CARBONE LORRAINE

ANNUAL REPORT 2006

Chapters 2 to 9 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.

1 General overview of the Group

Group profile

Expertise

Carbone Lorraine's expertise was founded on its proficiency in advanced technology materials and its research into pioneering industrial solutions. The Group now excels in implementing these solutions in highly demanding industrial environments and for critical electrical functions.

Leadership in Advanced Materials and Technologies...

Carbone Lorraine is a world leader in graphite equipment and other high-performance materials intended for extreme industrial environments, such as high temperatures and corrosive environments. Among others, the Group notably supplies the fine chemicals, pharmaceuticals, semiconductors, solar energy, aerospace, plastics, ceramics, glass industries, etc.

...and in Electrical Components

Carbone Lorraine has established itself as the world leader in Electrical Applications of graphite—brushes and brushholders for motors—and in Electrical Protection, with a very extensive range of industrial fuses and related products and a customer-oriented organisation.

An expert in industrial solutions

Carbone Lorraine forges technological partnerships with its customers and gets to know their needs, processes and technical constraints as precisely as possible. By drawing on this expertise and on close relationships with industry operators that use its products, Carbone Lorraine designs genuinely innovative solutions for them.

Worldwide N°1:

- graphite anticorrosion equipment;
- brushes and brushholders for electric motors;
- fuses for power semiconductors.

Worldwide N°2:

- high-temperature applications of isostatic graphite;
- industrial fuses.

Growth

Carbone Lorraine's growth is based on a winning strategy: rapid expansion in Asia, positions in fast-expanding markets (electronics, renewable energies, etc.) and a very active policy of technological innovation.

Out to win new markets

Carbone Lorraine is constantly seeking new markets. With a strong presence in North America and Europe, it has implemented a bold expansion policy in Asia. It knows how to apply its expertise for the benefit of emerging business segments, such as solar power and wind energy.

Innovation for and with its customers

Carbone Lorraine discovers and develops new technological solutions by maintaining a close relationship with its customers and dedicates its research to their applications. The Group has resolutely positioned itself as a partner for innovation with industrial companies that leverage its experience and know-how.

A strategy of selective acquisitions

For Carbone Lorraine, growth by acquisition is set to sow the seeds of future organic growth. The acquisitions made in 2006 strictly fulfilled the Group's demanding value creation criteria and will help unlock strong synergies with the Group's other businesses from 2007 onwards.

Commitment

Together with its customers, its shareholders, its employees and all its business partners, Carbone Lorraine undertakes to pursue international and profitable sustainable development.

Continuous improvement mindful of individuals

Sustainable development is based on a set of standards firmly anchored in the Group's culture. Carbone Lorraine boasts a responsible social policy fostering support among all its employees for the Group's corporate goals. Issues related to training, competency development, mobility and safety are addressed thoroughly, responsibly and with determination.

Energy efficiency for the sake of environment

An active contributor to the development of renewable energies —solar, wind and hydroelectric energy and hybrid motors, etc. —Carbone Lorraine also maximises the environmental quality of its products. For instance, the Group manufactures nickel-free braking products and lead-free brushes and developed eco-design concepts for its Modulostar® fuseholder.

A confidence-based relationship with its shareholders

Carbone Lorraine has a solid base of individual shareholders, who account for almost one-third of its share capital. Transparency, rigor and high-quality information form the basis of its commitment to all its shareholders. For the third year in a row, Carbone Lorraine's Shareholders department was a prizewinner at the 2006 *Fils d'Or* awards.

Chairman's message: Our transformation into a growth company is underway

Last year, I emphasised our goal of turning Carbone Lorraine into a growth company. Our stronger sales performance in 2006 indicates that this transformation is now well underway. This strong growth is flowing from both our Advanced Materials and Technologies and Electrical Components segments.

Our traditional markets enjoyed fairly firm trends in Europe and North America, but aside from a supportive economic environment, Carbone Lorraine's expansion was primarily driven by the benefits of our bold strategy of strong and profitable sustainable growth.

This strategy is underpinned by vigorous expansion in Asia. In 2006, the speed of our development there outpaced growth in the region for the third year in a row. Our expansion stemmed from the reinforcement of our manufacturing presence, which continued last year, with several new facilities opening up in China and India. This trend is set to gain further momentum in 2007 with the start-up of our new graphite block production plant in Chongqing (China). This represents a major investment for Carbone Lorraine, which aims to satisfy growing demand from user industries, notably the electronics and solar power sectors.

Our expertise and the quality of the graphite solutions we offer the booming semiconductor and LED sectors have made Carbone Lorraine a leading player in these areas.

Our expansion strategy is also based on our contribution to the development of renewable energies. Strong demand for graphite from the solar power industry and the development of wind energy were major features of our performance in 2006 and are set to continue in 2007 and beyond.

Numerous new products and systems were launched this year across all our business activities, demonstrating the vitality of the Group's innovation, another mainstay of our expansion strategy.

As forecast, in 2006 we started up production of CL Clad® equipment for the chemicals and pharmaceuticals industries. The initial orders received show our customers' strong interest in this new material and back up the ambitious targets we have set for it. Likewise, in Electrical Protection, the successful start-up of the Modulostar® project marked the first stage in the complete revamping of our product ranges.

In addition, three acquisitions set to contribute to future growth were made during 2006. Each satisfied our demanding value creation criteria and, following rapid integration, is set to deliver the benefit of its own synergies and make an organic growth contribution from 2007 onwards.

The growth in our sales and the pursuit of our efficiency plans paved the way for an increase in our operating income of an over 14 % and a net income of €35,3 million.

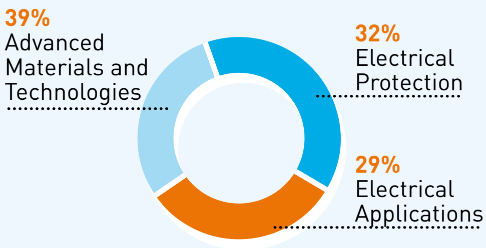
These earnings made 2006 a very good year for the Group, while our major projects, including the Chongqing plant, CL Clad® and Modulostar®, have yet to yield their benefits. These are set to start appearing in 2007 and peak from 2008 onwards.

Our choice of a strategy to transform Carbone Lorraine into a company resolutely oriented towards strong, sustainable and profitable growth makes me confident in our ability to pursue our rapid expansion and to create further wealth for our customers, shareholders and employees in 2007 and the coming years

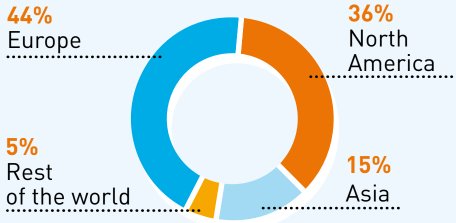
Claude Cocozza,

Chairman and Chief Executive Officer

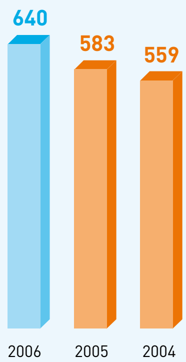
Key figures



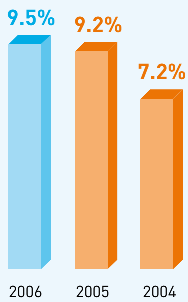
2006 sales
Business segment analysis



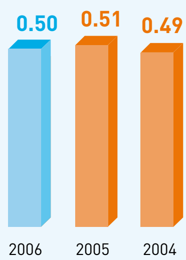
2006 sales
Geographical analysis



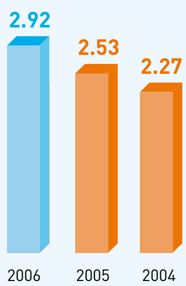
Sales
in millions of euros
IFRS - Continuing operations



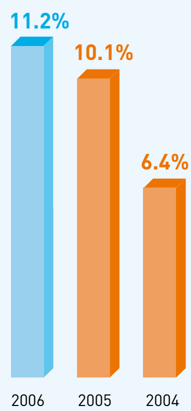
Operating margin
IFRS - Continuing operations



Debt-to-equity ratio
IFRS



Net income per share in euros
IFRS - Continuing operations



ROCE
IFRS - Continuing operations

Activities

Advanced Materials and Technologies

The Group is innovating and extending its leadership

Recognized expertise, an innovative offering and positions in extremely upbeat markets, such as solar power, electronics (semiconductors and LEDs), chemicals and pharmaceuticals, enabled Carbone Lorraine to extend its leadership in 2006. The commercial success achieved in Asia has now made the Group a force to be reckoned with in this region of the world.

Growth and market dynamics

Capitalizing on the dynamics of all its markets, particularly in the semiconductor industry, the Advanced Materials and Technologies business experienced strong growth this year.

In China, work on the construction of the new graphite block manufacturing facility is coming to an end with the gradual start-up of production in 2007. This fresh increase in production capacity will help to meet the strong demand for isostatic graphite among user industries and particularly the silicon industry in the semiconductor and solar power sectors. In 2006, Carbone Lorraine also invested to strengthen its machining capacities close to its customers.

The electronics markets made a strong contribution to sales growth. Significant growth was also recorded in refractory applications for kiln equipment and the manufacturing of ceramic body armour, as well as in the plastics and aerospace markets.

In anticorrosion equipment for the chemicals and pharmaceuticals industries, the year was marked by growing demand for turnkey installations (hydrochloric acid synthesis units, exchange and distillation groups, etc.), which are designed, engineered, built and brought into service by Carbone Lorraine.

Following several years of development, Carbone Lorraine was able to launch production of CL Clad®, a patented new material, in October 2006. Encouraging initial orders confirmed the appeal of this alternative offered by the Group to its customers, which can replace standard equipment.

Lastly, 6m graphite tubes, a specialty that has consolidated Carbone Lorraine's technological edge, scored further commercial success, which speaks volumes about the Group's ability to anticipate the needs of its customers.

Sales of brake linings for high-speed trains continued to head higher. In this area, most European high-speed trains use Carbone Lorraine's products.

Solar power gaining momentum

Carbone Lorraine manufactures isostatic graphite dedicated to the manufacturing of solar cells and notably silicon wafers. The very firm position established by the Group in the US market, which accounts for a large proportion of worldwide silicon manufacturing capacity, as well as its future graphite production capacity in China represent valuable trumps that will enable it to capitalize on strong growth prospects for solar power.

Expansion opportunities

Carbone Lorraine's growth strategy has prompted the Group to actively establish positions in expanding or advanced technology markets. The LED market, the market for diesel engine particle filters, one component of which (silicon carbide foam) requires large amounts of graphite, and the plastics market, with mould producers progressively switching from copper to graphite electrodes, represent segments in which Carbone Lorraine is now a highly prominent player.

Electrical Components

A bold policy that is paying off

A bold expansion policy in Asia and an unrelenting focus on innovation combined with systematic actions to tap into new markets helped Electrical Components activities to deliver strong growth in 2006. The commercial successes enjoyed by brushes and Electrical Protection in wind energy, urban transport and Broadband over Power Line (BPL) installations reflect the vitality of these business activities.

Strong growth markets

Electrical Protection activities posted strong growth in 2006. This increase is attributable to an active innovation policy and also reflected the efficiency of the division's strategy of cost-cutting and geographical restructuring pursued in Europe and North America over the past few years. The initiatives implemented to bolster the division's positioning in Asia, which was already very significant, also made a strong growth contribution. In 2006, action plans also focused on supply chain optimization, with an organizational change aiming to deliver maximum service quality.

Several fundamental trends reinforced the major potential for expansion in our markets: deregulation of the energy sector, giving rise to more and more demand for systems that can safeguard the quality of the current supplied to end users, the development of urban/interurban hubs—and thus the development of mass transit and hybrid vehicles—and growing demand for electrical protection equipment for industrial installations.

In Electrical Applications, sales of brushes for industrial motors made considerable headway in 2006, owing in particular to the mining and renewable energies markets. Carbone Lorraine's high-performance offering of brushes and power or signal transmission slip-ring assemblies enabled the Group to capitalize on the strong demand from the wind energy sector.

A production streamlining in North America

Meanwhile, sales of brushes and brushholders for small electric motors business decreased again because of the drop in North American automotive production. This situation prompted the Group to halt manufacturing in this region and transfer in 2007 its production lines from the US to India and France. This streamlining will yield its benefits from 2008 onwards.

In 2006, Carbone Lorraine also completed the disposal of the Magnets division, which helped significantly reduce the exposure of the Group's sales to the automobile market.

Overview of business activities

Business activities	Businesses	Main applications	Priorities
Advanced Materials and Technologies			
• World number one in graphite anticorrosion equipment • World number two in high-temperature applications of isostatic graphite • Sales of €247 million • 39% of total sales • Main competitors: • SGL Carbon (Germany) • Toyo Tanso (Japon) • De Dietrich (France) • Robbin & Myers (US)	• Development of isostatic graphite solutions for high-temperature applications (semiconductors, aerospace, glass industry, etc.) • Design, manufacture and marketing of anticorrosion equipment based on graphite, noble metals (tantalum, titanium, etc.) and fluorinated polymers (PTFE) for the chemicals and pharmaceuticals industries • Design, manufacture and sale of high-energy braking components based on graphite and sintered products, etc.	• Semiconductor production equipment and other refractory processes (dies, holders, etc.), electrodes for electrical discharge machining, kiln linings, etc. • Processing (heat exchangers, reactors, etc.), storage and distribution (tubing, pipes, etc.) of hot corrosive fluids • Braking for aerospace, rail, mountain bikes and motorcycles and motor racing applications	• Develop new isostatic graphite solutions geared to the specific needs of the Group's customers and partners • Continue developing complete multi-material solutions for corrosive and hot chemicals and pharmaceuticals • Expand sales in Asia • Pursue the international expansion of the Group's expertise in high-energy braking
Electrical Protection			
• World number two in industrial fuses • Sales of €204 million • 32% of total sales • Main competitor: • 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 property and people	• Protection of industrial motors and industrial electrical and electronic equipment against short circuits and voltage surges • Thermal protection of industrial electronic equipment • Protection of electricity distribution grids • Electrical protection of property and people • Protection of rail and urban transportation power supply networks	• Reap the full benefit of the Group's optimized production facilities to increase worldwide market share, especially by penetrating new growth markets • Pursue business development with equipment suppliers, distributors and end users by emphasizing innovation and quality of products and services
Electrical Applications			
• World number one in brushes and brushholders for small electric motors • Sales of €189 million Sales • 29% of total sales • Main competitors: • Morgan Crucible (UK) • Schunk (Germany) • ECS (US)	• Design, manufacture and marketing of sliding electrical contacts, brushes for electric motors and brushcards comprising brushes, brushholders and electronic components • Diagnosis, assistance and maintenance	• Large motors: all industrial applications and robots, electricity generators for aviation, wind turbines, electric locomotives, etc. • Small motors: auxiliary motors for cars (wipers, window lifts, ABS, etc.), hand-held power tools (drills, etc.), household appliances (vacuum cleaners, etc.)	• Large motors: Pursue a strategy of innovation in expanding niches and expand base in North America and Asia • Small motors: Pursue performance improvements and develop brushholder modules with additional features

Management and corporate responsibility

A strong commitment

With ambitious performance, growth and international development objectives, human resources and competency management is critically important for Carbone Lorraine. By enabling the Group's men and women to play a full part and realize their potential, Carbone Lorraine continued to deliver sustainable growth during 2006 and made progress along the path to operational excellence.

Recruitment

In 2006, Carbone Lorraine continued the development of its teams in Asia through recruitment in the region, primarily in China and India. At the end of the year, the Group's headcount across all its divisions stood at 240 people in China.

In addition, numerous salespeople and R&D engineers joined the Group to support its growth.

Competency development

A unified process—annual objectives, individual annual reviews, management reviews, individual development plans—applies to all Carbone Lorraine's managers around the world.

Human resource planning

In 2006, Carbone Lorraine initiated a fundamental review of how to adapt its human resources to meet its growth targets. The objective is to identify the types of positions that the Group will need to fill over the next five years in view of its development and technical progress.

Continuous improvement

The Group has implemented a program of continuous improvement—5S methodology, annual challenge, etc.—since 2000. In 2006, a highly ambitious project management program was launched with the deployment of the Group Project Standard (GPS) method. By year-end 2007, all Carbone Lorraine managers participating in a significant project will be trained in this highly effective method.

Compensation and benefits policy

At all the Group's companies, the variable portion of compensation and benefits is related to growth, EVA and cash generation. Attainment of growth objectives is incorporated in the calculation of managers' compensation using mechanisms tailored to each country.

Mobility

Carbone Lorraine wants to boost the international mobility of its managers from and to each and every country. Ensuring future employee mobility is indeed a priority aspect of the Group's recruitment strategy. To encourage and facilitate it, a Charter was distributed within the Group in early 2007.

Social diversity

Equal opportunities at recruitment, integration of visible minorities, and gender parity and equality. In 2006, in France, Carbone Lorraine launched a Diversity charter which follows initiatives implemented in North America for several years.

Carbone Lorraine and the stock market

Carbone Lorraine endeavors to meet the value creation targets of its shareholders and works relentlessly to promote a broader understanding of the Group by providing clear, regular and transparent information.

A confidence-based relationship with its shareholders

Carbone Lorraine maintains a confidence-based relationship with its shareholders underpinned by transparency and communicates through various channels to give them a better insight into the Group, its strategy, business lines and fundamentals.

The Group's investor relations strategy is predicated on a regular program of information meetings and presentations, including:

- presentations in Europe and North America to 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.

Share price performance

During 2006, Carbone Lorraine share traded between €36.5 and €51, posting an increase of 10.5% during 2006 as a whole. At the beginning of the year, it posted strong gains, reaching a high for the year of €51 on May. Investors' loss of confidence in mid-cap stocks during early summer 2006 subsequently depressed Carbone Lorraine shares, which slipped back below the €40 mark. The prospect of solid growth during 2006 then powered a rally in the final few months, with the share price closing the year at €42.6.

Share-related data

- Listing: Euronext Paris
- Market: Eurolist Compartment B
- Indices: CAC Allshares, CAC Mid 100, Next 150, SBF 120
- SRI Europe index of socially responsible companies
- Eligible for deferred settlement and for inclusion in French PEA savings plans
- ISIN code: FR0000039620

Share price*

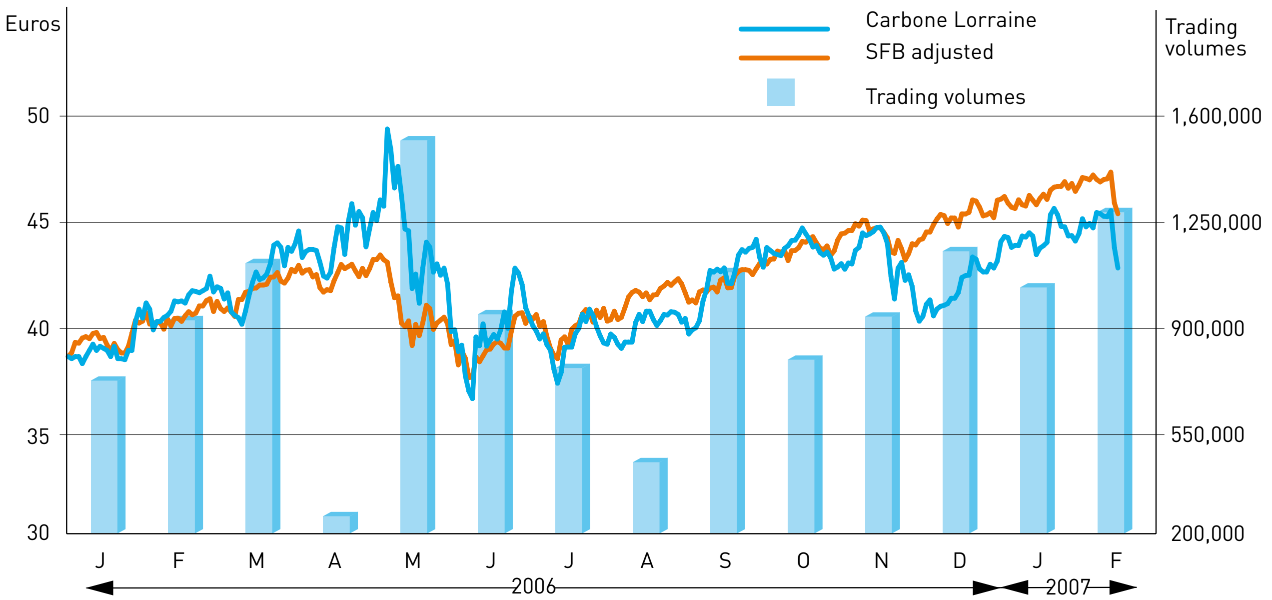
- At December 29, 2006: €42.65
- 2006 high: €49.74
- 2006 low: €36.66

* *At the market closing.*

Trading

2006 average trading volume: 975,646 (average 2005 monthly trading volume: 1,105,351)

Share price performance and trading volumes



SHARE PRICE DATA

Share price in euros	February 2007	January 2007	2006	2005	2004
High	46.00	44.84	51.00	43.95	39.60
Low	41.20	42.65	36.55	31.20	27.12
Average	43.00	43.85	43.00	38.00	33.15
At year-end	43.44	44.24	42.65	38.60	39.00
Number of shares at end of period	13,965,475	13,965,475	13,965,475	13,841,352	13,755,577
Market capitalization at end of period (in millions of euros)	601	618	596	534	536
Average number of shares traded per month	63,695	46,623	975,646	1,105,351	474,390

NET DIVIDEND PER SHARE

In euros	2006*	2005	2004	2003	2002
	0.85	0.70	0.55	0.0	0.60

** Dividend proposed at the AGM of May 2007*

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2006

Individual shareholders	28.8%
Employee shareholders	1.4%
French institutional investors	34.3%
International institutional investors	35%
Carbone Lorraine	0.5%

Key events in the 2006 investor relations calendar

Sales reports

2005 full-year sales - February 1

First-quarter sales - May 10

Second-quarter sales - July 26

Third-quarter sales - October 25

Earnings reports

Full-year 2005 results - March 15

Interim 2006 results - September 13

Meetings for institutional investors

In Europe and North America - Throughout the year

Annual General Meeting

Paris - May 18

Presentations for individual shareholders

Nancy - May 29

Marseille - June 6

Paris - October 13

Rennes - October 19

Technical presentation to investment analysts and journalists

Lyon - Topic: Electrical Protection - June 20

Key events in the 2007 investor relations calendar

Sales reports

Full-year 2006 sales - January 31

First-quarter sales - April 25

Second-quarter sales - July 24

Third-quarter sales - October 24

Earnings reports

Full-year 2006 results - March 20

Interim 2007 results - September 12

Meetings for institutional investors

In Europe and North America - Throughout the year

Annual General Meeting

Paris - May 24

Presentations for individual shareholders

Lyon - April 19

Bordeaux - May 29

Paris - October 12

Lille - December 4

Technical presentation to investment analysts and journalists

Paris - Topic: Renewable energies - June 26

www.carbonelorraine.com

The web site provides a valuable source of in-depth information about the Group's business activities. In line with the European Directive on Transparency, all the documents published and press releases issued by the Group are available online.

For further information, please contact:
Investor Relations department
Carbone Lorraine, Immeuble La Fayette
2 place des Vosges – 92400 Courbevoie La Défense 5
Tel.: +33 (0)1 46 91 54 49
Fax: +33 (0)1 46 91 54 07
e-mail: dri@carbonelorraine.com

2 Management report

Introduction

The top-line increase achieved during 2006 shows that Carbone Lorraine's transformation into a growth company has got off to a good start. This growth is the result of major efforts in pursuit of the Group's four strategic priorities: expansion in Asia, energy efficiency, innovation and acquisitions.

The expansion of the Group's manufacturing base and sales positions in Asia paved the way for market share gains in 2006, with sales moving up 15%, again beating the pace of growth in the region.

Our expansion strategy is also predicated on a strong contribution to the development of renewable energies, especially solar and wind energy.

Our new CL Clad® material was launched successfully during 2006. Likewise, numerous other new products and systems were launched in 2006, demonstrating the vitality of the Group's innovation across all its business segments.

Lastly, the Group completed two acquisitions (GES and Kapp) during 2006, which will contribute towards its organic growth during 2007.

Over the year as a whole, Carbone Lorraine posted strong growth in its sales to €640 million, representing increases of 10% on a reported basis, 10% at constant exchange rates and 7% on a like-for-like basis.

The Group's operating income, which advanced by 14% compared with last year, came to €61 million in 2006, with the operating margin reaching 9.5%. This increase was driven by the growth in Carbone Lorraine's sales volumes and operational efficiency. This performance includes a charge of around €2 million, reflecting part of the cost of closing the Farmville plant.

Net income from continuing operations moved up 14% compared with 2005 to €40 million.

An analysis of cash flows reveals a strong increase in capital expenditures, primarily as a result of the construction of our new graphite block manufacturing plant in China. Accordingly, the Group's balance sheet remained in very good shape, with a net debt to equity ratio of 50% at year-end 2006, down slightly on its year-end 2005 level. This financial structure means that Carbone Lorraine can solidly afford to continue pursuing its expansion policy.

Divisional trends

The **Advanced Materials and Technologies** division posted 2006 sales of €247 million, up 13.3% at constant exchange rates and up 6% on a like-for-like basis. This growth derived from the success achieved by graphite equipment in the electronics, chemicals, pharmaceuticals and renewable energies markets, from brisk demand in Europe and North America and from the Group's continued expansion in Asia. The investments made during 2006 in the construction of the Chongqing plant will pave the way for production to start up in 2007. The segment recorded an operating margin of 18% in 2006, just as it did in 2005.

With sales of €204 million, up 14% like-for-like, the **Electrical Protection** division reaped the benefit during 2006 of the restructuring measures implemented in previous years and the extension of its innovative and high-performance range of products and services. Support products (excluding fuses) enjoyed strong commercial success across all the Group's regions and now account for 15% of divisional sales. As a result, the division's operating margin moved up by more than two points to 9% in 2006.

The **Electrical Applications** division recorded sales of €189 million, up 1% on a like-for-like basis. Sales of brushes for industrial motors and slip-ring assemblies posted a steep increase, especially in the wind turbine, mining and oil extraction markets. Sales in Asia advanced significantly during 2006. The weakness of the North American market for small brushes for automobile auxiliary motors prompted the Group's decision to close the manufacturing plant in Farmville (Virginia, US) and to transfer its operations to India and France. Part of the non-recurring costs related to this restructuring were recorded during fiscal 2006. As a result, the division's operating margin fell to 6.1%, down one point compared with 2005.

Consolidated financial statements

Sales

During fiscal 2006, Carbone Lorraine posted strong growth in its sales to €640 million, representing increases of 10% on a reported basis, 10% at constant exchange rates and 7% on a like-for-like basis. Changes in the scope of consolidation, which accounted for 3% of sales, related to the acquisitions of the American company Graphite Engineering & Sales (GES) and Kapp in France and to the disposal of Astro Service Center in the US. All of the Group's business activities expanded during 2006. A breakdown by geographical region shows that Asia (15%), Europe (7%) and North America (5%) all enjoyed positive trends. In the rest of the world, sales dropped 4%, primarily because of weaker economic conditions in Brazil.

