2005 INTERIM REPORT

CARBONE LORRAINE

Dedicated Innovation, Dedicated Partner

CARBONE LORRAINE

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Chairman's message

To the Shareholders,

The Group's earnings made significant progress during the first half of 2005. Notwithstanding the slowdown in the North American automobile industry and the strong surge in raw materials and energy prices, Groupe Carbone Lorraine's operating income advanced by 39% under IFRS and by 24% under French GAAP. This earnings increase was attributable to the successful execution of our savings plan.

As announced several months ago, we are currently beginning an ambitious plan to speed up the pace of Carbone Lorraine's growth. The first six months of the year saw the launch of the three principal projects underpinning our strategy of profitable growth.

In Asia, Carbone Lorraine's primary avenue of expansion, we issued the first equipment orders for our new graphite block facility, which will eventually double our production capacity. The plant -the cornerpiece of our expansion strategy- is due to enter service during early 2007 in Chongqing (China).

On the innovation front, our CL Clad project is making rapid progress. We have ordered the new production kiln for our Pagny-sur-Moselle plant. Thanks to this technology, we will be able to produce cost-effective reactors in tantalum-clad steel, enabling us to better meet the needs of chemicals and pharma industry customers. Initial sales from this project are expected in 2006.

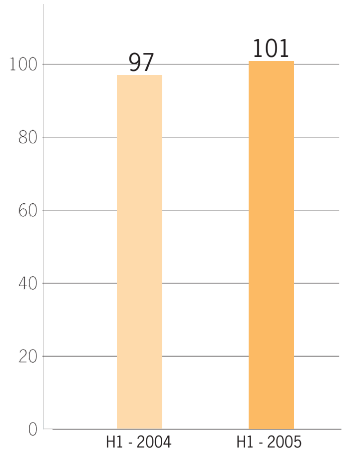
Lastly, in Electrical Protection, we are expanding our fuseholder production capacity so that we are able to manufacture products on behalf of large international accounts from 2006 onwards.

These are exciting times for our employees, who are building a Group that will be even more focused on growth. Our shareholders will also benefit from this ambitious project. They will reap the rewards of our profitable growth strategy through the share price and through the distribution of increased dividends.

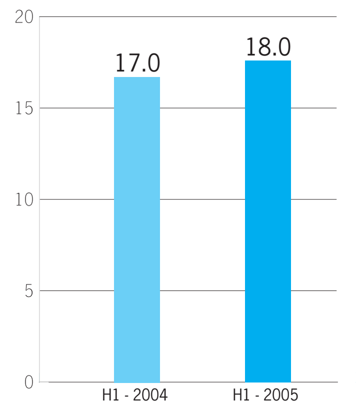
Claude Cocozza

Chairman and Chief Executive Officer

Overview of the Group's businesses



Sales (in millions of euros)



Operating margin (%)*
*Operating income/sales, before corporate charges

Advanced Materials and Technologies

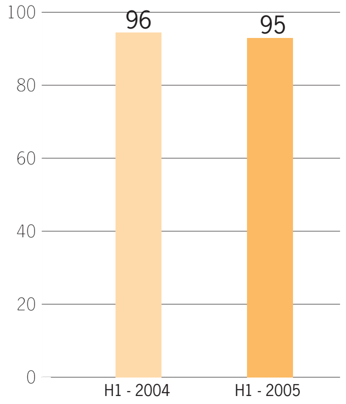
The Advanced Materials and Technologies segment posted strong sales growth of over 6% like-for-like. This expansion occured in high-temperature applications, as well as in anti-corrosion equipment and braking.

In high-temperature applications of graphite, sales advanced by close to 10% on a like-for-like basis. Growth was strong across all the Group's geographical regions. It was particularly firm in refractory products and plastic mold production. In electronics, demand for the manufacture of LED's and solar cells offset slower demand for the manufacture of silicon chips.

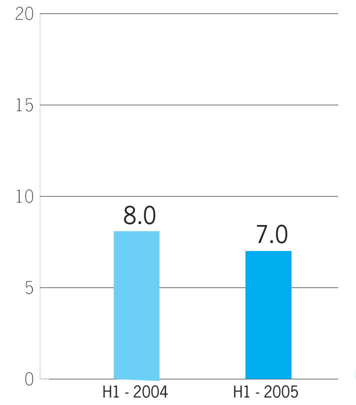
Sales of anti-corrosion equipment climbed 6% like-for-like during the first six months of the year mainly on the back of sales in Europe and Asia. Graphite equipment generated the strongest growth, while noble metal equipment registered a slight decline compared with the first half of 2004. It should make up for this contraction during the second half of the year thanks to some major projects already signed and sealed in North America.

High-energy braking posted further growth in rail and aerospace applications, with the unit's sales moving up 8% like-for-like.

The operating income posted by the Advanced Materials and Technologies segment advanced by 11% under IFRS, with the operating margin reaching 18%.



Sales (in millions of euros)



Operating margin (%)*
*Operating income/sales, before corporate charges

Electrical Applications

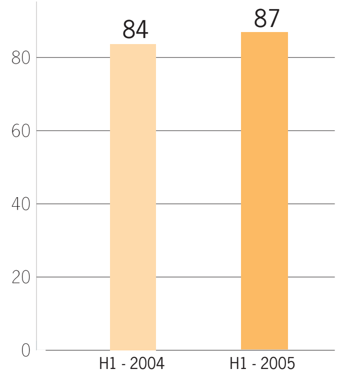
Sales in the Electrical Applications segment declined by 1% on a like-for-like basis.

Sales of brushes and brushholders for industrial motors increased across all the Group's geographical segments, except in Europe where they contracted slightly. Business trends were particularly healthy in the European aerospace and the North American electrical traction markets, as well as in brushholders.

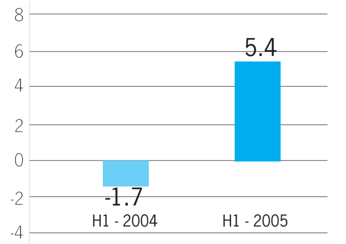
Sales of brushes and brushholders for electrical motors were depressed by the woes of North America's Big Three carmakers in the face of strong competitive pressures. Indeed, the carmakers announced some major reductions in production volumes during the first half of the year. In response, further cost reductions are set to be implemented during the second half of the year at the North American plants.

Operating income under IFRS declined in H1 owing to lower sales volumes to the North American automobile industry and higher raw material costs. Average copper prices increased by more than 30% between the first half of 2004 and the equivalent period of 2005. However the operating margin came to 7%, down only one point compared with the first half of 2004, thanks to the outlets diversity of this activity.

Panorama des activités



Sales (in millions of euros)



Operating margin (%)*
*Operating income/sales, before corporate charges

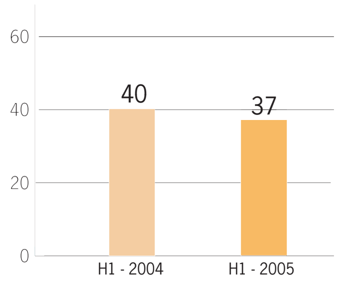
Electrical Protection

Sales in the Electrical Protection segment advanced by 5% on a like-for-like basis. Sales moved higher in both North America and in Europe. They declined in Asia owing to very high comparatives, since some major high-power switch orders were delivered in Japan during the first half of 2004.

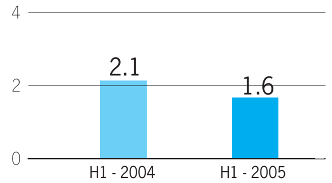
Sales of fuses for the protection of semiconductors posted a strong increase in North America and in Europe. Sales of general-purpose fuses for industrial equipment moved higher in North America on the back of the firm economic conditions that prevailed in the region. Sales of fuses for distribution grids, as well as of bogie protection equipment also registered significant growth.

Initiatives to improve productivity at the St Bonnet de Mûre facility in France, to which production previously handled at plants in Germany and Spain was transferred, continued to make progress. They led to a significant improvement in operating income, which came to 4.7 million of euros under IFRS after slipping into negative territory during the first half of 2004 as a result of heavy restructuring costs. Restructuring still reduced first-half 2005 operating income by 1 million of euros.

The Group now has highly efficient manufacturing facilities, which should generate very healthy earnings once economic conditions firm up in Europe. The expansion plans currently underway will also help to win new markets and will contribute to the improvement in earnings.



Sales (in millions of euros)



Operating margin (%)*
*Operating income/sales, before corporate charges

Magnets

As anticipated, Magnets sales declined by 8% on a like-for-like basis.

This contraction was attributable to the closure of the Evreux plant currently underway, as well as efforts to streamline the product and customer portfolio conducted in 2004 to enhance margins and to offer higher quality of service to our major customers. Business was also depressed by the slower pace of production by North American carmakers.

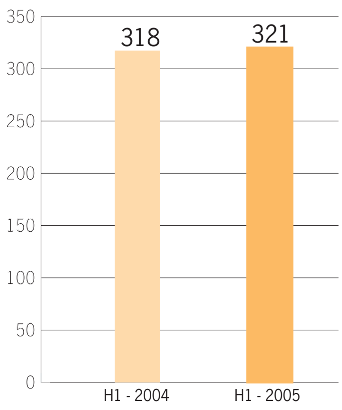
Sales of flux packages posted significant growth in Europe and also moved higher in North America.

H1 2005 operating income under IFRS was heavily depressed by the closure of the Evreux plant. Notwithstanding the related restructuring costs, operating income still came to 0.6 million of euros. Excluding restructuring costs, operating income amounted to 1.2 million of euros compared with 0.3 million of euros during the first half of 2004.

The closure of the Evreux facility is likely to be completed on schedule by the end of the year.

N.B. Sales growth figures for each of the business segments are stated on a like-for-like basis, i.e. at comparable structure and at constant exchange rates.

Results and outlook

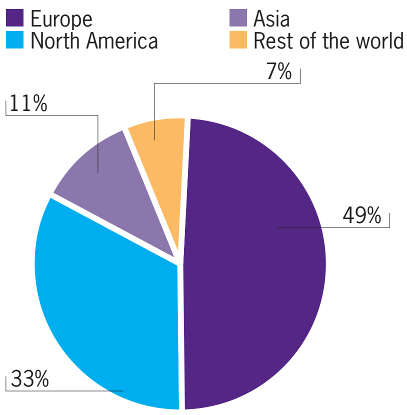


Consolidated sales (millions d'euros)

Consolidated sales (millions d'euros)

Carbone Lorraine posted sales of 321 million of euros during the first six months of 2005, representing an increase of 2% on a like-for-like basis.

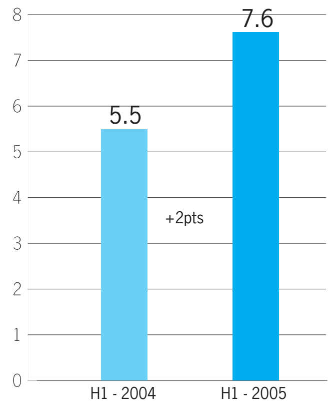
Excluding the Magnets segment, which is in the process of being sold, sales grew by 3.5%. This growth was achieved in spite of the reduction of production in the North American automobile industry. This situation chiefly affected the Electrical Applications segment, which derives 15% of its sales from the automotive sector in North America.



Analysis of H1 2005 sales
by geographical region of customers
excluding magnets

Analysis of H1 2005 sales by geographical region of customers

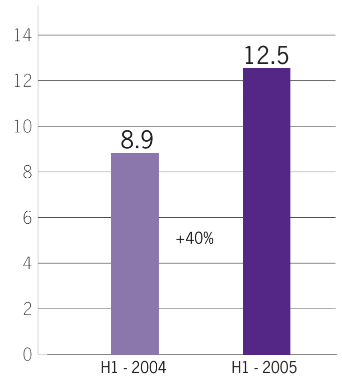
Production cutbacks in the US automobile industry capped sales growth in North America at just 1%, even though other markets delivered significant gains. Sales in Europe moved up just 1% (3% excluding magnets). Sales in Asia increased by 3% (6% excluding magnets) in spite of lower sales in Japan (some very large high-power switch orders were delivered during the first half of 2004). Growth in the rest of the world ran at 19% thanks to particularly strong business trends in South America.



Operating margin (OI/Sales as a %)

Operating margin (OI/Sales as a %)

Operating income came to 24.3 million of euros under IFRS, up 39% compared with the year-earlier period. Restated to French GAAP (i.e. primarily excluding non-recurring costs and reclassifying bank charges and discounts and rebates as financial expense), operating income moved up 24% to 30 million of euros. The operating margin came to 7.6% under IFRS compared with 5.5% during the first half of 2004. Restated to French GAAP, the first-half 2005 operating margin stood at 9.4%, up from 7.6% in the year-earlier period.



