# Carbone Lorraine

2000 HALF-YEAR REPORT

# Message from
Message

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**Dear Shareholder,**

***Your Group has achieved an excellent first half-year 2000. In fact, thanks to our successful acquisitions, our reinforced and systematic customer orientation which has translated into new commercial successes, and the remarkable motivation of our teams, net current income has increased 30% over these first six months.***

# from the Chairman

We are well in advance of our already ambitious objective of 15 to 20% average annual growth in net current income per share that I set for the Group for the period 2000-2002.

Today all the lights are green for the Group. Most of the industrial units are working very efficiently, some have made very significant progress, many new, innovative products are being prepared and under-lying markets are very buoyant. Competent and determined teams are working at future organic growth and are preparing for new acquisitions.

The result of all this means substantial creation of value for the Group and its shareholders, both at present and in the future. I am convinced that this will be recognized by the financial markets and that our faithful shareholders will be fully rewarded as will those who might wish to join us in the future.

**Claude COCOZZA**
Chairman and CEO

# Electrical components

**Each of our activities has achieved excellent commercial and industrial performances and has contributed, along with acquisitions, to the huge jump in the Group's operating profit of 53%, to 51 million euros, or 11.5% of turnover.**



* before apportionment of corporate charges.

## Electrical Applications

Electrical Components

Growth was strong in the first half-year 2000 both in historical value (+ 11%), and on a like-for like basis (+ 5%). The acceleration of organic growth compared to the first quarter of the year 2000 (+ 3%) was noticeable in all markets.

Our commercial successes explain the growth in sales of brushes for industrial and traction motors, in particular in the spare-parts markets in North America, for rail traction motors in Germany and Italy, and in brush-holders where we have increased our leadership yet again. In the brushes for industrial motors market our sales have also increased thanks to the economic up-swing in Europe and in Brazil.

In addition, our positioning in integrated brush and brush-holder assemblies has been especially buoyant for our sales to the automobile industry in Europe. It should also be the basis for the development of sales expected in North America in the second half of the year.

The important increase in operating margin from 14.4% to 15.8% reflects the positive results of on-going restructuring initiatives at our European production sites which have amplified the effects of growth in volume of activity.

Carbone Lorraine, which is already the world leader in brushes for electrical motors with about 25% market share, is developing a number of projects jointly with its customers, in particular the large automobile equipment manufacturers. These developments, added to the positive effect of on-going restructuring initiatives and continuing progress in the 30 finishing workshops, should improve sales and margins in this activity even further throughout the year 2000.

## Permanent Magnets

Electrical Components

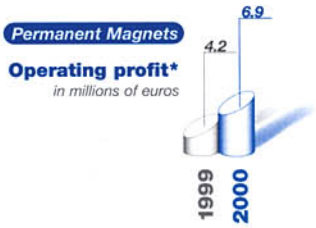
The sharp increase in sales for the first half-year 2000 resulted from very strong organic growth (+5%), and consolidation of the automobile magnet activity in Korea.

Our sales of magnets for automobiles have started to increase again. The rise was especially sharp in Korea (local market + exports) and in Brazil (economic recovery + acquiring new customers). We also benefited from significant increases in Europe thanks to initial successes with orders for assemblies. In North America, increased acquisition of new customers has enabled us to compensate largely for a low demand from one important customer.

Sales of magnets for computer and industrial applications have shown strong activity over the first six months. The drop in price reductions was not as great as in the preceding half-year and some of our competitors have withdrawn from the market entirely. Because this activity was not of critical size, we have agreed to sell it to an American company which is better placed than Carbone Lorraine to ensure its future development.

We have increased the operating margin on sales from 4.3% to 5.9% thanks to the progressive recovery of the site in Evreux acquired in 1999, and to the excellent performance of the sites in Korea (acquired in 1999) and in St-Pierre d'Allevard (acquired in 1995).

# activities





* before apportionment of corporate charges.

Having built up a position to World N°3 in magnets for automobiles over five years thanks to four acquisitions between 1995 and 1999, our Group is continuing its strategy of globalization for its principal customers in the automobile market. This means a strong increase in our presence in Asia, in North America and in Brazil. It also means faster than expected success in penetrating the assemblies market in Europe, based on the transfer of technology acquired at the same time as our Mexican site. These successes, added to the progressive rationalization of the Group's six factories, means we should be able to reach our objective of an appreciable increase in margins in the next two years.

