Le Carbone Lorraine
Société Anonyme with capital of €28,594,426
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 2007 REFERENCE DOCUMENT

(filed with the Autorité des Marchés Financiers on March 17, 2008 under number D.08-114)

filed with the Autorité des Marchés Financiers

September 18, 2008

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,
from Carbone Lorraine's web site at www.carbonelorraine.com,
and from the Autorité des Marchés Financiers web site at
www.amf-france.org

The aim of this update is to bring the reference document filed by Carbone Lorraine on May 17, 2008 under no. D.08-114 (the "Reference Document") up to date. Only the sections of the Reference Document requiring an update appear in this updated document.

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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 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 certify that, to the best of my knowledge, these summary interim financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation and that the interim business report on pages 29-79 presents a faithful picture of the major events that occurred during the six months of the interim period and their impact on the financial statements, and the principal transactions between related parties, as well as a description of the principal risks and principal uncertainties concerning the remaining six months of the financial year.

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 in its updated version.

The Statutory Auditors have commented on the historical financial data and future projections presented in this updated document in a report on page 22.

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. GENERAL INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

Combined General Meeting of May 21, 2008

The Combined General Meeting of May 21, 2008 (second notice) passed all resolutions submitted to a vote by shareholders with the exception of resolutions 7, 8 and 9, authorizing the Company to issue redeemable bonds with warrants ("OBSAAR" bonds) and resolution 11, authorizing the Company to issue warrants in the event of a public tender offer.

Trading by the Company in its own shares

At the Combined General Meeting of May 21, 2008 (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;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

The maximum purchase price is set at €100 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €142,807,300.

Since May 21, 2008, the Company has not made use of this authorization, except for acquisitions made under the liquidity agreement. At August 31, 2008, 32,800 shares were held pursuant to this liquidity agreement.

Share capital

At the date of issue, the share capital amounted to €28,594,426 divided into 14,297,213 shares, each with a nominal value of €2 and belonging to a single category.

Authorization to increase the share capital

Combined General Meeting of May 24, 2007

Capital increase with preferential subscription rights maintained: the Combined General meeting of May 24, 2007 authorized the Board of Directors to issue ordinary shares or securities giving access to the Company's capital, with maintenance of preferential subscription rights, or by incorporation of premiums, reserves or profits. The maximum nominal amount of capital increases that may be carried out pursuant to these authorizations may not exceed €10,000,000. These authorizations are valid for 26 months. These authorizations replace and supersede those granted by the Combined General Meeting of May 12, 2005, which were not used.

Bonus share allotments: Shareholders authorized the Board of Directors to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 20,000, which currently represents around 0.2% of the share capital. The authorization is valid for a period of 38 months.

At February 26, 2008, the Board of the Directors used this authorization by proposing the allotment of 20,000 free shares to 89 members of the Group's management. The allotment of free shares is subject to the continuation of the employment contract of the beneficiary at the end of the vesting period which has been set at three (3) years. The blocking period was set at two (2) years.

At July 24, 2008, the Board of Directors formally recognized the definitive grant of 16,478 shares following the vesting period of the 2006 Allotment Plan. Under the said 2006 plan, these shares are held in a blocked account for a period of two years from July 1, 2008.

Combined General Meeting of May 21, 2008

Capital increase reserved for employees participating in the Group Investment Plan: Shareholders authorized the Board of Directors at the Combined General Meeting on May 21, 2008 to increase the share capital, on one or more occasions at its sole discretion, through the issue of shares in cash reserved for employees participating in the Group Investment Plan. These increases in capital entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €300,000, i.e. approximately 1% of the Company's share capital.

This authorization replaces and supersedes the previous one granted by the Combined General Meeting of May 24, 2007 for a period of 26 months from the Combined General Meeting of May 21, 2008.

At its meeting of June 9, 2008, the Board of Directors, under the authorization granted it by the Combined General Meeting of May 21, 2008, voted to offer employees of the Group's European and North American subsidiaries the possibility of acquiring 75,000 new shares at a price of €30.30 each, representing 80% of the average opening price on the 20 trading days preceding the June 9, 2008 meeting. At the time of issue of this update, the said reserved capital increase has not been implemented.

Summary of changes in the share capital

Dates	Description of the transaction	Share capital following the transaction	Share premium	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
April 15, 2004	Issue of 2,000 new shares each with a nominal value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
Aug. 20, 2004	Issue of 2,500 new shares each with a nominal value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390
Oct. 19, 2004	Issue of 2,489,420 new shares each with a nominal value of €2 through a capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
Dec. 16, 2004	Issue of 46,328 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,476,276	1,176,731	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
Dec. 17, 2007	Issue of 44,094 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	28,481,320	1,931,317	14,240,660
Dec. 31, 2008	Issue of 40,075 new shares each with a nominal value of €2 through the exercise of subscription options	28,561,470	1,254,681	14,280,735
July 24, 2008	Issue of 16,478 each with a nominal value of €2 through the grant of bonus shares	28,594,426	540,478* *unavailable reserve	14,297,213

Share ownership thresholds crossed

January 30, 2008: Natixis Asset Management raised its interest above the 1% threshold of the share capital and voting rights, holding 1.08% of the share capital and voting rights.

February 7, 2008: Caisse des Dépôts had a holding of 4.72% of the share capital and voting rights.

March 31, 2008: Sofina raised its interest above the 4% threshold of the share capital and voting rights.

April 4, 2008: Fidelity Investments raised its interest above the 10% threshold of the share capital and voting rights, holding 10.33% of the share capital and voting rights.

April 14, 2008: Crédit Suisse raised its interest above the 1% threshold of the share capital and voting rights, holding 1.68% of the share capital and voting rights.

April 23, 2008: Fidelity Investments cut its interest to below the 10% threshold of the share capital and voting rights, holding 9.67% of the share capital and voting rights.

April 29, 2008: Amber Master Fund (Cayman) SPC cut its interest to below the 1% threshold of the share capital and voting rights.

May 2, 2008: Morgan Stanley raised its interest above the 5% threshold of the share capital and voting rights, holding 5.27% of the share capital and voting rights.

May 6, 2008: UBS raised its interest above the 1% threshold of the share capital and voting rights, holding 1.55% of the share capital and voting rights.

May 16, 2008: Fidelity Investments announced that it would declare the holdings of Fidelity International Limited (FIL) and FMR LLC separately.
It was noted that the combined holdings of FMR LLC and FIL had been declared on April 23, 2008 at 9.67% of the share capital and voting rights. On a separate basis, FIL's holding fell below the 5% threshold of the share capital and voting rights at April 24, 2008, with a holding of 2.37% of the share capital and voting rights, whilst FMR LLC held 6.10% of the share capital and voting rights on the same date.

May 27, 2008: Natixis Asset Management raised its interest above the 1% threshold of the share capital and voting rights, holding a stake of 1.83% of the share capital and voting rights.

May 27, 2008: AXA Private Equity raised its interest above the 1% threshold of the share capital and voting rights, holding a stake of 1.29% of the share capital and voting rights (for Matignon Développement 3).

May 27, 2008: BNP Paribas raised its interest above the 1% threshold of the share capital and voting rights, holding 1.0821% of the share capital and voting rights.

May 30, 2008: Morgan Stanley cut its interest to below the 5% threshold of the share capital and voting rights, holding 3.55% of the share capital and voting rights.

June 11, 2008: AXA Private Equity raised its interest above the 2% threshold of the share capital and voting rights, holding a stake of 2.80% of the share capital and voting rights (for Matignon Développement 3).

June 13, 2008: AXA Private Equity raised its interest above the 3% threshold of the share capital and voting rights, holding a stake of 3.38% of the share capital and voting rights (for Matignon Développement 3).

June 18, 2008: AXA Private Equity raised its interest above the 4% threshold of the share capital and voting rights, holding a stake of 4.15% of the share capital and voting rights (for Matignon Développement 3).

July 3, 2008: AXA Private Equity raised its interest above the 5% and 6% thresholds of the share capital and voting rights, holding a stake of 6.43% of the share capital and voting rights (for Matignon Développement 3).

July 7, 2008: AXA Private Equity raised its interest above the 7% threshold of the share capital and voting rights, holding a stake of 7.01% of the share capital and voting rights (for Matignon Développement 3).

July 8, 2008: ACF I Investment[(1)] raised its interest above the 1%, 2%, 3%, 4% and 5% thresholds of the share capital and voting rights, holding 5.04% of the share capital and voting rights.

July 9, 2008: ACF I Investment and AXA (for Matignon Développement 3) jointly raised their interest above the 9% threshold of the share capital and voting rights, holding 9.37% of the share capital and voting rights.

July 16, 2008: AXA Investment Managers Private Equity (for Matignon Développement 3) raised its interest above the 6% threshold of the share capital and voting rights, holding 6.20% of the share capital and voting rights.

July 24, 2008: FMR LLC cut its interest to below the 5% threshold of the share capital and voting rights, holding 4.99% of the share capital and voting rights.

August 12, 2008: AXA Private Equity (for Matignon Développement 3) cut its interest to below the 6%, 5%, 4%, 3%, 2% and 1% thresholds of the share capital and voting rights as the result of the sale of its entire holding of 912,788 shares to ACF I Investment.

August 12, 2008: AXA Private Equity (for ACF I Investment) raised its interest above the 10% threshold of the share capital and voting rights, holding 912,788 shares. *(AXA IM PE intends to continue to purchase shares without exceeding a holding of 22.5% of the share capital. AXA has indicated that it does not plan to acquire a controlling interest in Carbone Lorraine).*

August 14, 2008 : Indus Capital Partners LLC raised its interest above the 5% threshold of the share capital and voting rights, holding 5.05% of the share capital and voting rights.

[(1)] Wholly-owned subsidiary of AXA Capital Fund LP, with AXA Private Equity Capital Ltd acting as managing partner

Market in the Company's shares

The shares are admitted for trading on Euronext Paris and qualify 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 14,297,213 shares are listed on the market.

Carbone Lorraine shares	Number of shares traded *(units)*	Capital traded *(€m)* (1)	Highs and Lows (2)	
			High *(€)*	Low *(€)*
2008				
January	2,730,598	101.76	48.76	31.50
February	3,293,607	100.45	35.00	26.78
March	2,823,499	85.85	39.50	26.60
April	2,813,238	102.71	38.31	34.00
May	1,633,173	59.88	39.70	33.58
June	1,812,288	69.31	41.55	34.20
July	2,585,286	94.54	40.00	29.10
August	932,709	34.55	38.55	36.46

Source: Euronext.
(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 %
2007	14,280,735	0.85	n/a	0.85	61.77	41.60	47.20	1.8 %

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 1, 2008, after taking into account cancellations, entitle their holders to acquire a total number of 388,117 shares, each with a nominal value of €2.

The warrants still to be exercised at September 1, 2008, entitle their holders to acquire a total of 114,000 new shares, each with a nominal value of €2.

The total number of free shares likely to be definitively allotted is 20,000 new shares, each with a nominal value of €2.

There are no other securities conferring rights to Carbone Lorraine's share capital.

On the basis of the number of outstanding stock options, the number of warrants that can be exercised by their holders and the number of shares that can be definitively allotted, the maximum dilution would be 3.7%.

Changes in share capital

At September 1, 2008, the Company's share capital amounted to €28,594,426 divided into 14,297,213 shares each with a nominal value of €2. The number of voting rights stood at 14,264,413, since shares held in treasury do not carry voting rights. No shares carry double voting rights.

At July 10, 2008, Carbone Lorraine and AXA Private Equity announced AXA Private Equity's entry into the capital of Carbone Lorraine as a long-term investor with a view to supporting Carbone Lorraine's strategy and growth. AXA Capital Fund L.P. ("AXA Capital"), an investment fund advised by AXA Private Equity, and Matignon Développement 3, a company managed by AXA Private Equity, together own 10.50% of the share capital in Carbone Lorraine.

The details of the agreement were set out in a press release published on the same date and presented on pages 16 and 17 of this update.

Stock subscription options

No options have been exercised since January 1, 2008.

Stock options: History of allotments pending

	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	March 8 1999	May 10 2000	September 15, 2000	January 18	May 14 2003	July 25	
Total number of shares available for subscription	190,025	449,145	9,370	4,685	130,163	165,000	948,388
- o/w directors	15,617	31,234	0	0	9,370	25,000	81,221
- o/w top 10 allottees	70,931	149,922	9,370	4,685	44,825	72,250	351,983
Subscription price	34.58	45.14	46.01	48.5	21.21	57.24	
Start of exercise period	March 2004	May 2005	September 2005	January 2006	May 2007	July 2011	
Expiration date	March 2009	May 2010	September 2010	January 2011	May 2013	July 2017	
Total number of shares subscribed at August 31, 2008	96,021	43,628	0	0	42,158	0	181,807
Options cancelled by August 31, 2008	32,538	288,483	6,246	3,123	48,074	0	378,464
O/w cancelled in 2008	0	0	0	0	0	0	0
Options outstanding at August 31, 2008	**61,466**	**117,034**	**3,124**	**1,562**	**39,931**	**165,000**	**388,117**

Stock options: directors

	Number of options granted/subscribed	**Price**	**Expiration date**
Options granted since January 1, 2008 to each director			
CEO	0		
COO	0		
Options exercised since January 1, 2008 to each director			
CEO	0		
COO	0		

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, 2008 to the 10 employees who received the largest number	0					
Options exercised since January 1, 2008 by the 10 employees registered as holding the largest number	0					

Bonus share allotments: History of allotments

	2005 plan Tranche 1	2006 plan Tranche 2	2008 plan Tranche 3	Total
Date of Board of Directors' meeting	June 30, 2005	June 28, 2005	February 26, 2008	
Total number of shares allotted	42,700	17,975	20,000	80,675
o/w directors	*3,300*	*0*	*0*	*3,300*
o/w Executive Committee	*12,000*	*0*	*0*	*12,000*
o/w top 10 allottees	*16,500*	*5,001*	*3,000*	*24,501*
Share price at allotment date	39.25	40.07	29.63	
Definitive allotment date (end of the vesting period)	July 1, 2007	July 1, 2008	March 1, 2011	
End of lock-up period	July 1, 2009	July 1, 2011	March 1, 2013	
Allotments canceled at Dec. 31, 2007	11,800	998	0	12,797
o/w canceled in 2008		*499*	*0*	*499*
Balance at August 31, 2008	30,900	16,478	20,000	67,378

Allotment of free shares

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.

On February 26, 2008, the Board of Directors used this authorization by proposing the allotment of 20,000 free shares to 89 members of the Group's management. The allotment of free shares is subject to the continuation of the employment contract of the beneficiary at the end of the vesting period which has been set at three (3) years. The blocking period was set at two (2) years.

At July 24, 2008, the Board of Directors formally recognized the definitive grant of 16,478 shares following the vesting period of the 2006 Allotment Plan. Under the said 2006 plan, these shares are held in a blocked account for a period of two years from July 1, 2008.

3. INVESTMENT POLICY

The 2007 Reference Document describes the investment policy of the Carbone Lorraine Group on page 20.

Investment in the period to August 31, 2008 amounted to €34.9 million, distributed as follows. Meanwhile, the "Rail and motorcycle braking business" was sold for €25.6 million.

In millions of euros	**Continuing operations**
	At August 31, 2008
Increase in intangible assets	(0.3)
Increase in property, plant and equipment	(30.8)
Financial investments*	0
Other changes in cash generated/(used) by investing activities	(3.8)
SUB-TOTAL	**(34.9)**
Investments linked to acquisitions	17.1
Disposals	26.1
TOTAL	**(0.5)**

In 2008, the main investments made since the beginning of the year related to:

- the latest investment in the Chongqing plant,
- capacity investments in three of the Group's businesses,
- the acquisition of Xianda -- a Chinese company specializing in the production of high-tech steel and stainless steel equipment for the chemicals and pharmaceuticals sectors -- payment for which falls due in the second half.
- the acquisition of Canadia company R-Theta, a major player in air cooling for power electronics;
- the acquisition of a majority stake in the capital of Chinese company Zhejiang Mingrong Electrical Protection, a leader in the market for fuses and fusegear.

At this date, the Company had not entered into any firm acquisition or investment commitments.

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 and the firm commitments made by the management team, the Board of Directors approved the acquisitions of Xianda, R-Theta and Zheijiang Mingrong.

4. RECENT TRENDS AND OUTLOOK

4.1 Recent trends

The Company issued the following press release on April 1, 2008:

Carbone Lorraine has finalised the disposal of its rail and motorcycle braking business to the Faiveley group, which will continue to run it at the Gennevilliers plant (Paris suburbs - France), Carbone Lorraine’s advanced technology facility.

The business generates sales of €17 million and has 80 employees. The agreement leads to an amount of sale of 26 million of euros.

The carbon-carbon composite aerospace braking business will remain part of Carbone Lorraine. New fast-growing applications of this technology are developing in the Group’s Advanced Materials and Technologies division.

This disposal will sharpen Carbone Lorraine’s focus on its core business. It will also boost its financial resources and facilitate execution of its profitable growth strategy predicated on upbeat markets and selective acquisitions.

The Company issued the following press release on April 7, 2008:

Carbone Lorraine has finalized its first acquisition in China by purchasing 100% of Xianda, a Chinese company specializing in the manufacturing of advanced technology equipment in steel and stainless steel for the chemicals and pharmaceuticals markets.

Stronger manufacturing base, richer product offering, penetration of new markets

Xianda, which is located in the suburbs of Shanghai, where it has 400 employees, has been a historical partner of Carbone Lorraine in terms of its supplies. This Chinese company is recognized for its high quality standards. In 2007, its sales exceeded $20 million, with 80% deriving from Western companies operating in China and export markets, including, namely, major chemicals, pharmaceuticals and oil groups.

