**LE CARBONE LORRAINE**
Société anonyme joint-stock corporation with a Supervisory Board and Management Board
and share capital of €31,705,394
Head office:
Immeuble La Fayette, 2-3, place des Vosges – La Défense 5 - 92400 Courbevoie France
572 060 333 RCS Nanterre

# UPDATE OF THE 2008 REFERENCE DOCUMENT

**filed with the Autorité des Marchés Financiers on September 17, 2009**

The 2008 Reference Document was filed with the
Autorité des Marchés Financiers on March 17, 2009 under no. D.09-127

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

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This aim of this update is to bring up to date the reference document filed by Carbone Lorraine on March 17, 2009 under no. D.09-127 (the "Reference Document"). Only the sections of the Reference Document requiring an update appear in this updated document.

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

## 1.1 Officer responsible for the updated reference document

Ernest Totino

Chairman of the Management Board

## 1.2 Statement by the officer responsible for the updated reference document

I certify that, having taken all reasonable care to ensure such is the case, the information contained in this updated version of the reference document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

I certify that, to the best of my knowledge, these summary interim financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the interim business report on pages 25-81 presents a faithful picture of the major events that occurred during the six months of the interim period and their impact on the financial statements, the principal transactions between related parties, as well as a description of the principal risks and principal uncertainties concerning the remaining six months of the fiscal year.

Ernest Totino
Chairman of the Management Board

## 1.3 Auditors

### *1.3.1 Statutory Auditors*

Deloitte & Associés,
185, avenue Charles-de-Gaulle,
92200 Neuilly-sur-Seine
Date of first term: 1986
Date of last renewal: 2004
Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

KPMG Audit - KPMG SA department
Immeuble KPMG, 1 cours Valmy,
92923 Paris-La Défense Cedex
Date of first term: 2004
Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

### *1.3.2 Alternate Auditors*

BEAS
7-9, villa Houssay,
92524 Neuilly-sur-Seine Cedex
Date of first term: 2004
Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

SCP Jean-Claude André & Autres
2 bis, rue de Villiers,
92309 Levallois-Perret Cedex
Date of first term: 2004
Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

# 2. GENERAL INFORMATION ABOUT THE COMPANY AND ITS CAPITAL

***Combined General Meeting of May 19, 2009***

At the Combined General Meeting of May 19, 2009, shareholders passed all the draft resolutions put to a vote.

***Trading by the Company in its own shares***

At the Combined General Meeting of May 19, 2009, the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L.225-209 *et seq.* of the French Commercial Code in order to:

- enhance trading in and the liquidity of the Company's shares by engaging the services of an investment service provider under a liquidity agreement in accordance with the AFEI's charter;
- grant or transfer shares to employees in connection with the employee profit-sharing plan or the allotment of shares under the conditions provided for in Articles L.225-197-1 to L.225-197-3;
- allot shares in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions;
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code.

The maximum purchase price is set at €50 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €71,486,050.

Since May 19, 2009, the Company has not made use of this authorization, except for the acquisitions made under the liquidity agreement. At January 31, 2009, 48,190 shares were held in relation to this liquidity agreement.

***Share capital***

At the date of this document, the share capital amounted to €31,705,394 divided into 15,852,697 shares, each with a nominal value of €2 and belonging to the same category.

***Authorization to increase the share capital***

**COMBINED GENERAL MEETING OF DECEMBER 12, 2008**

**Issue of share issuance rights (BEAs):**

Shareholders at the Combined General Meeting authorized the issue of share issuance rights (BEAs), on one or more occasions during a period of 18 months, to Société Générale, which will then be bound to subscribe the new ordinary shares in the Company at the latter's request, it being specified that the issue of shares may take place at any time during the two-year (2) period following the issue of BEAs. The nominal amount of new shares that may be carried out by exercising the BEAs may not exceed €5 million, it being stipulated that this nominal amount may be increased, where appropriate, by the nominal amount of shares to be issued to protect the rights of holders of securities conferring rights to the Company's shares. The unit subscription price for the BEAs was set at €0.01 (zero point zero one euros) and the unit price for the subscription of ordinary shares issued through exercise of the BEAs is determined based on the average share price weighted by trading volumes of the Company's ordinary shares over the three session period immediately preceding exercise of the BEAs, less a discount not exceeding 10%.

With effect from December 12, 2008, the Board decided to issue immediately 2,500,000 BEAs to Société Générale at a unit price of €0.01. The BEAs were fully subscribed by Société Générale effective December 17, 2008. This issue of BEAs was presented in an offering circular approved by the Autorité des Marchés Financiers under no. 08-271 dated December 5, 2008.

During May and June 2009, the Company drew three successive tranches of 400,000 shares. These three tranches were issued respectively at a price per share of €20.35 for the first, €19.66 for the second and €17.62 for the third. All in all, the Company issued 1,200,000 new shares, representing 8.4% of its initial share capital and raising €22.3 million.

<u>Grant of stock subscription or purchase options</u>: Shareholders at the Combined General Meeting of December 12, 2008 also authorized the Board of Directors to grant officers and employees of the Company and its subsidiaries options entitling them to subscribe new shares in the Company. The maximum number of new shares that may be issued through the exercise of options granted is capped at 340,000 shares, each with a nominal value of €2. Claude Cocozza, the Chairman and Chief Executive Officer, the beneficiaries of bonus share allotments referred to in the Fifth Resolution of this General Meeting, as well as officers and employees of the Company and of affiliated companies holding over 10% of the Company's share capital, are excluded from

receiving the options referred to in this authorization. The subscription or purchase price of the shares covered by the options will be determined by the Board of Directors, with no discount, in accordance with the legislation in force on the day of grant of the options subject to the restrictions provided for in Articles L.225-177 and L.225-179 of the French Commercial Code. This authorization is valid for a period of 36 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

During its meeting on January 22, 2009, the Board decided pursuant to this authorization to award 38 of the Group's senior managers, including a single director in the person of Ernest Totino, options entitling the grantee to subscribe 340,000 of the Company's shares. The Board set the terms and conditions for the issue of these stock options. It notably set the subscription price at €18.90, as well as the terms and performance criteria to be satisfied before the options can be exercised. The performance criteria may be changed by the Supervisory board in case of extraordinary situation. These options may be exercised only subject to attainment of growth targets for earnings per share over the 2008 to 2011 fiscal years. The percentage of options which may be exercized shall be determined based on two criteria, the most favourable one being applied : the evolution of earning per share of the company between 1 to 2 times the value of the earning per share of the company for 2007, and the growth of the earning per share of the company compared with the average growth of the earnings per share of a panel of public companies listed on the "SBF 120" of the French Stock Exchnage.

<u>Bonus share allotments</u>: Lastly, shareholders authorized the Board of Directors to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months. Directors of the Company and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from receiving the bonus share allotments. This authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

At its meeting on January 22, 2009, the Board decided to grant 50,000 shares free of charge to 50 of the Group's executives pursuant to this authorization. The Board set a vesting period of four years. In addition, the grant is conditional upon the continued employment of the beneficiaries until the end of the vesting period. No holding obligations and periods are imposed at the end of the vesting period.

<u>Capital increase reserved for employees participating in the Group Investment Plan</u>: Shareholders authorized the Management Board at the Combined General Meeting on December 12, 2008 to increase the share capital, on one or more occasions at its sole discretion, through the issue of shares in cash reserved for employees participating in the Group Investment Plan. These increases in capital entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €300,000, i.e. approximately 1% of the Company's share capital.

Using the option granted it at the Combined General Meeting of January 22, 2009, the Board decided at its meeting on December 19, 2008, to offer employees of the Group's European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €15 per share, representing the average opening price over the 20 stock market sessions preceding the Board meeting of January 22, 2009, less a discount of 18.58%, with the price being rounded down to the nearest euro cent. Owing to the financial and stock market environment, as well as the negative trend in the share price, the Board decided on March 17, 2009 to cancel this transaction.

**<u>Combined General Meeting of May 19, 2009</u>**

<u>Increase in the capital with preferential subscription rights for shareholders</u>: At the Combined General Meeting on May 19, 2009, shareholders authorized the Management Board to issue ordinary shares and any securities conferring rights to the capital, with preferential subscription rights for shareholders, through the capitalization of share premiums, reserves or retained earnings. The aggregate nominal amount of the immediate and/or future increases in the share capital that may be carried out under these authorizations may not exceed €10 million. This authorization is valid for 26 months. This authorization replaces and supersedes the authorization granted by the Combined General Meeting of May 24, 2007, which was not used. In addition, this authorization may be used and implemented by the Management Board together with the delegation of powers by the General Meeting of December 12, 2008, in its second resolution, authorizing the Company for a period of two years to exercise and convert into new shares the share issuance rights (BEAs) issued to Société Générale. Nonetheless, the aggregate nominal amount of increases that may be carried out pursuant to this authorization and that granted at the Annual General Meeting of December 12, 2008 may not exceed an upper limit of ten million euros (€10,000,000).

<u>Capital increase reserved for employees participating in the Group Investment Plan</u>: Shareholders authorized the Management Board at the Combined General Meeting on May 19, 2009 to increase the share capital, on one or more occasions at its sole discretion, through the issue of shares in cash reserved for employees participating in the Group Investment Plan. These increases in capital entail the waiver of shareholders' preferential subscription rights. The nominal amount of the capital increases that may be carried out pursuant to this authorization may not exceed €300,000, i.e. approximately 1% of the Company's share capital.

This delegation of powers replaces and supersedes that granted at the Combined General Meeting on December 12, 2008, which was not used. To date, the Management Board has not made any use of this authorization.

Payment of the dividend in shares: In the fourth resolution, the General Meeting of May 19, 2009 decided to offer each shareholder the option of receiving payment of the entire dividend for shares owned in new shares of the Company. On May 19, 2009, the Management Board set the issue price for new shares at €18.38. In a decision on July 7, 2009, the Management Board noted that at the end of the option period, 10,378,929 rights were reinvested in new Company shares and decided to issue 355,484 new shares, each with a nominal value of €2.

***Summary of changes in the share capital***

| Dates | Description of the transaction | Share capital following the transaction | Share premium | Total number of shares after the transaction |
|---|---|---|---|---|
| Dec. 31, 2001 | Issue of 18,729 new shares each with a nominal value of €2 through the exercise of subscription options | 22,256,924 | 292,041 | 11,128,462 |
| Dec. 31, 2002 | Issue of 10,688 new shares each with a nominal value of €2 through the exercise of subscription options | 22,278,300 | 180,704 | 11,139,150 |
| Nov. 27, 2003 | Issue of 3,750 new shares each with a nominal value of €2 through the exercise of subscription options | 22,285,800 | 63,512 | 11,142,900 |
| Dec. 23, 2003 | Issue of 54,990 new shares each with a nominal value of €2 as a result of the capital increase reserved for employees | 22,395,780 | 1,110,798 | 11,197,890 |
| April 15, 2004 | Issue of 2,000 new shares each with a nominal value of €2 through the exercise of subscription options | 22,399,780 | 30,520 | 11,199,890 |
| Aug. 20, 2004 | Issue of 2,500 new shares each with a nominal value of €2 through the exercise of subscription options | 22,404,780 | 38,150 | 11,202,390 |
| Oct. 19, 2004 | Issue of 2,489,420 new shares each with a nominal value of €2 through a capital increase in cash with preferential subscription rights for shareholders | 27,383,620 | 58,003,486 | 13,691,810 |
| Dec. 16, 2004 | Issue of 46,328 new shares each with a nominal value of €2 as a result of the capital increase reserved for employees | 27,476,276 | 1,176,731 | 13,738,138 |
| Dec. 31, 2004 | Issue of 17,439 new shares each with a nominal value of €2 through the exercise of subscription options | 27,511,154 | 254,261 | 13,755,577 |
| Dec. 31, 2005 | Issue of 85,775 new shares each with a nominal value of €2 through the exercise of subscription options | 27,682,704 | 1,829,333 | 13,841,352 |
| June 28, 2006 | Issue of 44,494 new shares each with a nominal value of €2 as a result of the capital increase reserved for employees | 27,771,692 | 1,388,213 | 13,885,846 |
| Dec. 31, 2006 | Issue of 79,629 new shares each with a nominal value of €2 through the exercise of subscription options | 27,930,950 | 2,219,832 | 13,965,475 |
| July 25, 2007 | Issue of 30,900 shares each with a nominal value of €2 through the grant of bonus shares | 27,992,750 | 1,721,748*<br>*unavailable reserve | 13,996,375 |
| Sept. 11, 2007 | Issue of 200,191 new shares each with a nominal value of €2 through the exercise of subscription options | 28,393,132 | 6,627,591 | 14,196,566 |
| Dec. 17, 2007 | Issue of 44,094 new shares each with a nominal value of €2 as a result of the capital increase reserved for employees | 28,481,320 | 1,931,317 | 14,240,660 |

