Groupe Carbone Lorraine
2003 Annual Report

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>Group profile

For more than a century, Carbone Lorraine has specialized in two main areas:
- electrical components for industrial electric and electronic equipment.
- specific applications of graphite and other advanced materials.

Its customers are primarily high-profile companies operating in the aerospace, automobile, electronics, electrical equipment, chemicals, rail and processing industries. Well-established worldwide, the Group holds world-class positions in all its main markets.

Number one worldwide:

Thermal anti-corrosion equipment
Flux packages for electric motors

Number two worldwide:

High-temperature applications of isostatic graphite
Brushes and brush-holders for electric motors
Industrial fuses

Number three worldwide:

Magnets for automobile applications

Sales of €629 million
6,800 employees
A diversified shareholder base
A worldwide presence on five continents and a manufacturing base in 40 or so countries

All the information contained in this document concerning the worldwide positions held by the Group and its competitors is based on Carbone Lorraine estimates.

>Message from the Chairman

The past year brought some radical changes for Carbone Lorraine. During 2003, we completed the implementation of the savings plan initiated two years ago. Thanks to these measures, we were again able to cope with the effects of the still depressed economic environment.

Two of our divisions, Electrical Applications and Advanced Materials and Technologies, kept their margins up at a high level in spite of the unfavourable business conditions. The Electrical Protection division, which underwent major restructuring, should see its efforts rewarded during 2004, with its profitability moving closer into line with the margins in Electrical Applications and Advanced Materials and Technologies from 2005 onwards. The initiatives taken by the Magnets division to concentrate on automated productions at the French sites should enable it to break even again at operating level in 2004. This said, a great deal more work, as well as better business conditions, will be needed for its margins to return to a decent level.

As well as implementing these restructuring measures, we organized our production more efficiently, continued to take major commercial initiatives and actively pursued our strategy of innovation to bolster our market shares. These measures, which altogether make up our "2005 Booster" plan, will have a very substantial impact on our margins. Our target is to deliver an operating margin of at least 10% from 2005 onwards, even in poor economic conditions, i.e. 4 percentage points more than in 2003.

We also improved our cash focused management and successfully introduced this new emphasis into the Group's long term corporate culture. These initiatives, which were backed up by an asset disposal plan and debt refinancing, should provide additional room for manoeuvre to deliver stronger and more rapid growth.

The fine we received in December from the European Commission in Brussels -for anti-competitive practices that were eliminated from the Group five years ago- cast a shadow over the end of the year. We have decided to appeal vigorously against this decision, which was clearly disproportionate. At the same time, to ensure that our financial statements remain conservative, we decided to set aside a provision covering the entire amount of the fine. The non-recurring charges related to the fine, the implementation of the savings plan and an the impairment charge adjusting the book value of the Magnets division to its real outlook produced for 2003 a net loss of €38 million.

As a result of this loss, we will not recommend a dividend to be paid this year, so that we do not dip into our reserves again. I am fully aware of the importance attached to the dividend by our shareholders, particularly by individual investors. I am therefore determined to resume dividend payments from 2004, when we expect net income to be back well inside positive territory.

I am highly confident in our ability to bounce back in 2004 as the "Booster" plan on which we have been working for the past two years starts to pay off. And I am also highly confident for future years thanks to all the projects we are currently working on. One of the most spectacular examples is in China: we had one workshop at year-end 2003, and we will have another six by the end of 2004.

Our expansion in China will be one of the Group's key strengths in the future because it will enable us to follow (and in some cases precede) our customers into the country, to produce on a low-cost basis and to benefit from the tremendous expansion opportunities in this part of the world. By moving into China, we have all of Asia in our sights!

Our share price rose by almost to 30% during 2003; however my view is that the markets have not yet grasped the full extent of the changes we have introduced to bolster the Group's competitiveness.

The outlook for 2004 is much brighter than the picture was at the start of 2003. We should be able to deliver a significant improvement in our earnings, even assuming economic conditions remain unchanged. The recovery will gain further momentum once the economic upturn kicks in, confirming the first shoots of growth currently reported in the US.

Based on all these factors and the strong commitment shown by all our staff, I firmly believe that our Group is set to embark on a fresh cycle of profitable growth.

Claude Cocozza, Chairman and Chief Executive Officer

>Key figures

Condensed income statement

(€ m)	2003	2002	2001	2000	1999
Sales	629.4	720.9	803.7	876.1	690.3
Operating income	39.3	59.6	76.0	101.4	68.1
Net financial income/(expense)	(10.8)	(14.1)	(24.6)	(30.1)	(13.5)
Income before tax and non-recurring items	28.5	45.5	51.4	71.3	54.6
Net income before non-recurring items, Group share	22.3	32.2	34.5	47.9	36.1
Net income, Group share	(38.2)	(10.8)	(8.1)	41.2	16.3

Condensed balance sheet

(€ m) Assets	2003	2002	2001	2000	1999
Intangible fixed assets	179.6	208.8	246.3	241.7	236.5
Property, plant and equipment	128.1	166.9	192.8	192.3	183.8
Financial assets	27.4	30.9	37.0	34.7	40.5
Current assets, cash and equivalents	299.0	338.8	396.9	393.4	376.2
Total assets	**634.1**	**745.4**	**873.0**	**862.1**	**837.0**
Liabilities and shareholders' equity					
Shareholders' equity	179.6	246.3	295.3	313.6	270.8
Long-term provisions	31.4	35.5	41.2	39.4	36.7
Long-term debt	210.8	266.3	338.6	332.5	352.9
Other liabilities and short-term provisions	212.3	197.3	197.9	176.6	176.6
Total liabilities and shareholders' equity	**634.1**	**745.4**	**873.0**	**862.1**	**837.0**

Consolidated cash flow statement

(€ m)	2003	2002	2001	2000	1999
Cash flow	**45.9**	**67.2**	**69.8**	**89.2**	**70.9**
Changes in the working capital requirement	31.5	19.1	(2.0)	(11.3)	8.2
Other changes	(11.5)	(5.7)	(7.6)	(7.8)	(4.6)
Net cash flow generated by operating activities	**65.9**	**80.6**	**60.2**	**70.1**	**74.5**
Net cash flow used in investing activities	**(23.8)**	**(24.4)**	**(36.4)**	**(38.0)**	**(37.2)**
Net cash flow generated by operating and investing activities	**42.1**	**56.2**	**23.8**	**32.1**	**37.3**
Net investments related to the impact of changes in the scope of consolidation	(10.1)	(2.8)	(4.1)	32.3	(154.7)
Non-recurring disposals of fixed assets	11.1	3.5	-	-	-
Net cash flow	**43.2**	**56.9**	**19.7**	**64.3**	**(117.4)**
Proceeds of capital increases	1.3	0.2	0.3	6.5	3.3
Net dividends	(8.8)	(14.1)	(17.0)	(10.4)	(10.4)
Non-operating cash flows	(7.0)	(0.4)	(2.3)	(9.9)	-
(Increase) / decrease in long-term debt	**28.6**	**42.6**	**0.7**	**50.5**	**(124.5)**

Net cash flow generated by operating and investing activities *

(€ m)	2003	2002	2001	2000	1999
	42.1	56.2	28.3	23.8	37.3

* Calculated before the impact of changes in the scope of consolidation, dividends and non-recurring cash flows.

In 2003, cash generation stayed at a high level and contributed to the 23% reduction in net debt (42% over the last two years).

Gearing

	2003	2002	2001	2000	1999
Net debt/shareholders' equity	1.02	0.96	1.07	0.96	1.19

The rise in gearing in 2003 derived solely from the decrease in shareholders' equity as a result of the heavy non-recurring charges and the impact of currency fluctuations. Adjusted for the impact of non-recurring charges related to the Magnets division and the European Commission fine, gearing stood at 0.82x.

ROCE*

As a %	2003	2002	2001	2000	1999
* ROCE = Operating income/capital average employed (net fixed assets + working capital requirement)	7.3	9.3	11.5	14.8	13.0

In 2003, the decline in pre-tax ROCE derives from the decrease in operating income. Its effect on ROCE was cushioned by the decrease in average capital employed and notably in the working capital requirement.

Analysis of sales

by business segment

as a %	
Electrical applications	29
Permanent magnets	13
Electrical protection	26
Advanced materials and technologies	32
Total	100

by geographical region of sales

as a %	
Europe	48
North America	32
Asia	12
Rest of the world	8
Total	100

Cash focused management

The Group launched a cash focused management plan during 2002, which continued in 2003, to instill a genuine long term culture of cash focused management within the Group. The goal of the plan is to maximize cash generation, since this forms a key pillar of our organic and acquisition-led growth strategy.

The following measures were implemented during 2003:

- Manufacturing facilities in Barcelona (Spain), Camarillo (US) and Stockholm (Sweden) were sold.
- Product flows in the Electrical Protection division were reorganized, paving the way for a €5 million reduction in inventories.
- The maturity of the group's debt was extended through $85 million in refinancing provided by US investors for a final duration of 12 years.
- Further initiatives were taken to increase the reliability of daily cash forecasting at all the group's sites.

Concurrently, a wide-ranging program to raise managers' awareness of, and train them in, the techniques of cash focused management was continued during 2003, including the introduction of cash generation targets, which count towards one-quarter of the bonuses paid to managers.

Value creation indicators

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

E.V.A. is calculated by deducting the cost of capital employed from operating income less normalized tax expense. Operating income is adjusted to give it a more economic and less accounting-oriented definition. The cost of capital employed takes into account the cost of debt and the returns required by shareholders. E.V.A. is an internal management indicator that is notably used to calculate the variable portion of the remuneration paid to the managers of each division. It takes into account the gap between actual E.V.A. and the target set as part of the budgeting procedure.

Return on capital employed (ROCE) is operating income divided by capital employed. It is monitored on a Group-wide level as a value creation indicator. In 2003, the Group's return on capital employed came to 7.3%, compared with 9.3% in 2002. This decline was attributable to the persistently lackluster economic conditions, which led to a fall in operating income.

>Carbone Lorraine and the stock market

Performance of Carbone Lorraine shares

In 2003, Carbone Lorraine’s share price gained 30%, while the SBF 120, its benchmark index, advanced by 15%. These share price gains reflected shareholders’ confidence in the Group’s outlook, especially the initiatives taken to bolster its profitability.

Carbone Lorraine maintains an active relationship with its shareholders thanks to its extensive investor relations program, which aims to deepen investors’ knowledge of the Group and its business activities.

The Group holds presentations for its individual shareholders in France. In 2003, presentations were held in Strasbourg, Marseille and Montpellier. A semi-annual newsletter for individual shareholders keeps them up to date with the Group’s sales and earnings performance and provides insight into its business activities. The Group’s Annual General Meeting in Paris represents a highlight of the shareholder relations calendar. It gives individual shareholders the opportunity to meet the management team.

The Group’s employee shareholders are involved in the events organized for individual shareholders and they also receive the Group’s shareholders’ newsletter. To improve their knowledge of the financial markets, the Group offers them free introductory courses about the stock market and displays Carbone Lorraine’s share price performance along with a commentary at all its sites. Lastly, they receive an “Employee Investment Newsflash”, which is intended to provide insight into the workings of stock market and savings tips.

Thanks to this emphasis on clarity and service, Carbone Lorraine received Second Prize at the *Fils d’Or* awards for the second year in a row. This event was organized by French investment weekly *La Vie Financière*, and the prizes were awarded to listed companies with the highest-quality relations with their individual shareholders.

For institutional investors, the Group organizes regular information meetings throughout the year. Management meets institutional investors at roadshows in Europe and North America. Carbone Lorraine also holds seminars for investment analysts and journalists on specific topics. During 2003, it organized a seminar dedicated to semiconductors, while a seminar on braking is scheduled to take place during 2004.

Furthermore, Carbone Lorraine’s web site is a valuable source of in-depth information about the Group’s business activities. All the press releases and other documents published by the Group are regularly put online. It gives visitors access to stock market and financial data concerning Carbone Lorraine and allows them to produce customized stock market charts. During 2003, Carbone Lorraine received the third prize in the Boursoscan awards organized by Boursorama for the content of its web site.

Contact details for the Shareholders’ department

Carbone Lorraine – Service Actionnaires

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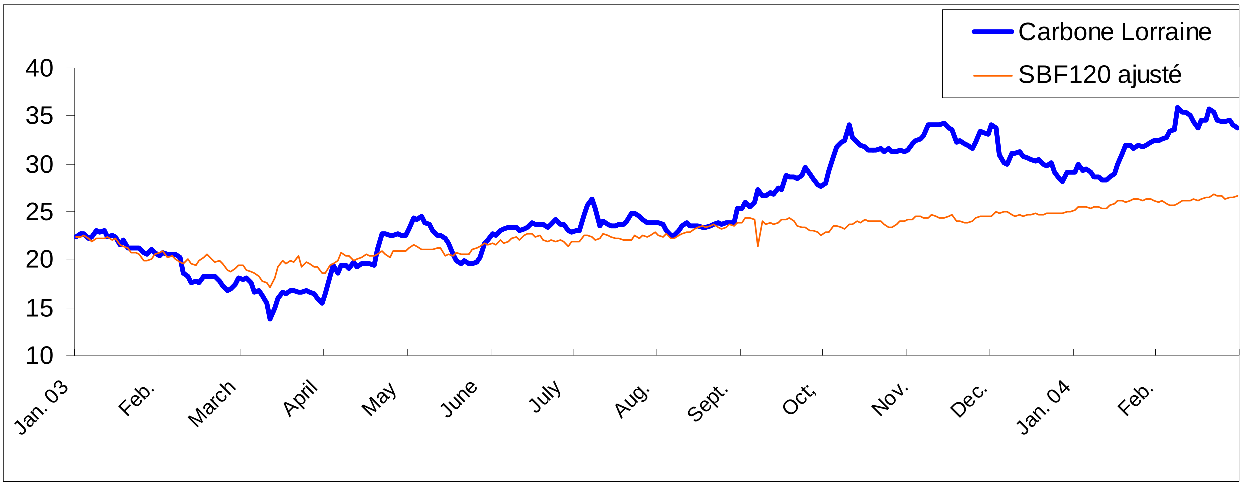
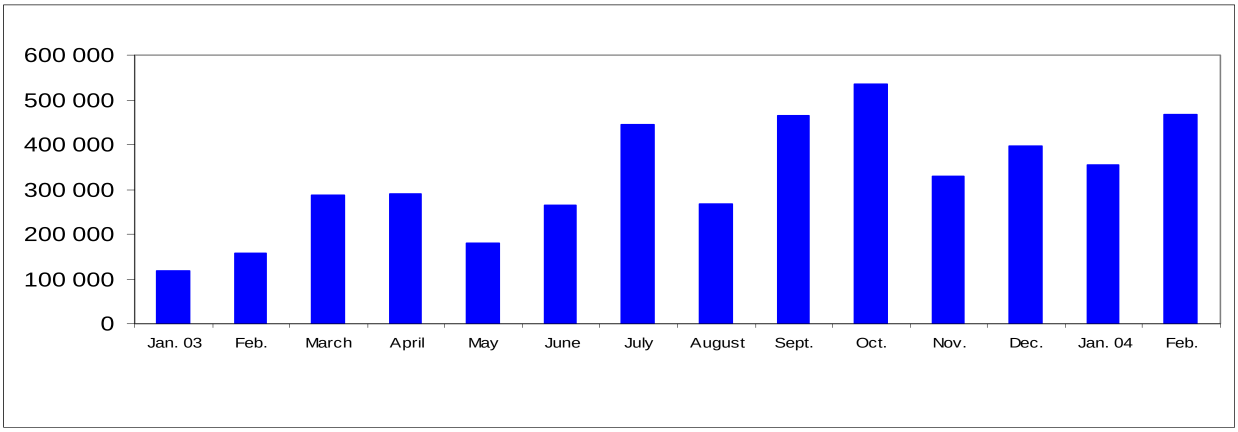
Share price performance to end-February 2004



Trading volumes to end-February 2004



Details about Carbone Lorraine shares

Listing: Premier Marché-Deferred settlement
Benchmark indices: SBF 120 and Next 150
NextPrime segment of Euronext
SRI Europe index
Bloomberg code: CRL FP
Reuters code: CBLP.PA
Sicovam code: 0000039620

Key dates in the 2003 financial communication calendar

Sales reports

February 4 – Full-year 2002 sales
May 13 – First-quarter 2003 sales
July 24 – Second-quarter 2003 sales
November 4 – Third-quarter 2003 sales

Earnings reports

March 18 – Full-year 2002 results
September 16 – Interim 2003 results

Meetings for French and international institutional investors

March, April, September, October: France, Great Britain, USA

Presentations for individual shareholders

May 26: Strasbourg
November 6: Marseille
December 10: Montpellier

Annual General Meeting

5pm on May 14 – Paris

Seminar for investment analysts and journalists

February 6– Topic: Semiconductors – Paris

Key dates in the 2004 financial communication calendar

Publication of sales figures

January 28 – Full-year 2003 sales
May 12– First-quarter 2004 sales
July 22– Second-quarter 2004 sales
November 4– Third-quarter 2004 sales

*Publication of earnings figures**

March 23– Full-year 2003 results
September 14– Interim 2004 results

Meetings for French and international institutional investors

March, April, September, October: France, Great Britain, USA

Presentation to individual shareholders

April 8 – Lille
June 2– Toulouse
November 30– Metz
December 2– Paris

Annual General Meeting

17.00 CET on May 13 – Paris

Seminar for investment analysts and journalists

February 10– Topic: Braking – Paris

**According to regulations applicable to the NextPrime segment of Euronext, Carbone Lorraine do not opt for the publication of quarterly earning figures.*

Share price data

	February 2004	January 2004	2003	2002	2001
Share price (€) High	36.40	32.87	34.49	39.48	52.45
Low	32.27	28.23	13.80	20.10	24.15
Average	33.90	32.08	24.40	29.77	41.47
At year-end	33.80	32.40	29.15	22.26	30.00
Number of shares at end of period	11,197,890	11,197,890	11,197,890	11,139,150	11,128,462
Market capitalization at end of period (€ m)	378.489	362.81	326.42	247.95	333.85
Average number of shares traded per month	467,377	353,571	362,612	372,330	354,241

Net dividend per share

In €	2003	2002	2001	2000	1999
	0.0	0.60	0.80	1.06	0.88

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

In €	2003	2002	2001	2000	1999
	2.00	2.89	3.10	4.31	3.31

Ownership of the share capital at December 31, 2003

as a %	
Individual shareholders	20.4
Employee shareholders	3.2
French institutional investors	45.1
- including BNP Paribas	21.0
International institutional investors	30.8
Treasury shares	0.5

>Corporate governance

During 2003, Carbone Lorraine stepped up its commitment to good corporate governance by setting up a Strategy Committee within the Board of Directors. This new committee comprising four directors is responsible for conducting in-depth reviews of the Group's strategic priorities and making proposals to the Board of Directors.

In 2003, the turnout of the members at the Board of Directors and the three committees was of 92%.

Board of Directors

Members of the Board of Directors

Claude Cocozza, Chairman and Chief Executive Officer

Jean-Paul Bernardini *

Jean-Pierre Capron (independent director)

Robert Chauprade (independent director)

Hervé Couffin

Jean-Paul Jacamon (independent director) **

Jean-Claude Karpeles (independent director)

Lise Nobre ***

Walter Pizzaferri (independent director)

**Until March 16, 2004.*
***Co-opted at the Board of Directors' meeting of January 22, 2003 to replace Patrick Kron, who resigned.*
****Co-opted at the Board of Directors' meeting of March 16, 2004 to replace Jean-Paul Bernardini, who resigned.*

A director is said to be independent where he or she has no direct or indirect link with the company, such as being an employee, chairman, managing director, major shareholder, affiliated in any way with a major shareholder or affiliated with a major and/or usual trading or financial partner of the company.

The Board of Directors has eight members, five of whom are independent directors. The Board met nine times during 2003. At each meeting, the Board reviewed trends in the Group's sales and earnings. It also considered the following matters:

The Board adopted new internal regulations in 2003 based on proposals put forward by a work group made up of some of its members and charged with considering corporate governance issues. These internal regulations define the role, composition and organization of the Board of Directors, as well as the type of decisions that it needs to approve. They specify the functions of the Board's three specialized committees, namely the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee. It also set up rules of conduct as regards the knowledge of privileged information.

The Board also reviewed the "Booster" plan drawn up by the Group's management team. This plan encompasses the savings measures and expansion initiatives implemented to weather the downturn in the economic environment and to deliver a significant improvement in the Group's margins in comparable conditions from 2004 onwards.

The heads of the business segments presented their strategy for each division to the Board. It then carried out an analysis of the Group's business portfolio and examined various strategic options that could bolster Carbone Lorraine's sales and earnings growth potential as well as enhancing its appeal to investors.

The Board ratified the proposals made by the Appointments and Remuneration Committee regarding the remuneration paid to members of the Group's Executive Committee and the terms and conditions for the stock option plan benefiting sixty or so Group executives. The plan includes two thresholds based on 2003 net income before non-recurring items, which must be exceeded before all the options may be exercised.

The Board adopted the terms and conditions for the capital increase reserved for employees proposed by the Appointments and Remuneration Committee.

The Board was kept regularly informed of the latest developments in the anti-trust litigations, especially the procedure launched by the European Commission. It took note of the Commission's decision to hand the Group a fine of €43 million and of the reasons cited for this decision. After reviewing these statements, the Board deemed that the fine was grossly disproportionate and approved the entering into appeal to the Court of First Instance in Luxemburg.

Assessment of the operation of the Board of Directors

In early 2004, the Board of Directors conducted its first assessment of how it operates in accordance with the latest corporate governance guidelines. To this end, it used a questionnaire developed after works conducted by AFEP and other companies. A member of the Appointments and Remuneration Committee was asked to interview each director using the questionnaire as a framework and then to report back to the Board.

The main points addressed by the questionnaire were as follows:

- an assessment of the relevance of the Board's internal regulations;
- an assessment of the collective performance of the Board of Directors (composition, directors' access to information before and between each meeting of the Board, training provided to directors, quality and effectiveness of debates within the Board of Directors, frequency and duration of meetings of the Board of Directors and those of the Specialized Committees);
- the role and performance of the Specialized Committees (Audit and Accounts Committee, Appointments and Remuneration Committee, Strategy Committee);
- an assessment of the independence of the directors;
- an evaluation of the level of attendance fees paid to directors;
- an evaluation of contribution made by executive management to the smooth operation of the Board of Directors (strategy, information concerning financial communications and shareholder relations);
- the relevance of the key sales and earnings indicators reported periodically to the Board of Directors;
- the degree of access that the directors have to the key executives of the Group.

During its meeting on March 16, 2004, the Board examined the findings that emerged from the answers. The conclusion was that the Board of Directors operates in a satisfactory fashion. Several improvements based on suggestions put forward during the review process were adopted by the Board.

Audit and Accounts Committee

Members of the Audit and Accounts Committee

Jean-Pierre Capron (Chairman - independent director)

Jean-Paul Bernardini*

Jean-Claude Karpeles (independent director)

Hervé Couffin**

** Until March 16, 2004.*

*** From March 16, 2004.*

The Audit and Accounts Committee comprises three directors, two of whom are independent. Since March 2003, it has been chaired by Jean-Pierre Capron, who took over from Robert Chauprade. The committee met four times during 2003.

The Committee conducted an in-depth review of the Group's consolidated financial statements and gave its seal of approval to the publication of the interim and annual reports after making the improvements that it deemed necessary.

The Audit and Accounts Committee also approved the audit program carried out during 2003. It included audit assignments at nine manufacturing facilities in Europe, North America and Asia, as well as cross-functional audits covering various sites. The Electrical Protection division's European supply chain and the authorization procedure for capital spending plans were also the subject of a cross-functional audit. The Committee made sure that the action plans resulting from these audits were acted on within the specified timeframe.

The Audit and Accounts Committee also reviewed the work of the Risks Committee. The role of this Committee comprising senior Group managers is to analyze potential risk factors for Carbone Lorraine and to draw up action plans to control these risks more effectively. During 2001, the Group mapped out the risks to which it is exposed, leading it to the conclusion that it does not face any major risks. The Risks Committee, which operates under the supervision of the Audit and Accounts Committee, endeavors to enhance the control of potential risk factors.

In 2003, it conducted a more in-depth assessment of business risks and information system security risks. Preventive measures were introduced to alleviate certain risk factors, while additional analysis was carried out for certain other risks, so that they can be identified more clearly and so appropriate preventive and remedial plans can be drawn up.

The Appointments and Remuneration Committee

Members of the Appointments and Remuneration Committee

Robert Chauprade (Chairman – independent director)

Claude Cocozza

Hervé Couffin

Jean-Paul Jacamon (independent director)

The Appointments and Remuneration Committee has four members, two of whom are independent directors. It met twice and held another two meetings using call conferencing and videoconferencing technology.

The Committee fixed the bonuses paid to senior managers for 2002 and set the bonus targets for 2003. It reviewed the findings of the study carried out by an independent consultant into the salaries paid to Executive Committee members, comparing them to the going market rates. It made proposals to the Board for the salaries to be paid for 2003. Claude Cocozza, the Group's Chairman and Chief Executive Officer, did not participate in the discussion relating to his own situation. On several occasions, the Committee discussed whether or not to continue the policy of capital increases reserved for employees and set the conditions under which this policy is to be continued. It submitted proposals to the Board regarding the terms and conditions for the capital increase of 55,000 shares carried out in December 2003.

The Committee also discussed the terms and conditions for the grant in 2003 of 125,000 share subscription options to 57 Group managers. In particular, it submitted recommendations to the Board concerning the two performance thresholds that will have to be reached in 2003 before these options can be exercised. It approved the list of beneficiaries proposed by the Group's management team.

The Committee also reviewed preparations with the Group's management for the replacement of two managers and generally potential changes in the management team over the next five years.

Lastly, after reviewing the Bouton's report criteria, the Committee established the list of independent directors.

Strategy Committee

Members of the Strategy Committee

Walter Pizzaferri (Chairman – independent director)

Jean-Paul Bernardini*

Robert Chauprade (independent director)

Claude Cocozza

Lise Nobre**

** Until March 16, 2004.*

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

In accordance with the Board of Directors' new internal regulations, a Strategy Committee was set up comprising four members of the Board, two of whom are independent. It is chaired by Walter Pizzaferri. The Committee met five times during 2003.

The Strategy Committee has two main roles:

- supporting the Board of Directors in its role as an advisor on strategic planning,
- counseling the Group's executive management on strategic planning and defining the Group's core business portfolio from time to time.

During 2003, the Committee focused on implementing a new strategic planning process, the purpose of which is to identify the Group's strategic priorities more clearly with each passing year. Special attention was paid to the core competencies that enable Carbone Lorraine to stand out from its rivals. A review was carried out of the changing medium-term needs of the Group's customers to ensure that it has the requisite resources to cater to these changes.

The Committee examined the strategic priorities of the Group's various business activities. It analyzed the current structure of the portfolio of core businesses and considered potential changes in the medium term with a view to creating more value for the shareholders.