Operating income

The Group's operating income came to €61 million in 2006, up 14% compared with last year. The operating margin stood at 9.5% (compared with 9.2% in 2005). This increase was driven by higher sales volumes and the Group's improved operational efficiency. It was achieved in spite of another steep increase in raw materials costs and weak demand for brushes for automobile motors in the US. This operating income included the impact of a €2 million charge covering part of the closure costs for the Farmville plant.

Finance costs

Carbone Lorraine's net finance costs came to €9.7 million in 2006, up from €7.1 million in 2005. This increase was attributable to the significant rise in US interest rates, offset in part by the impact of interest-rate hedges.

Income before tax and non-recurring items

Income before tax and non-recurring items increased to €51.3 million from €46.3 million in the previous year, representing a rise of 11%.

Net income from continuing operations

Net income from continuing operations advanced 14% to €40.3 million in 2006 from €35.3 million in 2005.

Net income (loss) from operations sold or discontinued

During 2006, Carbone Lorraine posted a net loss of €5.4 million on assets held for sale or discontinued operations, which was attributable mainly to the former Magnets division. It notably includes all the future charges related to the definitive shutdown of activities at the Evreux plant and the winding up of the division's residual organization.

Net income attributable to equity holders of the parent

Net income attributable to Carbone Lorraine's shareholders came to €35.3 million in 2006, representing an increase of 60% on the €22.1 million posted in 2005. The key factors contributing to this very pleasing performance were the steep improvement in operating income on the back of higher business volumes and the non-recurrence of the prior year's exceptional losses (€12 million linked to the write-down of the Magnets division's value in 2005).

Dividend

The Board of Directors will propose payment of a dividend of €0.85 per share at the Annual General Meeting of the shareholders. This would lead to a total payout of close to €11.9 million, representing 33% of 2006 net income attributable to equity holders of the parent.

Investment policy

Investments made during the past three fiscal years

In 2004, financial investment was devoted mainly to capital injections into 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-current asset disposals comprised mainly the sale of Ferraz Shawmut's Newburyport plant in the US.

In 2005, €20 million of the amount shown under financial investment represented the downpayment made to the European Commission (see table footnote below). The remainder of €9.6 million related chiefly to the initial outlays on the new graphite block facility in Chongqing (China), as well as the acquisition of Astrad, a braking product distribution company. Lastly, the Group finalized the asset disposal program initiated in 2003, with the sale of its Crolles and La Verpillière (France) plants.

In 2006, the Group continued to modernize its manufacturing base, while investing in its production capacity to keep pace with its expansion. The €6.9 million increase in financial assets reflected further capital financing provided for the Chongqing plant. The investments linked to changes in the scope of consolidation derived chiefly from the acquisition of the companies GES and Kapp and the receipt of an initial payment of €5 million following the sale of the Magnets division.

	Continuing operations		
In millions of euros	2006	2005	2004
Increase in intangible assets	(1.0)	(0.4)	(2.5)
Increase in property, plant and equipment	(31.5)	(24.1)	(17.2)
Increase in financial assets*	(6.9)	(28.5)	(2.5)
Disposals of property, plant and equipment	0.6	3.0	7.5
Sub-total	**(38.8)**	**(50.0)**	**(14.7)**
Net investment related to the impact of changes in the scope of consolidation	(10.2)	(1.1)	(13.0)
Non-recurring disposals of non-current assets	na	na	na
TOTAL	**(49.0)**	**(51.1)**	**(27.7)**

* *Including €20 million in 2005 comprising the downpayment made by the Group into an escrow account held by the European Commission as a guarantee for the appeal proceedings being heard by the EU Court of First Instance.*

Financing policy

A Group policy has been defined for financing, implementation of which is coordinated by the 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 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 14 to the consolidated financial statements.

Research policy

The Group's research and development activities primarily consist in developing materials, manufacturing processes, products, systems and applications with a view to:

- securing the Group's future expansion;
- reducing its manufacturing costs.

The Group devotes around 3% of its sales to research and development in the form of the operating costs of the teams dedicated solely to this activity plus costs of product development (materials, processes); this figure does not include spending related to this development work.

In addition, the Group's divisions are constantly developing new solutions and services for their customers. The cost of this development work is not included in the aforementioned figure of 3% because it is hard to separate from ongoing technical and commercial activities.

In addition, R&D spending includes the cost of a policy of technological investment for the Group's major expansion projects. In 2006, this investment amounted to 2% of sales.

Most of this expenditure is financed internally. This said, the Group receives from time to time government subsidies, notably in France where the Industry Ministry contributed €0.2 million towards the Group's development activities during 2006.

The Group's major innovations during 2006 include:

- the development of specific new products meeting the needs of the semiconductor and solar energy industries with regard to high-temperature applications of isostatic graphite;
- the development of new manufacturing processes for plate heat exchangers in noble metals for use in anticorrosion equipment;
- the development of new graphite grades in industrial brushes for manufacturers of direct current industrial motors;
- the development of new cooling systems for high-power electronic applications;
- the replacement of copper in friction components for rail braking applications.

Net debt

Total consolidated net debt at December 31, 2006 stood at €154.3 million compared with €150.3 million at year-end 2005. Debt increased by €12.5 million excluding the impact of a €8.5 million cumulative translation adjustment (positive effect of depreciation in the US dollar against the euro during 2006). This increase was chiefly attributable to acquisitions (GES in the US and Kapp in France), which had an impact of €10.2 million, and to non-recurring cash flows deriving from assets held for sale and discontinued operations (€6.3 million).

Cash generated by operating activities after the change in the working capital requirement came to €59.4 million, down from €52.8 million in 2005. This cash generation helped to finance €39.4 million in capital expenditures and €10.2 million in acquisitions.

In millions of euros	2006	2005	2004
Total net debt (€)	154.3	150.3	125.6
Net debt/equity	50%	51%	49%

Parent company financial statements

The sales and other revenues recorded by the parent company, Le Carbone Lorraine SA, amounted to €3.8 million. These revenues derived from Le 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 €3.6 million, compared with a loss of €3.7 million in 2005.

Net financial income posted a significant rise to €14.0 million from €1.4 million in the previous year because of the increase in dividends received during 2006.

The parent company's income before tax and non-recurring items came to €10.3 million. Non-recurring items contributed a loss of €5.2 million compared with a gain of €0.5 million in 2005. This change was attributable chiefly to gains and losses recorded on the sale of the Magnets division.

The parent company recorded a tax benefit of €4.3 million, which was paid by the French subsidiaries consolidated for tax purposes.

Taking all these items into account, the parent company posted net income of €9.4 million.

Relations between the parent company and its subsidiaries

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

Le Carbone Lorraine SA belongs to Groupe Carbone Lorraine, which encompasses 88 consolidated and unconsolidated companies in 34 countries. The Group's largest manufacturing facilities are located in France, the US, Mexico and Tunisia.

Groupe Carbone Lorraine is organized in three business divisions, namely Advanced Materials and Technologies, Electrical Applications and Electrical Protection. 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.

Operations outside France

The sales contribution made by the Group's consolidated subsidiaries outside France came to €460 million in 2006, up 12% compared with 2005. On a like-for-like basis, sales contributed by the Group's subsidiaries outside France rose by 8%. In 2006, the Group derived 86% of its sales from outside France (*i.e.* sales generated by foreign companies excluding those realized in France and exports by French companies).

IAS/IFRS

In accordance with European regulation no. 1606-2002, which applies to the consolidated financial statements of listed European companies, the consolidated financial statements of Groupe Carbone Lorraine have been published using the internationally recognized IFRS since 2005 because the Group is listed in a member state of the European Union. To facilitate comparisons, the 2004 financial statements are presented using these same standards, with the exception provided for in the regulations of IFRS 32 and 39 on financial instruments.

Recent trends and outlook for 2007

Aside from supportive economic conditions, the Group's sales growth during 2006 was the product of its efforts to meet its four strategic priorities: Asia, energy efficiency, innovation and acquisitions harboring the potential for organic growth.

Carbone Lorraine's strategic positioning is also set to pay off during 2007 on the strength of business trends during the first months of the year, which were in line with those seen in the final quarter of 2006.

In fact, during the fourth quarter of 2006, business growth was again very brisk. Sales remained very firm in Asia, particularly in anticorrosion equipment and in Electrical Protection. In the energy efficiency segment, it is important to highlight the continued demand growth from the electronics, solar and wind energy industries, which has boosted special graphites, fuses and brushes. The final quarter saw the first billings of CL Clad® equipments. This major innovation by the Group is set to develop during 2007 and generate substantial sales from 2008 onwards.

Lastly, integration of the Group's selective acquisitions continued to make good progress, including the most recent acquisition Lenoir Elec, which has broadened the Electrical Protection division's range of components and systems.

As forecast, 2007 will also be marked by the start-up of the Chongqing graphite block manufacturing plant in China. Production is set to ramp up from several hundred tons in 2007 to several thousand over the next few years, ultimately reaching 5,000 tons. This plant is set to become a major pillar of our development strategy in Asia and in the electronics and solar power sectors.

Taking these factors into account, the Group expects to post further brisk top-line growth during 2007 and a new increase in its earnings.

3 Sustainable development

Economic and social responsibility

Carbone Lorraine continued to pursue sustainable growth during 2006 and made further strides towards achieving operational excellence by enabling the Group's employees to play an active role and to develop their personal and professional skills.

Employee involvement

Corporate spirit

Through its organization and its attachment to human values, the Group encourages its employees to take initiatives and use their creativity. Employees are rapidly entrusted with responsibilities, irrespective of their grade, through their participation in autonomous teams working on projects cutting across corporate boundaries.

Internal communications

Sharing information is another important aspect of employee motivation. Carbone Lorraine intends to communicate internally concerning the performance of its businesses, including both its results and future projects. This emphasis on transparency enables each individual to gain a full sense of what it means to be part of the Group.

The Group's Intranet system has been completely overhauled to make it a user-friendly platform for sharing information and tools accessible in real time right around the world. Its contents are constantly enriched through active contributions by the 35 section managers. Internal job offers and forums help to foster communication and experience-sharing. Information is also passed on using complementary publications, such as *CL Infos*, the Group's internal newsletter, *CL Flash* concerning the latest news and the *Infos Sites*, which focus on local information. In addition, managers in Europe and the Americas are convened to two annual information meetings, and discussion forums are scheduled for management and employees every month at most plants.

Compensation and benefits

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

Employee incentive and profit-sharing agreements take into account the Group's financial performance, as well as the individual contribution made by each employee. The development of technical incentive payments is predicated on collective criteria, such as productivity and safety improvements, customer satisfaction linked to product and service quality, ability to meet deadlines, innovation and reductions in non-quality costs. In addition, financial incentive payments are linked to attainment of operating margin targets at business unit or divisional level.

Managers' bonuses are calculated both on the EVA generated by their business unit and their results relative their individual annual targets, particularly those related to safety, cash generation and participation in growth projects. This policy helps to ensure that the Group's values and strategic objectives guide its day-to-day business decisions.

In April 2006, an issue of new shares reserved for employees was carried out in nine countries in Europe and North America. Carbone Lorraine intends to continue pursuing its policy of encouraging employees to share in the Group's success by regularly organizing this type of issue.

Individual and collective development

Know-how and innovation

Developing know-how and innovation are priorities for the Group's competency management policy.

An Innovation challenge, comprising a Creativity Prize and a Growth+ Prize, was awarded to the best two ideas generating value-added. These challenges will be held again in 2007.

An optimized project management methodology known by the acronym of GPS (Global Project Standard) has been developed by a multi-disciplinary team, and each person participating in a major project will receive training in it during 2007.

Competency development

The annual review is one of the key aspects of the competency development process implemented within Groupe Carbone Lorraine. Annual reviews, a special time for dialog and discussion between the employee and his/her direct management superior, help to assess individual performance over the previous year and set objectives for the following year. They also provide a chance to assess competency development initiatives carried out during the past year and to determine what action needs to be taken or continued to make progress in the employee's current position or with a view to future promotion. Since the beginning of 2006, a new application on the Group's Intranet has handled the online management of review forms and facilitates the organization of annual reviews.

In addition, management reviews provide an opportunity each year to review the career prospects of the Group's principal managers and are used to prepare individual competency development plans.

Carbone Lorraine's international dimension opens up genuine career development opportunities. In a Mobility guide distributed in early 2007, the Group displays its determination to promote transfers between various business units, divisions and geographical regions. The priority placed on internal recruitment aims to breathe life into the mobility drive and to increase the international diversity of the Group's managers.

The mapping of reference jobs, which has identified 60 functions in a dozen or so functions (management, sales and marketing, R&D, purchasing, etc.), has led to the refinement of recruitment policy, made for greater consistency in the management of employees as a function of their contribution and facilitated competency development.

Training

To help them progress and to take on responsibilities in the future, employees at all levels of the Group regularly attend training sessions. Managers also have performing training assignments that deliberately focus on topics outside their usual field of expertise.

In 2006, training efforts focused in particular on two priority areas:

- contributing to Carbone Lorraine's transformation into a growth company;
- achieving operational excellence in safety and man management, in line with the key tenets of the Quality and Continuous Improvement program.

All in all, the Group devoted 1.63% of its total payroll during 2006 to training, *i.e.* an average of 16 hours of training per employee. A total of 3,235 attended at least one training course during 2006, *i.e.* just over one in every two employees.

TRAINING AT CARBONE LORRAINE

Training	2006	2005	2004
as a % of total payroll costs			
Group total	1.6%	1,6%	1.3%
- o/w France	3.0%	2.4%	2.3%
number of hours per employee			
Group total	16	15	14
- o/w France	19.5	17	14

In 2007, the competency development priorities will include two additional specific training courses: GPS project management and training in other cultures.

An improvement program mobilizing the entire workforce

The primary aim of the Quality and Continuous Improvement program, which was initiated six years ago, is to drive the Group closer towards excellence in customer service in terms of product and service quality. To this end, various programs, such as initiatives to shorten delivery times and improve product quality, have been rolled out at all the Group's sites. Consequently, the restructuring measures implemented since 2003 have led to major improvements in the organization of production and product flows to shorten lead times for customers. The 5S program is a critical component of this approach. The introduction of order, tidiness, cleanliness and discipline rules helps to enhance productivity, working conditions, safety and quality. By increasing the reliability of all business processes, both functional and operational, the 5S program contributes significantly to improving economic performance.

Once again, the Worldwide 5S Challenge helped to boost the continuous improvement momentum within the Group. A total of 37 business units entered this competition in 2006, and the prize for the best 5S workshop went to Ferraz Shawmut Tunisia (Electrical Protection). The facility achieved a remarkably high standard of organization while delivering a very high growth rate, with extremely diversified small-run manufacturing processes. The Prize for the Greatest 5S improvement was awarded jointly to two workshops: the Gennevilliers sintered powders workshop (Braking) and the Shanghai chemical engineering equipment (China) unit. These two workshops achieved major improvements in situations that are poles apart: Gennevilliers is a plant with a long history in France, while Shanghai Chemical is a very modern facility in Asia. Lastly, the Prize for the best 5S Office was awarded to the Pagny Marketing department (Chemical Engineering Equipment), which boasts exemplary organization for a sales department.

2006 saw the launch of a fresh initiative aiming to enhance project work: the GPS project management method (Global Project Standard), which was adapted to fit Carbone Lorraine's needs, is currently being deployed right across the Group, and all the managers involved in a major project attend a two-day training module.

Career enrichment

Greater job satisfaction

Job satisfaction, which helps to generate efficiency, is a factor contributing to the Group's success. The Group's culture and processes, which represent powerful sources of motivation for new recruits, encourage employees to work with passion, to exert a positive influence and to aspire to excellence. The emphasis placed on dynamism encourages them to prefer a practical and simple approach to a theoretical or formal attitude.

A constantly renewed emphasis on health and safety

Protecting the health and safety of its employees is of paramount importance to the Group. Aside from paying individuals the respect they deserve, a tight grasp on safety issues also helps to make the technical and organizational processes implemented at the Group's various facilities more efficient.

Built around standards known to all, the safety policy reflects the strong commitment made by the Group's senior managers to improving relentlessly safety levels for all its men and women. Continuing the efforts made in previous years, every employee who has to take sick leave following an occupational accident met the Group's Chairman, together with the Manager of the relevant plant and his/her direct superior. A total of 11 interviews took place during 2006.

During July, the Executive Committee visited the Teeside plant (UK) for its now traditional Safety Day. In addition, it analysed each month the safety performance data from all the Group's plants.

Another major demonstration of this commitment during 2006 was the appointment of a Group Director for Health and Safety responsible for assisting plants with their health and safety improvement plans and actively organizing communications concerning the sharing of the best practices implemented within the Group. To this end, the Health and Safety Management Letter was launched in September 2006 and is distributed to all the Group's managers each month.

The Group Director for Health and Safety leads the Group Safety Committee comprising operational managers who meet three or four times a year. It is responsible for proposing action priorities to the Executive Committee for the coming years based on safety performance, as well as audits that it conducts at facilities where the accident frequency rate with and without sick leave exceeds the Group average.

Involving employee representatives in safety programs is also critical for the Group, and a morning session was devoted to health and safety issues at the annual European Works Committee.

Against this backdrop, the Group's safety performance during 2006 showed another reduction in the lost-time occupational accident frequency rate (TF1) and the severity rate (TG). The frequency rate of lost-time accidents with and without leave (TF2) posted a slight deterioration, which calls for even greater vigilance.

The overall results are highly satisfactory compared with the average performance posted by companies in the metal-working and chemicals sectors.

Number of lost-time occupational accidents per million man-hours (TF1)

2006	2005	2004
2.5	3.5	3.9

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

2006	2005	2004
10.3	9	11.5

Number of working days lost to occupational accidents per thousand man-hours (TG)

2006	2005	2004
0.19	0.24	0.25

A socially responsible group

The final stage of the savings plan initiated at the beginning of 2002 was completed in 2006, with the gradual shutdown of magnet production at Ferroxdure's Évreux (France) plant.

This closure was announced a long time in advance in October 2004, which facilitated the search for solutions geared to each employee's situation. A job-finding and retraining unit was set up in November 2004, and the specific training measures initiated in 2004 continued during 2005 and 2006. Efforts to prioritize internal transfers have borne fruit: 15 Ferroxdure employees found another job at the Group's other French plants, notably including Gennevilliers (the closest) and also the Amiens, Pagny and Saint Bonnet de Mure facilities. In addition, the job-finding and retraining unit established contacts with over 550 businesses located mainly close to Evreux during 2005 and 2006. As a result of these contacts, it verified the suitability of more than 350 job offers made to the professional situation of the affected Group employees, even though the local employment market was highly depressed. Of the 105 jobs lost in 2005, aside from retirements, 88 employees were supported by the job-finding and retraining unit, with only 5 still on its books at year-end 2006. Of these 88 employees, 11 went on long-term training courses leading to qualifications and in many cases a genuine change of career. Four businesses were created, and one business was acquired during summer 2005 by two Carbone Lorraine employees. This business is currently enjoying significant organic growth and has lined up an acquisition. The employees made redundant but not supported by the job-finding unit already had a personal project or a job prior to their departure from Ferroxdure.

In addition, Carbone Lorraine signed an agreement with local authorities in June 2005 to revitalize the employment market in Évreux. The ASBCE (an organization supporting and creating employment in the Évreux region) was set up by Ferroxdure and SCE/Klaxon to support the creation, relocation and development of businesses likely to generate new business and jobs in the region and, where appropriate, find outplacement solutions for both companies' employees. A development fund was set up by the companies under the aegis of this association to promote job creation. In late 2006, the Group supported the development of six businesses in the Evreux region and the transfer to Evreux of a business from outside the area. These initiatives paved the way for the creation of 63 jobs.

Carbone Lorraine aims to achieve a high degree of diversity in terms of its business activities, the cultures represented within the Group and the markets it serves.

A purchasing code of conduct first introduced in 2003 emphasizes the transparency of its purchasing procedures and policy at every level of the Group, in the selection of business partners and suppliers and in the best practices adopted for supplier relationships.

The charter governing the use of IT and telecoms resources, which was also introduced in 2003, aims to reconcile respect for employees' individual freedoms with the need to protect the Group's security and legitimate interests.

An information system security officer oversees the protection of users and data processed by Group's IT and communication tools.

Several anti-discrimination charters were signed in the US and Australia. In the same vein, a work group comprising members of the Executive Committee and human resources managers oversaw the introduction of diversity indicators in France during 2006. A plan will be rolled out in 2007, notably covering the employment of disabled workers, equal opportunities for men and women and efforts to reflect the cultural diversity of the employment areas in which the Group operates in the make-up of the workforce. A diversity committee is due to be set up at Group level during 2007. Further thought will be given within the Human Resources Department to improving the management of the end of employees' careers in order to optimize the assignments given to seniors over the coming years.

Lastly, Group employees now have the possibility of investing sums received as part of incentive and profit-sharing plans in a new vehicle abiding by Carbone Lorraine's high ethical standards. This fund, the majority of which is invested in equities, targets long-term investment performance and picks shares meeting the social, environmental and governance criteria of socially responsible investing.

The Group's workforce

Close customer relationships represent a major pillar of the strategy pursued by Carbone Lorraine, which has built a large presence in international markets. The Group has established itself on five continents, with over 46% of its employees located outside Europe. Its largest units in terms of the size of its workforce are France, the US, Mexico and Tunisia.

The divestment of the Magnets division, which was announced in late 2005 and completed at the beginning of 2006, led to a reduction of 804 in the headcount. The relevant staff work at the former division's plants in France, Mexico, South Korea and Brazil.

GEOGRAPHICAL ANALYSIS OF THE WORKFORCE (AT END-DECEMBER 2006)

Country	2006 *	2006 *	2005 *	2004
Europe (including Tunisia)	54%	3,452	3,681	3,008
o/w France	27%	1,762	2,037	2,138
North America (including Mexico)	36%	2,332	2,397	2,032
Asia-Pacific	4%	258	335	272
Rest of the world	6%	403	656	602
TOTAL	**100%**	**6,445**	**7,069**	**6,571**

* *In 2005 and 2006, the headcount included two unconsolidated Group units (Ferraz Shawmut Tunisia, Carbone Lorraine Mexico), which work almost exclusively for the Group.*

Outsourcing

The Group partially outsources the manufacture of its products. In 2006, the cost of outsourced manufacturing amounted to €16.9 million, with assembly operations accounting for the bulk of this figure. In addition, metallic component cutting and stamping operations, as well as the manufacture of plastic components were outsourced at a cost of €25 million and €11.5 million respectively.

These services accounted for around 18% of the Group's total purchases.

Social data (operations in France)

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 (operations in France). All the 2006 figures exclude the Magnets division.

Headcount at December 31

	2006	2005	2004
Workforce	1,762	2,037	2,138
o/w fixed-term contracts	16	18	23

New recruits

	2006	2005	2004
New recruits	194	141	194
o/w fixed-term contracts	31	30	52

Most of the French facilities hired new employees during 2006. The new hires came from right across the spectrum of socioprofessional categories. There were no particular difficulties to report aside from the fact that tooling skills are in short supply in the marketplace.

Overtime

	2006	2005	2004
Overtime	27,414	28,509	25,693
% of hours worked	0.75%	0.75%	0.7%

Absenteeism

	2006	2005	2004
Absenteeism	4.9%	5.7%	5.0%
o/w illness	3.5%	4.4%	3.9%

During 2006, a total of 2,429 hours were lost to strikes, representing 0.10% of hours worked.

Temporary staffers

	2006	2005	2004
Effectif moyen	248	237	411
% des effectifs	15%	11,4%	15,7%

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 216 working days, which gives them an average of 12 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 2006, 44 employees worked on a part-time basis.

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. These committees both met once during 2006. The entire Works Council was invited to a visit of the Saint Bonnet de Mure plant, which has an exemplary just-in-time supply chain organization, a major contribution to the streamlining of the Electrical Protection division in Europe.

The collective bargaining agreements signed by the French subsidiaries during 2006 related to the annual salary negotiations (five agreements) and the duration of terms of office (three agreements).

Employment and integration of disabled workers

AVO, a company specializing in the assembly of electrical components for the automobile sector, employs 79 disabled workers (out of a total of 127 employees) at its sheltered workshop in Poitiers.

Furthermore, the diversity action plan includes measures to be taken in the short and medium term so that the internal staff of each French subsidiary meet the legal obligations concerning the employment of disabled workers, which came into force in January 2006.

Environmental responsibilities

Respect for the environment is firmly anchored in Carbone Lorraine's corporate culture. Training and awareness-raising initiatives are arranged for all the Group's employees, from the heads of the divisions to workshop operators, giving them the reaction responses they need to exercise the Group's environmental responsibilities. The Group's environmental charter is made available to 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 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 covering** 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 program of quality and continuous improvement based on experience-sharing.
5. **Minimize consumption of water, energy, raw materials** and **packaging and encourage recycling and waste-to-energy conversion.**
6. **Foster progress through continuous improvement** by rolling out an ISO 14001 Environmental Management System at all the Group's major plants.
7. **Foster the development of eco-design,** notably by extending use of EIME, the dedicated software system.

Concrete initiatives to mitigate environmental impacts

In practice, Carbone Lorraine's environmental policy consists in identifying the best practices and adopting an extremely high level of vigilance in order to eliminate, reduce or process discharges of gas, liquid or solid pollutants and to minimize other nuisances. During 2006, the Group continued to monitor the risk of soil pollution very closely. For instance, pollutants are stored behind retention equipment to avoid any spillages reaching the soil or sub-soil. Gaseous effluents are collected and processed before discharge into the atmosphere. Dust emissions are controlled through aspiration systems and machine hoods. Waste management is always given special attention. Certain improvements are designed by teams themselves as part of the 5S program and are then introduced right across the board. This method is based on sorting, tidiness, cleanliness, standardization and maintenance.

As part of preparations for the forthcoming implementation of the REACH regulations in Europe, Carbone Lorraine stepped up its efforts to analyse the chemical products used in its production processes.

An active certification policy

The Quality and Continuous Improvement (QPC) program gains more and more momentum each year, with training initiatives helping to achieve operational excellence. Competitions, such as the Worldwide 5S Challenge, help to promote a culture of excellence among all the Group's various companies.

The ISO 14001 certification program is part of the QPC approach and represents the key pillar of Carbone Lorraine's emphasis on environmental responsibility. All the Group's main plants are certified. The Bay City and Newburyport (US) plants gained certification during 2006. In addition, a number of smaller plants are also working to secure certification.

Some sites have taken this process even further by striving to achieve OHSAS 18001 (Occupational Health and Safety Assessment Series) certification. The facilities at Ssangam in South Korea, Patrica in Italy and Pagny-sur-Moselle in France have already achieved this accreditation, and others are working hard to achieve it, since it represents an additional advantage vis-à-vis their workforce and their customers.

Global risk management

The Risk and Internal Audit department aims to provide a better assessment of the risks to which the Group May be exposed. It defines the risk prevention and mitigation policy, proposes action plans and oversees their implementation.

The concept of risk is increasingly taken into account by the Group's senior managers in the operational and functional aspects of the business. This growing awareness is underpinned by systematic audits, which provide vital support for the Group's risk prevention policy.