| | | | | |
|---|---|---|---|---|
| Jan. 24, 2008 | Issue of 40,075 new shares each with a nominal value of €2 through the exercise of subscription options | 28,561,470 | 1,254,681 | 14,280,735 |
| July 24, 2008 | Issue of 16,478 shares each with a nominal value of €2 through the grant of bonus shares | 28,594,426 | 540,478* *unavailable reserve | 14,297,213 |
| May 26, 2009 | Issue of 400,000 shares, each with a nominal value of €2, resulting from the exercise of 400,000 share issuance rights | 29,394,426 | 7,340,000 | 14,697,213 |
| June 11, 2009 | Issue of 400,000 shares, each with a nominal value of €2, resulting from the exercise of 400,000 share issuance rights | 30,194,426 | 7,064,000 | 15,097,213 |
| June 25, 2009 | Issue of 400,000 shares, each with a nominal value of €2, resulting from the exercise of 400,000 share issuance rights | 30,994,426 | 6,248,000 | 15,497,213 |
| July 7, 2009 | Issue of 355,484 shares, each with a nominal value of €2, resulting from the payment of the dividend in shares | 31,705,394 | 5,822,827.92 | 15,852,697 |

***Share ownership thresholds crossed***

January 15, 2009: ACF I Investment crossed above the 16% and 17% thresholds, holding 2,518,212 shares or 17.61% of the share capital and 17.61% of voting rights.

March 6, 2009: Highclere International Investors crossed above the 1% threshold, holding 144,067 shares or 1.01% of the share capital and voting rights.

April 1, 2009: Credit Suisse Group crossed above the 1% threshold, holding 400,363 shares or 2.80% of the share capital and voting rights.

May 22, 2009: Credit Suisse Group crossed below the 1% threshold, holding 200,838 shares or 1.40% of the share capital and voting rights.

June 5, 2009: Credit Suisse Group crossed above the 2% threshold, holding 400,250 shares or 2.80% of the share capital and voting rights.

June 10, 2009: Credit Suisse Group crossed below the 2% threshold, holding 201,452 shares or 1.41% of the share capital and voting rights.

June 19, 2009: Credit Suisse Group crossed below the 2% threshold, holding 9,341 shares or 0.07% of the share capital and voting rights.

***Market in the Company's shares***

The Group is listed on Euronext Paris and is eligible for deferred settlement. Carbone Lorraine shares are a constituent of the SBF 120, CAC Mid100 and the Next 150 indices.

15,852,697 shares are listed on the market.

| Carbone Lorraine shares | Number of shares traded *(units)* | Capital traded *(€ m)* (1) | High/low (2) | |
|---|---|---|---|---|
| | | | High *(€)* | Low *(€)* |
| **2009** | | | | |
| January | 1,526,857 | 28.62 | 19.84 | 16.61 |
| February | 607,237 | 11.05 | 19.62 | 15.62 |
| March | 866,994 | 14.76 | 19.50 | 15.25 |
| April | 843,780 | 16.57 | 21.50 | 16.66 |
| May | 574,256 | 12.48 | 23.00 | 20.00 |
| June | 543,619 | 11.22 | 22.32 | 18.67 |
| July | 720,906 | 13.84 | 20.52 | 18.30 |
| August | 864,397 | 18.20 | 22.35 | 19.68 |

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

| | Nbr of shares at year-end | Earnings per share *(€)* | | | Share price *(€)* | | | Overall yield based on year-end share price |
|---|---|---|---|---|---|---|---|---|
| | | Net dividend | Tax credit | Total dividend | + High | + Low | Last | |
| 2002 | 11,139,150 | 0.60 | 0.30 | 0.90 | 39.48 | 20.10 | 22.26 | 4.04% |
| 2003 | 11,197,890 | 0 | 0 | 0 | 34.49 | 13.80 | 29.15 | n/a |
| 2004 | 13,755,577 | 0.55 | n/a | 0.55 | 39.60 | 27.12 | 39.03 | 1.41% |
| 2005 | 13,841,352 | 0.70 | n/a | 0.70 | 43.75 | 31.20 | 38.60 | 1.81% |
| 2006 | 13,965,475 | 0.85 | n/a | 0.85 | 51.00 | 36.55 | 42.65 | 2.0% |
| 2007 | 14,280,735 | 0.85 | n/a | 0.85 | 61.82 | 41.06 | 47.20 | 1.8% |
| 2008 | 14,297,213 | 0.62* | n/a | 0.62 | 47.58 | 17.06 | 17.81 | 3.5% |

**An option of making dividend payments in shares based on a price of €18.38 was offered. This option was taken up by shareholders in respect of 73% of the shares.*

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

### *Securities conferring rights to the share capital*

The stock options still to be exercised at September 1, 2009, after taking into account cancellations, entitle their holders to acquire a total of 663,401 new shares, each with a nominal value of €2.

The BSAAR warrants that may be exercised at September 1, 2009 entitle their holders to acquire a total of 114,000 new shares, each with a nominal value of €2.

The total number of bonus shares likely to be granted definitively stands at 116,778 new shares, each with a nominal value of €2, representing 0.5% of the current share capital.

There are no other instruments or securities conferring rights to the Carbone Lorraine’s share capital.

Based on the number of stock subscription options, BSAAR warrants that may be exercised by BSAAR grantees and the shares that may be definitively granted, the maximum dilution would be 5.64%.

### *Changes in the share capital*

At September 1, 2009, the Company’s share capital amounted to €31,705,394, divided into 15,852,697 shares, each with a nominal value of €2. The number of voting rights stood at 15,804,507, since shares held in treasury do not carry voting rights. No shares carry double voting rights.

### *Stock subscription options*

Since January 1, 2009, no options have been exercised.

## PREVIOUS GRANTS OF STOCK SUBSCRIPTION OPTIONS

| | 1999 plan Tranche 5 | 2000 plan Tranche 6 | 2000 plan Tranche 7 | 2001 plan Tranche 8 | 2003 plan Tranche 10 | 2007 plan Tranche 11 | 2009 plan Tranche 12 | Total |
|---|---|---|---|---|---|---|---|---|
| Date of Board of Directors' meeting | March 8, 1999 | May 10, 2000 | Sept. 15, 2000 | Jan. 18, 2001 | May 14, 2003 | July 25, 2007 | Jan. 22, 2009 | |
| Total number of shares available for subscription | 190,025 | 449,145 | 9,370 | 4,685 | 130,163 | 165,000 | 340,000 | 1,288,388 |
| *o/w directors (CEO)* | *15,617* | *31,234* | *0* | *0* | *9,370* | *25,000* | *80,000* | *161,221* |
| *o/w top 10 grantees* | *70,931* | *149,922* | *9,370* | *4,685* | *44,825* | *72,250* | *130,000* | *481,983* |
| Subscription price | 34.58 | 45.14 | 46.01 | 48.5 | 21.21 | 57.24 | 18.9 | |
| Start of exercise period | March 2004 | May 2005 | Sept. 2005 | Jan. 2006 | May 2007 | July 2011 | Feb. 2013 | |
| Expiration date | March 2009 | May 2010 | Sept. 2010 | Jan. 2011 | May 2013 | July 2017 | Feb. 2019 | |
| Total number of shares subscribed at June 30, 2009 | 96,021 | 43,628 | 0 | 0 | 42,158 | 0 | 0 | 181,807 |
| Options canceled by June | 94,004 | 288,483 | 6,246 | 3,123 | 48,074 | 3,250 | 0 | 443,180 |
| *o/w canceled in 2009* | *61,466* | *0* | *0* | *0* | *0* | *0* | *0* | *61,466* |
| **OPTIONS THAT MAY STILL BE EXERCISED** | **0** | **117,034** | **3,124** | **1,562** | **39,931** | **161,750** | **340,000** | **663,401*** |

** including 80,000 held by directors*

## STOCK SUBSCRIPTION OPTIONS: DIRECTORS

| | Number of options granted/subscribed | Price | Expiration date |
|---|---|---|---|
| Options granted since January 1, 2009 to each director: | | | |
| Chairman of the Management Board: Ernest Totino | 50,000 | 18.9 | February 2019 |
| Member of the Management Board: Luc Themelin | 30,000 | 18.9 | February 2019 |
| Options exercised since January 1, 2009 by each director: | | | |
| Chairman of the Management Board: Ernest Totino | 0 | | |
| Member of the Management Board: Luc Themelin | 0 | | |

## STOCK SUBSCRIPTION OPTIONS: OPTIONS GRANTED TO THE 10 EMPLOYEES (NOT DIRECTORS) WHO RECEIVED THE LARGEST NUMBER

| | **Number of options granted/ subscribed** | **Weighted average exercise price** | **1999 plan Tranche 5** | **2000 plan Tranche 6** | **2003 plan Tranche 10** |
|---|---|---|---|---|---|
| Options granted since January 1, 2009 to the 10 employees who received the largest number | 130,000 | | | | |
| Options exercised since January 1, 2009 by the 10 employees who received the largest number | 0 | | | | |

## PREVIOUS BONUS SHARE ALLOTMENTS

| | **2005 plan Tranche 1** | **2006 plan Tranche 2** | **2008 plan Tranche 3** | **2009 plan Tranche 4** | **Total** |
|---|---|---|---|---|---|
| Date of Board of Directors' meeting | June 30, 2005 | June 28, 2006 | February 26, 2008 | January 22, 2009 | |
| Total number of shares allotted | 42,700 | 17,975 | 20,000 | 50,000 | 130,675 |
| *o/w directors* | *3,300* | *0* | *0* | *0* | *3,300* |
| *o/w Executive Committee* | *12,000* | *0* | *0* | *0* | *12,000* |
| *o/w top 10 allottees* | *16,500* | *5,001* | *3,000* | *10,000* | *34,501* |
| Share price at allotment date | 39.25 | 40.07 | 29.63 | 18.65 | |
| Definitive allotment date (end of the vesting period) | July 1, 2007 | July 1, 2008 | March 1, 2011 | Jan. 22, 2013 | |
| End of lock-up period | July 1, 2009 | July 1, 2011 | March 1, 2013 | Jan. 22, 2013 | |
| Allotments canceled at Dec. 31, 2008 | 11,800 | 1497 | 600 | 0 | 13,897 |
| *o/w canceled in 2009* | | | *400* | | *400* |
| Outstanding at August 31, 2009 | 30,900 | 16,478 | 19,400 | 50,000 | 116,778 |

### BONUS SHARE ALLOTMENTS: DIRECTORS

| | Number of shares allotted/subscribed |
|---|---|
| Shares granted since January 1, 2009 to each director: | |
| Chairman of the Management Board: Ernest Totino | 0 |
| Member of the Management Board: Luc Themelin | 0 |
| Options exercised since January 1, 2008 by each director: | |
| Chairman of the Management Board: Ernest Totino | 0 |
| Member of the Management Board: Luc Themelin | 0 |

### BONUS SHARE ALLOTMENTS: SHARES ALLOTTED TO THE 10 EMPLOYEES (NOT DIRECTORS) WHO RECEIVED THE LARGEST NUMBER

| | Number of shares allotted/ subscribed |
|---|---|
| Shares allotted since January 1, 2009, to the 10 employees who received the largest number of shares | 10,000 |

***Bonus share allotments***

Lastly, shareholders authorized the Board of Directors to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months. Directors of the Company and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from the bonus share allotment. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

At its meeting on January 22, 2009, the Board decided to grant 50,000 shares free of charge to 50 of the Group's executives pursuant to this authorization. The Board set a vesting period of four years. In addition, the grant is conditional upon the continued employment of the beneficiaries until the end of the vesting period. No holding obligations and periods are imposed at the end of the vesting period.