Executive Committee

Members of the Executive Committee

Claude Cocozza

Michel Coniglio

Executive Vice President

Group Vice President, Advanced Materials and Technologies and Electrical Applications

Bernard Leduc

Group Vice President, Human Resources

Marc Renart

Group Vice President, Electrical Protection

Jean-Claude Suquet

Group Vice President, Finance and Administration

The Executive Committee comprises five senior managers whose role is to run and supervise the Group's day-to-day operations. It meets on a systematic basis every month. Special meetings are also arranged where necessary. During the monthly meetings, it conducts a detailed analysis of the monthly trends in sales, earnings and cash generation at each division and lays down the measures that need to be taken in the event that actual performance falls short of budget. The Executive Committee meets with the head of each division once or twice yearly to carry out a more detailed review of the division's position and future development plans.

During 2003, the Executive Committee also:

- examined and adopted the strategic plan for each division and prepared the Group’s strategic plan presented to the Board of Directors;
- discussed and adopted the divisional and Group budgets;
- defined the investment program and authorized spending on each major investment project;
- scaled up the 2002 and 2003 savings plans by drawing up the “Booster” plan, which is intended to prepare the Group for a new period of expansion;
- set up the “5S Challenge” in a bid to make the Quality and Continuous Improvement program a long-term endeavour by rewarding the most significant achievements within the Group;
- held management reviews plans for the Group’s divisions and main subsidiaries and discussed desirable career opportunities for its key executives and new skills that they first need to acquire;
- bolstered the Group’s safety policy, including visits by the Executive Committee to two manufacturing facilities to work on safety issues with the local management team;
- reviewed the results and follow-up from internal audit assignments and work by the Risks Committee;
- reviewed the major research and development priorities and lines of research being explored with the divisional heads of Research and Development;
- adopted the policy proposed by the Group’s purchasing department;
- tested an enhanced system of sales forecasting built with the assistance of an external organization.

>Sustainable development

Sustainable development is one of the key pillars of Carbone Lorraine's corporate culture. The Group has a long tradition of pursuing a socially, economically and environmentally responsible policy.

In 2003, Carbone Lorraine was selected by Kempen, an international pension fund, to join its new European index of socially responsible companies (SRI Europe index). This decision was made following an in-depth analysis of the Group's ethical, human resources and environmental policy.

Economic and social responsibility

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

During 2003, Carbone Lorraine continued the development of its Human Resources policy. Its objective is to develop the professional talents of its employees to help them adapt to the business and technological changes underway in its industry, while maintaining an ongoing dialog with them. Naturally, a commitment to safety remains a key aspect of this policy.

Communicating with shareholders

Carbone Lorraine has forged a close relationship with its shareholders. The Group's financial communications for shareholders are intended to provide them with greater insight into the Group and its business activities. The Group's shareholder presentations, visits to industrial sites, press releases and web site are all geared to achieving the same goal: delivering high-quality information to help individual and institutional investors make informed decisions.

During 2003, Carbone Lorraine received two awards for the quality of its shareholder relations. For the second year in a row, it won Second Prize for the quality of its investor relations with individual shareholders at the *Fils d'Or* awards, which were organized by French investment weekly *La Vie Financière*. Carbone Lorraine also landed Third Prize in the Boursoscan awards for the contents of its web site. This event was organized by Boursorama, with the awards being based on various aspects of listed companies' web sites.

Securing the workforce's full commitment

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

For the first time in 2003, one quarter of the bonuses paid to managers was indexed to performance with respect to individual cash generation targets. Furthermore, various training sessions were organized to teach managers effective cash focused management techniques. This new emphasis is gradually being incorporated into day-to-day management, marking the start of a genuine change in the Group's corporate culture.

Employee share ownership is another key aspect of the Group's policy of motivating its employees. In late 2003, another capital increase reserved for employees, the fifth since 1995, was launched. In sum, 54,990 shares, i.e. 0.5% of the share capital, were offered for sale in 10 countries in Europe and North America. Demand significantly exceeded the number of shares on offer. Carbone Lorraine intends to continue actively encouraging its employees to take a stake in the Group's success by repeating this type of transaction on a regular basis.

A steady flow of internal communications is also required to secure the workforce's full backing. This helps to build trust with employees by keeping them regularly informed of changes within the Group by such means as internal newsletters, press releases and an intranet. At the same time, several industrial sites in a number of countries have developed their own internal communications tools.

Developing employees' talents

The past year saw the introduction of a procedure for defining "reference jobs" for each business area. The aim is to draw up a standard profile for various jobs within the Group, because this helps to fine-tune the Group's recruitment policy and allows goals to be set more precisely for each employee, while maintaining the consistency of its remuneration policy in individual markets and countries. As a point of reference, these standard profiles will also allow individual reviews to be more focused. In 2003, almost all the Group's managers had an annual review. The target is for these reviews to be extended to all the Group's employees.

Efforts to enhance and develop employees' skill set are also predicated on professional training. In 2003, quality assurance (with the certification programs underway at manufacturing facilities), safety and cash focused management were the focus for most of the employee training programs. Special emphasis was also placed on project management training initiatives because employees are working more and more frequently on cross-functional projects that require appropriate methodology. Three sessions were organized in France and one in the US during 2003, with another four scheduled to take place during 2004. Notwithstanding the tough economic conditions, Carbone Lorraine devoted around 1.5% of its total payroll during 2003 to training in Europe and North America, which account for around 80% of the Group's workforce.

Guaranteeing the safety of employees and installations

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

The Executive Committee, which has taken a lead in this area, reviews the safety record of each of the Group's sites on a monthly basis (incidence of accidents irrespective of whether sick leave is taken, degree of severity of accidents). It is also kept informed of any accident in the workplace where working days are lost. Since 2002, the members of the Executive Committee have taken part in "Safety Days" at various sites giving them a greater understanding of and insight into the safety issues at the Group's major locations. Subsequently, they define the action that needs to be taken to raise safety levels in conjunction with local management teams. During 2003, the Executive Committee participated in two Safety Days, one at the Amiens (France) site and the other at the Saint-Bonnet-de-Mûre (France) site. During 2004, it plans to visit the Pagny-sur-Moselle (France) and Nuevo Laredo (Mexico) facilities.

The Group Safety Committee, which is responsible for sharing the methods and best practices of various different sites, met twice during 2003. It introduced a safety audits program backed up with action plans for all the sites where incidence of accidents is above the Group average.

The improvement of safety in the workplace is also a major topic that was addressed during the annual meeting of the European Works Committee comprising the labor representatives of the European subsidiaries. At its annual meeting in November 2003, the Committee focused on analyzing accidents that had occurred and on identifying their causes using the causal tree method. A range of rules and tools have been rolled out across the Group, including safety audits, standard accident reporting forms, safety visits by senior managers and cause tree analysis of accidents, complementing the safety handbook distributed to the entire workforce.

At the same time, a number of training programs are held on a regular basis to maintain employees' awareness of and involvement in addressing safety issues.

During 2003, a new procedure was introduced stating that any employee falling victim to an accident causing them to take time off work should meet with the Group's Chairman together with the manager of the relevant site and his/her direct superior. These meetings, which serve to verify the causal tree analysis of the accident and the measures implemented to prevent it from happening again, also show the entire workforce the importance placed on occupational safety by the Group's management team.

The efforts made over many years and stepped up further in 2003 led to another reduction in the incidence of accidents during 2003. This said, a serious accident that occurred during January 2004 in one of the Group's plants in Brazil, serves as a reminder that nothing can be taken for granted and that safety policy relies on rigorous and steadfast application of the Group's rules and methods.

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

2003	2002	2001
4.2	6.7	9

Number of days sick leave taken following an accident in the workplace per thousand man-hours

2003	2002	2001
0.27	0.22	0.21

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

Geographical analysis of the workforce (at end-December)

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

Between 2001 and 2003, the workforce decreased by around 10%. This decline involved almost all the countries in Europe and North America where the Group operates. In addition, its headcount increased in regions where the economy is growing rapidly, i.e. Asia, Brazil and Tunisia.

Country	2003	2002	2001
France	2,331	2,477	2,555
Germany	565	612	673
Austria	74	76	75
Spain	207	255	243
United Kingdom	167	186	19
Italy	100	109	124
Benelux	23	23	26
Scandinavia	39	45	46
Total Europe	3,506	3,783	3,939
Tunisia	565	435	397
US	943	979	1,159
Canada	241	246	245
Mexico	764	795	1,101
Total North America	1,948	2,020	2,505
Australia	51	38	38
South Korea	210	204	200
Japan	46	43,5	5
Total Asia	307	286	289
Brazil	355	337	318
South Africa	161	149	157
Rest of the world	516	486	475
TOTAL	**6,842**	**7,010**	**7,605**

Providing support for employees affected by restructuring

Against the backdrop of a fresh deterioration in economic conditions, Carbone Lorraine embarked on a savings plan that led to a major reorganization of its manufacturing facilities. While implementing these restructuring measures, the Group paid considerable attention to the social implications of these changes. As part of this approach, a constructive dialog was started with labor representatives. Internal communications initiatives were taken to support implementation of these measures and to explain the fundamental reasons why they were necessary. During 2003, five sites in Europe were involved in restructuring plans, namely Eggolsheim and Mannheim in German (148 jobs reduction), Evreux and Saint-Pierre d'Allevard in France (170) and Barcelona in Spain (130). The full impact of these restructuring measures will show up in the workforce data for 2004. Support measures tailored to the local culture and circumstances were proposed and negotiated with union representatives.

For instance, in France, a package facilitating geographical mobility was introduced to foster transfers within the Group. In addition, job-finding units were set up to help employees unable to secure another position within the Group find personalized outplacement solutions. The initiatives taken by the job-finding units include individual assessments and career guidance, assistance with finding job offers, help with preparation of CVs and coaching for job interviews. Assistance for employees intending to set up their own business was also put in place. Aside from financial assistance, these measures included personalized support from a specialized advisor to validate business plans and to support employees with their implementation. Specific gradual pre-retirement and early retirement programs were also put in place.

Furthermore, several facilities in North America were streamlined during 2003. More specifically, the Camarillo (California) and Essexville (Michigan) plants were closed down, while the workforce was reduced at other sites, notably following the pooling of Kirkwood Industries' business activities in Cleveland (Ohio) at Farmville (Virginia). In sum, 72 jobs were cut in North America during 2003.

Maintaining a quality-oriented approach

The top priority of Carbone Lorraine's Quality and Continuous Improvement program (QPC), which was launched almost four years ago, is to achieve excellent customer service in terms of both product quality and services. To this end, various programs, such as initiatives to shorten delivery times and product development cycles, were rolled out at all the Group's sites. Consequently, the restructuring measures implemented in 2003 will lead to major improvements in the organization of production and product flows and thus shorten lead times for customers from 2004. The 5S program, which helps to improve working conditions in terms of efficiency, safety, quality and comfort through the introduction of order, tidiness, cleanliness and discipline rules, is also part of this approach. It aims to improve business performance by enhancing the reliability of all a company's operational and functional processes. For the first time in 2003, a worldwide 5S challenge was launched by the Group to reward the best achievements based on three main criteria: i) commitment from the teams, ii) the project's sustainability, and iii) its quantitative and qualitative results. Participation in this competition was very high, with 60 teams from five continents entering.

More generally, training is provided on a regular basis to ensure the continuity of the QPC plan.

Business ethics

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

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

Outsourcing

The Group partially outsources the manufacture of its products. During 2003, outsourced manufacturing costs were on a par with those incurred in 2002 (around €34 million), i.e. 14% of the Group's total purchases.

Environmental responsibilities

Environmental protection is factored into each and every significant industrial decision made by Carbone Lorraine. The Group has a decentralized organization, which enables it to implement its policy more effectively. For instance, each site manager defines an environmental policy that is appropriate for local circumstances and consistent with the Group's commitments, as laid down in its Environmental Charter.

During 2003, the Group decided to focus its efforts primarily on:

- having its sites implement an ISO 14001 Environmental Management System,
- controlling its industrial risks,
- incorporating respect for the environment into the development of its new products.

Concurrently, the Group ensures that it maintains and improves its employees' awareness of the case for sustainable development, notably through training. Efforts are not confined merely to manufacturing facilities. For instance, after a campaign lasting several months to convince the co-tenants of the building in which the Group has its head offices, paper recycling was finally introduced during 2003 (paper has already been recycled at the Group's plants for many years).

Greater emphasis on certification

A commitment to ISO 14001 certification as part of the Quality and Continuous Improvement (QPC) plan forms the backbone of the Group's environmental policy. In 2003, the Toronto site was accredited, lifting the total number of certified sites to five. The Group's objective is for all its largest manufacturing facilities to achieve accreditation by the end of 2005.

At the same time, Ferraz Shawmut, the Group's subsidiary specializing in Electrical Protection, has been rolling out an integrated quality, safety and environment (QSE) management system that should culminate in a process of continuous improvement specifically tailored to environmental issues.

Some sites, such as Gennevilliers and Pagny-sur-Moselle (France), have taken this process even further by striving to achieve OHSAS 18001 (*Occupational Health and Safety Assessment Series)* certification.

Minimizing industrial risks

In 2001, the Risks Committee mapped out the operational, financial, strategic and information-related risks potentially facing Carbone Lorraine. This mapping stressed no major risks. In 2003, the Committee's work focused mainly on classifying the most significant industrial risks to minimize the potential risk factors identified. Preventive and remedial measures are currently being implemented.

The Committee also prepared an age pyramid of key staff and high-potential employees to ensure that the Group's expertise remains intact in the long term. Lastly, it implemented an emergency solution to mitigate the effects of the complete failure of some of the Group's central information systems.

Development of an environmentally-friendly approach

As part of its contribution to environmental protection, Carbone Lorraine has factored its desire to be environmentally-friendly into its products from the design stage. For some considerable time, the manufacture of ferrite magnets has used iron oxides, a by-product recovered from the manufacture of steel sheets. During 2003, Carbone Lorraine developed new ranges of lead-free brushes and lead- and cadmium-free fuses. Numerous other initiatives have been taken locally, in accordance with the needs of each site. At Saint-Bonnet-de-Mûre, for instance, a training session about environmental issues was organized for 250 staff, and a health, safety and environmental monitoring system will be introduced from 2004. At the St Mary's site in the US, work focused primarily on reducing sulfur oxide emissions.

Carbone Lorraine's environmental policy

Carbone Lorraine endeavors to protect the environment and undertakes to:

1. **Comply with the regulations in force**, in the form of legal and other requirements related to its products and existing installations.
2. **Catalogue** potential **risks** to its installations and products, review whether **prevention** is sufficient to **avoid any accidents** that may pose a threat to people in the neighborhood or to the surrounding area (particularly to customers, the company's workforce and those living close to production sites).
3. **Visit installations periodically** to detect anomalies.
4. **Use incidents and best internal and external practices** to promote a **quality and continuous improvement** approach based **on sharing experiences.**
5. **Minimize emissions and pollutants** in all environments.
6. **Minimize consumption** of water, energy, raw materials and packaging and **encourage recycling and waste-to-energy conversion.**
7. Foster **progress through continuous improvement** by rolling out a **ISO 14001 Environmental Management System** at all the Group's major sites.

Overview of business activities

Businesses	Activities	Main applications	Priorities
Electrical Applications ▪ World number two in brushes and brush-holders for small electric motors ▪ Sales of €184 million ▪ 29.3 % of Group's sales ▪ Main competitors: - Morgan Crucible (UK) - Schunk (Germany)	Design, manufacture and marketing of brushes and assemblies including brushes, brush-holders and electronic components Assistance and maintenance	▪ Large motors: all industrial applications and robots, electrical generators for aviation, electric locomotives, etc. ▪ Small motors: auxiliary motors for cars (wipers, window lifts, ABS etc.), portable power tools (drills, etc.), small household appliances (vacuum cleaners, etc.)	▪ Large motors: pursue an innovation-driven strategy in growth niches and expand in Asia ▪ Small motors: pursue quality improvements and develop brushcards with new added functions
Permanent Magnets ▪ World number three in magnets automobile applications ▪ Number one worldwide in flux packages for automobile electric motors ▪ Sales of €82 million ▪ 12.9% of Group's sales ▪ Main competitors: - Hitachi (Japan) - TDK (Japan)	Design, manufacture and marketing of ferrite magnets and flux packages for small electric motors	▪ Small motors: auxiliary motors for cars (wipers, window lifts, ABS etc.), portable power tools (drills, etc.), small household appliances (vacuum cleaners, etc.)	▪ Continue the profitability improvement in Europe, ▪ Pursue the expansion of the product offering in countries where the Group is established ▪ Expand in Asia
Electrical Protection World number two in industrial fuses ▪ Sales of €165 million ▪ 26.3 % of Group's sales ▪ Main competitors: - Bussmann (US)	Design, manufacture and marketing of industrial fuses, cooling devices and protection systems for motors, circuit-breakers, current collectors and other electrical and electronic equipment	▪ Protection of industrial motors and electric and electronic equipment against short circuits and voltage surges ▪ Thermal protection of industrial electronic equipment ▪ Protection of electricity distribution grids ▪ Electrical protection for property and people	▪ Complete restructuring measures in Europe to improve margins substantially, including at the bottom of the cycle. ▪ Pursue business development with equipment suppliers, distributors and users by emphasizing innovation and quality of products and services.
Advanced Materials and Technologies ▪ World number one in anti-corrosion equipment ▪ World number two in high-temperature applications of isostatic graphite ▪ Sales of €198 million ▪ 31.5 % of Group's sales ▪ Main competitors: - SGL Carbon (Germany) - Toyo Tanso (Japan)	Design, manufacture and marketing of: - anti-corrosion equipment based on graphite and noble metals (tantalum, titanium, etc.) and fluoride polymers (PTFE) for the chemicals and pharmaceuticals industries; - isostatic graphite solutions for high-temperature applications (semiconductors, aerospace, glass-industry, etc.); - high-energy braking components based on graphite and carbon	▪ Storage (vessels, etc.), processing (heat exchangers, reactors) and distribution (tubing, pipes, etc.) of corrosive hot fluids; ▪ Semiconductor production equipment and other refractory processes (dies, holders, etc.), electrodes for electrical discharge machining, kiln linings, etc. ▪ Braking for aerospace, rail, mountain bikes and motorcycles and motor racing applications	Continue: ▪ the development of a full line of multi-material solutions for corrosive hot chemicals ▪ the development of new isostatic graphite solutions geared to the specific needs of our customers ▪ expansion in Asia ▪ the international expansion of our expertise in high-energy braking

>Electrical applications

Over a century ago, Carbone Lorraine was among the very first companies to develop the electrical applications of graphite. The Group developed brushes that transfer current from the fixed to the revolving part of a direct current electric motor and also acquired expertise in brush-holders. Thanks to its expertise spanning the entire value chain, from design to manufacture and marketing, the Group established itself as a force to be reckoned with in electrical power brushes for industry. Carbone Lorraine operates in two market segments, namely industrial motors and small electric motors. In both segments, it pursues a strategy of supplying complete sub-assemblies, i.e. brushes, brush-holders and brushcards.

Market trends during 2003

The market for brushes for industrial motors represents a mature segment in which demand for replacement products is considerably stronger than for original equipment. Carbone Lorraine caters to four customer segments, i.e. rail traction, general industry, aviation and power generation. Meanwhile, client markets for brushes for small electric motors include the automobile, household appliance and handheld power tool sectors.

During 2003, conditions deteriorated significantly across all the markets served by the Electrical Applications division. The deeper slowdown in industrial activity across Europe held back sales of brushes and brush-holders for industrial and traction motors. The automobile market also had a tough year in Europe and North America since production was reduced by carmakers (the big three reduced their output by 6% in the US), while household appliance and handheld power tool manufacturers continued to relocate their manufacturing facilities to Asia.

Further streamlining

Notwithstanding this unfavorable environment, Carbone Lorraine managed to weather the contraction in its business while organizing its production more efficiently. In Europe, certain production lines for automobile and household appliance applications were pooled at the Amiens (France) site. In North America, a joint venture was set up with US-based Kirkwood Industries to pool both companies' automobile brush for small electric motor activities and Kirkwood's carbon disk for commutators business at the Farmville (Virginia) site. Thanks to this agreement, Carbone Lorraine strengthened the position and boosted the profitability of its brush activity for small electric motors in the region and established itself as the market leader in the fast-expanding carbon commutator segment (used in particular in fuel pumps, with fuels that have an increasingly aggressive effect on equipment). Once these reorganizations have been completed, Carbone Lorraine will have production facilities with a competitive cost base in Brazil, Tunisia, India and China, as well as these two main production sites.

As well as streamlining and maximizing the efficiency of its manufacturing facilities, Carbone Lorraine has actively maintained its emphasis on innovation in order to win market share in segments, in which it did not previously have a presence. To this end, an additional research and development unit was set up in Amiens to develop new applications in partnership with its customers.

In the brush and brush-holder market for industrial motors, Carbone Lorraine continued to bolster its positions in wind power systems, electric rail traction (notably including the development of new carbon-carbon composite current collection strips) and thermal power stations.

In the small electric motor market, the new range of lead-free brushes used in starter motors met with considerable success and enabled the Group to win market share in Europe.

Lastly, Carbone Lorraine is launching a wide-ranging program to have its products listed by Japanese car makers, which are steadily ramping up their positions in the US market.

Expansion into new markets

The relocation of some of its customers to Asia has naturally prompted Carbone Lorraine to expand into the region to support its existing customer base and to move into new markets. The new brush-holder workshop currently being set up in Kunshan (China) to support one of the Group's principal customers will also serve as a platform for penetrating the Asian market. During 2003, the Electrical Applications division's sales in China doubled.

Highlights of 2003

- Market share gains thanks to innovation
- Brush-holder workshop currently being set up in China
- Reorganization of brush production in Europe
- Joint venture agreement signed in North America

Key figures

- World number two in brushes and brush-holders
- Sales of €184 million
- 29% of Group sales

What is a brush?

A brush is a small prism with rectangles as bases that plays a critical role in the transfer of power in a direct current electric motor. Brushes measure between a few cubic millimetres and a few cubic centimetres and they are made of pure graphite or graphite blended with carefully selected agents. They need to be able to withstand very exacting conditions, including high currents, repetitive start-and-stop operations and highly charged or very dry atmospheres. A brush is fitted with a network connection cable and kept in the motor by a brush-holder, which guides it and applies constant pressure on it irrespective of any wear and tear.

>Magnets

Carbone Lorraine capitalized on its knowledge of electric motors and on its relationship with major automobile equipment suppliers by expanding into permanent magnets for small electric motors. Equipment suppliers also use the brushes produced by the Electrical Applications division.

Permanent magnets are found in all the auxiliary motors fitted in cars, such as starter motors, window lifts and fuel pumps. A high-end car may contain up to 100 auxiliary motors.

Strong pricing pressures and weak conditions in the automobile industry

Carbone Lorraine is enjoying the benefits of structural growth in this market thanks to the additional electrical equipment built into cars, primarily for passenger comfort (seat motors), safety (ABS) and power saving (power steering) applications. In addition, the performance of thermal engines is often improved by introducing electric motors as a replacement for mechanical systems (motorization of throttle actuators), which naturally benefits Carbone Lorraine. The number of these auxiliary motors is increasing at an average rate of 4-5% p.a. Nonetheless, this structural growth failed to offset the dip in automobile production in North America and Europe during 2003. What's more, the pricing pressures brought to bear by new market entrants in Asia wiped out the efficiency gains achieved in 2002. As a result, the division's operating performance tumbled into negative territory, prompting the division to scale up the scope of its restructuring plans, particularly in Europe.

Situation varies from region to region

In Europe, the contraction in automobile production and heavy pricing pressures cut into sales, which posted a decline of 8%. In response, a major restructuring program was launched at the two French sites, with the aim of focusing both sites solely on automated production, adopting a more selective approach to the product portfolio and lastly adjusting the size of the division's units to its actual development prospects. All in all, a total reduction of 170 jobs out of around 500 will take place.

In North America, the Group's sales declined by around 40% owing to the price declines granted last year and the anticipated end of the life cycle of our principal customer's major product lines. Even so, the cost-cutting measures introduced in late 2002 and early 2003 to adapt to these trends, combined with a greater emphasis on marketing and customer diversification initiatives helped to counteract the effects of the sales contraction on the division's profitability.

In Brazil, sales advanced by 27% over the year as a result of the ramp-up in the domestic market owing to the local tax incentives and growth in exports following depreciation in the Brazilian real.

After experiencing brisk growth at the start of the year, labor disputes over the summer in the automobile manufacturing sector held back sales in South Korea during the second half, leading to a 7% fall over the full year.

Further commercial, technical and geographical expansion

At the same time, Carbone Lorraine continued to diversify its North American customer portfolio and started to refocus its product portfolio in Europe to cater more effectively to the major equipment suppliers.

To satisfy growing demand for outsourcing by equipment suppliers, Carbone Lorraine broke new ground a few years ago by developing flux packages, a complete sub-system incorporating magnets and various mechanical components of electric motors that are assembled together. Over the past four years, sales have risen more than fivefold in Europe. Further developments underway in this product range are set to underpin sales growth during 2004.

Impairment charge affecting the Magnets division

To reflect the structural changes in competitive conditions affecting the division, notably including the emergence of new competitors based in China and South Korea, the group conducted a valuation of the division using various different methods. Based on this valuation, it recognized a pre-tax impairment loss of €25 million and thus wrote down the book value of the Magnets division to €20 million, excluding deferred tax assets.

Highlights of 2003

- Large-scale restructuring in France
- Effective handling of the volume decline in North America
- Strong growth in Brazil
- Further aggressive expansion in flux packages
- Substantial write-down of the division's book value to take the new competitive conditions into account

Key figures

- Number three worldwide in magnets for automobile applications
- World leader in flux packages
- Sales of €82 million
- 13% of Group sales

What is a magnet?

Magnets are a key component in electric motors. A magnet is what makes a motor turn by attracting the rotor into its magnetic field. The performance of a magnet is assessed in terms of the strength of its magnetic field and its ability to withstand factors that may weaken over time the intensity of this field (other magnetic fields, temperature, etc.). Carbone Lorraine produces magnets made of ferrite, a ceramic based on iron oxide and strontium. Their tile shape makes them fit easily with the cylindrical shape of motors.

>Electrical protection

By leveraging its expertise in electric motors, Carbone Lorraine expanded into a third type of electrical component, namely industrial fuses. The worldwide reach provided by its network of subsidiaries, distributors and specialized sales agents enables it to offer all its customers products and services tailored to their needs, irrespective of their sector of activity. By devoting significant resources to research and development (6% of sales), the division regularly launches innovative new products. Ferraz Shawmut, the Group's subsidiary specializing in electrical protection, can sell 67,000 different references complying with all the world's standards, including 14,000 available from a catalogue.

First signs of stabilization in North America

The drop in capital spending seen worldwide during 2003 continued to hold back the division's overall top-line performance. In North America, the situation stabilized, and growth is set to resume during the first few months of 2004. Business levels also stabilized in Europe during the last months of the year, after declining in Germany, France and Italy. These business contractions were exacerbated by inventory reductions by major distributors. Conversely, sales posted brisk growth in Asia (China, India and Japan) and South America.