The mapping of operational, financial, strategic and information-related risks carried out in 2001 was updated in 2005. It did not identify any risk liable to have a material adverse effect on the Group's performance. The action plans implemented since 2001 paved the way for the elimination of certain risks that had been identified previously and helped to bolster risk prevention. This new risk mapping also helped to bring to light the new risk factors that have emerged so that action plans can be proposed helping to mitigate their impact or probability of occurrence. Furthermore, none of the Group's plants is classified under the Seveso Directive.

Growing momentum of eco-design

Environmental protection systematically applies to all new business activities, manufacturing facilities, production processes and products. Carbone Lorraine seeks to equip itself with the best technologies available on the market when designing its new manufacturing lines and its new products.

Its proficiency in IT systems and specific eco-design skills now enable the Group to go further in the development of new products that place even greater emphasis on environmental protection.

In addition, Carbone Lorraine is studying production processes likely to meet the imperative of reducing its installations' power consumption more effectively.

Environmental data

The Group's scope includes plants in:

- France: CLAE (Amiens), CLGC (Pagny-sur-Moselle), CLC (Gennevilliers), Ferraz Shawmut (Saint Bonnet de Mure, Provins, Saint Loup de Naud et La Mure), and AVO (Airvault and Poitiers);
- Europe: Il Carbonio (Patrica, Italy), DCAG (Frankfurt, Germany), Cometec (Linsengericht, Germany), CLGBR (Portslade and Teeside, UK);
- the Americas: COA (St Marys, US), UCD (Bay City, US), Ferraz Shawmut (Newburyport, US), Ferraz Shawmut (Juarez, Mexico), Carbono Lorena (Sao Paulo, Brazil).

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 reflect the new scope. The plants included in the Group scope account for around 90% of the Group's sales, excluding Maguets, discontinued operation.

INDICATEURS

	Unit	2006 Group	2005 Group	% chg. Group 06/05	2006 France	2005 France	% chg. France 06/05
Water consumption	**m³**	**431,215**	**455,635**	**-5%**	**271,810**	**314,424**	**-14%**
Energy consumption							
Electricity	MWh	123,515	115,416	+7.%	48,966	49,201	0%
Gas	MWh	196,799	205,156	-4 %	62 657	65,685	-5%
Consumption of raw materials and metals							
Wood	tons	1,561	1,414	+10%	756	789	-4%
Cardboard	tons	810	705	+15%	563	494	+14 %
Copper	tons	1,521	1,439	6%	652	619	+5%
Waste							
Wood, 100% recycled	tons	380	423	-10%	304	336	-10%
Recycled cardboard	tons	152	165	-8%	98	112	-13%
Non-hazardous waste	tons	3,590	3,644	-1%	1250	1,440	-13%
Discharges							
Wastewater	m³	470,313	483,108	-3%	278,329	318,666	-13%

As part of the Group's environmental program, plants continued their efforts to mitigate environmental impacts during 2006 and implemented significant improvements.

At Group level, the global level of energy consumption remained stable in 2006 compared with 2005 notwithstanding the significant increase in business volumes, especially at the St Marys facility.

Amiens

- During 2006, the plant recycled 47% of VOCs (Volatile Organic Compounds: ethanol and MEK) *i.e.* 60 tons.
- Maintenance on certain highly specialized equipment helped to cut the plant's water consumption by 25% in 2006 compared with 2005.

Gennevilliers

- Reduction in noise through improved insulation of pump areas.
- Creation of green space following the demolition of disused buildings.
- Partial refurbishment of a former manufacturing building to house a braking test bench.

Pagny-sur-Moselle

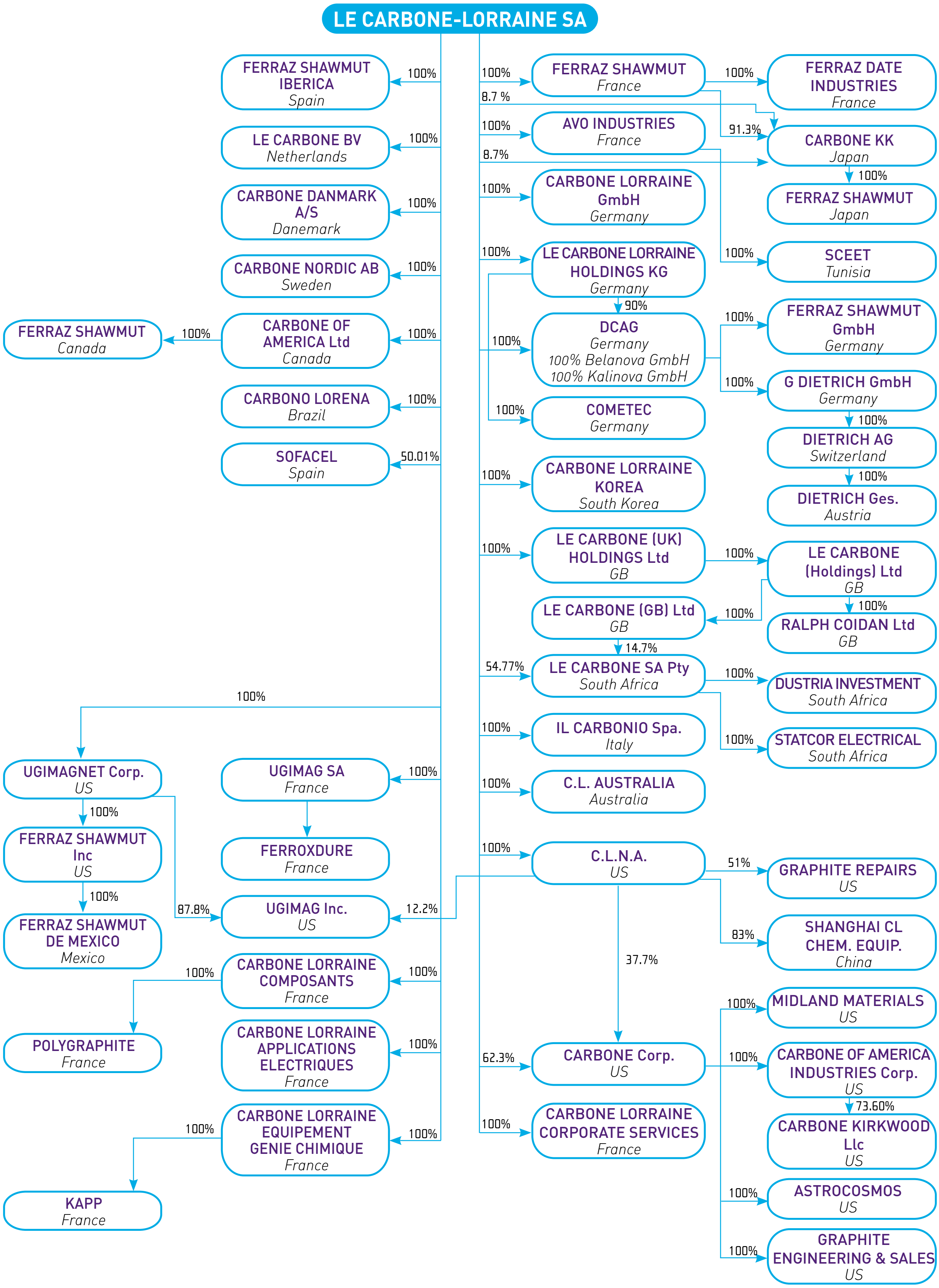
- Work to reduce possible pollution through aqueous discharges and atmospheric emissions.
- Elimination of a potential pollutant from a manufacturing process.

Ferraz Shawmut

- Use of EIME software to analyse the life cycle of fuses.
- Energy review of the Saint Bonnet de Mure, Newburyport and Juarez facilities to bring to light potential sources of energy savings.

4 Consolidated financial statements

Scope of consolidation at December 31, 2006



List of consolidated companies

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
1. **Le Carbone-Lorraine SA** (France)	FC	100	100
2. **Carbone Lorraine Applications Électriques** (France)	FC	100	100
3. **Carbone Lorraine Composants** (France)	FC	100	100
4. **Carbone Lorraine Équipements Génie Chimique** (France)	FC	100	100
- KAPP	FC	100	100
5. **Carbone Lorraine Corporate Services** (France)	FC	100	100
6. **AVO SA** (France)	FC	100	100
- SCEET (Tunisie)	FC	100	100
7. **Ferraz Shawmut SA** (France)	FC	100	100
- Ferraz Date Industries	FC	100	100
8. **Ugimag SA** (France)	FC	100	100
9. **Ferroxdure** (France)	FC	100	100
10. **Polygraphite** (France)	FC	100	100
11. **Carbone Lorraine Holdings KG** (Germany)	FC	100	100
- Deutsche Carbone AG	FC	100	100
- Belanova-Kalbach GmbH	FC	100	100
- Kalinova-Kalbach GmbH	FC	100	100
- Ferraz Shawmut GmbH	FC	100	100
- Cometec	FC	100	100
12. **Carbone Danmark SA**	FC	100	100
13. **G. Dietrich GmbH** (Germany)	FC	100	100
14. **Dietrich AG** (Switzerland)	FC	100	100
15. **Dietrich Ges.** (Austria)	FC	100	100
16. **Carbone Lorraine GmbH** (Germany)	IG	100	100
17. **Sofacel** (Spain)	FC	50	50
18. **Ferraz Shawmut Iberica**	FC	100	100
19. **Le Carbone Holdings Ltd GB**	FC	100	100
- Le Carbone (GB) Ltd	FC	100	100
- Le Carbone (Holdings) Ltd	FC	100	100
- Ralph Coïdan Ltd	FC	100	100
20. **Il Carbonio Spa**. (Italy)	IG	100	100
21. **Le Carbone-Lorraine BV** (Netherlands)	FC	100	100
22. **Carbone Nordic AB** (Sweden)	FC	100	100
23. **Carbone of America** (LCL) Ltd (Canada)	FC	100	100
24. **Ferraz Shawmut Canada**	FC	100	100
25. **Carbone Lorraine North America** (US)	FC	100	100
- Graphite Repairs	FC	51	51
- Carbone Corp.	FC	100	100
- Carbone of America Industries Corp.	FC	100	100
- Carbone KirKwood LLC	FC	73.6	73.6
- Astrocosmos Metallurgical Inc.	FC	100	100
- Midland Materials	FC	100	100
- Graphite Engineering and Sales	FC	100	100

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
26. **Ugimagnet Corp.** (US)	FC	100	100
- Ferraz Shawmut Inc. (US)	FC	100	100
- Ferraz Shawmut de Mexico (Mexico)	FC	100	100
- Ugimag Inc. (USA)	FC	100	100
27. **Le Carbone-Lorraine Australia**	FC	100	100
28. **Le Carbone KK** (Japan)	FC	100	100
29. **Ferraz Shawmut Japan**	FC	100	100
30. **Shanghai Carbone Lorraine Chemical Equipment Cy Ltd** (China)	FC	83	83
31. **Le Carbone** (Afrique du Sud) PTY Ltd (RSA)	FC	69.5	69.5
- Statcor Electrical	FC	69.5	69.5
- Dustria Investment	FC	69.5	69.5
32. **Carbono Lorena** (Brazil)	FC	100	100
33. **Carbone Lorraine Korea**	FC	100	100

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

Changes in the scope of consolidation over the past three years

The principal changes that affected the consolidated financial statements in 2004, 2005 and 2006 are presented below:

- during fiscal 2004, Carbone Lorraine Corporate Services absorbed Carbone Lorraine Information Systems, which was owned by the Group and was not consolidated in 2003;
- during fiscal 2005, Carbone Lorraine Composants absorbed Astrad, a brake marketing company acquired in the first quarter of 2005;
- during fiscal 2006, the Group acquired US company Graphite Engineering & Sales on February 1, 2006, French company Kapp in early September 2006 and sold the assets of Astro Service Center during the second half of 2006.

Given that these changes were not material, no pro forma accounts were prepared.

Disposal of the Magnets division

The disposal of the Magnets division was presented in the consolidated financial statements for fiscal 2005 in accordance with IFRS 5. The divestment was completed on February 27, 2006.

The balance sheet, income statement and cash flow statement at December 31, 2005 and December 31, 2006 show the assets and liabilities held for sale and discontinued operations on a separate line.

The income statement and the statement of cash flows at December 31, 2004 are shown on a pro forma basis for comparison purposes (see Note 3).

Consolidated income statement

Given the disposal of the Magnets division (see Note 3), the income statement was presented in accordance with IFRS 5 by disclosing separately items specifically attributable to assets held for sale and discontinued operations. The figures for fiscal 2004 are shown on a pro forma basis for comparison purposes.

In millions of euros IFRS	Note	2006	2005	2004 pro forma	2004
CONTINUING OPERATIONS					
Consolidated sales	**17**	**639.8**	**583.4**	**558.7**	**636.0**
Cost of sales		(444.4)	(407.1)	(396.2)	(466.3)
GROSS INCOME		**195.4**	**176.3**	**162.5**	**169.7**
Selling and marketing costs		(63.4)	(59.7)	(58.2)	(59.7)
Administrative and research costs		(62.9)	(54.8)	(53.5)	(58.8)
Other costs and additions to provisions		(1.7)	(1.1)	(1.8)	(1.8)
Financial components of operating income		(1.3)	(1.5)	(2.7)	(2.9)
OPERATING INCOME BEFORE NON-RECURRING ITEMS		**66.1**	**59.2**	**46.3**	**46.5**
Non-recurring income and expense	16	(5.1)	(5.7)	(5.8)	(12.8)
OPERATING INCOME	**17 / 19**	**61.0**	**53.5**	**40.5**	**33.7**
Finance costs	20	(9.7)	(7.1)	(8.7)	(8.7)
Other financial income/(costs)		-	-	1.2	1.2
Finance costs, net		**(9.7)**	**(7.1)**	**(7.5)**	**(7.5)**
Income before tax and non-recurring items		51.3	46.4	33.0	26.2
Current and deferred income tax	21	(11.0)	(11.1)	(6.1)	(6.4)
NET INCOME FROM CONTINUING OPERATIONS		**40.3**	**35.3**	**26.9**	**19.8**
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS					
Net income from assets held for sale or discontinued operations	3	(5.4)	(12.8)	(7.1)	
NET INCOME		**34.9**	**22.5**	**19.8**	**19.8**
Attributable to:		34.9	22.5	19.8	19.8
- Carbone Lorraine's shareholders		35.3	22.1	19.4	19.4
- Minority interests		(0.4)	0.4	0.4	0.4
EARNINGS PER SHARE	**22**				
Basic earnings per share (€)		2.53	1.60	1.66	1.66
Diluted earnings per share (€)		2.44	1.53	1.57	1.57
NET INCOME PER SHARE FROM CONTINUING OPERATIONS	**22**				
Basic earnings per share (euros)		2.92	2.53	2.27	n/a
Diluted earnings per share (euros)		2.82	2.43	2.15	n/a

Consolidated balance sheet

ASSETS

In millions of euros	Note	December 31, 2006	December 31, 2005	December 31, 2004
NON-CURRENT ASSETS				
Intangible assets				
- Goodwill	5	176.7	182.1	164.4
- Other intangible assets		4.5	4.3	4.9
Property, plant and equipment				
- Land		30.0	30.5	33.6
- Buildings		25.5	23.9	27.5
- Plant, equipment and other assets	7	71.3	70.7	75.7
- Assets in progress		20.3	14.3	6.9
Non-current financial assets				
- Investments	8	28.3	21.6	13.3
- Non-current derivatives	15	0.5		
- Other financial assets	3 / 14	28.2	24.5	4.2
Non-current tax assets				
- Deferred tax assets	21	27.1	29.8	26.4
- Non-current income tax assets		1.2	1.9	1.5
TOTAL NON-CURRENT ASSETS		**413.6**	**403.6**	**358.4**
CURRENT ASSETS				
- Inventories	9	131.2	122.8	118.6
- Trade receivables	10	122.5	114.8	122.8
- Other receivables		25.9	18.4	17.1
- Current income tax assets		2.0	2.9	2.1
- Current financial assets	14	2.9	2.5	1.3
- Current derivatives	15	2.0	0.9	
- Trading financial assets	14	3.5	0.6	0.6
- Cash and cash equivalents	14	17.7	35.7	27.4
- Assets held for sale and disc. op.	3	2.9	26.0	-
TOTAL CURRENT ASSETS		**310.6**	**324.6**	**289.9**
TOTAL ASSETS		**724.2**	**728.2**	**648.3**

LIABILITIES AND EQUITY

In millions of euros	Note	December 31, 2006	December 31, 2005	December 31, 2004
EQUITY				
- Share capital	11	27.9	27.7	27.5
- Premiums and retained earnings		274.9	253.2	239.5
- Net income for the period		35.3	22.1	19.4
- Cumulative translation adjustments		(34.5)	(14.3)	(37.4)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**303.6**	**288.7**	**249.0**
- Minority interests		4.4	5.9	5.7
TOTAL EQUITY		**308.0**	**294.6**	**254.7**
NON-CURRENT LIABILITIES				
- Non-current provisions	12	45.4	43.9	2.0
- Employee benefits	13	41.8	46.7	50.4
- Deferred tax liabilities	21	1.9	6.4	4.6
- Borrowings	14	136.7	177.1	132.9
- Non-current derivatives	15	2.6	2.8	
TOTAL NON-CURRENT LIABILITIES		**226.1**	**276.9**	**189.9**
CURRENT LIABILITIES				
- Trade payables		65.6	60.9	72.3
- Other payables		56.0	43.1	44.8
- Current provisions	12	0.5	5.2	57.5
- Current income tax liabilities		6.8	3.9	1.4
- Other liabilities		7.7	9.2	5.7
- Other current financial liabilities	14	3.8	3.0	2.7
- Current derivatives	15	1.1	0.2	
- Current advances	14	1.1	1.4	1.6
- Bank overdrafts	14	36.8	7.6	17.7
- Liabilities related to assets held for sale and disc. op.	3	8.4	22.2	-
TOTAL CURRENT LIABILITIES		**190.1**	**156.7**	**203.7**
TOTAL LIABILITIES AND EQUITY		**724.2**	**728.2**	**648.3**

Consolidated statement of changes in equity

In millions of euros	Share capital	Premiums and retained earnings	Net income for the period	Cumulative translation adjustment	Total	Minority interests	Total equity
	Attributable to Carbone Lorraine's shareholders						
EQUITY AT DECEMBER 31, 2004	**27.5**	**239.5**	**19.4**	**(37.4)**	**249.0**	**5.7**	**254.7**
Impact of change in accounting methods		(0.1)			(0.1)		(0.1)
RESTATED NET EQUITY AT DECEMBER 31, 2004	**27.5**	**239.4**	**19.4**	**(37.4)**	**248.9**	**5.7**	**254.6**
Prior period's net income		19.4	(19.4)				
Dividends paid		(7.6)			(7.6)	(0.6)	(8.2)
Issue of new shares	0.2	1.8			2.0		2.0
Treasury shares		(1.2)			(1.2)		(1.2)
Increase in fair value of hedging derivatives		0.8			0.8		0.8
Translation adjustments and other		0.6		23.1	23.7	0.4	24.1
Net income for the year			22.1		22.1	0.4	22.5
EQUITY AT DECEMBER 31, 2005	**27.7**	**253.2**	**22.1**	**(14.3)**	**288.7**	**5.9**	**294.6**
Prior period's net income		22.1	(22.1)				
Dividends paid		(9.7)			(9.7)	(0.7)	(10.4)
Issue of new shares	0.2	3.6			3.8		3.8
Treasury shares		(0.4)			(0.4)		(0.4)
Increase in fair value of hedging derivatives		0.4			0.4		0.4
Translation adjustments and other		5.7		(20.2)	(14.5)	(0.4)	(14.9)
Net income for the year			35.3		35.3	(0.4)	34.9
EQUITY AT DECEMBER 31, 2006	**27.9**	**274.9**	**35.3**	**(34.5)**	**303.6**	**4.4**	**308.0**

In 2005, the principal movements were as follows:

- an issue of shares arising from the exercise of subscription options granted to employees, leading to the issue of 85,775 shares for €2.0 million;
- a transfer to equity of the 34,182 treasury shares held with a negative impact of €1.2 million;
- adoption of IAS 32 and 39 on January 1, 2005, leading to a negative impact of €0.1 million;
- an increase of €0.8 million in the fair value of derivatives at the balance sheet date.

In 2006, the principal movements were as follows:

- an issue of shares deriving from:
  - the exercise of stock options granted to employees, leading to the issue of 79,629 shares for €2.3 million (increase of €0.1 million in the share capital and an issue premium of €2.2 million),
  - the issue of 44,494 shares arising from the capital increase reserved for employees, leading to an impact of €1.5 million (increase of €0.1 million in the share capital and an issue premium of €1.4 million);
- a transfer to equity of the 7,851 treasury shares held with a negative impact of €0.4 million;
- an increase of €0.4 million in the fair value of derivatives at the balance sheet date.

Consolidated statement of cash flows

Given the disposal of the Magnets division (see Note 3), the statement of cash flows was presented in accordance with IFRS 5 by disclosing separately cash flows specifically attributable to assets held for sale and discontinued operations. The figures for fiscal 2004 are shown on a pro forma basis for comparison purposes.

In millions of euros IFRS	2006	2005	2004 pro forma	2004
OPERATING ACTIVITIES				
Income before tax	51.3	46.4	33.0	26.2
Depreciation and amortization	21.6	21.1	21.4	22.8
Additions to/(write-backs from) provisions	(1.6)	(1.9)	(14.3)	(13.2)
Finance costs, net	9.7	7.1	7.5	7.5
Capital gain/(loss) on asset disposals	0.1	(0.6)	(1.6)	(1.8)
Other items	(0.8)	(2.3)	1.3	1.0
Cash generated by operating activities before change in the WCR	**80.3**	**69.8**	**47.3**	**42.5**
Change in the working capital requirement	(12.0)	(8.3)	(12.8)	(11.6)
Income tax paid	(8.9)	(8.7)	(6.2)	(6.3)
Net cash generated by operating activities	**59.4**	**52.8**	**28.3**	**24.6**
Investing activities				
Increase in intangible assets	(1.0)	(0.4)	(2.5)	(2.5)
Increase in property, plant and equipment	(31.5)	(24.1)	(17.2)	(18.7)
Increase in financial assets	(6.9)	(28.5)	(2.5)	(2.4)
Changes in the scope of consolidation	(10.2)	(1.1)	(13.0)	(13.0)
Disposals or reductions in non-current assets	0.6	3.0	7.5	7.2
Cash generated/(used) by investing activities	**(49.0)**	**(51.1)**	**(27.7)**	**(29.4)**
Net cash generated/(used) by operating and investing activities	**10.4**	**1.7**	**0.6**	**(4.8)**
Financing activities				
Proceeds from issue of new shares	3.5	0.6	62.0	62.0
Net dividends paid to shareholders and minority interests	(10.6)	(8.2)	(0.5)	(0.5)
Interest payments	(9.5)	(6.3)	(7.2)	(7.2)
Change in debt, gross (Note 14)	(30.7)	38.1	(47.3)	(47.3)
Cash generated by financing activities	**(47.3)**	**24.2**	**7.0**	**7.0**
Change in cash held by assets held for sale and discontinued operations	(6.3)	4.6	5.4	
Change in cash	**(43.2)**	**21.3**	**2.2**	**2.2**
Cash at beginning of fiscal year (Note 14)	28.7	10.3	8.7	8.7
Cash at end of fiscal year (Note 14)	(15.6)	28.7	10.3	10.3
Impact of currency fluctuations	1.1	2.9	0.6	0.6
CHANGE IN CASH	**(43.2)**	**21.3**	**2.2**	**2.2**

Notes to the consolidated financial statements

Note 1 Statement of conformity

In accordance with EC regulation no. 1606/2002 of July 19, 2002, which applies to the consolidated financial statements of European companies listed on a regulated market, the consolidated financial statements of Carbone Lorraine and its subsidiaries (hereinafter "the Group") have been prepared in accordance with IFRS (International Financial Reporting Standards), because the Group is listed in a European Union member state.

The mandatory standards and interpretations at January 1, 2006 did not have any impact on the consolidated financial statements.

The options adopted by the Group are stated in the following chapters.

The consolidated financial statements at December 31, 2006 have been prepared using the recognition and measurement principles stated in the IFRSs adopted in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the general regulations of the *Autorité des Marchés Financiers* (AMF, the French market regulator).

For comparison purposes, the consolidated financial statements for the fiscal year to December 31, 2006 include data for fiscal 2004 and 2005 restated using the same accounting rules (except for IAS 32 & 39 for fiscal 2004).

The accounting principles stated from Note 2 onwards have been used to prepare the comparative figures and the annual financial statements for 2006.

Note 2 Accounting policies and principles of consolidation

A - Basis of consolidation

The consolidated financial statements include those of the parent company and of all those companies in which the Group holds a controlling interest at December 31 each year. Control is defined as the power to govern the financial and operating policies of a business so as to obtain benefits from its activities. Subsidiaries over which the Group directly or indirectly exerts exclusive control are fully consolidated.

Jointly controlled companies are consolidated proportionately.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the acquisition date or up to the disposal date respectively.

All associate undertakings over which the Group exerts significant influence, which is presumed to exist when the latter holds at least 20% of voting rights, are accounted for under the equity method. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies used by all Group entities within the scope of consolidation.

All material intra-group transactions and balances have been eliminated.

The consolidated financial statements have been prepared in euros.

B - Presentation of the financial statements

Groupe Carbone Lorraine prepares its financial statements in line with the accounting principles laid down in IAS 1 Presentation of financial statements.

B1 Income statement

Given customary practice and the nature of its business activities, the Group has opted for the by function of expense format of the income statement, which consists in classifying costs according to their function under cost of sales, selling, administrative, research and development costs.

B2 Balance sheet

Assets and liabilities created during the business cycle and those with a maturity of less than 12 months at the balance sheet date are classified as current. All other assets and liabilities are classified as non-current.

B3 Consolidated statement of cash flows

The Group prepares the consolidated statement of cash flows using the indirect method and as stipulated in IAS 7.

The indirect method consists in determining cash flows from operating activities for which net income or loss is adjusted for the effects of non-cash transactions and the items arising from investing or financing activities.

B4 Operations, assets and liabilities held for sale

In accordance with IFRS 5, assets and liabilities that are immediately available for sale in their current state and the sale of which is highly probable are shown on the balance sheet under assets and liabilities held for sale. Where a group of assets is held for sale in a single transaction, the group of assets and corresponding liabilities is considered as a whole. The disposal must take place in the year following this presentation of the asset or group of assets.

The assets or group of assets held for sale are stated at the lower of their carrying amount and fair value net of disposal costs. Non-current assets appearing on the balance sheet as held for sale are no longer depreciated once they are presented as such.

The income of disposal groups is shown by separating the net income of continuing operations, and their cash flows are presented on a separate line of the statement of cash flows.

C - Foreign currency translation

The financial statements of the Group's foreign subsidiaries are prepared in their functional currency.