## 3. INVESTMENT POLICY

The 2008 reference document describes the investment policy of the Carbone Lorraine group on page 20.

During 2009, the investments committed since July 31, 2009 amounted to €36.2 million, breaking down as stated below.

| *In millions of euros* | **Continuing operations** |
|---|---|
| | **At July 31, 2009** |
| Increase in intangible assets | (0.2) |
| Increase in property, plant and equipment | (31.2) |
| Increase in financial assets | (0.4) |
| Other changes in cash generated/(used) by investing activities | (4.4) |
| **SUB-TOTAL** | **(36.2)** |
| Investments linked to acquisitions | (2.8) |
| Disposals | 1.2 |
| **TOTAL** | **(1.6)** |

The principal investments made since the beginning of 2009 are ongoing and capacity-related investments in the Group's two business segments. They are notably the result of the orders placed last year and in particular concerned the graphite block production plants and isostatic graphite finishing facilities in Asia and North America. To date, the total amount of investments made by the Group at its graphite block manufacturing facility in Chongqing (China) stands at around €50 million.

Other changes in cash flow from investing activities derive primarily from the investments committed in 2008 and paid for in 2009.

The investments linked to acquisitions derived from:

- the purchase of shares in French company 2C Cellier, which specializes in metals predominantly for the nuclear and chemicals industries;
- the acquisition of shares in French company Lumpp, which specializes in engineering and stirring products, primarily for the chemicals and pharmaceuticals industries.

The Group also holds an option to purchase the remaining 40% in Calcarb for a maximum amount of GBP23.4 million. This purchase option may be exercised at any time prior to December 31, 2009.

The Group also holds an option to purchase the remaining 49% in Lenoir Elec. This option can be exercised at any time from January 1st, 2010 until December 31, 2011. The purchase price for the remaining 49% will be based on the evolution of the "EBE" of Lenoir Elec and shall not exceed €5.3 million. On the date of the acquisition of the 51% in Lenoir Elec, Carbone Lorraine booked the potential debt of €5.3 million as financial debt.

The Group's investments has not significantly changed since July 31, 2009.

In line with the Group's internal procedure, the Supervisory Board authorizes all investments in excess of €10 million, as well as all acquisitions of over €3 million. Accordingly, the investments in graphite block production capacity in North America were approved by the Board of Directors (up to May 19, 2008) and then by the Supervisory Board (from May 19, 2008).

# 4. RISK FACTORS

### 4.1 – Investment policy

In spite of the business contraction, the Group continued to commit certain growth-related capital expenditures. These investments do not carry any constraints for the Group, notably in terms of employment, that would prevent it from reducing its costs in the event of prolonged overcapacity; the only other fixed items being the depreciation which is already booked in the income statement. Conversely, they will help to provide the requisite production flexibility for the Group to be able to leverage the economic recovery as soon as it materializes. This may have a positive impact firstly on certain of Carbone Lorraine's expanding markets, notably in renewable energies.

### 4.2 Litigation

***Appeal procedure in Europe*:**
On October 8, 2008, the European Court of First Instance confirmed the size of the fine (€43.05 million) meted out to the Company by the European Commission. The amount had been set aside in full in the Company's

financial statements. On December 18, 2008, the Group lodged a fresh appeal with the European Court of Justice. This appeal process is still in progress.
To recap, this appeal was lodged by the Company against the €43.05 million fine handed down in December 2003 by the European Commission for anti-competitive practices over the 1988-1999 period in brushes for electric motors and products for mechanical applications. In March 2005, Carbone Lorraine paid a sum of €20 million into an escrow account held by the European Commission, without this having any impact on the outcome of the appeal in progress, to reduce the expenses caused by the protracted length of the appeal process.

***Class-action lawsuits in North America (US - Canada):***
The lawsuit initiated during 2005 by certain customers (opt-out proceedings) in the US federal court concerning brushes for electric motors is currently at the mediation stage. As part of this mediation process, the Company entered into a full and final settlement agreement with all the customers (opt-out proceedings) on September 1, 2009 for an amount of $8,000,000, putting a definitive end to this US civil lawsuit. This agreement, which was entered into without any admission of liability, is intended to put an end to the costs inherent in such a procedure.

***Class-action lawsuit in the United Kingdom:***
No new developments have occurred since the ruling handed down in April 2008 by the Competition Appeal Tribunal (CAT), which rejected claims for compensation against the Company pending the end of the appeal procedure before the European Court of Justice.

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

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

# 5. DIRECTORS AND SENIOR MANAGEMENT

The 2008 reference document discloses on pages 128 to 135 details concerning the administrative, management, and supervisory bodies.

Change in corporate governance: Supervisory Board - Management Board

The Combined General Meeting of May 19 voted to alter the Company's corporate governance structure and to set up a Supervisory Board and Management Board.

## 5.1 Supervisory Board:

The Supervisory Board comprises at least three members and at most 18 members, who are appointed by the general meeting of the shareholders on the recommendation of the Supervisory Board. A Company employee may be appointed as a Supervisory Board member only if his/her employment agreement corresponds to an actual job.

Supervisory Board members are appointed for a renewable term in office of four years. By way of an exception to this rule, the term in office of half the members of the first Supervisory Board, to be rounded down to the lower number, will be two years.

The age limit applicable to the duties performed by any individual Supervisory Board member and of any permanent representative of a legal entity is set at seventy-two (72) years.

1 - Composition of the Supervisory Board (at August 31, 2009)

The Supervisory Board has ten members. The Combined General Meeting of May 19, 2009 decided to appoint as members of the Supervisory Board the previous members of the Board of Directors, with the exception of Claude Cocozza, who decided to retire and stepped down from his duties as Chairman and Chief Executive Officer at the end of the Annual General Meeting on May 19, 2009.

- Chairman of the Supervisory Board: Hervé Couffin
- Vice-Chairman of the Supervisory Board: Henri-Dominique Petit
- Members of the Supervisory Board:

  - Yann Chareton
  - Dominique Gaillard
  - Jean-Paul Jacamon
  - Jean-Claude Karpéles
  - Philippe Rollier
  - Walter Pizzaferri
  - Agnès Lemarchand
  - Marc Speeckaert

2 – Organization and operation of the Supervisory Board

Assignments and duties of the Supervisory Board: The Supervisory Board exercises permanent control on the Company's management by the Management Board. To this end, at any point during the year, it conducts the verifications and checks that it deems appropriate and may secure the communication of the documents it deems necessary to perform its duties. As part of its control duties, the Supervisory Board approves the annual strategic plan, as well as the budget for the following year presented by the Chairman of the Management Board.

Irrespective of the operations referred to in Article L.225-68 sub-para. 2 of the French Commercial Code for which prior authorization of the Supervisory Board is required, the Management Board may not make the following decisions, unless previously authorized so to do by the Supervisory Board:

- issues of securities conferring rights directly or indirectly to the Company's share capital;
- funding operations likely to alter substantially the Company's financing structure;
- capital expenditures or asset disposals (excluding shareholdings) in an amount of over €10 million;
- acquisitions, in whatever form, the price of which, inclusive of any liabilities assumed, exceeds €3 million;
- strategic partnership agreements;
- proposed amendments to the Articles of Association to be put to an extraordinary general meeting of the shareholders;
- proposed stock repurchase programs to be put to the ordinary general meeting of the shareholders;
- implementation of stock subscription or purchase plans and bonus share allotment plans for the Company's employees and the employees and directors of affiliated companies, as well as grants of stock subscription or purchase plans and bonus share allotment plans for members of the Company's Management Board;
- proposed interim or annual financial statements, earnings appropriations, dividend payments and interim dividend payments;
- proposed appointments or renewals of the appointment of Statutory Auditors to be put to the ordinary general meeting of the shareholders.

Supervisory Board's internal charter: The Supervisory Board adopted its internal charter on July 23, 2009. It represents the governance charter for the Supervisory Board and also governs the relationships between the latter's members and members of Carbone Lorraine's Management Board in a spirit of cooperation notably intended to ensure fluid exchanges between the corporate bodies in the interest of shareholders. It is intended to give the Supervisory Board the means to implement best practices in corporate governance. It fits with the framework of the recommendations under the AFEP-MEDEF's corporate governance code. The internal charter has five articles:

- Article 1 defines the role and duties of the Supervisory Board and extends the lists of decisions made by the Management Board subject to authorization and to prior notice by the Supervisory Board.
- Article 2 relates to the holding and structure of Supervisory Board meetings (notices of meetings, participation, majority rules, minutes, Board secretary),
- Article 3 covers the compensation and benefits paid to members of the Supervisory Board (directors' fees, compensation and benefits paid to the Chairman and Vice President, exceptional compensation and benefits),
- Article 4 covers the ethical rules applicable to members of the Board and the concept of "independent" members
- Article 5 governs the operating rules for committees set up by the Supervisory Board.

3 - Supervisory Board Committees

The Supervisory Board defined in its internal charter the functions, duties and resources of its three committees: the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee. As far as possible and depending on the applicable circumstances, all decisions by the Supervisory Board concerning an area of a committee's jurisdiction will have to be preceded by a consultation of the relevant committee and may be made only after the relevant committee has issued its recommendations and proposals.

When performing its duties, each of the committees may:

(i) have the Company communicate any document that it deems useful for the performance of its duties;
(ii) interview all or some members of the Management Board or any person that the committee deems useful to interview;
(iii) have any third parties of its choosing (expert, advisor or statutory auditor) attend committee meetings.

This consultation of the committees may not serve to delegate the powers conferred upon the Supervisory Board by law or in the Articles of Association or have the effect of reducing or restricting the Management Board's powers.

## 5.2 Management Board

The Company is administered by a Management Board comprising between two and seven individual natural persons, who perform their duties subject to the control exercised by the Supervisory Board. They are appointed for a term of four (4) years by the Supervisory Board, which confers the role of Chairman on one of them. All members of the Management Board are eligible for re-election. Management Board members must not be aged over 65 years. When a Management Board member reaches the age limit, s/he is deemed to have resigned as a matter of course. Management Board members may be dismissed by the General Meeting and by the Supervisory Board.

The Management Board currently has two members, namely Ernest Totino, its Chairman, and Luc Themelin, who were appointed by the Supervisory Board at its meeting on May 19, 2009 for a term of office expiring on May 19, 2013.

## 5.3 Executive Committee

At September 1, 2009, the Executive Committee had the following members:

**Ernest Totino**
Chairman of the Management Board

**Luc Themelin**
Member of the Management Board

**Bernard Leduc**
Director of Human Resources, Quality and Continuous Improvement

**Jean-Claude Suquet**
Group Vice President, Finance and Administration

## 5.4 Conflicts of interest affecting directors and senior management

As far as the Company is aware, there are no family ties between members of the Supervisory Board, of the Management Board or of the Executive Committee, nor are there any between them.