Thanks to this acquisition, Carbone Lorraine will strengthen its manufacturing base in China. Xianda owns an exceptional 67,000 m² facility that will complement Carbone Lorraine's anticorrosion sites, while significantly expanding its production capacity.

Aside from the industrial benefits of the deal, this acquisition will help to enrich Carbone Lorraine's offering, which is predicated on highly reputed expertise in noble metals equipment. For its part, Xianda possesses recognized expertise in very large steel and stainless steel equipment. The strong fit between these two skill sets will enable Carbone Lorraine to establish itself as a key partner for the modern Chinese chemicals and pharmaceuticals industry, which is generating steadily growing demand for noble metals.

By marketing this extensive range of products, Carbone Lorraine will consolidate its leadership positions, strengthen its presence in the fast-expanding acetic acid market and establish a foothold in the petrochemicals market.

The acquisition will also enhance the competitiveness of Carbone Lorraine, which will provide all of its units with the benefit a low-cost source of steel and stainless steel, since China has become the world's leading producer of these materials.

Thanks to the synergies harnessed through this link-up, the new unit's sales are expected to triple over five years.

This acquisition fits perfectly with Carbone Lorraine's profitable growth strategy, which is founded on bolstering its positions in Asia and establishing strong leadership in all its markets.

The Company issued the following press release on April 16, 2008:

First-quarter 2008 sales came to €177 million, up 6.5% on a like-for-like basis. Growth reached 5% on a reported basis as a result of exchange rate fluctuations. New orders posted a brisk increase during the first three months of the year.

Sales	**Q1 2007 (€ m)**	**Q1 2008 (€ m)**	**% change.* Q1 2008/ Q1 2007**
Advanced Materials and Technologies	64	64	+5%
Electrical Applications	50	52	+4%
Electrical Protection	55	61	+10%
Group total	**169**	**177**	**+6.5%**

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

In the remainder of this press release, all the sales growth figures are indicated on a like-for-like basis, unless stated otherwise.

Advanced Materials and Technologies

The sales recorded by the Advanced Materials and Technologies division climbed 5%,

- anticorrosion equipment sales held up at a high level. Deliveries of major projects are set to commence during the second quarter this year, resulting in significant growth.
- sales of graphite equipment for high-temperature applications advanced by 12.5%. They were boosted by strong demand from the photovoltaic industry and further expansion in sales to traditional markets. This growth was particularly pleasing because it did not include any sales generated by the new Chongqing plant, which dispatched its first shipments of internal supplies for the anticorrosion equipment business during the first quarter with a view to the major deliveries ahead.

Electrical Applications.

The sales recorded by the Electrical Applications division grew by 4%:

- sales of small brushes declined slightly owing to the still depressed conditions prevailing in the North American automobile industry, but this was offset to some extent by strong growth in Asia.
- sales to industry grew by 9%. Business trends were particularly strong in the wind energy segment, as were sales of replacement brushes through Carbone Lorraine's global network of local workshops.

Electrical Protection

The sales recorded by the Electrical Protection division again posted very strong growth, which reached 10%.

Growth was brisk across all geographical regions and all product categories. Momentum in the North American market was again very strong across all distribution channels, especially sales to electrical equipment manufacturers, since their export business was boosted by the weakness of the US dollar.

Key events of the quarter

Disposal of the rail and motorcycle braking business

The sintered brake business for rail and motorcycle applications was sold to the Faiveley group on April 1 for €26 million. This business posted sales of €5 million during the first quarter of 2008.

The carbon-carbon composite aerospace braking business remained part of Carbone Lorraine. New, fast-growing applications of this technology are developing in the Advanced Materials and Technologies division.

Acquisition of Xianda

Chinese company Xianda was acquired at the end of the quarter. This company specializes in steel and stainless steel equipment for the chemicals, pharmaceutical and petroleum industries.

Xianda has worked with Carbone Lorraine for some time as one of the Group's suppliers and has earned a strong reputation for quality. Its production facilities are remarkable in terms of their size and handling equipment and will deliver a significant boost to the Group's production capacity.

Carbone Lorraine's offering, which is predicated on highly reputed know-how in noble metals equipment, will also expand thanks to this acquisition. Xianda possesses recognized expertise in very large steel and stainless steel equipment. The good fit between these two skill sets will help to establish Carbone Lorraine as a key partner for the chemicals and pharmaceutical industries in China.

Xianda posted 2007 sales of $20 million, a figure set to record very rapid growth on the back of technical and revenue enhancement synergies.

Carbone Lorraine's financial position

The Group's financial situation remains in very good shape. Its financial resources have been strengthened by the disposal of the braking business. The sale proceeds will help to finance the Group's expansion plans.

Attractive outlook

Growth in the Group's first-quarter sales was thus in line with trends recorded in previous quarters after taking into account the different timing compared with last year of deliveries of large orders of anticorrosion equipment.

New orders booked during the quarter were again higher than in the previous year and should ensure that Carbone Lorraine records strong growth over the first half of the year.

The Company issued the following press release on May 21, 2008:

In the process of preparing for the succession of Claude Cocozza, Chairman and CEO of Carbone Lorraine, the Board of Directors has appointed **Ernest Totino** as Chief Operating Officer from July 1st 2008.

Ernest Totino has spent most of his career in Carbone Lorraine, where he started as a R&D engineer, and then was in charge of production. He became a plant manager and later the head of the "anticorrosion equipment division". He was appointed to the Group Executive Committee in 2005 where he is in charge of supervising the "anticorrosion equipment" and "industrial brushes" businesses as well as the corporate "MIS" and "purchasing" departments.

Ernest Totino is 49 and has a PhD in Chemistry.

The Company issued the following press release on July 3, 2008:

Carbone Lorraine continues its **rapid expansion in Asia** by acquiring a majority shareholding in Chinese company **Zhejiang Mingrong Electrical Protection.**

Creation of a leader in the Chinese market

A privately-held company with a performing and dynamic management team, Zhejiang Mingrong Electrical Protection is one of the leaders in the fuse and fusegear market, boasting the most extensive product range of all Chinese market participants. The company is based in Zhejiang province, the cradle of the Chinese electrical industry's development, and it posted sales of around €10 million in 2007. The company has enjoyed brisk growth in recent years.

Thanks to this deal, Carbone Lorraine, through its **Ferraz Shawmut** electrical protection subsidiary, becomes the **leader in the Chinese fuse and fusegear market**.

Electrification needs in China and strong demand for increasingly sophisticated equipment for power generation, distribution and control applications have made China an attractive market enjoying strong and sustainable growth. Pooling the highly complementary product ranges of **Ferraz Shawmut** and **Zhejiang Mingrong Electrical Protection**, together with stronger commercial positions at distributors and OEMs, will drive a steep increase in sales, both in China and in export markets.

For the Electrical Protection division, this joint venture is set to become a **platform for the development of new products intended in particular for Asian markets.**

Zhejiang Mingrong Electrical Protection's high degree of vertical integration—plastic injection-molding, metal components and tooling—also represents a major strength and will accelerate the pace at which the Electrical Protection division develops **sourcing in China**.

The anticipated production and revenue synergies are predicted to drive **growth in sales at double the pace of that in the Chinese market at large.**

From a financial standpoint, this majority stake in a company that already enjoys a high level of profitability will be **immediately earnings-enhancing** for Carbone Lorraine. It fits perfectly with the Group's **profitable growth strategy**, which is notably founded on bolstering its positions in Asia and establishing strong leadership in all its markets.

The Company issued the following press release on July 10, 2008:

Carbone Lorraine and AXA Private Equity are pleased to welcome AXA Private Equity as a long term investor in Carbone Lorraine to support its strategy and growth. AXA Capital Fund L.P. ("AXA Capital"), an investment fund advised by AXA Private Equity, together with Matignon Développement 3, a company managed by AXA Private Equity, now own 10.50% of Carbone Lorraine's share capital.

An investment agreement has been entered into in order to define the rights and obligations applicable in connection with this acquisition. It includes, among other things, undertakings as to the stable and friendly nature of the investment in Carbone Lorraine. Before the end of the year a director representing AXA Private Equity should be appointed to Carbone Lorraine's Board of Directors and Carbone Lorraine will back the nomination of a second director in the event that a 15% threshold of capital ownership is exceeded.

This agreement, which will expire on June 30, 2012, also authorizes AXA Private Equity to increase its shareholding to 22.5% of the share capital and provides for self-limitation of voting rights to 35% of the quorum at Carbone Lorraine general meetings.

Except under certain circumstances, AXA Private Equity has undertaken to maintain its shareholding in Carbone Lorraine until June 30, 2010.

A summary of the main provisions of the agreement is attached to this press release.

According to Claude Cocozza, Chief Executive Officer of Carbone Lorraine, "the acquisition of this shareholding in Carbone Lorraine's share capital, by an investor having ambitious goals for value creation, is an extremely positive sign for Carbone Lorraine. This transaction constitutes a clear validation of our strategy. I am delighted that AXA Private Equity has expressed its confidence in the Board of Directors and has taken the decision to support the group's development in the long run by being represented on the board."

Dominique Gaillard, member of the Management Board of AXA Investment Managers Private Equity Europe S.A. said: "This significant investment in Carbone Lorraine's capital is driven by the desire to support, in the long run, implementation of the value creation strategy applied by Carbone Lorraine, particularly through its profitable growth policy".

Summary of the Main Provisions of the Agreement

The following is a summary of the agreement entered into between Carbone Lorraine and AXA Capital Fund L.P. ("AXA Capital"), an investment fund advised by AXA Private Equity:

Board of Directors

Carbone Lorraine has undertaken to back the nomination of an AXA Capital Fund L.P. ("AXA Capital") representative on the Board of Directors before December 31, 2008, and of a second representative as soon as possible after the 15% threshold in Carbone Lorraine's capital is exceeded, and in any event by the ordinary annual general meeting considering the accounts for the 2008 financial year if this threshold is exceeded before this meeting. An AXA Capital representative will also be on the committees set up by the Board of Directors.

Maximum Share Ownership

AXA Capital has undertaken not to exceed, whether acting alone or in concert, the 22.5% threshold of Carbone Lorraine's capital and not to file a tender offer without the prior positive recommendation of the Board of Directors.

This undertaking shall be null and void in the event that: (i) a third party files a tender offer; (ii) the 15% threshold is exceeded by one or more third parties acting in concert, or that one or more third parties acting in concert declare their intention to take control of Carbone Lorraine; (iii) Carbone Lorraine solicits a tender offer or capital transaction, other than in the normal framework of issuances of equity securities by way of a public offering; (iv) Carbone Lorraine undertakes a major strategic reorganization unapproved by the directors representing AXA Capital on the Board of Directors; (v) Carbone Lorraine's Board of Directors or its Chairman authorizes AXA Capital to exceed the 22.5% threshold; or (vi) the average price of the Carbone Lorraine shares weighted by volume, over a period of twenty consecutive trading days, is less than 75% of the weighted-average cost of acquisition of AXA Capital's stake in Carbone Lorraine.

Voting Rights Self-limitation Mechanism

AXA Capital has undertaken to limit its voting rights to 35% of the quorum at Carbone Lorraine general meetings. This undertaking shall be null and void in the same cases as those concerning AXA Capital's undertaking to cap its shareholding. In addition, this commitment shall automatically terminate if (i) a shareholder or group of shareholders acting in concert present themselves at a general meeting with a percentage of voting rights, including proxies, of more than 30% (after application of AXA Capital's 35% voting right self-limitation) or (ii) a third party or AXA Capital files a tender offer with a positive recommendation by Carbone Lorraine's Board of Directors.

Lock-Up

AXA Capital has also undertaken not to transfer all or part of its shareholding until June 30, 2010.

This undertaking shall be null and void in the event that: (i) one or more third parties acting in concert exceed the 20% threshold; (ii) a tender offer uncontested by Carbone Lorraine's Board of Directors is filed, or an exchange (or mixed) offer, contested or uncontested by the Board of Directors, is filed, it being agreed however that, until the reopening of such offer, AXA Capital undertakes not to tender its shares in any exchange (or mixed) offer that has not been given a positive recommendation by Carbone Lorraine's Board of Directors; (iii) a tender offer is reopened, whether contested or otherwise; (iv) the Chairman of the Board of Directors is removed from office or resigns without his replacement having been approved by AXA Capital; (v) Carbone Lorraine undertakes a major strategic reorganization unapproved by AXA Capital; (vi) the average price of Carbone Lorraine's shares weighted by volume over a period of twenty consecutive trading days is less than 75% of the weighted-average cost of the acquisition of AXA Capital's stake in Carbone Lorraine; (vii) there is a significant decline in Carbone Lorraine's profits or prospects; (viii) the transfer is to one of AXA Capital's affiliates; or (ix) the transfer is authorized by Carbone Lorraine's Board of Directors or its Chairman.

Orderly Transfer of Equity Securities

Except in the event of a tender offer, AXA Capital has undertaken not to transfer a block of 5% or more of Carbone Lorraine's capital to an identified investor (or to persons who, to AXA Capital's knowledge, are acting in concert with the identified investor). Any transfer by AXA Capital of its shares on the market shall be carried out in an orderly manner, to the greatest extent possible, in order to limit the effects of such sale on Carbone Lorraine's share price. AXA Capital will give Carbone Lorraine prior notice of any share transfer.

Duration and Termination of the Agreement

The Agreement shall terminate on June 30, 2012. It shall automatically terminate before that date if AXA Capital's stake falls below the 10% Carbone Lorraine share capital or voting rights threshold. If the Agreement terminates before due date, the mechanism for orderly transfer of the Carbone Lorraine equity securities shall nonetheless remain in force until June 30, 2012. Upon expiry of this term, AXA Capital shall remain bound by the Carbone Lorraine share transfer restrictions for as long as it holds more than 10% of Carbone Lorraine's capital. AXA Capital shall automatically be released from its undertakings in the event that Carbone Lorraine breaches its own undertakings under the Agreement, or in the event that the directors representing AXA Capital are not appointed to Carbone Lorraine's Board of Directors within the agreed time limits or if they no longer hold such offices.

The Company issued the following press release on July 17, 2008:

During the second quarter of 2008, Carbone Lorraine recorded consolidated sales of €185 million, representing an increase of 4% on a reported basis notwithstanding the disposal of the sintered brakes business and exchange rate fluctuations. On a like-for-like basis, growth came to 13%.

During the first six months of the year, interim sales came to €362 million, up 4% on a reported basis and up 10% like-for-like.

Sales	**Q2 2008 (€ m)**	**% change.* Q2 2008/ Q2 2007**	**H1 2008 (€ m)**	**% change.* H1 2008/ H1 2007**
Advanced Materials and Technologies	67	19%	131	12%
Electrical Applications	55	11%	107	7%
Electrical Protection	63	11%	124	11%
Group total	**185**	**13%**	**362**	**10%**

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

Advanced Materials and Technologies

The Advanced Materials and Technologies division posted sales of €67 million during the second quarter. They rose by 19% on a like-for-like basis.

This record sales growth was powered by a strong demand from the **silicon** industry on the back of the expansion in **solar energy**. Sales of anticorrosion equipment to the **fine chemicals** and **pharmaceuticals** markets also recorded very rapid gains thanks to the new products marketed by Carbone Lorraine and to its leadership positions in Asia. These positions were reinforced through the Group's acquisition of Chinese company Xianda at the end of the first quarter.

Sales totaled €131 million during the first six months of the year. They rose by 12% on a like-for-like basis.

Electrical Applications

In Electrical Applications, second-quarter sales rose by 11% on a like-for-like basis to reach €55 million.

Sales of equipment for wind energy generators and for industrial motors enjoyed strong growth. Sales to the automobile industry also climbed higher during the quarter on the back of the Group's expansion in Asia.

During the first half of the year, the sales recorded by the Electrical Applications division rose by 7% on a like-for-like basis to €107 million.

Electrical Protection

The Electrical Protection division posted sales of €63 million during the second quarter. They rose by 11% on a like-for-like basis.

Growth was strong both in general-purpose fuses and in coolers for the protection of semiconductors. The Group's positioning in fast-expanding markets, such as renewable energies, mass transit and energy efficiency, has remained upbeat into 2008.

The recent acquisition of Zhejiang Mingrong in China has strengthened its business potential in Asia and given it a leadership position in the Chinese market.

Over the first half of the year, the Electrical Protection division's sales advanced by 11% on a like-for-like basis to reach €124 million.

Outlook

The Group's positioning in the fast-expanding energy efficiency and renewable energies markets drove another hefty increase in its first-half sales.

This same positioning, together with the contribution made by Carbone Lorraine's strategy of innovation and selective acquisitions and its greater resilience, mean that the Group is starting the second half of the year in very fine shape.

The Group should thus enjoy strong growth during 2008 as a whole.

The Company issued the following press release on August 21, 2008:

Carbone Lorraine is stepping up the pace of its development in **thermal protection for power electronics** with the acquisition of Canadian company **R-Theta Thermal Solutions Inc.**

A leadership position

Toronto-based company **R-Theta Thermal Solutions** is a front-line specialist in **air cooling** for power electronics in North America. With its wide range of innovative products, the company has experienced strong growth over several years, posting net sales of USD 13 million for 2007.

At the same time, Carbone Lorraine's **Ferraz Shawmut Thermal Management** business, specializing in **water cooling** for power electronics, has experienced extremely fast growth over the last few years, with 2007 sales reaching €12 million.

Growth in these two businesses in Europe and North America is chiefly driven by the constantly increasing performance of electronic components, which calls for ever more efficient cooling, by the increasing incursion of electronic systems in industrial segments relevant to **energy efficiency**, **renewable energies** and **transport**, and by the emergence of innovative, competitive solutions offered to OEM clients in the electronics and transport sectors, for efficient heat extraction using compact lightweight devices.

