Le Carbone Lorraine
Société Anonyme with capital of €28,393,132
Head office:
Immeuble La Fayette, 2/3, place des Vosges – La Défense 5 –
92400 Courbevoie
572 060 333 R.C.S Nanterre

UPDATE OF THE 2006 REFERENCE DOCUMENT

(filed with the Autorité des Marchés Financiers on March 19, 2007
under no. D.07-0188)

filed with the Autorité des Marchés Financiers on

October 5, 2007

Copies of the reference document and its updated version are available
from Le Carbone Lorraine, Immeuble La Fayette,
2/3, place des Vosges, La Défense 5, 92400 Courbevoie, France
from Carbone Lorraine's web site at www.carbonelorraine.com,
and from the Autorité des Marchés Financiers web site at
www.amf-france.org

TABLE OF CONTENTS

1. STATEMENT BY THE OFFICER RESPONSIBLE FOR THE UPDATED REFERENCE DOCUMENT AND AUDITORS

1.1 Officer responsible for the updated reference document

Claude Cocozza
Chairman of the Board of Directors

1.2 Statement by the officer responsible for the updated reference document

I certify that, having taken all reasonable care to ensure that such is the case, the information contained in this updated version of the reference document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import. I have received an audit completion letter from the Statutory Auditors, in which they state that they have verified the information relating to the Group's financial situation and financial statements in this updated version of the reference document and have read through the entire document.

Claude Cocozza
Chairman and Chief Executive Officer

1.3 Auditors

1.3.1 Statutory 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)

1.3.2 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)

2. INFORMATION ABOUT BUSINESS TRENDS AND THE INTERIM FINANCIAL STATEMENTS (INTERIM REPORT)

2.1 Description of business trends to June 30, 2007

2.1.1 Chairman's message

To the Shareholders,

The Group's performance during the first half of 2007 provided further evidence that it is on track to deliver **profitable growth** thanks to its positioning in buoyant markets and its robust industrial underpinnings.

In Asia, our new facility producing graphite blocks at Chongqing in China has, as expected, moved into the start-up phase. This represents a major asset for our Group because this new plant will ultimately double our isostatic graphite production capacity. The Group's other specialties have also enjoyed success in the region thanks to its high-quality offering and now very extensive manufacturing base. As a result, our sales in Asia advanced by 27% on a like-for-like basis during the first half of the year.

Energy efficiency lies at the heart of Carbone Lorraine's expertise. With its innovative offering, Carbone Lorraine stands out from its rivals in fast-expanding markets, such as equipment for wind turbines. The very rapid development in demand for graphite equipment for solar energy applications is also creating a new and very substantial market for the Group.

Innovation was the driving force behind the foundation of Carbone Lorraine, which filed its first patents for the manufacture of artificial graphite in the late 19th century. It continues to drive the constant adjustments to our offering of products and services to customers' needs, which we keenly anticipate and clearly understand. Our innovative CL Clad® material has enjoyed promising commercial success. It is already helping to strengthen our position in anticorrosion equipment.

Lastly, the first half of 2007 was marked by the successful integration of the **acquisitions** we completed recently. GES, Kapp and Lenoir Elec have all been rapidly integrated into the Carbone Lorraine model and are now reaping the benefits of strong growth dynamics.

Our development is predicated on four **growth drivers**, i.e. Asia, innovation, energy efficiency and acquisition-led growth.

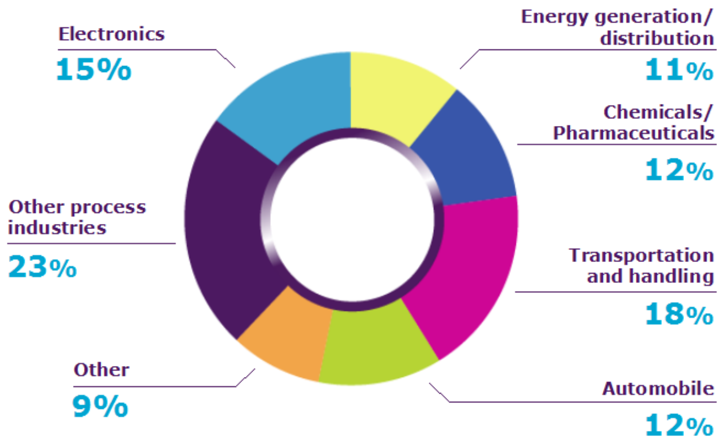
It is also underpinned by our positioning in buoyant markets, particularly electronics, renewable energies and more generally energy generation and distribution, fine chemicals and pharmaceuticals. For each of these markets, specific growth projects have been initiated to provide solutions to the needs of our customers and to reap the full benefit in terms of our growth and earnings.

Thanks to this favorable conjunction of factors, visibility on our future development has increased considerably. As a result, we are legitimately able to pursue **ambitious and realistic targets** assuming business conditions remain unchanged**,** i.e. sales of **€1 billion** in 2011 and **a 50% increase in our return on capital employed** by the same date.

I am more confident than ever in the Group's future on the strength of the proven ability of Carbone Lorraine's teams to move forward and make a success of our strategy of profitable growth.

2.1.2 Overview of the Group's businesses

Breakdown of sales by markets



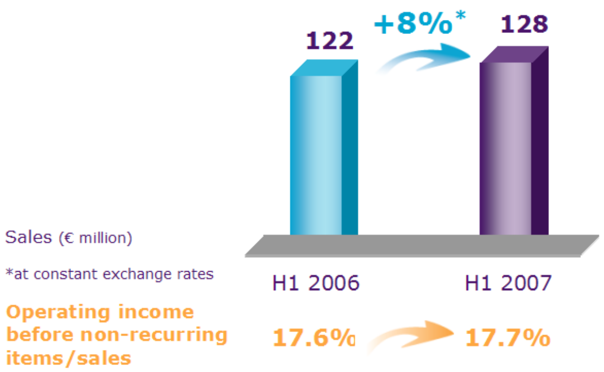
Advanced Materials and Technologies

The **Advanced Materials and Technologies** division posted interim 2007 sales of €128 million, up 8% at constant exchange rates compared with the previous year. This sales figure includes the sales posted by Kapp, a company acquired in late 2006. On a like-for-like basis, sales advanced by 5%.

Sales of graphite equipment for high-temperature applications were brisk during the first six months in the ceramic body armor, thermal treatment, plastics manufacturing and aerospace markets. Conversely, sales of brakes declined. Lastly, sales of anticorrosion equipment for chemicals and pharmaceuticals applications also saw a significant increase, especially in Asia. Major orders of noble metal equipment are due to be delivered during the second half of the year.

The operating income before non-recurring items posted by the Advanced Materials and Technologies division came to €22.6 million. It advanced by 5% compared with the previous year, representing 17.7% of sales.

Interim IFRS operating income was temporarily affected by the recognition of start-up costs at companies in China due to be consolidated at year-end 2007. Operating income after non-recurring items thus stood at €19 million, representing 14.9% of sales.



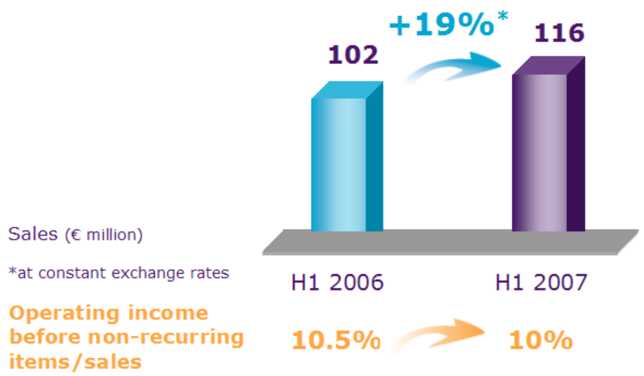
Electrical Protection

In **Electrical Protection**, interim 2007 sales came to €116 million, up 16% on a like-for-like basis and up 19% at constant exchange rates including the sales recorded by Lenoir Elec compared with the first half of 2006.

Sales posted a strong increase across all the Group's geographical regions, both in general-purpose fuses and semiconductor protection fuses.

In Europe, the growth in sales was accentuated by the success of coolers for semiconductor protection. It was also driven by efforts to strengthen sales and marketing and the successful start-up of the new range of Modulostar® fuseholders. In North America, sales to the leading distribution networks were particularly brisk.

The Electrical Protection division's operating income before non-recurring items stood at €11.6 million, up 7% compared with the first half of 2006. This figure represented 10% of the Group's sales. After taking into account a capital loss on the sale of land, IFRS operating income came to €10.8 million.



Electrical Applications

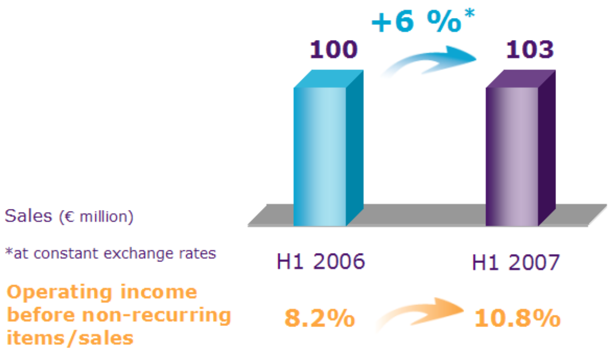
The sales posted by the **Electrical Applications** division totaled €103 million, representing an increase compared with the first half of 2006 of 6% at constant exchange rates and 3% on a like-for-like basis.

Sales of brushes and equipment for industrial motors advanced across all the Group's geographical regions, owing notably to its effective offering of wind energy solutions.

In automobile markets, growth in brush sales in Asia and the price hikes introduced in late 2006 practically offset the expected decline in North American sales linked to the closure of the Farmville facility in the US.

The operating income before non-recurring items posted by the Electrical Applications division climbed 37% to €11.2 million. This represented 10.9% of sales, an improvement of 1.6 points.

The division's IFRS operating income was on a par with operating income before non-recurring items. The charges announced at the beginning of the year in relation to the closure of the Farmville plant (€2 million during the first half and €2 million expected during the second half) were offset by the prior period income of Indian companies that were consolidated for the first time from January 1, 2007 and by a capital gain on a land sale.



2.1.3 Results

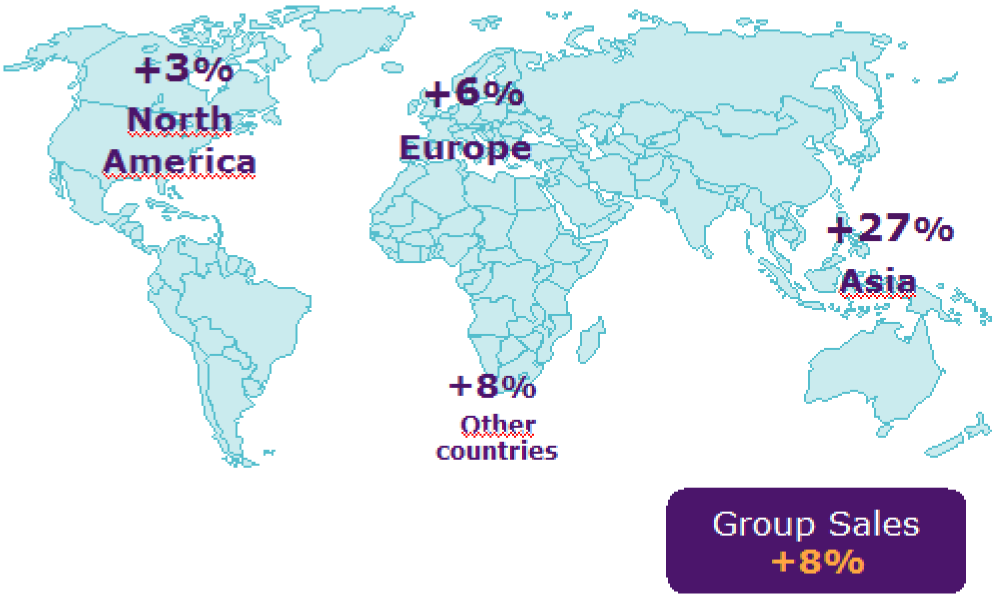
Consolidated sales

The Group's interim 2007 sales came to €347 million, up 7% on a reported basis taking into account a negative currency effect of 4%. Sales moved up 11% at constant exchange rates, with organic growth contributing eight points and acquisitions three points of this increase.

The first six months of the year again saw very strong sales growth in Asia (27%*).
Sales growth was also brisk in Europe running at 6%* and in North America, where it reached 3% * in spite of the expected reductions in sales of brushes and brushcards to the North American automobile industry. Sales in the rest of world advanced by 8%*.