Net income, Group share (millions d'euros)

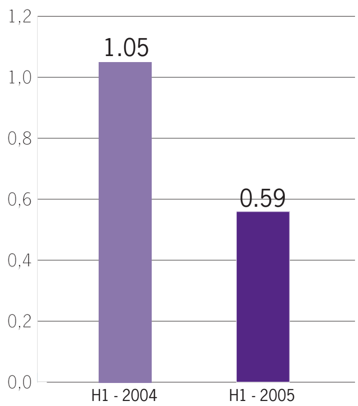
Net income, Group share (millions d'euros)

Finance costs declined by 14% to 3.4 million of euros owing to the fall in average debt.

Income tax increased to 8.2 million of euros owing to the increase in earnings and deferred taxation. The rise in deferred taxation was attributable to the impact of fluctuations in the US dollar on intra-Group debt.

Net income Group share came to 12.5 million of euros, up from 8.9 million of euros in the first half of 2004, representing a rise of 40%.

Earnings per share grew by 14%. They were calculated based on a 21% increase in the number of shares compared with at June 30, 2004 as a result of the capital increase carried out during the second half of 2004.



Net debt/equity

Net debt/equity

Cash generated by operating activities after the working capital requirement climbed to 12.4 million of euros during the first half of 2005, compared with 2.5 million of euros in the equivalent period of 2004.

Cash used by investing activities included under increases in non-current financial assets the payment of 20 million of euros into an escrow account held by the European Commission as a security deposit for the appeal currently being heard by the EU Court of First Instance.

Net debt increased by 39 million of euros as a result of the aforementioned 20 million of euros payment, as well as fluctuations in exchange rates, which had an impact of 11 million of euros on debt, and a payment of the dividend of 8 million of euros.

Net debt of 164 million of euros brought the net debt/equity ratio to 59%, compared with 105% at June 30, 2004 and 49% at December 31, 2004.

Outlook

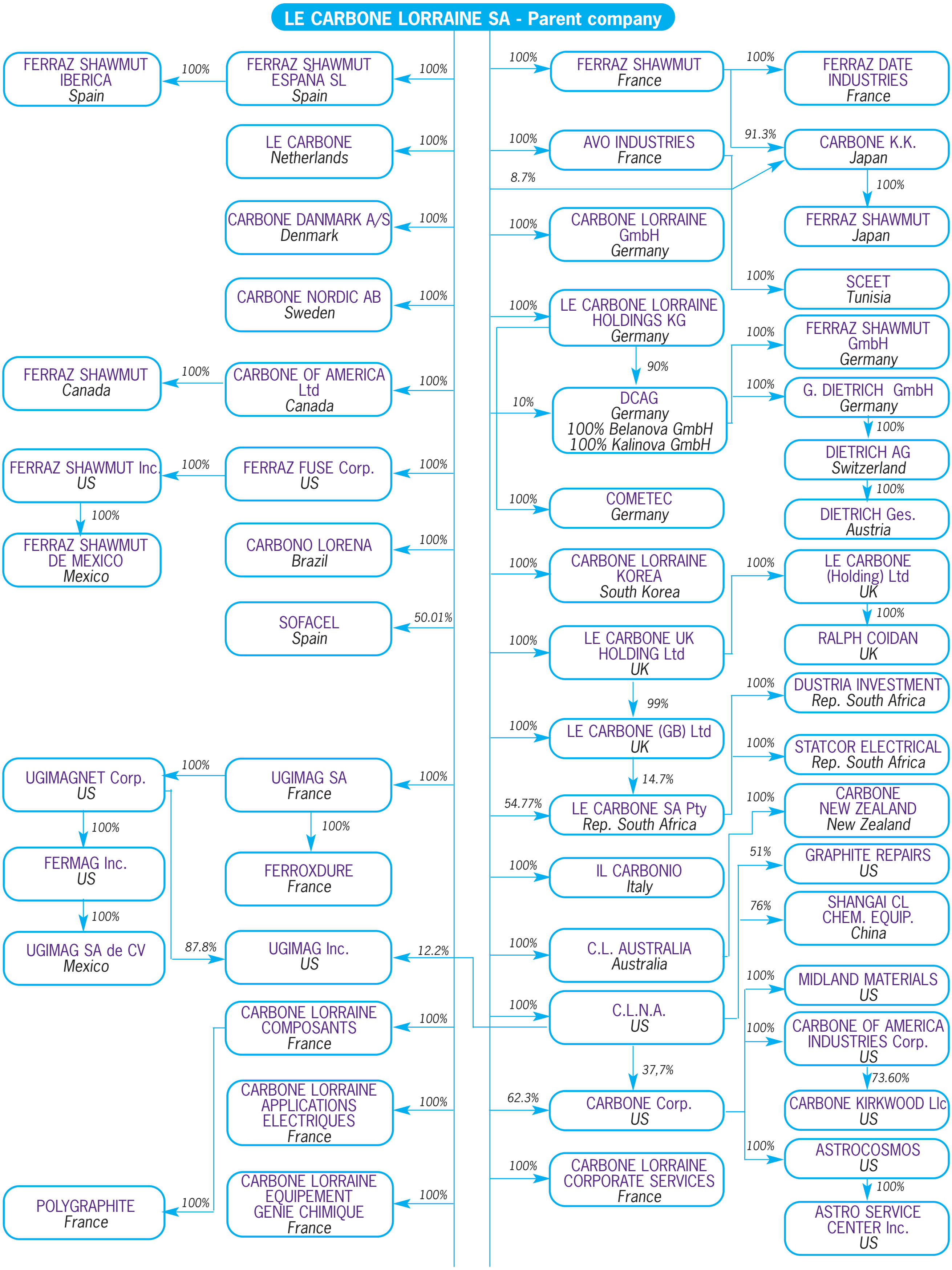
During the first half of 2005, sales growth (3.5%) came close to our full-year forecast of 4% on a like-for-like basis excluding the Magnets segment. The success of our savings plan made a significant contribution to the substantial increase in the Group's first-half earnings. This earnings growth is likely to hold up at a high level over the full year, unless economic conditions deteriorate.

During the second half of the year, we will continue to roll out our expansion plans, which are intended to boost the growth in our sales and earnings over the next few years.

The disposal of the Magnets business currently in progress should reduce the size of the automobile industry's contribution to our business to below that of our other client industries. This new balance and our focus on sectors in which our ability to innovate and our customer service are fully valued are set to drive steady growth in our earnings.

The savings plan launched at the beginning of 2002 has enhanced the competitiveness of businesses that are set to fuel the Group's growth, while the expansion plans currently being implemented are set to amplify the effects on our earnings.

Scope of consolidation at June 30, 2005



Interim Consolidated financial statements

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 Électriques** (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
	- 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.** (Italie)	100	100
21.	**Le Carbone-Lorraine** (Nederland) 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
	- 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. US**	100	100
	- Ugimag Inc. US	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 during the past two years

The major changes in the scope of consolidation that affected the consolidated financial statements in 2004 and during the six months to June 30, 2005 are presented below:

- During 2004, Carbone Lorraine Corporate Services absorbed Carbone Lorraine Information Système, which was owned by the Group and was not consolidated in 2003.
- During the first half of 2005, Carbone Lorraine Composants absorbed Astrad, a brake marketing company that was acquired in January 2005.

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

Consolidated balance sheet

ASSETS

In millions of euros

	Note	June 30, 2005	Dec. 31, 2004	June 30, 2004
NON-CURRENT ASSETS				
Intangible assets				
- Goodwill	**4**	**179.0**	**164.4**	**177.5**
- Other intangible assets		4.3	4.9	5.5
Property, plant and equipment	6			
- Land		34.2	33.6	33.8
- Buildings		28.0	27.5	29.7
- Plant, equipment and other non-current assets		76.1	75.7	68.7
- Assets in progress		10.1	6.9	16.7
Non-current financial assets				
- Investments	7	14.8	13.3	11.9
- Non-current derivatives	14	0.5		
- Other financial assets	13	23.9	4.2	4.5
- Deferred tax assets	19	23.8	26.4	24.5
- Non-current current tax assets		1.7	1.5	1.7
TOTAL NON-CURRENT ASSETS		**396.4**	**358.4**	**374.5**
CURRENT ASSETS				
- Inventories	8	132.0	118.6	119.2
- Trade receivables	9	131.3	122.8	129.1
- Other receivables		21.8	17.1	19.9
- Current financial assets	13	0.6	1.3	1.9
- Current tax assets		3.1	2.1	1.4
- Current derivatives	14	0.8		
- Securities available for sale	13	1.8	0.6	2.0
- Cash and cash equivalents	13	23.1	27.4	19.5
TOTAL CURRENT ASSETS		**314.5**	**289.9**	**293.0**
TOTAL ASSETS		**710.9**	**648.3**	**667.5**

LIABILITIES AND EQUITY

In millions of euros

	Note	June 30, 2005	Dec. 31, 2004	June 30, 2004
EQUITY				
- Share capital		27.6	27.5	22.4
- Additional paid-in capital		252.1	239.5	181.6
- Net income for the period		12.5	19.4	8.9
- Cumulate translation adjustment		(19.9)	(37.4)	(25.5)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**272.3**	**249.0**	**187.4**
- Minority interest		5.8	5.7	5.8
EQUITY AND MINORITY INTEREST		**278.1**	**254.7**	**193.2**
NON-CURRENT LIABILITIES				
- Non-current provisions	11	44.8	2.0	0.8
- Employee benefits	12	53.0	50.4	51.1
- Deferred tax liabilities	19	5.7	4.6	4.2
- Long- and medium-term borrowings	13	169.3	132.9	212.8
- Non-current derivatives	14	1.0		
TOTAL NON-CURRENT LIABILITIES		**273.8**	**189.9**	**268.9**
CURRENT LIABILITIES				
- Trade payables		69.1	72.3	72.9
- Other payables		47.4	44.8	50.7
- Current provisions	11	11.3	57.5	58.8
- Current tax liabilities		3.7	1.4	0.8
- Other liabilities		6.5	5.7	9.5
- Current derivatives	14	0.4		
- Other current financial liabilities	13	2.6	2.7	2.4
- Short-term advances	13	2.6	1.6	0.9
- Bank overdrafts	13	15.4	17.7	9.4
TOTAL CURRENT LIABILITIES		**159.0**	**203.7**	**205.4**
TOTAL LIABILITIES AND EQUITY		**710.9**	**648.3**	**667.5**

Statement of changes in equity

In millions of euros

	Attributable to Carbone Lorraine's shareholders						
	Share capital	Additional paid-in capital Reserves	Net income	Cumulative translation adjustment	Total	Minority interest	Equity
Equity at Jan. 1, 2004	**22.4**	**219.8**	**(38.2)**	**(30.3)**	**173.7**	**5.9**	**179.6**
Prior year's net income		(38.2)	38.2				
Dividends paid						(0.5)	(0.5)
Net income			8.9		8.9	0.2	9.1
Translation adjustment and other				4.8	4.8	0.2	5.0
Equity at June 30, 2004	**22.4**	**181.6**	**8.9**	**(25.5)**	**187.4**	**5.8**	**193.2**
Capital increase	5.1	56.9			62.0		62.0
Net income			10.5		10.5	0.2	10.7
Translation adjustment and other		1.0		(11.9)	(10.9)	(0.3)	(11.2)
Equity at Dec. 31, 2004	**27.5**	**239.5**	**19.4**	**(37.4)**	**249.0**	**5.7**	**254.7**
Impact of change in accounting methods		(0.3)			(0.3)		(0.3)
Restated net equity	27.5	239.2	19.4	(37.4)	248.7	5.7	254.4
Prior year's net income		19.4	(19.4)				
Dividends paid		(7.6)			(7.6)	(0.5)	(8.1)
Capital increase	0.1	1.5			1.6		1.6
Treasury shares		(0.9)			(0.9)		(0.9)
Fair value adjustment to hedging derivative instruments		0.4			0.4		0.4
Translation adjustment and other		0.1		17.5	17.6	0.3	17.9
Income and expenses recognized directly in equity		**0.5**		**17.5**	**18.0**	**0.3**	**18.3**
Net income			12.5		12.5	0.3	12.8
Total income and expense		**0.5**	**12.5**	**17.5**	**20.5**	**0.6**	**31.1**
Equity at June 30, 2005	**27.6**	**252.1**	**12.5**	**(19.9)**	**272.3**	**5.8**	**278.1**

In 2004, the capital increase resulted from:

- subscription of 2,489,420 new shares in connection with the public share offering, which raised 63 million of euros (excluding 2.6 million of euros in share issuance costs),
- subscription of 46,328 new shares in connection with the issue of shares reserved for employees, which raised 1.3 million of euros,
- and the exercise of subscription options granted to employees, leading to the issuance of 21,939 shares for 0.3 million of euros.