Through the acquisition of R-Theta Thermal Solutions, Carbone Lorraine's Electrical Protection Division becomes a **leader in cooling systems for power electronics**. Prospects for rapid growth look very bright given the opportunities for synergy between the two companies' product ranges and distribution networks. And by reaching critical size, the new unit will be able to **step up development in Asia**.

The acquisition of R-Theta brings the Carbone Lorraine group two main advantages:

Highly complementary product ranges, combining high-performance air-cooling technologies with even more sophisticated water-cooling technologies

Stronger worldwide sales coverage, primarily addressing OEM clients in electrical and electronic equipment

R-Theta Thermal Solutions is located close to the Carbone Lorraine Electrical Protection Division site in Toronto, a fact that is also conducive to fast development of the expected synergies. This carefully targeted acquisition holds substantial potential for value creation and fits in perfectly with Carbone Lorraine's profitable growth strategy, focused on energy efficiency, innovation and growth in Asia.

The Company issued the following press release on August 28, 2008:

Carbone Lorraine's Board of Directors met on August 28, 2008 and approved the financial statements for the first six months of fiscal 2008.

Commenting on the interim 2008 results, Claude Cocozza, Carbone Lorraine's Chairman and Chief Executive Officer, said:

"Carbone Lorraine posted excellent results for the first half of 2008. Our operating income before non-recurring items climbed 11% on sales up 4% on a reported basis. On a like-for-like basis, sales grew by 10%.

These performances demonstrate that our shift to focus on renewable energies (photovoltaic and wind energy) and fast-expanding geographical regions (Asia and China in particular) has been a success.

What's more, recent acquisitions have helped to extend Carbone Lorraine's worldwide leadership in electrical protection and energy efficiency equipment.

Accordingly, 2008 as a whole is likely to be another year of strong sales and earnings growth."

Condensed income statement

In millions of euros	**H1 2008**	**H1 2007**
Sales	**362.0**	**346.7**
Operating income before non-recurring items *% of sales*	**41.7** *11.5%*	**37.4** *10.8%*
IFRS operating income	**54.0**	**33.5**
Net income attributable to equity holders of the parent	**33.6**	**19.4**

Consolidated sales

During the first half of fiscal 2008, Carbone Lorraine posted strong growth in its **sales** to €362 million, representing increases of 4% on a reported basis, 6% excluding the braking business sold at the end of the first quarter and 10% on a like-for-like basis. Growth was brisk across all the Group's business segments and geographical regions.

Operating income

Operating income before non-recurring items moved up 11% to €41.7 million and up 14% excluding the braking business. The operating margin before non-recurring items stood at 11.5% of sales.

IFRS operating income came to €54 million after taking into account the capital gain arising on the disposal of the braking business.

All the Group's business activities recorded firm performances, with a **double-digit operating margin.**

At the **Advanced Materials and Technologies division,** the strong growth in graphite sales derived primarily from the extremely brisk demand from manufacturers of silicon for the solar industry. Sales of anticorrosion equipment for the fine chemicals and pharmaceuticals markets also made rapid headway thanks to the new technologies developed by Carbone Lorraine. The operating income before non-recurring items recorded by the Advanced Materials and Technologies division came to €22.7 million or 17.4% of sales in spite of the heavy depreciation charges related to the new graphite block production facility in China. Excluding the braking business that was sold, it grew by 6% compared with the first half of 2007.

Growth in the **Electrical Protection** division was again very strong across all its product lines and geographical regions, with a particularly large contribution made by new protection products, as well as by Asia and the Middle East. The division's operating income before non-recurring items advanced by 35% to €15.7 million. This figure represented 12.6% of the Group's sales. This performance illustrated the division's strong operating leverage following the major streamlining measures implemented in recent years.

At the **Electrical Applications** division, sales of brushes and equipment for industrial motors and wind turbine generators recorded a strong increase across all its geographical regions.

The downturn in the North American automobile markets was offset by a strong increase in sales of brushes for automobile auxiliary motors in Asia. The operating income before non-recurring items recorded by the Electrical Applications division came to €10.9 million, representing 10.2% of sales. It came in just below (2%) last year's level owing to implementation of an ambitious sales and marketing plan to step up our expansion in the wind energy market even further.

Net income

Net income advanced by 73% to €33.6 million. Excluding the capital gain arising on the disposal of the braking business, net income rose by 22%.

Cash flow/Debt

Cash flow generated by operating activities came to €6.6 million, down from €11.8 million in the first half of 2007. This figure reflects the increase in the working capital requirement resulting from the strong growth in sales and the substantial volume of work in progress related to anticorrosion equipment scheduled for delivery in the fourth quarter.

The cash flow generated from operating activities and the disposal of the braking business helped to finance the dividend payment (€13 million) and capital expenditures (€26 million) linked to the major growth projects underway.

The Group's net debt stood at €215 million at end-June 2008 compared with €192 million at year-end 2007. The debt-to-equity ratio stood at 68% compared with 62% at year-end 2007.

In addition, Carbone Lorraine finalized the syndication in late July of a $350 million credit line repayable in late 2013 as a replacement for the $220 million line due to mature in late 2009.

Outlook

Over the past few years, Carbone Lorraine has embarked on a major transformation to make the Group more resilient and resolutely growth-oriented.

Its positioning in structurally expanding markets, such as Asia, renewable energies and energy efficiency, has significantly enhanced the Group's medium- and long-term prospects.

Barring a sharp and rapid deterioration in economic conditions, of which there are no signs at present, the growth in sales is likely to be brisk in the second half of the year and may exceed 8% on a like-for-like basis over 2008 as a whole.

Appendix: consolidated financial statements

Income statement

(€ m)	***H1 2008***	***H1 2007***
Sales	**362**	**347**
EBITDA*	**57.5**	**50.7**
% of sales	*15.9%*	*14.6%*
Operating income before non-recurring items	**41.7**	**37.4**
% of sales	*11.5%*	*10.8%*
Non-recurring items	12.3	(3.9)
Operating income	**54.0**	**33.5**
Finance costs, net	(6.0)	(5.1)
Current and deferred income tax	(14.4)	(9.0)
Net income attributable to equity holders of the parent	**33.6**	**19.4**

*income before non-recurring items + depreciation and amortization + financial components of operating income.

Segment analysis

In millions of euros	**Advanced Materials and Technologies (AMT)**		**Electrical Applications (EA)**		**Electrical Protection (EP)**	
	H1 2008	H1 2007	H1 2008	H1 2007	H1 2008	H1 2007
Sales	**130.8**	**127.7**	**106.4**	**102.7**	**124.8**	**116.3**
EBITDA*	30.8	28.1	15.5	15.3	18.6	14.6
% of sales	*23.6%*	*22.0%*	*14.6%*	*14.9%*	*14.9%*	*12.6%*
Operating income before non-recurring items	22.7	22.6	10.9	11.1	15.7	11.6
% of sales	*17.40%*	*17.70%*	*10.20%*	*10.80%*	*12.60%*	*9.90%*

*income before non-recurring items excluding corporate costs + depreciation and amortization + financial components of operating income

Statement of cash flows

(€ m)	*H1 2008*	*H1 2007*
Operating activities		
Cash flow	**53.7**	**46.8**
Change in the WCR	(39.3)	(29.7)
Tax expense	(7.8)	(5.3)
Cash flow generated by operating activities	**6.6**	**11.8**
Investing activities		
Increase in PP&E and intangible assets	(26.3)	(19.6)
Financial assets/Acquisitions	-	(4.8)
Disposals of non-current assets	25.8	(0.1)
Cash flow	**-0.5**	**-24.5**
Cash flow before financing activities	**6.1**	**-12.7**

Balance sheet

(€ m)	*H1 2008*	*FY 2007*	*H1 2007*
Assets	**823**	**771**	**771**
Non-current assets	413	435	420
Inventories and receivables	337	301	328
Other assets	27	6	5
Cash	46	29	18
Liabilities	**823**	**771**	**771**
Equity	314	307	323
Provisions	46	47	50
Employee benefits	40	41	43
Trade and other payables	131	128	134
Other liabilities	31	27	20
Borrowings	261	221	201
Net debt/equity	**0.68**	0.62x	0.57x
Net debt/EBITDA*	**1.87x**	2.07x	1.86x

*2008 EBITDA based on 2x first-half EBITDA

The interim financial report is available from the Company's web site and from the AMF's web site.

The Company issued the following press release on September 8, 2008:

Carbone Lorraine has recently signed two **major contracts** with customers in the **solar energy industry**:

- The first covers the **isostatic graphite** needs of one of the major producers of polysilicon, the basic raw material required to manufacture solar panels. The contract is worth a total of around **$60 million** over four years.
- The second covers the supply of **graphite systems** to a major manufacturer of equipment for the solar industry. It is worth around **$25 million** and runs for 13 months.

These two contracts are in line with the Group's policy of strengthening its **partnerships** with leading customers in its target markets. They also show the new determination of certain major players to secure their purchases of graphite equipment over the **long term**.

These two major contracts will underpin Carbone Lorraine's positioning in the **solar segment**, which is enjoying very rapid growth. This highly demanding industry's customers appreciate Carbone Lorraine's extremely pure graphite, the very large size of the components delivered, which provide them with economies of scale, and the location of our production workshops at the heart of the US, European and Chinese markets.

The Company issued the following press release on September 17, 2008:

Acceleration of the growth plan, upgrading of 2011 targets (see pages 23 and 24 of this update).

4.2 Outlook

4.2.1 Reminder of 2008 targets

Barring a significant decline in general economic conditions, sales growth will remain strong throughout 2008 and could exceed 8% on a like-for-like basis at constant exchange rates. Our very good performances in the early part of the year also allow us to confirm our target of double-digit growth in operating income in 2008 compared with 2007.

The Group prepared its 2008 forecast on the basis of the financial statements for the financial year ended December 31, 2007, the interim financial statements for 2008 and the business and earnings forecasts (dated June 2008) that each Group division produces on a quarterly basis. Among other factors, the forecast takes into account:

- substantial deliveries linked to the orders recorded in the wind and solar energy markets, as well as major deliveries in the anticorrosion equipment segment scheduled during the fourth quarter.
- an increase in the Group's production of graphite blocks to around 8,000 tonnes in 2008 from 5,500 in 2007, owing notably to the ramp-up in the new Chinese facility.
- no signs of a business slowdown in North America in our principal markets,
- overhead and development costs covered by the margins produced by the divisions,
- the business and earnings contribution recorded by Xianda (China), which was acquired during the first six months of the financial year, and by R-Theta (Canada) and Mingrong (China), which were acquired in the second half.
- an average euro/US dollar exchange rate of 1.57 for the second half.

Unlike the sales growth target, this earnings forecast was produced on a consolidated, rather than on a like-for-like basis. The projections concerning trends on a like-for-like basis used in connection with the growth forecast for operating income before non-recurring items are described above. It was based on data, assumptions and estimates regarded as reasonable by the Group. These data, assumptions and estimates are likely to change or be altered owing to the uncertainties related notably to the economic, financial, accounting, competitive, regulatory and tax environment, and weather conditions. In addition, the occurrence of certain risk factors described in section 6 of the 2007 reference document, as supplemented by its updated version, may have an impact on the Group's business trends, financial position, results of operations and its ability to achieve its objectives. The Group does not give any undertaking or any guarantee concerning the achievement of the forecast shown in this section. These projections were prepared in accordance with the accounting rules and methods used by the Carbone Lorraine group to prepare its consolidated financial statements.

Looking further ahead, the rapid expansion in the renewable energy sector, the growing contribution from Asia and our policy of targeted acquisitions are likely to speed the pace of our growth and change the shape of the Carbone Lorraine Group over the next five years.

4.2.2 Statutory Auditors' report on the earnings forecasts

To the Chairman and Chief Executive Officer,

In our capacity as Statutory Auditors and in accordance with Prospectus Regulation 809/2004/EC, we prepared this report on the earnings forecasts of Le Carbone Lorraine SA, which is included in section 4.2 of the updated version of its reference document dated September 18, 2008.

You were responsible for preparing these projections and the material assumptions underpinning them in accordance with the provisions of Prospectus Regulation 809/2004/EC and the CESR recommendations on forecasts.

Based on our work, it is our role to express an opinion pursuant to the terms of Annex I, point 13.2 of Prospectus Regulation 809/2004/EC on the appropriateness of the method used to prepare these forecasts.

We performed our procedures in line with professional standards applicable in France. This work included an evaluation of the procedures implemented by Management to compile forecasts, as well as tests to ensure that the basis of accounting is consistent with that used to prepare Le Carbone Lorraine SA's historical financial information. It also consisted in compiling the information and explanations we deemed necessary to obtain reasonable assurance that the forecasts were prepared properly on the basis of the assumptions presented.

We reiterate that since these forecasts are by their very nature uncertain, the actual figures may differ significantly in some cases from the forecasts presented, and we do not express any opinion on the likelihood that these forecasts will be met.

In our view:

- The forecasts were prepared properly on the stated basis;
- The basis of accounting used for the purpose of this forecast is consistent with the accounting methods adopted by Le Carbone Lorraine SA.

This report has been issued for the sole purpose of the filing of the updated version of the 2007 reference document with the AMF and, where appropriate, a public offering to investors in France and other European Union countries in which a prospectus comprising the reference document approved by the AMF has been notified, and may not be used in any other circumstances.

Statutory Auditors

Paris La Défense, September 17, 2008	Neuilly-sur-Seine, September 17, 2008
KPMG Audit	Deloitte & Associés
Département de KPMG S.A.	
Jean-Paul Vellutini	Alain Penanguer
Partner	*Partner*

4.2.3 Renewable energy market

We are convinced that demand for renewable energy, particularly solar and wind power, which has already seen very rapid growth this year, will continue and perhaps gather pace due to the scarcity of oil, and growing demand for cuts in CO_2 emissions against a background of climate change. This change in the outlook represents an exceptional opportunity for Carbone Lorraine in solar as well as in wind generation.

Graphite is a key consumable in the production of silicon used in manufacturing solar cells. Annual production of solar cells grew from 0.8GW in 2003 to 4.3GW in 2007. If one aggregates all announcements from producers of solar polysilicon, this figure could reach annual production capacity of 65GW in 2012. Given the many bottlenecks in the production chain, including availability of graphite, consultancy group Photon has reduced this figure by 40%, and has a "realistic" forecast of silicon production equivalent to 40GW of cells. **Taking a cautious view, Carbone Lorraine has based its growth plans on total production equivalent to 30GW of cells in 2012.**

Among the main silicon production projects listed (around 70), more than one third are located in Asia (31 projects with 138kt of new production capacity between 2007 and 2011) most notably in China, where Carbone Lorraine is the sole producer of graphite using procedures suited to those of the solar industry. Significant growth is also expected in the USA (10 projects, 112kt) and in Europe (32 projects, 65kt), where the company has a strong presence.
Based on assumed production of 30GW of photovoltaic cells per year in 2012, we have a working assumption of total polysilicon production of around 300,000t by that date, of which around 85% will be destined for the solar industry. This will cause demand for graphite to more or less double.

Also of note is the increasing pace of growth in wind power, with the rate of new capacity installation likely to rise strongly between 2007 and 2012: given the rising unitary output of wind turbines, it is estimated that the OEM market will grow by 10% to 15% per year over the next few years, from 20GW per year in 2007 to 36GW/year in 2012 (source: Global Wind Energy Council). On top of this there will be growth in the spare parts market.

These fast-growing markets are strong sources of expansion for the Group, which is adjusting its product offering and accelerating its growth plans accordingly.

4.2.4 New growth plan (press release of 17 September 2008)

Carbone Lorraine has embarked on the process of transforming itself into a **growth company over the past four years.** This transformation has been predicated on **four growth drivers, i.e. energy efficiency, Asia, innovation and acquisitions.** This program is now well underway, and the Group has achieved strong sales growth and a high level of profitability before non-recurring items across all its divisions for several quarters now.

Furthermore, the increase in global demand for energy, together with the threat posed by global warming, has triggered a powerful and irreversible trend towards the development of renewable energies. This trend has created **an exceptional opportunity for Carbone Lorraine.**

1. **Acceleration of the expansion plan in renewable energies.**

1.1 Our goal: become the leader in graphite for the solar industry

Graphite is a **key consumable** in the production of silicon, the material used to manufacture solar cells. Given the growth projections for solar cell production, the Group anticipates a **near-doubling in demand for graphite by 2012.** Carbone Lorraine has decided to help meet this demand by sharply increasing its production capacity again, with a target raised to 17,000 tonnes p.a. of isostatic graphite by year-end 2012 compared with an initial target of 10,000 tonnes p.a. in 2010. This capacity boost will take place at the Chongqing plant in China and the St Mary's facility in the United States.

These investments will be topped up by organic growth and acquisitions in the processing of graphite and other materials related to the solar industry, which will strengthen the Group's offering of high value-added equipment.

Carbone Lorraine is targeting **sales of €160 million to €180 million by 2012 in the solar segment**, compared with €12 million in 2007.

1.2 Wind energy: further strong growth

Wind energy already accounts for a very large proportion of the generating capacity installed each year in the United States and in northern Europe. Carbone Lorraine already possesses an extensive range of products including brushes, slip-ring assemblies for current collection and signal transmission systems. The Group has recorded very substantial growth in these markets for several years. It recently decided to expand its development and production capacity serving Europe and Asia.

Carbone Lorraine is targeting **sales of €50 million to €60 million by 2012 in the wind energy segment**, compared with €13 million in 2007.

2. **Change in the Group's business profile**

The growth targeted in renewable energies should lift **the proportion of sales deriving from power generation and distribution markets to around 30% of Carbone Lorraine's sales by 2012, up from 13% in 2007.**

In addition, the Group continues to expand at a very brisk rate in Asia, notably by leveraging its new graphite block production facility in China and its major network of local workshops. This growth is set to be accelerated by synergies arising from recent acquisitions in China. Asia is expected to contribute close to 30% of sales in 2012, compared with 17% in 2007, thereby helping to enhance the geographical sales mix.