* *increases stated on a like-for-like basis*

*Breakdown of sales growth by region**



(*) On a like-for-like basis compared with the first half of 2006

Operating income

Operating income before non-recurring items came to €37.4 million, up 12% compared with the year-earlier period. It was boosted by strong growth in sales volumes during the first six months and by the improvement in the Electrical Applications division's results, since the latter's Farmville plant is currently being restructured. This figure represented 10.8% of the Group's sales.

Operating income was affected only modestly by currency fluctuations because the Group manufactures products in the same regions as it sells them.

The non-recurring items referred to in the presentation of results by segment totaled €4 million, bringing IFRS operating income to €33.5 million compared with €31.8 million during the first half of 2006. The IFRS operating margin came to 9.7%.

Net income attributable to equity holders of the parent

Net finance costs increased to €5.1 million owing primarily to the rise in interest rates.

Net income attributable to equity holders of the parent stood at €19.4 million on a par with the level recorded in the first half of 2006 (€19 million), a figure not affected by non-recurring items arising from the start-up of companies in China and the closure of the Farmville plant.

Net debt

Cash generated by operating activities during the first six months of 2007 after the change in the working capital requirement and tax came to €11.9 million, compared with €15.5 million in the equivalent period of 2006.

The increase in the working capital requirement reflects the general increase in the business volumes and substantial new orders in anticorrosion equipment, due to be delivered in the second half of the year. In addition, inventories of brushes for automobile motors increased temporarily to maintain a high quality of service for customers during the transfer of the production lines from North America.

Capital expenditures came to €24.4 million, down from €34.5 million during the first half of 2006. 2006 investments included the acquisition of Graphite Engineering & Sales. As in 2006, 2007 investments included financing for the major growth projects currently in progress.

At June 30, 2007, debt stood at €182.6 million, up from €154.3 million at year-end 2006 and €175.7 million at the end of the first half of 2006. The net debt/equity ratio moved up to 57% from 50% at year-end 2006 and 59% at June 30, 2006.

2.1.5 Outlook

Should the economic conditions that prevailed during the first half of the fiscal year remain unchanged going forward, sales over 2007 as a whole are expected to continue growing at a brisk pace of potentially at least 6-7% on a like-for-like basis. As a result, 2007 is likely to be another good year for Carbone Lorraine.

The major expansion projects initiated in recent periods are set to yield their first significant benefits from next year onwards. In particular, this applies to the new graphite block production facility in China, which is currently about to start production. In 2008, it will provide 2,000 tons in additional capacity, boosting the Group's existing capacity of 5,000 tons p.a., which is not sufficient to meet demand. Assuming business conditions remain equivalent to 2007, a very substantial increase in sales and earnings is anticipated in 2008 and subsequent years.

2.2 Condensed consolidated financial statements for the six months ended June 30, 2007

2.2.1 Scope of consolidation

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 (Tunisia)	FC	100	100
7. **Ferraz Shawmut SA** (France)	FC	100	100
- Ferraz Date Industries	FC	100	100
8. **Lenoir Elec** (France)	FC	100	100
9. **Ugimag SA** (France)	FC	100	100
10. **Ferroxdure** (France)	FC	100	100
11. **Polygraphite** (France)	FC	100	100
12. **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 (ex Berg)	FC	100	100
- Cometec	FC	100	100
13. **Carbone Danmark SA**	FC	100	100
14. **G. Dietrich GmbH** (Germany)	FC	100	100
15. **Dietrich AG** (Switzerland)	FC	100	100
16. **Dietrich Ges.** (Austria)	FC	100	100
17. **Carbone Lorraine GmbH** (Germany)	FC	100	100
18. **Sofacel** (Spain)	FC	50	50
19. **Ferraz Shawmut Iberica**	FC	100	100
20. **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
21. **Il Carbonio Spa.** (Italy)	FC	100	100
22. **Le Carbone-Lorraine Benelux** (Netherlands)	FC	100	100
23. **Carbone Nordic AB** (Sweden)	FC	100	100
24. **Carbone of America (LCL) Ltd** (Canada)	FC	100	100
25. **Ferraz Shawmut Canada**	FC	100	100
26. **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	100	100
- Astrocosmos Metallurgical Inc.	FC	100	100
- Astro Service Center Inc.	FC	100	100
- Midland Materials	FC	100	100
- Graphite Engineering & Sales	FC	100	100
27. **Ugimagnet Corp.** (US)	FC	100	100
- Ferraz Shawmut Inc. (US)	FC	100	100
- Ferraz Shawmut de Mexico (Mexico)	FC	100	100
- Ugimag Inc. (US)	FC	100	100

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
28. **Le Carbone-Lorraine Australia**	FC	100	100
29. **Le Carbone KK** (Japan)	FC	100	100
30. **Ferraz Shawmut Japan**	FC	100	100
31. **Carbone Lorraine India Private Limited**	FC	100	100
32. **Carbone Lorraine Madras Private Limited** (India)	FC	100	100
33. **Shanghai Carbone Lorraine Chemical Equipment Cy Ltd** (China)	FC	83	83
34. **Le Carbone** (South Africa) **PTY Ltd** (RSA)	FC	69.2	69.2
- Statcor Electrical	FC	69.2	69.2
- Dustria Investment	FC	69.2	69.2
35. **Carbono Lorena** (Brazil)	FC	100	100
36. **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 2005, 2006 and 2007 are presented below:

- during fiscal 2005, Carbone Lorraine Composants absorbed Astrad, a brake marketing company that was acquired in the first quarter of 2005;
- during fiscal 2006, the Group acquired US company Graphite Engineering & Sales on February 1, 2006 and French company Kapp in early September 2006 and sold the assets of Astro Service Center during the second half of 2006.
- during fiscal 2007, Ferraz France acquired a majority shareholding in Lenoir Elec during January 2007, while CL India and CL Madras joined the scope of consolidation with effect from January 1, 2007.

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 June 30, 2006 and December 31, 2006 show the assets and liabilities held for sale and discontinued operations on a separate line.

2.2.2 *Consolidated balance sheet*

ASSETS

In millions of euros	Note	June 30, 2007	December 31, 2006	June 30, 2006
NON-CURRENT ASSETS				
Intangible assets				
- Goodwill	4	184.9	176.7	177.6
- Other intangible assets		4.0	4.5	4.0
Property, plant and equipment				
- Land		31.9	30.0	29.4
- Buildings		26.3	25.5	24.3
- Plant, equipment and other assets	6	77.3	71.3	67.0
- Assets in progress		21.6	20.3	22.1
Non-current financial assets				
- Investments	7	20.3	28.3	27.6
- Non-current derivatives	14	0.6	0.5	0.9
- Other financial assets	13	28.9	28.2	29.4
Non-current tax assets				
- Deferred tax assets	20	24.0	27.1	28.6
- Non-current income tax assets		0.6	1.2	0.9
TOTAL NON-CURRENT ASSETS		**420.4**	**413.6**	**411.8**
CURRENT ASSETS				
- Inventories	8	152.2	131.2	129.6
- Trade receivables	9	142.2	122.5	131.0
- Other receivables		33.0	25.9	29.3
- Current tax assets		1.1	2.0	2.1
- Current financial assets	13	4.6	2.9	2.8
- Other current financial assets				5.0
- Current derivatives	14	3.6	2.0	3.2
- Trading financial assets	13	2.3	3.5	3.7
- Cash and cash equivalents	13	11.8	17.7	14.1
- Assets held for sale and disc. op.			2.9	1.2
TOTAL CURRENT ASSETS		**350.8**	**310.6**	**322.0**
TOTAL ASSETS		**771.2**	**724.2**	**733.8**

LIABILITIES AND EQUITY

In millions of euros	Note	June 30, 2007	December 31, 2006	June 30, 2006
EQUITY				
- Share capital	10	28.3	27.9	27.9
- Premiums and retained earnings		306.1	274.9	273.6
- Net income for the period		18.9	35.3	19.0
- Cumulative translation adjustments		(34.3)	(34.5)	(28.9)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**319.0**	**303.6**	**291.6**
- Minority interests		4.0	4.4	4.9
TOTAL EQUITY		**323.0**	**308.0**	**296.5**
NON-CURRENT LIABILITIES				
- Non-current provisions	11	46.3	45.4	46.8
- Employee benefits	12	43.2	41.8	46.1
- Deferred tax liabilities	20	2.1	1.9	6.8
- Borrowings	13	147.7	136.7	156.9
- Non-current derivatives	14	3.1	2.6	4.5
TOTAL NON-CURRENT LIABILITIES		**242.4**	**226.1**	**261.1**
CURRENT LIABILITIES				
- Trade payables		71.1	65.6	64.1
- Other payables		62.6	56.0	55.6
- Current provisions	11	3.4	0.5	1.7
- Current income tax liabilities		6.5	6.8	3.5
- Other liabilities		6.7	7.7	7.0
- Other current financial liabilities	13	3.4	3.8	2.0
- Current derivatives	14	1.9	1.1	1.6
- Current advances	13	1.8	1.1	2.3
- Bank overdrafts	13	48.4	36.8	35.1
- Liabilities related to assets held for sale and disc. op.			8.4	3.3
TOTAL CURRENT LIABILITIES		**205.8**	**190.1**	**176.2**
TOTAL LIABILITIES AND EQUITY		**771.2**	**724.2**	**733.8**

2.2.3 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, 2005	27.7	253.2	22.1	(14.3)	288.7	5.9	294.6
Prior period net income		22.1	(22.1)				
Dividends paid		(9.7)			(9.7)	(0.5)	(10.2)
Issue of new shares	0.2	2.5			2.7		2.7
Treasury shares		0.2			0.2		0.2
Increase in fair value of hedging derivatives		0.9			0.9		0.9
Translation adjustments and other		4.4		(14.6)	(10.2)	(0.4)	(10.6)
Net income for the period			19.0		19.0	(0.1)	18.9
EQUITY AT JUNE 30, 2006	27.9	273.6	19.0	(28.9)	291.6	4.9	296.5
Dividends paid						(0.2)	(0.2)
Issue of new shares		1.1			1.1		1.1
Treasury shares		(0.6)			(0.6)		(0.6)
Increase in fair value of hedging derivatives		(0.5)			(0.5)		(0.5)
Translation adjustments and other		1.3		(5.6)	(4.3)		(4.3)
Net income for the period			16.3		16.3	(0.3)	16.0
EQUITY AT DECEMBER 31, 2006	27.9	274.9	35.3	(34.5)	303.6	4.4	308.0
Prior period net income		35.3	(35.3)				
Dividends paid		(11.8)			(11.8)	(0.5)	(12.3)
Issue of new shares	0.4	6.2			6.6		6.6
Treasury shares		0.5			0.5		0.5
Increase in fair value of hedging derivatives		0.5			0.5		0.5
Translation adjustments and other		0.5		0.2	0.7	(0.4)	0.3
Net income for the period			18.9		18.9	0.5	19.4
EQUITY AT JUNE 30, 2007	28.3	306.1	18.9	(34.3)	319.0	4.0	323.0

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)
- 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.

In 2007, 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 187,105 shares for €6.6 million (increase of €0.4 million in the share capital and an issue premium of €6.2 million);

- the reinstatement of 14,109 shares with an impact of €0.5 million reflecting the decrease in the number of shares held in treasury;
- an increase of €0.5 million in the fair value of derivatives at the balance sheet date.