The balance sheet of companies whose functional currency is not the euro is translated into euros at the closing rate, except for equity, which is translated at the historic exchange rate. Income statement items are translated at the average exchange rate for the period.

Cash flow statement items are translated at the average exchange rate, except for cash, which is translated at the closing rate.

Translation differences arising on balance sheet items are recorded separately in equity under cumulative translation adjustments. They comprise:

- the impact of changes in exchange rates on balance sheet items;
- the difference between net income calculated at the average exchange rate and net income calculated at the closing rate.

Goodwill and fair value adjustments deriving from the acquisition of subsidiaries whose functional currency is not the euro are treated as the relevant subsidiary's assets and liabilities. They are therefore stated in the subsidiary's functional currency and translated at the closing rate.

D - Foreign currency assets and liabilities

Foreign currency transactions are recognized and measured in line with IAS 21 - Effects of changes in foreign exchange rates.

Transactions denominated in currencies other than the euro are recorded at the exchange rate ruling at the transaction date. At the end of the fiscal year, monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Any gains and losses arising from currency translation are taken to operating income for the period under foreign exchange gains and losses.

Translation gains and losses on financial instruments denominated in foreign currencies representing a hedge of a net investment in a foreign operation are recorded in equity under cumulative translation adjustments. The accounting treatment for foreign currency gains and losses at the transition date is described in Section C above.

E - Hedging

Hedging transactions are recognized and measured in line with the principles laid down in IAS 32 and 39.

E1 Currency and commodity hedges

A currency derivative is eligible for hedge accounting where the hedging relationship was documented at the outset and its effectiveness has been demonstrated throughout its life.

A hedge is a way of protecting against fluctuations in the value of assets, liabilities and irrevocable commitments. A hedge also helps to protect against adverse fluctuations in cash flows (sales generated by the assets of the business, for instance).

Derivative instruments are stated at their fair value. Changes in the fair value of these instruments are accounted for as follows:

- changes in the fair value of instruments eligible as future cash flow hedges are accounted for directly in equity in respect of the effective portion of the hedge (intrinsic value). Changes in the fair value of these instruments are then taken to operating income and offset fluctuations in the value of the assets, liabilities and irrevocable commitments that are hedged as they occur. The ineffective portion of the hedge (time value) is taken to operating income;
- changes in the fair value of instruments not eligible as cash flow hedges are taken directly to income.

E2 Interest rate hedging

Interest rate derivatives are stated at fair value on the balance sheet. Changes in their fair value are accounted for as follows:

- the ineffective portion of the derivative instrument is taken to income under the cost of debt;
- the effective portion of the derivative instrument is recognized as follows:
    - in equity for a derivative accounted for as a cash flow hedge (*e.g.* a swap turning a debt carrying a floating interest rate into a fixed-rate liability),
    - in income (cost of debt) in the case of a derivative accounted for as a fair value hedge (*e.g.* a swap turning a fixed interest rate into a floating interest rate). This accounting treatment is offset by changes in the fair value of the hedged debt.

F - Intangible assets

The applicable standards are IAS 38 - Intangible assets, IAS 36 - Impairment of assets and IFRS 3 - Business combinations.

In accordance with IAS 38 - Intangible assets, only items in respect of which future economic benefits are likely to flow to the Group and the cost of which May be reliably determined are accounted for as intangible assets.

The Group's intangible assets comprise primarily goodwill.

F1 Goodwill

In accordance with IFRS 3, the subsidiary's assets, liabilities and contingent liabilities are stated at fair value at the acquisition date following a business combination. Minority interests are stated at their share of the fair value of assets, liabilities and contingent liabilities recognized. The difference between the acquisition cost of the subsidiary and the Group's share of its net assets stated at fair value is accounted for under goodwill.

Goodwill is allocated individually to the Group's cash generating units (CGUs). Given the disposal of the Magnets division, the Group adopted the following four CGUs for the fiscal year to December 31, 2006:

- Electrical Applications;
- Electrical Protection;
- High-temperature applications and High-energy braking;
- Anticorrosion Equipment.

In accordance with IFRS 3 - Business combinations, goodwill is not amortized. It undergoes an impairment test once signs of impairment in the value of assets appear and at least once every year.

In accordance with IAS 36, the impairment test method adopted by the Group consists in:

- preparing cash flow projections after normalized tax based on the Strategic Plan of the relevant CGU;
- determining a value in use using a method comparable to any business valuation by discounting cash flows at the segment's weighted average cost of capital (WACC);
- comparing this value in use with the carrying amount of the relevant assets to determine whether or not an impairment loss needs to be recognized.

Value in use is determined based on free cash flow projections discounted over a period of five years and a terminal value. The discount rate used for these calculations is the weighted average cost of capital for each of the cash generating units (see Note 6).

The assumptions made for sales growth and terminal values are reasonable and consistent with the market data available for each of the operating activities.

Goodwill impairment losses are irreversible.

F2 Patents and licenses

Patents and licenses are amortized on a straight line basis over the period for which they are protected by law.

Software is amortized on a straight line basis over its probable service life, which May not exceed five years.

F3 Development costs

Under IAS 38 - Intangible assets, development costs are capitalized where:

- the entity has the intent and the financial and technical ability to see the development project through to completion;
- it is probable that the expected future economic benefits deriving from development costs will flow to the entity;
- the cost of the asset can be measured reliably.

Research and development costs that do not meet the aforementioned criteria are expensed as incurred. Capitalized development costs meeting the criteria laid down in the new accounting standards are recognized as an asset on the balance sheet. They are amortized on a straight line basis over their useful life, which generally does not exceed three years.

G - Property, plant and equipment

In accordance with IAS 16 - Property, plant and equipment, only items whose cost May be determined reliably and in respect of which future economic benefits are likely to flow to the Group are accounted for as property, plant and equipment.

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses, except for land, which was revalued at the IFRS transition date.

Depreciation is calculated based on the rate of consumption of the expected economic benefits per item based on acquisition cost, less, where appropriate, its residual value, where the latter is deemed to be significant.

The various components of an item of property, plant and equipment are accounted for separately where their estimated service life and thus their depreciation period are materially different.

The Group applies the straight-line method of depreciation according to the expected service life of the item.

The periods used are as follows:

- buildings: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;
- vehicles: 3 to 5 years.

These depreciation periods are reviewed and adjusted in the event of significant changes. These changes are applied prospectively.

Investment grants are recognized at the outset as a deduction from the gross value of the non-current asset.

H - Leases

Under IAS 17, a lease is classified as a finance lease if it transfers substantially to the lessee all the risks and rewards incidental to ownership of an asset.

Where the criteria laid down in the standard are not met, the costs resulting from agreements are charged to income for the period and the lease is considered as an operating lease.

Non-current assets used under a finance lease give rise to the recognition on the balance sheet of both an item of property, plant and equipment and an obligation to make future lease payments. At the commencement of the lease term, the asset and relevant liability of the same value corresponding to the future payments under the lease are recognized on the balance sheet.

Lease payments are broken down into a finance charge and the repayment of the outstanding debt. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The capitalized asset is depreciated over the useful life adopted by the Group for non-current assets of the same type.

In addition, a portion of the capital amount of the debt is repaid in accordance with the debt repayment schedule contained in the finance lease agreement.

I - Impairment of property, plant and equipment and intangible assets

In accordance with IAS 36 - Impairment of assets, when events or changes in the market environment indicate a risk of impairment, the Group's intangible assets and property, plant and equipment undergo a detailed review to determine whether their carrying amount is below their recoverable amount. This amount is defined as the higher of fair value and value in use.

Should the recoverable amount of assets fall below their carrying amount, an impairment loss is recognized in respect of the difference between these two amounts. Impairment losses recognized on property, plant and equipment and intangible assets (except for goodwill) with a defined useful life May be reversed subsequently if the recoverable amount becomes higher than the carrying amount again (without exceeding impairment loss initially recognized).

The recoverable amount of assets is usually determined based on their value in use. Value in use is defined as the expected future economic benefits from their use and from their sale. It is assessed notably by reference to the discounted future cash flows projected based on economic assumptions and operating budgets drawn up by Carbone Lorraine's senior management.

IAS 36 defines the discount rate to be used as the pre-tax interest rate reflecting the current assessment of time value per market and the risks specific to the asset. It represents the return that investors would require if they had to choose an investment, the amount, maturity and risks of which are equivalent to those of the relevant asset or Cash-Generating Unit (CGU).

The discount rate used for impairment test purposes takes into account the financial structure and gearing of companies in the sector, *i.e.* of peers and not of the business or group to which the asset or CGU belongs.

J - Financial assets and liabilities

Financial assets and liabilities are measured and recognized in line with IAS 39 - Financial instruments: Recognition and Measurement and by IAS 32 - Financial Instruments: Disclosure and Presentation.

Financial assets comprise investments available for sale, investments held to maturity, transition assets, margin deposits paid in relation to derivative instruments, derivative instruments held as assets, loans, receivables, and cash and cash equivalents.

Financial liabilities comprise borrowings, other financing and bank overdrafts, derivative instruments held as liabilities, margin deposits received in relation to derivative instruments and other liabilities.

Borrowings and other financial liabilities are stated at amortized cost using the effective interest rate (EIR). For example, lending fees are deducted from the initial amount of the debt, then added back period by period according to the calculation of the EIR, with the amounts added back being recognized in income.

K - Treasury shares

Treasury shares are deducted from equity at their acquisition cost. Any gains or losses from the sale of these shares are recognized directly in equity and are not taken to income for the period.

L - Non-current financial assets

Investments in unconsolidated subsidiaries and associates are stated at fair value.

In the event of a prolonged decline in value, an impairment loss is recognized if the carrying amount exceeds fair value, the latter being computed based on the relevant entity's medium-term development prospects, and is charged to income.

The principal activity of the unconsolidated subsidiaries is the distribution of products manufactured by the Group's consolidated companies. Including them in the scope of consolidation would not have a material impact on the Group's financial statements.

A company is included in the scope of consolidation when two of the following four criteria are met for two consecutive years:

- Equity: the difference between the value of the securities and net equity exceeds 1% of the Group's equity in the previous year;
- Debt: the amount of non-Group debt exceeds €5 million;
- Sales to third parties: the entity's sales less intra-Group sales represent more than 1% of Group sales in the previous year;
- Net income: net income exceeds €0.5 million.

M - Provisions

In accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, provisions are recorded when the Group is under an obligation to a third party at the end of the fiscal year that is likely or certain to trigger an outflow of resources 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.

The estimated amount shown in provisions represents the outflow of resources that the Group is likely to incur to extinguish its obligation. Where this amount cannot be measured reliably, no provision is recorded. In this instance, information is disclosed in the notes to the financial statements.

Contingent liabilities consist of a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a probable obligation for which the outflow of resources is not likely. They are disclosed in the notes to the financial statements.

With restructurings, an obligation exists where the restructuring has been announced and a detailed plan drawn up or execution of the plan has commenced prior to the balance sheet date.

Where the entity has a reliable schedule, the liabilities are discounted where discounting has a material effect.

N - Inventories

Inventories are carried at the lower of cost and their probable net realizable value.

Cost comprises acquisition or production cost.

The only indirect costs taken into account in the measurement of work in progress and finished goods are production-related expenses. No interest costs are capitalized.

O - Consolidated sales

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

A product is recognized in sales when the entity transfers to the buyer the risks and benefits of ownership of the goods.

A sale is measured at the fair value of the consideration received or receivable. Where payment is deferred, leading to a significant impact on determination of fair value, this is reflected by discounting future payments.

The amount of revenue from the sale of goods and equipment is usually recognized when there is a formal agreement with the customer stipulating that risks have been transferred, the amount of revenue can be measured reliably and it is likely that the economic benefits arising from the transaction will flow to the Group. With agreements providing for formal acceptance of the goods, equipment or services received by the customer, recognition of the revenue is normally deferred until the date of acceptance.

Income from ancillary activities is recorded under the appropriate heading of the income statement, *i.e.* other revenues, financial income, or as a deduction from (selling, general, administrative or research) expenses of the same type.

P - Employee benefits

Under defined contribution plans, the Group is under no obligation other than to pay contributions. The corresponding charge, which reflects the payment of contributions, is expensed as incurred.

In line with IAS 19, defined benefit pension plans undergo an actuarial valuation using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. This final obligation is then discounted to present value.

These actuarial calculations are based on various estimates:

- mortality tables;
- retirement dates;
- rate of future salary and benefit increases and employee turnover;
- expected return on plan assets;
- discount and inflation rates set for each of the relevant entities taking into account their local macro-economic environment.

Actuarial gains and losses comprise the cumulative impact of:

- experience adjustments (difference between previous actuarial assumptions and what has actually occurred);
- changes in actuarial assumptions.

IAS 19 states that actuarial gains and losses May offset one another in the long term. As a result, it provides for the so-called corridor approach for the recognition of post-employment benefit obligations.

The Group has opted to use this method:

- cumulative unrecognized actuarial gains and losses falling outside a corridor of plus or minus 10% of the value of the higher of the plan's assets and obligations are recognized and amortized over the expected average remaining working lives of the employees participating in the plan;

- gains and losses falling within the 10% corridor are not recognized;
- unrecognized net cumulative actuarial gains and losses include both the cumulative portion of the 10% within the corridor, as well as the portion outside the corridor, which has not been recognized at the balance sheet date; In accordance with IAS 19, they are disclosed in the notes to the financial statements.

P1 Recognition of post-employment benefit obligations

The Group's post-employment benefit obligations are accounted for as follows:

On the face of the balance sheet

The amount recognized under liabilities in respect of defined contributions is equal to the total of:

- the present value of defined benefit obligations at the balance sheet date;
- less the fair value at the balance sheet date of plan assets used directly to pay or finance the obligations;
- plus unrecognized actuarial gains (or less unrecognized actuarial losses) that exist under the aforementioned rule;
- less as yet unrecognized past service costs and payments.

On the face of the income statement

The amount expensed or recognized in income (net periodic cost of employee benefits) is the total amount net of the following items:

- current service cost incurred during the period (or rights vested during the period);
- interest cost (also called the "discounting effect");
- expected return on plan assets: this expected return is determined based on market expectations at the beginning of the period for returns on plan assets over the entire duration of the corresponding liability (long term);
- actuarial gains and losses: portion recognized during the period;
- past service cost: portion recognized during the period;
- losses/(gains) on any curtailment or settlement of the plan.

P2 Recognition of unrecognized past service cost

Unrecognized past benefits are recognized in income on a pro rata basis with the corresponding obligation

Q - Non-recurring income and expense

Non-recurring items correspond to income and expense not arising during the Group's day-to-day operations. They are characterized in general by their unusual nature and their material amount.

Non-recurring income and expense include the following items:

- disposal gains: on property, plant and equipment, intangible assets, investments, other financial assets and other assets;
- impairment losses recognized on investments, loans, goodwill and other assets;
- certain types of provision;
- reorganization and restructuring costs.

R - Operating income

Operating income is shown before net finance costs, taxes and minority interest.

Investment grants are shown as a deduction from costs to which the grant relates.

S - Deferred tax

Accounting restatements or consolidation adjustments May affect the results of the consolidated companies. Temporary differences are differences between the carrying amount of an asset or liability on the balance sheet and its tax base, which give rise to the calculation of deferred taxes.

In accordance with IAS 12, the Group discloses deferred taxes on the balance sheet separately from other assets and liabilities. Deferred tax assets are recognized on the balance sheet where it is more likely than unlikely that they will be recovered in subsequent years. Deferred tax assets and liabilities are not discounted.

When assessing the Group's ability to recover these assets, the following items in particular are taken into consideration:

- projections of its future taxable income;
- its taxable income in previous years.

Deferred tax assets and liabilities are stated using the liability method for the balance sheet, *i.e.* using the tax rate that is expected to be applied in the year in which the asset will be realized or the liability settled, based on tax rates (and tax laws) adopted or virtually adopted at the balance sheet date, taking into account future tax rate increases or decreases.

The valuation of deferred tax assets and liabilities reflects the tax consequences of the way in which the entity expects at the balance sheet date to recover or to settle the carrying amount of its assets and liabilities.

T - Segment reporting

In accordance with the requirements of IAS 14, the Group has opted to use business segments as its primary segment and geographical area as its secondary segment in view of its internal management and reporting structure. Given the disposal of the Magnets division, the Group is currently organized into three operating activities:

- Advanced Materials and Technologies: applications of graphite for high-temperature industrial processes, anticorrosion equipment and high-energy braking;
- Electrical Applications: brushes and sliding electrical contacts for industrial, automotive and small household appliance motors and diagnostic analysis of malfunctions in industrial and automotive electric motors in the contact between the brushes and the collector;
- Electrical Protection: fuses and fuseholders protecting industrial equipment and power semi-conductors, to ensure the safety of people and equipment.

The Group has divided its secondary reporting segment into five geographical segments: France, Rest of Europe, North America, Asia and the rest of the world.

The Group's segment reporting is prepared in accordance with the accounting methods used to draw up and present the consolidated financial statements.

U - Earnings per share

Basic and diluted earnings per share are shown both for total net income and net income from continuing operations.

Basic earnings per share are calculated by dividing net income for the period attributable to holders of ordinary shares by the weighted average number of ordinary shares in issue during the period.

For the calculation of diluted earnings per share, net income attributable to holders of ordinary shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

V - Equity-linked benefits granted to employees

In accordance with IFRS 2 - Share-based payment, stock purchase and subscription options and offers reserved for employees related to shares in the Group are recognized at fair value at the grant date using a binomial model. Fluctuations in value after the date of grant have no impact on this measurement.

The value of stock purchase and subscription options depends notably on the exercise price, the probability of the conditions for exercise of the options being met, the life of the options, current price of the underlying shares, anticipated volatility of the share price (based on the historical volatility of the share price), expected dividends and risk-free interest rate over the life of the option. This value is recognized in staff costs on a straight-line basis between the grant date and exercise date with a direct equivalent entry in equity for plans settled in equity and in liabilities to employees for plans settled in cash.

W - Use of estimates

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or assessments be made, particularly in relation to the calculation of provisions and impairment testing. These assumptions, estimates or assessments are prepared on the basis of the information available and the position at the balance sheet date.

Actual events occurring after the balance sheet date May prove to be different from the assumptions, estimates or assessments used.

Use of management estimates in the application of the Group's accounting standards

Carbone Lorraine May make estimates and use assumptions affecting the carrying amount of assets and liabilities, income and expense, as well as information about underlying assets and liabilities. Future results are liable to diverge significantly from these estimates.

The estimates and underlying assumptions are made based on past experience and other factors considered to be reasonable based on circumstances. They serve as the basis for the judgement exercised to determine the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Actual values May differ from the estimated values.

The estimates and underlying assumptions are reviewed continuously. The impact of changes in accounting estimates is recognized during the period of the change if it affects only this period or during the period of the change and subsequent periods, if the latter are also affected by the change.

- Notes 2/F1, 2/I and 6 concern testing goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account.
- Notes 12 and 13 concerning provisions and employee benefits describe the provisions set aside by Carbone Lorraine. To determine these provisions, Carbone Lorraine used the most reliable estimate of these obligations.
- Note 21 concerning tax expense reflects the Group's tax position, which is based for France, Germany and the US on the Group's best estimate of trends in its future taxable income.

All these estimates are predicated on a structured collection process for projections of future cash flows, providing for validation by line managers, as well as of expectations for market data based on external indicators and used using consistent and documented methods.

X - New standards and interpretations not yet applied

New standards and amendments to standards and interpretations are not yet in force for fiscal years ended on December 31, 2006 and have not yet been applied in the preparation of the consolidated financial statements:

- IFRS 7 on Financial instruments: disclosures and the amended IAS 1 on Presentation of financial statements: disclosures require the disclosure of more extensive information about the importance of financial instruments for an entity's financial situation and performance and qualitative and quantitative details about the type of scale of the risks. IFRS 1 and amended IAS 7, application of which will be mandatory in the Group's 2007 financial statements, will entail more detailed disclosures about the Group's financial instruments and share capital;
- IFRIC 11 on options granted within a group and treasury shares acquired to hedge option plans confirms the accounting treatment to be applied and already adopted by the Group in certain specific cases where benefits are granted to employees of various Group entities.

Note 3 Assets held for sale or discontinued operations

The disposal of the Magnets division, which was underway at December 31, 2005, was completed on February 27, 2006.

Initially, €5 million of the net disposal price of €10 million was paid, with the remaining €5 million related to the 3 to 5-year vendor credit being recognized under other non-current financial assets.

In accordance with IFRS 5, net income from assets held for sale or discontinued operations was disclosed on a separate line of the income statement. During 2005, the same heading reflected items related to the Magnets division prior to the disposal. In 2006, it included residual charges attributable to activities continued temporarily, but closely linked to the disposal of the Magnets division and intended to be shut down over the next few months.

Net income from assets held for sale and discontinued operations is disclosed separately on the Group's income statement and takes into account:

In millions of euros	December 31, 2006	December 31, 2005	December 31, 2004
Net income from assets held for sale or discontinued operations	(5.2)	(0.8)	(7.1)
Net impairment losses recognized on assets and liabilities held for sale	(0.2)	(12.0)	-
TOTAL	**(5.4)**	**(12.8)**	**(0.1)**

- Net income from discontinued operations in the fiscal year ended December 31, 2006 included €1.6 million in sales and €6.8 million in operating costs reflecting the entire amount of future expenses anticipated for the shutdown of the activities.
- The impairment loss was adjusted at December 31, 2006 following finalization of the disposal.

Pursuant to IFRS 5, the assets and liabilities held for sale and discontinued operations are shown on a separate line of the Group's balance sheet. During 2005, the same heading reflected the contribution made by the Magnets division prior to the disposal. In 2006, the heading included assets and liabilities attributable to activities continued temporarily, but closely linked to the disposal and intended to be shut down over the next few months.

The assets and liabilities held for sale and discontinued operations are disclosed separately on the Group's balance sheet and takes into account:

In millions of euros	December 31, 2006	December 31, 2005
Assets held for sale		23.2
Operations to be discontinued	2.9	2.8
Assets held for sale and discontinued operations	**2.9**	**26.0**
Liabilities held for sale		15.2
Liabilities related to operations to be discontinued	8.4	7.0
Liabilities related to assets held for sale and discontinued operations	**8.4**	**22.2**

At December 31, 2006, operations due to be discontinued included €2.9 million in current assets and the liabilities related to operations due to be discontinued comprised €3.4 million in provisions, €1.4 million in employee benefits and €3.6 million in current liabilities.

Note 4 Business combinations

Business combinations during fiscal 2006

In February 2006, Carbone Lorraine North America acquired all the shares in Graphite Engineering and Sales (GES), a US company specialized in high-precision graphite machining.

The value of the goodwill recognized is based on integrating GES within Carbone Lorraine's production and sales network, which will give the Group access to an additional portfolio of end customers, thereby bringing it into closer contact with its markets.

In September 2006, Carbone Lorraine Equipement Génie Chimique acquired all the shares in Kapp in cash.

The value of the goodwill recognized reflects the integration of Kapp's plate heat exchanger technology, which, together with the new CL Clad® material, harbors substantial development potential in anticorrosion equipment.

The net assets acquired in these transactions and related goodwill are presented below:

In millions of euros	Net assets at acquisition date	Fair value adjustments	Fair value of net assets
Non-current assets	4.9		4.9
Other assets	6.6		6.6
Non-current liabilities	(0.2)		(0.2)
Current liabilities	(3.2)	(0.1)	(3.3)
Net assets	**8.1**	**(0.1)**	**8.0**
Goodwill			7.6
Total acquisitions			**15.6**
including:			
Acquisition price paid in cash			16.6
Cash held by subsidiaries acquired			(1.0)

The fair value adjustment related to the recognition of employee benefits.

The contribution made to Carbone Lorraine's net income by these acquisitions amounted to €2.6 million. Net cash generated by the operating and investing activities of these acquisitions came to €2.6 million.

Note 5 Goodwill

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Net value at January 1	182.1	164.4	172.3
Acquisitions	7.6		0.3
Disposals			
Translation adjustments	(13.0)	17.7	(8.2)
Net value at end of period	176.7	182.1	164.4
Gross value at end of period	176.7	182.1	164.4
Total impairment losses at end of period	**0.0**	**0.0**	**0.0**

A breakdown by cash-generating unit is shown in the following table:

	Dec. 31, 2005	Movements during 2006			Dec. 31, 2006
In millions of euros	Net value	Acquisitions	Impairment	Cumulative translation adjustment	Net value
Anticorrosion equipment	64.2	2.7		(5.4)	61.5
High-temperature applications and High-energy braking	24.7	4.9		(1.2)	28.4
Electrical Applications	30.7			(1.1)	29.6
Electrical Protection	62.5			(5.3)	57.2
TOTAL	**182.1**	**7.6**		**(13.0)**	**176.7**

Note 6 Asset impairment tests

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2006 was prepared.

Under IAS 36, tests were carried out on the basis of the value in use determined using the discounted cash flow method.

The key assumptions used were as follows:

- five-year cash flow forecasts based on the 2007 budget and projections for the following four fiscal years;
- an after-tax discount rate of 8%;
- a perpetual growth rate of 1% for calculating terminal value;
- a normalized tax rate of 34%.

Note 7 Property, plant and equipment

In millions of euros	Land	Buildings	Plant, equipment and other	Other items	Total
Net value at January 1, 2004	**33.7**	**34.2**	**67.4**	**17.8**	**153.1**
Acquisitions	-	1.2	17.2	5.2	23.6
Retirements and disposals	(0.1)	(4.6)	(1.3)	-	(6.0)
Depreciation	-	(2.8)	(18.0)	-	(20.8)
Translation adjustments	-	(0.8)	(2.0)	(0.1)	(2.9)
Other movements		0.3	12.4	(16.0)	(3.3)
Net value at December 31, 2004	**33.6**	**27.5**	**75.7**	**6.9**	**143.7**
Gross value at December 31, 2004	34.9	80.5	323.2	6.9	445.5
Total depreciation at December 31, 2004	(1.3)	(53.0)	(225.7)		(280.0)
Total impairment losses at December 31, 2004			(21.8)		(21.8)
Net value at January 1, 2005	**33.6**	**27.5**	**75.7**	**6.9**	**143.7**
Acquisitions	-	0.7	9.1	12.3	22.1
Retirements and disposals	(0.2)	(0.7)	(1.6)	-	(2.5)
Depreciation	-	(2.8)	(18.5)	-	(21.3)
Translation adjustments	1.0	2.3	5.3	0.5	9.1
Assets held for sale and disc. op.	(3.9)	(3.6)	(4.3)	(0.9)	(12.7)
Other movements	-	0.5	5.0	(4.5)	1.0
Net value at December 31, 2005	**30.5**	**23.9**	**70.7**	**14.3**	**139.4**
Gross value at December 31, 2005	31.1	66.4	287.9	14.3	399.7
Total depreciation at December 31, 2005	(0.6)	(42.5)	(217.2)	-	(260.3)
Total impairment losses at December 31, 2005	-	-	-	-	-
Net value at January 1, 2006	**30.5**	**23.9**	**70.7**	**14.3**	**139.4**
Acquisitions	0.2	3.6	12.3	15.2	31.3
Retirements and disposals	-	-	(1.1)	(0.4)	(1.5)
Depreciation	-	(2.3)	(17.9)	-	(20.2)
Translation adjustments	(0.4)	(1.5)	(3.4)	(0.7)	(6.0)
Changes in the scope of consolidation	-	2.1	2.8	-	4.9
Other movements	(0.3)	(0.3)	7.9	(8.1)	(0.8)
Net value at December 31, 2006	**30.0**	**25.5**	**71.3**	**20.3**	**147.1**
Gross value at December 31, 2006	31.1	69.6	292.0	20.3	413.0
Total depreciation at December 31, 2006	(0.6)	(43.6)	(218.9)	-	(263.1)
Total impairment losses at December 31, 2006	(0.5)	(0.5)	(1.8)		(2.8)

Note 8 Investments

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
At year end, the unconsolidated shareholdings held by consolidated companies had a gross value of:	41.1	34.4	22.9
Less impairment losses amounting to:	(12.8)	(12.8)	(9.6)
Representing a net value of:	28.3	21.6	13.3
Other investments	-	-	-
TOTAL	**28.3**	**21.6**	**13.3**

The increase in investments reflects primarily the Group's €6.6 million in investments in India and China. Since investments are still in progress, these shareholdings will be consolidated once the relevant units enter service.