In 2005, the principal movements were as follows:

- an issue of shares arising from the exercise of subscription options granted to employees, with the issue of 65,858 shares for 1.6 million euro.
- transfer to equity of the 23,132 treasury shares held with a negative impact of 0.9 million of euros
- impact of the first-time adoption of IAS 32 and 39 on financial instruments:
  - reduction of 0.3 million of euros resulting from the first-time adoption of IAS 32 and 39 at January 1, 2005
  - increase of 0.4 million of euros in the fair value of derivatives at period-end.

Consolidated income statement

Groupe Carbone Lorraine

In millions of euros

	Note	June 30, 2005	Dec. 31, 2004	June 30, 2004
Consolidated sales	16	320.6	636.0	317.7
Cost of sales		(230.6)	(466.3)	(232.7)
Gross income		**90.0**	**169.7**	**85.0**
Selling and marketing costs		(30.7)	(59.7)	(29.9)
Administrative costs		(26.0)	(50.3)	(25.8)
Research costs		(3.9)	(8.5)	(4.7)
Other operating costs		0.2	(0.4)	(0.1)
Other non-recurring income/(expense)	15	(4.5)	(14.2)	(6.0)
Financial component of operating items		(0.8)	(2.9)	(1.0)
Operating income	**16/17**	**24.3**	**33.7**	**17.5**
Finance costs, net	18	(3.4)	(7.5)	(3.9)
Income before tax		**20.9**	**26.2**	**13.6**
Current income tax	19	(4.5)	(7.1)	(3.6)
Deferred tax	19	(3.6)	0.7	(0.9)
Net income		**12.8**	**19.8**	**9.1**
Attributable to				
- Carbone Lorraine's shareholders		12.5	19.4	8.9
- Minority interest		0.3	0.4	0.2
Earnings per share:				
- Basic earnings per share (euros)	20	0.91	1.66	0.80
- Diluted earnings per share (euros)	20	0.87	1.57	0.76

Consolidated cash flow statement

In millions of euros

	June 30, 2005	Dec. 31, 2004	June 30, 2004
Operating activities			
Income before tax	20.9	26.2	13.6
Depreciation and amortization	11.5	22.8	11.7
Additions to provisions and impairment losses	5.3	16.8	7.6
Finance costs, net	3.4	7.5	3.9
Capital gains/losses on asset disposals	0.0	(1.8)	(1.0)
Other items	0.4	1.0	0.0
Cash generated by operating activities before the change in the working capital requirement	41.5	72.5	35.8
Change in the working capital requirement from operating activities	(14.5)	(6.8)	(6.0)
Change in other WCR items	(9.4)	(34.8)	(24.3)
Cash generated by operating activities after the change in the working capital requirement	17,6	30,9	5.5
Income tax paid	(5,2)	(6.3)	(3.0)
Net cash generated by operating activities	**12.4**	**24.6**	**2.5**
Investing activities			
Increase in intangible assets	(0.2)	(2.5)	(1.3)
Increase in property, plant and equipment	(8.9)	(18.7)	(9.2)
Increase in financial assets	(24.0)	(15.4)	(10.6)
Disposals of non-current assets	1.2	7.2	7.0
Cash generated/(used) by investing activities	**(31.9)**	**(29.4)**	**(14,1)**
Cash generated/(used) by operating and investing activities (a)	**(19.5)**	**(4.8)**	**(11.6)**
Financing activities			
Proceeds from issue of new shares	0.6	62.0	
Net dividend payments to shareholders and minority interests	(8.1)	(0.5)	(0.5)
Interest payments	(2.9)	(7.2)	(3.9)
Change in debt	27.3	(47.3)	18.7
Cash generated by financing activities	**16.9**	**7.0**	**14.3**
Change in cash	**(2.6)**	**2.2**	**2.7**
Cash at beginning of period	(10.3)	(8.7)	(8.7)
Cash at end of period (Note 13)	9.5	10.3	12.1
Impact of currency fluctuations	(1.8)	0.6	(0.7)
Change in cash	**(2.6)**	**2.2**	**(2.7)**

Notes to the financial statements

NOTE 1 Change in accounting standards

In accordance with EC regulation no. 1606/2002 of July 19, 2002, which applies to the consolidated financial statements of European companies listed on a regulated market, the consolidated financial statements of Carbone Lorraine and its subsidiaries (hereinafter "the Group"), which are published in respect of fiscal 2005, have been prepared in accordance with IFRS (International Financial Reporting Standards), because the Group is listed in a European Union member state.

Prior to 2005, the Group's consolidated financial statements were prepared in accordance with the accounting methods and principles laid down by Regulation 99-02 of the French Accounting Regulation Committee (CRC).

The options adopted by the Group are stated in the following chapters. Reconciliation statements between the financial statements for fiscal 2004 in accordance with the new accounting standards and those prepared under the principles of French GAAP used previously are presented in this document. IAS 32 and 39 on financial instruments were adopted on January 1, 2005.

These interim consolidated financial statements for the six months ended June 30, 2005 have been prepared by applying the recognition and measurement principles for transactions as defined in the IFRS standards adopted in the European Union at this date, as they are likely to be applicable at the end of the year. They have also been prepared in line with the presentation and financial reporting rules applicable to interim financial statements, as defined in the general regulations of the Autorité des Marchés Financiers (AMF, the French market regulator).

Even though they do not include all the information required under IFRS for complete interim financial statements, the notes to the financial statements were prepared in accordance with the AMF's recommendations for interim financial statements during the first year of adoption of IFRS standards.

For comparison purposes, the consolidated financial statements for the six months to June 30, 2005 include data for fiscal 2004 and the first half of 2004 restated using the same accounting rules.

The comparative figures that will be presented in the consolidated financial statements at December 31, 2005 and in the interim consolidated financial statements at June 30, 2006 may differ from those contained in these interim consolidated financial statements, should the European Union subsequently adopt IASB standards and/or IFRIC interpretations that have not yet been adopted in the European Union and are incompatible with the standards in force and applied at June 30, 2005.

NOTE 2 Accounting policies and principles of consolidation

A. Basis of consolidation

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

Jointly controlled companies are consolidated proportionately.

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

All associate undertakings over which the Group exerts significant influence, which is presumed to exist when the latter holds at least 20% of voting rights, are accounted for under the equity method.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies used by all Group entities within the scope of consolidation.

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

The consolidated financial statements have been prepared in euros

B. Basis of preparation

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

B1. Income statement

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

B2. Balance sheet

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

B3. Consolidated cash flow statement

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

The indirect method consists in determining cash flows generated from operating activities whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature and items of income or expense associated with investing or financing cash flows.

C. Foreign currency translation

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

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

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

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

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

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

D. Translation of foreign currency transactions

Foreign currency transactions are recognized and measured in line with IAS 21 - The Effects of Changes in Foreign Exchange Rates.

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

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

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

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

Derivative instruments are stated at their fair value. Fair value adjustments on these instruments are accounted for as follows:

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

E. Interest rate hedging

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

- the ineffective part of the derivative instrument is taken to income under the cost of debt;
- the effective part of the derivative instrument is recognized as follows:
  - in equity for a derivative accounted for as a cash flow hedge (case of a swap turning a debt into a variable interest rate);
  - in income (cost of debt) in the case of a derivative accounted for as a fair value hedge (case of a swap turning a fixed interest rate into a variable interest rate). This accounting treatment is offset by fluctuations in the fair value of the hedged debt.

F. Intangible assets

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

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

The Group's intangible assets comprise primarily goodwill.

F1. Goodwill

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

Goodwill is allocated individually to the Group's cash generating units (CGT). The Group has defined the following five CGTs:

- Electrical Applications,
- Magnets,
- Electrical Protection,
- High temperatures applications and high-energy braking,
- Anti-corrosion equipment.

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

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

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

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

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

Goodwill impairment losses are irreversible.

F2. Patents and licenses

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

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

F3. Development costs

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

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

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

G. Property, plant and equipment

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

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses.

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

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

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

The periods used are as follows:

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

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

H. Leases

Under IAS 17, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Where the criteria laid down in the standard are not met, the costs resulting from agreements are charged to income.

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

The payments under the lease are broken down into a finance charge and the repayment of the outstanding debt. The finance charge is spread over the various periods covered by the lease to give a constant periodic interest rate on the remaining balance due in respect of each period.

For each accounting period, the following entries are made in respect of a finance lease:

- the value of the leased property must be recognized as an asset on the balance sheet: the value to be used is generally stipulated in the lease agreement, except where it is determined by discounting future lease payments plus the residual acquisition value;
- the corresponding financial debt is recognized as a liability for the same amount;
- the capitalized asset is depreciated over the useful life adopted by the Group for non-current assets of the same type.

In parallel, the finance charge and depreciation charges are taken to income. In addition, a portion of the capital amount of the debt is repaid in accordance with the debt repayment schedule contained in the finance lease agreement.

The Group has set a threshold based on the size and business activities of its units. The finance leases shown on the balance sheet will be restated for all leases where the initial value of each leased item covered by the agreement exceeds 1 million of euros.

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

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

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

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

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

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

J. Financial assets and liabilities

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

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

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

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

K. Treasury shares

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

L. Non-current financial assets

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

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

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

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

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

M. Provisions

In accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, provisions are recorded when the Group is under an obligation to a third party at the end of the fiscal year that is likely or certain to trigger an outflow of resources to the third party, without any equivalent benefit being anticipated by the Group.

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

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

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

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

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

N. Inventories

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

Cost comprises acquisition or production cost.

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

O. 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.

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

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

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

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

P. Employee benefits

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

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

These actuarial calculations are based on various estimates:

- mortality,
- retirement dates,
- the rate of future salary and benefit increases and employee turnover,
- the expected rate of return on plan assets,
- the discount and inflation rates,

defined for each of the relevant entities and taking into consideration their local macro-economic environment.

Actuarial gains and losses comprise the cumulative impact of:

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

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

The Group has opted to use this method:

- cumulative unrecognized actuarial gains and losses falling outside a corridor of plus or minus 10% of the value of the higher of the plan's assets and obligations are recognized and amortized over the expected average remaining working lives of the employees participating in the plan;
- gains and losses falling within the 10% corridor are not recognized;
- unrecognized net cumulative actuarial gains and losses include both the cumulative portion of the 10% within the corridor, as well as the portion outside the corridor, which has not been recognized at the balance sheet date. In accordance with IAS 19, they are disclosed in the notes to the financial statements.

P1. Recognition of post-employment benefit obligations

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

On the balance sheet

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

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

On the income statement

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

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

P2. Recognition of unrecognized past service costs

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

Q. Non-recurring income and expense

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

Non-recurring income and expense include the following items:

- disposal gains: on property, plant and equipment, intangible assets, investments, other financial assets and other assets;
- impairment losses recognized on investments, loans, goodwill and other assets;
- benefits paid to inactive employees;
- provisions;
- reorganization and restructuring costs.

R. Operating income

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

S. Deferred tax

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

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

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

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

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

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

T. Segment reporting

In accordance with the requirements of IAS 14, the Group has opted to use business segments as its primary segment and geographical segments as its secondary segment.

The Group is currently organized into four operational businesses:

Advanced Materials and Technologies - applications of graphite for high-temperature industrial processes, anti-corrosion equipment and high-energy braking;

Electrical Applications - brushes and sliding electrical contacts for industrial motors, automotive and small household appliance applications and diagnostic analysis of malfunctions in industrial and automotive electric motors in the contact between the brushes and the commutator;

Electrical Protection – fuses and fuseholders for protecting industrial equipment and power semi-conductors, to ensure the safety of people and equipment;

Magnets - ferrite magnets, a ceramic material based on iron oxides and strontium, ensuring the rotation of small electric motors for automotive, small household appliance applications and for small systems fitted in vehicles, household appliances and hand-held power tools.

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

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

U. Earnings per share

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

To compute diluted earnings per share, net income attributable to ordinary shares and the weighted average number of shares in issue are adjusted for the effects of all dilutive potential ordinary shares.

V. Equity-linked benefits granted to employees

In accordance with IFRS 2 - Share-based payment, share purchase and subscription options and offers reserved for employees related to shares in the Group are recognized at fair value at the grant date.

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

W. Interim financial statements

The interim financial statements are prepared using the same rules and methods as for the annual financial statements, without taking into account any seasonal effects in the Group's business activities.

NOTE N°3 Information about the transition to IFRS standards

Pursuant to the obligations in the new international reporting standards, relevant European companies must report their consolidated financial statements for 2005 in 2006 in accordance with IFRS standards. Given the obligation contained in these accounting standards to present comparative figures for the previous year, the effective date of the transition to IFRS is January 1, 2004.