2.2.4 Consolidated income statement

		IFRS		
In millions of euros	Notes	June 30, 2007	December 31, 2006	June 30, 2006
CONTINUING OPERATIONS				
Consolidated sales	16	346.7	639.8	324.4
Cost of sales		(240.8)	(444.4)	(224.3)
GROSS INCOME		105.9	195.4	100.1
Selling and marketing costs		(34.1)	(63.4)	(32.6)
Administrative and research costs		(33.4)	(62.9)	(32.2)
Other expense and additions to provisions		(0.3)	(1.7)	(0.9)
Financial components of operating income		(0.7)	(1.3)	(1.0)
Operating income before non-recurring items		37.4	66.1	33.4
Non-recurring income and expense	15	(3.9)	(5.1)	(1.6)
OPERATING INCOME	16 / 18	33.5	61.0	31.8
Finance costs	19	(5.1)	(9.7)	(4.3)
Finance costs, net		(5.1)	(9.7)	(4.3)
Income before tax and non-recurring items		28.4	51.3	27.5
Current and deferred income tax	20	(9.0)	(11.0)	(7.5)
NET INCOME FROM CONTINUING OPERATIONS		19.4	40.3	20.0
Net income from assets held for sale or discontinued operations			(5.4)	(1.1)
NET INCOME		19.4	34.9	18.9
Attributable to:				
- Carbone Lorraine's shareholders		18.9	35.3	19.0
- Minority interests		0.5	(0.4)	(0.1)
EARNINGS PER SHARE	21			
Basic earnings per share (€)		1.34	2.53	1.37
Diluted earnings per share (€)		1.31	2.44	1.32
NET INCOME PER SHARE FROM CONTINUING OPERATIONS	21			
Basic earnings per share (€)		1.34	2.92	1.45
Diluted earnings per share (€)		1.31	2.82	1.39

2.2.5 Consolidated statement of cash flows

In millions of euros			
IFRS	June 30, 2007	December 31, 2006	June 30, 2006
OPERATING ACTIVITIES			
Income before tax	28.4	51.3	27.5
Depreciation and amortization	12.0	21.6	12.1
Additions to/(write-backs from) provisions	3.1	(1.6)	(0.4)
Finance costs, net	5.1	9.7	4.3
Capital gains/(losses) on asset disposals	(0.5)	0.1	0.0
Other items	(1.3)	(0.8)	(1.5)
Cash generated by operating activities before change in the WCR	46.8	80.3	42.0
Change in the working capital requirement	(29.7)	(12.0)	(20.9)
Income tax paid	(5.3)	(8.9)	(5.6)
Net cash generated by operating activities	11.8	59.4	15.5
Investing activities			
Increase in intangible assets	(0.4)	(1.0)	(0.1)
Increase in property, plant and equipment	(19.2)	(31.5)	(14.5)
Increase in financial assets	(2.5)	(6.9)	(6.1)
Changes in the scope of consolidation	(2.3)	(10.2)	(13.0)
Disposals or reductions in non-current assets	(0.1)	0.6	(0.8)
Cash generated/(used) by investing activities	(24.5)	(49.0)	(34.5)
Net cash generated/(used) by operating and investing activities	(12.7)	10.4	(19.0)
Financing activities			
Proceeds from issuance of new shares	7.2	3.5	2.9
Net dividends paid to shareholders and minority interests	(12.2)	(10.6)	(10.2)
Interest payments	(5.2)	(9.5)	(4.0)
Change in debt, gross (Note 13)	7.5	(30.7)	(11.5)
Cash generated by financing activities	(2.7)	(47.3)	(22.8)
Change in cash held by assets held for sale and discontinued operations		(6.3)	(3.3)
Change in cash	(15.4)	(43.2)	(45.1)
Cash at beginning of fiscal year (Note 13)	(15.6)	28.7	28.7
Cash at end of period (Note 13)	(34.3)	(15.6)	(17.3)
Changes in the scope of consolidation	3.3		
Impact of currency fluctuations	-	1.1	0.9
CHANGE IN CASH	(15.4)	(43.2)	(45.1)

2.2.6 Annex

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, 2007 did not have any impact on the interim consolidated financial statements.

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

The summary interim consolidated financial statements have been prepared in accordance with IAS 34 - Interim financial reporting. They do not include all the information required for complete annual financial statements and should be read together with the Group's financial statements for the fiscal year ended on December 31, 2006, which may be downloaded from www.carbonelorraine.com

The summary consolidated interim financial statements at June 30, 2007 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).

The summary interim consolidated financial statements at June 30, 2007 include for comparative purposes figures for the periods ended June 30, 2006 and December 31, 2006 restated using the same rules.

The accounting principles described in Note 2 *et seq.* have been applied to prepare comparative information and the summary interim consolidated financial statements at June 30, 2007.

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' financial statements have been adjusted 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 arising during the operating 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 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 translated 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.

The fair value of assets and liabilities and the calculation of goodwill is finalized within 12 months of the acquisition date.

Goodwill is allocated individually to the Group's cash generating units (CGUs). The Group adopted the following four CGUs at June 30, 2007:

- 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 evidence of impairment in the value of assets appears and at least once every year.

In accordance with IAS 36, the Group tests for impairment by:

- preparing normalized cash flow projections after 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);
- and 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 5).

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 that are attributable to the development will flow to the entity;
- and 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 does not generally 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, residual value, where the latter is deemed to be significant.

The various components of an item of property, plant and equipment are recognized 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 are financial assets classified in the "available for sale" category. They are stated at cost.

Where there is objective evidence of impairment (financial difficulties, deterioration in performance without any growth prospects, local economic situation, etc.), any significant and long-term impairment losses are recognized in income.

These impairment losses are irreversible and are not written back.

The principal activity of the unconsolidated subsidiaries is the distribution of products manufactured by the Group's consolidated companies.

Subsidiaries that considered alone and on an aggregate basis are not material are not included in the scope of consolidation.

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.

The materiality of unconsolidated subsidiaries is reassessed at the end of each period.

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 will have 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;
- the rate of future salary and benefit increases and employee turnover;
- the expected rate of 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 cost 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 the rights vested during the period);
- interest cost (also called the "discounting effect");
- expected return on plan assets: this expected rate of 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 costs

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 consolidated 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 measurement 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. The Group is currently organized into three operational businesses:

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 semiconductors, 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 offerings reserved for employees related to shares in the Group are recognized at fair value at the grant date.

The value of stock purchase and subscription options depends notably on the exercise price, the probability of the conditions attached to exercise of the options being met, the life of the options, current price of the underlying shares, anticipated 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.

<u>Use of management estimates in the application of the Group's accounting standards</u>

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 judgment 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 5 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 11 and 12 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 20 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 on expectations for market data based on external indicators and used in line with consistent and documented methods.

X – New standards and interpretations not yet applied

New standards and amendments to standards and interpretations are due to enter force for fiscal years ended on December 31, 2007 and have not yet been applied in the preparation of the summary interim 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 financial statements at December 31, 2007, will entail more detailed disclosures about the Group's financial instruments and share capital.

Note 3 Business combinations

Business combinations during fiscal 2007

On January 26, 2007, Ferraz Shawmut SA acquired a majority shareholding of 51.2% in the capital of Lenoir Elec. The acquisition of minority interests is covered by a purchase commitment recognized at €5.4 million under borrowings in the Group's consolidated financial statements. An equivalent amount to this debt is recognized under goodwill.
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.

The value of goodwill recognized is predicated on Lenoir Elec's unique expertise in contactors (used to control power flow in high power circuits), protection control cabinets for the same circuits and electrical insulators. The tight fit between the products marketed by Ferraz Shawmut (fuses, power-isolating switches, etc.) and by Lenoir Elec, as well as the similarities between their customers and markets will give rise to substantial revenue enhancement synergies. Combining the two product ranges will also extend Carbone Lorraine's offering, as well as making it possible to supply complete systems alongside its current range of components.

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	0.1		0.1
Other assets	4.2		4.2
Non-current liabilities	(0.1)		(0.1)
Current liabilities	(1.6)	(0.0)	(1.6)
Net assets	**2.6**	**(0.0)**	**2.6**
Goodwill			6.8
Total acquisitions			9.4
including:			
▪ Acquisition price paid in cash			4.1
▪ Borrowings			5.3

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

The contribution made to Carbone Lorraine's net income by this acquisition amounted to €0.7 million. The impact of this acquisition is an increase in the Group's net cash of €1.2 million.

Note 4 Goodwill

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Net value at Jan. 1	176.7	182.1	182.1
Acquisitions	6.8	7.6	4.7
Changes in the scope of consolidation	3.6		
Translation adjustments	(2.2)	(13.0)	(9.2)
Net value at end of period	184.9	176.7	177.6
Gross value at end of period	184.9	176.7	177.6
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, 2006	Movements during the first half of 2007			June 30, 2007
In millions of euros	Net value	Acquisitions	Changes in the scope of consolidation	Cumulative translation adjustment	Net value
Anticorrosion equipment	61.5			(1.2)	60.3
High-temperature applications and high-energy braking	28.4			(0.3)	28.1
Electrical Applications	29.6		3.6	0.1	33.3
Electrical Protection	57.2	6.8		(0.8)	63.2
Total	176.7	6.8	3.6	(2.2)	184.9

The change in the scope of consolidation represents the addition of India to the scope of consolidation.

Note 5 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;
- a discount rate after tax of 8% (rate equivalent to pre-tax rate);
- a perpetual growth rate of 1% for calculating terminal value;
- a normalized tax rate of 34%.

No impairment was identified during the tests.
The interim earnings reported by the Group do not call into question the assumptions adopted at the end of fiscal 2006 and no evidence of impairment was identified.

Note 6 Property, plant and equipment

In millions of euros	Land	Buildings	Plant, equipment and other	Other items	Total
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 Jan. 1, 2006	30.5	23.9	70.7	14.3	139.4
Acquisitions	-	0.2	5.5	5.8	11.5
Retirements and disposals	-	-	(0.6)	-	(0.6)
Depreciation	-	(1.0)	(9.5)	-	(10.5)
Translation adjustments	(0.2)	(1.4)	(2.8)	(0.6)	(5.0)
Changes in the scope of consolidation	-	2.5	3.2	-	5.7
Other movements	(0.9)	0.1	0.5	2.6	2.3
Net value at June 30, 2006	29.4	24.3	67.0	22.1	142.8
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)
Net value at Jan. 1, 2007	30.0	25.5	71.3	20.3	147.1
Acquisitions	-	3.5	13.8	7.3	24.6
Retirements and disposals	(0.5)	(1.2)	(1.0)	-	(2.7)
Depreciation	-	(1.3)	(10.1)	-	(11.4)
Translation adjustments	0.2	(0.3)	(0.4)	(0.2)	(0.7)
Changes in the scope of consolidation	2.6	0.1	2.1	0.1	4.9
Other movements	(0.4)	-	1.6	(5.9)	(4.7)
Net value at June 30, 2007	31.9	26.3	77.3	21.6	157.1
Gross value at June 30, 2007	32.8	74.6	306.9	21.6	435.9
Total depreciation at June 30, 2007	(0.9)	(48.3)	(226.8)	(1.0)	(277.0)
Total impairment losses at June 30, 2007	-	-	(1.8)	-	(1.8)

Note 7 Investments

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
At year end, the unconsolidated shareholdings held by consolidated companies had a gross value of:	36.7	41.1	40.4
Less impairment losses amounting to:	(16.4)	(12.8)	(12.8)
representing a net value of:	20.3	28.3	27.6
Investments in other companies	-	-	-
Total	20.3	28.3	27.6

The reduction in investments primarily reflects the addition of subsidiaries in India to the scope of consolidation.

The impairment losses recognized on investments at June 30, 2007 primarily related to CL Mauritius, Turkey, Argentina, 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	17.0	13.4
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
Fusetech	50	1.3	1.3
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
Ferraz Electric Protection Hinode (China)	82	0.5	0.5
Carbone-Lorraine Chile (Chile)	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	–	3.2	0.2
Total		36.7	20.3

Total sales and total net income for these companies based on their as yet unaudited individual financial statements came to around €16.2 million and €0.9 million respectively. Their impact on the consolidated financial statements is not material. The consolidated sales of all these companies would amount to around €6.0 million or 1.7% of total consolidated sales, after the elimination of intra-group flows.

The Chinese subsidiaries forming part of the Advanced Materials and Technologies division held by CL Mauritius specialized in high-temperature applications will be consolidated from December 31, 2007 with retroactive effect from January 1, 2007.

At June 30, 2007, net non-current assets were worth €30.5 million and were financed by local debt and by a capital injection from the Group. Local net debt amounted to €23.3 million and will appear on the Group's balance sheet at December 31, 2007.

Note 8 Inventories

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Raw materials and other supplies	69.4	59.7	61.0
Work in progress	52.4	41.6	39.8
Finished goods	41.2	39.0	39.9
Carrying amount of inventories	163.0	140.3	140.7
Valuation allowances	(10.8)	(9.1)	(11.1)
Net carrying amount of inventories	152.2	131.2	129.6

Net inventories increased by €21.0 million at June 30, 2007, including negative €0.8 million attributable to currency effects and €5.0 million to additions to the scope of consolidation. On a like-for-like basis, inventories grew by 13% to €16.8 million.

Note 9 Trade receivables

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Gross trade receivables	149.9	131.4	137.8
Valuation allowances	(7.7)	(8.9)	(6.8)
Net trade receivables	142.2	122.5	131.0

Net trade receivables increased by €19.7 million at June 30, 2007, including negative €0.4 million attributable to currency effects and €4.8 million to additions to the scope of consolidation. On a like-for-like basis, trades grew by 12.5% to €15.3 million.

Note 10 Share capital

In number of shares (unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2007	13,965,475
Issue of new shares (in millions of euros)	0.4
Number of shares at June 30, 2007	14,152,580
Number of shares in issue and fully paid-up	187,105
Number of shares in issue and not fully paid-up	0
Par value of shares (€)	2.00
Entity's shares held by itself or by its subsidiaries and associates	27,924

The issue of shares carried out in 2007 derived from the exercise of stock options granted to employees (187,105 shares).

The number of voting rights stood at 14,124,656 after deducting the 27,924 treasury shares held by the Company at June 30, 2007.

No shares carry double voting rights.