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

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

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

There are no conflicts of interest between the personal interest and/or the duties of any of the members of the Supervisory Board, of the Management Board or of the Executive Committee with respect to Le Carbone Lorraine SA.

The members of the Supervisory Board, of the Management Board, the executive management and the Group's principal managers have undertaken to refrain from using or disclosing the privileged information that they hold for the purpose of buying or selling the Company's shares and not to carry out any transaction of this type during the black-out periods. For fiscal 2009, the black-out periods are:

- **January 16 to February 6, 2009:** owing to the announcement of fourth quarter 2008 sales on January 27, 2009
- **from March 6 to March 27, 2009:** owing to the announcements concerning full-year 2008 results on March 17, 2009
- **from April 17 to May 8, 2009:** owing to the announcement of first-quarter 2009 sales on April 28, 2009
- **from July 13 to August 3, 2009:** owing to the announcement of second-quarter 2009 sales on July 23, 2009
- **from August 18 to September 7, 2009:** owing to the announcements concerning interim results on August 28, 2009
- **from October 9 to October 30, 2009:** owing to the announcement of third-quarter 2009 sales on October 20, 2009

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

# 6. BOARD PRACTICES

Carbone Lorraine has not entered into any service agreements providing for the grant of future benefits.

# 7. RELATED-PARTY TRANSACTIONS

## 7.1 <u>Related-party transactions at August 31, 2009</u>

In accordance with the provisions of Articles L.225-38 and L.225-42-1 of the French Commercial Code, the Supervisory Board decided at its meeting on May 19, 2009 to grant Ernest Totino a severance payment in the event that his term in office as Chairman of the Management Board were to be terminated. This authorization granted to the Supervisory Board has been published on the Company's web site pursuant to the provisions of Article R.225-34-1 of the French Commercial Code. This decision was made following the appointment of Ernest Totino as Chairman of the Management Board.

Payment of the aforementioned severance indemnity will be contingent upon attainment of the performance targets under the following conditions:

- **Performance measure (P):**

**P** = average of Mr Totino's performance in the three years preceding his departure.

$$\mathbf{P} = \frac{\text{performance (n-1) + performance (n-2) + performance (n-3)}}{3}$$

Performance in year N is equal to the percentage achievement of objectives for the target bonus. Given the limits set in Article 2, **P** may vary between 0 and 200%. The average performance rate **P** will be noted by the Supervisory Board.

- **Performance conditions:**

If **P** >= 100%, 100% of the payment will be made
If **P** >= 90% and < 100%, 80% of the payment will be made
If **P** >= 70% and < 90%, 60% of the payment will be made
If **P** >= 50% and < 70%, 40% of the payment will be made
If **P** < 50%, no payment will be made.

The performance targets are determined based on various criteria : first on the evolution of the Group's Economic Value Added (EVA) (operating income after tax less the cost of capital employed), second on the evolution of the Group's ROCE after tax posted by a sample of various public companies listed at the SBF120 list of the Paris Stock Exchange and third on certain individual targets.

7.2 Statutory Auditor's special report related to regulated agreements and commitments as of December 31, 2008 :

*Dear Sirs, dear Madams,*

*In our capacity as Statutory Auditors of your company, we hereby report to you on the regulated agreements and commitments.*

*Regulated agreements and commitments duly authorized during the fiscal year :*

*In accordance with Article L.225-40 of the French Commercial Code, we were notified of agreements and commitments which were approved by the Board of Directors.*

*It is not our responsibility to inquire the existence of other agreements or commitments. It is our responsibility to report to you, based on the information provided to us, the main terms and conditions of the agreements and commitment which have been notified to us. It is not our responsibility to give an opinion on the reason and the interest of such agreements and commitments. In accordance with Article R.225-31 of the French Commercial Code, it is your responsibility to assess the interest and the reason of the execution of such agreements and commitments for approval purpose.*

*According to the professional standards, we have performed the procedures we consider as necessary for this review. The procedures consisted in controlling the adequacy between the disclosures made to us and the documents underpinning the disclosures.*

*Severance payment in the event of termination of manager's term :*

- *beneficiary : Ernest Totino*
- *nature and purpose : in the event of termination of the term of office of Ernest Totino as Chief operating Officer, in a manner and for whatever reason (except in case of gross negligence or retirement), a severance payment would be made to Ernest Totino.*
- *Terms : the severance payment shall not exceed 0.5 time the gross compensation which would have been paid to Ernest Totino during the 36 months period prior to the date of termination of the term of Ernest Totino's office. Such severance payment is subject to the achievement of performance targets.*

*A Statutory Auditors's report was issued for this agreement and presented to, and approved by, the shareholders at the December 12, 2008 Combined general Meeting.*

*The Statutory Auditors*

*Paris La Défense , March 17, 2009*

*KPMG Audit*
*Audit Department*

*Neuilly sur Seine, March 17, 2009*

*Deloitte & Associés*

# 8. RECENT TRENDS AND OUTLOOK

## 8.1 Recent trends

***The Company issued the following press release on April 28, 2009:***

Carbone Lorraine's first-quarter 2009 sales came to €158 million, up 1% on a reported basis owing to the positive impact of currency fluctuations and acquisitions. On a like-for-like basis, sales moved 6% lower.

| SALES* | Q1 2008 (€ m) | Q1 2009 (€ m) | % change** Q1 2009/ Q1 2008 |
|---|---|---|---|
| **Advanced Materials and Technologies** | 64 | 69 | 0 % |
| **Electrical Systems and Components** | 94 | 89 | -10 % |
| **Group Total** | **158** | **158** | **-6 %** |

**continuing operations in 2009 for both years*
***on a like-for-like basis, i.e. at comparable scope and constant exchange rates – Unaudited data*

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

**Advanced Materials and Technologies**

The Advanced Materials and Technologies division recorded sales of €69 million, stable compared with the first quarter of 2008.

- Sales to the solar industry continued to advance at a rapid rate. They alone contributed over 20% of Advanced Materials and Technologies sales.
- Sales also grew in fine chemicals and pharmaceuticals markets, with new orders for anticorrosion equipment remaining sprightly.
- Demand contracted in process industry markets and electronics, particularly in Europe and North America.

**Electrical Systems and Components**

The sales recorded by the Electrical Systems and Components division came to €89 million during the first quarter, representing a decline of 10%.

- Sales to the wind energy market continued to make strong headway, especially in North America and Asia. They accounted for 8% of Electrical Systems and Components sales.
- In other markets, sales of brushes for industrial motors experienced a steep fall. They were directly depressed by the fall in industrial production.
- In Electrical Protection, the drop in demand for industrial and investment goods that emerged during the fourth quarter of 2008 gained strength during the first quarter of 2009 across all the Group's geographical regions. Conversely, sales of fuse-related products, such as power-isolating switches, coolers and rail equipment protection continued to enjoy strong demand in the rail and energy efficiency markets.

**Key events of the quarter**

Sale of the brushes and brushholders for automobiles and household electrical appliances division.

Carbone Lorraine received a firm offer from US investment fund MidMark Capital to acquire its Brushes and brushholders for automobiles and household electrical appliances division. This disposal is currently being finalized. It will complete the strategic refocusing drive that the Group has carried out in recent years.

**Carbone Lorraine's financial position**

The Group's debt increased slightly compared with its year-end 2008 position owing to the investment projects launched last year and exchange rate fluctuations.

**Outlook**

The current trend in new orders has been boosted by the dynamism of most of the upbeat markets into which the Group has moved over the past few years, i.e. solar and wind energy, transportation, fine chemicals and, of course, Asia.

In our traditional industrial markets, the downturn observed over the fourth quarter of 2008 gained pace during the first quarter. As a result, visibility on short-term trends in the Group's sales remains limited.

In this very depressed environment, the Group continues to implement adjustment measures, notably to strip out overhead and trim the working capital requirement as far as possible, while ensuring that the resources required for expansion are kept intact.

***The Company issued the following press release on May 4, 2009:***

Carbone Lorraine has announced the disposal of the brushes and brushholders for automobile and household electrical appliances division to US investment fund MidMark Capital.

This sale represents a key phase in the strategic refocusing drive that the Group has been pursuing in recent years. It has notably included the divestment of all its activities in the automobile industry. This objective has now been attained.

The businesses sold include assets and companies located largely in Germany, France, India, Mexico and Tunisia. The number of employees transferred stands at around 1,500.

The divestment was priced at €20 million. Given the difficulties currently facing the automobile industry, Carbone Lorraine has agreed to participate in the financing for this transaction. €10 million will be received over a period of five years, including 40% in 2009. The remainder of the consideration will be received based on a timetable depending on the performance of the business.

The Group recognized the disposal in its 2008 financial statements based on a price tag of €10 million, which is the portion of the consideration not linked to attainment of objectives.

The division's sales came to €70 million in 2008 and €12 million in the first quarter of 2009. It recorded an operating loss before non-recurring items of €6.6 million in 2008.

***The Company issued the following press release on May 15, 2009:***

Carbone Lorraine has been awarded the **2008 prize for the best financing transaction.** The prize, which was given to Jean-Claude Suquet, Group Vice President, Finance and Administration, by the **Club des Trente**, was awarded for the **PACEO (back-up equity line) program** arranged by the Group.

"The **PACEO** line represents an innovative solution that is perfectly adapted to times of crisis. It guarantees Carbone Lorraine access to equity capital and will enable it to expand in markets of the future, such as renewable energies. **PACEO** provides protection for the Group amid the current uncertain environment, while offering financial optimization opportunities", the **Club des Trente** stated.

As part of its selection process, the Club des Trente, which comprises CFOs from the principal listed companies on the French market, endeavors to show how finance and capital markets can be used to pursue ambitious industrial strategies compatible with the aims of sustainable development.

The **PACEO** program was arranged with **Société Générale.**

Legal advisors for the transaction**: Hogan & Hartson, Jeantet Associés**.

***The Company issued the following press release on May 20, 2009:***

The Combined General Meeting on May 19 approved all the resolutions proposed, notably including those related to the introduction of a new governance structure with a Management Board and Supervisory Board.

Shareholders approved the appointment to the Supervisory Board of all the former directors, except for Claude Cocozza, who has decided to retire.

The Supervisory Board, which met at the conclusion of the Annual General Meeting, named Hervé Couffin, who was previously Chairman of the Audit and Accounts Committee, as its Chairman. Henri-Dominique Petit, a director since 2007, was named Vice-Chairman of the Supervisory Board.

The Supervisory Board also named the members of the Management Board, which comprises Ernest Totino, previously Chief Operating Officer and now Chairman of the Management Board, and Luc Themelin, a member of the Group's Executive Committee since 2005.

During the Annual General Meeting, Ernest Totino reviewed the Group's expansion strategy, reiterating its principal strengths, i.e. its positioning in dynamic markets such as renewable energies, fine chemicals and transportation, its strong presence in Asia and its recognized ability to innovate.

Ernest Totino also highlighted the measures taken to adjust costs and investments in order to weather the current depressed economic conditions, while remaining ready to capitalize fully on the economic recovery, whenever it arrives.

***The Company issued the following press release on June 10, 2009:***

Carbone Lorraine has increased its capital by €15.5 million through issuance of 800,000 new shares by two tranches under the "PACEO" (Step-up Equity Facility) program. This represents 5.6% of the initial share capital.

This issue complements the measures taken to cut costs, reduce the Group's structural working capital requirement and curb its investments. It will help Carbone Lorraine to withstand the current economic crisis effectively without jeopardizing the promising prospects associated with its growth drivers, notably renewable energies and Asia.

In May 2009, the PACEO program was awarded the Prize for the « Best financing transaction in 2008" from the Club des Trente.

***The Company issued the following press release on June 26, 2009:***

Carbone Lorraine decided to use the flexibility offered by its PACEO (step-up equity facility) arranged with Société Générale to bolster its capital by drawing on three successive issuances, the last of which was yesterday.