The major proportion of sales contributed by energy markets, particularly renewable energies, and the Group's balanced sales mix across geographical regions **will help to step up the pace of its growth and boost its resilience**.

3. **Heavy investment over the 2009-2011 period**

The aforementioned developments require an increase in investment (particularly in production capacity) totaling €220 million over the 2009-2011 period, around half of which will be devoted to renewable energies.

The Group plans to pursue its policy of selective and profitable acquisitions in the Electrical Applications, Advanced Materials and Technologies and Electrical Protection segments, in addition to the three acquisitions already completed in 2008. The Group plans to invest around €200 million in these acquisitions over the 2008-2011 period, including a large proportion at the beginning of the period.

Our ambitious strategy of investment and further selective acquisitions harboring strong development prospects, notably in renewable energies, have increased our financing requirements, including the working capital requirement, to around €500 million by 2011.

The modular nature of the capacity investments will allow supply to be adapted to demand. It will also enable us to initiate the most urgent projects and to round them out gradually.

4. **Financing**

The requisite financing will be provided by the Group's cash flow and by the credit lines that the Group recently refinanced, i.e. a $350 million syndicated loan repayable in 2013 and a RMB500 million loan ($73 million) syndicated repayable in 2011.

To retain the flexibility required to seize new opportunities, the Group plans to finance, in the future, 15% to 20% of its expansion plan through a capital increase.

5. 2011 objectives revised upwards

The bright outlook in renewable energies, the lead established in Asia and the healthy performance by other divisions, such as Electrical Protection and chemicals and pharmaceuticals equipment, have enabled us to **revise upwards our objectives.**

Assuming conditions remain as they are in 2008, the Group is now targeting 2011 sales of €1.1 billion and a pre-tax ROCE[1/] of 18%.

5. COMMODITY RISKS

Some Group companies purchase commodities or components containing commodities such as non-ferrous metals. Copper and silver are two metals representing significant purchases (over €10 million) for the Carbone Lorraine Group, which each year takes appropriate measures to hedge against price fluctuations.

Various hedging techniques, such as purchase price indexing, selling price indexing and bank coverage are used.

Around 60% of exposure to copper prices and 80% of exposure to silver prices was hedged using bank coverage in the form of forward purchases (so-called Asian swaps).

In 2007, 100% of coverable tonnage in copper and 75% of those in silver were hedged.

[1/] By ROCE, it is specified that the numerator should be operating income as it appears on the income statement and the denominator should be the sum of non-current assets, goodwill and the working capital requirement calculated as an annual average.

At end-December 2007, the annual report indicated in note 3, page 55, the actual and potential impacts from commodity hedging in 2007 and 2008.

In the first half of 2008, 100% of the coverable tonnage in copper and 50% of the coverable tonnage in silver were hedged. At the end of June 2008 the figures for the second half of 2008 were that 75% of coverable tonnage in copper and 50% of coverable tonnage in silver were hedged.

The interim financial statement to end-June records, in note 3, profits of €0.3 million on silver and €0.1 million on copper and potential future profits (€0.3 million) on silver hedging positions for 2008.

6. FOREIGN CURRENCY RISKS

Foreign currency risks are set out in note 3 to the appendix to the 2007 Reference Document on pages 55-56.

Note 17 on page 72 provides an analysis of sales by geographical region.

Note 14 on page 69 provides an analysis of debt by currency.
Note 3 on page 55 covers the management of balance sheet foreign currency risk.

The Group's operating income before non-recurring items is exposed to exchange rate fluctuations principally through the translation of earnings recorded by companies whose functional currency is not the euro. The principal exposure is to the US dollar.

A 10% decline in the value of the US dollar compared with the average recorded from January to June 2008 would have had a translation impact of negative €2 million on the Group's first-half operating income before non-recurring items.

7. LIQUIDITY RISK

As stated in note 26, page 49 of the 2008 half-year report, appended to this update at page 78:

"On June 30, 2008, Carbone Lorraine obtained a $350 million syndicated multi-currency loan with a maturity of 5 years, to replace the previous $220 million syndicated loan taken out in December 2004 and maturing in December 2009."

Furthermore, on September 12, 2008, Carbone Lorraine obtained a RMB500 million syndicated loan, in two tranches, a RMB350 million[2] 3-year facility and a RMB150 million[3] revolving 1-year facility.

This confirmed RMB500 million financing replaces in part unconfirmed bilateral credit lines.

Under these two agreements, Carbone Lorraine must meet the following financial covenants

- Net debt / EBITDA < 3.35[4], and
- Net debt/equity < 1.3

8. LITIGATION

***Appeal procedure in Europe*:**

The EU Court of First Instance (EUCFI) is expected to hand down its ruling in October 2008.

To recap, this appeal was lodged by the Company in February 2004 with the EUCFI 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 prejudice to 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):

The separate (opt-out) proceedings brought by certain customers before the US federal court concerning brushes for electric motors is currently in the so-called discovery phase of the communication of evidence and depositions between the plaintiffs and the Company, based on the ruling of the federal judge in August 2007. In June 2008, the Company reached a definitive transactional settlement for an amount of USD135,000 with four

[2] At end-August 2008, RMB350 million = €35 million
[3] At end-August 2008, RMB150 million = €15 million
[4] EBITDA = Operating income before non-recurring items plus depreciation and amortization plus financial items recorded in operating income

customers (opt-out). The Company also requested that the federal judge throw out the indemnity claim of two opt-out customers.

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.

Class-action lawsuit in the United Kingdom

Since the Reference Document was filed, the Competition Appeal Tribunal (CAT) handed down its decision in April 2008 to refuse permission for any claims of damages against the Company. The CAT ruled that no claim for damages could be brought against the Company while the Company's appeal to the EUCFI was ongoing.

To recap, in October 2007, certain customers (opt-out) party to the separate proceedings in the US against COAIC called Carbone Lorraine to appear in the proceedings that they initiated before the CAT at the beginning of 2007 against Morgan, SGL and Schunk. Through these proceedings in the UK, the plaintiffs are attempting to secure redress from the CAT for losses that they allegedly suffered following practices sanctioned in December 2003 by the European Commission in brushes for electric motors and products for mechanical applications. Carbone Lorraine rejects all the allegations presented by the plaintiffs and filed detailed pleadings at the beginning of February 2008 requesting the dismissal or rejection of these CAT proceedings on the grounds that they have no legal basis.

Since 1999, the Group has operated 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 complied with 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.

9. ADMINISTRATIVE AND MANAGEMENT BODIES

Pages 120 to 125 of the 2007 Reference Document provide information regarding administrative, management and supervisory bodies.

9.1 Chief Operating Officer

On May 25, 2008, the Board of Directors appointed Ernest Totino as Chief Operating Officer.

Ernest Totino (49) has a PhD in Chemistry. He has spent most of his career at Carbone Lorraine, where he started in the R&D division. He went on to posts in production and plant management before becoming head of the "anticorrosion equipment division". He was appointed to the Group Executive Committee where he was responsible for supervising the "anticorrosion equipment" and "industrial brushes" businesses as well as the corporate "MIS" and "purchasing" departments.

9.2 Executive Committee

At September 1, 2008, the Executive Committee was constituted as follows:

Claude Cocozza
Chairman and Chief Executive Officer

Ernest Totino
COO

Bernard Leduc
Director of Human Resources, Quality and Continuous Improvement

Jean-Claude Suquet
Group Vice President, Finance and Administration

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

9.3 Administrative and management bodies: conflicts of interest

To the best of the Company's knowledge, 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 them 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 use or communicate privileged information to which they may have access to buy or sell the Company's shares, and notably to conduct no transactions in the Company's shares during black-out periods. For fiscal 2008, the black-out periods are as follows:

- **from January 21 to February 11, 2008** due to the announcement of fourth quarter sales figures for 2007 on January 31, 2008;
- **March 7 to March 27, 2008** due to the announcement of full year 2007 results on March 17, 2008;
- **April 14 to May 5, 2008** due to the announcement of first quarter sales figures for 2008, on April 16, 2008;
- **July 7 to July 28, 2008** due to the announcement of sales for the second quarter of 2008;
- **August 18 to September 8, 2008** due to the announcement of first half 2008 results on August 28, 2008;
- **October 10 to November 3, 2008** due to the announcement of sales for the third quarter of 2008 on October 22, 2008;

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

10. BOARD PRACTICES

Carbone Lorraine has not entered into any service contract giving access to future benefits.

11. REGULATED AGREEMENTS AND UNDERTAKINGS

11.1 <u>Auditors' report on regulated agreements and undertakings, December 31, 2007</u>

To the Shareholders

As statutory auditors of Le Carbone Lorraine S.A., we are required to submit to you a report on the regulated agreements and undertakings of which we have been made aware. We are not required to research the possible existence of such agreements or undertakings.

We hereby inform you that we have not been advised of the existence of any agreement nor any undertaking covered by the provisions of Article L.225-38 of the French Companies Act (Code de commerce).

Paris La Défense and Neuilly-sur-Seine, March 17, 2008

The Statutory Auditors

KPMG Audit	Deloitte et Associés
Department of KPMG S.A.	
Jean-Paul Vellutini	Alain Penanguer
Partner	*Partner*

11.2 <u>Regulated agreements and undertakings at August 31, 2008</u>

Since December 31, 2007, no new regulated undertaking or agreement has been entered into.

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

12.1 Description of business trends to June 30, 2008

12.1.1 Chairman's message

To the Shareholders,

The first half of 2008 was a very positive period for Carbone Lorraine in many respects.

Firstly, our financial results were excellent despite highly adverse currency effects. Operating income before non-recurring items was up 11%, or 14% excluding the brakes business, which was sold in the first quarter. Net income rose by 22% excluding capital gains on disposals.

Our second source of satisfaction was our strong like-for-like sales growth. This growth was achieved in spite of the weaker broad economic environment, and shows the profound change that Carbone Lorraine has undergone. This change started several years ago when we launched the major growth projects that are now paying off, such as the Chinese graphite block production plant.

Our ongoing transformation also involves the Group moving into high-growth geographical zones and buoyant business segments.

In the first half of 2008, we benefited once again from rapid growth in our Asian markets. Growth in this region will be stronger still in the second half of 2008, when we will make some large deliveries. As a result of this, we are likely to hit our 2011 target of generating at least 20% of Group revenues in Asia as early as this year.

We are also benefiting from the rise of renewable energies, which accounted for almost half of the Group's growth in the first half of 2008.

- We have extended our leadership in wind turbine equipment.
- More importantly, the photovoltaic industry is now a major market for Carbone Lorraine, and sales to this industry will increase further as more solar projects are launched.

The acceleration in the solar industry's development was our third source of satisfaction in the first half. It provides us with an unprecedented opportunity, and will enable us to further step up our transformation into a growth company. We are doing our utmost to seize this opportunity.

- Our Chongqing plant has come into service at the ideal time to supply the solar silicon market, which is suffering from a serious shortage of graphite. To keep up with demand, this plant's build-up phase is taking place faster than initially planned, and we also intend to increase the capacity of our US plant.

- In addition, we are developing our downstream activities in processed products, expanding the capacity of our graphite machining, purification and coating units.

Overall, with faster growth in solar and wind energy, and stronger positions in conventional energies, we are aiming to generate 30% of our sales from energy markets within five years.

Our final source of satisfaction is our ongoing success with our bolt-on acquisition policy. The first half brought the acquisition of Xianda in China, strengthening our already excellent position in anticorrosion equipment in a market that is growing extremely rapidly. The acquisition of Mingrong Zhejiong in early July gives us a leading position in industrial fuses in China, and will lead to large-scale industrial and commercial synergies. Other acquisitions are currently being finalized in the fields of energy efficiency and renewable energies.

As a result, our four main growth drivers – Asia, innovation, energy efficiency and acquisitions – will ensure that 2008 is an excellent year. Above all, they are underpinning Carbone Lorraine's ongoing transformation into a growth company. This transformation, supported by the enthusiasm and tenacity of our staff, is now set to accelerate further.

Claude Cocozza

12.1.2 Overview of the Group's businesses

Advanced Materials and Technologies

The **Advanced Materials and Technologies** division posted interim 2008 sales of €131 million, up 12% at constant scope and exchange rates compared with the year-earlier period. Unadjusted sales growth was lower (2.4%) due to the disposal of the rail and motorcycle brakes businesses and adverse currency effects.

Sales of graphite for high-temperature applications were particularly robust. This was due to extremely strong demand from companies making silicon for photovoltaic applications, which are heavy consumers of graphite equipment.

Sales of anticorrosion equipment for the chemicals and pharmaceuticals industries also grew, due to our positions in the growing acetic acid and fine chemicals markets. Our new plate heat exchanger and CL Clad® technologies, along with the acquisition of Chinese company Xianda, are strengthening our positions, particularly in Asia.

Operating income before non-recurring items in the Advanced Materials and Technologies division came to €22.7 million. Excluding the brakes business that was sold in the first half, the growth rate was 6%, despite higher depreciation charges arising from the new Chinese graphite block production plant.

IFRS operating income was €36.6 million, taking into account a €14 million capital gain on the disposal of the rail and motorcycle brakes business.

Electrical Protection

In **Electrical Protection**, interim 2008 sales came to €125 million, up 11% on a like-for-like basis relative to the year-earlier period. Taking into account exchange-rate effects and the sales of the medium-voltage fuse business acquired from General Electric, the unadjusted increase was 7%.

Growth was very firm in both general-purpose fuses and fuses and coolers for semiconductor protection. Carbone Lorraine is continuing to benefit from its positions in high-growth markets such as renewable energies, energy efficiency and transport.

The Electrical Protection division's operating income before non-recurring items stood at €15.7 million, up 35% compared with the first half of 2007. This represented 12.6% of sales versus 9.9% in the year-earlier period. This strong growth illustrates the high operational gearing of this business following streamlining work in the last few years, aimed at achieving operational excellence. IFRS operating income was €15.4 million.

Electrical Applications

Sales in **Electrical Applications** totaled €106 million, up 7% at constant scope and exchange rates relative to the first half of 2007, and up 4% unadjusted.

Sales of brushes and equipment for industrial motors and wind turbines grew strongly in all geographical areas, particularly Asia and the USA.

The deterioration in the North American automotive market was offset by strong growth in sales of brushes for car auxiliary motors in Asia.

Operating income before non-recurring items in the Electrical Applications division was €10.9 million, down slightly year-on-year due to an increase in commercial resources used in wind energy markets. This figure represented 10.2% of sales.

IFRS operating income in Electrical Applications was €10.4 million.

Advanced Materials and Technologies

Electrical Protection

Electrical Applications

12.1.3 Financial results

Consolidated sales

The Group's sales totaled €362 million in the first half of 2008, an increase of 4%. Stripping out an adverse currency effect of around 6%, the like-for-like increase was 10%. The effects of changes in scope were minimal, with additional sales from acquisitions and newly consolidated companies offsetting the disposal of the brakes business.

First-half sales were particularly strong in Asia and North America, where growth was 11% and 14% respectively at constant scope and exchange rates. All divisions saw strong growth. Growth is being driven by the buoyant markets in which Carbone Lorraine is working to build its positions, i.e. renewable energies, fine chemicals and electronics. In addition, the major growth projects implemented by the Group in the last few years, particularly efforts to increase capacity and develop new products, are now paying off.

Operating income

The 4% rise in sales translated into an 11% increase in operating income before non-recurring items, which totaled €41.7 million.

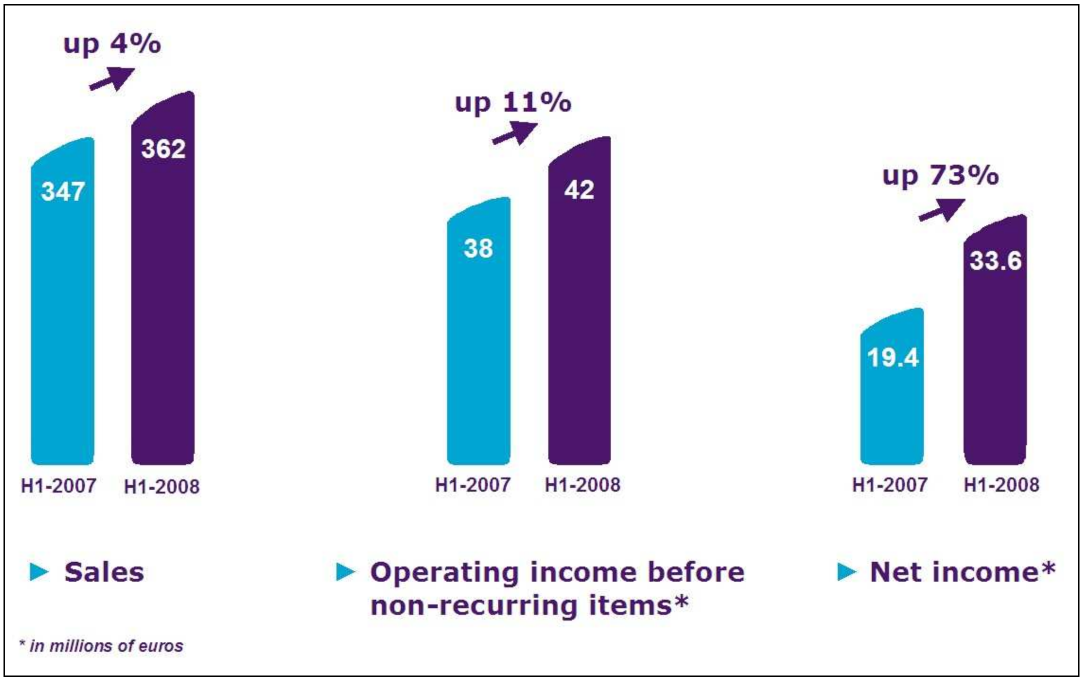
This represented 11.5% of sales versus 10.8% in the year-earlier period. The improvement resulted from higher sales volumes and higher selling prices, which compensated for higher raw materials and energy costs. It was also driven by cost reductions.