Reorganization of production completed in Europe

Against this inauspicious backdrop, Ferraz Shawmut continued its drive to make its European production facilities more efficient. Automated production lines for industrial fuses complying with European standards were pooled at the Saint-Bonnet-de-Mûre (France) site, while other assembly lines were transferred to El Fahs in Tunisia. Meanwhile, business activities at the Eggolsheim and Mannheim sites in Germany were switched to plants in France and Tunisia. Ferraz Shawmut also signed an agreement with the Spanish union organizations at the end of the year concerning the closure of the Barcelona site, whose activities are currently being transferred to France and Tunisia for the same reasons.

In parallel with these restructuring measures, production flows at Saint-Bonnet-de-Mûre underwent a major overhaul. The introduction of just-in-time production is set to yield a significant improvement in efficiency and responsiveness. In particular, the production lines switched from abroad will be handled without any additional staff or space, while work-in-progress and lead times will be reduced significantly. Ferraz Shawmut continued to outsource the production of components in a bid to enhance its productivity further still.

The impact of all these measures will be strong margin improvement from 2004 even if economic conditions remain on a par with those seen during 2003. This margin expansion will be accentuated by the economic recovery, once it takes hold in Europe.

Once this major overhaul is complete, the Group will have three production facilities in France (including a major site dedicated to industrial fuses), two installations in the US and Canada and four sites in emerging markets (Mexico, Tunisia, India and now China). The brisk business trends seen in Asia prompted Ferraz Shawmut to set up a production unit in Shanghai in conjunction with a Japanese company. As well as providing the division with all the advantages of low-cost production, the priority is to expand in the Chinese market and then throughout Asia.

Recognized expertise

Concurrently, Ferraz Shawmut has continued to develop new products and landed various new contracts, demonstrating its expertise and the close ties it has forged with its customers.

In North America, Ferraz Shawmut received awards from the two leading associations of electrical equipment distributors, namely Affiliated Distributors and Imark, in recognition of its achievements as part of its policy of innovation and customer satisfaction.

In the rail traction segment, Ferraz Shawmut, extended its partnership with Bombardier and lay the foundations for close cooperation with Siemens by signing a contract to supply current collectors and fuses for the Mexico, Bangkok (Thailand) and Wuhan (China) metro systems. It also clinched a deal with Alstom and Innorail in connection with the construction of the new wireless tramway in Bordeaux, which represents a worldwide first from a technical standpoint. This project has called upon the full extent of Ferraz Shawmut's expertise in current collection. In the protection of major electricity grids, an order for over 16,000 fault indicators for underground grids was booked from EDF.

Ferraz Shawmut is set to supply low-voltage fuses to Jean Muller, a German company specializing in low-voltage electrical equipment. This five-year contract may well lead to closer cooperation between the groups.

Lastly, several major contracts for the supply of cooling devices were also signed, consolidating the growing success of the technology developed by Ferraz Shawmut and representing a perfect complement to its range of electrical protection products for power semiconductors.

Highlights of 2003

- Completion of the production overhaul in Europe
- Creation of a production subsidiary in China
- Further commercial success

Key figures

- Number two worldwide in industrial fuses
- Sales of €165 million
- 26% of Group sales

What is a fuse?

A fuse is an electric component that cuts the electrical circuit that it protects through the fusion of one or more specially calibrated elements in the space of several milliseconds when the current exceeds a given level for a predetermined period of time. Industrial fuses are specially adapted to suit a wide range of electrical and electronic installations, such as medium-voltage distribution networks, standard low-voltage electrical installations, panel at large electricity users (plants, buildings, rail networks) and industrial motors.

>Advanced materials and technologies

Carbone Lorraine was one of the very first companies to develop the industrial applications of carbon and graphite more than a century ago. After developing brushes to power electric motors, various other applications were developed over the years to exploit several of the material's properties, i.e. resilience to very high temperatures, first-class conductivity of heat and electricity, resistance to most corrosive agents, self-lubricating properties. Thanks to its expertise in these applications, Carbone Lorraine expanded into three segments that genuinely represent global markets: anti-corrosion equipment, high-temperature applications and high-energy braking.

Strategic and operational targets met in anti-corrosion equipment

Carbone Lorraine designs and manufactures equipment that can withstand the corrosive hot fluids used in the chemicals and pharmaceutical sectors, such as heat exchangers, noble metal reactors and PTFE-coated piping systems.

The dearth of new capital spending projects in the European and North American chemicals and pharmaceutical sectors during 2003 was a drag on sales, which declined by 12% on a like-for-like basis. However, this situation did not prevent the Group from achieving its strategic and operational targets. In Europe, Carbone Lorraine acquired the European fluorinated polymer-lined piping systems business from Plastic Omnium's Performance Plastics Products division. This acquisition gave the Group new technologies, rounded out its sales network and made it the only company in Europe able to offer its customers integrated solutions encompassing both equipment (graphite and noble metal heat exchangers) and the connecting piping systems. In North America, the state-of-the-art new Oxnard (California) plant, at which production from two older facilities was pooled, was designed specifically for the production of noble metal equipment and has the largest clean room of this type in the world.

Concurrently, sales to Asian markets continued to increase on the back of numerous contracts, including an order for noble metal equipment worth a total of $7.5 million. Carbone Lorraine, which opened its first workshop in China in 1995, can draw both on its knowledge of Asian markets and on its network of local workshops to support the moving of its customers in the chemicals sector to Asia.

Further breakthroughs have also been achieved, such as very long graphite tubes enabling customers to reduce their operational risks and their maintenance costs. Carbone Lorraine has built a major technical lead over its rivals in this field.

New niches targeted in high-temperature applications

Carbone Lorraine manufactures and processes isostatic graphite for cutting-edge sectors, such as electronics, aerospace and medical imaging.

All the markets in which the Group operates contracted during 2003. In Europe, fierce competition from Japanese manufacturers drove down prices right across the board, which, together with the steep decline in the aerospace sector, hurt sales. Even so, this contraction was offset by expansion in North American graphite sales for the manufacture of semiconductors, such as light-emitting diodes that are notably used in car dashboard displays and traffic lights. Expansion into certain niches, such as glass-making, also helped to curb the negative effects of the depressed conditions.

Further cost reduction initiatives were also introduced during 2003, and cost-cutting will continue during 2004, especially in the US, with the implementation of a new efficiency plan at the St Mary's site (Pennsylvania). In 2003, worldwide business volumes remained almost stable (at constant exchange rates), while the operating margin expanded.

Further evidence of high-energy braking’s potential

Carbone Lorraine has developed new carbon/carbon composite and sintered materials that are highly resilient to wear and tear while delivering the braking performances required for applications in particularly tough conditions. In the high-speed train segment, Carbone Lorraine has extended its leadership position by renewing its partnership with SNCF and making further deliveries to the South Korean TGV project, for which it is the sole supplier of brake pads. The South-Korean TGV project is due to be inaugurated in April 2004. Meanwhile, Carbone Lorraine increased its market share in the motorcycle segment by strengthening its European sales network, particularly in Italy. The Group has also initiated the creation of a sales network in the US, where it was not previously represented. Conversely, sales of carbon/carbon composite brakes for Airbus A321 aircraft posted a slight decline owing to the drop in air traffic.

Carbone Lorraine has continued to develop new applications and has registered a new patent for rally car brakes. This avenue of expansion was illustrated by the signature of a partnership with Peugeot Sport for rally races in 2004.

Highlights of 2003

- New state-of-the-art plant in the US for noble metal anti-corrosion equipment
- Presence strengthened in anti-corrosion equipment in Europe
- Major expansion of graphite sales for the manufacture of light-emitting diodes

Key figures

- Number one worldwide in anti-corrosion equipment
- Number two worldwide in high-temperature applications of isostatic graphite
- Sales of €198 million
- 32% of Group sales

In the spotlight

What are brakes made from?

High-energy braking uses sintered graphite, metal and ceramic materials for the rail, rally car, motorcycle and cycle racing segments and carbon/carbon composites for the aerospace and motorcycle racing segments.

Board of Directors' management report

>Management Report - Review of operations

Introduction

Carbone Lorraine posted 2003 sales of €629 million, representing a decline of 7% compared with the previous year on a like-for-like basis, i.e. at comparable scope and constant exchange rates. On a reported basis, sales fell by 13% owing to the impact of currency fluctuations.

Two business segments, namely magnets in North America and anti-corrosion equipment, which were boosted by special conditions during 2002, were primarily to blame for the sales contraction. Excluding magnets and anti-corrosion equipment, the Group's sales posted a like-for-like sales contraction of 3%.

The measures taken as part of the savings plan to counter the decline in sales enhanced the Group's efficiency and unlocked substantial cost savings, which curbed the contraction in the operating margin to 6.2% of sales, compared with 8.3% in 2002.

Divisional review

Sales in the **Electrical Applications** division stood at €184 million, down 4% on a like-for-like basis compared with 2002. This decline in sales was attributable to weak sales of brushes for industrial motors owing to the depressed economic conditions. Sales to the US automobile industry also turned significantly lower because of the cutbacks in vehicle production.

Against this backdrop, cost-cutting measures helped to curb the impact of the lower sales volumes on operating income. Divisional operating income came to €20.2 million, down from €22.4 million in 2002, representing 11% of sales—a high level in view of sales volumes.

Sales in the **Permanent Magnets** division came to €82 million in 2003, down 16% on a like-for-like basis compared with the previous year. The key factors to blame for the sales decline were the unique conditions that prevailed in North America during 2002. The Magnets division had to contend with both lower volumes as a result of an overhaul of its main North American customer's product portfolio and very substantial price cuts during late 2002 that affected the whole of 2003. In Europe, sales of flux packages continued to make headway during 2003, while sales of bare magnets headed lower owing to the introduction of a selective product policy.

The very substantial sales decline recorded by the Magnets division and above all the price cuts drove divisional operating income into negative territory. The division posted an operating loss of €6.3 million, representing a negative margin of 7.8%. Losses were concentrated at the two French sites, the division being in a positive territory as a whole outside France. A restructuring plan for the French manufacturing facilities was announced in September 2003. This plan is intended as a response to the aggressive tactics of the division's new competitors in Asia. Its effects will be visible in 2004, and the goal is for the entire division to break even at the operating level.

Sales in the **Electrical Applications** division came to €165 million, down 5% on a like-for-like basis compared with 2002. The bulk of this decline was concentrated in Europe, where distributors kept their inventories down at a very low level and where sales to electrical equipment suppliers were badly hit by the dearth of capital spending. Sales posted brisk growth in Asia on the back of sales of semiconductor fuses and high-voltage switches. Distributors in North America started to increase their inventories owing to the economic recovery, but sales to equipment suppliers stayed at a very weak level.

The division resolutely implemented the savings plan it initiated in 2002 and launched further initiatives during 2003 to lower its breakeven point, including the completion of its manufacturing overhaul in Europe leading to the closure of three sites in Germany and Spain and the reorganization of its European production flows with automated lines being pooled at the flagship St-Bonnet-de-Mûre site near Lyon and manual production being switched to the plant in Tunisia.

As a result of the volume decline and the finalization of the savings plan, the division posted a fall in its 2003 operating income to €7.7 million, representing an operating margin of 4.7%. In the previous year, it posted operating income of €11.6 million (6% of sales). The impact of the savings plan should show up very clearly and pave the way for sequential improvement in the quarterly operating margin throughout 2004.

Sales in the **Advanced Materials and Technologies** division came to €198 million, down 6% on a like-for-like basis compared with the previous year. This decline was primarily attributable to the anti-corrosion equipment business, which was hit by the lack of any new capital spending projects in the chemicals and pharmaceutical sectors. The high-temperature applications of graphite business posted strong sales growth in North America on the back of the new products developed for the electronics market, which offset the slump in sales to the European aerospace industry. The braking activity was boosted by exceptionally high deliveries in the rail sector for the South Korean TGV high-speed train project, which is due to be inaugurated in April 2004.

The cost savings harnessed in this already highly profitable business curbed the impact of the volume decline on the operating margin. Operating income came to €29.4 million, down from €34.9 million in 2002. This represented 14.8% of sales.

Consolidated results

Sales

The consolidated sales reported by Groupe Carbone Lorraine for 2003 came to €629 million, representing a decline of 13% on a reported basis. Changes in the scope of consolidation had little impact on sales (net impact of 1% deriving from the first-time consolidation of Kirkwood's brushes for small electric motors business from February 1, 2003 and the first-time consolidation from July 30, 2003 of the European fluorinated polymer-lined piping systems business acquired from Plastic Omnium's Performance Plastics Products division and the disposal on January 1, 2003 of the Electrical Protection division's lightning arrestors unit).

Currency effects came to a negative 7%. They were mainly attributable to appreciation in the euro against the US dollar. On a like-for-like basis, the Group's sales declined by 7%.

Operating income

Operating income declined to €39.3 million from €59.6 million in 2002 owing mainly to the weakness in sales volumes and pricing pressures affecting the magnets business. The impact of these negative factors was curbed by the finalization of the savings plan launched at the beginning of 2002.

Operating income came to 6.2% of sales, down from 8.3% in 2002.

Net financial expense

Net financial expense declined significantly to €10.8 million from €14.1 million in 2002. This decrease was attributable to the decline in interest rates, the reduction in the Group's average net debt and the positive impact of the translation into euros of the interest payments denominated in US dollars.

Interest cover, i.e. the ratio of financial expense to operating income, decreased while remaining at a healthy level of 3.6x in 2003 vs. 4.2x in 2002.

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

The fall in operating income translated into lower income before tax and non-recurring items, which dropped to €28.5 million from €45.5 million in 2002.

Net income, Group share before non-recurring items after the deduction of tax payable and minority interests in foreign companies came to €22.3 million, down from €32.2 million in 2002. The aforementioned cost-cutting measures curbed the decline in net income, Group share before non-recurring items, which came to 3.6% of sales compared with 4.5% in 2002 in spite of highly unfavorable economic conditions.

Non-recurring items represented an overall net charge of €54.8 million in 2003. The main contribution to non-recurring charges came from a provision of €25 million in addition to the €18 million set aside in 2002 to cover the full amount of the €43 million fine meted out to the Group by the European Commission for anti-trust practices. The Group is appealing against the size of the fine in the Court of First Instance in Luxembourg. Non-recurring charges also included an impairment loss of €16.7 million after tax recognized on the Magnets division and a provision of €19.3 million after tax for restructuring costs related to implementation of the savings plan. The bulk of the net non-recurring gains comprised €6.7 million in capital gains on the disposal of real estate assets.

After taking into account these net non-recurring charges and €5.7 million in goodwill amortization, the Group posted a net loss of €38.2 million compared with a loss of €10.8 million in 2002.

Dividend

In view of the loss recorded in 2003, the Board of Directors is not proposing to pay a dividend for fiscal 2003 to avoid drawing on the Group's reserves again.

Investment policy

Investments made during the past three fiscal years

Carbone Lorraine stabilized its capital expenditure in 2003 compared with 2002 to contend with the unfavorable business conditions and the lack of visibility. Investment focused on the modernization of its production facilities to ensure that cost-cutting actually yielded efficiency improvements.

In 2001, the Group sold its specialty magnets activity (France) for €5 million and acquired AVO's brush and brush-holder assemblies activity for small electric motors (France, Electrical Applications) for €23 million, payable over 4 years.

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

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

(€ m)	**2003**	**2002**	**2001**
Increase in intangible fixed assets	(2.6)	(2.6)	(3.9)
Increase in property, plant and equipment	(23.0)	(23.2)	(31.5)
Increase in financial assets	(0.1)	(0.2)	(2.4)
Proceeds from sales of property, plant and equipment	1.9	1.6	1.4
Total	(23.8)	(24.4)	(36.4)
Net investment related to the impact of changes in the scope of consolidation	(10.1)	(2.8)	(4.1)
Non-recurring disposals of fixed assets	11.1	3.5	-

Financing policy

A Group policy has been defined for financing. Its implementation is coordinated by the Finance department.

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

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

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

All information about borrowings are mentioned in Note n° 11 to the consolidated financial statements.

Research policy

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

The Group devotes around 3% of its sales to Research and Development in the form of the operating costs of the teams that are fully dedicated to this activity and to product development (materials, processes), excluding spending related to this development work.

Most of this expenditure is financed internally. This said, the Group received subsidies during 2003 from the French Industry Ministry in connection with its Performance program, which is intended to foster industrial development through technological innovation. These subsidies currently amount to €0.5 million p.a.

Among the successes scored during 2003, two were achieved in the braking segment, with the launch of environmentally friendly rail brake linings curbing noise pollution and the development of patented brake pads for rally cars.

Net debt

Total consolidated net debt decreased by 23% to €182.6 million at year-end 2003 from €236.2 million at year-end 2002.

This €53.6 million reduction was primarily attributable to strong cash generation during the year (net cash flow generated by operating and investing activities of €42 million prior to the financing of acquisitions and the dividend payment) and the impact of the fall in the US dollar against the euro (impact of €25 million).

Net debt stood at 102% of shareholders' equity at year-end 2003 compared with 96% at year-end 2002. This increase was attributable entirely to the reduction in shareholders' equity caused by the heavy non-recurring charges booked in 2003 and the impact of currency fluctuations.

	2003	2002	2001
Net debt (€ m)	182.6	236.2	314.9
Net debt/shareholders' equity	1.02	0.96	1.07

Parent company results

The sales and other revenues recorded by the parent company, Le Carbone Lorraine SA, amounted to €3.7 million. These sales and other revenues derived from Carbone Lorraine SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and various other services.

The parent company posted an operating loss of €3.4 million compared with a loss of €3.0 million in 2002.

The increase in net financial income to €23.4 million from €22.6 million in 2002 was attributable to unrealized currency gains resulting from the weakness in the US dollar against the euro and the fall in interest payments on loans.

Income before tax and non-recurring items posted a slight increase to €20 million.

The net non-recurring loss of €39.4 million was primarily attributable to the impairment loss recognized on the investment in the Magnets division.

The parent company recorded a tax benefit of €5 million, which was paid by the French subsidiaries consolidated for tax purposes.

Taking all these items into account, the parent company posted a net loss of €14.4 million.

Relations between the parent company and its subsidiaries

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

Le Carbone Lorraine SA belongs to Groupe Carbone Lorraine, which encompasses 95 consolidated and unconsolidated companies in 36 different countries. The Group's largest manufacturing facilities are located in France and the US.

Groupe Carbone Lorraine is organized in four business divisions, namely Electrical Applications, Permanent Magnets, Electrical Protection and Advanced Materials and Technologies. A member of the Executive Committee oversees each division. The members of the Executive Committee in some cases hold directorships in companies belonging to their division.

The principal changes in the Group's scope of consolidation during 2003 related to the Electrical Applications and Advanced Materials and Technologies divisions. In February 2003, Carbone Lorraine North America set up a joint venture with Kirkwood to pool their automobile brush manufacturing workshops in the US. In addition, the acquisition of the European fluorinated polymer-lined piping systems business from Plastic Omnium's Performance Plastics Products division was completed on July 31, 2003.

International

The sales contribution made by the Group's consolidated subsidiaries outside France came to €423 million in 2003, down 14.6% compared with 2002. On a like-for-like basis, sales contributed by the Group's subsidiaries outside France declined by 6.5%.

In 2003, the Group derived 84.8% of its sales from outside France (i.e. sales generated by foreign companies and exports by French companies).

Adoption of IAS / IFRS

In accordance with the European regulations concerning the international standards and IFRS 1, the initial application of IFRS as an accounting standard, the consolidated financial statements of Groupe Carbone Lorraine for the year ending on December 31, 2005 will be prepared using the international accounting standards with comparative figures for the 2004 fiscal year prepared using the same standards.

To publish this comparative data, the Group will prepare an opening balance on January 1, 2004, the starting point for the application of the international standards and the date from which the impact of the change will be recorded in shareholders' equity.

Against this backdrop, Carbone Lorraine has launched a Group project comprising the Group's consolidation teams and financial managers from major subsidiaries. This Group project is backed up by the expertise of Deloitte Touche Tohmatsu.

The project team's work has focused on conducting a diagnostic assessment of all the subsidiaries to identify the main differences between the valuation and presentation methods laid down in IFRS standards and the accounting principles and methods currently applied by the Group, in order to assess its impact on the Group accounts. In addition, training programs have been organized for all the Group's companies.

During the first half of 2004, the group will select the accounting options and finalize the IFRS accounting principles it is adopting, as well as assessing the potential impact of these new standards on its financial statements. Consequently, it should be able to produce a quantitative assessment of the impact of adopting IFRS and prepare an opening balance at January 1, 2004 by the time it reports its annual financial statements for 2004 according to French accounting principles at the latest.

The following stages will consist in adapting Hyperion, the group's reporting tool, and to complete the training for financial managers at all the companies so that it is in a position to produce and publish Groupe Carbone Lorraine's financial statements in line with IAS/IFRS in 2005.

Social data

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

The aggregate amount of compensation and benefits of any kind paid during 2003 to the directors of Le Carbone Lorraine, including the Chairman and CEO, came to €611,497 which breaks down as follows:

- remuneration paid to the members of the Board of Directors (excluding the Chairman and Chief Executive Officer) totaling €100,000 in directors' fees, allocated on a pro rata basis to members of the Board of Directors according to their attendance at Board meetings and the various Committees run by the Board of Directors. These directors' fees will be paid in 2004. In addition, Mr. Chauprade received €84,948.42 in professional fees for a consulting and support assignment at the Electrical Protection division,
- remuneration paid to the Chairman and Chief Executive Officer (gross amount):

	2003	2002
Basic salary	309,000	300,000
Performance-related bonus	107,640	151,590
Bonus as a % of the basic salary	35%	50%
Benefits in kind	9,909	7,093
Directors' fees	15,315	8,000
Total	441,864	466,683

N.B. 1: The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
N.B. 2: Directors' fees for 2003 will be paid in 2004.
N.B. 3: Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

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

In 2003, 9,000 share subscription options were granted to the Chairman and Chief Executive Officer. As for all the grantees, these options were contingent upon the attainment of two targets for net income per share target before non-recurring items. Since only one of these targets was met, only two-thirds of the options, i.e. 6,000 options, may be exercised.

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

Headcount in France at December 31

	2003	2002
Headcount	2,331	2,477
of wich employees on fixed-term contracts	11	6

In sum, 97 employees were hired during 2003, including 67 on permanent contracts. There were no particular recruitment problems to report.

During 2003, 100 staff were made redundant, including 52 employees laid off on economic grounds in connection with the closure of the Electrical Protection site in La Verpillière.

For further details of restructuring, please refer to the sustainable development section. The restructuring measures at the Evreux and Saint-Pierre d'Allevard magnets sites announced in September 2003 will have an impact in 2004.

Overtime

	2003	2002
Overtime	22,416	19,164
% of hours worked	0.56%	0.50%

Absenteeism

	2003
Absentee rate	5.8%
of which illness	4.6%

Temporary staff

	2003	2002
Average number	173	163

Organization of working hours

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

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

In 2003, 68 employees worked on a part-time basis, including 27 under gradual pre-retirement agreements.

Relations with labor bodies

In addition to the bodies that exist in each company to share information and discuss issues with labor representatives, the Group Works Council in France and the European Works Committee provide a forum for dialog and discussions with labor representatives concerning the Group's situation and strategic priorities in both France and Europe. The Group Works Council in France met twice during 2003, while the European Works Committee met on one occasion.

The collective bargaining agreements signed by the French subsidiaries during the year related to the annual salary negotiations for 2004 (seven agreements), working hours (one agreement) and employee incentive payments (one agreement).

Training

The percentage of payroll costs devoted to training averaged 2.6% in France. The average number of hours of training received per employee stood at 11 hours, all socio-professional categories combined.

Employment and integration of handicapped workers

AVO, a company specializing in the assembly of electrical components for the automobile sector, employs 92 handicapped workers (out of a total of 160 employees) at its sheltered workshop in Poitiers.

Safety

See the sustainable development section.

Extent of outsourcing

See the sustainable development section.

During 2004, the Group will continue to introduce further indicators to report in greater detail on the social implications of its business activities in France.

Environmental information

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

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

Indicators	Unit	2003	2002	2001	% chg. vs. 2002
Water consumption	m^3	718,718	756,056	789,153	- 5 %
Energy consumption					
Electricity	MWh	95,503	97,344	98,648	- 2 %
Gas	MWh	99,940	98,500	114,513	+ 1 %
Consumption of raw materials and metals					
Wood	tons	885	864	917	+ 2 %
Cardboard	tons	485	559	569	- 13 %
Copper (1)	tons	603	792	730	- 24 %
Waste					
Wood 100% recycled	tons	350	346	379	+ 1 %
Clean cardboard recycled	tons	170	186	198	- 9 %
Non-hazardous industrial waste	tons	1,562	1,797	1,853	- 13 %
Emissions					
Wastewater	m^3	591,253	630,375	660,670	- 6 %

(1) Copper consumption accounts for almost all (92%) metal consumption in France.

In France, total water consumption has been reduced by 9% over the past two years. City supply water accounted for the bulk of these savings, which were particularly substantial at the Amiens site (reduction of 38% since 2001) thanks to the elimination of leaks, changes to the cooling system of certain kilns and improvements to the recycling process used in certain workshops. Consumption decreased by 13% compared with 2002 at the Pagny-sur-Moselle site following the introduction of a closed cooling circuit for industrial equipment.

Electricity consumption was slightly reduced (down 3% over the past two years).

Gas consumption was reduced by 13% over the past two years following alterations to a manufacturing process at the Saint-Pierre d'Allevard and Evreux sites.

In terms of raw materials and metals, wood consumption recorded an increase of 2% during 2003 owing to a specific sawdust order for a manufacturing operation at the Amiens site. Cardboard consumption was reduced by 13% between 2002 and 2003, copper consumption also reflected a cyclical downturn (down 24% compared with 2002 and down 17% compared with 2001).

Non-hazardous industrial waste decreased by 16% over the two-year period owing mainly to the efficiency of the sorting process introduced for ISO 14001 certification. The Gennevilliers and Amiens sites were responsible for the bulk of this decline.

The volume of wastewater shows a constant decline (down 11% over the last two years) owing to the main steps taken in line with axis n°5 of the environmental policy of the Group, which target is to minimize emissions and pollutants in all environments.

In connection with the Group's commitment to the environment, the significant improvements made during 2003 at the Group's French sites were as follows:

<u>Amiens</u>

- new system of reusing copper-containing powders that are collected;
- reorganization of the storage of liquid and solid waste.

<u>Gennevilliers</u>

- implementation of the continuous treatment of cooling water;
- introduction of piezometric monitoring of the top layer of underground water and drilling into the Ypresian layer.
- plan to reduce nitrogen and hydrogen consumption;
- noise abatement measures close to property boundaries ahead of the imminent construction of housing.

<u>Pagny-sur-Moselle</u>

- reduction in water consumption;
- introduction of an action plan for the transportation of hazardous materials;
- monitoring of underground water.

<u>Evreux</u>

- curbs on the volume of sludge stored and second recycling system;
- 100% recycling rate for scrap materials;
- selective sorting of neon lights and aerosols;
- power restrictions implemented on boilers;
- reduced use of mold release agent;
- training program concerning the transportation of hazardous materials;
- TS 16949 quality certification (additional item tailored to the automobile industry in ISO 9001 certification).

Carbone Lorraine continued its strategy of pursuing ISO 14001 certification, which represents one of the key planks of its environmental policy. By year-end 2003, five major sites had already received this accreditation and other sites are making preparations to gain it. The Group's target is for all its major facilities around the world to achieve certification by 2005.