Electrical Components

## Electrical Protection

Sales in Electrical Protection activities jumped 176% in the first six months of 2000, reflecting of course the effect of the Shawmut consolidation in September 1999, as well as strong organic growth of 5%.

In low voltage industrial fuses, the heart of our activity, there was significant increase in Europe, in Asia, even more in North America where the effects of the large-scale commercial synergies connected with the successful Ferraz Shawmut merger were more rapid than expected. The distribution network now has more than 1,500 distributors and a much better range of products than those of its competitors.

Growth in the Electrical Protection sector would have been greater had it not seen a downturn in medium voltage sales. This is due in particular to lightening arresters for which EDF French Electricity, focusing on rebuilding its networks after the hurricanes in December 1999, has deferred its orders. Besides, sales of high power circuit breaking equipment have been put off until the second half of the year.

The important increase in operating margin from 7.9% to 10.6% in the first half-year is related to the on-going initiation of synergies of the new Ferraz Shawmut unit. Rationalization of the commercial networks, regrouping of the R & D teams and development of the first industrial synergies have enabled costs to be reduced appreciably. Along with the increase in size, this has lead to a multiplication of the operating margin by almost 4.

Occupying the World N°2 position in industrial fuses since the acquisition of Shawmut, the Group is preparing for an appreciable increase in sales, thanks to a new series of innovative products in the second half-year and on-going commercial synergies. Beyond that, the very promising outlook for Ferraz Shawmut should continue to ensure a rapid growth in activity.



* before apportionment of corporate charges.

# Overview of activities
# Advanced Materials and Technologies

## Advanced Materials and Technologies

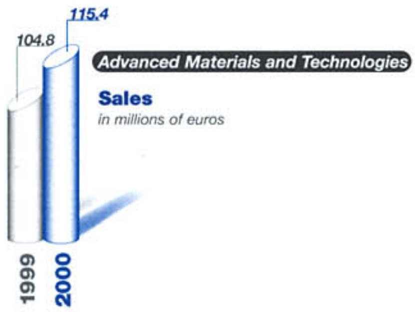
Advanced Materials and Technologies

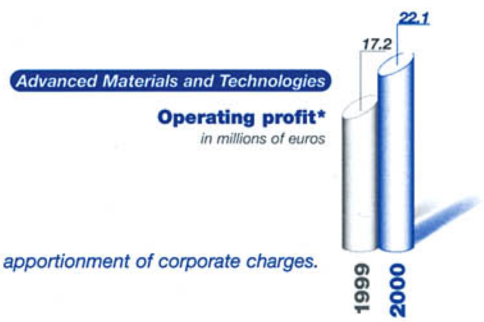
This activity has seen a 10% growth in historical value and, on a like-for-like basis (and excluding a large one-off contract in 1999), organic growth of 5% in the first half-year. The drop (forecasted by the Group) in anti-corrosion equipment was more than compensated by the increase of sales in high temperature graphite applications and in brakes.

As anticipated, activity in anti-corrosion equipment for the chemical and pharmaceutical industries declined, even excluding the effect of a large contract delivered to Canada in the last three quarters of 1999, due to low investment in these industries. However, there was a clear increase in orders in the first half-year in Europe and in Asia and, in spite of lack of volume, operating margins in this sector of activity were maintained at a satisfactory level thanks to increases in productivity and the flexibility of sites.

The high temperature sector continued its strong growth in all geographical zones, carried by the up-swing in the electronics industry and by the increase of our market share in refractories and electro-erosion. This growth was combined with new gains in productivity to obtain an excellent margin.

Growth in sales in the brake sector was also very strong thanks to the good level of carbon-carbon brakes for the aircraft industry, the first deliveries of brake linings for the Korean High speed Train and the increase in the motorbike brake sector. The increase in volume along with constant improvement in productivity have enabled us to obtain excellent results.



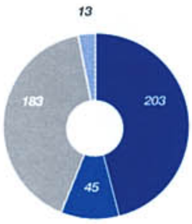




*before apportionment of corporate charges.

In total, and thanks to our industrial successes, the operating margin for advanced materials and technologies increased by 30% to reach 19.1% of sales in the first six months of this year.

Carbone Lorraine has become World leader in thermal anti-corrosion equipment (graphite and noble metals) and N°3 in high-temperature graphite applications. High organic growth is based on buoyant sectors such as electronics in high temperature applications, and substitution materials in anti-corrosion equipment and brakes. It will be maintained and increased with the launch of innovative products and could be multiplied by new acquisitions.