All in all, Carbone Lorraine raised €22.3 million in additional capital through the issuance of 1,200,000 shares, representing 8.4% of its initial capital. These issues were a tremendous success with investors in France and international markets.

This fund-raising exercise has enabled Carbone Lorraine to reinforce its equity in order to pursue its expansion plans in spite of the depressed economic environment.

***The Company issued the following press release on July 23, 2009:***

During the second quarter of 2009, Carbone Lorraine posted consolidated sales of €145 million, down 12% on a reported basis. On a like-for-like basis, the sales contraction came to 20%. This decline was attributable to the deterioration in industrial markets in Europe and North America and the high comparatives recorded as a result of very brisk activity in the second quarter of 2008.

During the first six months of the year, interim sales came to €303 million, down 6% on a reported basis and 13% like-for-like.

In these particularly difficult markets, Carbone Lorraine should post a half-year operating margin (before non-recurring items) above 9% thanks notably to the set of adaptation measures taken early in the year. This performance shows also how resilient the Group is becoming with its new profile.

| CHIFFRE D'AFFAIRES | Q2 2009 (€ m) | % change* Q2 2009/ Q2 2008 | H1 2009 (€ m) | % change* H2 2009/ H2 2008 |
|---|---|---|---|---|
| **Advanced Materials and Technologies** | 65 | -13% | 134 | -7% |
| **Electrical Systems and Components** | 80 | -24% | 169 | -17% |
| **Group total** | **145** | **-20%** | **303** | **-13%** |

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

**Advanced Materials and Technologies**

The Advanced Materials and Technologies division posted sales of €65 million during the second quarter. They dropped by 13% on a like-for-like basis.

Sales to the solar industry continued to post brisk growth during the quarter. The same trend was seen in sales of equipment used to manufacture LEDs (light-emitting diodes). However, the demand contraction in the Group's traditional industrial markets across Europe and North America gained further momentum during the quarter, leading to a significant decline in sales volumes of graphite equipment. This situation and the lack of any signs of recovery prompted the Group to revise down its graphite production targets for 2009 as a whole.

Meanwhile, anticorrosion equipment sales to the fine chemicals and pharmaceutical industries recorded growth during the first half owing to the resilience of Asian markets and markets for the production of solar polysilicon.

Sales recorded by the Advanced Materials and Technologies division came to €134 million during the first six months of the year. They dropped by 7% on a like-for-like basis.

**Electrical Systems and Components**

In Electrical Systems and Components, second-quarter sales slipped 24% on a like-for-like basis to reach €80 million.

Sales of equipment for industrial motors fell back across most geographical regions. Wind energy markets remained firm, notably in North America and Asia.

The contraction in electrical protection sales gained strength during the second quarter and is now affecting all the Group's regions. The inventory run-downs by the principal distributors had a particularly strong impact on first-half sales. They are now over.

The sales recorded by the Electrical Systems and Components division came to €169 million during the first six months of the year. They fell by 17% on a like-for-like basis.

**Outlook**

Economic conditions remain challenging, and we have not seen any signs of recovery for the time being. The upbeat markets into which the Group has moved recently have continued to display strong and valuable resilience.

Carbone Lorraine is boldly pursuing its cost-cutting measures. Over 2009 as a whole, these are likely to enable it to curb the impact of the business contraction on its operating margin.

***The Company issued the following press release on August 31, 2009:***

Carbone Lorraine's Supervisory Board met on August 28, 2009 and examined the 2009 first-half financial statements.

Ernest Totino, Chairman of the Management Board, made the following comments on the Group's first-half results:

*"The economic environment was very tough in the first half of 2009, and this affected our traditional markets. However, our new markets remained buoyant. This was particularly the case for renewable energies, which now account for 14% of our sales.*

*We have made major adjustments, reducing costs, adopting a more selective approach to investment and cutting our working capital requirement. These changes limited the decline in operating margin, and will lead to stronger earnings growth when activity picks up."*

## Simplified income statement

| *in millions of euros* | H1 2009 | H1 2008 |
|---|---|---|
| **Sales** | **303.1** | **321.8** |
| **EBITDA**<br>*% of sales* | **44.7**<br>*14.7%* | **54.4**<br>*16.9%* |
| **Operating income before non-recurring items**<br>*% of sales* | **28.9**<br>*9.5%* | **426**<br>*13.2%* |
| **Net income** | **13.8** | **33.6** |

**Consolidated sales** totaled €303 million. This represents a decrease of 6%, or 13% like-for-like (at constant scope and exchange rates).

**EBITDA** came to €44.7 million, equal to 14.7% of sales as opposed to 16.9% in the first half of 2008. The decline in EBITDA margin was limited to just over 2 points through very rapid cost reductions. In addition to restructuring efforts in the last few years, this cost-cutting has made the Group more resilient to the current tough operating environment.

**Operating income before non-recurring items** was €28.9 million, equal to 9.5% of sales. Operating income was dragged down by depreciation charges on the Group's recent large-scale investments, which have been aimed at supporting development in the renewable energies market and in Asia.

**IFRS operating income** was €27.6 million, after €1.3 million of non-recurring charges.

**Net income** was €13.8 million. This compares with €33.6 million in the year-earlier period, which included a €10 million net capital gain from the disposal of the brakes business.

### Advanced Materials and Technologies

Advanced Materials and Technologies posted interim 2009 sales of €134 million, down 7% like-for-like compared with the year-earlier period. The decline in sales was limited by buoyant demand for polysilicon in the photovoltaic industry, and by demand from the fine chemicals industry, which resulted in some major orders in Asia. Unadjusted sales rose by 3% due to exchange-rate effects and the acquisitions of Calcarb in the UK and Xianda in China.

**EBITDA** totaled €28.3 million, equal to 21% of sales.

**Operating income before non-recurring items** was €17.6 million, equal to 13% of sales. This represents a year-on-year margin decline of around 4 points. The decline was partly due to higher depreciation, arising from recent investments aimed at taking full advantage of growth in the solar energy market, which is a large buyer of graphite equipment.

### Electrical Systems and Components

Electrical Systems and Components generated sales of €169 million in the first half, down 12% or 17% like-for-like. Sales fell in all traditional markets, such as electricity supply components and electrical protection equipment. The decline in these markets was made worse by inventory reductions carried out by the leading electrical equipment distributors. The wind turbine market remained strong in Asia and North America.

**EBITDA** came in at €22.9 million, giving EBITDA margin of 13.6%.

**Operating income before non-recurring items** was €17.9 million, equal to 10.6% of sales, down 3 points relative to the first half of 2008.

**Financing and debt**

**Cash from operating activities** totaled €45.9 million, up from €6.6 million in the year-earlier period. The figure includes €13.5 million from the introduction of factoring program, which has resulted in faster collection of accounts receivable.

**Cash flow from investments** totaled €29 million. Given the weak economic situation, the Group has taken a more selective approach to investment since the start of the year.

In order to pursue development despite the tough operating environment, the Group sought to **strengthen its financial position**. A €22.3 million capital increase was therefore carried out by using the PACEO equity facility set up in late 2008.

At end-of June 2009, **net debt** was €276 million, down from €306 million at end-2008.

The net debt/EBITDA ratio was 3.06x versus 2.73x at end-2008. The net debt-to-equity ratio was 76%, down from 93% at end-2008.

**Dividend**

In July, a 0,62 euro per share dividend has been paid. The option proposed for a payment in new shares has been preferred by shareholders representing 73% of the capital of the company. Consequently, 355,484 new shares have been issued.

**Outlook**

Despite the global recession, the strategy set out in the **"Expansion 2011"** plan, presented in 2008, remains valid. However, the plan's targets will now take longer to achieve. The powerful growth drivers on which the plan is based still exist, ensuring a **very bright** medium-term **outlook** for Carbone Lorraine.

Although some initial signs of an economic upturn have appeared, they are unlikely to have much of an impact in the second half of 2009. As a result, the Group intends **to continue efforts** to cut costs, limit investment and achieve structural reductions in the working capital requirement. The aim of these initiatives is to make Carbone Lorraine even more resilient to the current economic environment, while strengthening positions so that the Group derives greater benefit from the upturn when it arrives.

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**Appendices: consolidated financial statements**

## Income statement

| *(in millions of euros)* | *H1 2009* | *H1 2008* |
|---|---|---|
| **Sales** | **303.1** | **321.8** |
| **EBITDA*** | **44.7** | **54.4** |
| *% of sales* | *14.7%* | *16.9%* |
| **Operating income before non-recurring items** | **28.9** | **42.6** |
| *% of sales* | *9.5%* | *13.2%* |
| Non-recurring income and expenses | -1.3 | 12.6 |
| **Operating income** | **27.6** | **55.2** |
| Finance costs, net | (5.7) | (6.0) |
| Current and deferred tax | (6.2) | (14.4) |
| **Net income from continuing operations** | **15.7** | **34.8** |
| **Net income from divested operations** | -1.9 | -1.2 |
| **Net income** | **13.8** | **33.6** |

** Operating income before non-recurring items + depreciation and amortization*

## Segment performance

| *In millions of euros* | **Advanced Materials and Technologies** | | **Electrical Systems and Components** | |
|---|---|---|---|---|
| | H1 09 | H1 08 | H1 09 | H1 08 |
| **Sales** | **134** | **131** | **169** | **191** |
| EBITDA* | **28.3** | **30.2** | **22.9** | **31.7** |
| *% of sales* | *21.1%* | *23.0%* | *13.6%* | *16.6%* |
| Operating income before non-recurring items | **17,6** | **22.7** | **17.9** | **27.5** |
| *% of sales* | *13.0%* | *17.4%* | *10.6%* | *14.4%* |

** Operating income before non-recurring items and holding-company costs + depreciation and amortization*

### Financing

| ***(in millions of euros)*** | ***H1 2009*** | ***H1 2008*** |
|---|---|---|
| ***Operating activities*** | | |
| **Cash flow** | **44.1** | **54.1** |
| Change in WCR | 14.9 | (34.7) |
| Tax | (3.3) | (7.8) |
| Cash flow from discontinued activities | (9.8) | (5.0) |
| **Operating cash flow** | **45.9** | **6.6** |
| ***Investing activities*** | | |
| Capital expenditure | (28.9) | (26.3) |
| Change in scope | 1.9 | 25.8 |
| **Cash flow from investments** | **(27.9)** | **(0.5)** |
| **Cash flow before financing activities** | **18.0** | **6.1** |

### Simplified balance sheet

| ***(in millions of euros)*** | ***30/06/2009*** | ***31/12/2008*** |
|---|---|---|
| **Assets** | | |
| Non-current assets | 568 | 530 |
| Inventory and accounts receivables | 265 | 316 |
| Other assets | 19 | 46 |
| **Total** | **852** | **892** |
| **Liabilities and equity** | | |
| Shareholders' equity | 359 | 325 |
| Provisions | 46 | 46 |
| Employee benefits | 36 | 35 |
| Accounts payable and other operating payables | 98 | 136 |
| Other liabilities | 37 | 44 |
| Net debt | 276 | 306 |
| **Total** | **852** | **892** |

| | | |
|---|---|---|
| **Net debt / Shareholders' equity** | **0.76** | 0.93 |
| **Net debt / EBITDA*** | **3.06** | 2.73 |

** 2009 EBITDA calculated as 2x first-half EBITDA*

## 8.2 Outlook

The first half of the year brought a contraction in the Group's sales against the backdrop of a global economic crisis. Sales declined by 6% in the first quarter and 20% in the second on a like-for-like basis compared with the year-earlier period. During the third quarter, the sales contraction compared with the previous year is likely to be on a similar scale to that seen in the second quarter.