In addition, an investigation into the risks related to chemical products was carried out in 2003 by the Industrial Risks, Environment and Safety division. No emissions are made into the air, water courses or the soil that may seriously affect the environment; thus no damage is made to the biological equilibrium, the natural environment or protected animal or vegetable species.

Expenditure on mitigating the impact of the Company's activities on the environment is managed globally as part of the Group's capital expenditure. This spending is not significant because Carbone Lorraine has already taken appropriate measures to curb its environmental risks. It did not set aside any provisions for the environment during 2003. The Company did not have to pay any fines during the period as a result of a decision by the courts relating to environmental issues. The Group holds civil liability insurance covering environmental damage (accidental or gradual pollution).

Recent trends

Since December 31, 2003, there have been no major changes in the Group's net cash position.

In the Electrical Protection segment, the Group recently received two prestigious awards from its North American customers Affiliated Distributors and Imark, the two leading associations of electrical distributors in the region.

Ferraz Shawmut won the Supplier Excellence in Marketing Award from Affiliated Distributors for developing a complete set of marketing programs, tools and high value-added services for its customers.

Ferraz Shawmut received Imark's Excellence in Product Development Award for its innovative abilities, as well as the successful launch of several new products deployed rapidly across the Imark network with the support of suitable marketing materials.

In addition, the Group has announced an exclusive partnership deal with Peugeot Sport for 2004 in the braking segment. Under this deal, Carbone Lorraine will supply Peugeot with disk pads for the Peugeot 307 WRC.

Carbone Lorraine's racing brakes were chosen by Peugeot because they combine the high performance of new sintered materials, which the Group already supplies for all TGV high-speed trains, with the expertise of Carbone Lorraine's specialist engineers in energy dissipation.

In the anti-corrosion segment, Carbone Lorraine recently landed an order worth €8 million to supply a reactor for a fine chemicals plant in Spain. This chemical reactor, which is designed to process corrosive fluids, will be built in tantalum. This contract follows on from a similar order delivered in 2002, which fully satisfied the customer's expectations. The new reactor will be used in the manufacture of polycarbonate, a fast-expanding material that is now used instead of glass—in car headlights, for instance. The reactor will be manufactured at Groupe Carbone Lorraine's state-of-the-art new plant in Oxnard (California) and will be delivered by the end of the year.

Outlook for 2004

In 2002, the Group launched a plan to save €20 million. This figure was scaled up to €30 million in late 2003 as part of the 2005 "Booster" plan to lift the operating margin to around 10% at the bottom of the cycle from 6% in 2003. The plan includes numerous restructuring measures, the bulk of which were implemented in 2002 and 2003.

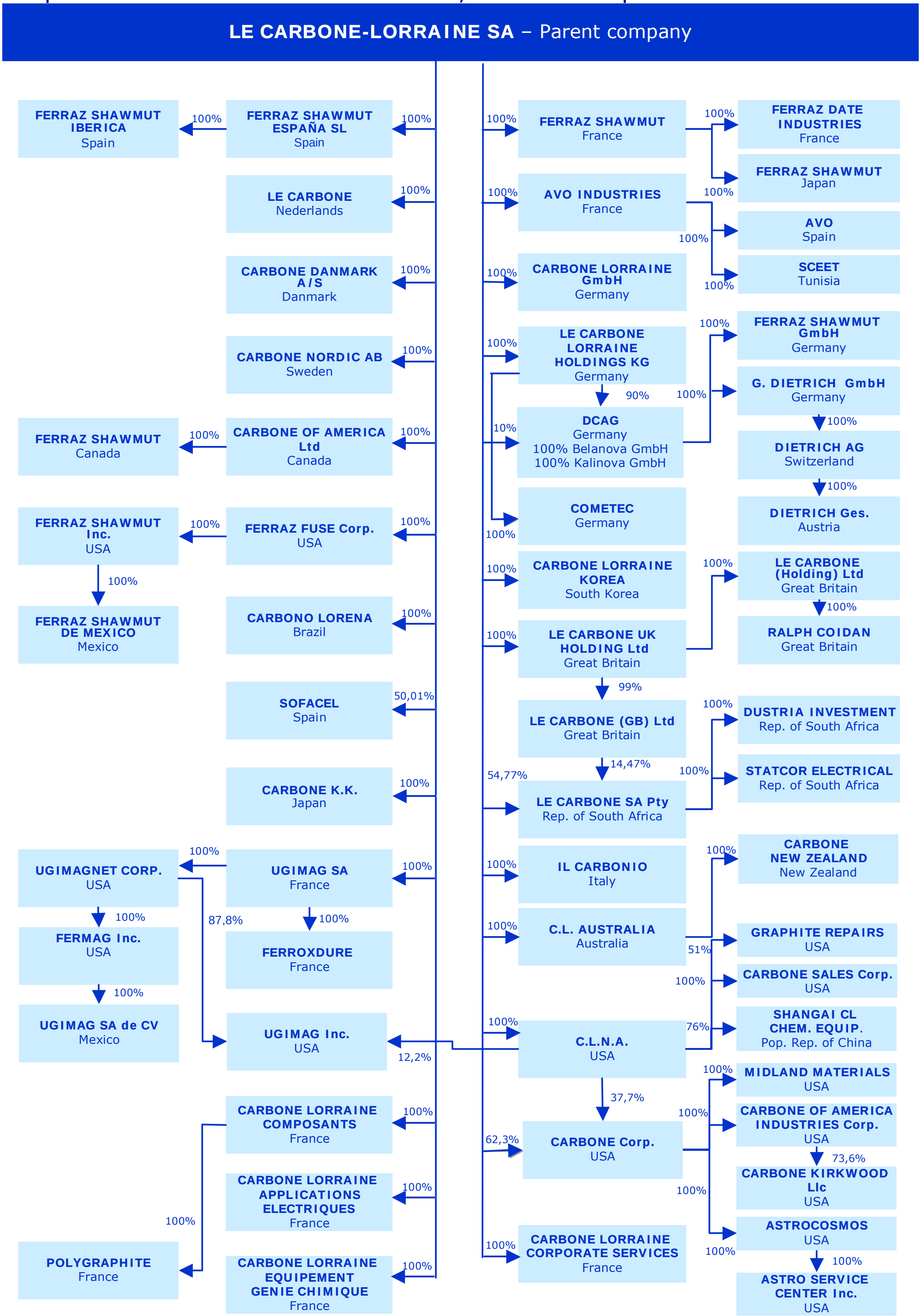
The outlook for 2004 is thus bright for Carbone Lorraine. Irrespective of whether an economic recovery materializes, the Group will benefit from the full impact of savings and development initiatives taken in 2002 and 2003 under the 2005 "Booster" plan. Although several initiatives need to be implemented or finalized during 2004, these are dwarfed by those already launched, the impact of which is likely to be an improvement of around two points in the operating margin and a substantial rise in operating income from 2004 onwards. The improvement will be gradual throughout the year because completion of the restructuring in France in Electrical Protection and Magnets will cause some further disruption during the first half of 2004.

The pace of earnings growth is expected to be accentuated by the economic recovery in 2004 and 2005. The economic upswing in the US and Japan has started to benefit the Group. Following inventory reductions by numerous North American customers during November and December 2003, sales started 2004 on a much firmer note. Fuse sales in Japan were strong. The situation seems to be stabilizing in Europe, particularly in Germany. Although there were no real signs of recovery in the region in early 2004, they may materialize at the end of the year or during 2005. In addition, the Group's operations in Asia are poised to enjoy strong growth, even though they will not benefit in 2004 from the impact of any exceptionally large contracts, such as the braking contract for the South Korean TGV high-speed train project.

Lastly, although several non-recurring restructuring-related charges will have to be booked in 2004, they will be on the low side, and the Group should post substantial net income. This prospect should pave the way for the resumption of a dividend payment for fiscal 2004.

Consolidated financial statements and notes

Scope of consolidation at December 31, 2003 – Groupe Carbone Lorraine



List of consolidated companies

	% of voting rights held by the Group	% of the share capital owned by the Group
1. Le Carbone-Lorraine SA (France)	100	100
2. Carbone Lorraine Applications Electriques (France)	100	100
3. Carbone Lorraine Composants (France)	100	100
4. Carbone Lorraine Équipement Génie Chimique (France)	100	100
5. Carbone Lorraine Corporate Services (France)	100	100
6. AVO SA (France)	100	100
- AVO (Spain)	100	100
- SCEET (Tunisia)	100	100
7. Ferraz Shawmut SA (France)	100	100
- FDI	100	100
8. Ugimag SA (France)	100	100
9. Ferroxdure (France)	100	100
10. Polygraphite (France)	100	100
11. Carbone Lorraine Holdings KG (Germany)	100	100
- Deutsche Carbone AG	100	100
- Belanova-Kalbach GmbH	100	100
- Kalinova-Kalbach GmbH	100	100
- Ferraz Shawmut GmbH (ex Berg)	100	100
- Cometec	100	100
12. Carbone Danmark SA	100	100
13. G. Dietrich GmbH (Germany)	100	100
14. Dietrich AG (Switzerland)	100	100
15. Dietrich Ges. (Austria)	100	100
16. Carbone Lorraine GmbH (Germany)	100	100
17. Sofacel (Spain)	50	50
18. Ferraz Shawmut España	100	100
- Ferraz Shawmut Iberica	100	100
19. Le Carbone Holdings Ltd GB	100	100
- Le Carbone GB Ltd	100	100
- Le Carbone Ltd	100	100
- Ralph Coidan Ltd	100	100
20. Il Carbonio Spa. (Italy)	100	100
21. Le Carbone-Lorraine (Netherlands) BV	100	100
22. Carbone Nordic AB (Sweden)	100	100
23. Carbone of America (LCL) Ltd (Canada)	100	100
24. Ferraz Shawmut Canada	100	100
25. Carbone Lorraine North America (US)	100	100
- Graphite Repairs	51	51
- Carbone Sales Corp.	100	100
- Shanghai Carbone Lorraine Chemical Equipment Cy Ltd (China)	76	76
- Carbone Corp.	100	100
- Carbone of America Industries Corp.	100	100
- Carbone Kirkwood LLC	73.6	73.6
- Astrocosmos Metallurgical Inc.	100	100
- Astro Service Center Inc.	100	100
- Midland Materials	100	100
26. Ferraz Fuse Corp. (US)	100	100
- Ferraz Shawmut Inc. (US)	100	100
- Ferraz Shawmut de Mexico (Mexico)	100	100
27. Ugimagnet Corp. USA	100	100
- Ugimag Inc. USA	100	100
- Fermag Inc.	100	100
- Ugimag SA de CV	100	100
28. Le Carbone-Lorraine Australia	100	100
29. Le Carbone KK (Japan)	100	100
30. Ferraz Shawmut Japan	100	100
31. Le Carbone (South Africa) PTY Ltd (RSA)	69.2	69.2
- Statcor Electrical	69.2	69.2
- Dustria Investment	69.2	69.2
32. Carbono Lorena (Brazil)	100	100
33. Carbone Lorraine Korea	100	100

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

Changes in the scope of consolidation over the last three years

The major changes that affected the consolidated financial statements in 2001, 2002 and 2003 are presented below:

- The following assets were fully consolidated for the first time during fiscal 2001: i) AVO's brush/brush-holder assemblies business, which was acquired on May 1, 2001, ii) the following companies, which were spun off by Le Carbone-Lorraine SA (France): Carbone Lorraine Applications Electriques (Electrical Applications), Carbone Lorraine Composants (Components), Carbone Lorraine Equipement Génie Chimique (Chemical Engineering Equipment), Carbone Lorraine Corporate Services. Ugimag SA's specialty magnets assets were deconsolidated following their sale at the end of June 2001.
- Polygraphite, which was acquired at the end of 2001, was fully consolidated for the first time during fiscal 2002.
- The Carbone Kirkwood LLC (US) joint venture and the European fluorinated polymer-lined piping systems business from Plastic Omnium's Performance Plastics Products division were fully consolidated for the first time during fiscal 2003. Given the non-material size of these acquisitions, no pro forma accounts were prepared.

Earnings per share

Groupe Carbone Lorraine	2003	2002	2001
Number of shares	11,197,890	11,139,150	11,128,462
(€ m)			
Income before tax and non-recurring items	28.5	45.5	51.4
Net income before non-recurring items	22.3	32.2	34.5
Net income before goodwill amortization	(32.5)	(4.7)	7.4
Net income, Group share	**(38.2)**	**(10.8)**	**(8.1)**
€ per share			
Income before tax and non-recurring items	2.5	4.1	4.6
Net income before non-recurring items	2.00	2.89	3.1
Net income before goodwill amortization	(2.9)	(0.4)	0.7
Net income, Group share	(3.4)	(1.0)	(0.7)
Fully-diluted net earnings (1)	**(3.2)**	**(0.9)**	**(0.7)**

(1) Net income, Group share/number of shares outstanding + share subscription options still to be exercised at the close of the fiscal year.

Le Carbone-Lorraine (parent company)	2003	2002	2001
Number of shares	11,197,890	11,139,150	11,128,462
(€ m) Income before tax and non-recurring items	20.0	19.6	0.9
Net income	**(14.4)**	**1.2**	**3.3**
€ per share			
Income before tax and non-recurring items	1.78	1.76	0.08
Net income	**(1.28)**	**0.11**	**0.30**
Dividends paid in respect of the last three fiscal years	**2003**	**2002**	**2001**
Dividend paid (€ m)	0.0	9.3	13.2
Net dividend in € per share*	0.0	0.6	0.8

- *Paid during the following fiscal year.*

Consolidated balance sheet

ASSETS			
(€ m)	**2003**	**2002**	**2001**
FIXED ASSETS			
Intangible fixed assets			
– Goodwill	165.2	193.2	227.6
– Other intangible assets	14.4	15.6	18.7
Property, plant and equipment			
– Land	9.4	11.8	13.6
– Buildings	34.2	44.7	53.4
– Plant, equipment and other fixed assets	66.7	94.9	111.7
– Fixed assets in progress	17.8	15.5	14.1
Financial assets			
– Investments in unconsolidated subsidiaries and affiliates	11.6	13.6	16.1
– Other financial assets	15.8	17.3	20.9
TOTAL FIXED ASSETS	**335.1**	**406.6**	**476.1**
CURRENT ASSETS			
– Inventories	113.8	126.4	154.0
– Trade accounts and related receivables	121.0	142.5	170.3
– Other receivables	36.0	39.9	48.9
– Financial receivables	0.3	0.3	0.5
– Marketable securities	2.5	4.1	4.8
– Cash and cash equivalents	25.4	25.6	18.4
TOTAL CURRENT ASSETS	**299.0**	**338.8**	**396.9**
TOTAL ASSETS	**634.1**	**745.4**	**873.0**

LIABILITIES AND SHAREHOLDERS' EQUITY			
(€ m)	**2003**	**2002**	**2001**
SHAREHOLDERS' EQUITY			
– Share capital	22.4	22.3	22.3
– Additional paid-in capital, reserves and retained earnings	220.3	239.9	261.4
– Net income for the year (Group share)	(38.2)	(10.8)	(8.1)
– Cumulative translation adjustment (Group share)	(30.3)	(9.5)	15.9
TOTAL SHAREHOLDERS' EQUITY	**174.2**	**241.9**	**291.5**
– Minority interests	5.4	4.4	3.8
SHAREHOLDERS' EQUITY AND MINORITY INTERESTS	**179.6**	**246.3**	**295.3**
– Long-term provisions	31.4	35.5	41.2
LIABILITIES			
– Long-term borrowings	185.9	201.1	286.0
– Trade accounts and related payables	67.3	62.5	76.0
– Other payables	54.2	57.2	67.4
– Current portion of long-term provisions	69.7	47.2	17.6
– Other liabilities	21.1	30.4	36.9
– Current portion of long-term debt	3.2	27.7	11.0
– Short-term advances	1.8	2.3	3.0
– Bank overdrafts	19.9	35.2	38.6
TOTAL LIABILITIES AND PROVISIONS	**454.5**	**499.1**	**577.7**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**634.1**	**745.4**	**873.0**

Consolidated income statement

(€ m)	2003	2002	2001
Consolidated sales	629.4	720.9	803.7
Cost of sales	(439.0)	(499.6)	(560.6)
Gross income	**190.4**	**221.3**	**243.2**
Selling and marketing costs	(59.4)	(63.1)	(66.0)
Administrative and research costs	(58.2)	(61.9)	(61.5)
Other operating costs and provisions	(3.5)	(3.2)	(3.8)
Operating income before depreciation and amortization	**69.3**	**93.1**	**111.9**
Depreciation and amortization	(30.0)	(33.5)	(35.9)
Operating income	**39.3**	**59.6**	**76.0**
Net financial expense	(10.8)	(14.1)	(24.6)
Income before tax and non-recurring items	**28.5**	**45.5**	**51.4**
Current and deferred income tax	(7.3)	(12.8)	(16.4)
Minority interests	1.1	(0.5)	(0.5)
Net income before non-recurring items, Group share	**22.3**	**32.2**	**34.5**
Non-recurring items (after tax)	(54.8)	(36.9)	(27.1)
Net income before goodwill amortization, Group share	**(32.5)**	**(4.7)**	**7.4**
Goodwill amortization	(5.7)	(6.1)	(15.5)
Net income, Group share	**(38.2)**	**(10.8)**	**(8.1)**

Consolidated statement of cash flows

(€ m)	2003	2002	2001
CASH FLOW	**45.9**	**67.2**	**69.8**
Changes in the working capital requirement	31.4	19.1	(2.0)
Other changes	(11.5)	(5.7)	(7.6)
(A) Net cash flow generated by operating activities	**65.8**	**80.6**	**60.2**
INVESTING ACTIVITIES			
Increase in intangible fixed assets	(2.6)	(2.6)	(3.9)
Increase in property, plant and equipment	(23.0)	(23.2)	(31.5)
Increase in financial assets	(0.1)	(0.2)	(2.4)
Disposals of fixed assets	1.9	1.6	1.4
(B) Net cash flow used in investing activities	**(23.8)**	**(24.4)**	**(36.4)**
(C) Net cash flow generated by operating and investing activities	**42.0**	**56.2**	**23.8**
Net investments related to the impact of changes in the scope of consolidation	(10.1)	(2.8)	(4.1)
Non-recurring disposals of fixed assets	11.1	3.5	
(D) Net cash flow	**43.0**	**56.9**	**19.7**
Proceeds of capital increase	1.3	0.2	0.3
Net dividends paid to shareholders and minority interests	(8.8)	(14.1)	(17.0)
Non-operating cash flows	(7.0)	(0.4)	(2.3)
(E) (Increase) / decrease in long-term debt	**28.5**	**42.6**	**0.7**

Notes to the consolidated financial statements

Note 1 • Accounting policies and principles of consolidation

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

A – Basis of consolidation

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

All companies within the scope of consolidation are fully consolidated.

B – Foreign currency translation

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

- balance sheet items are translated into euros at year-end exchange rates;
- income statement items are translated at the average annual exchange rate;
- translation adjustments (the Group's share of which is booked under shareholders' equity) include the following:
    - the effect 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 year-end exchange rate.

C – Assets and liabilities denominated in foreign currencies

Transactions denominated in a currency other than the Group's functional currency are booked at the exchange rate ruling on the transaction date. Assets and liabilities deriving from these transactions and appearing on the balance sheet are translated at the exchange rate ruling on the balance sheet date. Any gains and losses arising from currency translation are taken to the income statement for the period.

D – Intangible fixed assets

a) Goodwill:

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

b) *Start-up costs*

Start-up costs are amortized over a period not exceeding 5 years.

c) *Patents and licenses*

Patents and licenses are amortized over the period for which they are protected by law. Software is amortized over its probable service life, which may not exceed 5 years.

E – Property, plant and equipment

Property, plant and equipment is stated at acquisition or production cost.

Depreciation is calculated for property, plant and equipment under the straight-line method based the expected service life of the asset.

The periods used are as follows:

- buildings 20 to 50 years
- fixtures and fittings 10 to 15 years
- plants and machineries 3 to 10 years
- vehicles 3 to 5 years

Property, plant and equipment financed by long-term leases with a value of over €1 million is booked under assets and amortized in line with the Group's accounting principles for property, plant and equipment. The financial commitments resulting from these leases are accounted for under long-term debt.

F – Impairment

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

G – Financial assets

Investments in unconsolidated subsidiaries and affiliates are carried at cost. In the event of a lasting decline in value, an impairment loss is recognized if book value exceeds fair value, which is determined by reference to the share of net assets held and taking into account the medium-term development prospects.

There are 35 unconsolidated subsidiaries. Their primary business is to distribute goods produced by the consolidated companies. Including them in the scope of consolidation would not have a material impact on Group sales.

H- Provisions for liabilities and charges

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

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

I – Inventories

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

The only indirect costs taken into account in the valuation of work in progress and finished products are production-related expenses.

Provision is made for slow-moving inventories where economically justified.

J – Consolidated sales

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

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

K – Research costs

Research costs are expensed as incurred.

L – Pension plans and retirement indemnities

Group commitments under defined benefit pension plans and retirement indemnities are determined using the projected benefit obligation method, which takes into account the economic conditions prevailing in each country. These commitments are funded by pension plans or provisions recorded on the balance sheet as rights are acquired by employees.

With respect to the French companies:

Pensions and retirement indemnities are paid by the appropriate agencies, which are funded by employer contributions as a proportion of total payroll costs. These employer contributions are accounted for in the individual financial statements of the relevant companies. In certain cases, companies may offer additional retirement benefits complementing the pension paid by the specialized agencies.

Provisions for unfunded retirement indemnities stipulated by collective bargaining agreements are accrued in the consolidated financial statements. A portion of these provisions was paid in 1998 to a guarantee fund managed by a specialized organization.

All these commitments were calculated on the basis of an actuarial study conducted in 2003. The primary assumptions used were an interest rate of 5.5% and a general salary inflation rate of 2%.

M – Operating income

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

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

N – Deferred taxation

Accounting restatements or consolidation adjustments (depreciation, provisions, tax deductions) may affect the results of the consolidated companies. Timing differences between taxable income and restated accounting income give rise to the calculation of deferred taxes under the liability method.

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

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

O – Non-recurring items

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

Note 2 • Impairment loss recognized on the Magnet business

The emergence of competition in Asia triggered price-cutting in the magnets market, leading to a major decline in the division's operating income. The Magnets division posted an operating loss of €6.3 million, representing a negative operating margin of 7.8% compared with a positive 2.9% in 2002.

The Group commissioned a valuation of its Magnets division by an external company.

The value of the relevant assets was calculated based on comparable listed companies and discounted cash flows.

The comparative analysis pointed to an enterprise value of between €16 million and €29 million, while the discounted cash flow method implied an enterprise value of between €21 million and €28 million using a discount rate of between 13% and 14.5% and a perpetual cash flow growth rate of between 0% and 2%.

On this basis, the Group opted to recognize a pre-tax impairment loss of €24.5 million, which was allocated as follows: €2.7 million to intangible fixed assets and €21.8 million to property, plant and equipment.

A breakdown of the Magnet assets is shown in the following table:

At year-end 2003 (in €m)	Value prior to-impairment loss	Impairment loss	Value after-impairment loss
Intangible fixed assets	2.7	(2.7)	0.0
Property, plant and equipment	34.6	(21.8)	12.8
Total net fixed assets	37.3	(24.5)	12.8
Inventories	8.9		8.9
Accounts receivable	16.1		16.1
Accounts payable	(11.9)		(11.9)
Other WCR components	(6.0)		(6.0)
Total WCR	7.1	0.0	7.1
Sub-total	44.4	(24.5)	19.9
Deferred tax assets *(1)*	4.1	7.3	11.4
Total magnet assets	48.5	17.2	31.3

(1)The deferred tax assets are attributable to companies included in consolidated tax groups encompassing all the Group's business activities. They may thus be offset against the earnings of these business activities.

Note 3 • Intangible fixed assets

(€ m)	2003	2002	2001
Goodwill			
Gross	204.9	231.9	266.3
Amortization	(39.7)	(38.7)	(38.7)
Net value	**165.2**	**193.2**	**227.6**
INVESTING ACTIVITIES			
Other intangible fixed assets	11.9	12.2	13.9
Deferred costs	2.5	3.4	4.8
Total	**179.6**	**208.8**	**246.3**

Goodwill, which relates primarily to acquisitions made by the Group in North America (€139.0 million at year-end 2003), to AVO (€14.6 million) and to units acquired in the UK (€15.2 million), is amortized over a period of 40 years. Other goodwill related to smaller acquisitions is amortized over a period of 20 years.

The gross change in goodwill between 2002 and 2003 is attributable partly to acquisitions made during the fiscal year (€1.7 million) and partly to the impact of currency translation adjustments (negative impact of €28.7 million).

A breakdown by division is shown in the following table:

(€ m)	2003 opening balance			Movements			2003 closing balance		
	Gross	Amort.	Net	Acquisit.	Trans adj.	Amort.	Gross	Amort.	Net
Electrical Applications	40.3	(7.2)	33.1	(0.1)	(1.4)	(1.0)	38.2	(7.6)	30.6
Electrical Protection	75.7	(6.6)	69.1	(1.6)	(9.5)	(1.8)	63.6	(7.4)	56.2
Magnets	13.5	(13.0)	0.5	0.0	0.0	(0.5)	12.4	(12.4)	0.0
Advanced Materials and Tech.	102.4	(11.9)	90.5	3.3	(13.0)	(2.4)	90.7	(12.3)	78.4
Total	**231.9**	**(38.7)**	**193.2**	**1.6**	**(23.9)**	**(5.7)**	**204.9**	**(39.7)**	**165.2**

Note 4 • Property, plant and equipment

Gross value in € million	2001	Acquisitions	Disposals and other	Changes in scope of consolidation	Translation adjustment	2002
Land	14.3	0.2	(1.1)	0.0	(0.9)	12.5
Buildings	105.1	1.3	(1.4)	0.0	(8.3)	96.7
Plant, equipment and other fixed assets	358.7	10.7	(6.3)	2.4	(23.7)	341.8
Fixed assets in progress	14.1	9.6	(7.0)	0.0	(1.2)	15.5
Gross total	**492.2**	**21.8**	**(15.8)**	**2.4**	**(34.1)**	**466.5**

Depreciation in € million	2001	Additions	Write-backs and other	Changes in scope of consolidation	Translation adjustment	2002
Land	0.7	0.1	(0.1)	0.0	0.0	0.7
Buildings	51.7	4.1	(1.0)	(0.0)	(2.8)	52.0
Plant, equipment and other fixed assets	247.0	24.9	(11.0)	1.7	(15.7)	246.9
Total depreciation	**299.4**	**29.1**	**(12.1)**	**1.7**	**(18.5)**	**299.6**
Net value of property, plant and equipment	**192.8**	**(7.3)**	**(3.7)**	**0.7**	**(15.6)**	**166.9**

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

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

*Including an impairment loss of €21.8 million (see Note 2) recognized on the property, plant and equipment of the Magnets division.