The number of stock options granted to company officers and employees and still outstanding stood at 273,675, taking into account the canceled options.

The number of bonus share options granted to company officers and employees yet to be exercised stands at 48,376.

Note 11 Provisions and contingent liabilities

In millions of euros	June 30, 2007		December 31, 2006		June 30, 2006	
	Non-current	Current	Non-current	Current	Non-current	Current
- provision for restructuring	0.1	2.7	0.1	0.1	0.1	0.7
- provision for litigation	45.4	0.4	45.3	0.1	46.0	0.5
- other provisions	0.8	0.3	0.0	0.3	0.7	0.5
Total	46.3	3.4	45.4	0.5	46.8	1.7

Current and non-current	Dec. 31, 2006	Additions	Uses	Other	Cumulative translation adjustment	June 30, 2007
- provision for restructuring	0.2	1.1	(1.1)	2.6		2.8
- provision for litigation	45.4		(0.2)	0.7	(0.1)	45.8
- other provisions	0.3		(0.2)	1.0		1.1
Total	45.9	1.1	(1.5)	4.3	(0.1)	49.7

At June 30, 2007, provisions for litigation primarily covered the entire amount of the fine handed down to the Group by the European authorities (€43 million) and class-action lawsuits in the US (€2.3 million reclassified under non-current provisions at December 31, 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, of which USD3 million was paid in 2005 and USD0.7 million during the second half of 2006. This reduction followed specific proceedings launched by certain auto equipment manufacturers, who withdrew 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 legal action. 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 June 30, 2007.

Note 12 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 (19% of obligations) and Germany (15% of obligations).

The Group's obligations were measured at December 31, 2006 with the assistance of independent actuaries in accordance with IAS 19. The charge during June 30, 2007 was calculated by extrapolating on the assessment at December 31, 2006.

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%

Reconciliation between assets and liabilities recognized:

	June 30, 2007	December 31, 2006	June 30, 2006
Actuarial obligation	104.5	100.3	100.8
Fair value of plan assets	(59.4)	(56.4)	(50.7)
Unrecognized actuarial gains and losses	(2.4)	(2.5)	(4.3)
Unrecognized past service cost (rights not vested)	0.5	0.4	0.3
Net amount recognized	43.2	41.8	46.1

Breakdown of the Group's obligations at June 30, 2007 by geographical area:

	France	Germany	US	UK	Rest of the world	Total at June 30, 2007
Actuarial obligation	19.4	15.9	25.5	30.0	13.7	104.5
Fair value of plan assets	(4.2)	-	(17.9)	(29.3)	(8.0)	(59.4)
Unrecognized actuarial gains and losses	(1.5)	(1.0)	(0.8)	2.3	(1.4)	(2.4)
Unrecognized past service cost (rights not vested)	0.5	-	-	-	-	0.5
Net amount recognized	14.2	14.9	6.8	3.0	4.3	43.2

Movements in the Group's obligations:

	France	Germany	US	UK	Rest of the world	Total
December 31, 2006	17.5	16.1	24.3	29.3	13.1	100.3
Payments	(0.6)	(0.6)	0.3	-	(0.4)	(1.3)
Expense charged to income	0.8	0.6	1.6	0.9	0.7	4.6
Translation adjustment	-	-	(0.6)	(0.1)	0.2	(0.5)
Actuarial gains and losses	-	-	-	-	0.1	0.1
Other movements	1.7	(0.2)	(0.1)	(0.1)	-	1.3
June 30, 2007	19.4	15.9	25.5	30.0	13.7	104.5

Change in plan assets:

	France	Germany	US	UK	Rest of the world	Total
December 31, 2006	4.2	-	16.7	28.4	7.1	56.4
Return on plan assets	0.1	-	0.6	1.0	0.2	1.9
Employer contribution	0.1	0.6	1.0	-	0.3	2.0
Employee contribution	-	-	-	-	-	-
Payment of benefits	(0.2)	(0.6)	-	-	-	(0.8)
Translation adjustment	-	-	(0.4)	(0.1)	0.2	(0.3)
Other movements	-	-	-	-	0.2	0.2
June 30, 2007	4.2	0.0	17.9	29.3	8.0	59.4

The charge recognized at June 30, 2007 in respect of these plans was €2.8 million, compared with €3.3 million at June 30, 2006, which breaks down as follows:

	France	Germany	US	UK	Rest of the world	Total at June 30, 2007	Total at June 30, 2006
Current service cost	0.4	0.2	0.9	0.1	0.4	2.0	2.4
Interest cost	0.4	0.4	0.7	0.7	0.3	2.5	2.3
Expected return on plan assets	(0.1)	-	(0.6)	(1.0)	(0.1)	(1.8)	(1.5)
Amortization of actuarial gains and losses	0.1	-	-	-	-	0.1	0.4
Other movements	-	-	-	-	-	-	(0.3)
Total charge for the period	0.8	0.6	1.0	(0.2)	0.6	2.8	3.3

The recognition of the increase in discount rates (5.25% in Germany and France, 5.75% in the United Kingdom and 6.25% in the United States) would lead to a reduction in the estimated actuarial obligation of around €8 million.

Note 13 Net debt

Analysis of total net debt at June 30, 2007

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Borrowings	147.7	136.7	156.9
Current financial liabilities	3.4	3.8	2.0
Current advances	1.8	1.1	2.3
Current financial assets	(4.6)	(2.9)	(2.8)
Total gross debt	148.3	138.7	158.4
Bank overdrafts	48.4	36.8	35.1
Trading financial assets	(2.3)	(3.5)	(3.7)
Cash and cash equivalents	(11.8)	(17.7)	(14.1)
Cash	34.3	15.6	17.3
Total net debt	182.6	154.3	175.7

Total consolidated net debt amounted at June 30, 2007 at €182.6 million, compared with €154.3 million at December 31, 2006 and €175.7 million at June 30, 2006.

Net debt/equity

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Total net debt	182.6	154.3	175.7
Net debt/equity	57%	50%	59%

Net debt came to 57% of equity at June 30, 2007 compared with 50% at December 31, 2006 and 59% at June 30, 2006.

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

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Prior year debt	154.3	150.3	150.3
Cash generated by operating and investing activities after tax	9.5	(22.4)	5.5
Cash used by restructurings	0.9	1.1	0.5
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	2.3	10.2	13
Non-operating cash flows*	-	0.7	
Cash generated by the operating and investing activities of continuing operations	12.7	(10.4)	19
Cash generated by the operating and investing activities of assets held for sale and discontinued operations	-	6.3	3.3
Proceeds from issuance of new shares	(7.2)	(3.5)	(2.9)
Dividends paid	12.2	10.6	10.2
Interest payments	5.2	9.5	4.0
Translation adjustments and other	(2.1)	(8.5)	(2.2)
Other	7.5	-	-
Debt at year-end	182.6	154.3	175.7

Total consolidated net debt amounted at June 30, 2007 at €182.6 million, compared with €154.3 million at December 31, 2006 and €175.7 million at June 30, 2006.

The €28.3 million increase in debt was primarily attributable to the €12.2 million in dividend payments, the recognition under "Other changes" of a €5.3 million liability to minority shareholders in Lenoir Elec and a reduction in cash of €12.7 million generated by operating and investing activities, compared with €19 million in the six months to June 30, 2006.

Confirmed credit lines at June 30, 2007

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, which was repaid in part during May 2007, and one USD20 million tranche 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 US dollars		Interest rate	Amount	Drawn down at June 30, 2007	Maturity date
Syndicated loan		Floating	220	109	Dec. 31, 2009
US private placements, Tranche A		Fixed	55.7	55.7	May 2013
	- including		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			295.7	184.7	

Financial covenants at June 30, 2007

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	EBITDA/net interest expense
Covenants*	The ratio must be:	The ratio must be:	The ratio must be:
- US private placement	< 3.35x	< 1.3x	> 3x
- syndicated loan	-	< 1.3x	-
Actual ratios			
June 30, 2007			
- US private placement	1.86x	0.57x	9.63x
- syndicated loan		0.58x	
December 31, 2006			
- US private placement	1.74x	0.50x	9.37x
- syndicated loan	-	0.51x	-

*Method for calculating 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 June 30, 2007, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Breakdown of borrowings, including the current portion at June 30, 2007

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	82.3	6.9	59.7	15.7
Borrowings in euros	61.1		61.1	
Borrowings in GBP	8.2		8.2	
Total	151.6	6.9	129.0	15.7
Amortization of issuance costs at the EIR	(0.9)			
Fair value of interest-rate derivatives	(3.0)			
Total	147.7			

Of the €129.0 million in debt due to mature in between one and five years' time, €19.7 million had a maturity of over three years at June 30, 2007.

Analysis of total net debt at June 30, 2007

By currency	%	By interest rate	%
Euros	43	Fixed	45
USD	53	Floating	55
Other	4		

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.

In 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.

In October 2005, the Group purchased several interest-rate swaps 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	Maturity < 5 years	Maturity > 5 years
Floating rate debt*	151.6	135.9	15.7
Financial assets	31.0	31.0	
Net position before hedging	182.6	166.9	15.7
Fixed-rate hedge	82.0	82.0	
Net position after hedging	100.6	84.9	15.7

**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 June 30, 2007 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 €1.0 million.

Note 14 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. 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 at June 30, 2007*	Nominal amount** June 30, 2007	Nominal amount** Dec. 31, 2006	Nominal amount** June 30, 2006
Interest rate instruments	(1.7)	138.1	147.5	106.2
Currency instruments	0.9	13.4	18.2	13.9
Commodity instruments	0.9	9.1	2.9	3.1

** 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 value at June 30, 2007 is recognized on the balance sheet and/or income statement in the Group's consolidated financial statements.

Note 15 Other non-recurring income and expense

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

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Restructuring costs	(2.0)	(0.9)	(0.3)
EU fine and US class-action lawsuits	(0.2)	(0.5)	(0.1)
Asset impairment		(2.8)	(1.0)
Prior period income/(losses) of companies consolidated for the first time	(2.2)		
Disposals of non-current assets	0.1		
Other	0.4	(0.9)	(0.2)
Total	(3.9)	(5.1)	(1.6)

At June 30, 2007, non-recurring income and expense amounted to a net charge of €3.9 million. The principal factors were:

- the closure of the Farmville production facility, leading to non-current asset transfer and other costs amounting to €2.0 million;
- the prior period losses of companies consolidated for the first time in an amount of €2.2 million:
    - negative €3.6 million deriving from the Chinese companies that will be consolidated at December 31, 2007. The losses are recognized as impairment in the value of the investment in the CL Mauritius parent company,
    - €1.4 million linked to the Indian companies joining the scope of consolidation for the first time at June 30, 2007;
- the capital loss of €0.8 million recorded on land and buildings in Germany;
- the €0.9 million gain on the disposal of the Airvault building.

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:
    - 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.

The non-recurring income and expense recognized during the first half of fiscal 2006 amounted to a loss of €1.6 million. The principal factors were:

- the impairment loss of €1.0 million recognized on land and a building, which are no longer used in Germany.

- an additional €0.3 million in industrial restructuring costs.

Note 16 Segment reporting

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Applications (EA)		Electrical Protection (EP)		Total for continuing operations	
Sales	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Sales to third parties	127.7	122.5	102.7	99.6	116.3	102.3	346.7	324.4
Breakdown of sales	36.8%	37.8%	29.6%	30.7%	33.6%	31.5%	100%	100%
Operating income								
Segment operating income	19.0	21.4	11.2	7.9	10.8	9.7	41.0	39.0
Segment operating margin*	14.9%	17.4%	10.9%	8.0%	9.3%	9.5%		
Unallocated costs							(7.5)	(7.2)
Operating income from continuing operations							33.5	31.8
Operating margin from continuing operations							9.7 %	9.8 %
Finance costs, net							(5.1)	(4.3)
Current and deferred income tax							(9.0)	(7.5)
Net income from continuing operations							19.4	20.0

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

Inter-segment sales realized by the Advanced Materials and Technologies division came to €2.1 million in the first half of fiscal 2007 compared with €2.2 million in the same period of 2006.