Accordingly, Groupe Carbone Lorraine's first full financial statements to be prepared under IAS/IFRS standards will be those published in respect of 2005 in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. They will be drawn up and presented with figures for 2004 in accordance with the same standards for comparison purposes. Any changes in IFRS standards during 2005 may, however, lead to changes in the opening balance sheet at January 1, 2004 and the restated IFRS financial statements for fiscal 2004 when the 2005 consolidated financial statements are published.

Options chosen for the preparation of the Group's first IFRS financial statements

As permitted under the options provided for in IFRS 1 - First-time Adoption of International Financial Reporting Standards, the Group elected in its opening balance sheet to:

- retain cumulative translation adjustments in a separate account, without any impact on equity;
- use the option to apply IAS 32 and 39 on financial instruments from 2005 without any comparative figures;
- not to restate goodwill recognized prior to January 1, 2004;
- continue to use historic cost for its property, plant and equipment, with the exception of certain land holdings, which the Group revalued.

A. IFRS balance sheet at December 31, 2004

ASSETS

In millions of euros

	French GAAP	Impact of IAS/IFRS			IFRS
Notes	December 31, 2004	Opening impact 2004 *A.1.*	2004 reclassifications *A.2.*	2004 restatements *A.3.*	December 2004
NON-CURRENT ASSETS					
Intangible assets					
- Goodwill	152.5	7.1	(0.3)	5.1	164.4
- Other intangible assets	13.5	(8.9)	(0.2)	0.5	4.9
Property, plant and equipment					
- Land	9.3	24.3			33.6
- Buildings	27.5				27.5
- Plant, equipment and other	74.7	0.7	0.3		75.7
- Assets in progress	6.9				6.9
Financial fixed assets (1)					
- Investments	13.3		(13.3)		-
- Other financial assets	17.2		(17.2)		-
Non-current financial assets (2)					
- Investments			13.3		13.3
- Other financial assets		(2.8)	7.0		4.2
- Deferred tax assets (2)		5.0	21.4		26.4
- Non-current current tax assets (2)			1.5		1.5
TOTAL NON-CURRENT ASSETS	**314.9**	**25.4**	**12.5**	**5.6**	**358.4**
CURRENT ASSETS					
- Inventories	118.6				118.6
- Trade receivables	122.8				122.8
- Other receivables	40.7	(1.7)	(21.9)		17.1
- Current tax assets (2)			2.1		2.1
- Financial receivables (1)	1.3		(1.3)		-
- Current financial assets (2)			1.3		1.3
- Available-for-sale investments (1)	0.6		(0.6)		-
- Securities available for sale (2)	0.6		0.6		0.6
- Cash and cash equivalents	27.4				27.4
TOTAL CURRENT ASSETS	**311.4**	**(1.7)**	**(19.8)**	**-**	**289.9**
TOTAL	**626.3**	**23.7**	**(7.3)**	**5.6**	**648.3**

LIABILITIES AND EQUITY

In millions of euros

	French GAAP	Impact of IAS/IFRS			IFRS
	December31, 2004	Opening impact 2004	2004 reclassifications	2004 restatements	December 2004
EQUITY					
- Share capital	27.5				27.5
- Additional paid-in capital	239.8	(0.5)		0.2	239.5
- Net income for the period	15.2			4.2	19.4
- Cumulative translation adjustment	(37.5)		0.1		(37.4)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS	**245.0**	**(0.5)**	**0.1**	**4.4**	**249.0**
- Minority interest	5.2	0.5			5.7
EQUITY AND MINORITY INTEREST	**250.2**	**-**	**0.1**	**4.4**	**254.7**
- Non-current provisions	32.5	0.1	(30.6)		2.0
- Employee benefits (2)		21.5	28.3	0.6	50.4
- Deferred tax liabilities (2)		4.8	(0.8)	0.6	4.6
- Borrowings	132.9				132.9
TOTAL NON-CURRENT LIABILITIES	**165.4**	**26.4**	**(3.1)**	**1.2**	**189.9**
- Trade payables	72.3				72.3
- Other payables	45.8	(0.1)	(0.9)		44.8
- Current provisions	63.4	(2.6)	(3.3)		57.5
- Current tax liabilities (2)			1.4		1.4
- Other liabilities	7.2		(1.5)		5.7
- Short-term portion of borrowings (1)	2.7		(2.7)		-
- Other current financial liabilities (2)			2.7		2.7
- Short-term advances	1.6				1.6
- Bank overdrafts	17.7				17.7
TOTAL CURRENT LIABILITIES	**210.7**	**(2.7)**	**(4.3)**	**0.0**	**203.7**
TOTAL	**626.3**	**23.7**	**(7.3)**	**5.6**	**648.3**

(1) Caption not appearing under IFRS
(2) New caption under IFRS

A.1. Impact on the 2004 opening balance sheet

Groupe Carbone Lorraine's opening balance sheet at January 1, 2004 was drawn up in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards. The Group has elected to apply IAS 32 and 39 from January 1, 2005.

The accounting principles and options adopted to prepare the opening balance sheet, the impact of the adoption of IAS/IFRS on the Group's consolidated financial statements and the reconciliation of the effects of the transition to IFRS were described in the notes attached to the opening balance sheet when the 2004 financial statements were published.

The impact on the opening balance sheet was as follows:

- reclassification as goodwill of purchased goodwill previously booked under other intangible assets, leading to an increase of 7.1 million of euros;
- reclassification of 7.1 million of euros in purchased goodwill as goodwill, 0.7 million of euros in other intangible assets as property, plant and equipment, and derecognition of 1.1 million of euros in assets not satisfying the criteria laid down in IAS 38 through a charge to equity;
- revaluation of land holdings, primarily at the Gennevilliers, Frankfurt, Brussels, Barcelona and Saint-Bonnet-de-Mûre sites by 24.3 million of euros;
- reclassification of 0.7 million of euros in intangible assets as property, plant and equipment;
- derecognition of 2.2 million of euros in actuarial gains and losses through a charge to equity and reclassification of 0.6 million of euros in plan assets, which were deducted from employee benefits;
- the impact on long-term deferred taxes reflects the addition to employee benefits. The impact on short-term deferred taxes reflects the increase of 1.2 million of euros in employee benefit obligations, the 0.4 reduction in intangible assets and the revaluation of land holdings in Germany with a negative impact of 3.2 million of euros;
- derecognition of deferred costs, which were charged to equity;
- reclassification of 2.2 million of euros in short-term provisions for pension obligations meeting the criteria specified in IAS 19 as employee benefits;
- impact of 19.0 million of euros from the valuation of employee benefits in line with IAS 19 and reclassification of short-term provisions for pension obligations (impact of 2.2 million of euros);
- impact of 5.7 million of euros from deferred tax liabilities on the revaluation of land holdings and negative impact of 0.9 million of euros from the derecognition of actuarial gains and losses on pension obligations.

The total impact on equity breaks down as follows:

Derecognition of intangible assets	(1.1)
Revaluation of land holdings	24.3
Derecognition of actuarial gains and losses	(2.2)
Plan assets for employee benefits	(0.6)
Non-current deferred tax assets	5.0
Current deferred tax assets on asset derecognitions	0.4
Current deferred tax assets on land holdings	(3.2)
Current deferred tax assets on employee benefits	1.2
Derecognition of deferred costs	(0.2)
Employee benefits	(19.0)
Non-current deferred tax liabilities on land revaluation	(5.7)
Non-current deferred tax liabilities on derecognition of actuarial gains and losses	0.9
Other and rounding	0.2
Total impact on equity	**0.0**

A.2. Breakdown of reclassifications

ASSETS

In millions of euros

	2004 reclassifications			
	Tax	Employee benefits	Other items	Total reclassifications
Notes	*A.2.1.*	*A.2.2.*	*A.2.3.*	
NON-CURRENT ASSETS				
Intangible assets				
- Goodwill			(0.3)	(0.3)
- Other intangible assets			(0.2)	(0.2)
Property, plant and equipment				
- Land				
- Buildings				
- Plant, equipment and other			0.3	0.3
- Assets in progress				
Financial fixed assets (1)				
- Investments			(13.3)	(13.3)
- Other financial assets	(7.8)		(9.4)	(17.2)
Non-current financial assets (2)				
- Investments			13.3	13.3
- Other financial assets		(2.7)	9.7	7.0
- Deferred tax assets (2)	21.4			21.4
- Non-current current tax assets (2)	1.5			1.5
TOTAL NON-CURRENT ASSETS	**15.1**	**(2.7)**	**0.1**	**12.5**
CURRENT ASSETS				
- Inventories				
- Trade receivables				
- Other receivables	(22.2)		0.3	(21.9)
- Current tax assets (2)	2.1			2.1
- Short-term financial receivables (1)			(1.3)	(1.3)
- Current financial assets (2)			1.3	1.3
- Securities available for sale				
- Cash and cash equivalents				
TOTAL CURRENT ASSETS	**(20.1)**		**0.3**	**(19.8)**
TOTAL	**(5.0)**	**(2.7)**	**0.4**	**(7.3)**

LIABILITIES AND EQUITY

En millions d'euros

	2004 reclassifications			
	Tax	Employee benefits	Other items	Total reclassifications
EQUITY				
- Share capital				
- Additional paid-in capital				
- Net income for the period				
- Cumulative translation adjustment			0.1	0.1
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS			**0.1**	**0.1**
- Minority interest				
EQUITY AND MINORITY INTEREST			**0.1**	**0.1**
- Non-current provisions	(3.4)	(27.2)		(30.6)
- Employee benefits (2)		28.0	0.3	28.3
- Non-current deferred tax liabilities (2)	(0.8)			(0.8)
- Borrowings				
TOTAL NON-CURRENT LIABILITIES	**(4.2)**	**0.8**	**0.3**	**(3.1)**
- Trade payables				
- Other payables		(0.9)		(0.9)
- Current provisions	(0.7)	(2.6)		(3.3)
- Current tax liabilities (2)	1.4			1.4
- Other liabilities	(1.5)			(1.5)
- Short-term portion of borrowings (1)			(2.7)	(2.7)
- Other current financial liabilities (2)			2.7	2.7
- Short-term advances				
- Bank overdrafts				
TOTAL CURRENT LIABILITIES	**(0.8)**	**(3.5)**	**-**	**(4.3)**
TOTAL	**(5.0)**	**(2.7)**	**0.4**	**(7.3)**

(1) Caption not appearing under IFRS
(2) New caption under IFRS

Notes about reclassifications

Groupe Carbone Lorraine prepares its financial statements according to the principles laid down in IAS 1 - Presentation of Financial Statements.

A.2.1. Tax

Deferred tax

Under French GAAP, the long-term portion of deferred tax assets was included in other financial assets and the short-term portion in other receivables, while the long-term portion of deferred tax liabilities was included in long-term provisions and the short-term portion in short-term provisions.

Under IFRS, deferred taxes are classified in two specific line items for non-current deferred tax assets and liabilities entitled deferred tax assets and deferred tax liabilities.

Current income tax

Under French GAAP, current income tax was recognized under other receivables on the asset side and under other payables on the liabilities side of the balance sheet.

Under IFRS, current tax is to be recognized on separate lines, i.e. either current tax assets or current tax liabilities.

A.2.2. Employee benefits

Under French GAAP, employee benefits comprised chiefly provisions for pension obligations, term insurance and medical cover and were included under long-term and short-term provisions. Plan assets were recognized in other financial assets.
Under IFRS, the amount recognized in respect of defined benefits under employee benefits on the liabilities side is equal to the total of:

- the present value of the defined benefit obligation at the balance sheet date;
- less the fair value at the balance sheet date of plan assets used directly to pay or finance the obligations;
- plus unrecognized actuarial gains (less unrecognized actuarial losses);
- less previously unrecognized past service costs;
- less payments.

A.2.3. Other reclassifications

These consist primarily of presentation-related reclassifications because certain line items have been scrapped and other line items created:

- non-current financial assets replace financial fixed assets;
- current financial assets and liabilities replace short-term financial receivables and liabilities.