# Results and outlook




**Sales broken down into production zones**
*in millions of euros*

*Europe* *Asia* *North America* *Rest of the World*

Consolidated sales saw a sharp rise of 35% to 444 million euros in the first half-year of 2000. This growth in activity benefited from the acquisition of Shawmut in September 1999 and the magnet activity in Korea, consolidated in the first half-year 2000. In all, the combined consolidated effect of these two companies brought additional sales of 88 million euros in this first half-year 2000.

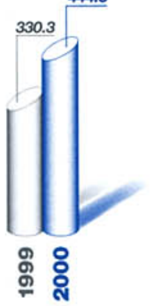
On a like-for like basis and excluding a one-off contract delivered over the last three quarters of 1999, organic growth reached the strong level of 5%, reflecting a recovery in our activities already begun in the first quarter.

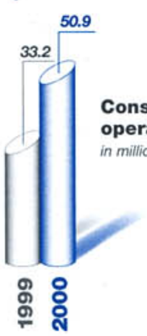
Growth in sales combined with rapidity in initiating recent synergies related to acquisitions and in new gains in productivity have seen an increase in operating profit for the Group over the first half-year of 2000 of 53% to 51 million euros, or 11.5% of turnover.

The return on capital employed (ROCE) reached 14%, notwithstanding an active policy of acquisition which necessitated deploying important amounts of capital. The rapidity in initiating recent synergies related to acquisitions should enable an important increase in ROCE by 2001.

The increase in net financial expenses relates to financing the acquisition of Gould Shawmut and other external growth operations. The net current income tax rate was 34%.

**Consolidated sales**
*in millions of euros*



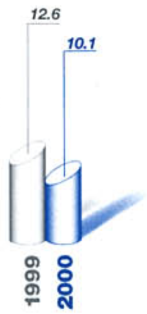

**Consolidated operating profit**
*in millions of euros*

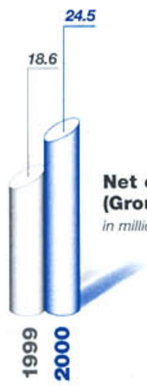
In total, thanks to the strong improvement in margins and to the increase in size, the Group share of net income jumped to 25 million euros at June 30, 2000 compared with 19 million euros for the first six months of 1999, i.e. an increase of 32%. This excellent result puts the Group well in advance of its objective of 15 to 20% average annual growth in net current income per share for the Group for the period 2000-2002.

## Borrowing

At the end of June 2000, the net Group borrowing was 117% of shareholder equity compared with 76% at the end of June 1999. The strong generation of cash by the Group and the forthcoming sale of magnets for computer applications should provide us with a new freedom of financial movement.

**Cash flow from current operations**
*in millions of euros*




**Net current income (Group share)**
*in millions of euros*

## Outlook

The growth of Group activity should continue throughout the year on a level at least similar to that for the first half. The rapidity in initiating recent synergies (in particular that of Shawmut), the positive effect of restructuring measures instigated in 1999 in brushes for electric motors, and on-going improvements in productivity (especially in magnets for the auto industry and Advanced Materials and Technologies), should enable us to obtain very good results over the year 2000 and continue to appreciably outstrip our objective in growth of net current income per share from 15 to 20%.

# Consolidated financial statem

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## Consolidated balance sheet (in millions of euros)

| ASSETS | June 30, 2000 | Dec. 31, 1999 | June 30, 1999 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| *Intangible assets* | | | |
| - Goodwill | 223.6 | 216.8 | 139.1 |
| - Other intangible assets | 19.2 | 19.7 | 17.2 |
| *Tangible assets* | | | |
| - Land | 14.1 | 8.9 | 5.9 |
| - Buildings | 48.8 | 47.9 | 38.3 |
| - Plant, equipment and other tangible assets | 119.4 | 107.9 | 85.7 |
| - Capital works in progress | 25.0 | 19.1 | 16.2 |
| *Financial assets* | | | |
| - Investments | 18.9 | 26.7 | 25.5 |
| - Other financial assets | 14.7 | 13.8 | 9.4 |
| **TOTAL FIXED ASSETS** | **483.7** | **460.8** | **337.3** |
| **CURRENT ASSETS** | | | |
| - Inventories | 158.3 | 139.9 | 115.7 |
| - Trade accounts and related receivables | 179.8 | 162.4 | 139.0 |
| - Other receivables | 44.1 | 43.3 | 29.9 |
| - Short-term advances | 4.2 | 7.7 | 7.7 |
| - Marketable securities | 2.0 | 0.2 | 0.1 |
| - Cash at bank and in hand | 6.9 | 22.7 | 29.5 |
| **TOTAL CURRENT ASSETS** | **395.3** | **376.2** | **321.9** |
| **TOTAL ASSETS** | 879.0 | 837.0 | 659.2 |