Non-recurrent items were positive at €12.3 million, and mainly consisted of a €14 million gain on the disposal of the brakes business. As a result, IFRS operating income was €54.0 million versus €33.5 million in the first half of 2007.

Net income

The net financial expense rose to €6.0 million due to higher interest rates and average net debt levels during the period. The tax rate was 30%.

Net income was €33.6 million, up 73% compared with the year-earlier period. Excluding the gain on the sale of the brakes business, net income was up 22%.



Debt

Cash generated by operating activities during the first six months of 2008 before the change in the working capital requirement and tax came to €54 million, compared with €47 million in the equivalent period of 2007.

The increase in the working capital requirement reflects the general increase in the business volumes, along with work in progress on substantial anticorrosion equipment orders, due to be delivered in the second half of the year.

Capital expenditure totaled €23.2 million, up from €19.6 million in the first half of 2007. As in 2007, capex included spending on some major growth projects.

The brakes business was sold, resulting in net proceeds of €25.8 million.

At June 30, 2008, debt stood at €214.8 million, up from €191.8 million at year-end 2007 and €182.6 million at the end of the first half of 2007. The net debt-to-equity ratio moved up to 68% from 62% at year-end 2007. The net debt/EBITDA ratio was 1.87x versus 2.07x at end-2007.

12.1.4 Outlook

The first half of 2008 brought firm business growth, particularly in renewable energies equipment markets and in Asia. The major projects undertaken by the Group in the last three years are now paying off, and are contributing to Carbone Lorraine's profitable growth.

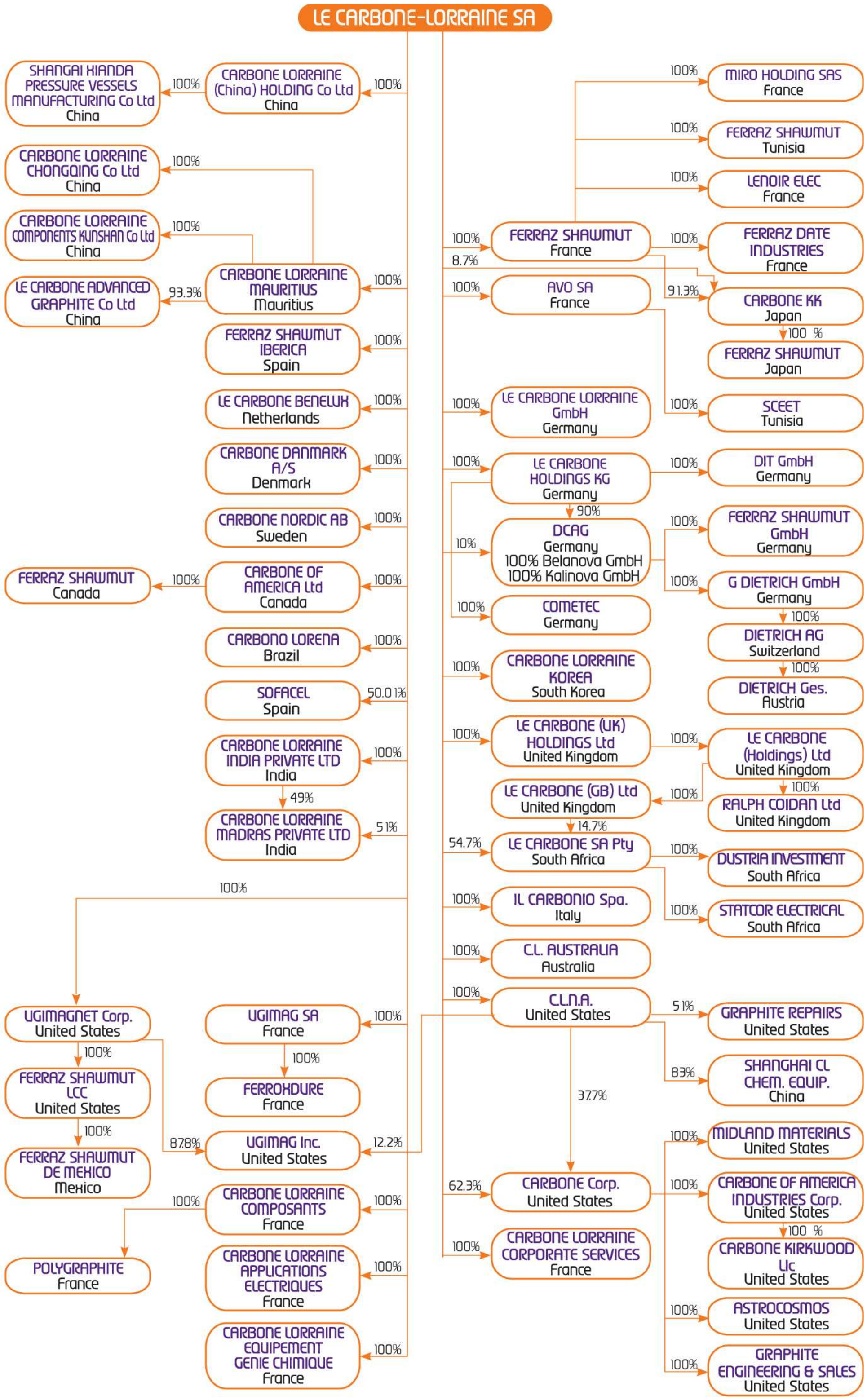
The Group's new positions in structurally growing businesses make it more resilient to cyclical swings.

As part of its efforts to hit its 2011 sales target of €1 billion, the Group plans to make value-enhancing bolt-on acquisitions. The integration of Xianda in the first half will contribute to the Group's 2008 sales and earnings growth.

Barring a sharp and rapid deterioration in economic conditions, sales growth is likely to remain firm in the second half, and the full-year 2008 growth figure could exceed 8% at constant scope and exchange rates.

12.2 Consolidated financial statements

12.2.1 Scope of consolidation at June 30, 2008



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
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 Shawmut Thermal Management	FC	100	100
8. **Lenoir Élec** (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	FC	100	100
- Cometec	FC	100	100
- DIT GmbH	FC	100	100
13. **Carbone Danmark A/S**	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
- Midland Materials	FC	100	100
- Graphite Engineering and Sales	FC	100	100
27. Ugimagnet Corp. (US)	FC	100	100
- Ferraz Shawmut LLC (US)	FC	100	100
- Ferraz Shawmut de Mexico (Mexico)	FC	100	100
- Ugimag Inc. (US)	FC	100	100
28. Le Carbone-Lorraine Australia	FC	100	100
29. Le Carbone KK (Japan)	FC	100	100
30. Ferraz Shawmut Japan	FC	100	100
30. Carbone Lorraine India Private Limited	FC	100	100
31. Carbone Lorraine Madras Private Limited (India)	FC	100	100
32. Shanghai Carbone Lorraine Chemical Equipment Cy Ltd (China)	FC	95	95
33. Le Carbone (South Africa) **PTY Ltd** (RSA)	FC	69	69
- Statcor Electrical	FC	69	69
- Dustria Investment	FC	69	69
34. Carbono Lorena (Brazil)	FC	100	100
35. Carbone Lorraine Korea	FC	100	100
36. Carbone Lorraine Mauritius (Mauritius)	FC	100	100
- Carbone Lorraine Chongqing Co Ltd (China)	FC	100	100
- Carbone Lorraine Components Kunshan Co Ltd (China)	FC	100	100
- Le Carbone Advanced Graphite (Kunshan) Co Ltd	FC	93	93
37. Carbone Lorraine (China) Holding Co. Ltd (China)	FC	100	100
- Shanghai Xianda Pressure Vessels Manufacturing Co. Ltd (China)	FC	100	100
38. MIRO Holding SAS (France)	FC	100	100
39. Ferraz Shawmut Tunisie (Tunisia)	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 2006, 2007 and 2008 are presented below:

> during fiscal 2006:

- The Group acquired US company Graphite Engineering & Sales on February 1, 2006, French company Kapp in early September 2006 and sold the assets of Astro Service Center during the second half of 2006.
- The disposal of the Magnets division was presented in the consolidated financial statements for fiscal 2005 in accordance with IFRS 5. The divestment was completed on February 27, 2006. The balance sheet, income statement and cash flow statement at December 31, 2005 and December 31, 2006 show the assets and liabilities held for sale and discontinued operations on a separate line.

> during fiscal 2007:

- Ferraz Shawmut France acquired a majority shareholding in Lenoir Élec in January 2007.
- CL India and CL Madras joined the scope of consolidation with effect from January 1, 2007.
- Chinese companies CL Chongqing, Le Carbone Advanced Graphite and CL Components Kunshan, as well as the holding company that owns these companies, CL Mauritius, joined the scope of consolidation during the second half of 2007 with retrospective effect from January 1, 2007.
- Ferraz Shawmut LLC acquired General Electric's medium-voltage fuse business in December 2007.

> First half 2008:

- German company DIT GmbH, acquired by Le Carbone Holding KG in 2007, entered the scope of consolidation on January 1, 2008.
- Chinese company Shanghai Xianda Pressure Vessels Manufacturing Co Ltd and the holding company that owns it, i.e. CL (China) Holding Co. Ltd, entered the scope of consolidation on April 1, 2008.
- Ferraz Shawmut Tunisie entered the scope of consolidation on January 1, 2008.
- The "rail and motorcycle brakes" business (part of the AMT division) left the scope of consolidation on April 1, 2008 following its sale to Faiveley.

12.2.2 Consolidated income statement

In millions of euros	Notes	June 30, 2008	Dec. 31, 2007	June 30, 2007
CONTINUING OPERATIONS				
Consolidated sales	**16**	**362.0**	**693.7**	**346.7**
Cost of sales		(247.3)	(487.8)	(240.8)
Gross income		114.7	205.9	105.9
Selling and marketing costs		(34.3)	(65.8)	(34.1)
Administrative and research costs		(36.1)	(66.8)	(33.4)
Other costs and additions to provisions		(2.6)	(2.6)	(1.0)
Operating income before non-recurring items		41.7	70.7	37.4
Non-recurring income and expenses	15	12.3	(7.8)	(3.9)
Goodwill impairment loss	5		(20.2)	
Operating income	16/18	54.0	42.7	33.5
Finance costs		(6.0)	(11.3)	(5.1)
Finance costs, net	**19**	**(6.0)**	**(11.3)**	**(5.1)**
Income before tax		48.0	31.4	28.4
Current and deferred income tax	20	(14.4)	(15.1)	(9.0)
Net income from continuing operations		33.6	16.3	19.4
Attributable to:				
- Carbone Lorraine's shareholders		33.1	15.4	18.9
- Minority interests		0.5	0.9	0.5
Earnings per share	21			
Basic earnings per share (€)		2.33	1.08	1.34
Diluted earnings per share (€)		2.26	1.05	1.31

12.2.3 Consolidated balance sheet

ASSETS

In millions of euros	Notes	June 30, 2008	Dec. 31, 2007	June 30, 2007
NON-CURRENT ASSETS				
Intangible assets and goodwill				
- *Goodwill*	5	169.0	164.9	184.9
- Other intangible assets		2.9	4.6	4.0
Property, plant and equipment				
- Land		31.2	31.8	31.9
- Buildings		31.6	34.0	26.3
- Plant, equipment and other assets	7	116.0	119.4	77.3
- Assets in progress		30.9	22.0	21.6
Non-current financial assets				
- Investments	8	7.6	8.1	20.3
- Non-current derivatives			0.0	0.6
- Other financial assets		6.0	27.7	28.9
Non-current tax assets				
- Deferred tax assets	20	16.8	21.6	24.0
- Non-current income tax assets		1.4	1.3	0.6
TOTAL NON-CURRENT ASSETS		**413.4**	**435.4**	**420.4**
CURRENT ASSETS				
- Inventories	9	165.8	150.5	152.2
- Trade receivables	10	145.0	128.7	142.2
- Other receivables		25.8	21.2	33.0
- Other current financial assets	12	21.5		
- Current income tax assets		4.3	3.9	1.1
- Current financial assets	14	0.9	3.0	4.6
- Current derivatives		1.4	2.1	3.6
- Trading financial assets	14	2.8	2.8	2.3
- Cash and cash equivalents	14	42.2	23.6	11.8
TOTAL CURRENT ASSETS		**409.7**	**335.8**	**350.8**
TOTAL ASSETS		**823.1**	**771.2**	**771.2**

LIABILITIES AND EQUITY

In millions of euros	Notes	June 30, 2008	Dec. 31, 2007	June 30, 2007
EQUITY				
- Share capital	11	28.6	28.6	28.3
- Premiums and retained earnings		314.3	309.3	306.1
- Net income for the period		33.1	15.4	18.9
- Cumulative translation adjustments		(65.4)	(50.4)	(34.3)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**310.6**	**302.9**	**319.0**
- Minority interests		3.8	4.1	4.0
EQUITY		**314.4**	**307.0**	**323.0**
Non-current liabilities				
- Non-current provisions	12	0.8	45.7	46.3
- Employee benefits	13	39.7	40.7	43.2
- Deferred tax liabilities	20	4.7	3.1	2.1
- Borrowings	14	185.0	176.4	147.7
- Non-current derivatives		0.6	0.8	3.1
TOTAL NON-CURRENT LIABILITIES		**230.8**	**266.7**	**242.4**
CURRENT LIABILITIES				
- Trade payables		77.6	71.7	71.1
- Other payables		53.2	56.5	62.6
- Current provisions	12	45.3	1.5	3.4
- Current income tax liabilities		5.5	4.3	6.5
- Other liabilities		19.7	15.7	6.7
- Other current financial liabilities	14	42.4	21.7	3.4
- Current derivatives		0.9	3.0	1.9
- Current advances	14	1.8	1.9	1.8
- Bank overdrafts	14	31.5	21.2	48.4
TOTAL CURRENT LIABILITIES		**277.9**	**197.5**	**205.8**
TOTAL LIABILITIES AND EQUITY		**823.1**	**771.2**	**771.2**

12.2.4 *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	Equity
	Attributable to Carbone Lorraine's shareholders						
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)		0.0		0.0
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
Change 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
Dividends paid		(0.1)			(0.1)	(0.2)	(0.3)
Issue of new shares	0.3	5.3			5.6		5.6
Treasury shares		(0.6)			(0.6)		(0.6)
Change in fair value of hedging derivatives		(2.4)			(2.4)		(2.4)
Translation adjustments and other		1.0		(16.1)	(15.1)	(0.1)	(15.2)
Net income for the period			(3.5)		(3.5)	0.4	(3.1)
Equity at December 31, 2007	28.6	309.3	15.4	(50.4)	302.9	4.1	307.0
Prior period net income		15.4	(15.4)		0.0		0.0
Dividends paid		(12.1)			(12.1)	(0.7)	(12.8)
Issue of new shares					0.0		0.0
Treasury shares		0.5			0.5		0.5
Change in fair value of hedging derivatives		0.8			0.8		0.8
Translation adjustments and other		0.4		(15.0)	(14.6)	(0.1)	(14.7)
Net income for the period			33.1		33.1	0.5	33.6
Equity at June 30, 2008	28.6	314.3	33.1	(65.4)	310.6	3.8	314.4

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 240,266 new shares and the grant of 30,900 bonus shares, leading to an impact of €10.2 million (increase of €0.6 million in the share capital and an issue premium of €9.6 million),
- the issue of 44,094 shares arising from the capital increase reserved for employees, leading to an impact of €2.0 million (increase of €0.1 million in the share capital and an issue premium of €1.9 million);

> a transfer to equity of the 817 treasury shares held with a negative impact of €0.1 million;

> a reduction of €1.9 million in the fair value of derivatives at the balance sheet date.

In 2008, the principal movements were as follows:

> reduction in the number of treasury shares (7,296 shares, €0.5 million);

> an increase of €0.8 million in the fair value of derivatives at the balance sheet date.

12.2.5 Consolidated statement of cash flows

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
OPERATING ACTIVITIES			
Income before tax	48.0	31.4	28.4
Depreciation and amortization	13.6	24.8	12.0
Impairment		20.2	
Additions to/(write-backs from) provisions	(1.3)	(4.5)	3.1
Finance costs, net	6.0	11.3	5.1
Capital gains/(losses) on asset disposals	0.2	(0.6)	(0.5)
Other	(12.8)	2.9	(1.3)
Cash generated by operating activities before change in the WCR	53.7	85.5	46.8
Change in the working capital requirement	(39.3)	(11.8)	(29.7)
Income tax paid	(7.8)	(12.4)	(5.3)
Net cash generated by operating activities	6.6	61.3	11.8
Investing activities			
Increase in intangible assets	(0.2)	(0.6)	(0.4)
Increase in property, plant and equipment	(23.0)	(66.8)	(19.2)
Increase in financial assets		(2.9)	(2.5)
Acquisition/sale of a subsidiary with deduction of the cash acquired	25.8	(15.3)	(2.3)
Other changes in cash generated/(used) by investing activities	(3.1)	11.1	(0.1)
Cash generated/(used) by investing activities	(0.5)	(74.5)	(24.5)
Net cash generated/(used) by operating and investing activities	6.1	(13.2)	(12.7)
Financing activities			
Proceeds from issue of new shares	0.3	11.8	7.2
Net dividends paid to shareholders and minority interests	(12.8)	(12.6)	(12.2)
Interest payments	(6.4)	(11.2)	(5.2)
Change in debt (Note 14)	33.7	30.0	7.5
Cash generated by financing activities	14.8	18.0	(2.7)
Change in cash	20.9	4.8	(15.4)
Cash at beginning of period (Note 14)	26.4	21.2	(15.6)
Cash at end of period (Note 14)	45.0	26.4	(34.3)
Changes in the scope of consolidation	0.3	(0.4)	3.3
Impact of currency fluctuations	2.0	0.0	0.0
Change in cash	20.9	4.8	(15.4)

12.2.6 Notes

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, 2008 did not have any impact on the interim consolidated financial statements.