A.3. Breakdown of restatements

ASSETS

In millions of euros

	2004 restatements			
	Goodwill amortization	Employee benefits	Other items	Total restatements
Notes	*A.3.1.*	*A.3.2.*	*A.3.3.*	
NON-CURRENT ASSETS				
Intangible assets				
- Goodwill	5.1			5.1
- Other intangible assets			0.5	0.5
Property, plant and equipment				
- Land				
- Buildings				
- Plant, equipment and other				
- Assets in progress				
Non-current financial assets				
- Investments				
- Other financial assets				
- Deferred tax assets				
- Non-current current tax assets				
TOTAL NON-CURRENT ASSETS	**5.1**		**0.5**	**5.6**
CURRENT ASSETS				
- Inventories				
- Trade receivables				
- Other receivables				
- Current tax assets				
- Current financial assets				
- Securities available for sale				
- Cash and cash equivalents				
TOTAL CURRENT ASSETS				
TOTAL	**5.1**		**0.5**	**5.6**

LIABILITIES AND EQUITY

In millions of euros

	2004 restatements			
	Goodwill amortization	Employee benefits	Other items	Total restatements
EQUITY				
- Share capital				
- Additional paid-in capital			0.2	0.2
- Net income for the period	4.4	(0.4)	0.2	4.2
- Cumulative translation adjustment				
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS	**4.4**	**(0.4)**	**0.4**	**4.4**
- Minority interest				
EQUITY AND MINORITY INTEREST	**4.4**	**(0.4)**	**0.4**	**4.4**
- Non-current provisions				
- Employee benefits		0.6		0.6
- Deferred tax liabilities	0.7	(0.2)	0.1	0.6
- Borrowings				
TOTAL NON-CURRENT LIABILITIES	**0.7**	**0.4**	**0.1**	**1.2**
- Trade payables				
- Other payables				
- Current provisions				
- Current tax liabilities				
- Other liabilities				
- Current financial liabilities				
- Short-term advances				
- Bank overdrafts				
TOTAL CURRENT LIABILITIES				
TOTAL	**5.1**	**-**	**0.5**	**5.6**

Notes about restatements

A.3.1 Goodwill amortization

Prior to January 1, 2004, goodwill, the difference between the acquisition cost of shares and the market value of the assets and liabilities acquired, was amortized over a period not exceeding 40 years. In accordance with the new accounting standards and in line with IFRS 3 - Business Combinations, goodwill is no longer amortized. Instead, it undergoes an annual impairment test.

The 5.1 million of euros in amortization recorded in 2004 and the corresponding impact of deferred tax have been reversed.

A.3.2 Employee benefits

Under French GAAP, the Group accounted for its pension and related obligations based on the rules laid down in CRC regulation no. 99-02. In accordance with IAS 19, the Group conducted an exhaustive survey of its pension obligations and other employee benefits with the support of local actuaries, whose work was coordinated by a central actuary.

The obligations were calculated using the projected unit credit method based on consistent actuarial assumptions for each economic region.

The valuation conducted at December 31, 2004 showed additional liabilities compared with the valuation stated in the 2004 opening balance sheet of 0.6 million of euros excluding tax effects.

A.3.3 Other restatements

These comprise chiefly:
- reversals of 0.2 million of euros in amortization of intangible assets reclassified as goodwill in the opening balance sheet;
- 0.2 million of euros in share-based payments.

B. Consolidated income statement

In millions of euros

renvoi aux notes	2004 under French GAAP	2004 reclassifications B.1.	2004 restatements B.2	2004 under IFRS
Consolidated sales	636.0			636.0
Cost of sales	(441.8)	(24.2)	(0.3)	(466.3)
Gross income	**194.2**	**(24.2)**	**(0.3)**	**169.7**
Selling and marketing costs	(58.2)	(1.5)		(59.7)
Administrative and research costs	(55.9)	(2.8)	(0.1)	(58.8)
Other expenses and additions to provisions	(4.4)	4.0		(0.4)
Non-recurring incomes and expenses (2)		(14.0)	(0.2)	(14.2)
Financial components of operating income (2)		(2.9)		(2.9)
Operating income before depreciation and amortization (EBITDA) (1)	**75.7**			
Depreciation and amortization (1)	(23.1)	22.8	0.3	-
Operating income	**52.6**	**(18.6)**	**(0.3)**	**33.7**
Finance costs, net	(11.3)	3.8		(7.5)
Income before tax and non-recurring items	**41.3**	**(14.8)**	**(0.3)**	**26.2**
Current and deferred income tax (1)	(10.7)	10.7		-
Minority interest	(0.4)			(0.4)
Net income before non-recurring items, Group share (1)	**30.2**			
Net non-recurring items (1)	(9.9)	9.9		-
Net income before goodwill amortization, Group share (1)	**20.3**			
Goodwill amortization (1)	(5.1)		5.1	-
Current and deferred income tax (2)		(5.8)	(0.6)	(6.4)
Net income, Group share	**15.2**	**-**	**4.2**	**19.4**

(1) Caption not appearing under IFRS
(2) New caption under IFRS

B.1. Breakdown of reclassifications

En millions d'euros

Notes	Amortization B1.1.	Employee incentives and profit-sharing B.1.1.	Discounts B.1.1.	Finance costs, net B.1.2.	Non-recurring income and expense B.1.3.	Tax B.1.4.	Total reclassifications
Consolidated sales							
Cost of sales	(20.5)	(2.4)	(0.9)		(0.4)		(24.2)
Gross income	**(20.5)**	**(2.4)**	**(0.9)**		**(0.4)**		**(24.2)**
Selling and marketing costs	(0.8)	(0.8)			0.1		(1.5)
Administrative and research costs	(1.5)	(0.8)			(0.5)		(2.8)
Other expenses and additions to provisions		4.0					4.0
Non-recurring incomes and expenses (2)					(14.0)		(14.0)
Financial components of operating income (2)				(2.9)			(2.9)
Operating income before depreciation and amortization (EBITDA) (1)							
Depreciation and amortization (1)	22.8						-
Operating income	**-**	**-**	**(0.9)**	**(2.9)**	**(14.8)**		**(18.6)**
Finance costs, net			0.9	2.9			3.8
Income before tax and non-recurring items							
Current and deferred income tax (1)						10.7	10.7
Minority interest							
Net income before non-recurring items, Group share (1)							
Net non-recurring items (1)					14.8	(4.9)	9.9
Net income before goodwill amortization, Group share (1)							
Goodwill amortization (1)							-
Current and deferred income tax (2)						(5.8)	(5.8)
Net income, Group share	**-**	**-**	**-**	**-**	**-**	**-**	**-**

(1) Caption that does not exist under IFRS
(2) New caption under IFRS

Notes about reclassifications

B.1.1 Depreciation and amortization, employee incentives and profit-sharing, and discounts

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

Depreciation and amortization, employee incentives and profit-sharing (initially classified under other expenses and additions to provisions) and discounts (classified under financial items under French GAAP) are reclassified by function of expenses under IFRS.

B.1.2 Finance costs, net

Finance costs, net represents the cost of debt. Financial items that do no meet this definition are reclassified under financial components of operating income.

B.1.3 Non-recurring income and expense

Non-recurring income and expense is now included in operating income and is shown before tax.

B.1.4 Income tax

Current and deferred income tax is shown in full on a separate line.

B.2. Breakdown of restatements

In millions of euros

	Goodwill amortization	Employee benefits	Other items	Total restatements
Notes	*B.2.1.*	*B.2.2.*	*B.2.3.*	
Consolidated sales				
Cost of sales		(0.3)		(0.3)
Gross income		**(0.3)**		**(0.3)**
Selling and marketing costs				
Administrative and research costs		(0.1)		(0.1)
Other expenses and additions to provisions				
Non-recurring income and expense (2)		(0.2)		(0.2)
Financial components of operating income (2)				
Operating income before depreciation and amortization (EBITDA) (1)				
Depreciation and amortization (1)			0.3	0.3
Operating income	**-**	**(0.6)**	**0.3**	**(0.3)**
Finance costs, net				
Income before tax and non-recurring items		**(0.6)**	**0.3**	**(0.3)**
Current and deferred income tax (1)				
Minority interest				
Net income before non-recurring items, Group share (1)				
Net non-recurring items (1)				
Net income before goodwill amortization, Group share (1)				
Goodwill amortization (1)	5.1			5.1
Current and deferred income tax (2)	(0.7)	0.2	(0.1)	(0.6)
Net income, Group share	**4.4**	**(0.4)**	**0.2**	**4.2**

(1) Item not appearing under IFRS
(2) New caption under IFRS

Notes about restatements

B.2.1 Goodwill amortization

Goodwill is not amortized under IFRS. An impairment test was carried out and did not call into question the values recognized (see Note 5 - Asset impairment).

B.2.2. Employee benefits

This represents the additional expense compared with 2003 as assessed by actuaries.

B.2.3 Other restatements

This represents the reversal of amortization of intangible assets derecognized in the opening balance sheet.

2004 interim income statement under IFRS

In millions of euros

	H1 2004	H2 2004	2004
Consolidated sales	317.7	318.3	636.0
Cost of sales	(232.7)	(233.6)	(466.3)
Gross income	**85.0**	**84.7**	**169.7**
Selling and marketing costs	(29.9)	(29.8)	(59.7)
Administrative costs	(25.8)	(24.5)	(50.3)
Research costs	(4.7)	(3.8)	(8.5)
Other expenses and additions to provisions	(0.1)	(0.3)	(0.4)
Non-recurring income and expense	(6.0)	(8.2)	(14.2)
Financial components of operating income	(1.0)	(1.9)	(2.9)
Operating income	**17.5**	**16.2**	**33.7**
Finance costs, net	(3.9)	(3.6)	(7.5)
Income before tax	**13.6**	**12.6**	**26.2**
Current and deferred income tax	(4.5)	(1.9)	(6.4)
Consolidated net income	**9.1**	**10.7**	**19.8**
Minority interest	(0.2)	(0.2)	(0.4)
Net income, Group share	**8.9**	**10.5**	**19.4**

C - Reconciliation of equity

In millions of euros

	Jan. 1, 2004	Capital increase	Net income	Min. interest	Translation and other	Dec. 31, 2004
Reported equity	**179,6**	**62,0**	**15,2**	**(0,2)**	**(6,4)**	**250,2**
Derecognition of actuarial gains and losses	(2.2)					(2.2)
Deferred tax on derecognition of actuarial gains and losses	0.9					0.9
Plan assets for employee benefits	(0.6)					(0.6)
Valuation of employee benefits	(19.0)		(0.6)			(19.6)
Deferred tax on employee benefits	6.2		0.2			6.4
Derecognition of intangible assets	(1.1)					(1.1)
Revaluation of land holdings	24.3					24.3
Deferred tax on land holdings	(8.9)					(8.9)
Derecognition of deferred costs	(0.2)					(0.2)
Deferred tax on asset derecognitions	0.4					0.4
Goodwill amortization			5.1			5.1
Income tax on the reversal of goodwill amortization			(0.7)			(0.7)
Reversal of amortization of intangible assets derecognized in the opening balance sheet			0.3			0.3
Income tax on reversal of amortization			(0.1)			(0.1)
Other and rounding	0.2				0.3	0.5
Total restatements	**0.0**	**0.0**	**4.2**	**0.0**	**0.3**	**4.5**
Equity under IFRS	**179.6**	**62.0**	**19.4**	**(0.2)**	**(6.1)**	**254.7**

D - Impact on the presentation of the cash flow statement at December 31, 2004

The sole changes comprise presentation -related reclassifications, notably including showing income tax and interest payments on a separate line. Since application of IAS 32 and 39 has been postponed until 2005, no restatement for changes in debt has been made.

A reconciliation of the cash flow statement at December 31, 2004 is shown below:

French GAAP at December 31, 2004		Restructuring costs	Acquisitions/ disposals	Non-operating cash flows	Income tax paid	Interest payments	Other items and rounding	IFRS at December 31, 2004	
Notes		*D.1*		*D.2*	*D.3*		*D.4*		
OPERATING ACTIVITIES								***OPERATING ACTIVITIES***	
Cash flow	**58.9**				**7.0**	**7.2**	**(0.6)**	**72.5**	Cash generated by operating activities before the change in the working capital requirement
Change in the working capital requirement from operating activities	**(6,8)**							**(6,8)**	**Change in the working capital requirement from operating activities**
Change in the working capital requirement	(2.4)							(2.4)	
Change in the working capital requirement	**(9.2)**								
Other changes	(4.7)	(23.7)		(3.8)	(0.7)		0.5	(32.4)	
								(34,8)	**Change in other WCR items**
								30.9	Cash generated by operating activities after the change in the working capital requirement
					(6.3)			(6.3)	Income tax paid
Cash generated by operating activities	**45.0**	**(23.7)**		**(3.8)**	**-**	**7.2**	**(0.1)**	**24.6**	**Net cash generated by operating activities**
INVESTING								***INVESTING ACTIVITIES***	
Increase in intangible fixed assets	(2.5)							(2.5)	Increase in intangible assets
Increase in property, plant and equipment	(18.7)							(18.7)	Increase in property, plant and equipment
Increase in financial fixed assets	(2.4)		(13.0)					(15.4)	Increase in financial assets
Disposals of fixed assets	0.9		6.3					7.2	Disposals of non-current assets
Cash generated/used by investing activities before non-recurring items	**(22.7)**		**(6.7)**					**(29.4)**	**Cash generated/(used) by investing activities**
Cash generated by operating and investing activities before restructuring costs	**22.3**								
Restructuring costs	(23.7)	23.7							
Cash generated by operating and investing activities	**(1.4)**								
Net investments related to the impact of changes in the scope of consolidation	(13.0)		13.0						
Non-recurring disposals of fixed assets	6.3		(6.3)						
Net cash flow	**(8.1)**	**-**	**-**	**(3.8)**	**-**	**7.2**	**(0.1)**	**(4.8)**	**Cash generated/(used) by operating and investing activities (a)**
FINANCING								***FINANCING ACTIVITIES***	
Proceeds from issues of shares	62.0							62.0	Proceeds from issue of new shares
Net dividend payments to share-holders and minority interests	(0,.5)							(0.5)	Net dividend payments to shar-eholders and minority interests
Non-operating cash flows	(3.8)			3.8					
						(7.2)		(7.2)	Interest payments
Increase/(decrease) in debt	**(49.6)**						**2.3**	**(47.3)**	**Change in debt**
							2.2	7.0	**Cash generated by financing activities**
							2.2	**2.2**	**Change in cash**
Total		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**Total**

Notes about reclassifications

D.1 Restructurings – Acquisitions and disposals

Under IFRS, restructuring costs are classified under operating activities and no longer appear on a separate line.