The impairment losses recognized on investments at December 31, 2006 primarily affected units in Turkey, Argentina, India, Mexico and Singapore.

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

In millions of euros Company name	% held	Gross value	Net value
CL Mauritius	100	15.7	15.7
Carbone Lorraine India Private Ltd	100	8.4	6.1
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
Carbono Lorena de Mexico S.A.	100	2.2	0.6
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
Nortroll (Norway)	34	0.8	0.5
Clisa (Mexico)	100	0.7	0.7
Carbone Lorraine Greece	100	0.6	0.6
Carbone Lorraine Madras Private Ltd	100	0.5	0.5
Ferraz Electric Protection Hinode (China)	82	0.5	0.5
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
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Le Carbone Materials KK	49	0.1	0.1
Investments in other companies	–	1.1	0.4
TOTAL		**41.1**	**28.3**

Total sales and total net income for these companies based on their as yet unaudited annual financial statements came to around €41.4 million and €1.9 million respectively. Their impact on the consolidated financial statements is not material.

The consolidated sales of all these companies is estimated at around €21.8 million or 3.4% of total consolidated sales, after the elimination of intra-group transactions.

Note 9 Inventories

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Raw materials and other supplies	59.7	57.7	54.3
Work in progress	41.6	36.7	35.2
Finished goods	39.0	39.3	39.4
Carrying amount of inventories	140.3	133.7	128.9
Valuation allowances	(9.1)	(10.9)	(10.3)
NET CARRYING AMOUNT OF INVENTORIES	**131.2**	**122.8**	**118.6**

Net inventories increased by €8.4 million at December 31, 2006 in spite of currency effects contributing a net decrease of €5.7 million. On a like-for-like basis, inventories grew by 12.0% to €14.1 million.

Note 10 Trade receivables

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Gross trade receivables	131.4	124.2	130.8
Valuation allowances	(8.9)	(9.4)	(8.0)
Net trade receivables	122.5	114.8	122.8

Net trade receivables increased by €7.7 million during the fiscal year to December 31, 2006, taking into account a negative impact of €4.4 million attributable to currency effects. At constant exchange rates, trade receivables grew by 11% to €12.1 million.

Note 11 Share capital

In number of shares (unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2006	13,841,352
Issue of new shares (in millions of euros)	3.8
Number of shares at December 31, 2006	13,965,475
Number of shares in issue and fully paid-up	13,965,475
Number of shares in issue and not fully paid-up	0
Par value of shares (euros)	2.00
Entity's shares held by itself or by its subsidiaries and associates	42,033

The increase in the share capital during 2006 derived from the exercise of subscription options granted to employees (79,629 shares) and the capital increase reserved for employees, leading to the issue of 44,494 shares.

The number of voting rights stood at 13,923,442 after deducting the 42,033 treasury shares held by the Company at December 31, 2006.

No shares carry double voting rights.

The number of stock subscription options granted to company officers and employees and still outstanding stood at 460,780.

A bonus share allotment plan was set up for employees during fiscal 2006. The number of bonus share allotment options still outstanding stands at 49,126.

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

With respect to share-based payments, the following plans set up after November 7, 2002 were measured in accordance with IFRS 2:

- a stock option plan granted on May 14, 2003;
- two bonus share allotment plans set up on June 30, 2005 and June 28, 2006.

The plans have the following characteristics:

Assumptions	2006 plan Bonus share allotments	2005 plan Bonus share allotments	2003 plan Stock options
Allotment date	June 28, 2006	June 30, 2005	May 14, 2003
Availability date	June 28, 2008	July 1, 2007	May 14, 2007
Expiration date	June 28, 2008	July 1, 2007	May 13, 2013
Adjusted exercise price	€0.00	€0.00	€21.20
Adjusted share price at allotment date	€40.07	€39.25	€22.07
Estimated life (number of years)	2	2	5.5
Volatility	37.0%	39.9%	40.6%
Dividend per share (as a % of share price)	1.6%	1.3%	2.4%
Risk-free interest rate	3.86%	2.68%	3.43%
Vesting period (number of years)	2	2	4
Lock-up period (number of years)	3	2	0
Number of options/adjusted share allotments	17,975	42,700	130,163
Estimated annual cancellation rate at year-end 2005		1.7%	1.7%
Estimated annual cancellation rate at year-end 2006	1.5%	0.8%	1.5%
% of shares/options acquired following satisfaction of the performance condition	n/a	75.0%	66.7%
Estimate of the number of options/shares ultimately acquired in 2005		30,945	81,023
Estimate of the number of options/shares ultimately acquired in 2006	17,440	31,515	81,685
Valuation of options/shares	€38.8	€37.3	€7.8
Valuation as a % of the share price at grant	96.9%	94.9%	35.5%

Expense of €0.9 million was recognized in the income statement (€0.4 million in 2005) in respect of these equity-settled plans.

Note 12 Provisions and contingent liabilities

In millions of euros	December 31, 2006 Non-current	December 31, 2006 Current	December 31, 2005 Non-current	December 31, 2005 Current
- provision for restructuring	0.1	0.1	0.1	0.9
- provision for litigation	45.3	0.1	43.0	3.7
- other provisions	0.0	0.3	0.8	0.6
TOTAL	**45.4**	**0.5**	**43.9**	**5.2**

In millions of euros Current and non-current	2005	Additions	Uses	Assets held for sale and discontinued operations	Other	Cumulative translation adjustment	2006
- provision for restructuring	1.0		(0.4)	(0.5)	0.1		0.2
- provision for litigation	46.7	0.1	(0.7)	(0.3)	(0.1)	(0.3)	45.4
- other provisions	1.4		(0.3)	(0.7)	(0.1)		0.3
TOTAL	**49.1**	**0.1**	**(1.4)**	**(1.5)**	**(0.1)**	**(0.3)**	**45.9**

At year-end 2006, with regard to the provisions for litigation: Provisions for litigation primarily covered the entire amount of the fine handed down to the Group in December 2003 by the European authorities (€43 million, case still at appeal) and class-action lawsuits in the US (€2.3 million reclassified under non-current provisions in June 30, 2006). A settlement of these class-action lawsuits amounting to USD6 million was agreed in August 2004. This settlement was reduced to USD3.7 million in May 2006, including USD3 million paid in 2005 and USD0.7 million paid during the second half of 2006. This reduction followed specific proceedings launched by certain auto equipment manufacturers, who opted out from the Federal class-action lawsuit and lodged a specific claim for damages. The Group believes that there is no legal basis for this separate lawsuit. As a result, it has not changed the provision from the initial amount that was based on the settlement agreement of August 2004.

No material contingent liabilities were identified at year-end 2006.

Note 13 Employee benefits

The Carbone Lorraine Group's principal pension plans are defined benefit plans and are located in the UK (29% of obligations), the US (24% of obligations), France (18% of obligations) and Germany (16% of obligations).

The Group's obligations were measured at December 31, 2006 with the assistance of independent actuaries in accordance with IAS 19. The cost in fiscal 2006 was estimated on the same basis.

The rates used for the principal countries are summarized below:

2006	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	4.5 %	4.25%	2.0%	2.0%
Germany	4.5%	Not applicable	2.5%	2.0%
US	6.0%	6.75%	Not applicable	Not applicable
UK	5.0%	6.75%	3.3%	2.8%
2005	**Discount rate**	**Return on plan assets**	**Average rate of salary increases**	**Inflation rate**
France	4.1%	4.25%	2.0%	2.0%
Germany	4.1%	Not applicable	2.5%	2.0%
US	5.5%	6.75%	Not applicable	Not applicable
UK	5.0%	6.75%	3.3%	2.8%

In millions of euros Reconciliation between assets and liabilities recognized:	2006	2005	2004
Actuarial obligation	100.3	103.0	90.2
Fair value of plan assets	(56.4)	(49.4)	(40.3)
Unrecognized actuarial gains and losses	(2.5)	(6.9)	0.2
Unrecognized past service cost (rights not vested)	0.4	-	0.3
Net amount recognized	41.8	46.7	50.4

In millions of euros Breakdown of the Group's obligations at December 31, 2006 by geographical area:	France	Germany	US	UK	Rest of the world	Total at Dec. 31, 2006
Actuarial obligation	17.5	16.1	24.3	29.3	13.1	100.3
Fair value of plan assets	(4.2)	-	(16.7)	(28.4)	(7.1)	(56.4)
Unrecognized actuarial gains and losses	(1.5)	(1.1)	(0.8)	2.0	(1.1)	(2.5)
Unrecognized past service cost (rights not vested)	0.4	-	-	-	-	0.4
Net amount recognized	12.2	15.0	6.8	2.9	4.9	41.8

In millions of euros Movements in the Group's obligations:	France	Germany	US	UK	Rest of the world	Total
December 31, 2005	18.2	17.7	26.2	27.1	13.8	103.0
Payments	(1.2)	(1.4)	(0.8)	(0.8)	(0.8)	(5.0)
Expense charged to income	1.5	1.1	3.1	1.7	1.5	8.9
Translation adjustment			(2.9)	0.6	(1.3)	(3.6)
Actuarial gains and losses	(0.5)	(1.0)	(1.6)	0.5		(2.6)
Other movements	(0.5)	(0.3)	0.3	0.2	(0.1)	(0.4)
December 31, 2006	17.5	16.1	24.3	29.3	13.1	100.3

In millions of euros Change in plan assets:	France	Germany	US	UK	Rest of the world	Total
December 31, 2005	2.8		15.4	24.1	7.1	49.4
Return on plan assets	0.1		1.1	2.4	0.2	3.8
Employer contribution	1.4	1.3	2.6	2.0	0.8	8.1
Employee contribution				0.2	0.1	0.3
Payment of benefits	(0.7)	(1.3)	(0.8)	(0.8)	(0.4)	(4.0)
Translation adjustment			(1.6)	0.5	(0.7)	(1.8)
Other movements	0.6					0.6
December 31, 2006	4.2	0.0	16.7	28.4	7.1	56.4

The return on plan assets came to €4.2 million in 2005.

The UK plan assets account for 50% of total plan assets, with 73% invested in equities and 22% in government bonds.

The US plan assets account for 30% of total plan assets, with 51% invested in equities and 48% in bonds.

The charge recognized at December 31, 2006 in respect of these plans was €6.5 million, compared with €6.9 million in 2005, which breaks down as follows:

In millions of euros	France	Germany	US	UK	Rest of the world	Total at Dec. 31, 2006	Total at Dec. 31, 2005
Current service cost	0.8	0.4	1.8	0.4	0.8	4.2	4.5
Interest cost	0.7	0.7	1.3	1.3	0.7	4.7	4.9
Expected return on plan assets			(1.00)	(1.6)	(0.5)	(3.1)	(2.6)
Amortization of actuarial gains and losses	0.4	0.1	0.1		0.2	0.8	0.1
Other movements		(0.2)	0.1			(0.1)	
TOTAL CHARGE FOR THE PERIOD	**1.9**	**1.0**	**2.3**	**0.1**	**1.2**	**6.5**	**6.9**

The change in actuarial gains or losses on the valuation of obligations and plan assets breaks down as follows:

In millions of euros	Dec. 31, 2006
Adjustments linked to changes in assumptions	(2.8)
Experience adjustments to obligations	0.1
Experience adjustments to plan assets	(0.9)
Actuarial gains and losses	(3.6)

Figures for the four previous annual periods are not available. Guidance will be given on a rolling basis from 2007 onwards.

Note 14 Net debt

Analysis of total net debt at December 31, 2006

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Borrowings	136.7	177.1	132.9
Current financial liabilities	3.8	3.0	2.7
Current advances	1.1	1.4	1.6
Current financial assets	(2.9)	(2.5)	(1.3)
TOTAL GROSS DEBT	**138.7**	**179.0**	**135.9**
Bank overdrafts	36.8	7.6	17.7
Trading financial assets	(3.5)	(0.6)	(0.6)
Cash and cash equivalents	(17.7)	(35.7)	(27.4)
Cash	**15.6**	**(28.7)**	**(10.3)**
TOTAL NET DEBT	**154.3**	**150.3**	**125.6**

Total consolidated net debt at December 31, 2006 stood at €154.3 million compared with €150.3 million at year-end 2005.

Net debt/equity

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Total net debt	154.3	150.3	125.6
Net debt/equity	50%	51%	0.49

Net debt amounted to 50% of equity at December 31, 2006, compared with 51% at December 31, 2005.

Reconciliation between changes in net debt shown on the balance sheet and on the statement of cash flows

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004 pro forma
PRIOR YEAR DEBT	**150.3**	**125.6**	**182.6**
Cash generated by operating and investing activities after tax	(22.4)	(26.3)	(28.9)
Cash used by restructurings	1.1	1.1	17.7
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	10.2	1.1	6.7
Non-operating cash flows*	0.7	22.4	3.9
CASH GENERATED BY THE OPERATING AND INVESTING ACTIVITIES OF CONTINUING OPERATIONS	**(10.4)**	**(1.7)**	**(0,6)**
CASH GENERATED BY THE OPERATING AND INVESTING ACTIVITIES OF ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	**6.3**	**4.6**	**5,4**
Proceeds from issue of new shares	(3.5)	(0.6)	(62.0)
Dividends paid	10.6	8.2	0.5
Interest payments	9.5	6.3	7.2
Translation adjustments and other	(8.5)	7.9	(7.5)
DEBT AT YEAR-END	**154.3**	**150.3**	**125.6**

* *Including €20 million in 2005 representing a downpayment to the European Commission as a guarantee for appeal proceedings (see below).*

The negative €8.5 million in translation adjustments break down into €9.6 million in translation adjustments on gross debt offset partially by €1.1 million in translation adjustments on cash.

Total consolidated net debt at December 31, 2006 stood at €154.3 million compared with €150.3 million at year-end 2005. Debt increased by €12.5 million excluding the impact of a €8.5 million cumulative translation adjustment (positive effect of depreciation in the US dollar against the euro during 2006). This increase was chiefly attributable to acquisitions (GES in the US and Kapp in France), which had an impact of €10.2 million net of disposals and to non-recurring cash flows deriving from assets held for sale and discontinued operations (€6.3 million).

In 2005, the Group made a €20 million downpayment into an escrow account held by the European Commission as a guarantee for the appeal proceedings being heard by the EU Court of First Instance. This follows the Group's decision to appeal the €43 million fine handed down in December 2003. This downpayment plus related interest will be repaid to Carbone Lorraine should this payment not be warranted by the appeal court's ruling. This downpayment was recorded on the balance sheet under non-current financial assets is shown under acquisitions of financial assets on the statement of cash flows.

Confirmed credit lines at December 31, 2006

Carbone Lorraine has two major financing agreements.

A USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. Interest is paid at a fixed rate to investors, but the interest-rate swaps negotiated at the outset mean that Carbone Lorraine pays a floating US dollar rate plus a credit margin.

A USD220 million loan arranged in December 2004 with a maturity of five years was syndicated to an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin.

In millions of USD		Interest rate	Nominal amount	Drawn down at Dec. 31, 2006	Maturity date
SYNDICATED LOAN		**FLOATING**	**220**	**87**	**DEC. 31, 2009**
US PRIVATE PLACEMENTS, 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 PLACEMENTS, 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**	**172**	

Financial covenants at December 31, 2006

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 one significant borrowing May oblige the Group to repay other borrowings immediately.

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

In millions of euros **Financial covenants (consolidated financial statements)**	**Net debt/EBITDA**	**Net debt/equity**	**Net debt/equity**
Covenants*	The ratio must be:	The ratio must be:	The ratio must be:
- US private placement	‹ 3.35	‹1.3	‹1.3
- syndicated loan	-	‹1.3	-
Actual ratios			
December 31, 2006			
- US private placement	1.74	50%	9.37
- syndicated loan	-	51%	-
December 31, 2005			
- US private placement	1.84	0.53	11.99
- syndicated loan	-	0.53	-

* *Method for calculating the covenants. In line with the accounting rules, the net debt shown in the financial statements uses closing 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 short-term financial receivables. In addition, solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average €/USD exchange rate for the period in the event of a difference of over 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.*

In view of the first-time adoption of IFRS, EBITDA and net debt were recalculated on a pro forma basis under French GAAP for the purpose of the covenants.

At December 31, 2006, there were no material borrowings or liabilities secured by assets or guaranteed by third partie

Breakdown of borrowings, including the current portion at December 31, 2006

Operating receivables and payables all mature in less than one year. A breakdown of borrowings by maturity is shown below.

In millions of euros	**Total**	**‹ 1 year**	**‹ 1 and ‹ 5 years**	**‹ 5 years**
Borrowings in USD	86.0	7.0	52.7	26.3
Borrowings in euros	46.1	-	46.1	
Borrowings in GBP	8.2	-	8.2	
TOTAL	**140.3**	**7.0**	**107.0**	**26.3**
Amortization of issuance costs at the EIR	(1.0)			
Fair value of interest-rate derivatives	(2.6)			
TOTAL	**136.7**	**7.0**	**107.0**	**26.3**

Of the €107.0 million in debt due to mature in between one and five years' time, €71.4 million had a maturity of over three years at December 31, 2006.

Analysis of total net debt at December 31, 2006

By currency	**%**
Euros	34.8
USD	62.6
Other items	2.6

By interest rate	**%**
Fixed	54
Floating	46

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

During May 2003:

- the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to 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;
- the Group purchased several 3-year interest-rate swaps covering an aggregate nominal amount of USD60 million. Under the terms of these swaps, Carbone Lorraine paid a fixed interest rate of 2.565% and received 3-month USD Libor.

To refinance partly the swaps that matured at end-May 2006, the Group entered into several interest-rate swaps in October 2005 covering an aggregate nominal amount of USD50 million. These swaps, which have a duration of three years, became effective in May 2006. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 4.6325% and receives 3-month USD Libor.

In October 2006, the Group purchased interest-rate swaps covering an aggregate nominal amount of €45 million. These swaps, which have a duration of 15 months, became effective in October 2006. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 3.6575% and receives 1-month Euribor.

All the Group's interest rate hedging activities are carried out by the parent company (Le Carbone Lorraine SA).

In millions of euros	Total	With a maturity ‹ 5 years	With a maturity › 5 years
Floating rate debt*	140.3	114.0	26.3
Financial assets	14.0	14.0	-
Net position before hedging	**154.3**	**128.0**	**26.3**
Fixed-rate hedge	83.0	83.0	-
Net position after hedging	**71.3**	**45.0**	**26.3**

* *After the fixed-for-floating rate swap on the US private placements and before amortization of issuance costs at the effective interest rate.*

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their December 31, 2006 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €0.7 million.

Note 15 Derivative financial instruments

In the normal course of its business activities, the Group is exposed to interest rate, currency and commodity price risks. Derivative financial instruments are used to hedge price fluctuations. Please refer to the risk management section for details of the Group's policy in terms of hedging these risks.

The market values of the majority of the financial instruments held by the Group were estimated based on market rates at the end of the fiscal year. They were either calculated by the Group or obtained from the banking counterparties with which the financial transactions were conducted. These instruments match borrowings (interest rates) or sales transactions certain or almost certain (currency and raw materials) to occur.

In millions of euros	Valuation* Dec. 31, 2006	Nominal amount** Dec. 31, 2006	Nominal amount** Dec. 31, 2005	Nominal amount** Dec. 31, 2004
Interest rate instruments	(2.2)	147.5	165.3	106.5
Currency instruments	0.7	18.2	26.7	8.3
Commodity instruments	(0.3)	2.9	4.0	0

* *Including accrued interest (for interest rate instruments).*
** *Sum of net positions by foreign currency (for currency instruments).*

In accordance with IFRS 32 and 39, the fair values at December 31, 2006 are recognized on the balance sheet and/or income statement in the Group's consolidated financial statements.

Foreign exchange exposure by currency

At December 31, 2006, the Group's net position implied by trading flows in the principal currencies and recognized on the balance sheet at December 31, 2006 is as follows:

In millions of euros	US	UK	Japan	Canada	South Korea
Assets	22.4	(2.1)	7.1	(4.5)	(0.6)
Liabilities	(13.5)	1.8	1.7	5.3	5.4
Net position before hedging	**8.9**	**(0.3)**	**8.8**	**0.8**	**4.7**
Off-balance sheet position	**12.2**	**0.6**	**9.1**	**0.1**	**0.0**
Net position after hedging	**(3.3)**	**(0.9)**	**(0.3)**	**0.7**	**4.7**

Considering the net position after hedging, a one-point decline in the euro relative to the foreign currencies referred to would have a negative impact of €0.1 million based on exposures at December 31, 2006.

Movements in foreign currencies against the euro have a translation-related impact in euros on the income statements of companies that do not use the euro as their functional currency. They also have an impact on future sales and purchases, with the exception of future sales and purchases that are hedged in the budget.

Note 16 Other non-recurring income and expense

Other non-recurring income and expense break down as follows:

In millions of euros	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004 pro forma
Restructuring costs	(0.9)	(3.7)	(5.9)
EU fine and US class-action lawsuits	(0.5)	(1.2)	(2.4)
Asset impairment	(2.8)	(0.9)	
Non-current asset disposal program			2.1
Other items	(0.9)	0.1	0.4
TOTAL	**(5.1)**	**(5.7)**	**(5.8)**

In fiscal 2005, non-recurring income and expense amounted to a net charge of €5.7 million. The principal factors were:

- an additional €3.7 million in industrial restructuring costs;
- an outlay of €1.0 million in connection with the settlement of US class-action lawsuits;
- recognition of an impairment loss of €0.9 million on the investment in the Mexican subsidiary.

In fiscal 2006, non-recurring income and expense amounted to a net charge of €5.1 million. The principal factors were:

- the closure of the Farmville manufacturing plant of which:
  - impairment losses of €1.8 million recognized on non-current assets,
  - non-current asset transfer costs and other costs amounting to €0.9 million;
- an outlay of €0.5 million in connection with the settlement of US class-action lawsuits;
- recognition of a €1.0 million impairment loss on land and buildings in Germany;
- the disposal of Astro Service Center's assets leading to a loss of €0.6 million.

Note 17 Segment reporting

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Applications (EA)		Electrical Protection (EP)		Total for continuing operations	
Sales	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Sales to third parties	246.9	217.9	188.7	185.8	204.2	179.7	639.8	583.4
Breakdown of sales	38.6%	37.4 %	29.5%	31.8 %	31.9%	30.8%	100%	100%
Operating income								
Segment operating income	45.6	39.6	11.5	12.6	19.2	12.3	76.3	64.5
Segment operating margin*	18.4%	18.1%	6.1%	6.8%	9.4%	6.8%	11.9%	
Unallocated costs							(15.3)	(11.0)
Operating income from continuing operations							**61.0**	**53.5**
Operating margin from continuing operations							9.5%	9.2%
Finance costs, net							(9.7)	(7.1)
Current and deferred income tax							(11.0)	(11.1)
Net income from continuing operations							**40.3**	**35.3**

* *Segment operating margin = Operating income/Segment sales to third parties.*

Inter-segment sales realized by the Advanced Materials and Technologies division came to €3.8 million in fiscal 2006 compared with €4.3 million in fiscal 2005.

Breakdown of sales and sales trends by geographical area

In millions of euros	December 31, 2006	%	December 31, 2005	%	December 31, 2004 pro forma	%
France	87.5	13.7%	86.5	14.8	86.5	15.5
Rest of Europe	193.0	30.2%	173.2	29.7	181.9	32.6
North America	228.6	35.7%	203.4	34.9	195.1	34.9
Asia	94.4	14.7%	83.0	14.2	63.6	11.4
Rest of the world	36.3	5.7%	37.3	6.4	31.6	5.6
TOTAL	**639.8**	**100%**	**583.4**	**100**	**558.7**	**100**

Breakdown of depreciation recognized by segment

	December 31, 2006					December 31, 2005				
In millions of euros	AMT	EA	EP	Corporate costs	Total	AMT	EA	EP	Corporate costs	Total
France	(3.7)	(2.6)	(2.9)	(0.5)	(9.7)	(3.7)	(2.9)	(2.8)	(0.9)	(10.3)
Rest of Europe	(0.4)	(2.6)	(0.3)	0.0	(3.3)	(0.4)	(2.5)	0.0	0.0	(3.0)
Asia/Pacific	(0.4)	0.0	0.0	0.0	(0.4)	(0.3)	(0.1)	0.0	0.0	(0.4)
North America	(4.5)	(2.1)	(1.3)	0.0	(7.9)	(3.7)	(2.2)	(1.2)	0.0	(7.1)
Rest of the world	(0.1)	(0.2)	0.0	0.0	(0.3)	(0.1)	(0.2)	-	0.0	(0.3)
TOTAL	**(9.1)**	**(7.5)**	**(4.5)**	**(0.5)**	**(21.6)**	**(8.2)**	**(7.9)**	**(4.1)**	**(0.9)**	**(21.1)**

Net carrying amount of assets at end of period by segment

In millions of euros	AMT	EA	EP	Total	Intra-Group transactions eliminated	Total 2006
Non-current assets, net (excluding investments)	180.7	89.2	87.1	357.0		357.0
Inventories, net	54.8	37.1	39.3	131.2		131.2
Trade receivables	54.9	39.2	49.2	143.3	(20.8)	122.5
Other receivables	19.5	4.4	4.7	28.6	(2.7)	25.9
TOTAL SEGMENT ASSETS	**309.9**	**169.9**	**180.3**	**660.1**	**(23.5)**	**636.6**
TOTAL UNALLOCATED ASSETS						**87.6**
TOTAL						**724.2**

Net carrying amount of assets at end of period by geographical area

In millions of euros	2006	2005
France	396.0	380.8
Rest of Europe	113.8	108.5
North America	181.4	188.0
Asia	22.3	33.5
Rest of the world	10.7	17.4
TOTAL	**724.2**	**728.2**

Net carrying amount of liabilities at end of period by segment

In millions of euros	AMT	EA	EP	Total	Intra-group transactions eliminated	Total 2006
Trade payables	35.2	20.2	31.0	86.4	(20.8)	65.6
Other payables and other liabilities	37.6	12.7	16.1	66.4	(2.7)	63.7
Non-current and current provisions	3.4	42.5	0.0	45.9		45.9
Employee benefits	13.8	19.9	8.1	41.8		41.8
TOTAL SEGMENT LIABILITIES	**90.0**	**95.3**	**55.2**	**240.5**	**(23.5)**	**217.0**
TOTAL UNALLOCATED LIABILITIES						**199.2**
TOTAL						**416.2**

Investment flows during the period by segment

In millions of euros		France	Rest of Europe	Asia/ Pacific	North America	Rest of the world	Total 2006
Property, plant and equipment and intangible assets	AMT	(10.4)	(0.8)	(0.8)	(8.4)		(20.4)
	EA	(2.2)	(2.2)	(0.1)	(0.6)	(0.7)	(5.8)
	EP	(4.6)			(1.7)		(6.3)
SUB-TOTAL		**(17.2)**	**(3.0)**	**(0.9)**	**(10.7)**	**(0.7)**	**(32.5)**
Other changes and divestments	AMT	(7.0)		0.2	(0.1)		(6.9)
	EA	(0.1)	(0.6)		0.9	(0.1)	(0.1)
	EP	0.7	(0.3)	(0.2)	0.3		0.5
SUB-TOTAL		**(6.4)**	**(0.9)**		**1.1**	**(0.1)**	**(6.3)**
TOTAL INVESTMENT FLOWS		**(23.6)**	**(3.9)**	**(0.9)**	**(9.6)**	**(0.8)**	**(38.8)**

Note 18 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €215.2 million in fiscal 2006 compared with €199.4 million in fiscal 2005.