Business activities more directly linked to investment and industrial production in developed countries have been affected particularly badly. Conversely, the expanding new markets into which Carbone Lorraine has moved–solar and wind energy, mass transit, energy efficiency–have held up well. On a geographical standpoint, sales decreased in Europe (-15%) and in North America (-19%). Sales increased by 3% in Asia where the group strongly developed its presence during the last years.

This economic crisis has not thrown into doubt the strategy presented in the Expansion 2011 plan presented in September 2008. This plan included a sale target of €1.1 billion (before the disposal of the carbon brushes business for automotive applications *) and a target of 18% for the return on capital employed before tax by the end 2011. The powerful growth drivers underpinning the plan, founded on the Group's major repositioning drive in recent years, are still intact and give it a very bright outlook. However, it is not possible at present to tell exactly when the anticipated growth will arrive, since economists are as yet unable to predict how and when the economy will emerge from the slump. The Company confirms its targets but it cannot be specific on the planning any more. Therefore, the investment plan of €500 million which was initially presented in September 2008 is not any more valid. This plan will be redefined more precisely once the economical environment will give more visibility.

Even though certain leading signs of an improvement in economic conditions are now visible, it seems unlikely that they will have an impact during the second half of 2009. The Group thus plans to continue implementing measures to cut costs (net savings should not exceed €12 million as fixed costs), curb investments (which should not be lower than €50 million in 2009) and structurally reduce its working capital requirement. The aim of these initiatives is to help the Group to withstand more effectively the poor economic environment currently prevailing, while strengthening its operations so that the positive effects of the economic recovery are all the stronger when it arrives.

In the medium term, the Group aims to bolster its positioning in markets related to sustainable development, such as alternative energies, energy efficiency and rail transportation. In 2008, these markets accounted for around one-third of the Group's sales. Our objective is for these markets to contribute more than 50% of sales, with 25% to 30% deriving from alternative energies. Asia is expected to remain a region generating strong growth for the Group. Our objective is for it to contribute 30% of our sales.

**As of December 31, 2008 annual sales of the carbon brushes business for automotive applications was €70.4 million*

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

## 9.1 Description of business trends to June 30, 2008

### *9.1.1 Chairman's message*

Dear shareholder,

The economic environment was very difficult in the first half of 2009.

North America and Europe gradually fell into recession, and the late-2008 financial crisis triggered an unprecedented downturn in the manufacturing sector.

Markets contracted sharply, directly affecting a large proportion of our businesses. Our sales of general-purpose fuses, brushes for industrial motors and graphite equipment for traditional industries were down in Europe and North America.

As a result, we are making major adjustments. These include reducing costs, capital expenditure and our working capital requirement. Our efforts in these areas have enabled us to limit the decline in our operating margin at a time of falling volumes, and will help to drive rapid earnings growth when activity recovers.

In the last few years, however, we have refocused on buoyant new markets, primarily renewable energies (wind and solar), but also urban transport and energy efficiency. All of these businesses are seeing strong momentum arising from clients' growing focus on sustainable development. This new market position made us more resilient to the depressed manufacturing environment in the first half of 2009.

We have also diversified geographically. Asia now accounts for 21% of sales. Although Asia is also in recession, Carbone Lorraine's first-half sales saw growth in this region.

Clearly, the current recession is a particularly severe one, and will leave lasting damage. It will cause permanent changes in behavior, and will give rise to a new economy, more focused on sustainable development and energy efficiency. This is a major challenge, but one that creates real opportunities for Carbone Lorraine.

We stepped up our efforts to reposition our businesses in the first half of 2009.

We completed the disposal of our automotive brush business. We have now fully withdrawn from the auto sector. We also continued to build positions in Asia, setting up new facilities and extending existing ones in India, China and South Korea.

Our business plan is focusing on new markets and new regions. It also features a raft of projects that will make the most of our operational excellence and innovation capacities and develop our talented staff, which are crucial for sustained success.

Despite today's problems, we are therefore continuing to prepare for the future.

We will take advantage of the trend towards sustainable development, with around half of our business coming from solar and wind energy, clean transport and energy efficiency. I am fully committed to this development and, with the trust of all our staff and shareholders, I am determined to carry through this transformation of our group.

Ernest Totino
Chairman of the Management Board

### 9.1.2 *Business overview*

**Advanced Materials and Technologies**

The **Advanced Materials and Technologies** division posted first-half 2009 sales of €134 million, down 7% like-for-like compared with the year-earlier period. Unadjusted sales were up 3%. The difference was partly due to the integration of Calcarb and Xianda, offset to some extent by the disposal of the brakes business at the end of the first quarter of 2008.

Sales of graphite equipment were badly affected by the contraction in traditional industrial markets in Europe and North America. However, they were supported by buoyant demand for polysilicon from the photovoltaic industry, and for the fine chemicals industry, with some large deliveries taking place in Asia.

EBITDA totaled €28.3m, equal to 21.1% of sales versus 23% in the year-earlier period. The division's success in limiting the decline in EBITDA margin to 2 points shows impressive resilience.

Operating income before non-recurring items was €17.6 million, equal to 13% of sales. This represents a margin decrease of around 4 points. The decline was larger than that seen in the EBITDA margin because of higher depreciation, arising from investments aimed at maximizing growth in the solar energy market, which consumes large amounts of graphite equipment.

**Electrical Components and Technologies**

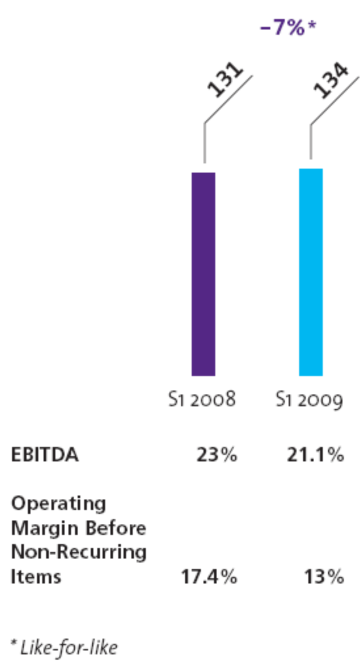
The **Electrical Components and Technologies** division posted first-half 2009 sales of €169 million, down 17% like-for-like compared with the year-earlier period. Unadjusted sales fell by 12%, with the difference relating mainly to the integration of R-Theta and Areva's medium-voltage fuses business.

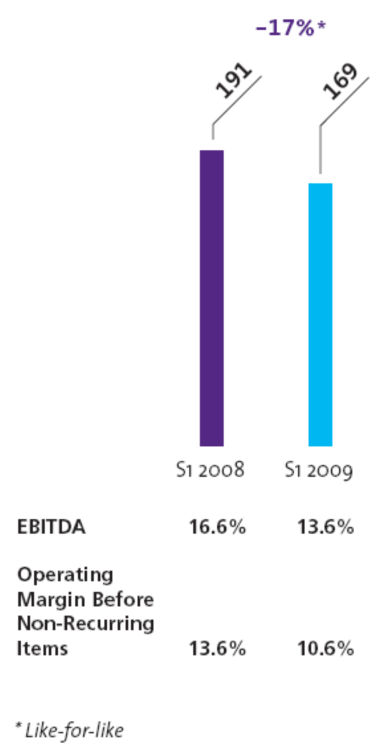
First-half sales were affected by the manufacturing recession in Europe and North America. Sales fell across all traditional markets, including electricity supply components and electrical protection equipment. The decline was made worse by large-scale inventory reductions at the main electrical equipment distributors. The wind turbine market remained buoyant in Asia and North America.

EBITDA margin remained high at 13.6%. This represents a year-on-year decline of 3 points, caused by the sharp fall in sales volumes.

Operating income before non-recurring items was €17.9 million. This was equal to 10.6% of sales, down 3 points compared with the first half of 2008.

**Advanced Material and Technologies**
**Sales (€ m)**




**Electrical Components and Technologies**
**Sales (€ m)**

### *9.1.3 Results*

## Consolidated sales

Sales totaled €303 million in the first half of 2009, down 6%. On a like-for-like basis - i.e. excluding positive exchange-rate effects, the impact of acquiring Calcarb, Xianda, R-Theta and Areva's medium-voltage fuse business and the sale of the brakes business in late March 2008 - sales were down 13%.

First-half sales were badly affected by falling demand in traditional industrial markets in Europe and North America. The weak operating environment had a particularly adverse impact on industrial brushes, general-purpose fuses and graphite equipment for the process and electronics industries. Sales to renewable energy customers continued to see very strong growth. With our unique and innovative product range, we are capturing ongoing rapid growth in these markets, in which we have strengthened our leadership. The chemicals and pharmaceuticals markets remained firm.

## Sales (€ m)


| | S1 2008 | S1 2009 |
|---|---|---|
| EBITDA | 16.9% | 14.7% |
| Operating Margin Before Non-Recurring Items | 13.2% | 9.5% |

** Like-for-like*

## EBITDA and operating income

EBITDA totaled €44.7 million, equal to 14.7% of sales versus 16.9% in the year-earlier period. The decline in margin was successfully limited to just under 2 points thanks to the rapid implementation of cost cuts in response to the global recession. These measures supplement the restructuring efforts we made in recent years, which were intended to make us more resilient to tough operating conditions.

Operating income before non-recurring items was €28.9 million, equal to 9.5% of sales, down from 13.2% in the year-earlier period. The decline was due to depreciation arising from recent heavy investment aimed at underpinning our growth in renewable energies and Asia.

IFRS operating income was €27.6 million after €1.3 million of non-recurrent charges. In the first half of 2008, IFRS operating income was €55.2 million, including a gain of €14 million on the disposal of the brakes business.

### Net income

Finance costs totaled €5.7 million, slightly less than in the year-earlier period because of lower interest rates.

The tax rate was 28% (2008: 29%).

Net income was €13.8 million, as opposed to €33.6 million (including a net disposal gain of €10 million) in the first half of 2008.

**Debt**

Cash generated by continuing operating activities during the first six months of 2009, before the change in the working capital requirement and tax, came to €44,1 million, compared with €54.1 million in the equivalent period of 2008.

The working capital requirement fell by €14.9 million, of which €13.5 million related to the introduction of factoring in France, leading to faster collection of trade receivables. Inventories fell by €10.8 million. The decline in trade receivables excluding factoring was offset by drastic cost-reduction measures, leading to a fall in trade payables.

Net capital expenditure in continuing operations totaled €27 million, up from €22 million in the first half of 2008. The first-half 2009 figure includes expenditure on orders placed in 2008. We have become more selective with regard to capex in 2009, in response to changes in the economic environment.

To maintain progress in today's tough conditions, we took steps to strengthen our financial position. We therefore increased our capital by €22.3 million by using the equity facility arranged in late 2008 (see Note 12 to the financial statements).

At end-June 2009, net debt totaled €276.4 million, down from €305.9 million at end-2008. The net debt/EBITDA ratio was 3.06x versus 2.73x at end-2008. The net debt-to-equity ratio moved down from 94% at end-2008 to 77% at end-June.