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

The interim consolidated financial statements for the six months ended June 30, 2008 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, 2007, which may be downloaded from www.carbonelorraine.com.

The summary consolidated interim financial statements at June 30, 2008 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 Regulation of the Autorité des Marchés Financiers (AMF, the French market regulator).

The summary interim consolidated financial statements at June 30, 2008 include for comparative purposes figures for the periods ended June 30, 2007 and December 31, 2007 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, 2008.

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 sole 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. If necessary, subsidiaries' financial statements are adjusted to bring their accounting policies into line with those of the other companies in 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

The Carbone Lorraine group 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 to present its income statement using the functional expense format, in which costs are classified according to their function under cost of sales, selling, administrative, research and development costs.

B2 Balance sheet

Assets and liabilities arising during the business cycle and those with a maturity of less than 12 months at the balance sheet date are classified as current. 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 of determining cash flows from operating activities whose 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 out 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 accounts of the Group's foreign subsidiaries are stated in their functional currencies.

The balance sheets of companies whose functional currency is not the euro are 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 accordance with IAS 21 (Effects of changes in foreign exchange rates).

Transactions denominated in currencies other than the euro are recorded at the exchange rate on 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.

E - HEDGING

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

E1 Currency and commodity hedges

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

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

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

> Changes in the fair value of instruments eligible as future cash flow hedges are accounted for directly in equity in respect of the effective portion of the hedge (intrinsic value). Changes in the fair value of these instruments are then taken to operating income and offset fluctuations in the value of the assets, liabilities and irrevocable commitments that are hedged as they occur. The ineffective portion of the hedge (time value) is taken to operating income.

> Changes in the fair value of instruments not eligible as cash flow hedges are taken directly to income.

E2 Interest rate hedging

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

> The ineffective portion of the derivative instrument is taken to income under the cost of debt.

> The effective portion of the derivative instrument is recognized as follows:

- in equity for a derivative accounted for as a cash flow hedge (e.g. a swap turning a debt carrying a floating interest rate into a fixed-rate liability),
- in income (cost of debt) in the case of a derivative accounted for as a fair value hedge (e.g. a swap turning a fixed interest rate into a floating interest rate). This accounting treatment is offset by changes in the fair value of the hedged debt.

F - INTANGIBLE ASSETS

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

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

The Group's intangible assets comprise primarily goodwill.

F1 Goodwill

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

Goodwill is allocated individually to the Group's cash generating units (CGUs). The Group has the following four CGUs:

> 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 when 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 cash flow projections after normalized tax based on the Strategic Plan of the relevant CGU;

> determining a value in use using a method comparable to any business valuation by discounting cash flows at the segment's weighted average cost of capital (WACC);

> comparing this value in use with the carrying amount of the relevant assets to determine whether or not an impairment loss needs to be recognized.

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

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

Goodwill impairment losses are irreversible.

F2 Patents and licenses

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

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

F3 Development costs

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

> the entity has the intent and the financial and technical ability to see the development project through to completion;

> it is probable that the expected future economic benefits deriving from development costs will flow to the entity;

> the cost of the asset can be measured reliably.

Research and development costs that do not meet the aforementioned criteria are expensed as incurred. Capitalized development costs meeting the criteria laid down in the new accounting standards are recognized as an asset on the balance sheet. They are amortized on a straight line basis over their useful life, which 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 according to 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 to the lessee substantially 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 leases 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 inception of the lease, the asset and the liability for the future lease payments are recognized in the balance sheet at the same amounts.

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 the 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 with reference to the discounted future cash flows projected on the basis of 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), by IAS 32 (Financial Instruments: Disclosure and Presentation) and by IFRS 7 (Disclosures).

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

Loans and receivables are recognized at amortized cost.

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

Current assets include operating receivables measured at amortized cost, with impairment losses being recognized where the carrying amount exceeds the recoverable amount.

J1 Investments

Investments in unconsolidated subsidiaries are non-current financial assets classified in the "available-for-sale" category. They are stated at their fair value. In the rare instances in which their fair value cannot be obtained, 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.

J2 Other non-current financial assets

These are receivables that do not arise during the business cycle. In accordance with IAS 39, they are stated at amortized cost, with an impairment loss being recognized when the recoverable amount falls below the carrying amount.

K - SHARE CAPITAL

Ordinary shares are classified as equity instruments. Incidental costs directly attributable to the issue of ordinary shares or equity options are deducted from equity, net of tax.

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 year.

L - 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.

This obligation may be legal, regulatory or contractual. It may also result from Group practice or from public commitments that have created a legitimate expectation among the third parties concerned that the Group 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.

M - INVENTORIES

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

Cost corresponds to 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.

N - 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 rewards incidental to ownership.

Sales are measured at the fair value of the consideration received or receivable amounts. 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 expenses of the same type (selling, general, administrative or research).

O - 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. The present value of this final obligation is then calculated.

These actuarial calculations are based on various estimates:

> mortality tables;

> retirement dates;

> rate of future salary and benefit increases and employee turnover;

> expected return on plan assets;

> discount and inflation rates set for each of the relevant entities taking into account their local macro-economic environment.

Actuarial gains and losses comprise the cumulative impact of:

> experience adjustments (difference between previous actuarial assumptions and that which 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 the following 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.

O1 Recognition of post-employment benefit obligations

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

> on the balance sheet

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

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

> on the income statement

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

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

- past service cost: portion recognized during the period,
- losses/(gains) on any curtailment or settlement of the plan.

O2 Recognition of unrecognized past service cost

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

P - NON-RECURRING INCOME AND EXPENSES

Non-recurring items correspond to income and expenses 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 expenses 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.

Q - OPERATING INCOME

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

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

R - DEFERRED TAXES

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 arising from the way in which the entity expects at the balance sheet date to recover or to settle the carrying amount of these assets and liabilities.

S - SEGMENT REPORTING

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

> 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 areas: 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.

T - 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.

U - 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 on the strike price, the probability of the conditions attached to exercise of the options being met, the life of the options, the current price of the underlying shares, the anticipated volatility of the share price, expected dividends and the 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.

V - 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 differ from the assumptions, estimates or assessments used.

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

Carbone Lorraine may make estimates and use assumptions affecting the carrying amount of assets and liabilities, income and expenses, 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. Real values may differ from the estimated sums.

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

> Notes 2-F1, 2-I and 6 concern the testing of goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account.

> Notes 12 and 13 concerning provisions and employee benefits describe the provisions set aside by Carbone Lorraine. To determine these provisions, Carbone Lorraine used the most reliable estimate of these obligations.

> Note 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 according to consistent and documented methods.

W – NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

New standards and amendments to standards and interpretations are not yet in force for the period ended June 30, 2008 and were not applied in the preparation of the consolidated financial statements:

> IFRS 8 (Operating Segments) introduces the management approach. IFRS 8, which will become mandatory for the Group's 2009 financial statements, requires segment reporting to be based on the internal reporting analyzed on a regular basis by the Group's operational management to evaluate performance and allocate resources. Since the Group presents its segment reporting based on its business and geographical segments, the application of IFRS 8 is unlikely to have an impact on the Group's financial statements.

> The revised IAS 23 removes the option of immediately recognizing as an expense borrowing costs and requires the capitalization of borrowing costs relating to assets that take a substantial period of time to get ready for use or sale. These costs are treated as part of the acquisition cost of the asset. The revised IAS 23 will be apply to the Group's 2009 financial statements, and is unlikely to have an impact on the Group's financial statements.

NOTE 3 FINANCIAL RISK MANAGEMENT

The Group is exposed to the following risk factors through its use of financial instruments:

> liquidity risk;

> interest-rate risk;

> commodity risk;

> currency risk;

> credit risk.

This note discloses information about the Group's exposure to each of the aforementioned risk factors, its objectives, its risk measurement and management policy and procedures, and its capital management. Quantitative information is also provided in other sections of the consolidated financial statements.

LIQUIDITY RISK

Carbone Lorraine has four major financing agreements:

> At June 30, 2008, the Group had a USD220 million loan arranged in December 2004 with a maturity of five years. This loan was repaid in late July 2008 and replaced with a USD350 million loan with a maturity of five years, 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.

> A €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) finalized in November 2007 and repayable in one-third installments between 2012 and 2014, giving it an average initial time to maturity of six years. The interest rate paid is 3-month Euribor plus a fixed margin. This margin is negative owing to the sale of the warrants.

> A USD85 million private bond placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average initial time to maturity of the private placement was 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 bilateral confirmed credit facility intended to finance Carbone Lorraine's business activities in China.

In millions of euros

	Amount	Drawn down at June 30, 2008	% drawn down at June 30, 2008	Time to maturity		
				Less than one year	Between one and five years	More than five years
Syndicated loan	139.6	81.5	58%	0.0	139.6	
OBSAAR bond issue	38.8	38.8	100%	0.0	12.9	25.9
US private placements, Tranche A	29.5	29.5	100%	5.9	23.6	0.0
US private placements, Tranche B	12.7	12.7	100%	0.0	7.6	5.1
Confirmed credit facility, China	10.9	10.9	100%	0.0	10.9	
Other	12.7	12.7	100%	6.3	6.3	
Total	244.2	186.1	76%	Average time to maturity (years) =		2.5

In millions of euros

Draw-downs	Drawn down at June 30, 2008	Expected cash flows	Time to maturity		
			1-6 months	6-12 months	Over 1 year
Syndicated loan	81.5	81.8	81.8		
OBSAAR bond issue	38.8	48.9	0.9	1.0	47.0
US private placements, Tranche A	29.5	34.4	0.8	6.7	26.9
US private placements, Tranche B	12.7	16.7	0.4	0.4	15.9
Confirmed credit facility, China	10.9	11.0	11.0		
Other	12.7	12.7	1.0	6.3	5.4
Total	186.1	205.5	95.9	14.4	95.2

INTEREST-RATE RISK

The interest-rate risk management policy is approved by the Group's Executive Committee based on the proposals submitted by Carbone Lorraine's finance department and consists at present of establishing positions from time to time as a function of the direction of interest 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 US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swaps was May 28, 2003, and the swaps have the same maturity as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At June 30, 2008, the swaps had a total nominal amount of USD66.4 million.

In October 2005, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD50 million. These swaps, which have a maturity 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.

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

In millions of euros

	Amount in €	Interest rate received	Interest rate paid	Time to maturity		
				Less than one year	Between one and five years	More than five years
Swap	29.5	5.63%	Libor + margin	5.9	23.6	
Swap	12.7	6.35%	Libor + margin		7.6	5.1
Swap	31.7	3-month USD Libor	4.6325%	31.7		
Total	73.9			37.6	31.2	5.1

In millions of euros

SWAP	MTM*
Assets	0.0
Liabilities	(0.6)

**Marked-to-market = adjusted to market value.*

COMMODITY RISK

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc.

The commodity price risk management policy is approved by the Group's Executive Committee based on proposals submitted by Carbone Lorraine's finance and procurement departments and currently consists of establishing positions in commodity futures contracts.

Impact of commodity hedging

In millions of euros

	Balance sheet impact At end-June 2008	Income statement impact First-half 2008
Copper	0.0	0.1
Silver	0.3	0.3

EXCHANGE-RATE RISK

The currency risk management policy is approved by the Group's Executive Committee based on proposals submitted by the finance department.

Based on a complete inventory of inter-company and external risks, it consists of entering into forward currency purchases with prime lending institutions.

The Group's usual business policy is to hedge currency risks as soon as orders are taken or to hedge an annual budget. The main currency risk derives from intra-Group sales transactions.

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

For consolidation purposes, the income statement and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the closing rate. The impact of this currency translation may be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt. All other factors remaining equal, the depreciation in the US dollar against the euro in 2008 led to a reduction in the Group's equity and debt.

The Group does not specifically hedge its net foreign assets.

Except in special and non-material cases, hedging is centralized by the parent company. It is carried out under strictly defined procedures.

Recognition at end-June 2008 of currency transactions

MTM (in millions of euros)*		**June 30, 2008**
Mark to market of currency hedges	Shareholders' equity	(0.1)
	Other financial components of operating income	0.3

**Marked-to-market = adjusted to market value.*

Future cash flows on currency transactions recognized at end-June 2008

CURRENCY TRANSACTIONS ***(in millions of euros)***	**MTM**	**Expected cash flows**
Assets	1.2	1.4
Liabilities	(1.0)	(1.2)

Currency hedges are adjusted as a function of the underlyings, and so there is no timing difference between their maturities.

CREDIT RISK

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its customer portfolio.

The Group set up an insurance program with commercial credit insurer Coface covering its principal companies in the US and France against the risk of non-payment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

CAPITAL MANAGEMENT

At June 30, 2008, Carbone Lorraine's share capital was 29%-owned by around 30,000 individual shareholders, 25%-owned by French institutional shareholders and 46%-owned by institutional shareholders based in other countries. At June 30, 2008, 0.2% of the share capital was held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to investment services provider Exane. Since this liquidity agreement was set up in 2005, Carbone Lorraine has not purchased or sold any of its own shares.

In July 2008, an agreement was entered into with AXA Private Equity following its purchase of a stake of more than 10% in Carbone Lorraine through two funds (AXA Capital Fund L.P. and Matignon Développement 3). This agreement includes undertakings concerning the long-term and friendly nature of the investment in Carbone Lorraine. As part of the agreement, a representative of AXA Private Equity will be appointed to the company's Board of Directors before the end of the year, and the company will support the appointment of a second director if AXA Private Equity's stake rises above 15%. The agreement, which will expire on June 30, 2012, authorizes AXA Private Equity to increase its stake to 22.5% and limits the proportion of voting rights exercisable by AXA Private Equity in Carbone Lorraine shareholders' meetings to 35%.

The Group's employees own 205,806 shares, representing 1.4% of the share capital, plus stock options that, if exercised in full, would represent 2.7% of the current share capital. The stock option plans set up by the Group are based on a strike price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of high-potential managers. Take-up of these shares is therefore contingent upon their presence within the Group at the end of the vesting period. At June 30, 2008, a total of 67,378 bonus shares, representing 0.5% of the current share capital, had been allotted.

During 2007, the Group issued €40 million bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds). As part of this issue, the Group's senior managers, officers and directors invested €1.4 million in purchasing "BSARR" warrants at market conditions entitling them to acquire shares for €58.49 each within five years.

The Group did not alter its capital management policy in the first half of 2008.

Neither the Company nor its subsidiaries are subject to specific capital requirements arising from external rules.

NOTE 4 BUSINESS COMBINATIONS

BUSINESS COMBINATIONS RELATING TO THE FIRST HALF OF 2008

- In early April 2008, Carbone Lorraine completed its first acquisition in China, buying 100% of the shares in Xianda, a Chinese company specializing in manufacturing high-tech equipment made from steel and stainless steel for the chemicals and pharmaceuticals markets.

  The purchase price and the goodwill arising from the deal are supported by the synergies that the acquisition will generate, and by:

  - the stronger manufacturing base the deal will give Carbone Lorraine in China, adding to its anticorrosion operations and significantly increasing its production capacity,
  - the good fit between Carbone Lorraine and Xianda's skills bases. This acquisition will bolster Carbone Lorraine's product range. While Carbone Lorraine has a strong reputation in equipment made from noble metals, Xianda has acknowledged expertise in very large equipment made from steel and stainless steel.
  - a stronger presence for Carbone Lorraine in the fast-growing acetic acid market and greater penetration in the petrochemicals market, supporting Carbone Lorraine's existing leading positions,
  - the improvement in Carbone Lorraine's competitiveness. All of its entities will benefit from more keenly priced steel and stainless steel supplies, since China has become the world's largest producer of these materials.

  This acquisition fits perfectly with Carbone Lorraine's profitable growth strategy, which is based on strengthening positions in Asia and gaining leadership in all its markets.

  The fair value of the assets and liabilities arising from this acquisition is currently being measured. The initial allocation of goodwill could not be completed by the financial statements preparation date, but will be worked out by April 2009.

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	2.2	0.0	2.2
Other assets	4.9	0.0	4.9
Non-current liabilities	0.0	0.0	0.0
Current liabilities	(6.9)	0.0	(6.9)
Net assets	**0.2**	**0.0**	**0.2**
Goodwill			12.8
Total acquisitions			**13.0**
including:			
Acquisition price paid in cash			0.0
Debt			13.0

The acquisition of 100% of Xianda cost €19.9 million, comprising €13 million to buy the shares and €6.9 million of debt assumed.

Xianda contributed €0.6 million to Carbone Lorraine’s net income during the period. The impact of this acquisition on the Group's net cash position is zero (excluding the purchase price).

NOTE 5 GOODWILL

In millions of euros	June 30, 2008	Dec 31, 2007	June 30, 2007
Net value at Jan. 1	164.9	176.7	176.7
Acquisitions	12.9	18.3	6.8
Disposals			
Other movements		3.7	3.6
Translation adjustments	(8.8)	(13.6)	(2.2)
Impairment losses		(20.2)	
Net value at end of period	169.0	164.9	184.9
Gross value at end of period	189.2	185.1	184.9
Total impairment losses at end of period	(20.2)	(20.2)	0.0

At June 30, 2008, goodwill in the process of being allocated related to the following acquisitions:

- General Electric's medium-voltage fuse business, acquired in December 2007 (€11.5 million),
- Xianda Pressure Vessels, acquired in April 2008 (€12.8 million).