Note 5 • Investments in unconsolidated subsidiaries and affiliates

(€ m)	2003	2002	2001
At year end, the unconsolidated shareholdings held by consolidated companies had a gross book value of:	21.7	23.4	25.6
Less an impairment loss of:	(10.1)	(9.8)	(9.5)
Net book value	**11.6**	**13.6**	**16.1**
Other shareholdings	-	-	-
Total	**11.6**	**13.6**	**16.1**

The impairment losses recognized on investments at year-end 2003 related primarily to assets in Turkey, Argentina and Singapore.
Three companies, namely Ugimag Ltd in the UK, Carbone Lorraine SDN BHD in Malaysia and PCL Hungary, which have zero book value, are currently being liquidated.

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

Name	% held	Gross value (€ m)	Net book value (€ m)
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Elca Carbone Lorraine (India)	100	4.6	4.5
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
Carbone Lorraine India	100	1.1	1.1
Nortroll (Norway)	34	0.8	0.5
Clisa (Mexico)	49	0.7	0.7
Carbone Lorraine Greece	100	0.6	0.6
Carbone Lorraine Information Systems (France)	100	0.5	0.5
Madras Carbone (India)	51	0.5	0.5
Carbone-Lorraine Chile (Chile)	100	0.2	0.2
Carbone-Lorraine Shanghai (China)	100	0.2	0.2
GMI Metaullics (USA)	25	0.2	0.2
Carbono Lorena de Mexico S.A.	100	0.2	0.2
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Carbone Materials Japan	100	0.1	0.1
Other holdings	–	2.1	0.3
Total		**21.7**	**11.6**

The as-yet unaudited sales and total net income of these companies stood respectively at around €36.8 million and €2.1 million. Their impact on the consolidated financial statements is not material. The sales posted by all these companies amount to less than 5% of consolidated sales.

Note 6 • Inventories

(€ m)	2003	2002	2001
Raw materials and other supplies	51.9	60.6	70.5
Work in progress	33.6	36.5	46.5
Finished goods	38.7	40.5	48.7
Gross value	**124.2**	**137.6**	**165.7**
Impairment loss	(10.4)	(11.2)	(11.7)
Net value	**113.8**	**126.4**	**154.0**

The net book value of inventories fell by €12.6 million during 2003. Of this amount, €8 million was attributable to currency effects. At constant exchange rates, inventories decreased by 3.6% or €4.6 million.

Note 7 • Shareholders' equity (Group share)

(€ m)	Number of shares	Share capital	Additional paid-in capital, Reserves	Net income for the year	Cumulative translation adjustment	Total
Shareholders' equity at Dec. 31, 2000	**11,109,733**	**22.2**	**235.4**	**41.2**	**10.5**	**309.3**
Prior year's net income			41.2	(41.2)		0.0
Dividends paid			(15.8)			(15.8)
Capital increase	18,729	0.1	0.2			0.3
Net income (Group share)				(8.1)		(8.1)
Translation adjustment and other			0.4		5.4	5.8
Shareholders' equity at Dec. 31, 2001	**11,128,462**	**22.3**	**261.4**	**(8.1)**	**15.9**	**291.5**
Prior year's net income			(8.1)	8.1		0.0
Dividends paid			(13.1)			(13.1)
Capital increase	10,688	0.0	0.2			0.2
Net income (Group share)				(10.8)		(10.8)
Translation adjustment			(0.5)		(25.4)	(25.9)
Shareholders' equity at Dec. 31, 2002	**11,139,150**	**22.3**	**239.9**	**(10.8)**	**(9.5)**	**241.9**
Prior year's net income			(10.8)	10.8		0.0
Dividends paid			(8.2)			(8.2)
Capital increase	58,740	0.1	1.2			1.3
Net income (Group share)				(38.2)		(38.2)
Translation adjustment and other			(1.8)		(20.8)	(22.6)
Shareholders' equity at Dec. 31, 2003	**11,197,890**	**22.4**	**220.3**	**(38.2)**	**(30.3)**	**174.2**

In 2001, the capital increase resulted from the exercise of subscription options granted to employees, leading to the issuance of 18,729 new shares.

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

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

Note 8 • Share capital

At December 31, 2003, ownership of the share capital, which comprised 11,197,890 shares, each with a nominal value of €2, was as follows:

	%
BNP Paribas	21.0
Free float	78.5
Treasury shares	0.5

Note 9 • Changes in minority interests

(€ m)	
Minority interests at start of the year	4.4
Dividends paid	(0.6)
Net income	(1.1)
Changes in the scope of consolidation	3.5
Translation adjustment	(0.8)
Minority interests at Dec. 31, 2003	**5.4**

Changes in the scope of consolidation derived primarily from the minority interests held in the Carbone Kirkwood LLC joint venture, in which the Group has a shareholding of 73.6%.

Note 10 • Long-term and short-term provisions

(€ m)	2003		2002		2001	
	LT	ST	LT	ST	LT	ST
Provisions for deferred income tax	1.9	0.5	7.8	2.2	13.7	2.9
Provisions for pensions and retirement indemnities	28.6	2.2	26.4	2.1	24.6	2.4
Other provisions for liabilities	0.7	67.0	1.3	42.9	2.7	12.3
including:						
- provision for restructuring	0.5	15.4	1.1	5.3	1.4	4.7
- provision for litigation	-	50.2	-	33.9	-	3 .9
- impairment losses on fixed assets	-	-	-	2.5	-	2.9
- provision for sums owed to minority interests	-	-	-	-	0.8	-
- other provisions	0.2	1.4	0.2	1.2	0.5	0.8
Investment grants	0.2	-	0.1	-	0.2	0.0
Total	**31.4**	**69.7**	**35.6**	**47.2**	**41.2**	**17.6**

Provisions for pensions and retirement indemnities primarily cover unfunded benefits related to French and German companies.

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

Provisions at year-end 2003 primarily covered the total fine awarded to the Group by the European authorities (€43 million) and class-action lawsuits in the US (€6 million). There have been no notable developments in the US class-action lawsuits since the end of 2002.

The same provision has thus been maintained in US dollars. The change in the provision in euro terms compared with year-end 2002 is thus attributable solely to changes in the euro/US dollar exchange rate.

Note 11 • Net debt

(€ m)	2003	2002	2001
Long and medium-term debt	185.9	201.1	286.0
Current portion of long-term debt (excluding accrued interest)	0.0	24.7	2.4
Short-term advances	5.0	5.2	11.6
Bank overdrafts	19.9	35.2	38.6
Total gross debt	**210.8**	**266.2**	**338.6**
Marketable securities(*)	(2.5)	(4.1)	(4.8)
Financial receivables	(0.3)	(0.3)	(0.5)
Cash and equivalents	(25.4)	(25.6)	(18.4)
Total net debt	**182.6**	**236.2**	**314.9**

** Marketable securities include treasury shares held for the purpose of stabilizing the share price. These treasury shares accounted for 0.5% of the share capital at December 31, 2003. They were valued at the average share price for December 2003.*

Total net debt stood at €182.6 million at year-end 2003 compared with €236.2 million at year-end 2002. This €53.6 million decrease is primarily attributable to the Group's strong cash generation during the year (€28.5 million) and the depreciation in the US dollar which had a negative impact of €25.1 million.

Net debt represented 102% of shareholders' equity at year-end 2003 compared with 96% at year-end 2002. This increase derives solely to the reduction in shareholders' equity resulting from the exceptionally large non-recurring charges booked during 2003 and the impact of currency fluctuations. It was curbed significantly by the 23% reduction in net debt.

	2003	2002	2001
Total net debt (€ m)	182.6	236.2	314.9
Net debt/shareholders' equity	1.02	0.96	1.07

The change in net debt shown on the balance sheet can be reconciled with the change in net debt shown in the statement of cash flows as follows:

(€ m)	2003	2002	2001
Net debt at end of prior year	**236.2**	**314.9**	**301.5**
Net cash flow generated by operating and investing activities	(42)	(56.2)	(23.8)
Capital increase	(1.3)	(0.2)	(0.3)
Dividends paid	8.8	14.1	17.0
Net impact of changes in the scope of consolidation	(1.0)	(0.7)	4.6
Non-operating cash flows	7.0	0.5	2.3
Translation adjustments and other	(25.1)	(36.2)	13.6
Net debt at end of year	**182.6**	**236.2**	**314.9**

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

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

At December 31, 2003, the confirmed credit lines amounted to USD301m, USD81.2 million of which had not been drawn down.

Confirmed credit lines at December 31, 2003

(USD m)	Interest rate	Amount	Amount drawn down at Dec. 31, 2003	Maturity date
Syndicated loan	Variable	195	113.8	December 2005
US private placement, Tranche A	Fixed	65	65	May 2013
- *including*		*9.3*	*9.3*	*May 2007*
		9.3	*9.3*	*May 2008*
		9.3	*9.3*	*May 2009*
		9.3	*9.3*	*May 2010*
		9.3	*9.3*	*May 2011*
		9.3	*9.3*	*May 2012*
		9.3	*9.3*	*May 2013*
US private placement, Tranche B	Fixed	20	20	May 2015
- *including*		*4.0*	*4.0*	*May 2011*
		4.0	*4.0*	*May 2012*
		4.0	*4.0*	*May 2013*
		4.0	*4.0*	*May 2014*
		4.0	*4.0*	*May 2015*
Bilateral lines	Variable	21	21	January 2006
Total		**301**	**219.8**	

The interest rates on the syndicated loan and bilateral credit lines are the interbank rate for the relevant currency when drawings are made plus a credit margin. These margins vary according to the net debt/shareholders' equity ratio calculated under the covenants on June 30 and December 31 each year. A fixed rate of interest is paid to investors in the US private placements. This fixed rate was swapped into a variable rate of interest for the entire duration of the private placements.

Covenants relating to confirmed borrowings

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

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

Financial covenants (consolidated financial statements)	**Net debt/EBITDA****	**Net debt/ shareholders' equity****	**EBITDA/ net interest expense****
Covenants	*The ratio must be:*	*The ratio must be:*	*The ratio must be:*
- US private placement	< 3.25x	<1.3x	> 3x
- syndicated loan and bilateral credit lines	< 3.25x	<1.3x	-
Actual ratios			
December 31, 2003			
- US private placement	2.83	1.02	8.22
- syndicated loan and bilateral credit lines	2.83	1.09	-
*December 31,2002**	2.76	1.04	-
*December 31,2001**	2.82	1.07	-

** Solely the syndicated loan and bilateral credit lines.*
***Method for calculating the covenants. In line with the accounting rules, the net debt shown in the financial statements uses year-end exchange rates to calculate the euro-equivalent value of debt denominated in foreign currencies. For the purposes of the covenants, net debt needs to be calculated based on the average euro/US dollar exchange rate if there is a difference of more than 5% between the average and the year-end exchange rates. This adjustment is not required when calculating the net debt/shareholders' equity ratio for the purposes of the US private placements. In addition, to calculate the covenants at June 30, the convention is for EBITDA or gross operating profit to be deemed to be EBITDA reported during the first six months of the year multiplied by two.*

At December 31, 2003, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

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

Breakdown of long- and medium-term debt, including the current portion at December 31, 2003

(€ m)	**Total**	**< 1 year**	**> 1 and < 5 years**	**> 5 years**
Denominated in USD	113.1	-	60.5	52.6
Denominated in €	64.0	0.1	63.9	-
Denominated in GBP	7.8	-	7.8	-
Denominated in CAD	0.8	-	-	0.8
Denominated in AUD	0.2	-	0.2	-
Total	**185.9**	**0.1**	**132.4**	**53.4**

Analysis of total net debt at December 31, 2003

By currency:	**%**	**By interest rate:**	
€	32.7	Fixed	56.4
USD	62.6	Variable	43.6
GBP	3.9		
Other	0.8		

Interest rate risk management

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

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

In May 2003, the Group purchased several interest-rate swaps with an aggregate nominal amount of USD85 million to turn the interest payable on the private placements into a variable rate. Under the terms of these swaps, the Company receives the interest payable to the investors and pays 3-month USD Libor plus a credit margin. The starting date of the swap was May 28, 2003 and the swap has the same duration as the private placement.

In May 2003, the Group purchased several 3-year interest-rate swaps with an aggregate nominal amount of USD60 million. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 2.565% and receives 3-month USD Libor.

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

(€ m)	Total	Expiring in more than one year	Expiring in more than five years
Variable-rate long-term debt*	210.8	185.9	53.4
Financial assets	28.2	0	0
Net exposure before hedging	182.6	185.9	53.4
Fixed-rate hedge	102.9	47.5	0
Net exposure after hedging	79.7	138.4	53.4

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

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their December 31, 2003 level, an increase of 100 basis points in variable interest rates during 2004 would increase the Group's borrowing costs by €0.2 million since the impact of higher interest rates on the variable-rate portion would offset the positive impact of the expiry of the interest-rate swap in February 2004.

Note 12 • Sales

Analysis of sales by division

	2003		2002		2001	
	€ m	%	€ m	%	€ m	%
Electrical applications	184	29	192	26	193	24
Permanent magnets	82	13	106	15	124	15
Electrical protection	165	26	193	27	226	28
Advanced materials and technologies	198	32	230	32	261	33
Total	**629**	**100**	**721**	**100**	**804**	**100**

Analysis of sales by geographical region

	2003		2002		2001	
	€ m	%	€ m	%	€ m	%
France	96	15	117	16	118	15
Rest of Europe	208	33	240	34	262	33
North America	215	34	260	36	317	39
Asia	76	12	67	9	67	8
Rest of the world	34	6	37	5	40	5
Total	**629**	**100**	**721**	**100**	**804**	**100**

Note 13 • Operating income

Analysis of operating income and the operating margin by division

	2003		2002		2001	
	O. I. (€ m)	O. I./ sales* (%)	O. I. (€ m)	O. I./ sales* (%)	O. I. (€ m)	O. I./ sales* (%)
Electrical applications	20.2	10.9	22.4	11.7	24.7	12.8
Permanent magnets	(6.3)	(7.8)	3.1	2.9	(3.0)	(2.4)
Electrical protection	7.7	4.7	11.6	6.0	21.8	9.7
Advanced materials and technologies	29.4	14.8	34.9	15.2	43.3	16.6
Corporate overheads	(11.7)	(1.8)	(12.4)	(1.7)	(10.8)	(1.3)
Total	**39.3**	**6.2**	**59.6**	**8.3**	**76.0**	**9.5**

* *O.I./sales: Operating income before corporate overheads/sales*

The way corporate overheads are accounted for was altered during 2002 owing to the spin-off of Carbone Lorraine's French businesses into separate subsidiaries.

Note 14 • Divisional analysis of capital employed at year-end

(€ m)	2003	2002	2001
Electrical components			
Electrical applications	110.5	120.4	131.1
Permanent magnets	31.3	56.3	64.4
Electrical protection	128.4	158.4	195.9
Advanced materials and technologies	192.9	213.4	255.4
Other	-	16.9	22.3
Total	**463.1**	**565.4**	**669.1**

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

The (€102.3 million) reduction in capital employed during 2003 was attributable primarily to currency effects (negative impact of €49.2 million), the reduction in fixed assets (€33.2 million) owing mainly to the impairment losses recognized on the Magnets division and the lower working capital requirement (reduction of €19.9 million).

The item « Other » corresponded in 2001 and 2002 to deferred tax assets which were allocated to the relevant business activities from 2003.

Note 15 • Payroll costs and headcount

Group payroll costs (including social security contributions, provisions for pension plans and retirement indemnities) totaled €225.4 million in 2003 compared with €251.1 million in 2002.

The decrease in payroll costs attributable to changes in the scope of consolidation (disposals and acquisitions) came to €3.8 million. On a comparable structure basis and at constant exchange rates, payroll costs fell by 6.8% as a result of workforce reductions in Europe and North America.

Breakdown of consolidated average headcount by employee category

Categories	2003	%	2002	%	2001	%
Engineers and managers	628	9%	614	8%	670	8%
Technicians and supervisors	802	11%	792	11%	931	12%
Employees	1,062	15%	1,172	16%	1,167	15%
Plant workers	4,550	65%	4,666	65%	5,097	65%
Total	**7,042**	**100%**	**7,244**	**100%**	**7,865**	**100%**
o/w impact of changes in the scope of consolidation	*90*		*120*		*(142)*	

Breakdown of consolidated average headcount by geographical region

Region	2003	%	2002	%	2001	%
France	2 388	34%	2 506	35%	2 592	33%
Rest of Europe (+Tunisia)	1 769	25%	1 754	24%	1 694	21%
North America (+ Mexico)	2 057	29%	2 202	30%	2 801	36%
Asia	321	5%	294	4%	292	4%
Rest of the world	507	7%	488	7%	486	6%
Total	**7 042**	**100%**	**7 244**	**100%**	**7 865**	**100%**

The average headcount fell by 202 during 2003. At comparable scope, the reduction came to 292 employees.

Note 16 • Other operating expenses and provisions

(€ m)	2003	2002	2001
Provisions for plant, modernization and refurbishment		0.5	
Employee profit-sharing and other incentives	(3.8)	(3.6)	(4.3)
Other changes in operating provisions	0.3	(0.1)	0.5
Total	**(3.5)**	**(3.2)**	**(3.8)**

Note 17 • Depreciation and amortization

(€ m)	2003	2002	2001
Intangible fixed assets	(4.1)	(4.4)	(4.6)
Property, plant and equipment	(25.9)	(29.1)	(31.3)
Total	**(30.0)**	**(33.5)**	**(35.9)**

Note 18 • Financial expense

(€ m)	2003	2002	2001
Interest on long and medium-term debt	(7.7)	(9.5)	(14.1)
Interest on short-term debt and other financial expense	(3.9)	(5.8)	(9.0)
Amortization of debt issuance costs	(0.4)	(0.3)	(0.3)
Total financial expense	**(12.0)**	**(15.6)**	**(23.4)**
Financial income	1.3	1.2	2.9
Currency gains (losses)	(0.1)	0.3	(4.1)
Total net financial expense	**(10.8)**	**(14.1)**	**(24.6)**

The reduction in financial expense is attributable primarily to the fall in interest rates, the drop in average net debt and the positive impact of the translation into euros of interest payments denominated in US dollars.

Note 19 • Current and deferred tax

(€ m)	2003	2002	2001
Current income taxes	(5.1)	(14.4)	(13.2)
Deferred income taxes	(2.2)	1.7	(3.1)
Withholding taxes	-	(0.1)	(0.1)
Total tax on operating items	**(7.3)**	**(12.8)**	**(16.4)**
Non-recurring current and deferred tax	17.1	8.0	4.8
Total tax expense	**9.8**	**(4.8)**	**(11.6)**

In France, Le Carbone Lorraine SA, Carbone Lorraine Applications Electriques, Carbone Lorraine Composants, Carbone Lorraine Equipement Génie Chimique, Carbone Lorraine Corporate Services, Ferraz Shawmut SA, Ugimag, Ferroxdure and AVO are consolidated for tax purposes. There are two consolidated tax groups in the US, one encompassing Carbone Lorraine North America and its subsidiaries (see scope of consolidation) and the other encompassing Ugimagnet, Ugimag Inc. and Fermag Inc., as well as three consolidated tax groups in Germany comprising Le Carbone Holdings KG and Cometec, DCAG, Dietrich GmbH and Ferraz Shawmut GmbH.

The Group's effective tax rate excluding non-recurring items was 25.6% in 2003 compared with 28.0% in 2002 and 32.0% in 2001. The fall in the rate during 2003 was attributable to deferred tax assets arising mainly from the taxable results of certain US companies.

Analysis of tax expense

(€ m)	2003
Net income, Group share	(38.2)
Goodwill amortization	5.7
Minority interests	(1.1)
Tax expense/(benefit)	(9.8)
Taxable income	**(43.4)**
Current income tax rate in France	35.43 %
Theoretical tax benefit (expense) (taxable income x current income tax rate in France)	**15.4**
Difference between the income tax rate in France and other jurisdictions	0.6
Transactions qualifying for a reduced rate of taxation	(0.7)
Permanent timing differences	(7.9)
Impact of limiting deferred tax assets*	(1.5)
Other	3.9
Actual tax benefit (expense)	**9.8**

* No deferred tax assets were taken into account for companies in the US magnets consolidated tax group owing to their business prospects. The impact of this decision was €1.4 million.

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

(€ m)	2003	2002	2001
Deferred tax assets (recorded under financial assets and working capital requirement)	25.7	16.9	22.2
Deferred tax liabilities (recorded under provisions)	(2.4)	(10.0)	(16.7)
Net position	**23.3**	**6.9**	**5.5**

The movements during 2003 were as follows:

(€ m)	2002	Earnings	Other	Translation adjustment	2003
Provisions for retirement benefits	3.9	0.5	(0.1)		4.3
Provisions for restructuring	0.2	2.6	0.1		2.9
Depreciation and amortization	(4.0)	(6.0)	2.9	1.5	(5.6)
Regulated provisions	(4.6)				(4.6)
Impact of tax losses & other	11.4	18.5	(1.8)	(1.9)	26.2
Deferred tax – Net position	**6.9**	**15.6**	**1.1**	**(0.4)**	**23.2**

Note 20 • Non-recurring items after tax

(€ m)	2003	2002	2001
Impairment losses on investment securities	(2.5)	(0.4)	(5.2)
Retirement indemnities	(0.5)	(1.0)	(0.8)
After-tax capital gains on asset disposals	6.7	2.5	2.3
Expenses and provisions for litigation	(25.1)	(28.6)	(1.3)
Other non-recurring income and expense	(33.4)	(9.4)	(22.1)
Total non-recurring items	**(54.8)**	**(36.9)**	**(27.1)**

In 2001, the impairment losses on investments related primarily to shareholdings in Argentina and Turkey.

The after-tax capital gains were recognized on the sale of the specialty Magnets activity, as well as on the sale of the remainder of the rare earths magnets activity for IT and industrial applications.

Other non-recurring income and expense comprised impairment losses on assets (€13.9 million) concerning mainly the magnets activity in North America, restructuring costs (€5.7 million) and impairment losses on treasury shares (€1.2 million).

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

Expense and provisions for litigation included an estimate of all the financial consequences of the proceedings in progress regarding anti-competitive affecting some of the Group's activities. They thus included the €7 million fine that the European Commission meted out to the isostatic graphite business in December 2002. They also included an estimate of the likely consequences of the investigation that the European Commission had launched into the brushes and mechanical products industry on one hand, and of the class-action lawsuits for compensation brought in the US by certain customers of the isostatic graphite and brushes activities on the other hand.

The other non-recurring income and expense comprised primarily restructuring costs (€11.8 million), the repayment of the Valeo receivables (€4.0 million) that were written off at the end of 2001, the negative impact of the impairment losses on treasury shares and on share purchase options (€1.6 million).

In 2003, the after-tax net non-recurring charges amounted to €54.8 million. They comprised mainly:

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

- Other non-recurring income and charges amounting to €33.4 million, including an impairment loss of €16.7 million after tax on the Magnets assets, as well as €19.3 million after tax in industrial restructuring charges related to the savings plan.
- Impairment losses on investment securities (€2.5 million) primarily affecting assets in Turkey, Malaysia and Mexico.
- After-tax capital gains on business disposals (€6.7 million) mainly deriving from the sales of the real estate of the Spanish (Barcelona) and US (Camarillo) subsidiaries under the asset disposal program currently underway.

Note 21 • Commitments and contingencies

1 – Financial commitments and liabilities

(€ m)	2003	2002	2001
Commitments received			
Guarantees and endorsements	0.4	1.3	0.3
Other commitments received	2.8	1.2	2.2
Total	**3.2**	**2.5**	**2.5**
Commitments given			
Collateralized debts and commitments	0.3	0.5	0.5
Guarantees and endorsements	8.5	7.8	4.3
Lease commitments	6.1	7.6	8.4
Guarantees	16.8	17.8	21.0
Payment guarantees on acquisition	7.3	8.4	9.1
Other commitments given	3.2	3.2	0.2
Total	**42.2**	**45.3**	**43.5**

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

Nature

The largest item totaling €16.8 million relates to "Guarantees" and includes a €16 million guarantee covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

At December 31, 2003, the Group transferred €4.5 million in trade receivables to a factoring organization. Under the terms of the contract, Carbone Lorraine will cover up to 10% of the value of these trade receivables, i.e. around €0.5 million, in the event that they are unpaid for financial reasons. This amount was accounted for under "Other commitments given".

Maturity

The guarantees and endorsements and the payment guarantee on acquisition expire in less than one year, except for certain market guarantees, the duration of which does not exceed three years.

The lease commitments, guarantees and other commitments given expire in most cases in more than one year. The largest commitments are the guarantee covering the cash pooling system, which will remain in place for the entire duration of the cash pooling agreements, the eight-year lease commitment of €3.5 million relating to a manufacturing plant in the US and commitments of €1.5 million relating to the exercise of options on Carbone Lorraine shares, which is due to expire no later than in June 2005.

Internal control

Within the Group's internal control framework, Group companies are not authorized to enter into transactions giving rise to commitments and contingencies without obtaining the prior approval of the Group's Finance department and, where appropriate, 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 two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the account consolidation procedure.

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

2 – Title retention clause

None.

Note 22 • Valuation of financial instruments

The fair value of the majority of the financial instruments held by the Group was estimated based on the year-end market rates. It was either calculated by the Group or obtained from banking counterparties with which the financial transactions were conducted. These instruments are backed by borrowings (interest rates) or sales transactions that are certain or almost certain (currency) to occur.

(€ m)	Value at Dec. 31, 2003	Nominal amount	Nominal amount	Nominal amount
	2003	2003	2002	2001
Interest rate instruments	-1.4	170.2	66.7	107.8
Currency instruments	1.6	4.6	18.8	37.7

Currency exposure by currency

The net exposure by currency shown below represents the Group's transaction flows at December 31, 2003. The assets and liabilities represent the net amount of Group companies' orders and billings denominated in foreign currencies translated in euros from their local currency. A currency is not shown where the relevant assets and liabilities have a value of less than €0.5 million.

(€ m)	USD	GBP	JPY	CAD	KRW	BRL	MXN	SEK
Assets	9.4	-2.1	5.1	-2.9	-1.1	-0.5	0	-1.1
Liabilities	-3.8	1.8	-0.1	2.2	2.2	1.5	-1.1	1.0
Net position before hedging	**5.6**	**-0.3**	**5.0**	**-0.7**	**1.1**	**1.0**	**-1.1**	**-0.1**
Off-balance sheet positions	**0**	**0**	**3.3**	**0.7**	**0**	**0**	**0**	**0**
Net position after hedging	**5.6**	**-0.3**	**1.7**	**-1.4**	**1.1**	**1.0**	**-1.1**	**-0.1**

An unfavorable one-percent shift in the euro relative to the aforementioned currencies would have a negative impact of €0.1 million.

Note 23 • Subsequent events

None.

>Statutory auditors' report

Annual financial statements (year ended December 31, 2003)

We draw your attention to the new requirement under the August 1, 2003 French financial security law ("loi de sécurité financière") that statutory auditors explain in their reports on the financial statements of all French companies the assessments made in the course of their audit in order to form their opinion on the financial statements. Such explanations, that have no equivalent in other financial markets, are required for all audit reports, whether or not qualified.

In accordance with our appointment as auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Le Carbone Lorraine for the year ended December 31, 2003.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements, based on our audit.

Opinion on the consolidated accounts

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group as at December 31, 2003, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in France.

Justification of our assessments

In accordance with the requirements of article L.225-235 of the Commercial Code relating to the justification of our assessments, which came into effect for the first time this year, we bring to your attention the following matter.