On a like-for-like basis, staff costs increased by 4.3%, while the headcount rose by 4.6%.

Breakdown of consolidated average headcount by employee category

Categories	2006	%	2005	%
Engineers and managers	567	9%	520	8%
Technicians and supervisors	746	11%	727	12%
Employees	836	13%	797	13%
Blue-collar workers	4,344	67%	4,163	67%
TOTAL	**6,493**	**100%**	**6,207**	**100%**

Breakdown of the consolidated average headcount by geographical area

Categories	2006	%	2005	%
France	1,766	27%	1,743	28%
Rest of Europe (+ Tunisia)	1,704	26%	1,632	26%
North America (including Mexico)	2,350	36%	2,176	35%
Asia	241	4%	211	4%
Rest of the world	432	7%	445	7%
TOTAL	**6,493**	**100%**	**6,207**	**100%**

At comparable scope, the average headcount rose by 118 employees.

Note 19 Operating income

An analysis of operating income by category of income and expense is shown in the following table:

In millions of euros	2006	2005
Product sales	591.6	528.8
Trading sales	48.2	54.6
Total sales	**639.8**	**583.4**
Other operating revenues	5.2	6.5
Cost of trading sales	(37.2)	(33.0)
Raw materials costs	(145.0)	(132.4)
Costs on other operating revenues	(3.8)	(2.6)
Manufacturing costs	(102.1)	(94.0)
Salary costs	(212.5)	(199.0)
Employee incentives and profit-sharing	(4.5)	(4.3)
Other expenses	(52.2)	(43.6)
Financial components of operating income*	(2.1)	(2.4)
Depreciation and amortization	(21.6)	(21.1)
Additions to provisions	(0.1)	(4.6)
Impairment losses	(2.8)	
Gains/(losses) on non-current asset disposals	(0.1)	0.6
OPERATING INCOME	**61.0**	**53.5**

* *Including a negative translation adjustment of €0.8 million in 2006 and a non-material adjustment in 2005.*

Note 20 Finance costs, net

In millions of euros	Dec. 31, 2006	Dec. 31, 2005
Interest expense on non-current borrowings	(8.0)	(6.0)
Interest expense on current borrowings	(1.7)	(1.1)
Finance costs	(9.7)	(7.1)
FINANCE COSTS, NET	**(9.7)**	**(7.1)**

Note 21 Income tax

In millions of euros	Dec. 31, 2006	Dec. 31, 2005
Current income tax	(13.5)	(9.9)
Deferred tax	3.0	(1.2)
Withholding tax	(0.5)	-
TOTAL TAX EXPENSE	**(11.0)**	**(11.1)**

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, Polygraphite and AVO are consolidated for tax purposes.

There are also:

- two consolidated tax groups in the US, one encompassing Carbone Lorraine North America and its subsidiaries and the other encompassing Ugimagnet, Ugimag Inc. and Ferraz Shawmut Inc.;
- two consolidated tax groups in Germany;
- and a consolidated tax group in Japan encompassing Carbone KK and Ferraz Shawmut Japan.

The Group's effective tax rate came to 24.0% in fiscal 2006 compared with 25.2% in fiscal 2005.

Analysis of income tax expense

In millions of euros	December 31, 2006
Net income	**34.9**
Income tax expense/(benefit) on continuing operations	(11.0)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**(11.0)**
INCOME BEFORE TAX AND NON-RECURRING ITEMS	**45.9**
Current tax rate in France	34.4%
Theoretical tax benefit/(expense) (income before tax x current income tax rate in France)	(15.8)
Difference between income tax rate in France and other jurisdictions	0.8
Transactions qualifying for a reduced rate of taxation	-
Permanent timing differences	0.4
Impact of limiting deferred tax assets	2.1
Other items	1.5
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(11.0)**

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

In millions of euros	Dec. 31, 2006	Dec. 31, 2005
Deferred tax assets	27.1	29.8
Deferred tax liabilities	(1.9)	(6.4)
NET POSITION	**25.2**	**23.4**

Deferred tax movements during fiscal 2006 were as follows:

*In millions of euros**	December 31, 2006	Net income for the year	Other	Translation adjustments	December 31, 2005
Employee benefit obligations	7.0	(1.0)	2.2	(0.2)	6.0
Provisions for restructuring	0.5	(1.0)		0.1	1.4
Depreciation of non-current assets	(13.9)	(1.1)	(0.1)	1.4	(14.1)
Tax-regulated provisions	(3.1)	0.8	(0.1)	0.1	(3.9)
Impact of tax losses	23.8	3.8	(0.1)	(0.7)	20.8
Impairment losses	1.9	(3.6)	(1.6)		7.1
Other	9.0	5.1	(1.3)	(0.9)	6.1
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	**25.2**	**3.0**	**(1.0)**	**(0.2)**	**23.4**

* *(- liability/+ asset).*

Deferred tax assets were recognized based on their recoverability. France, Germany and the US were the main tax jurisdictions affected.

Given the terms under which the Brazilian company's tax losses may be offset, no deferred tax assets were recognized (€2.5 million).

Note 22 Earnings per share

Basic and diluted earnings per share for fiscal 2006 and fiscal 2005 are presented below:

Continuing operations and assets held for sale	Dec. 31, 2006	Dec. 31, 2005
Numerator: Net income used to compute basic earnings per share (net income for the period).	35.3	22.1
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	13,923,442	13,807,170
Adjustment for dilutive potential ordinary shares: Unexercised options	509,906	577,432
Weighted average number of ordinary shares used to compute diluted earnings per share	14,433,348	14,384,602
Basic earnings per share (€)	2.53	1.60
Diluted earnings per share (€)	2.44	1.53

Continuing operations	Dec. 31, 2006	Dec. 31, 2005
Numerator: Net income used to compute basic earnings per share (net income for the period).	40.7	34.9
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	13,923,442	13,807,170
Adjustment for dilutive potential ordinary shares: Unexercised options	509,906	577,432
Weighted average number of ordinary shares used to compute diluted earnings per share	14,433,348	14,384,602
Basic earnings per share (€)	2.92	2.53
Diluted earnings per share (€)	2.82	2.43

Note 23 Dividends

A dividend of €0.70 per share (*vs.* €0.55 in 2004) was paid to shareholders in May 2006 in respect of fiscal 2005, representing an aggregate payout of €9.7 million (*vs.* €7.6 million in 2003).

The dividend proposed in respect of fiscal 2006 stands at €0.85 per share, representing an aggregate amount of €11.9 million.

Note n° 24 Contrats de location

1 - Finance leases

Carrying amount by asset category:

In millions of euros	Dec. 31, 2006	Dec. 31, 2005
Buildings	0.6	0.7

The investments financed comprise the leasing of manufacturing facilities at Poitiers and Airvault in France. The lease payments are fixed with a final maturity in July 2014.

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

In millions of euros	Total at Dec. 31, 2006	Less than one year ahead	More than one year ahead	More than five years ahead
Minimum payments	12.2	2.5	9.6	3.2

Minimum payments represent the amount of certain future property lease payments up until the expiration of the lease prior to any renewals. The leases do not contain any clause restricting debt or on dividend payments. The largest obligations relate to two sites in the US for an aggregate amount of €11.6 million and have respective durations of seven and 14 years.

Note 25 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 assets and property, plant and equipment that it owns. All transactions between the Group and its subsidiaries take place on an arm's length basis.

Le Carbone Lorraine SA belongs to the Carbone Lorraine group, which encompasses 88 consolidated and unconsolidated companies in 34 countries.

Transactions between the Group's consolidated companies are eliminated for consolidation purposes.

1 – Relations with unconsolidated subsidiaries and associates

Group sales to unconsolidated subsidiaries amounted to €19.5 million in fiscal 2006, compared with €12.9 million in fiscal 2005.

In fiscal 2006, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.4 million, up from €0.3 million in fiscal 2005.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €5.2 million at December 31, 2006, while amounts payable came to €0.2 million.

Advances made to unconsolidated subsidiaries by Le Carbone Lorraine SA amounted to €1.0 million (*vs.* €1.4 million in fiscal 2005) at December 31, 2006.

2 – Disclosure of compensation paid to key management personnel (Executive Committee, including the Chairman and CEO)

In millions of euros	Dec. 31, 2006	Dec. 31, 2005
Salaries, bonuses, benefits in kind and directors' fees	2.2	2.1
Top-up pension plan payments[1]	0.5	0.3
Other long-term employee benefits	0.0	0.0
TOTAL	**2.7**	**2.4**

(1) Members of the Executive Committee, including the Chairman and Chief Executive Officer qualify for top-up pension payments. This regime guarantees a top-up pension payment of the basic reference salary provided that the total pension is not less than 55% of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of bonuses and provided that the relevant person is still employed by the Group upon his/her retirement. Actuarial obligations were measured at €3.9 million at December 31, 2006, compared with €3.7 million at December 2005.

Members of the Executive Committee do not qualify for any other long-term employee benefits.

Furthermore, Executive Committee members (including the Chairman and CEO) were awarded the following share-based payments:

- stock options: no stock subscription options were granted to members of the Executive Committee (including the Chairman and CEO) during fiscal 2004, 2005 and 2006;
- bonus share allotments: see the table of previous allotments to the Executive Committee (including the Chairman and CEO) below.

	2006 plan Tranche 2	2005 plan Tranche 1
Date of Board of Directors' meeting	June 28, 2006	June 30, 2005
Total number of shares allotted	0	12,000
Share price at allotment date	40.07	39.25
Definitive allotment date (end of the vesting period)	July 1, 2008	July 1, 2007
End of lock-up period	July 1, 2011	July 1, 2009

Note 26 Commitments and contingencies

A - Financial commitments and liabilities

In millions of euros	Dec. 31, 2006	Dec. 31, 2005
Commitments received		
Guarantees and endorsements	0.4	0.2
Other commitments received	0.0	1.7
TOTAL	**0.4**	**1.9**
Commitments given		
Collateralized debts and commitments	0.1	0.3
Market guarantees and endorsements	11.5	9.9
Payment guarantees on acquisition	-	-
Other guarantees	64.3	45.4
Other commitments given	0.2	0.1
TOTAL	**76.1**	**55.7**

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

Nature

The largest item totaling €64.3 million relates to other guarantees, which include a €24.5 million guarantee (initially €43 million) given 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 European Communities Court of First Instance. This guarantee has enabled the Group to postpone payment of the fine for the duration of the appeal procedure. This line item also includes a guarantee of €16 million covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements and a guarantee of USD25 million linked to business activities in Asia.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €33.2 million. They include the €16 million linked to the cash pooling system and guarantees linked to investments in Asia, which amount to USD16 million and are due to expire in July 2009. 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 €24.5 million guarantee given to the European Commission expires in December 2007. It May be extended with the consent of the guarantor banks depending on the date of the Court's ruling.

Internal control

Under the Group's internal control organization, 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 with a maturity of less than 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.

B - Title retention clause

None.

C. - Individual Right to Training

In France, employees have an individual right to training. No provisions are set aside to cover these rights because the Group does not have the requisite information to assess it reliably.

Note 27 Subsequent events

On January 26, 2007, Ferraz Shawmut acquired a majority shareholding in the capital of Lenoir Elec. This deal fits perfectly with the policy of accelerating the pace of Carbone Lorraine's growth through development of the Electrical Protection segment's activities.

Note 28 Approval of the financial statements

The Group's consolidated financial statements for the fiscal year to December 31, 2006 were approved by the Board of Directors at its meeting on March 19, 2007.

Report of the Statutory Auditors
On the consolidated financial statements for the fiscal year ended December 31, 2006

To the Shareholders,

Following our appointment as statutory auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Le Carbone Lorraine S.A. for the year ended 31 December 2006.

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

I. 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 the management, as well as evaluating the overall financial statements 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 and liabilities and of the financial position of the Group as at 31 December 2006 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the EU.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Law (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Non current assets held for sale and discontinued operations

Note 2.B.4 to the consolidated financial statements describes the accounting policy for non-current assets held for sale and discontinued operations. Our procedures consisted of examining the data used and the assumptions made, and verifying that Note 3 to the consolidated financial statements provides appropriate disclosures.

Impairment

As disclosed in Notes 2.F.1 and 2.I to the consolidated financial statements, the Group performs goodwill impairment tests at least annually and assesses whether there is an indication of impairment of tangible and intangible assets. We have examined the implementation method of the test as well as the estimated cash flows and the assumptions made. We have also verified that Note 6 to the consolidated financial statements provides appropriate disclosures

Employee Benefits

Note 2.P to the consolidated financial statements describes the accounting policy for the estimation of retirement benefits and other related obligations. These obligations were estimated by external actuaries.

Our procedures consisted of examining the data used and the assumptions made, and verifying that Note 13 to the consolidated financial statements provides appropriate disclosures

III. Specific verification

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

Paris-La Défense and Neuilly-sur-Seine, March 20, 2007

The Statutory Auditors

KPMG Audit	Deloitte & Associés
Département de KPMG SA	
Jean-Paul Vellutini	Alain Penanguer
Associé	*Associé*

5 Parent company financial statements

Condensed income statement

In millions of euros	2006	2005	Pro forma 2004	2004
Sales and other revenues	3.8	3.3	3.3	3,3
Purchases and changes in inventories	0.0	0.0	0.0	0,0
Salaries, wages and payroll taxes	(3.0)	(2.2)	(1.3)	(1,3)
Other overhead	(4.3)	(3.6)	(3.5)	(3,5)
Depreciation, amortization and provisions	(0.2)	(0.6)	(1.0)	(1,0)
Operating income	(3.7)	(3.1)	(2.5)	(2,5)
Finance costs, net	14.0	1.4	1.0	9,0
Income before tax and non-recurring items	10.3	(1.7)	(1.5)	6,5
Non-recurring items	(5.2)	0.5	(2.5)	(10,5)
Income tax and employee profit sharing	4.3	5.6	6.9	6,9
NET INCOME	**9.4**	**4.4**	**2.9**	**2,9**

From fiscal 2005 onwards, impairment and reversals of impairment in investments, as well as provisions related to subsidiaries and associate companies are recorded under financial items. Previously, these charges and provisions were recognized under non-recurring items. This change in accounting method is intended to ensure that the parent company's financial statements provide a true and fair view. To ensure comparability with fiscal 2004, a pro forma income statement was prepared that is restated for this change in accounting method. This change in accounting method does not have any impact on the presentation of the balance sheet.

Condensed balance sheet

ASSETS

In millions of euros	2006	2005	2004
Intangible fixed assets and property, plant and equipment	0.1	0.2	0.7
Financial fixed assets	373.7	375.5	373.4
Fixed assets	373.8	375.7	374.1
Inventories	-	-	-
Trade receivables	0.4	0.7	0.3
Other receivables	53.8	47.3	39.9
Cash and marketable securities	3.1	2.0	2.4
Foreign currency translation losses	0.6	2.5	5.3
TOTAL ASSETS	**431.7**	**428.2**	**422.0**

LIABILITIES AND EQUITY

In millions of euros	2006	2005	2004
Share capital	27.9	27.7	27.5
Premiums and reserves	162.2	163.9	167.4
Retained earnings	0.0	0.0	(0.2)
Net income for the year	9.4	4.4	2.9
Total equity	199.5	196.0	197.6
Provisions for risks and expenses	11.4	5.9	7.5
Borrowings	173.1	183.4	145.6
Other liabilities	38.0	40.5	55.5
Foreign currency translation gains	9.7	2.4	15.8
TOTAL LIABILITIES AND EQUITY	**431.7**	**428.2**	**422.0**

N.B. Complete financial statements for the parent company Le Carbone Lorraine are available from the Company's headquarters at Immeuble La Fayette, 2 place des Vosges, 92400 Courbevoie-La Défense 5 (France).

Five-year financial summary

	2006	2005	2004	2003	2002
1. Share capital at year-end					
Share capital (€ M)	27.9	27.7	27.5	22.4	22.3
Number of shares outstanding	13,965,475	13,841,352	13,755,577	11,197,890	11,139,150
Nominal value of shares (€)	2	2	2	2	2
2. Overall result of operations (€ M)					
Income before tax, depreciation, amortization, provisions and employee profit-sharing	21.1	9.7	7.3	23.4	21.7
Net income after tax, depreciation, amortization, provisions and employee profit-sharing	9.4	4.4	2.9	(14.4)	1.2
Total earnings paid out[1]	11.9	9.7	7.6	0.0	9.3
3. Overall result of operations per share (€)[2]					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions	1.82	1.10	0.84	2.54	2.40
Net income after tax, depreciation, amortization and provisions	0.68	0.32	0.25	(1.29)	0.11
Dividend paid on each share	0.85	0.70	0.55	0.0	0.60
4. Employees					
Average headcount	6	6	6	6	6
Total payroll costs (€ M)	2.4	1.8	1.0	0.7	1.0
Amount paid for welfare benefits (€ M)	0.6	0.4	0.3	0.4	0.4

(1) The amount of earnings paid out included in fiscal 2002 €2.6 million in dividend withholding tax.
(2) In 2004, earnings per share were calculated based on 11,690,661 shares, which includes the capital increases carried out on a pro rata temporis basis.

Change in Le Carbone Lorraine's equity

In millions of euros	2006	2005	2004
Opening equity at January 1	196.0	197.6	133.4
Capital increase subscribed by employees	3.9	2.0	1.6
Capital increase through public share offering	-	-	63.0
Dividend payment	(9.7)	(7.5)	-
Net income for the year	9.4	4.4	2.9
Change in tax-regulated provisions	(0.1)	(0.4)	(0.2)
Amortization of capital increase expense against share premiums	-	(0.1)	(2.7)
Excess of revalued assets over 1976 historical cost	-	-	(0.2)
Levy of 2.5% on long-term capital gains reserves	-	-	(0.2)
CLOSING EQUITY AT DECEMBER 31	**199.5**	**196.0**	**197.6**

List of subsidiaries and shareholdings

Detailed information *In millions of euros*	Share capital	Reserves and other	% of share capital owned	Carrying amount in Le Carbone Lorraine SA's financial statements Gross	Net	Loans and advances	Guarantees and sureties given
CONSOLIDATED SUBSIDIARIES (consolidated equity at December 31, 2006)							
Carbone Lorraine Corporate Services (France)	3.6	0.2	100	3.6	3.6		
Carbone Lorraine Applications Électriques (France)	25.4	(0.6)	100	25.4	25.4		
Carbone Lorraine Composants (France)	20.0	14.3	100	19.9	19.9		
Carbone Lorraine Équipement Génie Chimique (France)	17.3	4.0	100	17.3	17.3		
AVO SA (France)	0.2	14.7	100	17.6	13.0		
Ferraz Shawmut SA (France)	21.3	(4.0)	100	29.6	29.6		
Ugimag SA (France)	24.4	(31.0)	100	73.5	0.0		
Le Carbone Holdingsgesellschaft KG (Germany)	29.1	(5.3)	100	30.3	12.3	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	(1.8)	100	2.4	2.4	1.4	
Le Carbone Holdings (UK)	9.9	3.5	100	0.9	0.9	8.2	
Il Carbonio (Italy)	2.5	3.2	100	4.6	4.6		
Carbone Lorraine Nederland (Netherlands)	0.1	1.0	100	0.2	0.2		
Carbone Nordic AB (Sweden)	0.8	0.9	100	1.0	1.0		
Carbone Lorraine Australia (Australia)	0.7	3.1	100	0.7	0.7		
Carbone KK (Japan)	0.1	0.4	8.7	3.0	0.9		
Carbone Lorraine Korea (South Korea)	12.1	(8.1)	100	12.1	11.5		
Carbone of America (Canada)	11.2	6.1	100	1.3	1.3		
Carbone Lorraine North America (US)	24.5	28.5	100	115.6	115.6		
Ugimagnet Corp. (US)	7.3	51.4	100	44.8	44.8	6.4	1.9
Carbono Lorena (Brazil)	41.2	(38.3)	100	23.8	16.8		
Carbone South Africa (RSA)	1.0	0.9	54.77	0.8	0.8		
UNCONSOLIDATED SUBSIDIARIES (equity as per individual financial statements at December 31, 2005)							
Carbone Lorraine SAIC (Argentina)	0.1	0.7	100	1.0	0.8		
Carbone Lorraine Grèce (Greece)	0.4	0.3	100	0.6	0.6		
The Carbon Company Mauritius (Mauritius)	0.2	(0.2)	100	2.3	0.0		
Carbone Lorraine Mauritius (Mauritius)	8.5	0.0	100	15.6	15.6		
(New) Carbone Lorraine India (India)	0.4	1.7	100	6.1	6.1		
Carbone Lorraine Madras (India)	0.4	1.1	51	0.4	0.4		
Carbono Lorena de Mexico (Mexico)	2.9	(1.6)	100	2.2	0.6		
Carbone Lorraine Singapore Holding Pte Ltd (Singapore)	0.6	(0.5)	100	1.1	0.1		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	6.0	(4.1)	100	5.0	1.0		
OTHER UNCONSOLIDATED SUBSIDIARIES							
Subsidiaries (at least 50%-owned)	0.6	3.5		0.7	0.7	0.4	
Shareholdings (10% to 50%-owned)	0.3	0.4		0.2	0.2		
Other shareholdings (less than 10%-owned)	0.0	0.0		0.0	0.0		
TOTAL				**464.4**	**349.5**	**16.8**	**2.5**

6 Legal and financial information

Risk management

Risk management is handled by the Risk and Internal Audit department. The department's role is 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.

The Risk and Internal Audit Department reports back to the Risk Committee, as well as to the Board of Directors' Audit and Accounts Committee.

The mapping of operational, financial, strategic and information-related risks carried out in 2001 was updated in 2005. Certain risks were re-assessed, but none likely to affect the Group's performance significantly were identified.

Industrial risks

In line with initiatives taken during previous years, the Risk Department endeavored to identify all the business risks that May arise at what are regarded as 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. These initiatives focused primarily on:

- implementing a new Group project management methodology that takes into consideration the potential risks arising from industrial projects;
- securing installations using explosive or toxic gases;
- continuing work linked to the highly specialized nature of the production facilities:
  - replacing installations,
  - certifying new suppliers,
- continuing the program to secure access to facilities.

As in previous years, visits were made in conjunction with the Group's insurance experts to assess the level of fire prevention and protection at the Group's principal manufacturing facilities within and outside France. The recommendations made following these visits increased the level of fire prevention and detection resources, where appropriate.

Technology risks

The information system security function, now part of the Risk and Internal Audit Department, continued to implement a series of measures aimed at ensuring the integrity, availability and confidentiality of the Group's information systems.

In particular, it:

- tightened up contingency planning to mitigate the risk of IT systems unavailability,
- defined a continuity plan in the event of a major incident affecting major IT systems.

The contingency and business continuity and resumption plans were tested at the two principal centers in Europe and the US.

During 2006, major efforts were also made to secure IT installations (against viruses, spam, etc.).

Environmental risks

In 2006, the Group continued its policy of aiming to secure ISO 14001 certification: 2 new sites secured this certification. Work is currently continuing to eliminate the use of potential pollutants or to curtail their use very severely.

Management did not deem it necessary to set aside a provision for material environmental risks.

Raw materials risks

The Group has endeavored to find another procurement source 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. By year-end 2006, purchases of the principal raw materials and components used by the Group had been secured to a very great extent.

From a more general standpoint, the purchasing teams stepped up their efforts to diversify the Group's procurement sources and to secure the best purchasing terms from its suppliers, especially in low cost countries. What's more, to protect against price increases, exposure to certain raw materials was hedged either using derivative products or using supplier-provided protection (see the section on financial market and financing risks).

Commercial risks

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its portfolio. A total of 33 customers generate over €2 million in sales with the Group.

In addition, the contraction in sales to the automobile industry has contributed to the fall in commercial risks linked to this industry.

Country risks

The Group has manufacturing facilities in countries considered to be at high risk (based on Coface'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. No captive insurance policies were arranged.

The Group's civil liability (before and after delivery) and environmental insurance program notably covers bodily injury, physical and non-physical damage, site clearance and rebuilding costs, withdrawal costs, damage to property in the Group's care 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 fiscal 2006 in respect of its civil liability, environmental and civil aviation insurance program came to €841,400.

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 fire, storm, explosion, electrical damage, theft, etc.), 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 guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by Groupe Carbone Lorraine during fiscal 2006 in respect of this insurance program came to €870,097.

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 fiscal 2006 in respect of this insurance program came to €70,000.

The Group's insurance policy is determined by Senior Management. To protect the Group's future, the levels of coverage are set based on an assessment of the risks incurred by each Group subsidiary. Given that the insurance market remained stable, the levels of coverage in 2007 were unchanged on the previous year.

Labor risks

The Company pays particular attention to the quality of its labor relations and to dialog 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 plants in France meet with the Group's Human Resources Department at least once each year.

When restructuring measures liable to have an impact on the workforce are contemplated, the solutions envisaged 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 personnel within its organization during its management reviews and introduced measures to maintain their loyalty and/or ensure that they could 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 derives from 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 currency risk, 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 closing rate. The impact of this currency translation May be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt. All other factors remaining equal, the depreciation in the currency against the euro in 2006 led to a reduction in the Group's 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 strictly defined procedures. The way hedges are valued is described in Note 15 to the consolidated financial statements.

Interest rate risk

The Group's principal exposure is to the US dollar and euro interest rates. Hedging is centralized by the parent company and handled on a case-by-case basis by the Finance Department. It is carried out under strictly defined procedures. A breakdown of hedges and the Group's interest-rate exposure is shown in Note 14 - Net debt. The way hedges are valued is outlined in Note 15 to the consolidated financial statements.