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | June 30, 2000 | Dec. 31, 1999 | June 30, 1999 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | | | |
| - Share capital | 22.2 | 21.8 | 21.8 |
| - Premiums, reserves and retained earnings | 235.2 | 222.7 | 222.3 |
| - Net Profit (Group share) | 22.6 | 16.3 | 5.4 |
| - Cumulative translation adjustment (Group share) | 9.9 | 3.3 | 0.3 |
| **TOTAL SHAREHOLDER'S EQUITY** | **289.9** | **264.1** | **249.8** |
| - Minority interests | 5.9 | 6.7 | 5.9 |
| **TOTAL AND MINORITY INTERESTS** | **295.8** | **270.8** | **255.7** |
| - Long term provisions | 39.8 | 36.7 | 36.3 |
| **LIABILITIES** | | | |
| - Long term debt | 269.5 | 268.0 | 151.9 |
| - Trade accounts and related payables | 80.2 | 79.6 | 58.2 |
| - Other payables | 71.8 | 59.3 | 57.3 |
| - Current portion of long-term provisions | 15.8 | 24.6 | 8.8 |
| - Other debt | 15.9 | 13.1 | 11.8 |
| - Current portion of long-term debt | 15.0 | 10.7 | 11.8 |
| - Short-term loans | 1.1 | 2.0 | 1.6 |
| - Bank overdrafts | 74.1 | 72.2 | 65.8 |
| **TOTAL LIABILITIES AND PROVISIONS** | **583.2** | **566.2** | **403.5** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 879.0 | 837.0 | 659.2 |

# Consolidated financial statem

Consolidated fin

## Consolidated income statement (in millions of euros)

| | June 30, 2000 | Dec. 31, 1999 | June 30, 1999 |
|---|---|---|---|
| Net sales | 444.3 | 690.3 | 330.3 |
| Cost of sales | (303.2) | (480.1) | (228.1) |
| **Gross profit** | **141.1** | **210.2** | **102.2** |
| Operating expenses | (34.9) | (55.6) | (26.8) |
| Administrative and research expenses | (34.3) | (52.3) | (25.5) |
| Other operating expenses | (2.5) | (4.5) | (2.3) |
| **Operating profit before depreciation and amortization** | **69.4** | **97.8** | **47.6** |
| Depreciation and amortization | (18.5) | (29.7) | (14.4) |
| **Operating profit** | **50.9** | **68.1** | **33.2** |
| Net financial expenses | (13.7) | (13.5) | (5.4) |
| **Current income** | **37.2** | **54.6** | **27.8** |
| Current and deferred income tax | (12.6) | (17.6) | (9.0) |
| Minority interest | (0.1) | (0.9) | (0.2) |
| **Net current income (Group share)** | **24.5** | **36.1** | **18.6** |
| Net of non-recurring items | 1.2 | (15.6) | (11.5) |
| **Net income before goodwill** | **25.7** | **20.5** | **7.1** |
| Amortization of goodwill | (3.1) | (4.2) | (1.7) |
| **Net income (Group share)** | **22.6** | **16.3** | **5.4** |

## Consolidated statement of cash flows (in millions of euros)

| | June 30, 2000 | Dec. 31, 1999 | June 30, 1999 |
|---|---|---|---|
| CASH FLOW | 43.7 | 70.9 | 33.6 |
| Changes in working capital | (9.7) | 8.2 | (1.8) |
| Other changes | (3.0) | (4.6) | (2.7) |
| **(A) Net cash from operations** | **31.0** | **74.5** | **29.1** |
| INVESTMENTS | | | |
| Intangible assets | (1.7) | (7.2) | (10.5) |
| Tangible assets | (17.8) | (26.7) | (5.5) |
| Financial assets | (1.8) | (6.7) | (1.1) |
| Proceeds on sales of fixed assets | 0.4 | 3.4 | 0.6 |
| **(B) Net cash used in investing in operation-related activities** | **(20.9)** | **(37.2)** | **(16.5)** |
| **(C) Cash flow from current operations** | **10.1** | **37.3** | **12.6** |
| Net investments relating to the impact of changes in consolidation scope | 0.0 | (154.7) | (21.7) |
| **(D) Net cash flow** | **10.1** | **(117.4)** | **(9.1)** |
| Increase in share capital | 6.2 | 3.3 | 3.2 |
| Net dividends paid to shareholders | (10.3) | (10.4) | (10.4) |
| Cash flow excluding current operations | (8.0) | | |
| **(E) Net change in financial debt** | **(2.0)** | **(124.5)** | **(16.3)** |