During the year ended December 31, 2003, your company raised an impairment provision for the assets used by the Ferrite magnet segment in the amount of M€ 24.5 before deferred taxes. This provision was determined as set forth in Note 2 of the consolidated financial statements.

Pursuant to the professional standard governing accounting estimates, our procedures consisted in assessing the data and assumptions on which such estimates are based and the resulting figures.

We assessed the reasonableness of such estimates based on this information.

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

Specific verifications

We have also performed the procedures required by law on the Group financial information given in the report of the Board of Directors. We have no comment to make as to the fair presentation of this information nor its consistency with the consolidated financial statements.

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

Summary parent company financial statements

Condensed income statement

In May 2001, Le Carbone Lorraine decided to spin-off its three industrial plants at Gennevilliers, Pagny-sur-Moselle and Amiens, as well as its functional activities into newly created subsidiaries. As a result, the various income statement line items for 2001 and 2002 are not directly comparable with those for previous years.

(€ m)	2003	2002	2001
Sales and other revenues	3.7	3.1	18.1
Purchases and changes in inventories	(0.0)	(0.0)	(8.9)
Salaries, wages and payroll taxes	(1.1)	(1.4)	(3.6)
Other operating expense	(4.2)	(2.9)	(6.3)
Depreciation, amortization and provisions	(1.8)	(1.8)	(1.9)
Operating income	(3.4)	(3.0)	(2.6)
Net financial income/(expense)	23.4	22.6	3.5
Income before tax and non-recurring items	20.0	19.6	0.9
Non-recurring items	(39.4)	(23.4)	(5.2)
Income tax and employee profit-sharing	5.0	5.0	7.6
Net income	**(14.4)**	**1.2**	**3.3**

Condensed balance sheet

ASSETS			
(€ m)	2003	2002	2001
Intangible fixed assets and property, plant and equipment	1.4	2.1	2.8
Financial assets	358.7	427.9	456.9
Total fixed assets	360.1	430.0	459.7
Inventories	-	–	–
Trade receivables	1.0	1.3	1.7
Other receivables	48.9	44.1	26.9
Cash and marketable securities	5.6	7.8	9.5
Foreign currency translation losses	5.0	13.2	27.1
Total assets	**420.6**	**496.4**	**524.9**

LIABILITIES			
Share capital	22.4	22.3	22.3
Additional paid-in capital and reserves	124.3	131.3	144.0
Retained earnings	1.1	0.2	0.1
Net income for the period	(14.4)	1.2	3.3
Shareholders' equity	133.4	155.0	169.7
Provisions for liabilities and charges	27.3	20.3	7.5
Long-term debt	198.9	247.8	304.9
Other liabilities	50.6	61.6	37.9
Foreign currency translation gains	10.4	11.7	4.9
Total liabilities and shareholders' equity	**420.6**	**496.4**	**524.9**

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

Five-year financial summary

	2003	2002	2001	2000	1999
1. Share capital at year-end					
Share capital (€ m)	22.4	22.3	22.3	22.2	21.8
Number of shares outstanding [(1)]	11,197,890	11,139,150	11,128,462	11,109,733	10,895,464
Nominal value per share[(1)] (€)	2	2	2	2	2
2. Overall result of operations (€ m)					
Income before tax, depreciation, amortization, provisions and employee profit-sharing	23.4	21.7	1.5	19.5	27.6
Income tax	(5.0)	(5.0)	(7.6)	(2.8)	(1.3)
Net income after tax, employee profit-sharing, depreciation, amortization and provisions	(14.4)	1.2	3.3	17.7	14.6
Earnings distributed[(2)]	0.0	9.3	13.2	15.9	9.6
3. Overall result of operations per share (€)					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions	2.54	2.40	0.82	2.01	2.65
Net income after tax, depreciation, amortization and provisions	(1.29)	0.11	0.30	1.60	1.34
Dividend paid on each share	0.0	0.60	0.80	1.06	0.88
4. Employees[(3)]					
Average headcount	6	6	6	1,082	1,091
Total payroll costs (€ m)	0.7	1.0	2.5	34.9	32.3
Amount paid for welfare benefits (€ m)	0.4	0.4	1.2	14.5	14.3

(1) On May 5, 1999, the nominal value was converted into euros by changing its value from FRF10 to €2.

(2) The earnings distributed include the payment of €4.2 million, €4.3 million and €2.6 million in dividend withholding tax for 2000, 2001 and 2002 respectively.

(3) The spin-off of Carbone Lorraine Corporate Services took place on May 1, 2001. As a result, the figures shown for Carbone Lorraine S.A. in 2002 are not directly comparable with those for 2001.

Change in Le Carbone-Lorraine's shareholders' equity

(€ m)	2003	2002	2001
Opening shareholders' equity at January 1	155.0	169.7	189.3
Capital increase subscribed by employees	1.3	0.2	0.3
Dividend payment	(6.6)	(8.8)	(11.7)
Dividend withholding tax	(1.6)	(4.3)	(4.1)
Net income for the period	(14.4)	1.2	3.3
Change in regulated provisions	(0.2)	0.4	(5.5)
Investment grants	-	-	(0.5)
Amortization of capital increase expenses against additional paid-in capital	(0.1)	(0.1)	(0.1)
Excess of restated assets over 1976 historical cost	-	(3.3)	(1.3)
Closing shareholders' equity at December 31	133.4	155.0	169.7

List of subsidiaries and shareholdings

Detailed Information (€ m)	Share capital	Additional paid-in capital and reserves	% of share capital owned	Book value in Le Carbone Lorraine SA's financial statements		Loans and advances	Guarantees and sureties given
				Gross	Net		
CONSOLIDATED SUBSIDIARIES (consolidated shareholders' equity at Dec. 31, 2003)							
Carbone Lorraine Corporate Services (France)	3.0	0.8	100	3.0	3.0		
Carbone Lorraine Applications Electriques (France)	25.4	(10.1)	100	25.4	25.4		
Carbone Lorraine Composants (France)	20.0	3.5	100	19.9	19.9		
Carbone Lorraine Equipement Génie Chimique (France)	17.3	3.5	100	17.3	17.3		1.2
AVO S.A. (France)	0.2	14.4	100	16.1	16.1	0.2	
Ferraz Shawmut S.A. (France)	1.3	0.1	100	9.6	9.6	0.9	
Ugimag S.A. (France)	51.7	(69.2)	100	31.5	0.0		
Le Carbone Holdingsgesellschaft KG (Germany)	29.1	(9.7)	100	30.3	13.8	0.4	
Carbone Lorraine GmbH (Germany)	0.0	0.1	100	0.1	0.1		
Sofacel (Spain)	3.2	(0.8)	50	0.7	0.7		
Ferraz Shawmut España (Spain)	2.4	0.1	100	2.4	2.4	1.4	
Le Carbone Holdings (UK)	9.9	1.6	100	0.9	0.9	7.8	
Il Carbonio (Italy)	2.5	(0.6)	100	2.1	2.1		
Carbone Lorraine Nederland (Netherlands)	0.1	0.4	100	0.2	0.2		
Carbone Nordic AB (Sweden)	0.6	(0.1)	100	0.8	0.8		
Carbone Lorraine Australia (Australia)	0.7	1.0	100	0.7	0.7		
Carbone KK (Japan)	0.1	(0.3)	100	3.0	0.9		2.2
Carbone Lorraine Korea (South Korea)	12.1	(3.1)	100	12.1	11.5		
Carbone of America (Canada)	11.2	(0.5)	100	1.3	1.3	1.2	
Carbone Lorraine North America (USA)	23.6	20.3	100	115.6	115.6		
Ferraz Fuse Corp. (USA)	44.8	(1.3)	100	44.8	44.8	23.6	2.0
Carbono Lorena (Brazil)	39.1	(33.4)	100	21.7	20.1		
Carbone South Africa (Republic of South Africa)	1.0	1.3	69.24	1.1	1.1		
UNCONSOLIDATED SUBSIDIARIES (shareholders' equity as per individual financial statements at December 31, 2002)							
Carbone Lorraine SAIC (Argentina)	0.1	0.5	100	1.0	0.8		
Carbone Lorraine Information Systems (France)	0.5	0.1	100	0.5	0.5		
Carbone Lorraine Shanghai (China)	0.2	0.0	100	0.2	0.2		
Carbone Lorraine Grèce (Greece)	0.4	0.2	100	0.6	0.6		
Carbone Lorraine Hungaria (Hungary)	0.3	(0.2)	100	0.4	0.0		
Carbone Lorraine Mauritius (Mauritius)	0.3	0.0	100	0.3	0.3		
Carbone Lorraine India (India)	0.8	0.1	100	1.1	1.1		
Elca Carbone Lorraine PVT Ltd (India)	0.3	0.6	100	4.3	4.1		
Carbone Lorraine Madras (India)	0.4	0.1	51	0.4	0.4		
Carbone Lorraine Malaysia (Malaysia)	0.3	(0.1)	90	0.4	0.0		
Carbone Lorraine Singapore Holding Pte Ltd (Singapore)	0.9	(0.9)	95	1.1	0.1		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	0.4	0.5	100	5.0	1.0		
OTHER UNCONSOLIDATED SUBSIDIARIES							
Subsidiaries (over 50%-owned)	1.1	1.7		0.6	0.4	0.6	
Shareholdings (10% to 50%-owned)	0.3	0.4		0.2	0.2		0.1
Other shareholdings (less than 10%-owned)	0.0	0.0		0.0			
TOTAL				**376.7**	**318.0**	**36.1**	**5.5**

Legal and financial information

>Additional information

General information about Carbone Lorraine

Corporate name and headquarters

Le Carbone Lorraine
Immeuble La Fayette
2-3, place des Vosges
La Défense 5 - 92400 Courbevoie

Form, nationality and law

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

Incorporation and corporate life

The Company was incorporated on January 1, 1937 and shall be dissolved on December 31, 2035 unless its life is extended or it is dissolved early by a vote of an Extraordinary General Meeting.

Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in all countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

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

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

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

The Company may also indirectly carry out operations related to technical, industrial and commercial activities. To this end, it may form any companies and groups of companies, acquire holdings in any companies and partnerships, contribute assets to the capital of any company and subscribe to the shares of any company, purchase or sell any shares, partnership shares, or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form, in any French or foreign companies or organizations.

Trade and Companies Register Code

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

Consultation of corporate documents

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

Jean-Claude Suquet

Group Vice President, Finance and Administration

LE CARBONE-LORRAINE

Immeuble La Fayette

2-3, place des Vosges

La Défense 5, 92400 Courbevoie (France)

Tel.: +33 (0)1 46 91 54 19

Fiscal year

The fiscal year begins on January 1 and ends on December 31 of each year.

Statutory distribution of income (Article 26 of the Articles of Association)

At the end of each fiscal year, the Board of Directors prepares an inventory and the annual financial statements as set forth in Section II Book I of the French Commercial Code.

Net income for the fiscal year, as shown on the income statement, comprises the difference between the income and expense for the year, less depreciation, amortization and provisions.

At least one twentieth of net income for the fiscal year, less any prior losses, if any, is allocated to a reserve account known as the "legal reserve".

When the amount in this reserve account reaches one tenth of the share capital, this deduction ceases to be mandatory but if, for any reason, the reserve account were to fall below one tenth of the share capital, the deduction would resume.

Income available for distribution consists of net income for the fiscal year less any prior losses and the amounts to be allocated to reserve accounts as stipulated by law, plus any retained earnings.

An initial dividend of 5% of the paid-up and unredeemed nominal value of the shares is distributed from income. The shareholders may not demand payment of the dividend out of subsequent years' income, should the income from one year, after the aforementioned deduction, make it impossible to make such a payment. In addition, the General Meeting of the Shareholders, upon the proposal of the Board of Directors, has the right to decide to deduct such amounts as it deems suitable, either for retained earnings or for reserves to be used as directed by the Board.

The balance is then divided among the shareholders without distinction.

The Ordinary General Meeting voting on the financial statements for the year has the option of granting each shareholder the choice between receiving all or part of the dividend or interim dividend in cash or in shares.

The Ordinary General Meeting of the Shareholders may in addition resolve to distribute sums drawn from the reserve accounts at its disposal. In this case, the decision must indicate explicitly the reserve accounts from which the amounts are to be drawn.

However, dividends are taken in priority from the year's income available for distribution.

General Meetings of Shareholders (Article 25 of the Articles of Association)

Notice of meetings - Admission

General Meetings of shareholders are convened under the conditions laid down in law, and their proceedings are governed by the quorum and majority voting requirements stipulated in law.

The meetings are held at Company headquarters or at any other location specified in the notice convening the meeting.

All shareholders owning at least one fully paid-up share may attend General Meetings.

To be entitled to attend the General Meeting, holders of bearer shares must present a certificate showing that their shares have been placed in a blocked account five days ahead of the scheduled date of the meeting.

The Board of Directors may always elect to shorten these time limits.

The General Meeting is chaired by the Chairman of the Board of Directors or, in his absence, by the Vice President or one of the Vice Presidents, or in their absence, by a director who has been specially designated by the Board. Otherwise, the General Meeting shall elect its own Chairman.

Minutes of the Meetings are drawn up and the Chairman of the Board, the Managing Director, the Secretary of the Board or a duly authorized person certifies copies of the minutes.

Disclosure thresholds (Article 11ter of the Articles of Association)

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

Purchase by the Company of its own shares

(approved by the COB under no. 03-286 dated April 17, 2003)

The Combined General Meeting of Shareholders of May 14, 2003 (second notice) authorized the Company, pursuant to Articles L 225-209 *et seq*. of the French Commercial Code, to trade in its own shares on the stock exchange in order to:

- stabilize the share price;
- allocate or transfer shares to employees under employee profit-sharing plans, employee share ownership plans or Group Investment plans;
- use them in connection with acquisitions or, more generally, to use them as part of the Group's asset management and investment policy.

The purchase price must not exceed €40 per share and the sale price must be no lower than €15 per share, subject to the adjustments associated with any capital transactions related to the Company's capital.

During 2003, the Company made use of this authorization to stabilize the share price. Under the authorization, 137,000 shares were sold at an average price of €33.16. Trading costs amounted to €17,510.

Moreover, Carbone Lorraine acquired 25,000 shares for €40.15 per share under an options agreement entered into with a bank in connection with the leveraged capital increase reserved for employees in 2000. Under the options agreement, the Company is due to acquire 25,079 shares for €40.15 between June 15, 2004 and July 15, 2004 if the share price is below this level.

The number of shares held by the Company at December 31, 2003 stood at 57,976, which represented 0.5% of the Company's share capital.

Another authorization to buy back shares will be proposed at the Combined General Meeting of Shareholders of May 3, 2004 (first notice) and of May 13, 2004 (second notice).

Double voting rights

No shares carry double voting rights.

Risk management

Carbone Lorraine implements a risk management policy to protect its employees, its environment and all its assets. The Risk Committee, which was set up in 2001, pursues a policy of identifying risks and determining preventive measures to mitigate their impact.

Industrial risks

The industrial processes used by the Group are not of a hazardous nature liable to trigger large-scale chemical reactions. Its plants do not have significant storage installations for gas or chemical products, and none is classified under the Seveso European directive. The sites subject to operating authorizations, notably concerning the regulation of ICPEs (classified installations) in France, comply fully with them.

During 2003, the Risk Committee continued to pursue the review of risks related to its strategic installations that it initiated during 2002. Preventive measures were introduced for certain risk factors, while further analysis was conducted to establish potential risks and to identify appropriate preventive plans and contingency plans.

Technology risks

Risks arising from the temporary unavailability of IT systems were identified by the Risk Committee. Contingency plans were drawn up for each Group division based on the priorities laid down by the Executive Committee. These priorities are intended to achieve a solution allowing to restrict the data loss to less than 24 hours. These contingency plans will be introduced during 2004.

A Group procedure was drafted and a new unit set up to manage the protection of patents, brands and web site domain names. This unit includes one manager per activity, under the supervision of a manager for the entire Group.

Environmental risks

The Group has put in place an ISO 14001-compliant environmental policy. As part of this policy, it catalogues potential risks relating to its industrial plants and products and carries out checks to ensure that the preventive measures implemented are sufficient to avoid any accidents potentially affecting the people and the environment in the surrounding area. Some of its plants have already secured ISO 14001 certification, and efforts are continuing to ensure that the Group's most important facilities receive certification by 2005.

In-depth environmental audits are carried out with the assistance of specialized firms prior to the acquisition of any new site in France or abroad.

During 2003, additional research was carried out into product components used by the Group's manufacturing facilities that are potential pollutants. Based on this work, no major risks arising from these product components were identified.

Raw materials risks

During 2003, a Group procedure for the procurement of raw materials was introduced to protect the Group against fluctuations in raw materials prices.

Specific actions plans to diversify sourcing and to strengthen supplier relations were also implemented with a limited number of suppliers.

In addition, a Purchasing charter was introduced during late 2003 with immediate effect.

Country risks

The Group has manufacturing facilities in countries considered to be at high risk (based on Coface's classification), i.e. in Argentina, Colombia, Turkey and Venezuela. These unconsolidated subsidiaries potentially represent a risk factor, albeit a very modest one given their size.

Insurance

The Group has put in place worldwide insurance programs with prime insurance companies to cover its main property/business interruption, civil liability, environmental, civil aviation and transport risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs.

The Group's civil liability (before and after delivery) and environmental insurance program notably covers bodily injury, physical and consequential damage, site clearance and rebuilding costs, withdrawal costs, damage to property entrusted with the Group and pollution abatement costs subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries (notably the US and Canada). The total amount of premiums paid by Groupe Carbone Lorraine during the 2003 fiscal year in respect of its civil liability, environmental and civil aviation insurance program came to €1,116,222.

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as a fire, storm, explosion, electrical damage, theft) subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €80,000,000 with sub-restrictions for certain events, such as storms, natural disasters or certain guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by Groupe Carbone Lorraine during the 2003 fiscal year in respect of this insurance program came to €1,453,821.

Under the Group's transport insurance program, Carbone Lorraine and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5,000,000 per shipment for all the Group's good shipments, irrespective of the means of transportation used. The total amount of premiums paid by Groupe Carbone Lorraine during the 2003 fiscal year in respect of this insurance program came to €75,000.

The Group's insurance policy is determined by the General Management. In the persistently adverse conditions prevailing in the insurance market for policyholders, the levels of cover are set depending on an assessment of the risks incurred by each subsidiary of the Group, in order to ensure the Company's continued survival.

Labor risks

The Company pays particular attention to the quality of its labor relations and to the development of dialogue with employees and unions. For instance, union representatives, employee representatives and the Group's Management meet each year as part of the Group Works Committee in France and the European Works Committee. In addition, the leaders of each of the unions at the Group's French plants meet with the Group's Vice President for Human Resources at least once each year.

When restructuring measures liable to have an impact on the workforce are contemplated, the envisaged solutions are studied in conjunction with the unions and employee representatives in accordance with the provisions of law. Appropriate measures are taken to reassign affected employees to new positions within or outside the Group.

To guard as best it can against the risk of losing expertise, the Group identified the key men and women within its organization during its management reviews and introduced measures during 2003 to maintain their loyalty and/or ensure that they can be replaced.

Tax risks

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

Financial market and financing risks

Currency risks

The Group's usual business policy is to hedge currency risks as soon as orders are taken or to hedge an annual budget. The main currency risk relates to intra-Group sales transactions. These risks are hedged by means of a netting system enabling the parent company to hedge its net exposure to each currency. To cover itself against these currency risks, the Group primarily uses futures contracts.

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

For consolidation purposes, the income statement and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the year-end rate. The impact of this currency translation may be significant. The principal effect derived from the impact of fluctuations in the US dollar exchange rate on the Group's shareholders' equity and debt. The depreciation in the currency against the euro in 2003 led to a reduction in the Group's shareholders' equity and debt. The Group does not specifically hedge its net foreign assets.

Except in special and non-material cases, hedging is centralized by the parent company. It is carried out under strict guidelines laid down by management.

The way hedges are valued is described in Note 22 to the consolidated financial statements.

Interest rate risks

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

Counterparty risks

All hedging transactions are entered into with prime financial institutions. The Group has no material marketable securities and is not exposed to counterparty risks on such securities. In terms of credit risk, the Group has introduced an insurance program covering its principal companies in the US and France against the risk of non-payment for financial or political reasons. Hedging varies between 0 and 90% of invoiced amounts from customer to customer. With the exception of Valeo (6.3% of sales in 2003), the Group considers that there is no particular concentration of credit risk with a single counterparty.

Liquidity risks

The Group's policy is to use a majority of confirmed borrowings for amounts that are significantly larger than its net debt. During 2003, the Group extended the maturity of its borrowings and diversified its sources of financing by carrying out a private placement with US investors. No major borrowings are due to be repaid until December 2005. With respect to its various borrowings, the Group needs to comply with certain financial criteria, described in Note 11 to the consolidated financial statements. Failure to satisfy these financial criteria could trigger the immediate repayment of the relevant borrowings. Under cross-default clauses, the early repayment of a significant borrowing may trigger the early repayment of other borrowings.

Equity risks

Marketable securities consist entirely of 57,976 Carbone Lorraine shares held as treasury stock. A 10% fall in the Carbone Lorraine share price relative to the average end-2003 price of €30.18 would depress pre-tax profit by €0.2m.

Legal risks

Dependence of the Company

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

Valeo ranks among the Group's main customers, especially of the Magnets division in North America. Valeo accounts for 6.3%, Siemens for 3.8% and Bosch for 3,2% of consolidated sales.

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

Litigation

In December 2003, Carbone Lorraine was awarded a fine of €43.05 million by the European Commission following an investigation into anti-competitive practices in Europe in brushes for electric motors and products for mechanical applications between 1988 and 1999. Carbone Lorraine has decided to appeal this decision in the Court of First Instance of the European Community.

The class-action lawsuits brought in 2000 by certain customers in the US against Carbone Of America Industries Corp. (COAIC) following the settlement signed in 2000 between COAIC and the US Justice Department in graphite activities, were settled by COIAC.

The class-action lawsuits brought in 2002 by certain customers in the US against Carbone Of America Industries Corp. (COAIC) following the settlement signed in November 2002 between Morgan Crucible and the US Justice Department related to anti-trust practices in certain categories of brushes for electric motors, are still in progress.

Based on the information available, the requisite provisions have been set aside for all the identified litigation in progress. Following the aforementioned decision in December 2003, an additional provision of €25 million was set aside in the annual financial statements for the fiscal year to December 31, 2003.

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

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

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

General information about the share capital

Conditions

Changes in the share capital and the respective rights of the various categories of shares are made in accordance with the provisions laid down in law.

Amount and structure of the share capital (Article 6 of the Articles of Association)

At December 31, 2003, the share capital amounted to €22,395,780, divided into 11,197,890 shares, each with a nominal value of €2 and belonging to the same category

Authorizations to carry out a capital increase

Combined General Meeting of May 14, 2003

The Combined General Meeting of May 14, 2003 authorized the Board of Directors to issue shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount of the immediate and/or future capital increases that may be carried out under this authorization is €230,000. This authorization, which cancels all previous authorizations, is valid until July 13, 2005. At its meeting on October 3, 2003, the Board of Directors, decided to use this authorization and to offer employees of the Group's 10 European and North American subsidiaries the option of subscribing 55,000 new shares at a price of €22.20, representing 80% of the average opening price during the 20 stock market sessions preceding said meeting of the Board of Directors. This operation was presented in a memorandum approved by the COB (visa. no. 03-900 dated October 16, 2003). At the end of the subscription period, 54,990 new shares were issued following the application of a reduction, representing an increase in capital of €109,880, with additional paid-in capital amounting to €1,110,798.

Combined General Meeting of May 15, 2002

The Combined General Meeting of Shareholders of May 15, 2002 authorized the Board of Directors to:

- issue shares and securities giving immediate or future access to shares of the Company with preferential subscription rights;
- issue, with no preferential subscription rights, convertible bonds, bonds with equity warrants attached and any securities giving immediate and/or future access to shares in the Company.

The maximum nominal amount of the immediate and/or future capital increases that may be carried out under this authorization is €10 million. This authorization, which cancels all previous authorizations, was not used during 2002 or 2003. It is valid until July 14, 2004.

The Combined General Meeting of Shareholders of May 15, 2002 also authorized the Board of Directors to grant options giving the right to subscribe new shares to company officers and employees of Groupe Carbone Lorraine. The maximum number of new shares that may be issued through the exercise of the options granted is limited to 250,000, each with a nominal value of €2, and at the most to the corresponding number of annual options cancelled under the plan authorized on May 10, 2000. The Board of Directors decided at its meeting on May 21, 2002 to make use of this authorization by granting certain Company managers options allowing them to subscribe a total of 125,000 shares, each with a nominal value of €2. Exercise of these options was contingent upon the attainment of a target for net income per share before non-recurring items in 2002. Since this target was not reached, these options were cancelled. At its meeting on May 14, 2003, the Board of Directors decided to make further use of this authorization by granting certain Company managers options entitling them to subscribe a total of 124,999 shares, each with a nominal value of €2. Exercise of these options was contingent upon the attainment of targets for net income per share before non-recurring items in 2003. Since these targets were not all met, one-third of these options was cancelled.

Combined General Meeting of May 10, 2000

The Combined General Meeting of Shareholders of May 10, 2000 also authorized the Board of Directors to issue shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount of the immediate and/or future increases in the share capital that may be carried out under this authorization is €800,000. This authorization was not used and expired on May 9, 2003.

Summary of changes in the share capital

Dates	Description of the transaction	Share capital following the transaction	Additional paid-in capital	Total number of shares after the transaction
05.05.1999	Conversion of the nominal value of the FRF10 shares to €2, see the Seventh Resolution of the Combined General Meeting of May 5, 1999	21,571,874	(5,128,819)	10,785,937
27.05.1999	Issue of 99,962 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	21,771,798	2,898,898	10,885,899
31.12.1999	Issue of 9,565 new shares each with a nominal value of €2 through the exercise of subscription options	21,790,928	170,470	10,895,464
15.06.2000	Issue of 199,998 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	22,190,924	5,799,942	11,095,462
31.12.2000	Issue of 14,271 new shares each with a nominal value of €2 through the exercise of subscription options	22,219,466	224,024	11,109,733
31.12.2001	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
31.12.2002	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
27.11.2003	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
23.12.2003	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

Voting right certificates
Investment certificates

None.

Pledges of shares

None.

Shareholders' agreements

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

Securities giving access to the share capital

Between July 1995 and May 2003, share subscription options were granted, 3,750 of which were exercised during 2003. The options still to be exercised at December 31, 2003, after taking into account cancellations, entitle their holders to acquire a total number of 671,833 shares, each with a nominal value of €2. Aside from subscription options, there are no other securities giving access to Carbone Lorraine’s share capital.

Ownership and changes in the ownership of the share capital

Ownership of the share capital

At December 31, 2003, the Company's share capital amounted to €22,395,780, divided into 11,197,890 shares each with a nominal value of €2.
The number of voting rights stood at 11,139,914, since treasury shares do not carry voting rights.
There are no double voting rights.
The number of share subscription options granted to company officers and still outstanding at year-end 2003 stood at 165,100, taking into account the cancelled options.
Aside from these subscription options, no other securities give access to Carbone Lorraine's share capital.
In addition, no public tender or exchange offer, nor any guaranteed share price offer has been made concerning the Company's shares over the past three years. The Company has not initiated any such offers for other companies over the same period.