Raw materials risks

The Group's policy is to consider on a case-by-case basis whether it is worth hedging exposure to certain raw materials traded on an organized market to reduce the sensitivity of its earnings to price fluctuations affecting commodities. In late 2006, the Group made forward purchases to cover some of its copper purchases during 2007. Hedging is centralized by the parent company and subject to the authorization of the Chairman and Chief Executive Officer. The way hedges are valued is outlined in Note 15 to the consolidated financial statements.

Counterparty risks

All hedging transactions are entered into with prime financial institutions. The Group has no material investment securities and is not exposed to counterparty risks on such securities. In terms of credit risk, the Group set up an insurance program with commercial credit insurer Coface covering its principal companies in the US and France against the risk of non-payment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

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. With respect to its various borrowings, the Group needs to comply with certain financial criteria, described in Note 14 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

At December 31, 2006, the Group held 42,033 shares in treasury worth €1.8 million. At the same date, the Group had not subscribed any shares in listed companies.

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.

The Group's principal customer is Valeo, which generates 3.5% of sales. No other customer accounts for more than 3% of sales.

Litigation

Appeal procedure in Europe

The appeal procedure launched by Carbone Lorraine during February 2004 in the EU Court of First Instance against the €43.05 million 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. No new developments occurred in 2006. To recap, Carbone Lorraine paid a sum of €20 million into an escrow account held by the European Commission in March 2005, without this having an impact on the outcome of the appeal in progress, to reduce the expenses caused by the extension of the length of the appeal process.

Class-action lawsuits in North America (US - Canada)

In 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 COAIC, a Carbone Lorraine subsidiary marketing brushes for electric motors. The size of the settlement was reduced by the federal court to USD3.7 million in October 2006 as part of its definitive approval of the settlement.

The size of the aforementioned settlement was reduced because a limited number of beneficiaries refused the terms of the settlement and decided to pursue a claim directly against COAIC as part of separate proceedings on the grounds that the amounts initially offered in settlement of their claims were insufficient. The separate proceedings are currently being heard by the US federal courts. COAIC firmly rejects all the additional claims and has already filed a request for the dismissal of the separate proceedings on the grounds they have no legal basis.

The lawsuit initiated during 2004 in Canada against the main Canadian manufacturers of graphite brushes, including Carbone of America Ltd., a subsidiary of Carbone Lorraine, is still in progress. To recap, this lawsuit was instigated following the fine of CAD1million paid by Morgan Crucible Ltd in July 2004 for anti-trust practices for the 1995-98 period in the field of graphite brushes for traction applications. No new developments occurred in 2006. In February 2007, the Canadian judge ruled that only Canadian urban transportation companies could join the proceedings in progress. The amount at risk for Carbone of America Ltd. (Canada) remains non-material.

In 1999, the Group implemented a worldwide compliance program to provide training for and raise the awareness of operational and commercial managers about competition legislation. This worldwide compliance program remains in place. Highly stringent internal control measures and external audits ensure that competition legislation is scrupulously complied with 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 Groupe Carbone Lorraine.

General information about the share capital

Conditions

Changes in the share capital and the respective rights of the various classes 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, 2006, the share capital amounted to €27,930,950 divided into 13,965,475 shares, each with a nominal value of €2 and belonging to the same category.

Authorizations to carry out a capital increase

Combined General Meeting of May 12, 2005

At the Combined General Meeting of May 12, 2005, shareholders authorized the Board of Directors to increase, on one or more occasions, the share capital with preferential subscription rights for existing shareholders, through the issue in or outside France of ordinary shares in the Company or any other securities (including debt instruments) conferring rights 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.

The nominal amount of increases in the share capital that May be carried out immediately and/or in the future pursuant to this authorization May not exceed €10 million, 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 conferring rights to the Company's shares, in accordance with the French Commercial Code. The aforementioned ceiling does not apply to increases in the share capital through the capitalization of reserves.

The authorization granted to the Board of Directors for a period of 26 months following the Combined General Meeting of May 12, 2005, had not been used at December 31, 2006.

Shareholders also authorized the Board of Directors to increase the share capital, on one or more occasions at its sole discretion, through the issue of shares in cash reserved for employees participating in the Group Investment Plan. These increases in capital entail the waiver of shareholders' preferential subscription rights.

The nominal amount of the capital increases that May be carried out pursuant to this authorization May not exceed €275,000, *i.e.* approximately 1% of the Company's share capital.

This authorization replaces and supersedes the previous one granted by the Combined General Meeting of May 13, 2004 for a period of 26 months from the Combined General Meeting of May 12, 2005.

The Board of Directors made partial use of this authorization in 2006 by granting 44,494 new shares to employees at a subscription price of €33.20 per share. As a result of this issue of shares, the share capital increased to €27,771,692 divided into 13,885,846 fully paid-up shares each with a nominal value of €2 and belonging to the same category.

Lastly, shareholders authorized the Board of Directors to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof.

The total number of shares that may be allotted pursuant to this authorization may not exceed 50,000.

This authorization was granted to the Board of Directors for a period of 38 months from the Combined General Meeting of May 12, 2005.

At its June 30, 2005 meeting, the Board resolved to allot 48,000 shares at no cost to 62 of the Group's senior managers. The Board gave the Chairman the option of reducing the number of shares allotted or the number of beneficiaries to take into account changes underway in the organization and supervision of the EMC division. Aside from the conditions laid down in law, the bonus share allotment was contingent upon the achievement of performance and earnings targets for fiscal 2005.

The Chairman used this option to reduce the number of shares allotted to 42,700.

Since the targets triggering the allotment of the bonus shares were not fully attained, only 75% of the bonus shares were actually allotted during 2005, that is a total of 32,025 shares.

The balance of the bonus shares, that is a total of 17,975 shares, were allotted in 2006.

Combined General Meeting of May 18, 2006

Shareholders authorized the Board of Directors at the Extraordinary General Meeting to issue bonds convertible into the Company's shares at any time at bondholders' discretion on the French market on one or more occasions at its sole discretion without preferential subscription rights for shareholders.

The aggregate nominal amount of the increases in the share capital that may be carried out pursuant to this authorization may not exceed €5 million, and this cap is part of the aggregate restriction of €10 million decided by shareholders at the Annual General Meeting of May 12, 2005.

The authorization, which was granted to the Board of Directors for a period of 13 months following the General Meeting of May 18, 2006, had not been used at December 31, 2006.

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Description of the transaction	Share capital following the transaction	Share premiums	Total number of shares after the transaction
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
Apr. 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	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	254,261	13,755,577
Dec. 31, 2005	Issue of 85,775 new shares each with a nominal value of €2 through the exercise of subscription options	27,682,704	1,829,333	13,841,352
June 28, 2006	Issue of 44,494 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,771,692	1,388,213	13,885,846
Dec. 31, 2006	Issue of 79,629 new shares each with a nominal value of €2 through the exercise of subscription options	27,930,950	2,219,832	13,965,475

Voting right certificates

None.

Investment certificates

None.

Shares pledged

None.

Shareholders' agreement

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

Securities conferring rights to the share capital

Between July 1995 and December 31, 2006, stock subscription options were granted, 79,629 of which were exercised during fiscal 2006. The options still to be exercised at December 31, 2006, after taking into account cancellations, entitle their holders to acquire a total number of 460,780 shares, each with a nominal value of €2. No stock subscription options were granted in 2006.

A total of 17,975 shares were allotted at no cost during fiscal 2006.

There are no other instruments or securities conferring rights to the Company's share capital.

Ownership of the share capital

The Company's share capital at December 31, 2006 amounted to €27,930,950, comprising 13,965,475 shares each with a nominal value of €2.

The number of voting rights stands at 13,923,442.

At January 31, 2007, 30,769 shares were held by the Company pursuant to the liquidity agreement entered into with

Exane-BNP Paribas. The Company did not hold any other of its own shares at this date.

No shares carry double voting rights.

The number of stock subscription options granted to company officers and still outstanding stood at 112,084, taking into account the canceled options.

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

Share ownership thresholds crossed

January 10, 2006: Harris Associates L.P. cut its stake to below 1%.

May 26, 2006:

- As part of its trading activities, Société Générale increased its stake above the 1% mark to 1.566% of Carbone Lorraine's share capital and voting rights.
- As part of its trading activities, Société Générale increased its stake above the 1% mark to 1.688% of Carbone Lorraine's share capital and voting rights.

May 26, 2006: The Société Générale group increased its stake above the 1% mark to 1.688% of Carbone Lorraine's share capital and voting rights.

June 2, 2006: Société Générale cut its stake to below 1% of Carbone Lorraine's share capital and voting rights (the Société Générale group as a whole owns 1.763% of the share capital and 1.749% of voting rights).

June 29, 2006: Caisse Nationale des Caisses d'Epargne increased its interest above the 1% mark to 1.05% of the share capital and 1.04% of voting rights.

October 16, 2006: UBS raised its interest above the 1% mark to 1.56% of the share capital and 1.55% of voting rights.

October 24, 2006: UBS cut its stake to below 1% of Carbone Lorraine's share capital and voting rights.

November 24, 2006: UBS raised its interest above the 1% mark to 1.04% of the share capital and voting rights.

December 4, 2006: UBS cut its stake to below 1% of Carbone Lorraine's share capital and voting rights.

December 20, 2006: UBS raised its interest above the 1% mark to 1.04% of the share capital and voting rights.

December 28, 2007: UBS cut its stake to below 1% of Carbone Lorraine's share capital and voting rights.

January 1, 2007: Société Générale Asset Management cut its stake to below 1% of Carbone Lorraine's share capital and voting rights.

January 12, 2007: Arnhold and S. Bleichroeder Adviser, LLC raised its interest above the 1% threshold of the share capital and voting rights by establishing a stake of 1.02% of the share capital and voting rights.

January 19, 2007: Amber Master Fund (Cayman) SPC raised its interest above the 1% threshold of the share capital and voting rights by establishing a stake of 1.20% of the share capital and voting rights.

January 26, 2007: Amber Master Fund (Cayman) SPC raised its interest above the 2% threshold of the share capital and voting rights by establishing a stake of 2.36% of the share capital and voting rights.

January 31, 2007: Amber Master Fund (Cayman) SPC raised its interest above the 3% threshold of the share capital and voting rights by establishing a stake of 3.16% of the share capital and voting rights.

February 19, 2007: Amber Master Fund (Cayman) SPC raised its interest above the 4% threshold of the share capital and voting rights by establishing a stake of 4.18% of the share capital and 4.17% of voting rights.

CHANGES IN OWNERSHIP OF THE SHARE CAPITAL

	Dec. 31, 2006			Dec. 31, 2005			Dec. 31, 2004		
Shareholders	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	0			0			2,874,916	20.9 %	20.9 %
Free float, of which	13,965,475			13,841,352			10,880,661	79.1%	79.1%
- French institutional investors	4,790,157	34.3%	34.3%	4,786,941	34.6 %	34.6 %	3,328,850	24.2 %	24.2 %
- individual shareholders	4,022,056	28.8%	28.8%	4,371,701	31.6%	31.6%	2,682,337	19.5%	19.5%
- employee shareholders	200,243	1.4%	1.4%	221,461	1.6%	1.6%	330,134	2.4%	2.4%
- international institutional investors	4,887,916	35%	35%	4,427,067	32%	32%	4,539,340	33%	33%
Treasury shares	65,103	0.5%	0.5%	34,182	0.2%	0.2%	0	0	0
TOTAL	**13,965,475**	**100%**	**100%**	**13,841,352**	**100%**	**100%**	**13,755,577**	**100%**	**100%**

To the best of the Company's knowledge, no shareholder other than Columbia Wanger Asset Management L.P. holds more than 5% of the Company's share capital and voting rights.

The directors and company officers hold 11,472 registered shares, as well 11,598 shares via the Carbone Lorraine FCPE (corporate mutual fund), representing a total of 0.16% of the share capital; The Company held a total of 42,033 of its own shares at December 31, 2006 under a liquidity agreement complying with the AFEI's charter.

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 a constituent of the SBF 120, CAC Mid100 and the Next 150 indices.

A total of 13,965,475 shares are listed on the market.

Carbone Lorraine shares	Number of shares traded *(units)*	Trading volumes *(M €)* [1]	Highs and Lows[2] High *(€)*	Low *(€)*
2005				
July	772,260	30.37	40.50	38.05
August	854,267	31.18	39.35	35.80
September	1,562,541	60.03	39.48	36.78
October	1,146,850	37.67	38.66	32.30
November	1,740,182	62.51	35.97	31.20
December	1,247,992	48.10	39.09	36.10
2006				
January	1,037,421	41.98	41.30	38.22
February	917,362	38.32	42.62	39.82
March	1,173,798	51.81	44.48	39.10
April	963,397	43.82	46.40	41.00
May	1,510,525	65.35	51.00	39.56
June	937,354	40.26	43.90	36.55
July	760,010	31.26	43.60	37.41
August	469,573	19.17	41.00	39.10
September	1,075,966	47.06	43.89	43.74
October	787,581	34.33	45.00	41.70
November	929,624	40.35	45.00	41.30
December	1,145,140	48.89	43.90	40.01
2007				
January	1,025,715	45.31	44.84	42.65
February	1,273,907	54.87	46.00	41.20

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

	Number of shares at year-end	Earnings per share *(euros)* Net dividend	Tax credit	Total dividend	Share price *(euros)* +High	+Low	Last	Overall yield based on year-end share price
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	n/a	0.55	39.60	27.12	39.03	1.41%
2005	13,841,352	0.70	n/a	0.70	43.75	31.20	38.60	1.81%
2006	13,965,475	0.85	n/a	0.85	51.00	36.55	42.65	2.0%

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 2006, the Third Resolution of the Combined General Meeting of May 24, 2007 provides for payment of a dividend of €0.85 per share, subject to shareholders' approval.

Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting (on May 14, 2007 at first notice or on May 24, 2007 at second notice)

In accordance with Articles 241-1 *et seq.* of the General Regulation of the *Autorité des Marchés Financiers*, as well as EC regulation 2273/2003 of December 22, 2003, which entered force on October 13, 2004, this information memorandum is intended to present the objectives and arrangements for the renewal of the stock repurchase program, as well as its expected impact on the Company's shareholders.

SUMMARY OF THE PRINCIPAL CHARACTERISTICS OF THE PROGRAM

Issuer: Le Carbone Lorraine

Shares concerned: Carbone Lorraine's ordinary shares, admitted for trading on Compartment B of Eurolist by Euronext Paris (ISIN code: FR0000039620)

Maximum percentage of the capital authorized for repurchase by shareholders at the General Meeting: 10%

Maximum acquisition price per share: €100

Aims of the program in order of priority:

- 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;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L. 225-197-1 to L. 225-197-3;
- allot shares pursuant to the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital; or
- cancel them through a reduction in share capital in accordance with the provisions of the French Commercial Code;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.

Duration of the program: 18 months from Combined General Meeting of May 14, 2007 (first notice) or May 24, 2007 (second notice) until the date of the General Meeting convened to approve the financial statements for 2007.

I -Outcome of the previous program

With the exception of the repurchases made under the liquidity agreement, the Company did not make any use of the authorization granted by shareholders at the Combined General Meeting of May 18, 2006 in connection with the previous stock repurchase program (visa no. 05-253 of April 12, 2005) to stabilize the share price. At January 31, 2007, 30,769 shares were held in relation to this liquidity agreement.

The Company did not use any derivative products.

Summary statement

Issuer's declaration of transactions in its own shares between May 18, 2006 and January 31, 2007

Percentage of the share capital held directly and indirectly	0.22%
Number of shares canceled over the past 24 months	None
Number of shares held in the portfolio	None
Carrying amount of the portfolio	None
Market value of the portfolio	None

	Total gross cash flows		Open interest on the filing date of the information memorandum					
	Purchases	Sales/ Transfers	Open interest, buy side			Open interest, sell side		
			Calls purchased	Puts sold	Future purchases	Calls sold	Puts sold	Future sales
Number of instruments	none							
Average maximum life			none	none	none	none	none	none
Average transaction price	none							
Average exercise price			none	none	none	none	none	none
Amounts	none		none	none	none	none	none	none

Since February 25, 2005, the Company has entrusted EXANE BNP Paribas (investment services provider) with implementing a liquidity agreement in accordance with the AFEI's charter approved by the *Autorité des Marchés Financiers* for an automatically renewable period of one year. The funds and shares made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 were as follows: €2,200,000 and no shares.

II - Objectives of the stock repurchase program

Carbone Lorraine wants to be able to implement a program to repurchase its own shares pursuant to the authorization submitted for approval by shareholders at the Combined General Meeting on May 14, 2007 (first notice) or May 24, 2007 (second notice).

Share purchases May be carried out, in decreasing 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;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L. 225-197-1 to L. 225-197-3;
- allot shares pursuant to the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital; or
- cancel them through a reduction in share capital in accordance with the provisions of the French Commercial Code;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.

III - Legal framework

This program conforms to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code, as well as EC Regulation no. 2273/2003 of December 22, 2003, implementing the Market Abuse Directive 2003/6/EC of January 28, 2003, which entered force on October 13, 2004. It will be submitted for shareholders' approval at the Combined General Meeting of May 14, 2007 (first notice) or May 24, 2007 (second notice), deliberating in accordance with the quorum and majority voting requirements for Ordinary General Meetings (Fifth Resolution). The Fifth Resolution put forward by the Board of Directors is drafted as follows:

Fifth Resolution - Purchase of Carbone Lorraine's own shares

After hearing the Board of Directors' report and having familiarized itself with the description of the stock repurchase program, 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 1,396,547 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;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L. 225-197-1 to L. 225-197-3;
- allot shares pursuant to the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital; or
- cancel them through a reduction in share capital in accordance with the provisions of the French Commercial Code;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.

The maximum purchase price is set at €100 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases May not exceed €139,654,700.

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

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2007. In no case whatsoever 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 18, 2006.

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

IV - Terms and conditions

1) Maximum percentage of the share capital to be acquired and maximum amount payable by Carbone Lorraine

Carbone Lorraine will have the option of acquiring up to 10% of the share capital at the date of the General Meeting, *i.e.* 1,396,547 shares. The company reserves the right to make full use of the authorized program. Accordingly, the maximum amount that Carbone Lorraine may pay assuming that it acquires shares at the maximum price set by the General Meeting, *i.e.* €100 per share, would be €139,654,700.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2006, amounted to €156,216,000. Pursuant to law, the size of the stock repurchase program may not exceed this figure ahead of the December 31, 2007 close.

Carbone Lorraine undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

2) Framework for the repurchases

Stock repurchases, sales and transfers may take place at any time within the restrictions laid down in the stock market regulations and by any means, through trading on the market, through the use of options instruments or through block share purchases, provided that the General Meeting does not place any special restrictions on acquisitions of blocks of shares.

The Company will be careful not to increase the volatility of its shares when using options instruments.

3) Schedule for the program

These stock repurchases May take place only after the approval of the Fifth Resolution to be presented to the Combined General Meeting of may 14, 2007 (first notice) or May 24, 2007 (second notice) until the date of the General Meeting convened to approve the financial statements for 2007; In no case whatsoever will this authorization remain valid for more than 18 months.

4) Financing for the stock repurchase program

Stock repurchases will be financed using the Company's cash funds or using debt finance. The Company will adjust its credit lines to proceed with these stock repurchases.

As a guide, net cash from operating activities before capital expenditure came to €59.4 million at December 31, 2006. Equity attributable to the Group's shareholders came to €303.6 million and net debt stood at €154.3 million, after taking into account €15.6 million in cash.

V - Presentation of the likely impact of the stock repurchase program on Carbone Lorraine's financial situation

Calculations of the impact of the program on the Group's financial statements were made assuming the repurchase of 10% of the share capital based on Carbone Lorraine's share capital at December 31, 2006.

The other assumptions were as follows:

- interest expense estimated at the gross annual rate of 4.5%;
- unit repurchase price of €44.61, the average closing price for sessions between January 15 and February 14, 2007;
- theoretical tax rate: 33.3%.

On this basis, the impact of the stock repurchase program on the Group's consolidated financial statements would be as follows:

In millions of euros	Consolidated financial statements at Dec. 31, 2006	Impact of the repurchase of 10% of the share capital	Pro forma after the repurchase of 10% of the share capital	Impact of the repurchase *(%)*
Equity attributable to Group shareholders	304	-64.2	239	-21.1%
Total equity	308	-64.2	244	20.8%
Net debt	154	62.3	217	40.4%
Total number of shares outstanding at Dec. 31	13,965,475	1,396,548	12,568,928	-10.0%
NET INCOME ATTRIBUTABLE TO CARBONE LORRAINE'SSHAREHOLDERS	**35.3**	**-1.9**	**33.4**	**-5.3%**
EARNINGS PER SHARE	**2.53**	**-1.34**	**2.66**	**5.2%**

VI - Tax treatment of stock repurchases

1) For Carbone Lorraine

The repurchase by Carbone Lorraine of its own shares as part of the present program without cancellation of the shares would have an impact on its taxable income if the shares were sold or transferred at a price other than their repurchase price. Taxable income would then be affected by the capital gain or loss arising.

2) For shareholders selling their shares

Capital gains tax applies to the present repurchase program (article 112-6 of the French General Tax Code). Gains realized by legal entities subject to French corporate income tax incur business capital gains tax, in line with Article 39 *duodecies* of the French General Tax Code. Gains realized by individuals in France are subject to the disposal gains on securities or corporate rights regime provided for in Article 150-0-A of the French General Tax Code. Under this regime, capital gains are taxable in France only if the aggregate annual amount of assets sold by the shareholder whose shares are repurchased exceeds €20,000. The tax rate stands at 16% or 27% including social security contributions. Gains are not liable to this tax in France when realized by individuals not domiciled in France for tax purposes or by entities having a head office located outside France (and with no permanent establishment in France holding the shares on its balance sheet), without the former at any time having owned directly or indirectly, alone or with family members, a shareholding of over 25% in rights to the Company's corporate profits at any time whatsoever during the five years preceding the sale (Article 244 *bis* C of the French General Tax Code).

VII - Intervention by the person(s) controlling the issuer alone or in concert

No individual or legal entity controls Carbone Lorraine either alone or in concert.

VIII - Breakdown of ownership of Carbone Lorraine's share capital at December 31, 2006

Carbone Lorraine's share capital is divided into 13,965,475 shares, each with a nominal value of €2, ownership of which at December 31, 2006 was as follows based on the information received by Carbone Lorraine:

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2006

Shareholders	Number of shares	% of share capital	% of voting rights
Free float, incl.:	13,965,475	100	100
-employee shareholders	200,243	1.4	1.4
-individual shareholders	4,022,056	28.8	28.8
-French institutional investors	4,790,157	34.3	34.3
-international institutional investors	4,887,916	35	35
Treasury shares	65,103	0.5	0.5
	13,965,475	**100**	**100**

To the best of the Company's knowledge, no shareholder other than Columbia Wanger Asset Management L.P. holds more than 5% of the Company's share capital and voting rights.

No shareholders' agreement is in place.

Taking into account the stock subscription options granted under the 1995 to 2003 plans still outstanding at December 31, 2006, a total of 112,084 new shares May still be issued. The information concerning Carbone Lorraine's stock subscription options is shown on pages 99 and 100 of this reference document.

At the publication date of this document, the number of shares outstanding and the number of new shares that May be issued through the exercise of share subscription options were the same as at December 31, 2006.

IX - Persons responsible for the information memorandum

To the best of our knowledge, the information provided in this information memorandum is true and accurate. It provides all the information required for investors to make an informed judgement of Carbone Lorraine's stock repurchase program.

It contains no omissions liable to impair its significance.

Corporate governance

Composition of the Board of Directors at March 20, 2007

Name	Date of first appointment	Most recent renewal date	End of term of office	Other positions held
Claude COCOZZA 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, Chairman of the Audit and Accounts Committee	July 11, 1995	May 2, 2001	Annual General Meeting 2007	**Chief Executive Officer of:** ACERGY France **Former Chairman & CEO of:** Renault Commercial Vehicles and Fives-Lille **Former General Administrator of the** French Atomic Energy Commission (CEA)
Robert CHAUPRADE DoB: August 25, 1935 Director, Chairman of the Appointments and Remuneration Committee, Member of the Strategy Committee	March 19, 1991	May 2, 2001	Annual General Meeting 2007	**Former Chairman & CEO of:** MATRA ELECTRONIQUE **Former Deputy CEO of:** MATRA DEFENSE **Previous divisional manager of:** JEUMONT-SCHNEIDER
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	**Chairman and Chief Executive Officer of:** CALLISTO **Managing Partner of:** HC Conseil **Director of:** ANTARGAZ, IPSEN, NEUF CEGETEL, Compagnie Franco-Tunisienne des Pétroles (based in Tunisia) **Former Director of:** GERFLOR, CEVA, COPAREX
Jean-Paul JACAMON DoB: August 5, 1947 Director, Member of the Appointments and Remuneration Committee Member of the Strategy Committee	January 22, 2003		Annual General Meeting 2007	**Director of:** ALCAN (Canada), ASTEEL, TOCKHEIM **Chairman of the Supervisory Board of:** CAMERON FRANCE
Jean-Claude KARPELES DoB: June 15, 1940 Director, Member of the Audit and Accounts Committee'audit et des comptes	April 6, 1999	May 12, 2005	Annual General Meeting 2011	**General delegate of:** FIEEC and GIMELEC **Manager of:** ELEC Promotion SARL and GIMELEC Promotion SARL **Director of:** CPI Media **Chairman of the Supervisory Board of:** SA du Château de Campuget **Member of:** the Paris Chamber of Commerce and Industry
Walter PIZZAFERRI DoB: August 20, 1957 Director, Chairman of the Strategy Committee	April 6, 1999	May 12, 2005	Annual General Meeting 2011	**Chairman and Chief Executive Officer of:** AKEANCE INDUSTRIES **Manager of:** TERCARA, LES VERRIÈRES DE MONTAGNAC
Ervin ROSENBERG DoB: September 13, 1935 Director	June 23, 2005		Annual General Meeting 2007	**Chairman and Chief Executive Officer of:** FINANCIÈRE SAVOISIENNE **Director of:** NEXANS SA, MOBILITY SAINT-HONORÉ **Member of the Supervisory Board of:** COMPAGNIE FINANCIÈRE EDMOND DE ROTHSCHILD, LCF ROTHSCHILD FINANCIAL SERVICES

Board of Directors

Composition of the Board of Directors

Claude Cocozza, Chairman and Chief Executive Officer

Jean-Pierre Capron (independent director)

Robert Chauprade (independent director)

Hervé Couffin (independent director)

Jean-Paul Jacamon (independent director)

Jean-Claude Karpeles (independent director)

Walter Pizzaferri (independent director)

Ervin Rosenberg (independent director).

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, chief executive officer 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, seven of whom are independent directors. The Board met six times during 2006. The average attendance rate at the Board's meetings stood at 92% in 2006.

At each meeting, the Board reviewed trends in the Group's sales and earnings. The Board approved the interim and annual financial statements after meeting with the Statutory Auditors.

The Board conducted a review of the strategy proposed by each Division. It reviewed the work of a strategy consultant concerning the possibilities for expansion by the Group into markets adjacent to its existing markets.