# Notes to the consolidated

## Note N°1 - Accounting policies and principles of consolidation

The consolidated financial statements of the Carbone Lorraine group have been prepared in accordance with the accounting regulations as set forth in French regulation 99-02 of the CRC concerning consolidated accounts of commercial companies and public bodies.

Within respect to the half-year accounts, the principles applied are identical to those used for the annual consolidated accounts and comply with recommendation CNC 99 R 01 of March 18, 1999.

### A – Consolidated subsidiaries

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

### B – Foreign currency translation

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

- Balance sheet items are translated at the exchange rate in effect on June 30, 2000.
- Profit and Loss statement items are translated at average rates for the relevant half-year.
- Translation adjustments (the group's share of which appears under shareholders' equity) include the following elements:
  - the effect of changes in foreign exchange rates on balance sheet items,
  - the difference between Net Profit calculated at the average half-year rate and Net Profit calculated at the rate on June 30, 2000.

### C – Intangible assets

*a) Goodwill*

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

*b) Start-up costs*

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

*c) Patents and licenses*

Patents and licenses are amortized over the period during which they are protected by law. Software is amortized over its estimated useful life, with a maximum of 5 years.

### D – Tangible assets

Tangible assets are valued at the cost of purchase or construction.

The depreciation for tangible assets is calculated by the straight-line method according to the projected life of the asset.

The periods used are:

- Buildings .................................. 20 to 50 years
- Fixtures and fittings ......................... 10 to 15 years
- Machinery and equipment .................. 3 to 10 years
- Transport equipment .......................... 3 to 5 years

### E – Financial assets

Long-term investments in non-consolidated subsidiaries are carried at cost. In the event of a lasting decline in value, a provision for depreciation is recorded if the book value exceeds current business value, which is determined by reference to the share of the net assets held and taking into account medium-term development prospects.

### F – Inventories

Inventories are valued at cost price, which is determined by the weighted average cost method, or at market price if this is lower.

The only indirect costs taken into account in the valuation of inventories in progress and finished products are those related to production.

Provision is made for slow-moving inventories when this is economically justified.

### G – Consolidated sales

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

Income from related operations is recorded in the income statement under the appropriate heading, other income, interest income, non-recurring income or, as a reduction in expenses, selling, general, administrative or research expenses.

### H – Research costs

Research costs are expensed as incurred.

### I – Pension plans and retirement indemnities

Group commitments for pension plans and retirement indemnities are determined by applying a prospective actuarial method that takes into account the economic conditions of each country. These commitments are funded pension plans or provisions recorded on the balance sheet as legal obligation to employees accumulated during the course of their employment.

### J – Deferred taxes

Accounting adjustments or restatements performed for consolidation purposes (depreciation, provisions, tax deductions) may affect the results of the consolidated companies. The temporary differences that appear between the taxable base and the consolidated profit result in the calculation of deferred taxes according to the variable carry forward method.

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

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

### K – Lease operations

Lease contracts for goods whose original value (or currency equivalent) is greater than 0.8 million euros are capitalized on consolidation. Contracts financing goods for a lesser value are not capitalized on consolidation, their impact being non-significant.

### L – Non-recurring items

Non-recurring items correspond to the expenses and income generated that are not related to the day-to-day management of the company. They are characterized in general by their unusual and one-off nature.