Share ownership thresholds crossed

April 14, 2003: Arnhold and S. Bleichroeder Advisers, Inc. moved above the 5% capital ownership threshold.

May 23, 2003: Société Générale moved above the 1% capital ownership and voting right threshold.

June 6, 2003: Société Générale moved below the 1% capital ownership and voting right threshold.

July 4, 2003: Société Générale moved above the 1% capital ownership threshold.

July 11, 2003: Société Générale moved below the 1% capital ownership threshold.

August 22, 2003: Société Générale moved below the 1% voting right threshold.

September 3, 2003: US pension fund Harris Associates moved above the 5% capital ownership threshold.

November 19, 2003: US pension fund Harris Associates moved below the 5% capital ownership threshold.

January 15, 2004: Arnhold and S. Bleichroeder Advisers, Inc. raised its stake in Carbone Lorraine by 1%, to 8.07%.

Changes in ownership of the share capital

Shareholders	December 31, 2003			December 31, 2002			December 31, 2001		
	Number of shares	% of share capital	% voting rights	Number of shares	% of share capital	% voting rights	Number of shares	% of share capital held	% voting rights
BNP Paribas	2,348,760	21.0	21.1	2,348,760	21.1	21.4	2,348,760	21.1	21.4
Free float, of which	8,791,154	78.5	78.9	8,620,493	77.4	78.6	8,634,884	77.6	78.6
- French institutional investors other than BNP Paribas	*2,701 602*	*24.1*	*24.2*	*2,927,385*	*26.3*	*26.7*	*2,766,468*	*24.9*	*25.2*
- individual shareholders	*2,278,863*	*20.4*	*20.5*	*2,481,300*	*22.3*	*22.6*	*2,665,859*	*23.9*	*24.3*
- employee shareholders	*359,372*	*3.2*	*3.2*	*324,968*	*2.9*	*3.0*	*355,718*	*3.2*	*3.2*
- international institutional investors	*3,451,317*	*30.8*	*31.0*	*2,886,840*	*25.9*	*26.3*	*2,846,839*	*25.6*	*25.9*
Treasury shares	57,976	0.5	0	169,897	1.5	0	144,818	1.3	0
Total	**11,197,890**	**100**	**100**	**11,139,150**	**100**	**100**	**11,128,462**	**100**	**100**

Changes in ownership over the past three years

The Company requested a survey by Sicovam of the holders of its bearer shares at December 31, 2003, which identified 24,250 shareholders.

To the best of the Company's knowledge, ownership of its share capital at December 31, 2003 was as follows: BNP Paribas, the core shareholder, held 21% of the capital, while the free float of 78.5% broke down as follows:

- French institutional investors other than BNP Paribas held 24% of the capital;
- the 23,000 individual shareholders held 20% of the capital;
- employee shareholders held 3% of the capital;
- institutional investors outside France held 31% of the capital, with US and UK investors holding 18% and 8.5% respectively;
- directors and company officers held 4,386 registered shares, and directors held 14,622 shares via Carbone Lorraine FCPE, representing a total of 0.17% of the capital.
- Shares held in treasury by the Company accounted for 0.5% of the share capital.

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

Over the past three years, there has been an increase in the proportion of the share capital owned by international institutional investors, mainly in the US and the UK. Individual shareholders still hold a large interest in the share capital, but it decreased as a percentage during 2002 and 2003.

Market in the Company's shares

Shares are admitted for trading on the Premier Marché of the Paris Stock Exchange and are eligible for the SRD (Deferred Settlement) service. Carbone Lorraine shares are also constituents of the SBF 120 and Next 150 indices.

A total of 11,197,890 shares are listed on the market.

Carbone Lorraine shares	Nbr of shares traded (units)	Trading volumes (€ m) (1)	Trading range (2)	
			High (€)	Low (€)
2002				
July	359,404	9.74	32.90	23.51
August	240,811	6.58	28.50	25.75
September	385,546	8.71	27.50	20.10
October	310,310	7.97	29.95	22.60
November	457,877	12.24	28.51	22.90
December	322,215	7.15	27.16	20.15
2003				
January	127,402	2.78	23.20	20.38
February	157,947	2.92	21.00	16.60
March	308,796	4.80	18	13.8
April	299,389	6.73	23	15.48
May	203,526	4.12	24.5	19.49
June	307,883	7.24	24.54	20.7
July	512,318	12.26	26.5	22.52
August	316,100	7.52	24	22.25
September	630,326	17.50	30	23.61
October	571,764	18.38	34.2	27.5
November	460,121	15.64	34.49	30.55
December	455,774	13.28	34.3	27.85
2004				
January	460,709	14.78	32.87	28.23
February	467,377	15.84	36.40	32.27

Source: Bloomberg.

(1) Based on the monthly average share price.

(2) Based on monthly intra-day highs and lows.

Dividend history

	Nbr of shares at year-end	Earnings per share (€)			Share price (€)			Overall yield based on year-end share price
		Net dividend	Tax credit	Total amount	High	Low	Year-end	
1999 (1)	10,895,464	0.88	0.44	1.32	57.70	34.01	46.80	2.82 %
2000	11,109,733	1.06	0.53	1.59	55.95	36.20	53.00	3.00 %
2001	11,128,462	0.80	0.40	1.20	52.45	24.15	30.00	4.00 %
2002	11,139,150	0.60	0.30	0.90	39.48	20.10	22.26	4.04%
2003	11,197,890	0	0	0	34.49	13.80	29.15	n/a

(1) Effective May 5, 1999, the nominal value of shares was increased to €2 per share.

Dividend payments are time-barred as prescribed by law, that is five years after their payment. After this time, payments are made to the French Tax Administration.

With respect to fiscal 2003, the Third Resolution of the Combined General Meeting of May 13, 2004 does not provide for payment of a dividend.

Corporate governance

Composition of the Board of Directors at March 16, 2004

Names	First appointment date	Last renewal date	End of term of office	Other positions held
Claude COCOZZA DoB: June 1, 1947 Chairman and Chief Executive Officer Member of the Appointments and Remuneration Committee, Member of the Strategy Committee	June 6, 1993	May 2, 2001	Annual General Meeting 2007	**Director and Chairman of**: CARBONE LORRAINE NORTH AMERICA, UGIMAG SA **Director of**: Entreprise THIVENT, SOFACEL, CARRIERES DE CRESSY, LE CARBONE LORRAINE **Member of the Supervisory Board of**: COMPAGNIE DE FIVES-LILLE
Jean-Paul BERNARDINI DoB: June 22, 1962 Director, Member of the Audit and Accounts Committee, Member of the Strategy Committee	December 5, 2001		Resignation on March 16, 2004	**None**
Jean-Pierre CAPRON* DoB: September 19, 1943 Director, Member of the Audit and Accounts Committee	July 11, 1995	May 2, 2001	Annual General Meeting 2007	**Director General of**: STOLT OFFSHORE SA
Robert CHAUPRADE* DoB: August 25, 1935 Director, Member of the Appointments and Remuneration Committee, Member of the Strategy Committee	March 19, 1991	May 2, 2001	Annual General Meeting 2007	**Manager of**: SARL ROBERT CHAUPRADE CONSULTANT **Former Deputy Managing Director of**: MATRA DEFENSE **Former Chairman and Chief Executive Officer of**: MATRA ELECTRONIQUE
Hervé COUFFIN DoB: October 26, 1951 Director, Member of the Appointments and Remuneration Committee Member of the Audit and Accounts Committee	May 22, 1995	May 2, 2001	Annual General Meeting 2007	**Chairman of**: AGZ Holding **Member of the Executive Committee of**: PAI Partners (previously PARIBAS AFFAIRES INDUSTRIELLES) **Director of**: ANTARGAZ, GERFIN SAS (GERFLOR group), ENTREFLOR (Luxembourg-based company - GERFLOR group), IPSEN (Luxembourg-based company) **Permanent representative of**: BNP PARIBAS PARTICIPATIONS, Special Advisor to the Boards of **Director of**: BOUYGUES TELECOM and NEUF TELECOM
Jean-Paul JACAMON* DoB: August 5, 1947 Director, Member of the Appointments and Remuneration Committee	January 22, 2003		Annual General Meeting 2007	**Director of**: PECHINEY (France), STACI (France), AMEC (UK) **President of the Supervisory Board of**: BONNA SABLA, GARDINER GROUP
Jean-Claude KARPELES* DoB: June 15, 1940 Director, Member of the Audit and Accounts Committee	April 6, 1999		Annual General Meeting 2005	**Director general of**: FIEEC, GIMELEC **Manager of**: ELEC Promotion SARL, GIMELEC Promotion SARL **Director of**: CPI Media, SCRELEC, Château de Campuget
Lise NOBRE DoB: June 26, 1965 Director, Member of the Strategy Committee	March 16, 2004 Co-opted to replace Jean-Paul Bernardini, who resigned		Annual General Meeting 2007	**Director of**: CARREMAN, MIVISA (Spain-based company), BORMIOLI ROCCO (Italy-based company)
Walter PIZZAFERRI* DoB: August 20, 1957 Director, Member of the Strategy Committee	April 6, 1999		Annual General Meeting 2005	**Director General and Manager of**: STRATORG ALLIANCE GROUP **Manager of**: TERCARA, LES VERRIERES DE MONTAGNAC

* *Independent directors*

At its meeting of May 15, 2003, the Board of Directors adopted new internal regulations stating the role, the composition and the organization of the Board of Directors, as well as the decisions that it has to approve. They lay down the responsibilities of the three specialized committees : the Audit and Accounts Committee, the Appointments and Remunerations Committee and the Strategy Committee. In addition to its legal powers the Board of Directors shall: i) approve the main strategic priorities each year and the medium-term objectives as part of a three-year plan, ii) examine the budget for the following year, iii) study action plans being considered, iv) set the overall investment budget and v) stay informed of major investment programs. These new internal regulations also set rules of conduct as regards the knowledge of privileged information.

The Board of Directors met nine times during 2003.

Committees set up by the Board of Directors

Audit and Accounts Committee

In 1995, the Board of Directors set up an Audit and Accounts Committee, for which it is responsible. The Audit and Accounts Committee comprises at least three and at most five members, who are appointed from among the members of the Board. The duties of this Committee, which meets at least twice each year, are:

- to examine and assess the financial documents released by the Company in connection with its annual financial statements;
- more generally, to examine any other issue related to the preparation, verification or publication of the Company's annual and interim, individual and consolidated financial statements;
- to monitor the effectiveness of the Company's internal control and external audits,
- to apprise itself of the Report of the Group's Risk Committee.
- At December 31, 2003, the Committee comprised Jean-Paul Bernardini, Jean-Claude Karpeles, an independent director, and Jean-Pierre Capron, also an independent director, who chairs the Committee. The Audit and Accounts Committee met four times during fiscal 2003.

The Appointments and Remuneration Committee

In 1995, the Board of Directors set up an Appointments and Remuneration Committee, for which it is responsible. The Appointments and Remuneration Committee comprises at least three and at most five members, who are appointed from among the members of the Board.

The Committee issues recommendations concerning:

- the appointment of new directors and new members of the Executive Committee,
- the remuneration paid to the Chairman and CEO and to members of the Executive Committee,
- the various additional benefits (pension, occupational insurance) that may be included in these packages,
- the potential allocation of share subscription or purchase options (beneficiaries, number of shares, price) to senior executives.

At December 31, 2003, the Committee comprised Jean-Paul Jacamon, an independent director, Hervé Couffin, Claude Cocozza, who participates in discussions about issues that do not concern him personally, and Robert Chauprade, an independent director, who chairs the Committee.

The Appointments and Remuneration Committee met four times during 2003.

Strategy Committee

In 2003, the Board of Directors set up a Strategy Committee, for which it is responsible. The Strategy Committee comprises at least three members who are appointed from the Board of Directors. The role of this Committee is to:

- assist the Board of Directors in its role as an advisor on strategic planning,

- counsel the Company's general management on strategic planning issues and conduct a periodical review of the Group's strategic business portfolio.

At December 31, 2003, the Committee comprised Jean-Paul Bernardini, Claude Cocozza, Robert Chauprade, an independent director, and Walter Pizzaferri, an independent director, who chairs the Committee.

The Strategy Committee met five times during 2003. It reviewed the strategic priorities of the Group's various business activities, analyzed the current structure of the strategic business portfolio and studied potential medium-term changes with a view to enhancing value creation for shareholders.

Executive Committee

The Executive Committee has five members:

C. Cocozza Chairman and Chief Executive Officer
M. Coniglio Executive Vice President
Group Vice President, Electrical Applications and Advanced Materials and Technologies
B. Leduc Group Vice President, Human Resources
Quality and Continuous Improvement
M. Renart Group Vice President, Electrical Protection
J.-C. Suquet Group Vice President, Finance and Administration

The Executive Committee's role is to assist the Chairman with the definition of strategy and decisions related to the Group's expansion and management and to execute the decisions made by the Board of Directors.

The Executive Committee meets once each month to study sales and earnings trends in all the Group's business activities and to deal with issues concerning the entire Group.

Compensation and benefits

In accordance with the provisions of Article 225-102 of the French Commercial Code, the aggregate amount of compensation and benefits of any kind paid during fiscal 2003 to the eight directors of Le Carbone Lorraine, including the Chairman and CEO, came to 611 497 €, which breaks down as follows:

- remuneration paid to the members of the Board of Directors totaling €100,000 in directors' fees, allocated on a *pro rata* basis to members of the Board of Directors according to their attendance at Board meetings and the various Committees run by the Board of Directors. These directors' fees will be paid in 2004. In addition, Mr. Chauprade received €84,948.42 in professional fees for a consulting and support assignment at the Electrical Protection division,
- remuneration paid to the Chairman and Chief Executive Officer (gross amount):

	2003	2002
Basic salary	309,000	300,000
Performance-related bonus	107,640	151,590
Bonus as a % of the basic salary	35%	50%
Benefits in kind	9,909	7,093
Directors' fees	15,315	8,000
Total	441,864	466,683

N.B. 1: The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
N.B. 2: Directors' fees for 2003 will be paid in 2004.
N.B. 3: Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car. No specific indemnity is due in case the CEO leaves the Company.

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

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

	2003	2002
Basic salary	754,000	766,792
Performance-related bonus	272,590	340,303
Benefits in kind	14,593	7,299
Directors' fees	1,041,183	1,114,394

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

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

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

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

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

Options on the Company's shares granted to all existing members of the Executive Committee

The number of subscription options granted to the CEO (see table 1 below) amounted to 9,000 in 2003. No options were exercised in 2003. No share subscription of purchase options were granted to directors other than the CEO.

The number of subscription options granted to company officers other than the CEO (see table 2 below) amounted to 26,400 in 2003. No options were exercised during 2003. Company officers (members of the Executive Committee) do not hold any options entitling them to subscribe or purchase shares in Group subsidiaries.

The total number of share subscription options granted to company officers (including the CEO) and still outstanding stands at 165,100, i.e. 1.47% of the share capital.

The total number of share subscription options granted to the first 10 Group employees who are not directors and who have been granted or have exercised the largest number of options (see table 3 below) stood at 43,800 in 2003. In 2003, 3,750 options were exercised at a weighted average price of €18.94.

Share subscription or purchase options granted to the CEO, the only member of both the Executive Committee and the Board of Directors (table #1)								
	1995 plan	**1996 plan**	**1997 plan**	**1999 plan**	**2000 plan**	**2002 plan**	**2003 plan**	**TOTAL**
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	May 21, 2002	May 14, 2003	
Number of shares available for subscription	12 500	6 250	12 500	15 000	30 000	9 000	9 000	**94 250**
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	Mar-05	May-06	May-07	
End of exercise period	Jun-05	Jul-06	Jun-07	Mar-09	Mar-10	May-12	May-13	
Subscription price	17.26	22.29	37.86	36.00	47.00	37.65	22.08	
Number of shares subscribed at Dec. 31, 2003								-
Options cancelled					20,000	9,000	3,000	**32,000**
Options that may still be exercised	**12,500**	**6,250**	**12,500**	**15,000**	**10,000**	**-**	**6,000**	**62,250**

Share subscription options granted to members of the Executive Committee excluding the CEO, who is the only member of both the Executive Committee and the Board of Directors (table #2)								
	1995 plan	**1996 plan**	**1997 plan**	**1999 plan**	**2000 plan**	**2002 plan**	**2003 plan**	**TOTAL**
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	May 21, 2002	May 14, 2003	
Number of shares available for subscription	22,500	11,250	22,500	27,500	72,000	26,000	26,400	**208,150**
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	Mar-05	May-06	May-07	
End of exercise period	Jun-05	Jul-06	Jun-07	Mar-09	Mar-10	May-12	May-13	
Subscription price	17.26	22.29	37.86	36.00	47.00	37.65	22.08	
Number of shares subscribed at Dec. 31, 2003	22,500							**22,500**
Options cancelled					48,000	26,000	8,800	**82,800**
Options that may still be exercised	**-**	**11 250**	**22 500**	**27 500**	**24 000**	**-**	**17 600**	**102 850**

Share subscription or purchase options granted to the first 10 Group employees who are not directors to have been granted or to have exercised the largest number of options (table #3)								
	1995 plan	**1996 plan**	**1997 plan**	**1999 plan**	**2000 plan**	**2002 plan**	**2003 plan**	**TOTAL**
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	March 8, 1999	May 10, 2000	May 21, 2002	May 14, 2003	
Number of shares available for subscription	27,500	13,750	30,000	40,000	107,700	37,500	43,800	**303,750**
Start of exercise period	Jan-98	Jul-98	Jun-02	Mar-04	Mar-05	May-06	May-07	
End of exercise period	Jun-05	Jul-06	Jun-07	Mar-09	Mar-10	May-12	May-13	
Subscription price	17.26	22.29	37.86	36.00	47.00	37.65	22.08	
Number of shares subscribed at Dec. 31, 2003	25,000	1,250	-					**26,250**
Options cancelled in 2002	-	-	-		71 800	41 000	14 600	**112,800**
Options that may still be exercised	**2,500**	**12,500**	**30,000**	**40,000**	**35,900**	**-**	**29,200**	**150,100**

NB 1: The 2000 and 2003 plans were made contingent upon the attainment of targets based on net income per share before non-recurring items

NB 2: Two-thirds of the 2000 plan was cancelled following the resolution passed at the Annual General Meeting on May 15, 2002. The 2002 plan was cancelled in its entirety and one-third of the 2003 plan was cancelled based on the performance relative to the targets set for net income per share before non-recurring items.

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

In 1998, the Company entered into a service agreement with a director for a consulting assignment giving rise to a daily fee. This assignment was extended to another Group activity during 1999, and it continued during 2003. The service agreement was not renewed at the end of 2003.

Loans and guarantees granted to officers and directors

None.

Employee incentive plans

Incentive and profit-sharing plans

Employee incentive agreement

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

(€ m)	2003	2002	2001	2000	1999
Amounts allocated to employees	2,577	2,454	2,372	2,500	2,333
Number of beneficiaries	2,240	3,422	4,093	1,082	1,105

For years 1999 and 2000, the scope includes Carbone Lorraine SA. From fiscal year 2001, the scope includes the entire Group.

Employee profit-sharing

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

(€ m)	2003	2002	2001	2000	1999
Amounts allocated to employees	1,278	1,187	1,917	0	0
Number of beneficiaries	1,336	1,078	1,963	-	-

For years 1999 and 2000, the scope includes Carbone Lorraine SA. From fiscal year 2001, the scope includes all French subsidiaries of the Group.

Options and Group Investment Plan

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

Group Investment Plan

Capital increases reserved for employees are allocated to employees participating in the Group Investment Plan through a FCPE (corporate mutual fund) for French employees and through direct shareholdings for non-French employees.

At the Combined General Meeting of May 10, 2000, the Board of Directors was authorized to increase the share capital, on one or more occasions, through the issue of shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount authorized was €800,000. This authorization was not used and expired on May 9, 2003.

No issue of shares reserved for employees took place during either 2001 or 2002.

At the Combined General Meeting of May 14, 2003, the Board of Directors was authorized to increase the share capital, on one or more occasions, through the issue of shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount authorized was €230,000. The Board of Directors made use of this authorization on October 3, 2003 by opening the subscription period for a reserved capital increase leading to the issuance of 55,000 new shares for €22.20. This operation was presented in a prospectus approved by the COB (no. 03-900 dated October 16, 2003). At the close of the subscription period, 54,990 new shares were issued, following the application of a reduction, representing a capital increase of €109,980, with additional paid-in capital amounting to €1,110,798. These shares carry dividend rights from January 1, 2003.

Share subscription options

At the Extraordinary General Meetings of May 22, 1995, April 22, 1997, May 10, 2000 and May 15, 2002, the Board of Directors was authorized to grant, on one or more occasions, share subscription options to all or some company officers at the Company or affiliated companies.

The employee categories benefiting from these options are determined by the Board of Directors each time that it makes use of the authorization.

Upon the proposal of the Appointments and Remuneration Committee, the Board of Directors has offered sixty or so Group managers each year since 1995 the possibility of acquiring 741,833 shares (after taking into account cancellations).

Details of the share subscription plans

	1995 plan Tranche 1	1996 plan Tranche 2	1997 plan Tranche 3	1998 plan Tranche 4	1999 plan Tranche 5	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2002 plan Tranche 9	2003 plan Tranche 10	TOTAL
Date of Board of Directors' meeting	July 11, 1995	June 20, 1996	June 17, 1997	Jan. 15, 1998	March 8, 1999	May 10, 2000	Sept. 15, 2000	Jan. 18, 2001	May 21, 2002	May 14, 2003	
Number of shares available for subscription	129,375	69,750	134,375	20,000	182,500	431,400	9,000	4,500	125,000	124,999	**1,230,899**
Start of exercise period	Jan-98	Jul-98	Jun-02	Jan-03	Mar-04	Mar-05	Sep-05	Jan-06	May-06	May-07	
Expiration date	Jun-05	Jun-06	Jun-07	Jan-08	Mar-09	Mar-10	Sep-10	Jan-11	May-12	May-13	
Subscription price	17.26	22.29	37.86	53.78	36.00	47.00	47.90	50.50	37.65	22.08	
Number of shares subscribed at Dec. 31, 2003	58,000	12,000									**70,000**
Options cancelled	7,500		2,500	15,000	22,500	265,900	6,000	3,000	125,000	41,666	**489,066**
Options that may still be exercised	63,875	57,750	131,875	5,000	160,000	165,500	3,000	1,500	-	83,333	**671,833**

For the plans starting in 2000 or later, the right to exercise options granted has been made contingent upon the attainment of targets based on net income per share before non-recurring items.

265,900 options were cancelled in 2002 and partially replaced by the 2002 plan.

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

(€ 000s)		Deloitte Touche Tohmatsu		Ernst & Young	
		Amount	%	Amount	%
Audit	Statutory audit, certification, review of the individual and consolidated financial statements	403	74	717	88
	Other accessory and audit assignments	145	26	101	12
Sub-total		**548**	**63**	**818**	**55**
Other services, etc	Legal, tax, labor law	144	44	662	100
	Information technology	175	54	0	0
	Other (state where > 10% if audit fees)	5	2	1	0
Sub-total		**324**	**37**	**663**	**45**
	Total	**872**	**100**	**1,481**	**100**

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

The directors and officers hold a total of 4,386 shares in the Company's capital.

The directors hold a total of 14,622 shares through the FCPE (corporate mutual fund).

For the entire duration of his term of office, each director must hold at least 120 shares in accordance with Article 17 of the Company's Articles of Association. These shares must be held in registered form.

Internal control

Chairman of the Board of Directors' report on internal control

This report was prepared by the Chairman of the Board of Directors in accordance with the provisions of Article L. 225-37 of the French Commercial Code for the fiscal year ended December 31, 2003.

Under the aegis of the Board of Directors, management defines and implements adequate and effective internal control procedures. In accordance with the law, the purpose of this report is to present the preparation and organization of the Board's work, as well as the internal control procedures implemented by Groupe Carbone Lorraine.

1. Preparation and organization of the Board of Directors' work

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

2. Principal internal control procedures implemented by Groupe Carbone Lorraine

2.1 Definition of internal control

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

This definition implies:

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

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

2.2 Internal control framework

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

- policies and procedures,
- evaluation and supervisory systems and units.

2.2.1 Policies and procedures

2.2.1.1 Internal control handbook

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

A business ethics charter laying down how employees should behave within the Group (integrity, sincerity, confidentiality, conflicts of interests) and outside the Group (compliance with legislation, insider information, competition, commitment to political or charitable causes).

Powers and commitments, as well as the principles of the segregation of duties.

All the fundamental internal controls to be implemented to ensure the efficient operation of the main business processes:

- sales/customers
- purchases/suppliers
- inventories
- personnel/payroll
- investments/fixed assets
- IT

All the fundamental internal controls to be implemented to ensure the reliability of the accounting systems, reporting and financial statements with regard to the following objectives:

- safeguarding assets
- compiling an exhaustive record of accounting transactions
- making sure transactions correspond to reality
- complying with the dates on which transactions are recorded
- correctly stating assets and liabilities
- maintaining confidentiality

The Group's internal control department is responsible for verifying the proper application of the Internal Control Handbook and regularly reports its findings to the Audit and Accounts Committee. During 2003, the department conducted 12 assignments in line with the program defined at the start of the year. The purpose of these assignments was to analyze the effectiveness of the internal control framework at nine manufacturing sites, the Electrical Protection division's supply chain and the investment procedure. A study of the hedging of raw materials prices led to the introduction of a Group procedure.

2.2.1.2 Risk management

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

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

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

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

2.2.1.3 Accounting and financial internal control

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

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

2.2.1.3.1 Accounting and consolidation

Carbone Lorraine circulates and updates a "guide to accounting and consolidation principles" for Group companies. It lists all the consolidated accounts and describes what they are used for. It also defines the valuation methods used by the Group. It lays down the rules that need to be followed by the consolidated sub-groups. The Group has also taken steps to ensure that it is ready to produce financial statements complying with IFRS from 2005, in line with the directives and guidelines of the European Union and Euronext.

Group-wide software, which was updated in 2003, facilitates the reporting of the accounting and financial data required by General Management and by investors thanks to a common reporting calendar and a standardized reporting package.

2.2.1.3.2 Management control

Monthly interfacing between consolidated data and the management control system facilitates the production of analysis and indicators for General Management. At the start of the year, the Group's Executive Committee decides on the key initiatives that need to be launched by each division to achieve the goals set. It receives a monthly update and analysis of these action plans.

A management indicator handbook was introduced several years ago. It contains a list of the indicators required for effective management, as well as individual definitions. This handbook also maintains consistency in the way indicators are defined and ratios are used within the Group.

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

During the year, forecasts are made each quarter on a rolling basis for the next four quarters. This process allows trend reversals to be detected and thus allows the requisite steps to be taken rapidly.

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

2.2.1.3.3 Treasury and financing

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

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

The Group has pursued a major drive to bolster its cash focused management expertise over the past few years, mainly at manager level. Managers are now involved in the day-to-day management of their unit's cash position. To this end, guides were circulated during 2002 enabling each manager to implement the cash focused management policy. The goal is to raise decision-makers' awareness of the importance of cash, to give them the tools they need to adapt their management to their unit's financial position and to make their cash forecasts more reliable.