Goodwill will be allocated in the 12 months following the acquisition date.

The €20.2 million impairment loss recognized in 2007 relates to the Electrical Applications CGU.

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

	Dec. 31, 2007	Movements during 2008				June 30, 2008
In millions of euros	Net value	Acquisitions	Other movements	Impairment losses	Cumulative translation adjustment	Net value
Anticorrosion equipment	56.5	12.8			(3.1)	66.2
High-temperature applications and high-energy braking	25.7	0.1			(1.5)	24.3
Electrical Applications	12.5				(0.7)	11.8
Electrical Protection	70.2				(3.5)	66.7
Total	164.9	12.9	0	0	(8.8)	169.0

NOTE 6 ASSET IMPAIRMENT TESTS

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2007 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 2008 budget and projections for the following four fiscal years;

> an after-tax discount rate of 8%;

> a perpetual growth rate of 4% for the chemical engineering equipment CGU, 2% for the electrical applications CGU and 3% for the other CGUs;

> a normalized tax rate of 34%.

The discount rate applied is an after-tax rate, since the application of a rate before tax has no impact on value in use calculations for the CGUs.

A sensitivity test was performed by decreasing in the first instance the perpetual growth rate by 1 point and in the second instance by increasing the after-tax discount rate by 1 point on the estimate used for each of the CGUs. The sensitivity tests did not cast doubt on the results obtained.

The interim 2008 earnings reported by the Group do not call into question the assumptions adopted at the end of fiscal 2007 and no evidence of impairment was identified.

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

In millions of euros	Land	Buildings	Plant, equipment and other	Other	Total
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	0.0	3.5	13.8	7.3	24.6
Retirements and disposals	(0.5)	(1.2)	(1.0)	0.0	(2.7)
Depreciation	0.0	(1.3)	(10.1)	0.0	(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)	0.0	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)	(227.8)		(277.0)
Total impairment losses at June 30, 2007	0.0	0.0	(1.8)		(1.8)
Net value at December 31, 2007	31.8	34.0	119.4	22.0	207.2
Gross value at December 31, 2007	32.7	81.1	342.7	22.0	478.5
Total depreciation at December 31, 2007	(0.9)	(47.1)	(221.5)		(269.5)
Total impairment losses at December 31, 2007	0.0	0.0	(1.8)		(1.8)
Net value at Jan 1, 2008	31.8	34.0	119.4	22.0	207.2
Acquisitions	0.1	0.1	3.8	19.1	23.1
Retirements and disposals	0.0	0.0	(0.3)	0.0	(0.3)
Depreciation	0.0	(1.0)	(12.0)	0.0	(13.0)
Translation adjustments	(0.8)	(0.9)	(2.9)	(0.7)	(5.3)
Changes in the scope of consolidation	0.0	(1.6)	(1.4)	0.0	(3.0)
Other movements	0.1	1.0	9.4	(9.5)	1.0
Net value at June 30, 2008	31.2	31.6	116.0	30.9	209.7
Gross value at June 30, 2008	32.1	78.6	336.8	30.9	478.4
Total depreciation at June 30, 2008	(0.9)	(47.0)	(220.8)		(268.7)
Total impairment losses at June 30, 2008					0.0

NOTE 8 INVESTMENTS

At the end of the period, the unconsolidated shareholdings held by consolidated companies had a gross value of:

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Gross value	18.1	19.3	33.7
Impairment losses	(10.5)	(11.2)	(13.4)
Net value	7.6	8.1	20.3

The impairment losses recognized on investments at June 30, 2008 primarily related to units in Turkey, Argentina, Mexico, Singapore and AVO Kunshan (China).

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

In millions of euros

Company name	% held	Gross value	Net value
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
Carbone-Lorraine Shanghai (China)	100	0.8	0.8
Nortroll (Norway)	34	0.8	0.5
AVO Kunshan	100	0.6	0.0
Clisa (Mexico)	49	0.6	0.6
Carbone Lorraine Grèce	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
Ferraz Shawmut Kunshan	80	0.1	0.1
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Le Carbone Materials KK	49	0.1	0.1
Investments in other companies	-	0.2	0.1
Total		18.1	7.6

Based on the as-yet-unaudited annual financial statements, the principal investments generated sales of around €24.3 million (€23.0 million in the first half of 2007) and a net loss of €0.9 million (net income of €0.9 million in the first half of 2007).

Their impact on the consolidated financial statements is not material. The consolidated sales of all these companies are estimated at around €7.8 million (€7.2 million in the first half of 2007) or 2.7% (2.1% in the first half of 2007) of total consolidated sales after the elimination of intra-group transactions.

NOTE 9 INVENTORIES

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Raw materials and other supplies	80.0	72.7	69.4
Work in progress	55.4	46.1	52.4
Finished goods	40.0	41.4	41.2
Carrying amount of inventories	**175.4**	**160.2**	**163.0**
Valuation allowances	(9.6)	(9.7)	(10.8)
Net carrying amount of inventories	165.8	150.5	152.2

Inventories increased by €15.3 million in the first half of 2008, with a decrease of €4.8 million attributable to currency effects and an increase of €0.7 million to changes in the scope of consolidation. On a like-for-like basis, inventories grew by 13.3% to €19.4 million.

NOTE 10 TRADE RECEIVABLES

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Gross trade receivables	149.8	133.5	146.7
Valuation allowances	(4.8)	(4.8)	(4.5)
Net trade receivables	145.0	128.7	142.2

Net trade receivables increased by €16.3 million in the first half of 2008, with a decrease of €3.9 million attributable to currency effects and a decrease of €1.7 million to changes in the scope of consolidation. On a like-for-like basis, trade receivables grew by 17.5% to €21.9 million.

Impairment in trade receivables is reviewed on a customer-by-customer basis by each unit in line with procedures in progress.

NOTE 11 SHARE CAPITAL

In number of shares (unless stated otherwise)	**Ordinary shares**
Number of shares at January 1, 2008	14,280,735
Issue of new shares (in millions of euros)	0.0
Number of shares at June 30, 2008	14,280,735
Number of shares in issue and fully paid-up	14,280,735
Number of shares in issue and not fully paid-up	0
Par value of shares(€)	2
Entity's shares held by itself or by its subsidiaries and associates	33,920

The number of voting rights stood at 14,246,815 after deducting the treasury shares held by the Company at June 30, 2008.

No shares carry double voting rights.

The number of stock options granted to company officers and employees and still outstanding stood at 388,117 taking into account canceled options.

Three bonus share allotment plans were set up for Company officers and employees during fiscal 2005, 2006 and 2008. The number of bond share allotment options still to be exercised is 36,478.

NOTE 12 PROVISIONS AND CONTINGENT LIABILITIES

In millions of euros	June 30, 2008		Dec. 31, 2007		June 30, 2007	
	Non-current	Current	Non-current	Current	Non-current	Current
Provision for restructuring	0.1	0.2	0.1	0.9	0.1	2.7
Provision for litigation	0.0	44.9	45.0	0.3	45.4	0.4
Other provisions	0.7	0.2	0.6	0.3	0.8	0.3
Total	0.8	45.3	45.7	1.5	46.3	3.4

At June 30, 2008, the provision for litigation covered all of the fine imposed on the Group by the European authorities (€43 million, not taking into account possible late payment interest amounting to €4.3 million at June 30, 2008) and class-action lawsuits in the USA (€1.9 million).

As regards the appeal against the European fine, the authorities expect to make a decision in less than one year. As a result, the corresponding provision is classified as a current provision. We reiterate that, to guarantee the appeal to the Court of First Instance of the European Communities, the Group paid €20 million into an escrow account for the European Commission in 2005, which is recognized as other current financial assets.

As regards the class-action lawsuits, the provision amounts to €1.9 million and is intended to cover:

- lawsuits brought at the federal level by certain auto equipment manufacturers, which opted out of the federal class-action lawsuit and lodged a separate claim for damages. The Group believes that there is no legal basis for this separate legal action. This assessment was backed up by a decision made by the US judge on August 9, 2007 dismissing the admissibility of the request related to the worldwide cartel, thereby limiting the scope of the opt-out action to sales realized in the United States. This decision prompted the plaintiffs to initiate proceedings in the United Kingdom. The Group regards the arguments put forward by the opt-out plaintiffs as baseless, and so it decided to keep the provision at the initial level under the August 2004 settlement agreement.
- a class-action lawsuit specific to the state of California.

No other material contingent liabilities were identified at end-June 2008.

NOTE 13 EMPLOYEE BENEFITS

The Carbone Lorraine group's principal pension plans are defined benefit plans and are located in the UK (26% of obligations), the US (25% of obligations), France (21% of obligations) and Germany (15% of obligations).

The Group's obligations were measured at December 31, 2007 with the assistance of independent actuaries in accordance with IAS 19. Obligations, coverage assets and the charge recognized at June 30, 2008 were calculated by projecting the valuation at December 31, 2007.

However, stockmarket performance would reduce the fair value of plan assets at June 30, 2008, mainly in the United States and United Kingdom, by around €6 million.

Applying the corridor method, this movement would not have any impact on the balance sheet or income statement at June 30, 2008.

The rates used for the principal countries are summarized below:

2007	**Discount rate**	**Return on plan assets**	**Average rate of salary increases**	**Inflation rate**
France	5.25%	4.0%/4.25%	2.5%	2.0%
Germany	5.25%	Not applicable	2.5%	2.0%
United States	6.0%	6.75%	Not applicable	Not applicable
United Kingdom	6.0%	6.75%	3.75%	3.0%

RECONCILIATION BETWEEN ASSETS AND LIABILITIES RECOGNIZED

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Actuarial obligation	95.7	98.1	104.5
Fair value of plan assets	(57.4)	(58.3)	(59.4)
Unrecognized actuarial gains and losses	2.4	2.4	(2.4)
Unrecognized past service cost (rights not vested)	(1.0)	(1.5)	0.5
Net amount recognized	**39.7**	**40.7**	**43.2**

BREAKDOWN OF THE GROUP'S OBLIGATIONS AT JUNE 30, 2008 BY GEOGRAPHICAL AREA

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total at June 30, 2008
Actuarial obligation	20.4	14.1	24.0	24.6	12.6	95.7
Fair value of plan assets	(5.0)	0.0	(18.0)	(26.3)	(8.1)	(57.4)
Unrecognized actuarial gains and losses	0.2	0.5	(0.3)	3.1	(1.1)	2.4
Unrecognized past service cost (rights not vested)	(1.1)	0.0	0.0	0.0	0.1	(1.0)
Net amount recognized	**14.5**	**14.6**	**5.7**	**1.4**	**3.5**	**39.7**

MOVEMENTS IN THE GROUP'S OBLIGATIONS

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2007	20.3	14.3	23.9	26.0	13.6	98.1
Payments	(0.5)	(0.6)	0.3	(0.3)	(0.3)	(1.4)
Expense charged to income	0.9	0.4	1.5	0.8	0.7	4.3
Translation adjustment			(1.7)	(1.9)	(1.3)	(4.9)
Actuarial gains and losses						0.0
Other movements	(0.3)				(0.1)	(0.4)
June 30, 2008	**20.4**	**14.1**	**24.0**	**24.6**	**12.6**	**95.7**

CHANGES IN PLAN ASSETS

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2007	5.0	0.0	17.4	27.5	8.4	58.3
Return on plan assets	0.1	0.0	0.6	0.9	0.2	1.8
Employer contribution	0.1	0.4	1.1	0.0	0.4	2.0
Employee contribution	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Payment of benefits	(0.1)	(0.4)	0.0	0.0	0.0	(0.5)
Translation adjustment	0.0	0.0	(1.1)	(2.1)	(0.9)	(4.1)
Other movements	0.0	0.0	0.0	0.0	0.0	0.0
June 30, 2008	**5.0**	**0.0**	**18.0**	**26.3**	**8.1**	**57.4**

The charge recognized at June 30, 2008 in respect of these plans was €3.4 million, compared with €2.8 million at June 30, 2007, and breaks down as follows:

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total June 30, 2008	Total June 30, 2007
Current service cost	0.4	0.1	0.7	0.1	0.4	1.7	2.0
Interest cost	0.5	0.4	0.7	0.7	0.3	2.6	2.5
Expected return on plan assets	(0.1)	0.0	(0.6)	(0.9)	(0.2)	(1.8)	(1.8)
Amortization of actuarial gains and losses	0.5	0.0	0.0	0.0	0.0	0.5	0.1
Other movements	0.3	0.0	0.0	0.0	0.1	0.4	0.0
Total charge for the period	1.6	0.5	0.8	(0.1)	0.6	3.4	2.8

NOTE 14 NET DEBT

ANALYSIS OF TOTAL NET DEBT AT JUNE 30, 2008

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Borrowings	185.0	176.4	147.7
Current financial liabilities	42.4	21.7	3.4
Current advances	1.8	1.9	1.8
Bank overdrafts	31.5	21.2	48.4
Current financial assets	(0.9)	(3.0)	(4.6)
Total gross debt	259.8	218.2	196.7
Trading financial assets	(2.8)	(2.8)	(2.3)
Cash and cash equivalents	(42.2)	(23.6)	(11.8)
Cash	(45.0)	(26.4)	(14.1)
Total net debt	214.8	191.8	182.6

Total consolidated net debt amounted to €214.8 million at June 30, 2008, compared with €191.8 million at December 31, 2007 and €182.6 million at June 30, 2007.

NET DEBT/EQUITY

In millions of euros	**June 30, 2008**	**Dec 31, 2007**	**June 30, 2007**
Total net debt	214.8	191.8	182.6
Net debt/equity	0.68	0.62x	0.57x

Net debt came to 68% of equity at June 30, 2008 compared with 62% at December 31, 2007 and 57% at June 30, 2007.

RECONCILIATION BETWEEN CHANGES IN NET DEBT SHOWN ON THE BALANCE SHEET AND ON THE STATEMENT OF CASH FLOWS

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Prior year debt	191.8	154.3	154.3
Cash generated/(used) by recurring operating and investing activities after tax	19.4	(5.3)	9.5
Cash used by restructurings	0.3	3.2	0.9
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	(25.8)	15.3	2.3
Cash generated by the operating and investing activities of continuing operations	(6.1)	13.2	12.7
Proceeds from issue of new shares	(0.3)	(11.8)	(7.2)
Dividends paid	12.8	12.6	12.2
Interest payments	6.4	11.2	5.2
Translation adjustments and other	(4.4)	(9.1)	(2.1)
Changes in the scope of consolidation	1.3	16.1	2.1
Other movements	13.3	5.3	5.4
Debt at year-end	214.8	191.8	182.6

Total consolidated net debt amounted to €214.8 million at June 30, 2008, compared with €191.8 million at December 31, 2007 and €182.6 million at June 30, 2007. Debt increased by €27.4 million excluding the impact of a €4.4 million cumulative translation adjustment (reduction in debt arising from the depreciation in the US dollar against the euro during 2008). This increase was mainly due to a €12.8 million dividend payment and the recognition of a €13.3 million debt relating to the acquisition of Xianda in China under "Other movements". Operating and investing activities generated €6.1 million of cash, including €25.8 million corresponding to the sale proceeds from the rail and motorcycle braking business, which was sold in the first half.

FINANCIAL COVENANTS AT JUNE 30, 2008

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:

Financial covenants* (consolidated financial statements)

In millions of euros	**Net debt/EBITDA**	**Net debt/equity**	**EBITDA/net interest expense**
Covenant ratios			
Syndicated loan	-	< 1.3x	-
US private placement	< 3.35x	< 1.3x	> 3x
OBSAAR bond issue	-	< 1.35	-
Actual ratios at June 30, 2008			
Syndicated loan	-	0.68	-
US private placement	1.87	0.68	8.98
OBSAAR bond issue		0.68	
Actual ratios at December 31, 2007			
Syndicated loan	-	0.63	-
US private placement	2.07	0.62x	8.63
OBSAAR bond issue		0.62x	

** 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, 2008, 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, 2008

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	76.1	12.2	58.8	5.1
Borrowings in EUR	93.7		67.8	25.9
Borrowings in GBP	6.9		6.9	
Borrowings in RMB	9.4		9.4	
TOTAL	186.1	12.2	142.9	31.0
Amortization of issuance costs at the EIR	(1.0)			
Fair value of interest-rate derivatives	(0.1)			
TOTAL	185.0			

Of the €142.9 million of debt due to mature in between one and five years' time, €29.8 million had a maturity of over three years at June 30, 2008.

ANALYSIS OF TOTAL NET DEBT AT JUNE 30, 2008

By currency	**%**
EUR	48.9%
USD	40.3%
RMB	7.7%
Other	3.1%

By interest rate	**%**
Fixed	14.8%
Floating	85.2%

In millions of euros	**Total**	**With a maturity < 5 years**	**With a maturity > 5 years**
Floating rate debt*	260.7	229.7	31.0
Financial assets	(45.9)	(45.9)	
Net position before hedging	214.8	183.8	31.0
Fixed-rate hedge	31.7	31.7	
Net position after hedging	183.1	152.1	31.0

**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, 2008 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 half-year interest costs by around €1.8 million.

NOTE 15 OTHER NON-RECURRING INCOME AND EXPENSES

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

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Sale of brakes business	14.0		
EU fine and US class-action lawsuits	(0.8)	(0.7)	(0.2)
Restructuring	(0.4)	(3.3)	(2.0)
Prior income, China and India		(3.0)	(2.2)
Impairment of securities	(0.2)	(0.9)	0.0
Other	(0.3)	0.1	0.5
Total	12.3	(7.8)	(3.9)

In the first half of 2008, non-recurring income and expenses resulted in net income of €12.3 million. The principal factors were:

> the €14 million gain realized on the disposal of the brakes business;

> €0.8 million of costs relating to the European Community procedure and settlements relating to class-action lawsuits in the United States;

> €0.4m of costs relating to the transfer of assets and other costs following the reorganization of Electrical Protection sites;

> recognition of a €0.2 million impairment loss on shares in Chinese subsidiary AVO Kunshan, which started operating in 2004.