Breakdown of sales and sales trends by geographical area

In millions of euros	June 30, 2007	%	June 30, 2006	%
France	50.1	15	45.6	14
Rest of Europe	108.0	31	97.2	30
North America	111.7	32	117.7	36
Asia	58.4	17	45.4	14
Rest of the world	18.5	5	18.5	6
TOTAL	346.7	100%	324.4	100

Breakdown of depreciation recognized by segment

	June 30, 2007					June 30, 2006				
In millions of euros	AMT	EA	EP	Corporate costs	Total	AMT	EA	EP	Corporate costs	Total
France	(2.1)	(1.2)	(1.7)	(0.2)	(5.2)	(1.8)	(1.3)	(1.5)	(0.3)	(4.9)
Rest of Europe	(0.2)	(1.3)	(0.1)		(1.6)	(0.2)	(1.4)	(0.1)		(1.7)
Asia/Pacific	(0.3)	(0.2)	(0.1)		(0.6)	(0.2)				(0.2)
North America	(2.8)	(0.7)	(0.8)		(4.3)	(2.5)	(1.1)	(0.6)		(4.2)
Rest of the world	(0.1)	(0.2)			(0.3)		(0.1)			(0.1)
Total	(5.5)	(3.6)	(2.7)	(0.2)	(12.0)	(4.7)	(3.9)	(2.2)	(0.3)	(11.1)

Net carrying amount of assets at end of period by segment

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	June 30, 2007
Non-current assets, net (excluding investments)	185.3	97.8	92.4	375.5		375.5
Inventories, net	64.8	43.0	44.4	152.2		152.2
Trade receivables	58.2	50.6	62.0	170.8	(28.6)	142.2
Other receivables	23.4	7.9	7.1	38.4	(5.4)	33.0
Total segment assets	331.7	199.3	205.9	736.9	(34.0)	702.9
Total unallocated assets						68.3
Total						771.2

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

In millions of euros	June 30, 2007
France	417.4
Rest of Europe	117.3
North America	187.1
Asia	37.7
Rest of the world	11.7
Total	**771.2**

Net carrying amount of liabilities at end of period by segment

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	Total at June 30, 2007
Trade payables	34.9	26.6	38.2	99.7	(28.6)	71.1
Other payables and other liabilities	28.9	16.7	29.1	74.7	(5.4)	69.3
Non-current and current provisions	6.3	43.3	0.1	49.7		49.7
Employee benefits	15.4	19.5	8.3	43.2		43.2
Total segment liabilities	85.5	106.1	75.7	267.3	(34.0)	233.3
Total unallocated liabilities						214.9
Total						448.2

Investment flows during the period by segment

In millions of euros		France	Rest of Europe	Asia/Pacific	North America	Rest of the world	Total at June 30, 2007
Property, plant and equipment and intangible assets	AMT	(4.1)	(0.7)	(0.6)	(6.3)		(11.7)
	EA	(1.7)	(2.1)	(0.2)	(0.7)	(0.1)	(4.8)
	EP	(2.4)		(0.1)	(0.6)		(3.1)
Total		(8.2)	(2.8)	(0.9)	(7.6)	(0.1)	(19.6)
Other changes and divestments	AMT	(2.9)		0.2	0.1		(2.6)
	EA	0.4	(0.6)		0.6	(0.1)	0.3
	EP	(2.9)	0.5	(0.1)	(0.1)		(2.6)
Total*		(5.4)	(0.1)	0.1	0.6	(0.1)	(4.9)
Total investment flows		(13.6)	(2.9)	(0.8)	(7.0)	(0.2)	(24.5)

Note 17 Staff costs and headcount

Group payroll costs (including wages and salaries) came to €110.9 million in the first half of fiscal 2007 compared with €106.4 million in the same period of fiscal 2006.

The average headcount stood at 6,768 employees at June 30, 2007. At June 30, 2006, it was 6,305.

At comparable scope, the average headcount fell by 307 employees or 5%.

Breakdown of the consolidated average headcount by geographical area

	June 30, 2007	%	June 30, 2006	%	June 30, 2005	%
France	1,766	26%	1,729	27%	1,764	29%
Rest of Europe (+Tunisia)	1,750	26%	1,671	27%	1,633	27%
North America (+Mexico)	2,479	37%	2,228	35%	2,030	34%
Asia	409	6%	230	4%	158	3%
Rest of the world	364	5%	447	7%	411	7%
Total	6,768	100%	6,305	100%	5,996	100%

Note 18 Operating income

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

In millions of euros	June 30, 2007	June 30, 2006
Product sales	314.7	298.2
Trading sales	32.0	26.2
Total sales	346.7	324.4
Other operating revenues	4.3	3.3
Cost of trading sales	(24.8)	(18.1)
Raw materials costs	(75.3)	(73.6)
Costs on other operating revenues	(1.7)	(1.8)
Manufacturing costs	(57.4)	(53.5)
Salary costs	(110.9)	(106.4)
Employee incentives and profit-sharing	(2.6)	(2.3)
Other expense	(27.5)	(26.6)
Financial components of operating income (*)	(1.2)	(1.4)
Depreciation and amortization	(12.0)	(11.1)
Additions to provisions	(0.7)	(0.1)
Impairment losses	(3.6)	(1.0)
Gains/(losses) on non-current asset disposals	0.2	
Operating income	33.5	31.8

Including negative translation adjustments of €0.4 million in 2007 and of €0.3 million in 2006.

Note 19 Finance costs, net

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Interest expense on non-current borrowings	(4.6)	(8.0)	(3.8)
Interest expense on current borrowings	(0.5)	(1.7)	(0.5)
Finance costs	(5.1)	(9.7)	(4.3)
Other financial income and expense	-	-	-
Finance costs, net	(5.1)	(9.7)	(4.3)

Note 20 Income tax

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Current income tax	(6.2)	(13.5)	(6.8)
Deferred tax	(2.6)	3.0	(0.7)
Withholding tax	(0.2)	(0.5)	-
Total tax expense	(9.0)	(11.0)	(7.5)

In France, Le Carbone Lorraine SA, Carbone Lorraine Applications Électriques, Carbone Lorraine Composants, Carbone Lorraine Equipements Génie Chimique, Carbone Lorraine Corporate Services, Ferraz Shawmut SA, Ugimag, Ferroxdure, Polygraphite, AVO and FDI 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 stood at 32% or 29% disregarding the contribution made by companies consolidated for the first time. In the six-month period to June 30, 2006, the Group's effective tax rate came to 27%.

Analysis of income tax expense

In millions of euros	June 30, 2007
Net income	19.4
Income tax expense/(benefit) on continuing operations	(9.0)
Total income tax expense/(benefit)	(9.0)
Income before tax and non-recurring items	28.4
Current tax rate in France	34.43%
Theoretical tax benefit/(expense) (income before tax x current income tax rate in France)	(9.8)
Difference between income tax rate in France and other jurisdictions	
Transactions qualifying for a reduced rate of taxation	0.1
Permanent timing differences	1.6
Impact of limiting deferred tax assets	(0.3)
Other items	(0.6)
Actual income tax benefit/(expense) recognized	(9.0)

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

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Deferred tax assets	24.0	27.1	28.6
Deferred tax liabilities	(2.1)	(1.9)	(6.8)
Net position	21.9	25.2	21.8

The deferred tax movements during the six months to June 30, 2007 were as follows:

*In millions of euros**	June 30, 2007	Net income for the period	Other items	Translation adjustments	December 31, 2006
Employee benefit obligations	7.8		0.8		7.0
Provisions for restructuring	0.7	0.2			0.5
Depreciation of non-current assets	(14.9)	(1.2)	(0.1)	0.3	(13.9)
Tax-regulated provisions	(3.1)				(3.1)
Impact of tax losses	21.8	(1.8)		(0.2)	23.8
Impairment losses	1.9				1.9
Other items	7.7	0.2	(1.3)	(0.2)	9.0
Deferred tax on the balance sheet – net position	21.9	(2.6)	(0.6)	(0.1)	25.2

** (- liability/+ asset).*

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

Given the arrangements for recovering deferred taxes, the deferred tax assets arising on the tax losses posted by the Brazilian company have not been recognized.

Note 21 Earnings per share

Basic and diluted earnings per share for the first half of fiscal 2006, fiscal 2006 and the first half of fiscal 2007 are presented below:

Continuing operations and assets held for sale	June 30, 2007	Dec. 31, 2006	June 30, 2006
Numerator: Net income used to compute basic earnings per share (net income for the period).	18.9	35.3	18.9
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,124,656	13,923,442	13,904,958
Adjustment for dilutive potential ordinary shares: - unexercised options	322,051	509,906	529,143
Weighted average number of ordinary shares used to compute diluted earnings per share	14,446,707	14,433,348	14,434,101
Basic earnings per share (€)	1.34	2.53	1.37
Diluted earnings per share (€)	1.31	2.44	1.32

Continuing operations	June 30, 2007	Dec. 31, 2006	June 30, 2006
Numerator: Net income used to compute basic earnings per share (net income for the period).	18.9	40.7	20.0
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,124,656	13,923,442	13,904,958
Adjustment for dilutive potential ordinary shares: - unexercised options	322,051	509,906	529,143
Weighted average number of ordinary shares used to compute diluted earnings per share	14,446,707	14,433,348	14,434,101
Basic earnings per share (€)	1.34	2.92	1.45
Diluted earnings per share (€)	1.31	2.82	1.39

Note 22 Dividends

The dividend paid to shareholders in May 2007 in respect of fiscal 2006 came to €0.85 per share, representing an aggregate amount of €11.8 million.

A dividend of €0.70 per share was paid to shareholders in May 2006 in respect of fiscal 2005, representing an aggregate amount of €9.7 million.

Note 23 Leases

1 - Finance leases

Carrying amount by asset category:

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Buildings	0.1	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 2009.

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

In millions of euros	Total at June 30, 2007	Less than one year ahead	More than one year ahead	More than five years ahead
Minimum payments	14.0	3.2	10.8	3.5

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 lease commitments relate to two facilities in the US and two others in France, representing an aggregate amount of €10.7 million.

Note 24 - 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 90 consolidated and unconsolidated companies in 35 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 and associates amounted to €10.2 million in the first half of fiscal 2007, compared with €8.2 million in the first half of fiscal 2006).

In the first half of fiscal 2007, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million, down from €0.2 million in the first half of fiscal 2006).

The amounts receivable by the Group from its unconsolidated subsidiaries and associates came to €7.0 million at June 30, 2007, while amounts payable came to €0.4 million.

Shareholders' advances made to unconsolidated subsidiaries and associates by Le Carbone Lorraine SA amounted to €0.1 million at June 30, 2007 (vs. €0.7 million in the first half of fiscal 2006).

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

In millions of euros	June 30, 2007	June 30, 2006
Salaries, bonuses, benefits in kind and directors' fees	0.8	0.8
Top-up pension plan payments (1)	0.2	0.3
Other long-term employee benefits	0.0	0.0
Total	1.0	1.1

(1) The members of the Executive Committee, including the Chairman and Chief Executive Officer qualify for top-up pension payments. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows:
Provided that the relevant person is still employed by the Group upon their retirement, this regime guarantees pension income of 20% of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.
The actuarial obligation was assessed at June 30, 2007 at €1.4 million (€1.4 million at December 31, 2006).

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.

	2005 plan Tranche 1
Date of Board of Directors' meeting	June 30, 2005
Total number of shares allotted	15,300
Share price at allotment date	39.25
Definitive allotment date (end of the vesting period)	July 1, 2007
End of lock-up period	July 1, 2009

No bonus shares were granted to Executive Committee members in the 2006 plan.

Note 25 Commitments and contingencies

A - Financial commitments and liabilities

In millions of euros	June 30, 2007	Dec. 31, 2006	June 30, 2006
Commitments received			
Guarantees and endorsements	0.3	0.4	0.6
Other commitments received	0.0	0.0	1.7
Total	0.3	0.4	2.3
Commitments given			
Collateralized debts and commitments	0.3	0.1	0.1
Market guarantees and endorsements	9.9	11.5	8.1
Payment guarantees on acquisition	-	-	-
Other guarantees	62.1	64.3	45.6
Other commitments given	0.8	0.2	0.1
Total	73.1	76.1	53.9

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

Nature

The largest item totaling €62.1 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 €32.5 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 them reliably.

Note 26 Subsequent events

None.

Note 27 Approval of the financial statements

The Group's consolidated financial statements for the six months ended June 30, 2007 were approved by the Board of Directors at its meeting on September 11, 2007.

2.2.2 Statutory auditors' review report on the half year condensed consolidated financial statements

As statutory auditors and as required by article L. 232-7 of the French Companies Act (Code de commerce), we have:

- reviewed the accompanying half year condensed consolidated financial statements of Le Carbone Lorraine, covering the period from January 1st to June 30th, 2006 and,
- verified the information contained in the half year management report.

The half year condensed 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 condensed financial statements are free of material misstatement. We have not performed an audit as a review is limited primarily to analytical procedures and to inquiries of group management and knowledgeable personnel on information that we deemed necessary.

Based on our review, nothing has come to our attention that causes us to believe that the half-year condensed consolidated financial statements are not prepared, in all material respects and as described in the notes, in accordance with IAS 34, a standard of the IFRS framework such as adopted by the European Union and related to interim financial statements.

We have also verified, in accordance with professional standards applicable in France, the information contained in the half year management report supplementing the half year consolidated condensed financial statements submitted to our review.