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# Notes to the

## Note N°2 - Shareholders' equity (Group share)

| *In millions of euros* | Number of shares | Share Capital | Paid-in capital and retained earnings | Net Profit | Translation adjustments | Total |
|---|---|---|---|---|---|---|
| **Shareholders' equity at Dec. 31, 1998** | **10,785,937** | **16.5** | **187.9** | **46.3** | **(8.1)** | **242.6** |
| 1998 Net profit | | | 46.3 | (46.3) | | 0.0 |
| Dividends paid | | | (9.5) | | | (9.5) |
| Capital increase | 109,527 | 5.3 | (2.0) | | | 3.3 |
| 1999 Net profit (Group share) | | | | 16.3 | | 16.3 |
| Translation adjustments | | | | | 11.4 | 11.4 |
| **Shareholders' equity at Dec. 31, 1999** | **10,895,464** | **21.8** | **222.7** | **16.3** | **3.3** | **264.1** |
| 1999 Net profit | | | 16.3 | (16.3) | | 0.0 |
| Dividends paid | | | (9.6) | | | (9.6) |
| Capital increase | 199,998 | 0.4 | 5.8 | | | 6.2 |
| 2000 Net profit (Group share) | | | | 22.6 | | 22.6 |
| Translation adjustments | | | | | 6.6 | 6.6 |
| **Shareholders' equity at June 30, 2000** | **11,095,462** | **22.2** | **235.2** | **22.6** | **9.9** | **289.9** |

In 1999, the capital increase resulted from:

- the decision by the Ordinary and Extraordinary Meeting of shareholders held on May 5, 1999 in its seventh resolution, to convert to 2 euros the nominal value of shares issued at December 31, 1998 by incorporation of the issue premium.
- exercise of stock options granted to employees resulting in creation of 9,565 shares.
- issue of shares to employees resulting in creation of 99,962 shares.

In 2000, the capital increase resulted from:

- issue of shares to employees resulting in creation of 199,998 shares.

## Note N°3 - Changes in consolidated subsidiaries

The majority of changes in consolidated subsidiaries relate to Gould Electronics and Carbone Lorraine Korea.

The companies of the American group Gould Electronics were consolidated at the end of 1999 bringing sales of 80 million euros and 9.5 million euros in additional operating profit, in comparison with the first half year in 1999.

Carbone Lorraine Korea was fully consolidated on January 1, 2000. The impact on the income statement for the first half-year is 8 million euros in sales and 1.4 million euros in operating profit.

The changes in consolidated structure are shown hereafter:

| *In millions of euros* | June, 1999 | June, 2000 | | |
|---|---|---|---|---|
| | Published figures | Consolidation scope 1999 | Enlarged in conso. scope | Published |
| Sales | 330.3 | 358.1 | 86.2 | 444.3 |
| Operating profit | 33.2 | 40.0 | 10.9 | 50.9 |

## Note N°4 - Assets

| *In millions of euros* | June 2000 | Dec. 1999 | June 1999 |
|---|---|---|---|
| Goodwill | 223.6 | 216.8 | 139.1 |
| Other intangible assets | 19.2 | 19.7 | 17.2 |
| Intangible assets | 242.8 | 236.5 | 156.3 |
| Tangible assets | 207.3 | 183.8 | 146.1 |
| Financial assets | 33.6 | 40.5 | 34.9 |
| TOTAL FIXED ASSETS | 483.7 | 460.8 | 337.3 |

Net fixed assets increased by 22.9 million euros in the first half-year, mainly due to:

- 6.8 million euros on goodwill of which 9 million euros relates to a translation adjustment,
- 23.5 million euros on tangible assets of which 6.1 million euros relates to a translation adjustment,
- (6.9) million euros on financial assets of which (9.1) million euros relates to the impact of the removal of Carbone Korea shares, henceforth fully consolidated.

# Notes to the

## Note N°5 - Long and short-term provisions

| In millions of euros | June 2000 | June 2000 | Dec. 1999 | Dec. 1999 | June 1999 | June 1999 |
|---|---|---|---|---|---|---|
| | LT | ST | LT | ST | LT | ST |
| Provisions for deferred income tax | 9.9 | 1.5 | 8.1 | 1.0 | 4.8 | 1.1 |
| Provisions for pensions and retirement indemnities | 23.7 | 2.4 | 22.1 | 2.2 | 21.5 | 1.9 |
| Other provisions for contingencies | 5.4 | 11.9 | 5.7 | 21.4 | 9.1 | 5.8 |
| Investment grants | 0.8 | 0.0 | 0.8 | 0.0 | 0.9 | 0.0 |
| **TOTAL** | **39.8** | **15.8** | **36.7** | **24.6** | **36.3** | **8.8** |

The provisions for pensions and retirement indemnities primarily relate to unfunded benefits for the French and German companies.