### *9.1.4 Outlook*

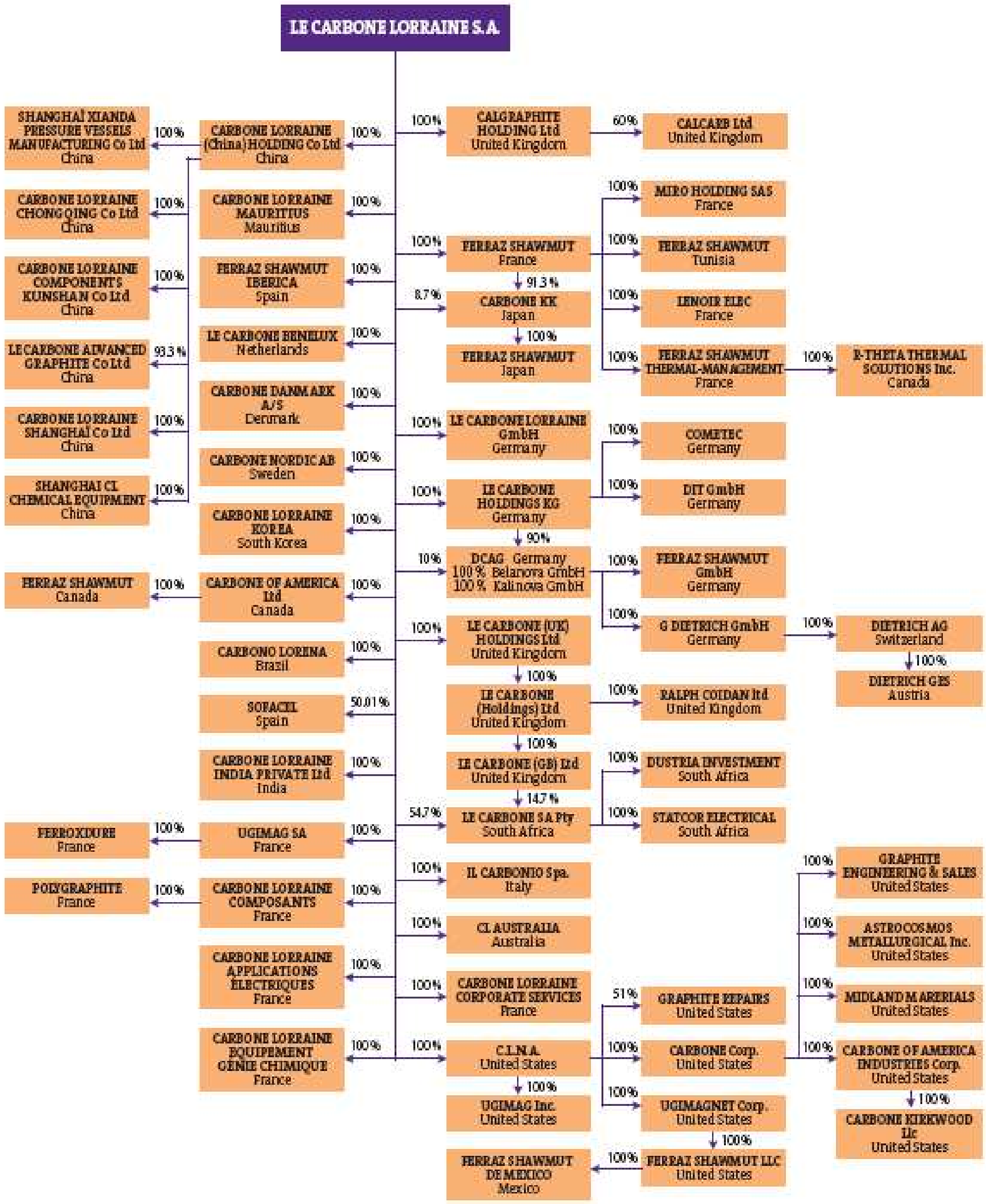
Our sales fell in the first half of 2009 because of the global recession. The businesses that suffered most were those most exposed to investment and industrial production in developed countries. However, the new markets on which we are focusing – i.e. solar, wind, urban transport, energy efficiency – were resilient. Our strong position in Asia also gave us continuing exposure to buoyant markets.

The recession has not jeopardised the strategy formulated in the Expansion 2011 plan, which we presented in September 2008, but will delay attainment of the goals we set. The plan is based on strong growth drivers arising from our aggressive repositioning in the last few years. These drivers remain in place, and our medium-term outlook is bright as a result. However, it is currently impossible to forecast the resulting growth. Even leading economists are struggling to forecast when and how the recession will end.

Although some leading indicators are pointing toward an upturn, we are unlikely to see a recovery in the second half of 2009. As a result, we are planning to maintain efforts to cut costs, limit capital expenditure and achieve a structural reduction in the working capital requirement. The purpose of these initiatives is to increase our resilience to today's weak economic conditions, while strengthening our positions so that we can take greater advantage of the recovery when it happens.

## 9.2 Consolidated financial statements

### *9.2.1 Scope of consolidation at June 30, 2009*



## List of consolidated companies

| | | Consolidation method FC: Full consolidation | % of voting rights held by the Group | % of the share capital held by the Group |
|---|---|---|---|---|
| 1. | **Le Carbone Lorraine SA** (France) | FC | 100 | 100 |
| 2. | **Carbone Lorraine Applications Électriques** (France) | FC | 100 | 100 |
| 3. | **Carbone Lorraine Composants** (France) | FC | 100 | 100 |
| 4. | **Carbone Lorraine Équipements Génie Chimique** (France) | FC | 100 | 100 |
| 5. | **Carbone Lorraine Corporate Services** (France) | FC | 100 | 100 |
| 6. | **Ferraz Shawmut SAS** (France) | FC | 100 | 100 |
| | - Ferraz Shawmut Thermal Management | FC | 100 | 100 |
| 7. | **MIRO Holding SAS** (France) | FC | 100 | 100 |
| 8. | **Lenoir Élec** (France) | FC | 100 | 100 |
| 9. | **Ugimag SA** (France) | FC | 100 | 100 |
| 10. | **Ferroxdure** (France) | FC | 100 | 100 |
| 11. | **Polygraphite** (France) | FC | 100 | 100 |
| 12. | **Carbone Lorraine Holdings KG** (Germany) | FC | 100 | 100 |
| | - Deutsche Carbone AG | FC | 100 | 100 |
| | - Belanova-Kalbach GmbH | FC | 100 | 100 |
| | - Kalinova-Kalbach GmbH | FC | 100 | 100 |
| | - Cometec | FC | 100 | 100 |
| | - DIT GmbH | FC | 100 | 100 |
| 13. | **Ferraz Shawmut GmbH** (Germany) | FC | 100 | 100 |
| 14. | **G. Dietrich GmbH** (Germany) | FC | 100 | 100 |
| 15. | **Dietrich AG** (Switzerland) | FC | 100 | 100 |
| 16. | **Dietrich Ges**. (Austria) | FC | 100 | 100 |
| 17. | **Le Carbone Lorraine GmbH** (Germany) | FC | 100 | 100 |
| 18. | **Sofacel** (Spain) | FC | 50 | 50 |
| 19. | **Ferraz Shawmut Iberica** | FC | 100 | 100 |
| 20. | **Le Carbone Holdings (UK) Ltd** | FC | 100 | 100 |
| | - Le Carbone (GB) Ltd | FC | 100 | 100 |
| | - Le Carbone (Holdings) Ltd | FC | 100 | 100 |
| | - Ralph Coïdan Ltd | FC | 100 | 100 |
| 21. | **Calgraphite Holding Ltd** (GB) | FC | 100 | 100 |
| | - Calcarb Ltd | FC | 60 | 60 |
| 22. | **Il Carbonio Spa.** (Italy) | FC | 100 | 100 |
| 23. | **Le Carbone Benelux** (Netherlands) | FC | 100 | 100 |
| 24. | **Carbone Nordic AB** (Sweden) | FC | 100 | 100 |
| | - Carbone Danmark A/S | FC | 100 | 100 |
| 25. | **Carbone of America (LCL) Ltd** (Canada) | FC | 100 | 100 |
| 26. | **R Theta Thermal Solutions Inc** (Canada) | FC | 100 | 100 |
| 27. | **Ferraz Shawmut Canada** | FC | 100 | 100 |
| 28. | **Carbone Lorraine North America** (USA) | FC | 100 | 100 |
| | - Graphite Repairs | FC | 51 | 51 |

| | Consolidation method FC: Full consolidation | % of voting rights held by the Group | % of the share capital held by the Group |
|---|---|---|---|
| - Carbone Corp. | FC | 100 | 100 |
| - Ugimagnet Corp. | FC | 100 | 100 |
| - Carbone of America Industries Corp. | FC | 100 | 100 |
| **29. Carbone Kirkwood Llc** (USA) | FC | 100 | 100 |
| **30. Astrocosmos Metallurgical Inc.** (USA) | FC | 100 | 100 |
| **31. Midland Materials** (USA) | FC | 100 | 100 |
| **32. Graphite Engineering and Sales** (USA) | FC | 100 | 100 |
| **33. Ferraz Shawmut LLC (USA)** | FC | 100 | 100 |
| - Ferraz Shawmut de Mexico (Mexico) | FC | 100 | 100 |
| **34. Ugimag Inc. (USA)** | FC | 100 | 100 |
| **35. Le Carbone Lorraine Australia** | FC | 100 | 100 |
| **36. Le Carbone KK** (Japan) | FC | 100 | 100 |
| **37. Ferraz Shawmut Japan** | FC | 100 | 100 |
| **38. Carbone Lorraine Korea** | FC | 100 | 100 |
| **39. Carbone Lorraine India Private Limited** | FC | 100 | 100 |
| **40. Carbone Lorraine Mauritius** (Mauritius) | FC | 100 | 100 |
| **41. Carbone Lorraine (China) Holding Co. Ltd** (China) | FC | 100 | 100 |
| **42. Carbone Lorraine Shanghai Co Ltd** (China) | FC | 100 | 100 |
| **43. Carbone Lorraine Chongqing Co Ltd** (China) | FC | 100 | 100 |
| **44. Carbone Lorraine Components Kunshan Co Ltd** (China) | FC | 100 | 100 |
| **45. Le Carbone Advanced Graphite (Kunshan) Co Ltd** (China) | FC | 93 | 93 |
| **46. Shanghai Carbone Lorraine Chemical Equipment Cy Ltd** (China) | FC | 95 | 95 |
| **47. Shanghai Xianda Pressure Vessels Manufacturing Co. Ltd** (China) | FC | 100 | 100 |
| **48. Le Carbone PTY Ltd** (South Africa) | FC | 69 | 69 |
| - Statcor Electrical | FC | 69 | 69 |
| - Dustria Investment | FC | 69 | 69 |
| **49. Carbono Lorena** (Brazil) | FC | 100 | 100 |
| **50. Ferraz Shawmut Tunisie** (Tunisia) | FC | 100 | 100 |

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

## Changes in the scope of consolidation over the past three years

The principal changes that affected the consolidated financial statements in 2007, 2008 and 2009 are presented below:

> 2007:

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

> 2008:

- German company DIT GmbH, acquired by Le Carbone Holding KG in 2007, entered the scope of consolidation on January 1, 2008.
- Ferraz Shawmut Tunisie entered the scope of consolidation on January 1, 2008.
- Chinese company Carbone Lorraine Shanghai Co. Ltd was consolidated for the first time from January 1, 2008.
- Chinese company Shanghai Xianda Pressure Vessels Manufacturing Co Ltd as well as its holding company CL (China) Holding Co. Ltd, were consolidated for the first time on April 1, 2008.
- The rail and motorcycle braking sub-division (part of the AMT division) was deconsolidated from April 1, 2008 following its disposal to Faiveley.
- Miro Holding SAS was consolidated for the first time on June 1, 2008. Since July 2008, this company has owned a 51% stake in Zhejiang Mingrong Electrical Protection via unconsolidated Hong Kong-based company Fuses and Switchgear Ltd.
- Canadian company R-Theta Thermal Solutions Inc., which was acquired by Ferraz Shawmut Thermal Management during fiscal 2008, was consolidated for the first time on August 1, 2008.
- Ferraz Shawmut SAS acquired the medium-voltage fuse manufacturing operations of Areva's Montpellier plant in September 2008.

> First-half 2009:

- UK company Calcarb Limited, in which the Group acquired a 60% stake in December 2008, was consolidated from January 1, 2009.

Given the non-material nature of these changes in scope, the preparation of proforma financial statements was not justified.

## Disposal of the automobile and household electrical appliance brush division

> At December 31, 2008:

Given the firm offer received by the Group in January 2009 for its business producing brushes and brush-holders for automobiles and household electrical appliances (part of its Electrical Applications division), the Group's 2008 financial statements were presented in accordance with IFRS 5 (see note 5).