We have no comment to make as to the consistency with the half year consolidated condensed financial statements and the fairness of the information contained in the half year management report.

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

Paris La Défense, September 11, 2007

KPMG Audit
Department of KPMG S.A.

Neuilly-sur-Seine, September 11, 2007

Deloitte et Associés

3. GENERAL INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

Combined General Meeting of May 24, 2007

With the exception of the Seventeenth Resolution, which was intended to authorize the Company to issue stock subscription warrants in the event of a public offer, all the draft resolutions submitted to a vote by shareholders were passed at the Combined General Meeting of May 24, 2007 (second notice).

Trading by the Company in its own shares

At the Combined General Meeting of May 24, 2007 (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 or the allotment of shares under the conditions provided for in Articles L.225-197-1 to L.225-197-3;
- allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- cancel them through a reduction in the share capital in accordance with 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.

Since May 24, 2007, the Company has not made use of this authorization, except for the acquisitions made under the liquidity agreement. At September 24, 2007, 28,897 shares were held pursuant to this liquidity agreement.

Share capital

At September 24, 2007, the share capital amounted to €28,393,132 divided into 14,196,566 shares, each with a nominal value of €2 and belonging to the same category.

Authorization to increase the share capital

At the Combined General Meeting on May 24, 2007, shareholders authorized the Board of Directors to issue ordinary shares and any securities conferring rights to the capital, with preferential subscription rights for shareholders, through the capitalization of share premiums, reserves or retained earnings. The aggregate nominal amount of the immediate and/or future increases in the share capital that may be carried out under these authorizations may not exceed €10 million. This authorization is valid for 26 months. These authorizations replace and supersede those granted by the Combined General Meeting of May 12, 2005, which were not used.

At the Combined General Meeting of May 24, 2007, the Board of Directors was also authorized to issue bonds convertible into shares 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 limit of €10 million stated above. This authorization is valid for 26 months.

At the Combined General Meeting of May 24, 2007, the Board of Directors was authorized to issue on a single occasion bonds with redeemable stock subscription/purchase warrants attached (or OBSAARs), the warrants (BSAARs) of which may be detached following the issue of the OBSAARs. The nominal amount of OBSAARs that may be issued pursuant to this authorization may not exceed €40 million. The maximum nominal amount of the capital increases that may be carried out immediately or in the future pursuant to this authorization will be deducted from the €10 million cap stated above.

As a result of the previous authorizations, and to comply with the provisions of Article L.225-129 VII of the French Commercial Code, which requires a resolution approving an increase in the share capital reserved for employees to be passed each time such a decision is made, the Combined General Meeting of May 24, 2007 authorized the Board of Directors to issue shares reserved for employees belonging to the Group Investment Plan. The maximum nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €140,000, i.e. approximately 0.5% of the Company's share capital. This authorization, which replaces previous authorizations, is valid for 26 months.

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

July 25, 2007	Issue of 30,900 each with a nominal value of €2 through the grant of bonus shares	27,992,750	1,721,748* *unavailable reserve	13,996,375
Sept. 11, 2007	Issue of 200,191 new shares each with a nominal value of €2 through the exercise of subscription options	28,393,132	6,627,591	14,196,566

Share ownership thresholds crossed

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 holding of 4.18% of the share capital and 4.17% of voting rights.

February 27, 2007: BNP Paribas Asset Management raised its interest above the 2% threshold of the share capital and voting rights by establishing a holding of 2.2059% of the share capital and 2.1956% of voting rights.

March 9, 2007: Amber Master Fund (Cayman) SPC raised its interest above the 5% threshold of the share capital and voting rights by establishing a holding of 5.05% of the share capital and voting rights.

April 30, 2007: Centaurus Capital LP raised its interest above the 1% threshold of the share capital and voting rights by establishing a holding of 1.003% of the share capital and voting rights.

May 10, 2007: Centaurus Capital LP raised its interest above the 2% threshold of the share capital and voting rights by establishing a holding of 2.13% of the share capital and voting rights.

May 25, 2007: Arnhold and S. Bleichroeder Adviser, LLC cut its stake to below 1% of Carbone Lorraine’s share capital and voting rights.

June 28, 2007: Amber Master Fund (Cayman) SPC reduced its holding to below 5% of Carbone Lorraine’s share capital and voting rights.

June 29, 2007: Amber Master Fund (Cayman) SPC cut its interest to below the 4% threshold of the share capital and voting rights, holding 3.4% of the share capital and voting rights.

July 2, 2007: Natixis Asset Management raised its interest above the 1% threshold of the share capital and voting rights, holding a stake of 1.08% of the share capital and voting rights.

July 4, 2007: Amber Master Fund (Cayman) SPC cut its interest to below the 3% threshold of the share capital and voting rights, holding 2.91% of the share capital and voting rights.

July 19, 2007: Amber Master Fund (Cayman) SPC cut its interest to below the 2% threshold of the share capital and voting rights, holding 1.79% of the share capital and voting rights.

August 9, 2007: Sofina raised its interest above the 1% and 2% share ownership and voting right thresholds, holding 2.52% of the share capital and voting rights.

Trading in Carbone Lorraine 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 14,196,566 shares are listed on the market.

Carbone Lorraine shares	**Number of shares traded** *(units)*	**Capital traded** *(€ 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
March	1,125,979	49.31	45.68	41.06
April	1,089,672	51.06	48.39	45
May	1,938,239	100.23	54.37	48.9
June	1,491,290	82.36	58.2	52.82
July	1,667,459	94.75	58.46	52.5
August	2,101,050	111.99	59.38	48.2
September	1,635,094	86.43	54.49	49.41

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

	Nbr of shares at year-end	Earnings per share (€)			Share price (€)			Overall yield based on year-end share price
		Net dividend	Tax credit	Total dividend	+ High	+ Low	Last	
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.

Securities conferring rights to the share capital

The stock options still to be exercised at September 24, 2007, after taking into account cancellations, entitle their holders to acquire a total of 425,589 shares, each with a nominal value of €2. Except for the stock options, there are no other securities conferring rights to Carbone Lorraine's share capital.

Changes in ownership of the share capital

At June 30, 2007, ownership of the share capital was as follows:

French institutional investors:	29.2%
International institutional investors:	41.1%
Individual shareholders:	28.0%
Employee shareholders:	1.5%
Treasury shares:	0.2%

At September 24, 2007, the Company's share capital amounted to €28,393,132, divided into 14,196,566 shares each with a nominal value of €2. The number of voting rights stood at 14,167,669, since shares held in treasury do not carry voting rights. No shares carry double voting rights.

Stock subscription options

In its Nineteenth resolution at the Annual General Meeting of May 24, 2007, the Board of Directors was authorized to grant options entitling holders to subscribe new shares in Le Carbone Lorraine, with the beneficiaries to be chosen by the Board of Directors from among the officers and employees of the Company and those of affiliated companies. The maximum number of new shares that may be issued through the exercise of options granted pursuant to this authorization is capped at 165,000 shares, each with a nominal value of €2. The authorization is valid for a period of 38 months.

Upon the recommendation of the Remuneration Committee, the Board of Directors used this authorization at its meeting on July 25, 2007 and decided to allot options to 30 of the Group's senior managers enabling them to subscribe 165,000 Le Carbone Lorraine shares, each with a nominal value of €2, and determined the terms and conditions for the options. Following this allotment, the stock subscription options held by employees will represent 3.1% of the current share capital. The Board of Directors set a price of €57.24 per share that each beneficiary will have to pay to subscribe the shares offered to him/her. This price represents the average opening price for the 20 trading sessions prior to this date. Since January 1, 2007, 200,191 stock options have been exercised.

Stock options: History of allotments pending

	1997 plan Tranche 3	1999 plan Tranche 5	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2003 plan Tranche 10	2007 plan Tranche 11	Total
Date of Board of Directors' meeting	June 17, 1997	March 8, 1999	May 10, 2000	September 15, 2000	January 18, 2001	May 14, 2003	July 25, 2007	
Total number of shares available for subscription	139,909	190,025	449,145	9,370	4,685	130,163	165,000	1,088,297
- o/w directors	13,014	15,617	31,234	0	0	9,370	25,000	94,235
- o/w top 10 allottees	65,074	70,931	149,922	9,370	4,685	44,825	72,250	417,057
Subscription price	36.36	34.58	45.14	46.01	48.5	21.21	57.24	
Start of exercise period	June 2002	March 2004	May 2005	September 2005	January 2006	May 2007	July 2011	
Expiration date	June 2007	March 2009	May 2010	September 2010	January 2011	May 2013	July 2017	
Total number of shares subscribed at September 24, 2007	130,148	70,938	37,381	0	0	33,413	0	271,880
Options canceled by July 24, 2007	9,761	35,141	288,483	6,246	3,123	48,074	0	390,828
o/w canceled in 2007	0	0	0	0	0	0	0	0
Options outstanding at Sept. 24, 2007	**0**	**83,946**	**123,281**	**3,124**	**1,562**	**48,676**	**165,000**	**425,589***

** including 57,276 held by directors (Chairman and CEO).*

Stock options: directors

	Number of options granted/subscribed	Price	Expiration date
Options granted since January 1, 2007 to each director			
CEO	25,000	57.24	July 2017
Options exercised since January 1, 2007 by each director			
CEO	13,014	36.36	June 2007

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

	Number of options granted/subscribed	Weighted average exercise price	1997 plan Tranche 3	1999 plan Tranche 5	2000 plan Tranche 6	2003 plan Tranche 10
Options granted since January 1, 2007 to the 10 employees who received the largest number	72,250					
Options exercised since January 1, 2007 by the 10 employees who received the largest number	85,414	35.32	32,339	25,379	15,722	11,974

Bonus share allotments

At the Extraordinary General Meeting of May 24, 2007, shareholders authorized the Board of Directors on one or more occasions to allot 20,000 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.

By September 24, 2007, the Board of Directors had not made use of this authorization.

At July 25, 2007, the Board of Directors formally recognized the definitive grant of 30,900 shares following the vesting period of the 2005 Allotment Plan. In accordance with said 2005 plan, these shares are held in a blocked account for a period of two years from July 2, 2007.

4. INVESTMENT POLICY

The 2006 reference document describes the investment policy of the Carbone Lorraine group on page 18.

The investments made during the eight months to August 31, 2007 amounted to €32.7 million.

In 2007, the principal investments made since the beginning of the year related to:

- the Chongqing plant,
- the acquisition of Lenoir Elec
- capacity investments at three other Group facilities.

In line with the Group's internal procedure, the Board of Directors authorizes all investments in excess of €6 million, as well as all acquisitions of over €3 million. Accordingly, among the other investments made since the beginning of the year, the Board of Directors approved the Chongqing plant and the acquisition of Lenoir Elec.

The principal changes in the scope of consolidation that affected the consolidated financial statements in 2005, 2006 and 2007 are presented below:

- during fiscal 2005, Carbone Lorraine Composants absorbed Astrad, a brake marketing company that was acquired in the first quarter of 2005;
- during fiscal 2006, the Group acquired US company Graphite Engineering & Sales on February 1, 2006 and French company Kapp in early September 2006 and sold the assets of Astro Service Center during the second half of 2006.
- during fiscal 2007, Ferraz France acquired a majority shareholding in Lenoir Elec during January 2007, while CL India and CL Madras joined the scope of consolidation with effect from January 1, 2007.

No earn-out payment was made in respect of the acquisition of Astrad in 2005 or of Kapp and GES in 2006. The acquisition of Lenoir Elec was made subject to a commitment to buy out minority investors, the cost of which will depend on the EBITDA targets achieved. The additional consideration due is currently estimated at €5.4 million and recognized under debt.

5. LIQUIDITY RISKS

The Carbone Lorraine group's liquidity risk is described on page 60 of the 2006 reference document and, more specifically, in the section entitled "Confirmed credit lines at December 31, 2006".

The use of two major borrowing agreements that Carbone Lorraine has arranged is updated on page 38 on this document.

In addition, it should be noted that Carbone Lorraine holds two credit lines arranged in July 2006 through its Chongqing subsidiary in China. The first is a USD16 million line that expires in July 2009 (original maturity of 3 years), and the other is a USD9 million line expiring in July 2008 (original maturity of 1 year, renewed in July 2007 for a further year). At June 30, 2007, only the USD16 million line had been used, with the drawdown amounting to USD13.4 million.

These credit lines will be consolidated at December 31, 2007, with retroactive effect from January 1.

6. LITIGATION

***Appeal procedure in Europe*:**

There have been no developments in the appeal against the European Commission's ruling since the reference document was filed.