Likewise, non-recurring acquisitions and disposals of non-current assets are classified as investing activities.

D.2 Non-operating cash flows

These correspond to payments made in settlement of US class-action lawsuits, which are recognized in operating activities under IFRS.

D.3 Income tax and interest payments

Under IFRS, these payments must be shown on separate lines, with:

- income tax expense being recognized in operating activities;
- interest payments being recognized in financing activities.

D.4 Other reclassifications and rounding

These items comprise:

- 0.5 million of euros in provisions for pension obligations recognized in other WCR items;
- the change in cash included in the change in net debt under French GAAP and shown on a separate line under IFRS (2.2 million of euros).

NOTE N°4 Goodwill

In millions of euros

	June 30, 2005	Dec. 31, 2004
Net value at Jan. 1	**164.4**	**172.3**
Acquisitions		0.3
Disposals		
Translation adjustments	14.6	(8.2)
Net value at end of period	**179.0**	**164.4**
Gross value at end of period	**179.0**	**164.4**
Total impairment losses at end of period	**0.0**	**0.0**

Goodwill relates primarily to Carbone Lorraine North America and Ferraz Shawmut (124.2 million of euros), AVO (13.5 million of euros) and the UK (15.6 million of euros).

A breakdown by division is shown in the following table:

In millions of euros

	December 31, 2004	Movements during first-half 2005			June 30, 2005
	Net value	Acquisitions	Impairment	Cumulative translation adjustment	Net value
Advanced Materials and Technologies	78.6			7.8	86.4
Electrical Applications	30.1			1.3	31.4
Electrical Protection	55.7			5.5	61.2
Magnets	0.0				0.0
Total	**164.4**	**-**	**-**	**14.6**	**179.0**

NOTE N°5 5 Impairment of assets

Impairment tests were conducted for each of the cash generating units when the opening balance sheet at January 1, 2004 was prepared.
The 24.5 million of euros pre-tax impairment loss recognized on the Magnets cash generating unit at December 31, 2003 was not reversed. This impairment loss led notably to the complete write-off of the goodwill and intangible assets allocated to this cash generating unit.

The discount rates used to determine the value in use in accordance with IAS 36 were as follows:

- Electrical Applications: 9%
- Magnets: 13%
- Electrical Protection: 9%
- High temperatures applications and high-energy braking: 9%
- Anti-corrosion equipment: 9%

NOTE N°6 Property, plant and equipment

In millions of euros

	Land	Buildings	Plant, equipment and other	Other items	Total
Net value at Jan. 1, 2004	**33.7**	**34.2**	**67.4**	**17.8**	**153.1**
Acquisitions		0.3	4.9	3.8	9.0
Retirements and disposals	(0.2)	(4.4)	(1.2)		(5.8)
Depreciation		(1.5)	(8.8)		(10.3)
Translation adjustments	0.3	0.8	1.0	0.2	2.3
Other movements		0.3	5.4	(5.1)	0.6
Net value at June 30, 2004	**33.8**	**29.7**	**68.7**	**16.7**	**148.9**
Gross value at June 30, 2004	**35.1**	**83.7**	**321.7**	**16.7**	**457.2**
Accumulated depreciation and impairment losses at June 30, 2004	**(1.3)**	**(54.0)**	**(253.0)**	**-**	**(308.3)**
Net value at July 1, 2004	**33.8**	**29.7**	**68.7**	**16.7**	**148.9**
Acquisitions		0.9	12.3	1.4	14.6
Retirements and disposals	0.1	(0.2)	(0.1)		(0.2)
Depreciation		(1.3)	(9.2)		(10.5)
Translation adjustments	(0.3)	(1.6)	(3.0)	(0.3)	(5.2)
Other movements			7.0	(10.9)	(3.9)
Net value at December 31, 2004	**33.6**	**27.5**	**75.7**	**6.9**	**143.7**
Gross value at December 31, 2004	**34.9**	**80.5**	**323.2**	**6.9**	**445.5**
Accumulated depreciation and impairment losses at December 31, 2004	**(1.3)**	**(53.0)**	**(247.5)**		**(301.8)**
Net value at January 1, 2005	**33.6**	**27.5**	**75.7**	**6.9**	**143.7**
Acquisitions		0.3	4.9	4.2	9.4
Retirements and disposals	(0.2)	(0.1)	(0.5)		(0.8)
Depreciation		(1.3)	(9.5)		(10.8)
Translation adjustments	0.8	1.9	4.3	0.3	7.3
Other movements		(0.3)	1.2	(1.3)	(0.4)
Net value at June 30, 2005	**34.2**	**28.0**	**76.1**	**10.1**	**148.4**
Gross value at June 30, 2005	**35.5**	**82.1**	**344.5**	**10.1**	**472.2**
Accumulated depreciation and impairment losses at June 30, 2005	**(1.3)**	**(54.1)**	**(268.4)**		**323.8**

NOTE N°7 Investments

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
At year end, the unconsolidated shareholdings held by consolidated companies had a gross value of:	24.9	22.9	22.0
Less impairment losses amounting to:	(10.1)	(9.6)	(10.1)
representing a net value of	**14.8**	**13.3**	**11.9**
Investments in other companies	-	-	-
Total	**14.8**	**13.3**	**11.9**

The impairment losses recognized on investments in the period ended June 30, 2005 relate primarily to entities in Turkey, Argentina, Mexico and Singapore.

In millions of euros

Company name	% held	Gross value	Net value
Elca Carbone Lorraine (India)	100	7.7	7.5
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
Carbono Lorena de Mexico S.A.	100	2.2	0.6
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
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
Madras Carbone (India)	51	0.5	0.5
Ferraz Electric Protection Hinode (China)	70	0.3	0.3
Carbone-Lorraine Chile (Chile)	100	0.2	0.2
Carbone-Lorraine Shanghai (China)	100	0.2	0.2
GMI Metaullics (US)	25	0.2	0.2
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Carbone Materials Japan	100	0.1	0.1
Investments in other companies	–	0.4	0.3
Total		**24.9**	**14.8**

The as-yet unaudited sales and net income of these companies totaled respectively around 17.4 million of euros and 0.8 million of euros. Their impact on the consolidated financial statements is not material. The consolidated sales of all these companies would amount to less than 4% of total consolidated sales.

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

NOTE N°8 Inventories

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
Raw materials and other supplies	52.8	54.3	54.3
Work in progress	44.6	35.2	35.6
Finished goods	45.3	39.4	38.9
Carrying amount of inventories	**142.7**	**128.9**	**128.8**
Impairment losses	**(10.7)**	**(10.3)**	**(9.6)**
Carrying amount of inventories pledged as collateral for liabilities	**132.0**	**118.6**	**119.2**

Net inventories increased by 13.4 million of euros at June 30, 2005, including 6.0 million of euros attributable to currency effects. At constant exchange rates, inventories increased by 7.4 million of euros (up 6.2%).

This increase includes the effect of business expansion and anticipation of further growth in certain activities during the second half of 2005.

NOTE N°9 Trade receivables

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
Gross trade receivables	139.2	130.8	135.6
Impairment losses	**(7.9)**	**(8.0)**	**(6.5)**
Net trade receivables	**131.3**	**122.8**	**129.1**

NOTE N°10 Share capital

In number of shares (unless stated otherwise)	Ordinary shares
Number of shares in issue at January 1, 2005	13,755,577
Capital increase	65,858
Number of shares in issue at June 30, 2005	**13,821,435**
Number of shares in issue and fully paid-up	13,821,435
Number of shares in issue and not fully paid-up	0
Par value of shares (euros)	2.00
Entity's shares held by itself or by its subsidiaries and associates	23,132

The issue of shares during the first half of 2005 originated from the exercise of subscription options granted to employees.

The number of voting rights stood at 13,798,303 after deducting the 23,132 treasury shares held by the entity at June 30, 2005.

No shares carry double voting rights.

The number of share subscription options granted to company officers and employees and still outstanding stood at 565,324, taking into account the canceled options.

Aside from these share 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.

NOTE N°11 Provisions

In millions of euros

	June 2005		December 2004		June 2004	
	Non-current	Current	Non-current	Current	Non-current	Current
- provision for restructuring	0.1	7.0	0.2	7.8	0.6	3.0
- provision for litigation	43.1	3.7	0.1	48.2	0.1	52.4
- other provisions	1.6	0.6	1.7	1.5	0.1	3.4
Total	**44.8**	**11.3**	**2.0**	**57.5**	**0.8**	**58.8**

Current and non-current	2004	Additions	Uses	Changes in scope	Other items	Cumulative translation adjustment	June 2005
- provision for restructuring	8.0	0.9	(1.8)	-	-	-	7.1
- provision for litigation	48.3	0.6	(2.7)	-	-	0.6	46.8
- other provisions	3.2	(0.5)	(0.5)	-	-	-	2.2
Total	**59.5**	**1.0**	**(5.0)**	**-**	**-**	**0.6**	**56.1**

Provisions for litigation at year-end 2004 primarily covered the total fine handed down to the Group by the European authorities (43 million of euros) and class-action lawsuits in the US (4.4 million of euros). Provisions for restructuring were chiefly those set aside in 2004 for the Magnets division (7.4 million of euros).

At end-June 2005, with regard to the provisions for litigation:

- given the extension of the deadline for the court's ruling, the fine of 43 million of euros was reclassified as non-current;
- 0.6 million of euros was added to the provision for the US class-action lawsuits and 2.4 million of euros paid, leaving this component at 2.6 million of euros.

Provisions for restructuring predominantly related to the Magnets business segment (6.7 million of euros).

NOTE N°12

Employee benefits

Groupe Carbone Lorraine's principal pension plans are defined benefit plans and are located in the UK (26% of obligations), the US (24% of obligations), France (19% of obligations) and Germany (16% of obligations).

The Group's obligations were assessed with the assistance of independent actuaries in accordance with IAS 19 at December 31, 2004. The cost in the six months to June 30, 2005 was estimated on the same basis.