In fiscal 2007, non-recurring income and expenses resulted in a net charge of €7.8 million. The principal factors were:

> the closure of the Farmville production facility, leading to non-current asset transfer costs and other costs amounting to €3.3 million;

> recognition of a €0.9 million impairment loss on shares in Chinese subsidiary AVO Kunshan, which started operating in 2004;

> an outlay of €0.7 million in connection with the settlement of US class-action lawsuits;

> the prior income/(losses) of the companies in India and China consolidated for the first time in 2007, leading to a negative contribution of €3.0 million:

- €4.4 million in losses attributable to the companies in China,
- €1.4 million in income attributable to the companies in India.

NOTE 16 SEGMENT REPORTING

OPERATING INCOME

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Applications (EA)		Electrical Protection (EP)		Total for continuing operations	
Sales	H1-08	H1-07	H1-08	H1-07	H1-08	H1-07	H1-08	H1-07
Sales to third parties	130.8	127.7	106.4	102.7	124.8	116.3	362.0	346.7
Breakdown of sales	36.1%	36.8%	29.4%	29.6%	34.5%	33.6%	100.0%	100.0%
Segment operating income before non-recurring items	22.7	22.6	10.9	11.1	15.7	11.6	49.3	45.3
Segment operating margin before non-recurring items*	17.4%	17.7%	10.2%	10.8%	12.6%	9.9%	13.6%	10.8%
Segment non-recurring income and expenses	13.9	(3.6)	(0.5)	0.1	(0.3)	(0.8)	13.1	(4.3)
Segment operating income	36.6	19.0	10.4	11.2	15.4	10.8	62.2	41.0
Segment operating margin*	27.9%	14.9%	9.7%	10.9%	12.4%	9.3%	17.2%	10.8%
Unallocated costs							(8.2)	(7.5)
Operating income							54.0	33.5
Operating margin							14.9%	9.7%
Finance costs, net							(6.0)	(5.1)
Current and deferred income tax							(14.4)	(9.0)
Net income							33.6	19.4

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

Inter-segment sales realized by the Advanced Materials and Technologies division came to €1.9 million in the first half of 2008 compared with €2.1 million in the same period of 2007.

BREAKDOWN OF SALES AND SALES TRENDS BY GEOGRAPHICAL AREA

In millions of euros	H1-08	%	H1-07	%
France	47.7	13.2%	50.1	14.5%
Rest of Europe	115.9	32.0%	108.0	31.2%
North America	116.8	32.3%	111.7	32.2%
Asia	62.2	17.2%	58.4	16.8%
Rest of the world	19.4	5.3%	18.5	5.3%
Total	362.0	100.0%	346.7	100.0%

BREAKDOWN OF DEPRECIATION AND AMORTIZATION RECOGNIZED BY SEGMENT

	H1-08					H1-07				
In millions of euros	AMT	EA	EP	Corporate costs	Total	AMT	EA	EP	Corporate costs	Total
France	(2.3)	(1.2)	(1.5)	(0.2)	(5.2)	(2.1)	(1.2)	(1.7)	(0.2)	(5.2)
Rest of Europe	(0.3)	(1.2)	(0.2)		(1.7)	(0.2)	(1.3)	(0.1)	0.0	(1.6)
Asia-Pacific	(2.3)	(0.2)	(0.1)		(2.6)	(0.3)	(0.2)	(0.1)	0.0	(0.6)
North America	(2.5)	(0.6)	(0.7)		(3.8)	(2.8)	(0.7)	(0.8)	0.0	(4.3)
Rest of the world	(0.1)	(0.2)	(0.0)		(0.3)	(0.1)	(0.2)	0.0	0.0	(0.3)
Total	(7.5)	(3.4)	(2.5)	(0.2)	(13.6)	(5.5)	(3.6)	(2.7)	(0.2)	(12.0)

NET CARRYING AMOUNT OF ASSETS AT END OF PERIOD BY SEGMENT

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	Total at June 30, 2008
Non-current assets, net (excluding investments)	232.6	58.9	96.1	387.6		387.6
Inventories, net	74.8	46.4	44.6	165.8		165.8
Trade receivables	65.9	55.3	63.7	184.9	(39.9)	145.0
Other receivables	26.1	10.0	8.2	44.3	(18.5)	25.8
Total segment assets	399.4	170.6	212.6	782.6	(58.4)	724.2
Total unallocated assets						98.9
Total						823.1

NET CARRYING AMOUNT OF ASSETS AT END OF PERIOD BY GEOGRAPHICAL AREA

In millions of euros	June 30, 2008	June 30, 2007
France	390.5	417.4
Rest of Europe	121.9	117.3
North America	166.1	187.1
Asia	133.4*	37.7
Rest of the world	11.2	11.7
Total	823.1	771.2

** Increase following the Group's development in Asia*

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, 2008
Trade payables	44.1	32.6	40.8	117.5	(39.9)	77.6
Other payables and other liabilities	44.5	17.1	29.8	91.4	(18.5)	72.9
Non-current and current provisions	4.2	41.9	0.0	46.1		46.1
Employee benefits	14.5	16.1	9.1	39.7		39.7
Total segment liabilities	107.3	107.7	79.7	294.7	(58.4)	236.3
Total unallocated liabilities						272.4
Total						508.7

INVESTMENT FLOWS DURING THE PERIOD BY SEGMENT

Excluding acquisitions or sales of subsidiaries or businesses

In millions of euros		France	Rest of Europe	Asia-Pacific	North America	Rest of the world	Total at June 30, 2008
Property, plant and equipment and intangible assets	AMT	(3.8)	(1.4)	(3.0)	(8.5)		(16.7)
	EA	(0.8)	(1.0)	(0.5)	(0.6)		(2.9)
	EP	(2.6)	(0.1)		(0.9)		(3.6)
Total		(7.2)	(2.5)	(3.5)	(10.0)	0.0	(23.2)
Other changes and divestments	AMT	(0.8)	0.1	(2.1)	(0.2)		(3.0)
	EA		(0.1)	(0.2)	0.2		(0.1)
	EP						0.0
Total		(0.8)	0.0	(2.3)	0.0	0.0	(3.1)
Total investment flows		(8.0)	(2.5)	(5.8)	(10.0)	0.0	(26.3)

NOTE 17 STAFF COSTS AND HEADCOUNT

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €115.9 million in the first half of 2008 compared with €113.5 million in the first half of 2007.

On a like-for-like basis, staff costs increased by 7.1%.

BREAKDOWN OF THE CONSOLIDATED AVERAGE HEADCOUNT BY GEOGRAPHICAL AREA

Categories	June 30, 2008	%	June 30, 2007	%
France	1,692	23%	1,766	26%
Rest of Europe (+Tunisia)	1,836	25%	1,750	26%
North America (+Mexico)	2,459	34%	2,479	37%
Asia	983	14%	409	6%
Rest of the world	326	4%	364	5%
Total	7,296	100.0%	6,768	100.0%

At comparable scope, the average headcount rose by 64 employees.

NOTE 18 OPERATING INCOME

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

In millions of euros	June 30, 2008	June 30, 2007
Product sales	329.3	314.7
Trading sales	32.7	32.0
Total sales	362.0	346.7
Other operating revenues	4.3	4.3
Cost of trading sales	(27.1)	(24.8)
Raw material costs	(77.8)	(75.3)
Costs on other operating revenues	(1.7)	(1.7)
Manufacturing costs	(57.7)	(57.4)
Salary costs	(112.6)	(110.9)
Employee incentives and profit-sharing	(3.3)	(2.6)
Other expenses	(30.0)	(27.5)
Financial components of operating income	(2.2)	(1.2)
Depreciation and amortization	(13.6)	(12.0)
Additions to provisions	(0.2)	(0.7)
Impairment losses	0.0	(3.6)
Capital gain on the disposal of the brakes business	14.0	
Gains/(losses) on non-current asset disposals	(0.1)	0.2
Operating income	54.0	33.5

NOTE 19 FINANCE INCOME AND COSTS

Recognized on the income statement

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Amortization of bond issuance expenses	(0.1)	(0.3)	(0.1)
Interest paid on debt	(5.1)	(8.9)	(4.7)
Short-term finance expense	(1.4)	(2.2)	(1.1)
Debt-related fees		(0.4)	(0.1)
Ineffective portion of interest-rate hedges		(0.1)	
Interest income from bank deposits	0.6	0.6	0.9
Finance costs, net	(6.0)	(11.3)	(5.1)

Recognized directly in equity

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Change in fair value of currency hedges	0.0	(1.1)	0.7
Change in fair value of interest-rate hedges	(0.2)	(0.7)	0.1
Change in fair value of commodity hedges	1.4	(0.6)	0.0
Impact on changes recognized in equity	(0.4)	0.5	(0.3)
Net finance costs recognized directly in equity, net of tax	0.8	(1.9)	0.5

No finance costs or income are recognized on assets and liabilities not stated at fair value.

NOTE 20 INCOME TAX

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Current income tax	(8.4)	(7.8)	(6.2)
Deferred income tax	(5.8)	(7.1)	(2.6)
Withholding tax	(0.2)	(0.2)	(0.2)
Total tax expense	(14.4)	(15.1)	(9.0)

In France, Le Carbone-Lorraine SA, Carbone Lorraine Applications Electriques, Carbone Lorraine Composants, Carbone Lorraine Equipement Génie Chimique, Carbone Lorraine Corporate Services, Ferraz Shawmut SA, Ferraz Thermal Management, Ugimag, Ferroxdure, Polygraphite and AVO are consolidated for tax purposes.

There are also:

> two consolidated tax groups in the US, i.e. one encompassing Carbone Lorraine North America and its subsidiaries and the other encompassing Ferraz Shawmut LLC and its subsidiaries; from June 30, 2008, following the change in the US operations' company structure, only one tax consolidation group will remain in place.

> 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 was 30% in the first half of 2008, as opposed to 32% in the first half of 2007.

ANALYSIS OF INCOME TAX EXPENSE

In millions of euros	June 30, 2008
Net income	33.6
Income tax expense/(benefit) on continuing operations	(14.4)
Total income tax expense/(benefit)	(14.4)
Taxable income	48.0
Current tax rate in France	34.4%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(16.5)
Difference between income tax rate in France and other jurisdictions	0.6
Transactions qualifying for a reduced rate of taxation	(1.1)
Permanent timing differences	2.6
Impact of limiting deferred tax assets	(1.0)
Other items	1.0
Actual income tax benefit/(expense) recognized	(14.4)

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

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Deferred tax assets	16.8	21.6	24.0
Deferred tax liabilities	(4.7)	(3.1)	(2.1)
Net position	12.1	18.5	21.9

Deferred tax movements during the six months to June 30, 2008 were as follows:

*In millions of euros**	June 30, 2008	Net income for the year	Other items	Translation adjustments	Dec. 31, 2007
Employee benefit obligations	7.7	0.1	0.2	(0.2)	7.6
Provisions for restructuring	0.0	(0.2)			0.2
Depreciation of non-current assets	(14.8)	(0.5)		1.0	(15.3)
Tax-regulated provisions	(3.0)	0.3	(0.1)		(3.2)
Impact of tax losses	9.0	(7.3)		(0.2)	16.5
Impairment losses	0.1	(0.5)			0.6
Other	13.1	2.3	(0.3)	(1.0)	12.1
Deferred tax on the balance sheet – net position	12.1	(5.8)	(0.2)	(0.4)	18.5

** (- liability/+ asset).*

Deferred tax assets have been recognized on the basis of their recoverability. France, Germany and the US were the main tax jurisdictions concerned.

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 are presented below:

	June 30, 2008	Dec. 31, 2007	June 30, 2007
Numerator: Net income used to compute basic earnings per share (net income for the period).	33.1	15.4	18.9
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,246,815	14,239,519	14,124,656
Adjustment for dilutive potential ordinary shares: - unexercised options	424,595	405,094	322,055
Weighted average number of ordinary shares used to compute diluted earnings per share	14,671,410	14,644,613	14,446,711
Basic earnings per share (€)	2.33	1.08	1.34
Diluted earnings per share (€)	2.26	1.05	1.31

NOTE 22 DIVIDENDS

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

A dividend of €0.85 per share was paid to shareholders in May 2008 in respect of fiscal 2007, representing an aggregate amount of €12.2 million.

NOTE 23 LEASES

1 - FINANCE LEASES

Carrying amount by asset category

In millions of euros	**June 30, 2008**	**Dec. 31, 2007**	**June 30, 2007**
Buildings	**0**	0	0.1

2 - LEASES WHERE THE GROUP IS THE LESSEE (OPERATING LEASES)

Schedule of minimum payments

In millions of euros	**Total at June 30, 2008**	**< one year**	**> one year**	**five years or more**
Minimum payments	9.9	3.6	6.3	0.5

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.

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.

Le Carbone-Lorraine SA belongs to the Carbone Lorraine group, which encompasses 92 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 €8.1 million in the first half of fiscal 2008, compared with €10.2 million in the first half of fiscal 2007.

In the first half of fiscal 2008, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million (€0.1 million in the first half of fiscal 2007).

The amounts receivable by the Group from its unconsolidated subsidiaries and associates came to €4.8 million at June 30, 2008, while amounts payable came to €0.3 million.

Shareholders' advances made to unconsolidated subsidiaries and associates by Le Carbone Lorraine SA amounted to €0.1 million at June 30, 2008 (vs. €0.1 million at June 30, 2007).

2 - DISCLOSURE OF COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL (EXECUTIVE COMMITTEE, INCLUDING THE CHAIRMAN AND CEO)

In millions of euros	**June 30, 2008**	**June 30, 2007**
Salaries, bonuses, benefits in kind and directors' fees	1.2	1.2
Top-up pension plan payments(1)	0.7	0.2
Other long-term employee benefits	0.0	0.0
TOTAL	**1.9**	**1.4**

(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 retirement, the regime guarantees top-up pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.
Actuarial obligations were measured at €5.2 million at June 30, 2008, compared with €5.0 million at December 31, 2007. An additional charge was recorded in relation to the retirement of member of the Executive Committee, who retired earlier than initially anticipated

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: 75,000 stock options were granted to the Executive Committee (including the Chairman and CEO) in 2007:

	2007 plan Tranche 11
Date of Board of Directors' meeting	July 25, 2007
Total number of options granted	75,000
Strike price	57.24
Start of exercise period	July 2011
Expiration date	July 2017

> 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 allotted to Executive Committee members under the 2008 plan.

NOTE 25 COMMITMENTS AND CONTINGENCIES

A - FINANCIAL COMMITMENTS AND LIABILITIES

In millions of euros	June 30, 2008	Dec. 31, 2007	June 30, 2007
Commitments received			
Guarantees and endorsements	0.1	0.3	0.3
Other commitments received	1.9	0.0	0.0
TOTAL	2.0	0.3	0.3
Commitments given			
Collateralized debts and commitments	0.3	0.3	0.3
Market guarantees and endorsements	13.8	10.6	9.9
Payment guarantees on acquisitions			
Other guarantees	43.5	43.7	62.1
Other commitments given	3.8	1.1	0.8
TOTAL	61.4	55.7	73.1

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

Nature

The largest item totaling €43.5 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 during 2003 by the European Commission in respect of which an appeal before the Court of First Instance of the European Communities is still being heard. 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.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €21.8 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. 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 2008. 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

On July 3, 2008, Carbone Lorraine took a majority stake in Chinese company Zhejiang Mingrong Electrical Protection. This purchase took place through the Group's electrical protection subsidiary Ferraz Shawmut, and makes the Group China's leading player in fuses and fuse equipment.

On June 30, 2008, Carbone Lorraine obtained a $350 million syndicated multi-currency loan with a maturity of 5 years, to replace the previous $220 million syndicated loan taken out in December 2004 and maturing in December 2009.

NOTE 27 APPROVAL OF THE FINANCIAL STATEMENTS

The Group's interim consolidated financial statements for the six months ended June 30, 2008 were approved by the Board of Directors at its meeting on August 28, 2008.

12.2.7 Statutory auditors' report on financial reporting for the first half of 2008

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and with articles L.232-7 of the Code de Commerce and L.451-1-2 III of the Code Monétaire et Financier, we have:

- carried out a limited review of Le Carbone Lorraine S.A.'s summary consolidated financial statements for the six-month period from January 1, 2008 to June 30, 2008 as enclosed with this report;
- examined information provided in the interim activity report.

The Board of Directors was responsible for the preparation of these summary first-half consolidated financial statements.
Our responsibility is to express our conclusion on them based on our limited review.

1 Conclusion on the financial statements

We conducted our limited review in accordance with the prevailing standards of the profession in France. A limited review consists mainly of holding discussions with senior managers in charge of accounting and finance, and carrying out analysis work. This work is less extensive than that required by an audit according to the prevailing standards of the profession in France. As a result, a limited review provides a moderate level of assurance, i.e. a lower level of assurance than that provided by an audit, that the financial statements as a whole are free of material misstatement.

On the basis of our limited review, we have not seen any material misstatements that would make the summary interim consolidated financial statements non-compliant with IAS 34 (Interim financial reporting) as adopted by the European Union.

2 Specific verification

We also examined comments contained in the interim activity report on the summary interim consolidated financial statements on which we carried out our limited review. We are satisfied that the information is fairly stated and agrees with the summary first-half consolidated financial statements.

Statutory Auditors

Paris La Défense, August 28, 2008	Neuilly-sur-Seine, August 28, 2008
KPMG Audit	Deloitte & Associés
Département de KPMG S.A.	
Jean-Paul Vellutini	Alain Penanguer
Partner	*Partner*

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