2.2.1.3.4 External audit by the Statutory Auditors

As part of their statutory duties, the Statutory Auditors carry out a limited Group-wide review of the interim financial statements. They then audit the financial statements for the fiscal year to December 31. This audit is preceded by a pre-closing review highlighting in advance the main points that will arise in the full-year financial statements.

The recommendations made by the Statutory Auditors in connection with their assignment are reviewed by management and the Audit and Accounts Committee, and action plans are implemented by the Company.

2.2.1.4 Other factors contributing to the Group's internal control framework

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

2.2.1.4.1 Human resources procedures

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

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

Lastly, performance-related bonuses are calculated using clearly defined rules.

2.2.1.4.2 Sustainable development

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

2.2.1.4.3 Quality assurance procedures

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

It is worth noting that the 5S method, which involves the introduction of rules concerning order, tidiness and cleanliness of workstations laid down in the QPC plan, does not apply solely to the workshops, but also to the Group's offices. A 5S challenge was launched in 2003 to reward the Group's best-performing workshops and offices around the world.

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

- Customer satisfaction service rate
- Average response time to offers
- Customer satisfaction surveys
- Non-quality costs
- Productivity indicators

2.2.2 Evaluation and supervisory systems and units

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

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

The Group's internal audit function, whose role is to ensure that procedures are followed correctly, reports to the Finance and Administration department and to the Audit and Accounts Committee. It also works in conjunction with the Industrial risks department in the field of risk management.

Measures implemented during 2003 and action plan for 2004

For this initial report on the Group's internal control framework, the internal audit department led the "Financial Security law" project team comprising members of the Accounting and Consolidation department, the IT department of the Electrical Applications division and a quality officer from one of our subsidiaries. The four-pronged approach adopted by the project team for the first internal control report was as follows:

1. definition of the conceptual framework and scope of the project,
2. description of the existing internal control framework,
3. identification of significant companies in connection with financial reporting,
4. analysis of the internal audit and external audit reports for the past three years.

The work performed during 2003 did not reveal any serious failings or deficiencies in the internal control framework.

Alongside this approach and the audit program carried out each year, training for plant managers was introduced during 2003. This training program, the scope of which will be expanded during 2004, will enable each plant manager to evaluate his business unit using a self-assessment tool for internal control developed by the Group and then to implement an appropriate action plan. The self-assessments conducted by plants will then be reviewed by the Group's internal audit department and will contribute to the arrangements introduced by the Group to promote the efficiency of its internal control framework.

In addition to the audits carried out each year, these measures will help to improve the evaluation of the Group's internal control framework.

>Report by the Statutory Auditors

on the report prepared by the President of the Board on the internal control procedures relating to the preparation and processing of financial and accounting information

Year ended December 31, 2003

To the Shareholders,

In our capacity as statutory auditors of Le Carbone Lorraine S.A., and in accordance with article L.225-235 of the Commercial Code, we report to you on the report prepared by the President of your company in accordance with article L. 225-37 of the Commercial code for the year ended 31 December 2003.

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

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

In accordance with the professional guidelines applicable in France we have obtained an understanding of the objectives and general organization of internal control , as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the President's report.

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

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

>Combined General Meeting of May 3, 2004 (first notice) and May 13, 2004 (second notice)

Board of Directors' report

To the Shareholders,

We have convened this Combined General Meeting in order to:

- approve the Company's financial statements and the consolidated financial statements for 2003 and appropriate net income,
- authorize the Company to trade in its own shares in accordance with the regulations in force;
- to renew the appointment of a Statutory and Alternate Statutory Auditor;
- appoint a new Statutory and Alternate Statutory Auditor,
- ratify the appointment of a director who has been co-opted,
- authorize the Board of Directors to issue securities giving access to the share capital,
- authorize the Board of Directors to carry out capital increases through issues of shares reserved for employees participating in the Group Investment Plan.

Meeting to be held in ordinary session

Appropriation of the Company's net loss

The Board of Directors proposes to appropriate the net loss of €14,436,350.92, less retained earnings of €1,127,995.60, i.e. a total amount of €13,308,355.12, as follows:

Source	(€ 000s)
Retained earnings	1 127
Net income/(loss) for the fiscal year	(14 436)
Total	13 308

Appropriation	(€ 000s)
Conversion premiums of the convertible bonds	13,308
Retained earnings	0
Total	13,308

Given the heavy exceptional charges that led to a loss being recorded, the Board of Directors does not propose to pay a dividend to avoid drawing on the Company's reserves.

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

€	Net dividend	Tax credit	Total dividend
1999	0.88	0.44	1.32
2000	1.06	0.53	1.59
2001	0.80	0.40	1.20
2002	0.60	0.30	0.90

Regulated agreements

Pursuant to the provisions of Article L. 225-40 of the French Commercial Code, the Statutory Auditors have presented a special report on agreements regulated by Article 225-38 of the French Commercial Code.

Share repurchases by the Company

At the Combined General Meeting of May 14, 2003 (second notice), the Company was authorized to trade in its own shares in accordance with Article L 225-209 *et seq.* of the French Commercial Code.

During 2003, the Company made use of this authorization to stabilize the share price. Pursuant to the authorization, 137,000 shares were sold at an average share price of €33.16. Trading costs amounted to €17,510. The number of shares held by the Company at December 31, 2003 stood at 57,976, which represents 0.5% of the Company's share capital.

The Board of Directors wishes to renew the authorization granted by the Ordinary General Meeting of May 14, 2003 to trade in the Company's own shares under the conditions provided for in Article L 225-209 of the French Commercial Code and to delegate responsibility to the Company's General Management for purchasing shares between a maximum purchase price of €60 per share and a minimum selling price of €30 per share. The proposed price range reflects the performance of the share over the past two years. The Company reserves the right to use the authorized program in its entirety.

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

- stabilize the share price, through systematic trades against the current trend in the share price,
- grant or transfer shares to employees under employee profit-sharing, employee share ownership or the Group Investment plans;
- use the shares in connection with acquisitions,
- use them as part of the Group's asset management and investment policy.

This authorization would be valid until the General Meeting of the Shareholders called to approve the accounts for 2004. In no case shall this authorization remain valid for more than 18 months.

Renewal of the appointment of a Statutory Auditor and appointment of a new Statutory Auditor

Since the appointments of the Company's Statutory Auditors expire at the close of this General Meeting, the Board of Directors, after having selected from among the eight proposals submitted in connection with the competitive tender organized by the Company, proposes that you first renew the appointment of:

- Cabinet Deloitte Touche Tohmatsu, based at 185 avenue Charles de Gaulle – 92524 Neuilly-sur-Seine cedex, as Statutory Auditor and
- Société BEAS, 7-9 villa Houssay, 92524 Neuilly-sur-Seine cedex, as an Alternate Statutory Auditor to Cabinet Deloitte Touche Tohmatsu.

In addition, you are requested to appoint a new Principal and Alternate Statutory Auditor selected from among the 8 proposals submitted in connection with the competitive tender organized by the Company. The Board of Directors thus proposes the appointment of:

- Cabinet KPMG Audit - Department of KPMG S.A, immeuble KPMG, 1 cours Valmy – 92923 Paris La Défense cedex, as Statutory Auditor and
- S.C.P. Jean-Claude André & Autres, 2 bis rue de Villiers - 92309 Levallois-Perret cedex, as an Alternate Statutory Auditor to cabinet KPMG Audit.

The duration of the appointments of the Statutory Auditors is six years and is due to expire at the Ordinary General Meeting called to approve the accounts for the fiscal year to December 31, 2009.

Ratification of a co-opted director

The Board of Directors proposes that the provisional appointment of Mrs Lise Nobre as a director made by the Board of Directors at its meeting on March 16, 2004, to replace Jean-Paul Bernardini who has tendered his resignation, be ratified for the remaining duration of the latter's term of office, that is until the General Meeting called to vote on the financial statements for the year ending December 31, 2006. Lise Nobre, a private equity specialist, is a partner in the industry division of PAI Partners, where she is notably in charge of the automotive, packaging and mechanical engineering sectors. Mrs Nobre will bring the Group the benefit of her precious financial and automobile industry experience.

Meeting to be held in extraordinary session

Issue of securities giving access to the share capital

At the Combined General Meeting of May 15, 2002, shareholders authorized the Board of Directors to issue securities giving immediate or future access to shares in the Company. The maximum nominal amount of increases in the share capital that may be carried out pursuant to this authorization stands at €10 million. This authorization, which cancels previous authorizations, was not used during 2002 or 2003. It remains valid until July 14, 2003.

In accordance with the provisions of paragraph 3 of Article L 225-129-III of the French Commercial Code, we request that you delegate to the Board of Directors the powers necessary for:

- issuing securities giving access to the share capital with preferential subscription rights;
- issuing securities giving access to the share capital with no preferential subscription rights.

The aggregate amount of the increases in the share capital that may be carried out, either immediately or in the future, pursuant to these authorizations may not exceed €10 million. These authorizations will remain valid for 36 months. This new authorization will cancel the previous authorization granted at the Combined General Meeting of May 15, 2002.

Capital increase reserved for employees

Taking into account the resolutions concerning capital increases with and without cancellation of preferential subscription rights, and in order to comply with the provisions of Article l. 225-129 VII of the French Commercial Code, which makes compulsory the vote of a resolution concerning a capital increase reserved for employees each time a capital increase reserved for employees is decided, the Board of Directors proposes replacing the authorization concerning capital increases reserved for employees participating in the Group Investment Plan granted to the Board of Directors by the Ninth Resolution of the Combined General Meeting of May 14, 2003, even though said resolution has been used only partially and still remains valid.

The Board of Directors was authorized at the Combined General Meeting of May 14, 2003 to issue, on one or more occasions, shares reserved for employees participating in the Group Investment Plan up to a maximum nominal amount of €230,000. This authorization remains valid until July 13, 2005. At its meeting on October 3, 2003, the Board of Directors made use of this authorization by offering employees at ten of the Group’s subsidiaries in Europe and North America the option of subscribing 55,000 new shares priced at €22.20, representing 80% of the average opening price on the stock market during the 20 sessions preceding said meeting. At the close of the subscription and following the application of a reduction, 54,990 new shares were issued, representing a capital increase of €109,980, with additional paid-in capital amounting to €1,110,798.

We propose again delegating to the Board of Directors the powers required to carry out capital increases through issues of shares reserved for employees participating in the Group Investment Plan. The maximum aggregate amount of the capital increases would be restricted to €230,000. This authorization would be valid for 26 months. The Board of Directors renews its intention to propose each year a capital increase reserved for employees equal to blocks of 0.5% of the capital.

Should you approve it, this authorization will cancel the previous authorization granted at the Combined General Meeting of May 14, 2003, and will entail the waiver by shareholders of their preferential subscription right in favor of the beneficiaries.

Draft resolutions

Resolutions to be voted on in ordinary session

First resolution – Approval of the Company's financial statements

After reading the Board of Directors' management report and hearing the reports of the Statutory Auditors on the Company's balance sheet and the financial statements for fiscal 2003, the General Meeting approves the financial statements as presented, all the transactions reflected by these financial statements, the valuations included therein and the allowances made to depreciation accounts and provisions.

It therefore records a net loss for the period of €14,436,350.92.

Second resolution – Approval of the consolidated financial statements

After reading the Board of Directors' management report and hearing the reports of the Statutory Auditors on the consolidated balance sheet and financial statements for fiscal 2003, the General Meeting approves the statements as presented, all the transactions reflected by the consolidated financial statements, the valuations included therein and the allowances made to depreciation accounts and provisions.

It therefore records a consolidated net loss for the period of €38,234,000.

Third resolution – Appropriation of the Company's net income

Upon the proposal of the Board of Directors, the General Meeting resolves to appropriate the net loss for the period, which amounts to €14,436,350.92, less retained earnings of €1,127,995.60, representing a net amount of €13,308,355.32 in the "conversion of the convertible bonds" item.

In accordance with the legal requirement, the dividends paid during the past three fiscal years were as follows:

€	Net dividend	Tax credit	Total dividend
2000	1.06	0.53	1.59
2001	0.80	0.40	1.20
2002	0.60	0.30	0.90

Fourth resolution – Approval of the Statutory Auditors' report

After hearing the report prepared by the Statutory Auditors in accordance with the provisions of Article L 225-40 of the French Commercial Code, the General Meeting acknowledges and approves its contents.

Fifth resolution – Purchase of Carbone Lorraine's shares

After hearing the Board of Directors' report and having familiarized itself with the prospectus approved by the AMF, the General Meeting authorizes the Board of Directors under the conditions stipulated in Article L 225-209 *et seq.* of the French Commercial Code to acquire a number of shares representing up to 10% of the shares comprising the Company's share capital, or 1,119,789 shares.

The General Meeting resolves that share purchases may be carried out to stabilize the share price through systematic trades against the current trend, to grant or transfer shares to employees in connection with the employee profit-sharing plan, the employee share ownership plan or the Group Investment plan, to use shares in connection with acquisitions, to hold them, sell them or, more generally, to use them as part of an asset management and investment policy.

The maximum purchase price is set at €60 per share and the minimum selling price is set at €30 per share. These prices are set subject to adjustments related to any capital transactions affecting the Company's capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €67,187,340.

Share purchases, sales and transfers may be carried out at any time and by any means, including the use of options and through acquisitions from identified third parties.

Shares acquired pursuant to this resolution may, in part or in their entirety, be kept, sold or transferred by any means. They may also be cancelled through a capital reduction under the conditions laid down in law.

This authorization is valid until the General Meeting called to vote on the financial statements for 2004. In no case will this authorization remain valid for more than 18 months.

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

Sixth resolution – Renewal of the Statutory Auditors

After hearing the Board of Directors' report, the General Meeting resolves to renew the appointment of:

- Cabinet Deloitte Touche Tohmatsu, based at 185, avenue Charles de Gaulle – 92524 Neuilly-sur-Seine cedex, as Principal Statutory Auditor, and
- Société BEAS, 7-9 Villa Houssay, 92524 Neuilly-sur-Seine Cedex as an Alternate Statutory Auditor to Cabinet Deloitte Touche Tohmatsu,

respectively, for a term of six years until the close of the Ordinary General Meeting called to approve the accounts for the fiscal year to December 31, 2009.

Seventh resolution – Appointment of a Statutory Auditor

After hearing the Board of Directors' report, the General Meeting resolves to appoint:

- Cabinet KPMG Audit - Department of KPMG S.A. , immeuble KPMG, 1 cours Valmy – 92923 Paris La Défense cedex, as Principal Statutory Auditor, and
- S.C.P. Jean-Claude André & Autres, 2 bis, rue de Villiers - 92309 Levallois-Perret cedex as an Alternate Statutory Auditor to Cabinet KPMG Audit,

respectively, for a term of six years until the close of the Ordinary General Meeting called to approve the accounts for the fiscal year to December 31, 2009.

Eighth resolution – Ratification of a co-opted director

The General Meeting ratifies the provisional appointment of Mrs Lise Nobre as a director made by the Board of Directors at its meeting on March 16, 2004, to replace Jean-Paul Bernardini who has tendered his resignation, for the remaining duration of the latter's term of office, that is until the General Meeting called to vote on the financial statements for the year ending December 31, 2006.

Ninth resolution – Powers to carry out formalities

Full powers are granted to the bearer of a copy or excerpts of these minutes to carry out all the legal formalities.

Resolutions to be voted on in extraordinary session

Tenth resolution – Issue of securities giving access to the share capital with preferential subscription rights

After hearing the Board of Directors' report and in accordance with the provisions of paragraph 3 of Article L 225-129 III of the French Commercial Code, the General Meeting:

1- Delegates to the Board of Directors the powers required to issue, on one or more occasions, in the proportions and at the times it deems appropriate, both in France and abroad, the Company's shares, as well as any securities of any nature (including debt securities) giving access in any way whatsoever, either immediately or in the future, to shares in the Company, including if these securities are issued in accordance with Article L 228-93 of the French Commercial Code. This delegation may be used during a public tender or exchange offer for the Company's shares.

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

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

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

3 – Resolves that the issue of the Company's share subscription warrants in accordance with Article L 228-95 of the French Commercial Code may take place either by means of a subscription offer under the conditions provided for above or by means of a bonus issue to existing holders of shares.

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

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

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

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

6 - Resolves that this authorization renders null and void for the non used amounts all previous authorizations of same kind.

Eleventh resolution – Issue of securities giving access to the share capital with no preferential subscription rights

After hearing the Board of Directors' report and the special report of the Statutory Auditors and in accordance with the provisions of paragraph 3 of Article L 225-129 III of the French Commercial Code, the General Meeting:

1- Delegates to the Board of Directors the powers required to carry out, on one or more occasions, in the proportions and at the times it deems appropriate, both in France and abroad, the issue of shares of the Company, as well as of any securities of whatever nature (including debt securities) giving access in any way whatsoever immediately and/or in the future to the Company's shares, including when these securities are issued in accordance with Article L 228-93 of the aforementioned French Commercial Code. This delegation may be used during a public tender or exchange offer for the Company's shares.

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

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

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

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

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

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

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

7 - Resolves that this authorization renders null and void for the non used amounts all previous authorizations of same kind.

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

Twelfth resolution – Overall limit on authorizations

After hearing the Board of Directors' report and assuming that the Ninth and Tenth Resolutions are adopted, the General Meeting resolves that the nominal amount of increases in the share capital that may be carried out immediately and/or in the future pursuant to the authorizations granted under the aforementioned two resolutions may not exceed €10 million, it being stipulated that this nominal amount may be increased where appropriate by the nominal amount of additional shares to be issued to preserve the rights of holders of securities giving access to the Company's shares, in accordance with the law.

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

To comply with the provisions of Article L 225-129 VII of the French Commercial Code, the General Meeting, after hearing the Board of Directors' report and the special report of the Statutory Auditors, authorizes the Board of Directors to increase the share capital, on one or more occasions, and at its sole discretion, by issuing shares subscribed in cash reserved for employees participating in the Group Investment Plan, in accordance with the provisions of Article L. 443-5 of the French Labor Code and Article 225-129 VII of the French Commercial Code. The General Meeting resolves that the nominal amount of the capital increases that may be carried out pursuant to this delegation may not exceed €230,000, i.e. approximately 1% of the Company's capital.

The General Meeting resolves to waive the preferential subscription rights of shareholders to any new shares to be issued to employees participating in the Group Investment Plan.

The size of each capital increase may not exceed the number of shares actually subscribed by employees, either individually or through the Mutual Fund.

The General Meeting grants full powers to the Board of Directors, which may be delegated to the Chairman, under the conditions laid down in law, to carry out this authorization, on one or more occasions, notably for the purpose of determining whether the issues shall be made directly to the aforementioned beneficiaries or through collective investment undertakings, defining the amounts to be issued, setting the dates for the issues, including the opening and closing dates for subscriptions, determining the issue price of the new shares to be issued in accordance with the legislation and regulations in force, setting the date from which the shares to be issued will carry dividend rights and how they shall be paid-up, it being specified that they must be paid up within a period not exceeding three years, recognizing the completion of the capital increase proportionately to the number of shares actually subscribed, requesting the listing of the shares issued on the stock market everywhere required, making the requisite amendments to the Articles of Association resulting from use of this authorization and, more generally, determining the terms and conditions of transactions carried out pursuant to this resolution, making any adjustments needed in accordance with the provisions of law and the regulations and taking any appropriate measures and entering into any agreements to ensure the successful completion of the planned issues.

The period during which the Board of Directors may, on one or more occasions, use this authorization is set at 26 months from the present day.

The Board of Directors shall also have full powers, should it deem necessary, to set off any expenses incurred in connection with the capital increases against additional paid-in capital and to draw from this account the amounts required to raise the legal reserve to the level of one-tenth of the share capital after the capital increase.

This authorization replaces and supersedes that granted by the Combined General Meeting of May 14, 2003 in its Ninth Resolution.

Fourteenth resolution – Powers to carry out the formalities

Full powers are granted to the bearer of a copy or excerpts of these minutes to carry out all the legal formalities.

>Special Report of the Statutory Auditors

on certain related party transactions

In our capacity of Statutory Auditors of your Company, we are required to report on certain contractual agreements with certain related parties of which we have been advised.

We are not required to ascertain whether any other contractual agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of agreements indicated to us. It is not our role to comment as to whether they are beneficial or appropriate. It is your responsibility, under the terms of Article 92 of the March 23, 1967 Decree, to evaluate the benefits resulting from these agreements prior to their approval.

We hereby inform you that we have not been advised of any agreements concluded during the year ended December 31, 2003 which would be covered by Article L.225-38 of French Company Law.

In accordance with the March 23, 1967 Decree, we have been advised that the following agreements, approved in prior years, remained effective in the year ended December 31, 2003.

With Robert Chauprade, Director

Nature and purpose
Agreement between Le Carbone Lorraine and Robert Chauprade concerning a support and consulting assignment for the Electrical Protection division.

Terms and conditions

The total amount paid to Robert Chauprade during the financial year in respect of his assignment was 84,948 euros.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

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

>Statutory Auditors’ special report

on the issue of shares and various securities with and without cancellation of preferential subscription rights

To the Shareholders,

In our capacity as Statutory Auditors of your Company, and in compliance with Articles L.225-135 and L. 228-92 and L.228-95 of French Company Law (Code de commerce), we hereby report on the proposed issue of shares, with and without cancellation of preferential subscription rights, and other financial instruments upon which you are called to vote.

Your Board of Directors proposes that, on the basis of its report, it be empowered to determine the conditions of this operation and, if necessary, to cancel your preferential subscription rights.

The maximum amount of capital increase resulting from this issue may not exceed €.10,000,000. This empowerment may be used during the course of a public or exchange offer of the Company's shares.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to verify the methods used for determining the issue price.

Subject to a subsequent examination of the conditions for the proposed increase in capital, we have nothing to report on the methods used for determining the share price provided in the Board of Directors' Report.

As the issue price has not yet been determined, we do not express an opinion on the final conditions for the increase in capital, and, consequently, on the proposed cancellation of preferential subscription rights, the principal of which is, however, inherent to the operation submitted for your approval.

In accordance with Article 155-2 of the law of March 23, 1967, we will issue a supplementary report when the increase in capital has been performed by your Board of Directors.

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

>Statutory Auditors' special report

on the increase in capital with cancellation of preferential subscription rights reserved for employee-members of the Group's savings scheme

To the Shareholders,

In our capacity as Statutory Auditors of Le Carbone Lorraine S.A. and in compliance with Article L.225-135 of French Company Law (Code de commerce), we hereby report on the proposed increase in capital of €230,000, reserved for the employees of Le Carbone Lorraine, S.A. and affiliated entities, members of the Group's savings scheme, upon which you are called to vote.

This increase in capital, is submitted for your approval in accordance with Article L. 225-129 VII of French Company Law (Code de commerce) and Article L.443-5 of French Labor Law (Code du travail).

Your Board of Directors proposes, on the basis of its report, that it be empowered to determine the conditions of this operation and requests that you waive your preferential subscription rights.

We have reviewed the proposed increase in capital in accordance with French professional standards. These standards require that we perform a review of the methods used to determine the amount of exercise price.

Subject to a subsequent review of the conditions for the proposed increase in capital, we have nothing to report on the methods used to determine the amount of exercise price provided in the Directors' Report.

As the issue price has not yet been determined, we do not express an opinion on the final conditions for the increase in capital and, consequently, on the proposed cancellation of preferential subscription rights, the principal of which is, however, inherent to the operation submitted for your approval.

In accordance with Article 155-2 of the law of March 23, 1967, we will issue a supplementary report when the increase in capital has been performed by your Board of Directors.

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

>Officer responsible for the reference document and auditors

Officer responsible for the reference document

Claude Cocozza
Chairman of the Board of Directors

Statement by the officer

To the best of my knowledge, the information presented in this document fairly reflects the current situation. It includes all the data required by investors to assess the net worth, activities, financial position, earnings and future outlook of Groupe Carbone Lorraine. No information likely to have a material impact on the interpretation of the document has been omitted.

Claude Cocozza

Auditors

Statutory Auditors

Deloitte Touche Tohmatsu
183, avenue Charles de Gaulle - 92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2003).

Ernst & Young Audit
4, rue Auber – 75009 Paris

Date of first term: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2003).

Alternate Auditors

Michel Bousquet
6, avenue du Belvédère - 78100 Saint-Germain-en-Laye

Date of first term: 1992

Date of last renewal: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2003).

Gabriel Galet
Ernst & Young Audit
4, rue Auber – 75009 Paris 6

Date of first term: 1998

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2003).

>Statement by the Statutory Auditors

(Free translation of a French language original for convenience purposes only. Accounting principles and auditing standards and their application in practice vary among nations. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than France. In addition, the procedures and practices utilized by the statutory auditors in France with respect to such financial statements included in a "document de référence" may differ from those generally accepted and applied by auditors in other countries. Accordingly, the French financial statements and the auditors' report of which a translation for convenience purposes only is presented in this document are for use by those knowledgeable about French accounting procedures, auditing standards and their application in practice.)

We draw your attention to the new requirement under the August 1, 2003 French financial security law ("loi de sécurité financière") that statutory auditors explain in their reports on the financial statements of all French companies the assessments made in the course of their audit in order to form their opinion on the financial statements. Such explanations, that have no equivalent in other financial markets, are required for all audit reports, whether or not qualified.

As Statutory Auditors of Le Carbone Lorraine Company and as required under Rule 98-01 of the Commission des Opérations de Bourse, we have performed procedures on the information contained in the "*document de référence*" relating to the historical financial statements of the company, in accordance with professional standards applicable in France.

The company's Chief Executive Officer is responsible for the preparation of the "*document de référence*". Our responsibility is to report on the fairness of the information presented in the "*document de référence*" with respect to the financial statements.

Our work has been performed in accordance with professional standards applicable in France. Those standards require that we assess the fairness of the information presented relating to the financial statements and its consistency with the financial statements on which we have issued a report. Our work also includes reading the other information contained in the "*document de référence*", in order to identify material inconsistencies with the information presented with respect to the financial statements and to report any apparent misstatement of facts that we may have uncovered in reading the other information based on our general knowledge of the company obtained during the course of our engagement, given that this "*document de référence*" does not include any selected prospective data resulting from an organized process.

We have audited in accordance with professional standards applicable in France the individual financial statements and the consolidated financial statements for each of the December 31, 2001, 2002 and 2003 years ended, prepared in accordance with accounting standards generally accepted in France and approved by the Board of Directors. We expressed an unqualified opinion on such financial statements and our report did not include any emphasis of matter paragraph.

In accordance with the requirements of article L.225-235 of the Commercial Code which came into effect for the first time this year, our reports on the 2003 annual and consolidated financial statements include a justification of our assessments; our assessments of the annual financial statements do not call for any particular comments and our assessments of the consolidated financial statements relate to the impairment provision for the assets used by the Ferrite magnet segment.

Based on the procedures performed, we have no matters to report regarding the fairness of the information relating to the financial statements presented in the "*document de référence*".

Officer responsible for information

Jean-Claude Suquet - Le Carbone-Lorraine - Immeuble La Fayette
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