To recap, this appeal was lodged by the Company in February 2004 with the EU Court of First Instance against the €43.05 million fine handed down in December 2003 by the European Commission for anti-competitive practices over the 1988-1999 period in brushes for electric motors and products for mechanical applications. In March 2005, Carbone Lorraine paid a sum of €20 million into an escrow account held by the European Commission, without this having an impact on the outcome of the appeal in progress, to reduce the expenses caused by the protracted length of the appeal process.

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

Since the reference document was filed, the judge hearing the separate opt-out proceedings brought by certain customers before the US federal court concerning brushes for electric motors dismissed in August 2007 all claims for compensation that were intended to secure redress for losses on purchases of products outside the United States. In response to this decision, the lawyers advising the customers in the opt-out proceedings indicated that they intended to launch similar proceedings to secure redress from the UK courts.

There have been no developments in the lawsuit initiated by certain customers during 2004 in Canada against the principal Canadian manufacturers of graphite brushes, including Carbone of America Ltd., a subsidiary of Carbone Lorraine, since the reference document was filed.

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

There were no other governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group is aware, during the previous 12 months which may have, or have had in the recent past significant effects on the Group’s financial position or profitability.

7. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

Composition of the Board of Directors

Name	Date of first appointment	Most recent renewal date	End of term of office	Other positions held
Claude Cocozza DoB: June 1, 1947 Chairman and Chief Executive Officer	June 8, 1993	May 24, 2007	2013 Annual General Meeting	**Director and Chairman of**: Carbone Lorraine North America, Ugimag SA **Director of:** Entreprise Thivent and Sofacel
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 24, 2007	2013 Annual General Meeting	**Chairman and Chief Executive Officer of:** Callisto **Managing Partner of:** HC Conseil **Director of**: Antargaz, Ipsen, Neuf Cegetel and Compagnie Franco-Tunisienne des Pétroles (Tunisia) **Former Director of**: Gerflor, Ceva, Coparex
Jean-Paul Jacamon DoB: August 5, 1947 Director, Appointments and Remuneration Committee Member of the Strategy Committee	January 22, 2003	May 24, 2007	2013 Annual General Meeting	**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	April 6, 1999	May 12, 2005	2011 Annual General Meeting	**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
Agnès Lemarchand DoB: December 29, 1954 Director Member of the Strategy Committee	May 24, 2007		2013 Annual General Meeting	**Chairman and Director of:** Steeley Dolomite Ltd.
Henri-Dominique Petit DoB: July 3, 1948 Director Appointments and Remuneration Committee	May 24, 2007		2013 Annual General Meeting	**Chairman and Chief Executive Officer of:** Sperian Protection (formerly Bacou Dalloz) **Director of:** Sperian Protective Apparel Ltd. (Canada), Sperian Protection USA Inc. (US), Survivair Respirators LLC (US), Bacou-Dalloz Safety Inc. (US), Sperian Eye & Face Protection Inc. (US), Sperian Protection Instrumentation LLC (US), Glendale Protective Technologies Inc. (US), Sperian Protection Investment Inc. (US), SP USA Finance Inc. (US), Sperian Fall Protection Inc. (US), Sperian Protective Apparel USA LLC (US), BMP I Inc. (US), Sperian Fall Arrest Systems Inc. (US), Sperian Protective Gloves USA LLC (US), Sperian Metal Mesh Protection USA Inc., Sperian Protection Americas Inc. (US) Sperian Hearing Protection LLC (US), Sperian Protection Optical Inc. (US), Chesapeake Corp. (US)
Walter Pizzaferri DoB: August 20, 1957 Director, Chairman of the Strategy Committee	April 6, 1999	May 12, 2005	2011 Annual General Meeting	**Chairman and Chief Executive Officer of:** Akeance Industries **Manager of:** Tercara and Les Verrières de Montagnac
Philippe Rollier DoB: February 19, 1943 Director Member of the Audit and Accounts Committee	May 24, 2007		2013 Annual General Meeting	**Director of**: Moria SA, Sperian Protection (formerly Bacou Dalloz), Sonoco (USA), Monier **Manager of**: Cybèle

Members of the Executive Committee

Claude Cocozza
Chairman and Chief Executive Officer

Ernest Totino
Senior Executive Vice President

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

Members of the Audit and Accounts Committee

Hervé Couffin (Chairman)
Jean-Claude Karpeles
Philippe Rollier

Members of the Strategy Committee

Walter Pizzaferi (Chairman)
Claude Cocozza
Jean-Paul Jacamon
Jean-Claude Karpeles
Agnès Lemarchand

Members of the Appointments and Remuneration Committee

Jean-Pierre Jacamon (Chairman)
Hervé Couffin
Agnès Lemarchand
Henri-Dominique Petit

There are no family ties between members of the Board of Directors or those of the Executive Committee, nor are there any between them.

No members of the Board of Directors or of the Executive Committee have been convicted of fraud for the past five years at least.

No members of the Board of Directors or of the Executive Committee have been involved in a bankruptcy, sequestration or liquidation for the past five years at least.

No members of the Board of Directors or of the Executive Committee have been charged with any other offence or had any official public disciplinary action taken against for at least the past five years.

There are no conflicts of interest between the duties of any of the members of the Board of Directors or of the Executive Committee with respect to Le Carbone Lorraine SA.

The members of the Board of Directors, senior management and the Group's principal company officers have undertaken not to buy or sell the Company's shares during black-out periods. For fiscal 2007, the black-out periods are:

- **Until February 9, 2007** for the publication on January 31, 2007 of the Group's 2006 sales;
- **From March 9 to 30, 2007** for the planned publication on March 20 of the Group's 2006 annual financial statements;
- **From April 16 to May 4, 2007** for the planned publication on April 25, 2007 of the Group's first-quarter 2007 sales;
- **From July 13 to August 3, 2007** for the planned publication on July 24, 2007 of the Group's second-quarter 2007 sales;
- **from September 3 to September 21, 2007** for the planned publication on September 12 of the interim financial statements;
- **from October 15 to November 2, 2007** for the planned publication on October 24, 2007 of the Group's third-quarter 2007 sales;

There is no service contract between members of the administrative, management or supervisory bodies and Carbone Lorraine or any of its subsidiaries.

8. RECENT TRENDS AND OUTLOOK

8.1 Recent trends

The Company issued the following press release on September 20, 2007:

Carbone Lorraine has continued its policy of expanding in Asia by inaugurating a new manufacturing facility in Shanghai dedicated to the wind energy market and industrial applications.

Over 100 guests, including leading Asian manufacturers, the international press and the local authorities, yesterday visited the Carbone Lorraine group's new workshop in China.

The ultra-modern industrial complex that occupies over 4,000sq meters is devoted to the manufacture of brushes and brushholders, as well as innovative slip-ring assemblies and signal transmission systems, which are products dedicated to wind energy, power generation, industrial and rail applications.

Thanks to its advanced technology installations and substantial production capacity, the plant will supply a large number of countries in Asia. The only plant in the region able to manufacture slip-ring assemblies for high-power wind turbines (several MW) and slip-ring assemblies for signal transmission, it will be able to meet demand from Asian and international manufacturers.

This project is predicated on the Group's expertise in international expansion and the robust skills of its Chinese teams.

The entry into service of this new workshop in China is part of the Group's strategy founded on geographical expansion in Asia and active positioning in buoyant markets. Carbone Lorraine expects growth in its sales of around 20% p.a. in the wind energy market. This market constitutes a major part of the Group's expansion strategy, which aims to deliver sales totaling €1 billion in 2011.

The Company issued the following press release on September 12, 2007:

Carbone Lorraine's Board of Directors met on September 11, 2007 and approved the financial statements for the first six months of 2007.

Commenting on the interim 2007 results, Claude Cocozza, Carbone Lorraine's Chairman and Chief Executive Officer, said:

"During the first half of 2007, we posted a significant increase in our sales and healthy margins, while certain items of equipment are still in a start-up phase.
For the past three years, we have pursued a strategy of transforming Carbone Lorraine into a growth company, which is now starting to pay back. Now that we have strengthened our four growth drivers–Asia, Innovation, Energy efficiency and Acquisitions–we are setting ourselves two ambitious objectives for 2011: sales of €1 billion and a 50% increase in our ROCE."

Condensed income statement

in millions of euros	**H1 2006**	**H1 2007**
Sales	324.4	346.7
Operating income before non-recurring items	33.4	37.4
Operating income	31.8	33.5
Net income	18.9	19.4

Consolidated sales

During the first half, Carbone Lorraine posted strong growth in its sales to €347 million, representing increases of 11% at constant exchange rates including the sales posted by our recent acquisitions and 8% on a like-for-like basis.

Operating income before non-recurring items

Operating income before non-recurring items advanced by 12% to €37.4 million. The operating margin before non-recurring items stood at 10.8% of sales.

The **Advanced Materials and Technologies** division recorded strong sales, notably in the electronics and solar energy markets. Its operating income before non-recurring items advanced by 5% to €22.6 million. This represented 17.7% of sales, the same level as in 2006.

The **Electrical Protection** division has expanded rapidly across the whole range of its products and geographical regions thanks to its innovative offering and efforts to strengthen its sales and marketing capabilities. The division's operating income before non-recurring items advanced by 7% to €11.6 million. This figure represented 10% of the division's sales.

The performance of the **Electrical Applications** division was boosted by substantial sales in Asia and in the wind energy market and by the initial benefits of restructuring in North America. The operating income before non-recurring items came to 10.8% of sales, representing an increase of 2.6 points compared to the first half of 2006.

Operating income

The Group's **operating income** advanced by 5% to €33.5 million. Net non-recurring charges were in line with our previous guidance of €3.9 million. They derived principally from the start-up of its new subsidiaries in China and the transfers of production lines in the Electrical Applications. The Group's operating margin came to 9.7%.

Net income

Interim net income stood at €19.4 million. As forecast, this represented a slight increase in spite of the impact of projects in the start-up phase.

Net debt

The Group's debt came to €183 million, up from €176 million at June 30, 2006. The gearing stood at 57% compared with 59% at June 30, 2006. Our financial structure thus remains very robust, while the Group is now completing the financing of its major expansion projects.

Outlook for 2007

For 2007 as a whole, the Group now aims to post sales growth of at least 6 to 7% on a like-for-like basis and has reiterated its target of an increase in operating income after the non-recurring items.

2011 growth plan

In recent years, the Group has focused on its transformation into a growth company by positioning in buoyant markets and developing effective growth drivers. Carbone Lorraine's growth potential is now all the stronger.

Previously, Carbone Lorraine had embarked on large-scale restructuring to benefit from a robust and modernized manufacturing base.

These two transformations should help the Group both to withstand any downcycles more effectively and to reap the full benefit of any upcycles.

The current portfolio of expansion projects will generate significant additional sales from 2008 onwards and is set to ramp up progressively over the next four years. Assuming economic conditions remain as they are this year for the entire period, particularly in the main regions, the Group set the following two objectives for 2011:

- **Sales of €1 billion**. Sales growth will be particularly brisk in the target markets of electronics, renewable energies and chemicals/pharmaceuticals, as well as in Asia. Selective acquisitions will also contribute to the Group's expansion.

- **A 50% increase in our ROCE.** The Group is targeting a return on capital employed of around 17% before tax under the conditions referred to above. This will be achieved through a major volume effect, further productivity initiatives, a controlled increase in capital employed–since the basic investments have been completed–and through a policy of acquisitions in line with stringent profitability criteria.

Execution of this growth plan and attainment of the objectives presented above are highly motivating targets for the Group's employees and should trigger strong value creation for its shareholders.

The Company issued the following press release on July 24, 2007:

During the second quarter 2007, Carbone Lorraine recorded consolidated sales of 178 M€, up by 9% in historical value and 8% on a like for like basis.

During the semester, sales increased to 347 M€, up by 7% in historical value and 8% on a like for like basis. By integrating the sales of recent acquisitions, the increase reached 11% at a constant exchange rate.

Sales	T2 2007 (in M€)	Var.* T2 07/ T2 06	S1 2007 (in M€)	Var.* S1 07/ S1 06
Advanced Materials and Technologies	64	+3%	128	+5%
Electrical Applications	53	+6%	103	+3%
Electrical Protection	61	+17%	116	+16%
Group Total	178	+8%	347	+8%

** on a like for like basis – numbers non-audited*

Advanced Materials and Technologies

The sales of advanced materials and technologies rose to 64 M€ during the second quarter, up by 3% on a like for like basis. The graphite equipment for the high temperature and anti-corrosion applications markets are still supported. The American graphite blocks factory is operating at full capacity and as predicted, the new Chinese factory has entered the start-up phase.

Sales reached 128 M€ over the course of the semester and are progressing by 8% at constant exchange rates by integrating sales from companies that were acquired last year.

Electrical Applications

In Electrical Applications, sales of 53 M€ for the second quarter are increasing by 6% on a like for like basis. The growth is benefiting from the high demand from the wind energy industry. In addition, sales for the automotive industry stabilized thanks to an increase in prices and development in Asia.