The Board was also kept informed of progress made by the principal organic growth projects it had previously authorized. It approved the guarantees required to finance them.

The Board studied the case for the acquisition of Graphite Engineering & Sales (US), Kapp and Lenoir Elec (France). It approved the terms for the acquisition of these companies.

The Board monitored on a regular basis the plans drawn up to respond to the problems affecting the North American market for brushes for automobile auxiliary motors. This planning process led to the decision to close the Farmville plant in North America and to transfer production lines to France and India.

The Board approved the final terms for the disposal of the Magnets division.

Based on a proposal tabled by the Appointments and Remuneration Committee, the Board decided to offer employees of the Group's European and North American companies the opportunity to acquire 68,750 at a price of €33.20 per share, in accordance with the authorization granted to it by shareholders at the Combined General Meeting of May 12, 2005.

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 to conduct an evaluation of the Board's procedures using the same approach as in previous years. It consisted in an independent director designated by the Board holding individual interviews with each of the other directors. The conclusions of these meetings helped to assess the current procedures and to establish areas for improvement. The decision was made to continue the program at the beginning of 2007.

At the beginning of 2007, the Board of Directors co-opted three new directors presented by the Appointments and Remuneration Committee to replace three directors who could not or did not wish to have their term of office renewed.

Committees set up by the Board of Directors

Audit and Accounts Committee

Members of the Audit and Accounts Committee

Jean-Pierre Capron (independent director)

Hervé Couffin (independent director)

Jean-Claude Karpeles (independent director)

The Audit and Accounts Committee comprises three independent directors. It met four times during 2006. The average attendance rate at the Audit and Accounts Committee's meetings stood at 92% in 2006.

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 it deemed necessary. To this end, it met with the Statutory Auditors on several occasions, both with and without management.

The Committee approved the audit program for 2006. It comprised audit assignments at 15 manufacturing facilities and one follow-up audit to ensure that the action plans drawn up after previous audits had been implemented. Two cross-functional assignments spanning all or part of the Group were also carried out. The first focused on the management of accounts payable across the entire Group, while the second studied compliance with customer return procedures at several manufacturing facilities belonging to the Electrical Applications division.

Lastly, the Committee reviewed the work performed by the Risk Department, notably the initiatives implemented following the risk mapping carried out in 2005. Implementation of specific initiatives to reduce reliance on certain production facilities and to increase the protection of information systems.

Strategy Committee

Members of the Strategy Committee

Walter Pizzaferri (Chairman - independent director)

Robert Chauprade (independent director)

Claude Cocozza

Jean-Paul Jacamon (independent director)

The Strategy Committee comprises four members, three of whom are independent. The Committee met five times during 2006. The average attendance rate at the Strategy Committee's meetings stood at 100% in 2006.

The Strategy Committee was kept informed of efforts to overhaul the strategic planning process made with the assistance of an external advisor and made improvements.

It then studied and discussed in detail the strategies being pursued by the divisions, as defined according to the new process. It reviewed the Group's strategic business portfolio and contributed to senior management's analysis of the possible strategic options.

In parallel with the aforementioned annual strategic planning, the Strategy Committee reviewed the work carried out by senior management and an external consultant focusing on market segments adjacent to those in which the Group currently operates that could potentially harbor sources of growth. This analysis, which led to the preselection of certain sectors, will be fine-tuned in 2007 and May give rise to acquisitions with potential for organic growth going forward through their own development and through synergies with the Group's businesses and sales networks.

The Strategy Committee also reviewed several acquisition plans during late 2005 and mid-2006, three of which went ahead.

Lastly, the Strategy Committee verified that the additional appointments planned by the Group for its marketing and M&A teams complied with the Board's strategy of profitable growth.

Appointments and Remuneration Committee

Members of the Appointments and Remuneration Committee

Robert Chauprade (Chairman - independent director)

Claude Cocozza

Hervé Couffin (independent director)

Jean-Paul Jacamon (independent director)

The Appointments and Remuneration Committee has four members, three 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 five times during 2006. The average attendance rate at the Appointments and Remuneration Committee's meetings stood at 100% in 2006.

Given the fact that three directors could not or did not wish not to have their term of office renewed following the 2007 Annual General Meeting, the Appointments and Remuneration Committee made the requisite preparations for appointments on behalf of the Board of Directors. It hired a recruitment firm, eliminated from an initial list candidates and companies not compatible with Carbone Lorraine and then pre-selected a shortlist of five potential candidates, who were interviewed by each of the Committee's members. Following these interviews, the Appointments and Remuneration Committee recommended that the Board of Directors should accept the candidacies of Agnès Lemarchand, Henri-Dominique Petit and Philippe Rollier and propose them for the approval of shareholders at the May 2007 Annual General Meeting.

During the year, the Appointments and Remuneration Committee spent several meetings considering the employee compensation and benefits policy, particularly for Carbone Lorraine's managers, with a view to verifying whether it provides sufficient motivation for individuals and teams and whether it is in line with current market rates. As part of this review, the Appointments and Remuneration Committee weighed up the pros and cons of the various long-term incentive systems, including stock subscription options and bonus share allotments. The preferable course of action appeared to be to focus option grants on around 30 senior managers because the potentially greater rewards go hand in hand with the risk of receiving nothing if earnings disappoint investors. At the same time, a recommendation was made to the Board of Directors to restrict bonus share allotments for a different population of employees and managers that the Group wishes to reward and retain. To this end, ownership of the bonus shares will vest with beneficiaries only if they remain with Carbone Lorraine five years after the date of grant.

The Appointments and Remuneration Committee also examined the top-up pension system covering members of the Executive Committee and compared it to current market rates. It noted that for members who had over 25 years of service with the Group, the top-up pension equivalent to 15% of basic salary and fixed bonus was 5 points below the median level for SBF 120 companies. It is likely to propose an adjustment to the Board of Directors during 2007.

At the request of the Appointments and Remuneration Committee, the Chairman presented the succession plans for the Executive Committee members, including himself. The Appointments and Remuneration Committee noted that these plans have been carefully prepared and are updated on a regular basis. Preparations to appoint a successor to the Chairman were discussed by the Appointments and Remuneration Committee and by the Board of Directors. Likely internal candidacies will be evaluated over the coming years and undergo specific consideration with the assistance of an external specialist.

In addition, this year as every other year, the Appointments and Remuneration Committee:

- ruled on the independence of the directors. Its opinion was that all the directors, except for the Chairman, are independent;

- set and submitted for the Board's approval the bonuses paid in respect of 2005;
- reviewed the competitiveness of salaries paid to Executive Committee members compared with market rates based on an independent study. It decided to adjust the salary paid to the two members who joined the Executive Committee during 2005 and submitted a proposal to the Board of Directors to increase the Chairman's salary from €360,000 to €380,000;
- set the 2006 bonus EVA and ROCE targets, reviewed the personal objectives set by the Chairman for his staff and then set the personal objectives for the Chairman.

Lastly, the Appointments and Remuneration Committee submitted a proposal to the Board that it should grant 17,476 bonus shares to 36 Group managers (excluding company officers) that the Group wishes to reward and retain.

Executive Committee

Members of the Executive Committee

Claude Cocozza

Chairman and Chief Executive Officer

Bernard Leduc

Director of Human Resources, Quality and Continuous Improvement

Marc Renart

Group Vice President, Electrical Protection

Jean-Claude Suquet

Group Vice President, Finance and Administration

Luc Themelin

Group Vice President, High-Temperature applications and Braking

Ernest Totino

Group Vice President, Anticorrosion Equipment

The Executive Committee comprises six senior managers whose role is to run and supervise the Group's day-to-day operations. It met once 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 fell short of budget. Each divisional management team gave at least one detailed presentation to the Executive Committee during the year of its position and how it plans to improve.

The Executive Committee also controlled the progress made by expansion projects currently being implemented. In addition, it:

- discussed and adopted the Group's divisional budgets;
- defined the investment program and authorized spending on each major investment project;
- analysed the resources that need to be devoted to speeding up the Group's expansion. These studies led to a strengthening of marketing resources and the strategic planning process. The Executive Committee also analysed the proposals made by strategic consultants concerning potential acquisition targets with a view to stepping up the pace of organic growth;
- considered measures to combat discrimination;
- reviewed the major research and development priorities being explored with the divisional heads of Marketing and of Research and Development;
- monitored work performed with an outside firm to improve sales forecasting;
- 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. The Executive Committee visited a manufacturing facility to work on safety issues with the local management team;
- analysed 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 fiscal 2006 to the eight directors of Le Carbone Lorraine, including the Chairman and Chief Executive Officer, came to €883,251, which breaks down as follows:

- remuneration paid to the members of the Board of Directors (excluding the Chairman and Chief Executive Officer): €150,000 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 2007. They will be allocated between the seven members of the Board of Directors as follows:

In euros	2006	2005
Jean-Pierre Capron	23,643	22,346
Robert Chauprade	26,879	27,591
Hervé Couffin	27,157	29,182
Jean-Paul Jacamon	22,678	20,135
Jean-Claude Karpeles	18,587	18,950
Erwin Rosenberg	10,840	6,976
Walter Pizzaferri	20,215	17,845
TOTAL	**150,000**	**150,000**

- remuneration paid to the Chairman and Chief Executive Officer:

Gross amount in euros	2006	2005
Basic salary	380,000	360,000
Performance-related bonus	342,000	237,600
Bonus as a % of the basic salary	90	66
Benefits in kind	11,251	10,796
Directors' fees	0	0
TOTAL	**733,251**	**608,396**

N.B. The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
N.B. 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.

In 2006, no bonus share allotments were made and no options granted to the Chairman and Chief Executive Officer or to the directors.

Compensation paid to company officers (Executive Committee members) who are not directors

Gross amounts in euros	2006	2005
Basic salaries	868,000	1,012,181
Performance-related bonuses	621,559	474,790
Benefits in kind	20,622	21,792
TOTAL	**1,489,559**	**1,508,763**

N.B.: The bonus, which varies between 0% and 80% of the basic salary, is paid in year n+1.
N.B.: Benefits in kind correspond to a company car.
N.B.: The decline in salary payments between 2005 and 2006 reflected the departure of two members, one in mid- and the other in late 2005.

Recommendations concerning basic salaries are made to the Board of Directors by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on current 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 Value Added (EVA) targets (operating income after tax less the cost of capital employed);
- the Group's ROCE after tax targets set based on the average posted by a sample of 25 industrial companies;
- 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 a top-up pension payment of the basic reference salary provided that the total pension is not less than 55% of the basic reference 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.

In 2006, no bonus share allotments were made and no options granted to the Chairman and Chief Executive Officer or to members of the Executive Committee.

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

None.

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 and scrap rates.

In thousand of euros	2006	2005	2004	2003	2002
Amounts allocated to employees	2,233	3,267	2,493	2,577	2,454
Number of beneficiaries	1,860	2,701	2,526	2,240	3,422

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	2006	2005	2004	2003	2002
Amounts allocated to employees	2,219	1,082	1,520	1,278	1,187
Number of beneficiaries	1,498	973	720	1,336	1,078

Group Investment Plan - options and bonus shares

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

Stock 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, stock 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 since 1995 regularly offered sixty or so Group managers the possibility of subscribing 726,194 shares (after taking into account cancellations).

No further options were granted in 2006.

During 2006, 79,629 options were exercised at a weighted average exercise price of €29.88.

The total number of stock subscription options still outstanding stands at 460,780, *i.e.* 3.3% of the share capital. Company officers have no options to purchase or to subscribe shares in subsidiaries of the Group.

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 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, was valid until July 13, 2006.

The Board of Directors made use of this authorization on March 14, 2006 by opening the subscription period for a reserved capital increase leading to the issuance of 68,750 new shares for €33.20. At the close of the subscription period, 44,494 new shares were issued, representing an increase in the share capital of €88,988 and an issue premium of €1,477,200.80. These shares carry dividend rights from January 1, 2006.

Previous issues of stock options

	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	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	September 15, 2000	January 18, 2001	May 14, 2003	
Total number of shares available for subscription	72,635	139,909	190,025	449,145	9,370	4,685	130,163	995,932
- o/w directors	6,507	13,014	15,617	31,234	0	0	9,370	75,742
- o/w top 10 allottees	35,665	65,074	70,931	149,922	9,370	4,685	44,825	380,472
Subscription price	21.41	36.36	34.58	45.14	46.01	48.5	21.21	
Start of exercise period	July 1998	June 2002	March 2004	May 2005	September 2005	January 2006	May 2007	
Expiration date	June 2006	June 2007	March 2009	May 2010	September 2010	January 2011	May 2013	
Total number of shares subscribed at Dec. 31, 2006	68,990	41,751	29,938	0	0	0	0	140,679
Options canceled by Dec. 31, 2006	3,645	9,761	35,141	288,483	6,246	3,123	48,074	394,473
- o/w canceled in 2006	0	0	0	3,332	0	0	1,666	4,998
OPTIONS THAT MAY STILL BE EXERCISED	**0**	**88,397**	**124,946**	**160,662**	**3,124**	**1,562**	**82,089**	**460,780***

* *Including 45,290 held by directors (Chairman and CEO).*

Stock options: directors

	Number of options granted/ subscribed	Price	Expiration date
Options granted during fiscal 2006 to each director			
CEO	0	0	0
Options exercised during fiscal 2006 by each director			
CEO	6,507	21.41	June 2006

Stock options: options granted to the 10 employees (not directors) who received the largest number

	Number of options granted/ subscribed	Weighted average exercise price	1996 plan Tranche 2	1997 plan Tranche 3	1999 plan Tranche 5
Options granted during fiscal 2006 to the 10 employees holding the largest number of options	0				
Options exercised during fiscal 2006 by the 10 employees that subscribed the largest number of options	46,958	31.09	15,619	23,530	7,809

Bonus share allotments

At the Extraordinary General Meeting of May 12, 2005, shareholders authorized the Board of Directors on one or more occasions to allot 50,000 bonus shares to all or some of the Company's officers or those of affiliated companies. The employee categories benefiting from these bonus shares are to be determined by the Board of Directors each time that it makes use of the authorization. The authorization is valid for a period of 38 months.

Based on a proposal submitted by the Appointments and Remuneration Committee, the Board of Directors made use of this authorization during fiscal 2005 and 2006:

- in a decision on June 30, 2005, it allotted 42,700 bonus shares to around sixty of the Group's senior managers. The allotment of shares was contingent upon attainment of 2005 operating margin and operating income growth targets by the Group. Given the only partial attainment of these objectives, 32,025 shares (*i.e.* 75% of the initial allotment) were allotted in the end.
- in a decision made on June 28, 2006, the balance authorized, *i.e.* 17,975 shares were allotted to around thirty managers that the Group wanted to reward and retain. These shares will vest with their beneficiaries only if these are still Group employees five years after the date of allotment of the shares by the Board of Directors.

Previous bonus share allotments

	2006 plan Tranche 2	2005 plan Tranche 1
Date of Board of Directors' meeting	June 28, 2006	June 30, 2005
Total number of shares allotted	17,975	42,700
- o/w directors	0	3,300
- o/w Executive Committee	0	12,000
- o/w top 10 allottees	5,001	16,500
Share price at allotment date	40.07	39.25
Definitive allotment date (end of the vesting period)	July 1, 2008	July 1, 2007
End of lock-up period	July 1, 2011	July 1, 2009
Allotments canceled at Dec. 31, 2006	499	11,050
o/w canceled in 2006	499	375
BALANCE AT DECEMBER 31, 2006	**17,476**	**31,650**

Bonus share allotments: directors

	Number of shares allotted/subscribed
Shares allotted during fiscal 2006 to each director	
CEO	0
Shares allotted during fiscal 2006 to each director	
CEO	0

Bonus share allotments: Bonus shares allotted to the 10 employees (not directors) who received the largest number

	Number of shares allotted/subscribed
Shares allotted during fiscal 2006 to the 10 employees holding the largest number of options*	5,001

* *After the cancellation of one quarter.*

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

	2006				2005			
	Deloitte		KPMG		Deloitte		KPMG	
In thousand of euros	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
- Statutory audit, certification, review of the individual and consolidated financial statements	607	86%	565	88%	581	66 %	542	85 %
- Other accessory and audit assignments	26	4%	30	5%	258	29%	99	15%
SUB-TOTAL	**633**	**90%**	**565**	**96%**	**839**	**95%**	**641**	**100%**
Other services, etc								
- Legal, tax law, labor law	22	3%	31	5%	35	4%	0	
- Other (state where → 10% if audit fees)	51	7%	15	2%	10	1%	0	
SUB-TOTAL	**73**	**10%**	**46**	**7%**	**45**	**5%**	**0**	**0%**
TOTAL	**706**	**100%**	**641**	**100%**	**884**	**100%**	**641**	**100%**

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

The directors and officers directly hold 11,472 shares.

The Company officers hold a total of 11,598 shares through the Carbone Lorraine 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, 2006.

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 and any restrictions that the Board of Directors has placed on the powers of the Chairman and Chief Executive Officer, 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.

Restrictions that the Board of Directors has placed on the powers of the Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer is invested with the power to act in all circumstances on behalf of Groupe Carbone Lorraine and to represent it in its dealings with third parties. The Board of Directors' regulations stipulate, however, that certain decisions must be submitted for prior authorization by the Board of Directors in the following areas:

- investments/acquisitions/disposal projects;
- strategic priorities;
- capital increases;
- settlements and major disputes.

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 that internal control aims to achieve the following objectives:

- 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. Like all control systems, it does not provide absolute assurance that these risks have been completely eliminated.

2- Internal control organization

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:

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

2.1. 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. 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 Department.

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

2.2. Internal control handbook

Carbone Lorraine has formally defined and circulated an Internal Control Handbook to all its subsidiaries. This handbook encompasses all the basic internal control procedures applicable at Group units. To provide optimum access for all the Group's business units, this document was made available on Carbone Lorraine'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 and reporting systems 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 valuing assets and liabilities,
- confidentiality.

2.3. Internal audit

The Group's internal control department is responsible for verifying proper application of the Internal Control Handbook and regularly reports its findings to the Audit and Accounts Committee and to the Statutory Auditors. During 2006, the department conducted 18 assignments in line with the program defined at the start of the year. The purpose of these assignments was to:

- analyse the effectiveness of the internal control framework at 15 manufacturing facilities;
- conduct a follow-up audit at one plant;
- conduct two cross-divisional studies. The first focused on the management of accounts payable across the entire Group, while the second studied compliance with customer return procedures at several manufacturing facilities belonging to the Electrical Applications division.

2.4. Risk management

The Group updated its risk mapping in 2005.

Risks were classified into the following 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. No major risk factors came to light that are not under satisfactory control. The risk management policy is described in the Risk management section of the reference document.

2.5. Management control and strategic planning

A strategic plan setting out 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.

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 submitted for approval by the Group's Executive Committee and then ratified 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.

2.6. 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 hedge management, cash pooling, netting, 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 cash-focused management 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.

2.7. 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 contribute to compliance with 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 managers;
- annual individual 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 was conducted during 2005, which did not reveal any material breaches of these rules.

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, the Group puts particular emphasis on promoting new social and environmental initiatives. This commitment is described in detail in the Sustainable development section of the reference document.

Quality assurance procedures

Groupe Carbone Lorraine pursues 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 production department employs tools such as: 5S, SMED, KANBAN, HOSHIN, SPC, etc.

The 5S method, which introduces rules concerning the 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 top-performing workshops and offices.

Group-wide quality indicators are monitored by each plant:

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

Information systems security

Since 2005, the information systems security officer has been part of the Risk and Internal Audit department. The officer's role is to:

- secure the IT system and protect data confidentiality;
- tighten up the security of IT infrastructure and applications to ensure the continuity of operations.

3- Accounting and financial internal control

Groupe Carbone Lorraine's Finance and Administration department is responsible for accounting and financial internal control. Its role is to produce and ensure the quality of the financial statements and management accounts. It is backed up by the finance departments of each of the business divisions (Advanced Materials and Technologies, Electrical Applications, Electrical Protection). In turn, 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 analysed at different levels of the organization.

Accounting and consolidation

The preparation of the Group's financial statements is described in a process presented in the Accounting Principles and Consolidation Handbook produced for 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. This guide was reviewed following the introduction of IFRS (International Financial Reporting Standards) and made available on the Group's intranet.

Each Group business unit produces monthly accounts and a standardized consolidation package by the deadline set by the Group. When this data is transmitted using a Group-wide consolidation software, consistency checks are applied at each stage of the data gathering and processing process. The purpose of these checks is to:

- apply the Group's standards properly;
- adjust and eliminate intra-Group transactions correctly;
- make consolidation adjustments.

4- Accounting principles and rules defined for the compensation and benefits granted to directors

Directors' remuneration (excluding that paid to the Chairman and Chief Executive Officer) is allocated on a *pro rata* basis to attendance at meetings of the Board and the Board's various committees.

Recommendations concerning the compensation and benefits paid to the Chairman and Chief Executive Officer are made to the Board of Directors by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on current market rates. The Appointments and Remuneration Committee meets without the Chairman and Chief Executive Officer when it is studying the latter's compensation and benefits. The bonus system is based on results achieved relative to:

- the Group's Economic Value Added targets (operating income after tax less the cost of capital employed);
- the Group's ROCE after tax targets set based on the average posted by a sample of industrial companies;
- certain individual targets.

Program adopted in 2006 and action plan for 2007

Aside from the principles and systems described in this report, which are intended to be applied on a permanent basis, the following specific measures were implemented in 2006 to strengthen the Group's internal control:

- deployment of the self-assessment tool: This program, which was initiated in 2003, was continued during 2006, with internal control training sessions for plant managers in North America. The goal of training all plant managers by year-end 2006 was achieved;
- introduction of an annual internal control declaration requiring all plant managers to provide a formal undertaking that the principal points of internal control are applied properly at their business unit.

The following changes are planned for 2007:

- distribution of the internal control handbook, the overhaul of which began in 2006 to take into account changes and internal and external constraints, notably the publication of the reference framework for internal control validated by the AMF;
- adjustments made by the Group to the application guide concerning the internal control of financial and accounting information published by the AMF.

General conclusion

In 2006, the internal audit department executed the audit program approved by the Audit and Accounts Committee. It oversaw implementation of the action plans needed to remedy any deficiencies that came to light.

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

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 accounting and financial information

Year ended 31 December 2006

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 2006.

It is for the President to give an account, in his report, notably of the conditions in which the duties of the 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 accounting and financial information.

We performed our procedures in accordance with professional guidelines applicable in France. These guidelines require us to perform procedures to assess the fairness of the information 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 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.

Paris-La Défense and Neuilly-sur-Seine, March 20, 2007

The Statutory Auditors

KPMG Audit	Deloitte & Associés
Département de KPMG SA	
Jean-Paul Vellutini	Alain Penanguer
Associé	*Associé*

7 General information about Carbone Lorraine

General information about Carbone Lorraine

Corporate name and headquarters

Le Carbone Lorraine
Immeuble La Fayette
2, place des Vosges
92400 - Courbevoie-La Défense 5 - France

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:

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

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

- raw materials, prepared materials, components and elements, spare parts, semi-finished and finished products, equipment, combinations of equipment, assemblies of all kinds and sizes combining equipment;
- all works;
- all 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 - APE CODE: 268 C.

Access to the Company's 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 consulted at the headquarters by contacting:

Jean-Claude Suquet
Group Vice President, Finance and Administration
Carbone Lorraine
Immeuble La Fayette
2, place des Vosges
92400 Paris-La Défense 5 - 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 fiscal 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 drawn 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 Chief Executive Officer, the Secretary of the Board or a duly authorized person certifies copies of the minutes.

Disclosure thresholds (Article 11 of the Articles of Association)

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

Purchase by the Company of its own shares (approved by the AMF under visa no. 05-253 of April 12, 2005)

At the Combined General Meeting of May 18, 2006 (second notice), the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L. 225-209 *et seq.* of the French Commercial Code in order 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;

- grant or transfer shares to employees in connection with the employee profit-sharing plan, the allotment of shares under the conditions provided for in Articles L. 225-197-1 to L. 225-197-3 or the grant of stock options;
- allot shares in connection with the conversion or exchange of debt securities conferring rights 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 €100 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases May not exceed €139,654,700.

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

The Company has not used said authorization since May 18, 2006 in connection with its efforts to stabilize the share price on the stock market.

In March 2005, the Company signed a liquidity agreement with Exane-BNP Paribas conforming to the AFEI's charter. At January 31, 2007, 30,769 of its own shares were held by the Company pursuant to this agreement.

The Company did not hold any other of its own shares at this date.

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2007. Another stock repurchase authorization will be proposed at the Combined General Meeting of Shareholders of May 14, 2007 (first notice) and of May 24, 2007 (second notice).

Double voting rights

No shares carry double voting rights.

8 Officer responsible for the reference document and auditors

Officer responsible for the report

Claude Cocozza

Chairman of the Board of Directors

Statement by the officer

To the best of our knowledge, the information presented in this document fairly reflects the current situation. It includes all the data required by investors to assess the net assets, operations, financial position, earnings and future outlook of Groupe Carbone Lorraine. There are no omissions liable to impair its significance.

We obtained an end-of-assignment letter from the statutory auditors, Deloitte & Associés and KPMG Audit, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and their reading of this entire report.

Claude Cocozza

Information included by reference

The following information is included by reference in this annual report:

Fiscal 2005

Included in annual report no. D-06-0132 submitted to the *Autorité des Marchés Financiers* on March 14, 2006 are:

- the 2005 financial statements prepared in accordance with the international accounting standards in force in 2005 on pages 39 to 85;
- an analysis of the 2005 results on pages 19 to 26; and
- the Statutory Auditors' report on the consolidated financial statements, the Statutory Auditors' report on Le Carbone Lorraine SA's individual financial statements and the Special report of the Statutory Auditors on regulated agreements on pages 86, 119 and 129.

Fiscal 2004

Included in annual report no. D-05-0226 submitted to the *Autorité des Marchés Financiers* on March 15, 2005 are:

- the 2004 financial statements prepared in accordance with the French accounting standards in force in 2004 on pages 39 to 65;
- an analysis of the 2004 results on pages 19 to 28; and
- the Statutory Auditors' report on the consolidated financial statements, the Statutory Auditors' report on Le Carbone Lorraine SA's individual financial statements and the Special report of the Statutory Auditors on regulated agreements on pages 63, 92 and 105.

Auditors

Alternate Auditors

Deloitte & Associés,
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 - KPMG SA department
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

BEAS
7-9, villa Houssay
92524 Neuilly-sur-Seine 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)

SCP 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 place des Vosges,
92400 Courbevoie La Défense 5
Tél. : + 33 (0) 1 46 91 54 19

Cross-referencing table

(in accordance with Appendix I of EC Regulation 809/2004 issued by the European Commission on April 29, 2004).

Printed on an environmental-friendly paper.

Carbone Lorraine
Immeuble La Fayette
2 place des Vosges
92400 COURBEVOIE - LA DÉFENSE 5

Labrador 01 53 06 30 80 Photographs : Jeremy Woodhouse/Getty; photographic libraries Carbone Lorraine and Ferraz Shawmut.