Other provisions for contingencies includes restructuring costs for the various industrial sites.

In the normal course of its business, the Group is also engaged in administrative, regulatory or fiscal proceedings in a number of countries where it has a presence. The outcome of these proceedings is uncertain; on the basis of information available, the provisions cover all known risks to date which can be estimated.

The decrease in the short-term provision for contingencies at the end of June 2000 relates to the partial use of the provision for anti-trust disputes established at the end of 1999.

## Note N°6 - Net corporate debt

The Group's net corporate debt increased by 24 million euros in the first half of the year 2000, of which 12 million euros is attributable to translation adjustments and 10 million euros is attributable to the consolidation of the Korean entity.

| In millions of euros | June 2000 | Dec. 1999 | June 1999 |
|---|---|---|---|
| Long and medium-term debt | 269.4 | 268.0 | 151.9 |
| Current portion of long-term debt (excl. accrued interest) | 1.0 | 0.1 | 11.8 |
| Short-term loans | 15.1 | 12.6 | 1.6 |
| Bank overdrafts | 74.1 | 72.2 | 65.8 |
| **Total gross debt** | **359.6** | **352.9** | **231.1** |
| Marketable securities | (2.0) | (0.1) | (0.1) |
| Short-term advances | (4.2) | (7.7) | (7.7) |
| Cash at bank and in hand | (6.9) | (22.7) | (29.5) |
| **Total net debt** | **346.5** | **322.4** | **193.8** |

## Note N°7 - Net non-recurring items

| *In millions of euros* | June 2000 | Dec. 1999 | June 1999 |
|---|---|---|---|
| Investment impairment allowance | 0.0 | (2.1) | 0.0 |
| Retirement indemnity | (0.5) | (0.6) | (0.3) |
| American anti-trust dispute | - | (9.8) | (7.0) |
| Other non-recurring expenses and revenues | 1.7 | (3.1) | (4.2) |
| **TOTAL** | **1.2** | **(15.6)** | **(11.5)** |

- In 1999, other non-recurring items primarily included the restructuring costs of various industrial sites in France, in Germany and in the United States. They also include the impact of the recording of the deferred taxes on retirement provisions for the French companies and on losses carried forward.
- In 2000, the other non-recurring items are primarily related to the consolidation of the Korean entity.

## Note N°8 - Segment reporting

### Distribution of sales per segment

| *As a %* | June 2000 | Dec. 1999 | June 1999 |
|---|---|---|---|
| **Electrical Components** | | | |
| Electrical Applications | 21.0 | 23.7 | 25.5 |
| Electrical Protection | 26.7 | 26.7 | 13.0 |
| Permanent Magnets | 26.4 | 18.6 | 29.8 |
| **Advanced Materials and Technologies** | 26.0 | 31.0 | 31.7 |

### Breakdown of Operating margin / Sales per segment (1)

| *As a %* | June 2000 | Dec. 1999 | June 1999 |
|---|---|---|---|
| Electrical Applications | 15.8 | 14.1 | 14.4 |
| Electrical Protection | 10.6 | 8.3 | 7.9 |
| Permanent Magnets | 5.9 | 3.5 | 4.3 |
| Advanced Materials and Technologies | 19.1 | 16.6 | 16.4 |

*(1) Operating margin before distribution of corporate charges. Corporate charges account for 1.1% of sales at the end of June and December 1999 and 1.2% of sales at the end of June 2000.*

# Auditors' review report

## on the half-year consolidated financial statements

(half-year ended 30 June 2000)

We have reviewed the accompanying half-year consolidated financial statements of LE CARBONE LORRAINE prepared in euros, covering the period from 1 January to 30 June 2000.

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

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

Based on our review, nothing has come to our attention that causes us to believe that the half-year consolidated financial statements, prepared in accordance with accounting principles generally accepted in France, do not give a true and fair view of the financial position and the assets and liabilities of the Group as at 30 June 2000 and of the results of its operations for the six month period then ended.

Pursuant to French company law, we have also verified, in accordance with professional standards applicable in France, the information contained in the half-year management report supplementing the half-year consolidated financial statements submitted to our review. We have no comment to make as to the fairness of the information contained in the half-year management report.

Paris La Défense and Neuilly sur Seine, September 16, 2000
The Statutory Auditors

Ernst & Young Audit
Jean Coroller

Deloitte Touche Tohmatsu
Jean-Luc Poumarede

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