Over the semester, sales of Electrical Applications rose to 103 M€ and are progressing by 6% at a stable exchange rate with the integration of newly consolidated sales in India.

Electrical Protection

In Electrical Protection, sales reached 61 M€ during the second quarter and are increasing by 17% on a like for like basis. Growth is strong in general usage fuses as well as in fuses and cooling devices used to protect semi-conductors.

Over the course of the semester, Electrical Protection sales reached 116 M€ and are progressing by 19% at a stable exchange rate by including the sales of Lenoir Elec, which was acquired in the beginning of the year.

Outlook

The sustained activity during the first semester is pushing the group to review the objective for 2007 full-year sales. Within the current economic situation, the growth should be at least 6% to 7% on a like for like basis.

The Company issued the following press release on April 25, 2007:

Carbone Lorraine's strong sales growth continued during the first quarter of 2007. Sales came to €169 million, up 7% on a like-for-like basis. On a reported basis, sales grew by 4%, taking into account a negative currency effect of 4% and a positive impact of 1% linked to changes in the scope of consolidation.

First-quarter 2007 sales	**Q1 2006 (€ m)**	**Q1 2007 (€ m)**	**% change* Q1 2007/Q1 2006**
Advanced Materials and Technologies	60	64	up 7%
Electrical Protection	51	55	up 14%
Electrical Applications	51	50	up 1%
Group total	162	169	up 7%

**on a like-for-like basis, i.e. at comparable scope and constant exchange rates – Unaudited data*

Advanced Materials and Technologies

Sales recorded by the Systems and Advanced Materials division again posted strong growth to reach €64 million, representing an increase of 7% on a like-for-like basis.

High-temperature applications of graphite, notably serving electronics markets, as well as sales of anticorrosion equipment, posted a highly impressive performance. Growth was particularly strong in Asia.

Construction of the Chongqing plant in China is nearing completion, and the start-up of the first items of equipment is proceeding on schedule. This plant will add 2,000 tons in annual graphite block production capacity to that of the High temperatures division by year-end 2007.

Electrical Protection

Growth in Electrical Protection sales was again very brisk. Sales came to €55 million during the quarter, representing an increase of 14% on a like-for-like basis.

Sales grew across all product categories and all geographical regions. Business trends remain firm in North America, particularly sales to distributors.

The Electrical Protection division is reaping the full benefit of the measures implemented in recent years to strengthen its sales and marketing teams, restructure its production facilities and step up launches of innovative products.

Electrical Applications

In Electrical Applications, sales came to €50 million. This represents an increase of 1% on a like-for-like basis.

Sales for industrial motors posted a fresh increase, especially in the very fast-expanding wind energy markets.

As expected, sales in the automobile market declined owing to the combined effects of the demand contraction in North America and Europe, as well as a deliberately more selective approach to orders. The transfer of the North American production line to India and France is currently underway and will be finalized by the end of the year, as forecast.

Outlook

The growth in sales during the first quarter of 2007 again benefited from supportive conditions and from Carbone Lorraine's transformation into a growth company, now firmly on track. The prospects for the next few quarters are in line with these trends.

In current economic conditions, brisk sales growth and a fresh earnings improvement are expected over 2007 as a whole.

The Company issued the following press release on March 20, 2007:

Carbone Lorraine's Board of Directors met on March 19th, 2007 to approve the accounts for fiscal 2006.

Commenting on the full-year results, Claude Cocozza, Groupe Carbone Lorraine's Chairman and Chief Executive Officer, said:

"The strong 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 efforts made in pursuit of the Group's four strategic priorities: expansion in Asia, markets linked to energy efficiency, innovation and selective acquisitions. As a result, the Group's earnings posted a steep increase. Our net income moved up 55% to €34.9 million in fiscal 2006."

Condensed income statement (IFRS)

In millions of euros	**2005**	**2006**
Sales	583	640
Operating income	53.5	61.0
Operating margin *(%)*	9.2 %	9.5%
Net income from continuing operations	35.3	40.3
Net income from assets held for sale / discontinued operations	(12.8)	(5.4)
Net income *(attributable to equity holders of the parent)*	22.5	34.9

Consolidated sales: €640 million (up 10%)

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. Sales posted growth across all the Group's main geographical regions, with increases of 7% in Europe, 5% in North America and 15% in Asia.

Operating income: €61 million (9.5% of sales)

Operating income advanced by 14% to €61 million. The operating margin stood at 9.5% of sales.

Firmly positioned in fast-expanding markets, the Advanced Materials and Technologies segment continued to enjoy high volumes, especially in electronics and renewable energies. Its operating income grew by 15%.

In Electrical Applications, the success of the new products for windmills helped to offset the drop in sales to automobile markets. The €1 million decline in operating income includes the negative impact of €2 million caused by the initial charges arising from the closure of the North American plant producing brushes for automobile auxiliary motors. This closure will be completed by year-end 2007 and will lead to a significant improvement in divisional margins.

Business was very brisk across all the Electrical Protection division's geographical regions, with both semiconductor and general-purpose fuses performing well. This growth, as well as the successful start-up of the new Modulostar® range and the successful launch of new products, contributed to a 56% increase in operating income.

Net income: €34.9 million

Net income from continuing operations advanced by 14% to €40.3 million.

Net income attributable to equity holders of the parent includes a net loss from assets held for sale/discontinued operations of €(5.4) million resulting from all the remaining charges linked to the shutdown of the Evreux (France) plant.

Net income attributable to equity holders of the parent advanced by 55% to €34.9 million.

Dividend: €0.85

At the forthcoming AGM, the Board of Directors is set to propose payment of a dividend of €0.85 per share, representing an increase of 21% compared with last year.

Net debt

The Group's net debt increased very modestly, and the net debt/equity ratio held firm at 50% compared with 51% at year-end 2005. This performance was also very pleasing given that, as forecast, 2006 was a year of heavy investment (€49 million) devoted to expansion plans –namely the graphite blocks plant currently under completion in China- and acquisitions.

Outlook

Carbone Lorraine's strategic positioning is also set to pay off during 2007. Assuming business conditions remain as they are, the Group expects to post a strong growth. This growth should help to offset the impact on our financial performance of costs arising from the start-up of the graphite plant in China and the shutdown of the US brush plant, paving the way for a further increase in earnings.

This positive trend is likely to continue and gain momentum from 2008 onwards thanks to the benefits of our major expansion plans, which are currently being finalized, and the numerous development initiatives taken across all our businesses.

8.2 Outlook

In current economic conditions, sales growth is expected to reach at least 6% to 7% over 2007 as a whole on a like-for-like basis.

The major expansion projects initiated in recent periods are set to yield their first significant benefits from next year onwards. In particular, this applies to the new graphite block production facility in China, at which production is currently starting up. In 2008, it will provide 2,000 tons in additional capacity, boosting the Group's existing capacity of 5,000 tons p.a., which is not sufficient to meet demand. In addition, the transfer principally to India of the brushes for auxiliary automobile motors production lines looks set to be completed on schedule by year-end 2007.

As forecast, the Group's 2007 results will reflect the impact of non-recurring charges arising from the start-up of the Chinese companies and restructuring costs at the Electrical Applications division in North America. These charges, which will not recur after 2007, are expected to amount to between €7 million and €8 million after certain non-recurring gains.

2007 operating income is likely to post a slight increase in spite of the non-recurring charges referred to above.

Assuming business conditions remain equivalent to 2007, a substantial increase in sales and earnings is anticipated in 2008 and subsequent years.

Commenting on the interim 2007 results, Claude Cocozza, Carbone Lorraine's Chairman and Chief Executive Officer, said:

"For the past three years, we have been pursuing a strategy of transforming Carbone Lorraine into a growth company. It is now starting to pay off. Now that we have strengthened our four growth drivers–Asia, Innovation, Energy efficiency and Acquisitions–we are setting ourselves two ambitious objectives for 2011: sales of €1 billion and a 50% increase in our ROCE."

The objective of 2011 sales of €1 billion may, for instance, break down into €850 million in sales driven by organic growth of 6% and €150 million in sales generated from acquisitions. The 50% increase in ROCE may, for instance, reflect an operating margin of 13%, but Carbone Lorraine's objective is to achieve a higher return on capital employed.

9. CROSS-REFERENCE TABLE

	Page numbers 2006 reference document	Page numbers Update of the Reference document
1 - Persons responsible	**114, 115**	**3**
2 - Statutory auditors	**73, 74, 107, 115**	**3**
3 - Selected financial information	**6**	**5 to 8**
4 - Risk factors	**26, 29 to 31, 82 to 85**	**41, 61**
5 - Information about Carbone Lorraine		
5.1 - History and development of the Company	4 to 13, 115	66 to 73
5.2 - Investments	6, 18, 41, 65	16, 45, 49, 51, 60, 61
6 - Business overview		
6.1 - Principal activities	7 to 9, 16	5 to 7
6.2 - Principal markets	7 to 9	5 to 7
7 - Organizational structure	**94 to 97**	**63 to 65**
8 - Property, plant and equipment	**29 to 32, 45, 46, 53**	**21, 22, 31**
9 - Operating and financial review		
9.1 - Financial condition	37 to 41, 76 to 78	12 to 16
9.2 - Operating results	37, 76	15
10 - Capital resources	40, 41, 59 to 63, 78	**14, 16, 36 to 41**
11 - Research and development, patents and licenses	**19, 45, 84**	**21**
12 - Trend information	**5, 21**	**4, 66 to 73**
13 - Profit forecasts or estimates		**73**
14 - Administrative and management bodies		
14.1 - Members of the administrative and management bodies	94 to 97	63, 64
14.2 - Administrative, management, and supervisory bodies and senior management conflicts of interests	57, 58, 70, 89, 98 to 102	63 to 65
14.3 - Internal control procedures	102 to 106	62
15 - Remuneration and benefits	**98 to 101**	**33, 34, 50, 54, 55, 58 to 60, 62**
16 - Board practices	**94 to 97**	**63, 64**
17 - Employees		
17.1 - Headcount	27, 66	45
17.2 - Shareholdings and stock options	88 to 93, 98 to 102	33, 34, 50, 54 to 56, 58 to 60
17.3 - Employee profit-sharing	99	54 to 56
18 - Major shareholders	**85 to 88**	**56 to 58**
19 - Related party transactions	**70, 112**	**49**
20 - Financial information concerning Carbone Lorraine's assets and liabilities, financial position and profits and losses		
20.1 - Historical financial information	37 to 44	12 to 18
20.2 - Pro forma financial information	37 to 44	12 to 18
20.3 - Financial statements	37 to 72	12 to 52
20.4 - Auditing of historic annual/interim financial information	73, 74	53
20.5 - Age of latest financial information	21	66 to 68

20.6 - Interim and other financial information		66 to 73
20.7 - Dividend policy	17	58
20.8 - Legal and arbitration proceedings	84, 85	61, 62
20.9 - Significant change in Carbone Lorraine's financial or trading position	21	
21 - Additional information		
21. 1 - Share capital	85 to 93, 100, 101	54 to 60
21.1.1 – Issued capital	*85 to 87, 92*	*54, 55*
21.1.2 – Shares not representing capital	-	-
21.1.3 – Shares held by the issuer	*90*	*58, 59*
21.1.4 – Convertible securities, exchangeable securities or securities with warrants	*87, 88*	*59, 60*
21.1.5 – Terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital.	*85, 86, 90 to 93*	*54*
21.1.6 – Information about any capital of any member of the Group which is under option or agreed conditionally or unconditionally to be put under option	*88, 100, 101*	*59, 60*
21.1.7 – History of share capital	*88, 89, 93*	*55 to 57*
21.2 - Memorandum and Articles of Association	85 to 87, 90 to 93	54, 55, 59, 60, 63 to 65
21.2.1 – Corporate objects and purposes	*85*	-
21.2.2 – Management and supervisory bodies	*86*	*63 to 65*
21.2.3 - Rights, preferences and restrictions attaching to each class of existing shares	*86, 87*	*59, 60*
21.2.4 – Action necessary to change the rights of holders	*86*	*54, 55*
21.2.5 – Conditions governing the manner in which annual general meetings and extraordinary general meetings of shareholders are called including the conditions of admission	-	-
21.2.6 - Provision of the issuer's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control	-	-
21.2.7 – Articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which shareholder ownership must be disclosed	-	-
21.2.8 – Conditions governing changes in the capital	*90 to 93*	-
22 - Material contracts	**84, 85**	
23 - Third party information, statements by experts and declarations of any interest	**73, 74 , 88, 107**	**53, 56, 57**
24 - Documents on display	**13, 115**	**1**
25 - Information on holdings	**34, 54, 79**	**10, 11, 32, 33**