Carbone Lorraine S.A. and in application of the article 211-5-2 of règlement général de l'AMF, we have verified, in accordance with professional standards applicable in France, the information relating to the financial position and the historical financial statements included in the attached Document de référence.

This Document de référence has been prepared under the responsibility of the Chairman of the Board of Directors. Our responsibility is to report on the fairness of the information relating to the financial position and the historical financial statements included in the Document de référence.

Our procedures have been performed in accordance with professional standards applicable in France. Those standards comprised an assessment of the fairness of the information presented relating to the financial position and the historical financial statements and its consistency with the financial statements on which a report was issued. Our work also comprised the reading the other information contained in the Document de référence, in order to identify material inconsistencies with the information relating to the financial position and the historical consolidated financial statements and to report any apparent misstatement of facts that we may have uncovered in reading the other information based on our general knowledge of the company obtained during the course of our engagement, given that this Document de référence does not include any selected prospective data resulting from an organized process.

The individual and consolidated financial statements of Le Carbone Lorraine S.A. for the years ended 31 December 2002 and 2003 prepared in accordance with accounting standards generally accepted in France and approved by the Board of Directors, were audited by Deloitte Touche Tohmatsu and Ernst &Young Audit, in accordance with the professional standards applicable in France. They expressed an unqualified audit opinion on such financial statements and their reports did not include any emphasis of matter paragraph.

We have audited in accordance with the professional standards applicable in France, the individual and consolidated financial statements of Le Carbone Lorraine S.A. for the year ended December 31, 2004 prepared in accordance with accounting standards generally accepted in France and approved by the Board of Directors. We expressed an unqualified audit opinion on such financial statements and our reports did not include any emphasis of matter paragraph.

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

Additional information

1) The attached Document de référence includes:

- The statutory auditors' report on the consolidated financial statements for the year ended 31 December 2004 that includes a justification of our assessments presented on page 63 and prepared in accordance with the requirements of Article L.225-235 of the Commercial Code ;
- The statutory auditors' report (page 92) prepared in accordance with article L.225-235 of the Commercial Code, on the report prepared by the President of the Board of Le Carbone Lorraine S.A., on the internal control procedures relating to the preparation and processing of financial and accounting information.

2) The statutory auditors' report on the financial statements for the year ended 31 December 2004 includes, in accordance with the requirements of Article L.225-235 of the Commercial Code, the following paragraph relating to the justification of our assessments:

In accordance with the requirements of article L.225-235 of the Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matter:

Section 1.C in the notes to the accounts, describes the accounting policy relating to the financial investments.

In relation to our review of the accounting policies followed by your company, we have verified the appropriateness of these accounting policies, noted above, and we have reviewed the information described in the notes to the accounts. In addition we have ensured the correct application of the policies described.

Our assessments on this matter were made in the context of our audit of the financial statements taken as whole and therefore contributed to the formation of the unqualified opinion expressed in the first part of this report.

Cross-referencing table

This table lists the main items required under the regulations together with references to the corresponding pages.

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Labrador