The rates used for the principal countries are summarized below:

	Discount rate	Rate of return on plan assets	Inflation rate
France	5.50%	4.50%	2.00%
Germany	5.50%	Not applicable	2.00%
US	6.00%	7.25%	Not applicable
UK	5.40%	7.00%	2.80%

In millions of euros

The Group's obligations at June 30, 2005 were thus as follows:

	France	Germany	US	UK	Rest of the world	Total
Actuarial obligation	18.2	15.2	23.0	24.8	14.6	95.8
Fair value of plan assets	(3.3)		(14.8)	(18.8)	(6.5)	(43.4)
Unrecognized actuarial gains and losses	0.5		(0.3)	0.6	(0.4)	0.4
Unrecognized past service costs (rights not vested)	0.2					0.2
Net amount recognized	**15.6**	**15.2**	**7.9**	**6.6**	**7.7**	**53.0**

The Group's obligations at December 31, 2004 were thus as follows:

	France	Germany	US	UK	Rest of the world	Total
Actuarial obligation	18.6	15.2	19.3	23.9	13.2	90.2
Fair value of plan assets	(4.0)		(12.4)	(18.0)	(5.9)	(40.3)
Unrecognized actuarial gains and losses	0.4		(0.5)	0.6	(0.3)	0.2
Unrecognized past service costs (rights not vested)	0.3					0.3
Net amount recognized	15.3	15.2	6.4	6.5	7.0	50.4

The change in employee benefits recognized was thus as follows:

	France	Germany	US	UK	Rest of the world	Total
December 31, 2004	15.3	15.2	6.4	6.5	7.0	50.4
Contributions paid	(0.3)	(0.7)	(0.5)	(0.3)	(0.6)	(2.4)
Expense charged to income	0.6	0.7	1.2	0.1	0.8	3.4
Exchange differences			0.8	0.3	0.5	1.6
June 30, 2005	**15,6**	**15,2**	**7,9**	**6,6**	**7,7**	**53,0**

According to the actuaries' estimate, the charge recognized at June 30, 2005 in respect of these plans was 3.4 million of euros and broke down as follows:

	France	Germany	US	UK	Rest of the world	Total
Current service cost	0.3	0.1	1.0	0.1	0.6	2.1
Interest cost	0.4	0.6	0.4	0.3	0.4	1.8
Expected rate of return on plan assets	(0.1)		(0.4)	(0.3)	(0.2)	(0.7)
Amortization of actuarial gains and losses			0.2			0.2
Total charge for the period	**0.6**	**0.7**	**1.2**	**0.1**	**0.8**	**3.4**

NOTE N°13 Net debt

In millions of euros

	June 30,2005	December 31, 2004	June 30, 2004
Borrowings	169.3	132.9	212.8
Current financial liabilities	2.6	2.7	2.4
Short-term advances	2.6	1.6	0.9
Current financial assets	(0.6)	(1.3)	(1.9)
Total gross debt	**173.9**	**135.9**	**214.2**
Bank overdrafts	15.4	17.7	9.4
Securities available for sale	(1.8)	(0.6)	(2.0)
Cash and cash equivalents	(23.1)	(27.4)	(19.5)
Cash	**9.5**	**10.3**	**12.1**
Total net debt	**164.4**	**125.6**	**202.1**

Total net debt stood at 164.4 million of euros at end-June 2005 compared with 125.6 million of euros at year-end 2004. Of this 38.8 million of euros increase, 11 million of euros was attributable to currency fluctuations and 20 million of euros to a downpayment to the European Commission. To reduce the cost of the proceedings being heard in the EU Court of First Instance where the Group is appealing the 43 million of euros fine handed down in December 2003 and in the light of the likely extension in the time required for the Court to rule, the Group decided to make a downpayment of 20 million of euros to an escrow account held by the European Commission. This amount plus related interest will be returned to Carbone Lorraine should this payment not be warranted by the appeal court's ruling. This downpayment was recorded on the balance sheet under non-current financial assets. On the cash flow statement, it was recognized under increases in financial assets.

En millions d'euros

	June 30,2005	December 31, 2004	June 30, 2004
Total net debt	164.4	125.6	202.1
Net debt/equity	0.59	0.49	1.05

Net debt amounted to 59% of equity at June 30, 2005, compared with 49% at December 31, 2004.

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:

In millions of euros

	June 30,2005	December 31, 2004	June 30, 2004
Prior year debt	**125.6**	**182.6**	**182.6**
Cash generated by recurring operating activities after tax	(5.1)	(29.5)	(9.4)
Cash used by restructurings	2.1	23.7	17.3
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	0.2	6.7	3.3
Non-operating cash flows(*)	22.3	3.9	0.4
Total cash generated by operating and investing activities	**19.5**	**4.8**	**11.6**
Proceeds from issue of new shares	(0.6)	(62.0)	0.0
Dividends paid	8.1	0.5	0.5
Interest payments	2.9	7.2	3.9
Translation adjustment and other	8.9	(7.5)	3.5
Debt at year-end	**164.4**	**125.6**	**202.1**

** including a 20 million of euros downpayment to the European Commission in connection with the 43 million of euros fine being appealed by the Group (see above)*

In December 2000, Carbone Lorraine arranged a $300m syndicated loan with a pool of international banks to refinance its debt. This loan was structured in two tranches, namely a one-year $105 million of euros tranche extendible twice until December 2003 and a five-year $195 million of euros tranche.

The $105 million of euros tranche was repaid by Carbone Lorraine during June 2003, shortly ahead of its due date. This tranche was refinanced by means of a $85 million of euros private placement subscribed by US investors, including a $65 million of euros tranche with a final maturity of 10 years and a $20 million of euros 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.

The $195 million of euros tranche was repaid in January 2005 following the signature in late December 2004 of a new five-year $220 million of euros syndicated loan.

In addition, a bilateral $21 million of euros credit line was repaid in 2004 ahead of its due date and refinanced using the syndicated loan.

At June 30, 2005, the Group's confirmed credit lines amounted to $305 million of euros, $111 million of euros of which had not been drawn down.

Confirmed credit lines at June 30, 2005

In millions of US dollars

	Interest rate	Amount	Drawn down at June 30, 2005	Maturity
Syndicated loan	Variable	220	109	December 2009
US private placements, Tranche A	**Fixed**	**65**	**65**	**May 2013**
- including		9.3	9.3	May 2007
		9.3	9.3	May 2008
		9.3	9.3	May 2009
		9.3	9.3	May 2010
		9.3	9.3	May 2011
		9.3	9.3	May 2012
		9.3	9.3	May 2013
US private placements, Tranche B	**Fixed**	**20**	**20**	**May 2015**
- including		4.0	4.0	May 2011
		4.0	4.0	May 2012
		4.0	4.0	May 2013
		4.0	4.0	May 2014
		4.0	4.0	May 2015
Total		**305**	**194**	

The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a credit margin. The margins on the 2004 syndicated loan are fixed and no longer depend on the net debt/equity ratio. 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 on 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 must comply with the following financial covenants at June 30 and December 31 each year:

In millions of euros

Financial covenants (consolidated financial statements)	Net debt/EBITDA**	Net debt/equity**	EBITDA/ net interest expense
Covenants*	The ratio must be:	The ratio must be:	The ratio must be:
- US private placement	< 3.25	< 1.3	> 3
- 2004 syndicated loan	-	<1.3	-
Actual ratios			
June 30, 2005			
- US private placement	1.91	0.59	12.86
- 2004 syndicated loan	-	0.59	-
December 31, 2004			
- US private placement	1.78	0.51	10.57
- 2004 syndicated loan	-	0.51	-
December 31, 2003			
- US private placement	2.83	1.02	8.22
- 2000 syndicated loan	2.83	1.09	-

*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 does not take into account short-term financial receivables. In addition, solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average euro/$ exchange rate for the period in the event of a difference of over 5% between the average exchange rate and the closing exchange rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two 2.

** In view of the transition to IFRS, EBITDA was recalculated on a pro forma basis under French GAAP.

The new syndicated loan agreement signed in December 2004 provides for just one financial covenant based on the net debt/equity ratio.

At June 30, 2005, 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 of long-term borrowings by maturity is shown below:

Breakdown of long-and medium-term borrowings, including the current portion at June 30, 2005

In millions of euros

	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	106.4	-	66.9	39.5
Borrowings in EUROS	56.7	-	56.7	
Borrowings in GBP	8.2	-	8.2	
Borrowings in CAD	0.2	-	0.2	
Total	**171.5**	**-**	**132.0**	**39.5**
Amortization of issuance costs at EIR	-1.4			
Fair value of interest-rate derivatives	-0.8			
Total	**169.3**	**-**	**132.0**	**39.5**

Of the 132.0 million of euros in debt due to mature in between one and five years' time, 100.7 million of euros had a maturity of over four years at June 30, 2005.

Analysis of total net debt at June 30, 2005

By currency	%	By interest rate	%
Euros	35.8	Fixed	30
USD	59.3	Variable	70
GBP	3.9		
Other items	1.0		

Interest rate risk management

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

In February 2002, the Group purchased a two-year swap with a nominal amount of $70 million. Under the terms of this swap, the Company paid a fixed rate of 3.4275% and received 1-month USD Libor. The swap matured in February 2004.

In May 2003, the Group purchased several interest-rate swaps with an aggregate nominal amount of $85 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 $60 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).

In millions of euros

	Total	With a maturity > 1 year and < 5 years	With a maturity > 5 years
Floating rate debt*	189.9	129.7	39.6
Financial assets	25.5	-	-
Net position before hedging	**164.4**	**129.7**	**39.6**
Fixed-rate hedge	49.6	49.6	
Net position after hedging	**114.8**	**80.1**	**39.6**

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

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their June 30, 2005 level, an increase of 100 basis points in variable interest rates would increase the Group's annual finance costs by 1.1 million of euros.

NOTE N°14 Derivative financial instruments

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

In accordance with IAS 32 and 39, the fair values at June 30, 2005 are recognized on the balance sheet and/or income statement in the Group's consolidated financial statements (see Note 1 Change in accounting standards).

In millions of euros

	Fair value at June 30, 2005*	Nominal amount** June 2005	Nominal amount Dec. 2004	Nominal amount Dec. 2003
Interest rate instruments	(0,2)	119.9	106.5	170.2
Foreign exchange instruments	0.2	16.2	8.3	4.6

**including accrued interest (for interest rate instruments)*

***sum of net positions by foreign currency (for foreign exchange instruments)*

Foreign exchange exposure by currency

Net exposure by currency shown below represents the Group's trading flows in the six months to June 30, 2005. The assets and liabilities represent the net amount of Group companies' billings denominated in foreign currencies translated into euros from their local currency. To maintain consistency with the definition of the assets and liabilities, off-balance sheet positions represent the hedges assigned to billings. The hedges assigned to orders and budgets are not stated in the following table. A currency is not shown where the relevant assets and liabilities have a value of less than 0.1 million of euros.

En millions d'euros

	US USD	UK GBP	Japan JPY	Canada CAD	Korea KRW	Brazil BRL	Mexico MXN	Rep. South Africaine ZAR	Sweden SEK
Assets	5.3	(1.2)	2.2	(1.8)	(1.3)	(0.6)	0	0	(0.1)
Liabilities	1.1	1.9	(0.0)	1.6	0.6	1.4	(1.5)	0.2	0.4
Net position before hedging	**6.4**	**0.7**	**2.2**	**(0.2)**	**(0.6)**	**0.8**	**(1.5)**	**0.2**	**0.3**
Off-balance sheet positions	**4.2**	**0.8**	**2.1**	**(0.3)**	**0**	**0**	**0**	**0**	**0**
Net position after hedging	**2.2**	**(0.1)**	**0.1**	**0.1**	**(0.6)**	**0.8**	**(1.5)**	**0.2**	**0.3**

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

The net position after hedging on billings also has an impact on the Group's financial statements. An unfavorable one-percent shift in the euro relative to the aforementioned currencies would have a negative impact of 0.1 million of euros based on billings on the balance sheet at June 30, 2005.

NOTE N°15 Other non-recurring incomes and expenses

Other non-recurring income and expense can be analysed as follows:

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
Restructuring programs	(1.9)	(13,9)	(4.2)
EU fine and US class-action lawsuits	(0.7)	(2.4)	(1.5)
Benefits paid to inactive employees	(0.7)	(1.4)	(0.8)
Impairment losses on investments in unconsolidated subsidiaries and associates	(0.9)		
Non-current asset disposal program	0.2	2.1	0.3
Other items	(0.5)	1.4	0.2
Total	**(4.5)**	**(14.2)**	**(6.0)**

In 2004, non-recurring income and expense amounted to a net charge of 14.2 million of euros. The principal contributors were:

- expenses and additions to provisions for litigation (2.4 million of euros) to cover costs arising from the US class-action lawsuits;
- 2.1 million of euros in after-tax capital gains on disposals, which mainly derived from the sales of the real estate in the US (Newburyport) and France (Crolles) under the asset disposal program currently underway;
- industrial restructuring costs (13.9 million of euros), including 7.8 million of euros in the Magnets segment and 4.0 million of euros in the Electrical Protection segment.

In the first six months of 2005, non-recurring income and expense amounted to a net charge of 4.5 million of euros. The principal contributors were:

- an additional 1.9 million of euros in industrial restructuring costs, including 1.0 million of euros in the Magnets segment and 0.6 million of euros in the Electrical Protection segment;
- an outlay of 0.6 million of euros in connection with the settlement of US class-action lawsuits;
- recognition of an impairment loss of 0.9 million of euros on the investment in the Mexican subsidiary.

NOTE N°16 Segment reporting

Analysis of sales and sales trends by business segment

	June 2005		December 2004		June 2004	
	In millions of euros	%	In millions of euros	%	In millions of euros	%
Advanced Materials and Technologies	101.1	31.5	200.0	31.4	97.2	30.6
Electrical Applications	95.2	29.7	187.4	29.5	96.5	30.4
Electrical Protection	87.2	27.2	171.3	26.9	84.1	26.5
Permanent Magnets	37.1	11.6	77.3	12.2	39.9	12.5
Total	**320.6**	**100**	**636.0**	**100**	**317.7**	**100**

Analysis of sales and sales trends by geographical segment

	June 2005		December 2004		June 2004	
	In millions of euros	%	In millions of euros	%	In millions of euros	%
France	50.7	15.8	95.7	15.0	49.8	15.7
Rest of Europe	106.9	33.4	217.4	34.2	106.8	33.6
North America	105.6	32.9	212.1	33.3	109.6	34.5
Asia	34.8	10.9	71.0	11.2	33.1	10.4
Rest of the world	22.6	7.0	39.8	6.3	18.4	5.8
Total	**320.6**	**100**	**636.0**	**100**	**317.7**	**100**

Analysis of operating income and the operating margin by business segment

	June 2005		December 2004		June 2004	
	OI In millions of euros	OI/Sales* as a %	OI In millions of euros	OI/Sales* as a %	OI In millions of euros	OI/Sales* as a %
Advanced Materials and Technologies	18.1	17.9	34.7	17.4	16.3	16.8
Electrical Applications	6.7	7.0	15.2	8.1	7.8	8.1
Electrical Protection	4.7	5.4	3.2	1.9	(1.4)	(1.7)
Permanent Magnets	0.6	1.6	(5.1)	(6.6)	0.8	2.1
Corporate charges	(5.8)	-	(14.3)	-	(6.0)	-
Total	**24.3**	**7.6**	**33.7**	**5.3**	**17.5**	**5.5**

** OI/Sales: Operating income/sales.*

Capital employed at end of period by business segment

In millions of euros

	June 2005	December 2004
Advanced Materials and Technologies	228.3	203.3
Electrical Applications	153.2	133.3
Electrical Protection	143.4	128.4
Permanent Magnets	33.3	29.8
Total	**558.2**	**494.8**

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

The increase in capital employed at June 30, 2005 (up 63.4 million of euros) was driven primarily by the increase in financial assets (downpayment of 20.0 million of euros to the European authorities), in the working capital requirement (up 15.1 million of euros), by the decrease in deferred tax assets (down 5.2 million of euros) and by currency effects (up 31.8 million of euros).

NOTE N°17 Operating income

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

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
Product sales	292.2	582.1	290.4
Trading sales	28.4	53.9	27.3
Sales	**320.6**	**636.0**	**317.7**
Other operating revenues	1.9	3.2	1.4
Cost of trading sales	(10.5)	(25,3)	(12,1)
Raw materials costs	(76,7)	(148,6)	(69,9)
Costs on other operating revenues	(0.9)	(1.6)	(2.0)
Manufacturing costs	(59.8)	(123.8)	(64.4)
Salary costs	(107.4)	(216.0)	(108.6)
Employee incentives and profit-sharing	(1.9)	(4.4)	(2.1)
Other expenses	(25.6)	(46.3)	(24.8)
Financial components of operating income	(1.3)	(3.8)	(1.4)
Depreciation and amortization	(11.5)	(22.8)	(11.7)
Additions to provisions	(1.1)	(14.9)	(5.5)
Impairment losses	(1.5)	0.2	(0.1)
Gains/(losses) on non-current asset disposals		1.8	1.0
Operating income	**24.3**	**33.7**	**17.5**

NOTE N°18 Finance costs, net

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
Interest expense on non-current borrowings	(3.0)	(6.3)	(3.1)
Interest expense on current borrowings	(0.5)	(2.4)	(0.7)
Other finance costs	(0.2)	(0.5)	(0.3)
Total finance costs	**(3.7)**	**(9.2)**	**(4.1)**
Other financial income	0.3	1.7	0.2
Total financial income	0.3	1.7	0.2
Finance costs, net	**(3.4)**	**(7.5)**	**(3.9)**

NOTE N°19 Income tax

In millions of euros

	June 2005	December 2004	June 2004
Current income tax	(4.4)	(7.1)	(3.6)
Deferred income tax	(3.6)	0.7	(0.9)
Withholding tax	(0.1)	-	-
Total tax charge	**(8.1)**	**(6.4)**	**(4.5)**

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 also:

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

The Group's effective tax rate came to 38.8% in June 2005 compared with 33.0% in June 2004 owing to deferred taxation resulting from the impact of fluctuations in the US dollar exchange rate on intra-group debt.

Analysis of income tax expense

In millions of euros

	June 2005
Net income, Group share	12.5
Minority interest	0.3
Income tax expense/(benefit)	8.1
Taxable income	**20.9**
Current tax rate in France	34.93%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	**(7.3)**
Difference between the income tax rate in France and other jurisdictions	0.5
Transactions qualifying for a reduced rate of taxation	(1.0)
Permanent timing differences	
Impact of limiting deferred tax assets	(0.4)
Other items	0.1
Actual income tax benefit/(expense)	**(8.1)**

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

In millions of euros

	June 2005	December 2004	June 2004
Deferred tax assets	23.8	26.4	24.5
Deferred tax liabilities	(5.7)	(4.6)	(4.2)
Net position	**18.1**	**21.8**	**20.3**

The deferred tax movements during the six months to June 30, 2005 were as follows:

In millions of euros (*)

	June 2005	Net income	Other items	Translation adjustment	December 2004
Provisions for pension obligations	7.8	0.1	1.4	0.1	6.2
Provisions for restructuring	2.2	(0.3)	-	-	2.5
Depreciation of non-current assets	(12.5)	-	-	(1.3)	(11.2)
Tax-regulated provisions	(4.1)	0.2	-	-	(4.3)
Impact of tax losses and other	24.7	(3.6)	(1.6)	1.3	28.6
Deferred tax on the balance sheet – net position	**18.1**	**(3.6)**	**(0.2)**	**0.1**	**21.8**

**(+ liability/- asset)*

In Ugimagnet's consolidated tax group, tax credits were not capitalized owing to the size of accumulated prior losses. At June 30, 2005, losses for the period amounted to 1.0 million of euros.

NOTE N°20 Earnings per share

The computation of basic and diluted earnings per share for the periods ended June 30, 2005, December 31, 2004 and June 30, 2004 is shown below:

In millions of euros

	June 30, 2005	December 31, 2004	June 30, 2004
Numerator			
Net income used to compute basic earnings per share (net income for the period).	12.5	19.4	8.9
Denominator			
Weighted average number of ordinary shares used to compute basic earnings per share	13,798,303	11,690,661	11,197,890
Adjustment for dilutive ordinary shares - unexercised options	565,324	631,182	669,833
Weighted average number of ordinary shares used to compute diluted earnings per share	14,363,627	12,321,843	11,867,723
Basic earnings per share (euros)	**0.9**	**1.7**	**0.79**
Diluted earnings per share (euros)	**0.9**	**1.6**	**0.75**

NOTE N°21 Dividends

In respect of fiscal 2004, a dividend payment of 0.55 per share (vs. euro 0 in 2003), i.e. an aggregate amount of 7.6 million of euros (vs. 0 in 2003) was made to shareholders in May 2005.

NOTE N°22 Leases

Finance leases

Carrying amount by asset category:

In millions of euros

	June 30, 2005	December 31, 2004
Buildings	0.8	0.8

The investments financed comprise the construction of manufacturing facilities at Poitiers and Airvault in France. The lease payments are fixed, without a buyback clause and with a final maturity in 2014.

Schedule of minimum payments and discounted minimum payments

In millions of euros

	Total at June 30, 2005	Less than one year ahead	Between one and five years ahead	Over five years ahead
Minimum payments	0.9	0.1	0.5	0.3
Present value of minimum payments	0.7	0.1	0.3	0.3

The group is the lessee (operating lease)

Schedule of minimum payments

In millions of euros

	Total at June 30, 2005	Less than one year ahead	More than one year ahead
Minimum payments	16.4	2.8	13.6

Minimum payments represent the amount of certain future property lease payments up until the expiry of the lease prior to any renewals. The leases do not contain any clause restricting debt or on dividend payments. The largest obligations relate to two sites in the US for a total amount of 11.8 million of euros and have respective durations of seven and 14 years.

NOTE N°23 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to 109.2 million of euros in the six months ended June 30, 2005 compared with 119.8 million of euros in the year-earlier period.

On a like-for-like basis, staff costs decreased by 8.2%.

Breakdown of consolidated average headcount by employee category

Categories	June 2005	%	December 2004	%	June 2004	%
Engineers and managers	547	8%	548	8%	581	8%
Technicians and supervisors	804	12%	808	12%	753	11%
Employees	951	15%	988	15%	987	16%
Blue-collar workers	4,229	65%	4,454	65%	4,485	65%
Total	**6,530**	**100%**	**6,798**	**100%**	**6,807**	**100%**
o/w impact of changes in the scope of consolidation	-		-		-	

Breakdown of consolidated average headcount by geographical region

Categories	June 2005	%	December 2004	%	June 2004	%
France	1,985	30%	2,202	32%	2,261	33%
Rest of Europe (+ Tunisia)	1,633	25%	1,755	26%	1,728	25%
North America (+ Mexico)	1,996	31%	2,008	30%	2,015	30%
Asia	293	4%	283	4%	287	4%
Rest of the world	623	10%	550	8%	516	8%
Total	**6,530**	**100%**	**6,798**	**100%**	**6,807**	**100%**

The average headcount declined by 277 employees between June 30, 2004 and June 30, 2005.

NOTE N°24 Relations between the parent company and its subsidiaries

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

Le Carbone Lorraine SA belongs to Groupe Carbone Lorraine, which encompasses 93 consolidated and unconsolidated companies in 34 countries.

NOTE N°25

Commitments and contingencies

A - Financial commitments and liabilities

In millions of euros

	June 30, 2005	December 31, 2004
Commitments received		
Guarantees and endorsements	0.1	0.4
Other commitments received	1.1	3.1
Total	**1.2**	**3.5**
Commitments given		
Collateralized debts and commitments	0.3	0.3
Market guarantees and endorsements	15.3	11.4
Payment guarantees on acquisition	-	-
Other guarantees	47.1	62.5
Other commitments given	1.1	2.3
Total	**63.8**	**76.5**

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

The decline in the Group's commitments and contingencies since December 2004 stems from the reduction in the guarantee given to the European Commission following the 20 million of euros downpayment paid by the Group into an escrow account (see Note 13 Net debt).

Nature

The largest item totaling 47.1 million of euros relates to Other guarantees, which includes a guarantee of 24.5 million of euros (initially 43 million of euros) given to the European Commission as a result of the fine handed down by the European Commission in respect of which the Group has currently lodged an appeal before the Court of First Instance of the European Communities. This guarantee has enabled the Group to postpone payment of the fine for the duration of the appeal procedure. It is due to expire on December 31, 2006, but may be extended with the consent of the guarantor banks depending on the date of the Court's ruling. This line item also includes a guarantee of 16 million of euros covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

Maturity

Commitments and contingencies with a maturity of over one year amount to 55.6 million of euros, including the 16 million of euros cash pooling guarantee that will remain in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees the duration of which does not exceed three years. The 24.5 million of euros guarantee given to the European Commission expires in December 2006.

Internal control

Under 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, of the Chairman and Chief Executive Officer or the Board of Directors. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding 150,000 with a maturity of two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the account consolidation procedure.

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

B - Title retention clause

None.

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

Period from 1 January to 30 June 2005

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

- reviewed the accompanying half year consolidated financial statements of LE CARBONE LORRAINE, covering the period from 1 January to 30 June 2005 and,
- verified the information contained in the half year management report.

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

As part of the transition to IFRS as adopted by the European Union in respect of the preparation of the 2005 financial statements, the half-year consolidated financial statements have been prepared for the first time in accordance with the IFRS accounting and valuation rules such as adopted by the European Union as well as with the 2005 interim financial statements presentation and disclosure recommendations such as issued by the French Financial Market Authorities ("AMF"). These half-year consolidated financial statements include the half-year and year-end 2004 comparative information restated under the same rules.

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

Based on our review, nothing has come to our attention that causes us to believe that the half-year consolidated financial statements are not prepared, in all material respects and as described in the notes, in accordance with the IFRS accounting and valuation rules such as adopted by the European Union as well as with the 2005 interim financial statements presentation and disclosure recommendations such as issued by the AMF.

Without qualifying our conclusion in that respect, we draw your attention to the fact that Note 1 explains why there is a possibility that the accompanying consolidated accounts may require adjustments before their inclusion as comparative information in the consolidated financial statements for the year ended December 31, 2005 and in the half-year consolidated financial statements for the six month period ended June 31, 2006.

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

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

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

Paris La Défense and Neuilly-sur-Seine, September 13, 2005

The Statutory Auditors

KPMG Audit	Deloitte & Associés
Jean-Paul Vellutini	Alain Penanguer