At December 31, 2008, the balance sheet, income statement and statement of cash flows show held-for-sale and discontinued assets and liabilities on a separate line-item.

> 2009:

The disposal was completed on May 1, 2009.

The Group's 2009 interim financial statements take into account the disposal of this business (see note 5).

The income statement and statement of cash flows show adjusted figures for the first half of 2008 for comparison purposes.

### *9.2.3 Summary consolidated income statement*

| *In millions of euros* | **Notes** | **First half 2009** | **First half 2008 adjusted** |
|---|---|---|---|
| **Continuing operations** | | | |
| **Consolidated sales** | **18** | **303.1** | **321.8** |
| Cost of sales | | (211.5) | (211.7) |
| **Gross income** | | **91.6** | **110.1** |
| Selling and marketing costs | | (31.4) | (32.4) |
| Administrative and research costs | | (29.9) | (33.0) |
| Other operating costs | | (1.4) | (2.1) |
| **Operating income before non-recurring items** | | **28.9** | **42.6** |
| Non-recurring expense | 17 | (1.3) | (1.4) |
| Non-recurring income | | 0.0 | 14.0 |
| **Operating income** | **18/20** | **27.6** | **55.2** |
| Finance costs | | (5.7) | (6.0) |
| **Finance costs, net** | | **(5.7)** | **(6.0)** |
| **Income before tax** | | **21.9** | **49.2** |
| Current and deferred income tax | 22 | (6.2) | (14.4) |
| **Net income from continuing operations** | | **15.7** | **34.8** |
| **Assets held for sale and discontinued operations** | | | |
| Net income from assets held for sale and discontinued operations | 5 | (1.9) | (1.2) |
| **NET INCOME** | | **13.8** | **33.6** |
| | | | |
| **Net income attributable to:** | | | |
| - Carbone Lorraine shareholders | | 13.3 | 33.1 |
| - Minority interests | | 0.5 | 0.5 |
| **NET INCOME** | | **13.8** | **33.6** |
| | | | |
| **Earnings per share** | **23** | | |
| Basic earnings per share (€) | | 0.86 | 2.33 |
| Diluted earnings per share (€) | | 0.82 | 2.26 |
| Net income per share from continuing operations | 23 | | |
| Basic earnings per share (€) | | 0.98 | 2.41 |
| Diluted earnings per share (€) | | 0.94 | 2.34 |

### *9.2.4 Summary comprehensive income statement*

| | Note | | |
|---|---|---|---|
| **NET INCOME FOR THE PERIOD** | Note | **13.8** | **33.6** |
| Change in fair value of hedging instruments | 21 | **3.0** | 1.2 |
| Change in balance-sheet items arising from period-end exchange rates | | **(2.9)** | (15.1) |
| Income tax recognized in shareholders' equity | 21 | **(1.0)** | (0.4) |
| **INCOME AND EXPENSES DIRECTLY TAKEN TO EQUITY** | | **(0.9)** | **(14.3)** |
| **TOTAL INCOME AND EXPENSES RECOGNIZED FOR THE PERIOD** | | **12.9** | **19.3** |
| **Attributable to:** | | | |
| - Carbone Lorraine shareholders | | 12.3 | 18.9 |
| - Minority interests | | 0.6 | 0.4 |
| **TOTAL INCOME AND EXPENSES RECOGNIZED FOR THE PERIOD** | | **12.9** | **19.3** |

### *9.2.5 Consolidated balance sheet*

## ASSETS

| *In millions of euros* | **Note** | **June 30, 2009** | **Dec. 31, 2008** |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | | | |
| - *Goodwill* | 6 | 215.0 | 181.2 |
| - Other intangible assets | | 17.0 | 8.2 |
| **Property, plant and equipment** | | | |
| - Land | | 31.9 | 30.9 |
| - Buildings | | 49.9 | 39.2 |
| - Plant, equipment and other assets | 8 | 142.3 | 135.8 |
| - Assets in progress | | 41.1 | 29.1 |
| **Non-current financial assets** | | | |
| - Investments | 9 | 20.2 | 69.1 |
| - Non-current derivatives | | 0.0 | 2.8 |
| - Other financial assets | 3/15 | 29.3 | 23.8 |
| **Non-current tax assets** | | | |
| - Deferred tax assets | 22 | 21.3 | 10.3 |
| - Non-current tax assets | | | |
| **TOTAL NON-CURRENT ASSETS** | | **568.0** | **530.4** |
| **CURRENT ASSETS** | | | |
| - Inventories | 10 | 156.8 | 165.9 |
| - Trade receivables | 11 | 90.9 | 121.0 |
| - Other receivables | | 17.2 | 29.1 |
| - Other current assets | | 10.4 | 9.5 |
| - Current tax assets | | 6.0 | 10.4 |
| - Current financial assets | 15 | 3.7 | 0.5 |
| - Current derivatives | 3 | 1.1 | 2.0 |
| - Trading financial assets | 15 | 7.4 | 3.2 |
| - Cash and cash equivalents | 15 | 56.7 | 46.8 |
| - Assets held for sale and discontinued operations | 5 | 1.8 | 24.1 |
| **TOTAL CURRENT ASSETS** | | **352.0** | **412.5** |
| **TOTAL ASSETS** | | **920.0** | **942.9** |

## LIABILITIES AND EQUITY

| *In millions of euros* | Note | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|---|
| **EQUITY** | | | |
| - Share capital | 12 | 31.0 | 28.6 |
| - Premiums and retained earnings | | 359.7 | 313.4 |
| - Net income for the period | | 13.3 | 29.1 |
| - Cumulative translation adjustments | | (52.9) | (49.9) |
| **EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS** | | **351.1** | **321.2** |
| - Minority interests | | 8.4 | 4.0 |
| **EQUITY** | | **359.5** | **325.2** |
| **Non-current liabilities** | | | |
| - Non-current provisions | 13 | 43.1 | 43.2 |
| - Employee benefits | 14 | 35.7 | 34.9 |
| - Deferred tax liabilities | 22 | 9.2 | 6.1 |
| - Borrowings | 15 | 278.5 | 297.6 |
| - Non-current derivatives | 3 | 0.4 | 0.5 |
| **TOTAL NON-CURRENT LIABILITIES** | | **366.9** | **382.3** |
| **CURRENT LIABILITIES** | | | |
| - Trade payables | | 48.1 | 72.0 |
| - Other payables | | 49.9 | 64.3 |
| - Current provisions | 13 | 2.7 | 3.0 |
| - Current tax liabilities | | 3.6 | 4.4 |
| - Other liabilities including dividends | | 20.9 | 14.0 |
| - Other current financial liabilities | 15 | 28.4 | 39.2 |
| - Current derivatives | | 0.0 | 3.9 |
| - Current advances | 15 | 1.9 | 1.3 |
| - Bank overdrafts | 15 | 35.4 | 18.3 |
| - Liabilities related to assets held for sale and discontinued operations | 5 | 2.7 | 15.0 |
| **TOTAL CURRENT LIABILITIES** | | **193.6** | **235.4** |
| **TOTAL LIABILITIES AND EQUITY** | | **920.0** | **942.9** |

### 9.2.6 *Statement of changes in equity*

| *In millions of euros* | Attributable to Carbone Lorraine's shareholders | | | | | Minority interests | Equity |
|---|---|---|---|---|---|---|---|
| | Share capital | Premiums and retained earnings | Net income for the period | Cumulative translation adjustment | Total | | |
| **Equity at December 31, 2007** | **28.6** | **309.3** | **15.4** | **(50.4)** | **302.9** | **4.1** | **307.0** |
| Prior period net income | | 15.4 | (15.4) | | | | |
| Net income for the period | | | 33.1 | | 33.1 | 0.5 | 33.6 |
| Change in fair value of hedging derivatives, after tax | | 0.8 | | | 0.8 | | 0.8 |
| Translation adjustments | | | | (15.0) | (15.0) | (0.1) | (15.1) |
| **Comprehensive income for the period** | | **0.8** | **33.1** | **(15.0)** | **18.9** | **0.4** | **19.3** |
| Dividends paid | | (12.1) | | | (12.1) | (0.7) | (12.8) |
| Treasury shares | | 0.5 | | | 0.5 | | 0.5 |
| Other items | | 0.4 | | | 0.4 | | 0.4 |
| **Equity at June 30, 2008** | **28.6** | **314.3** | **33.1** | **(65.4)** | **310.6** | **3.8** | **314.4** |
| **Equity at December 31, 2008** | **28.6** | **313.4** | **29.1** | **(49.9)** | **321.2** | **4.0** | **325.2** |
| Prior period net income | | 29.1 | (29.1) | | | | |
| Net income for the period | | | 13.3 | | 13.3 | 0.5 | 13.8 |
| Change in fair value of hedging derivatives, after tax | | 2.0 | | | 2.0 | | 2.0 |
| Translation adjustments | | | | (3.0) | (3.0) | 0.1 | (2.9) |
| **Comprehensive income for the period** | | **2.0** | **13.3** | **(3.0)** | **12.3** | **0.6** | **12.9** |
| Dividends not yet paid | | (8.9) | | | (8.9) | (0.1) | (9.0) |
| Issue of new shares | 2.4 | 20.7 | | | 23.1 | | 23.1 |
| Other items | | 3.4 | | | 3.4 | 3.9 | 7.3 |
| **Equity at June 30, 2009** | **31.0** | **359.7** | **13.3** | **(52.9)** | **351.1** | **8.4** | **359.5** |

### 9.2.7 Consolidated statement of cash flows

| *In millions of euros* | First half 2009 | First half 2008 adjusted |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Income before tax | 21.9 | 49.2 |
| Depreciation and amortization | 16.1 | 11.9 |
| Impairment losses | | |
| Additions to/(write-backs from) provisions | (0.7) | (1.1) |
| Finance costs, net | 5.7 | 6.0 |
| Capital gains/(losses) on asset disposals | (0.1) | 0.0 |
| Other movements | 1.2 | (11.9) |
| Cash generated by operating activities before change in the WCR | 44.1 | 54.1 |
| Change in the working capital requirement | 14.9 | (34.7) |
| Income tax paid | (3.3) | (7.8) |
| Net cash generated by continuing operations | 55.7 | 11.6 |
| Cash generated by discontinued operations | (9.8) | (5.0) |
| **Net cash generated by operating activities** | **45.9** | **6.6** |
| Investing activities | | |
| Increase in intangible assets | (0.2) | (0.2) |
| Increase in property, plant and equipment | (26.8) | (21.8) |
| Increase in financial assets | (1.2) | |
| Impact of changes in the scope of consolidation | 1.9 | 25.8 |
| Other changes in cash generated/(used) by investing activities | (4.3) | (3.0) |
| Cash generated/(used) by continuing investing activities | (30.6) | 0.8 |
| Cash generated/(used) by discontinued investing activities | 2.7 | (1.3) |
| Cash generated/(used) by investing activities | (27.9) | (0.5) |
| **Cash generated/(used) by operating and investing activities** | **18.0** | **6.1** |
| Financing activities | | |
| Proceeds from issue of new shares and other increases in equity | 25.5 | 0.3 |
| Net dividends paid to shareholders and minority interests | (0.1) | (12.8) |
| Interest payments | (5.2) | (6.4) |
| Change in debt (Note 15) | (20.7) | 33.7 |
| Cash generated/(used) by financing activities | (0.5) | 14.8 |
| Change in cash | 17.5 | 20.9 |
| Cash at beginning of period (Note 15) | 50.1 | 26.4 |
| Cash at end of period (Note 15) | 64.1 | 45.0 |
| Impact of changes in the scope of consolidation | (0.7) | 0.3 |
| Impact of currency fluctuations | 4.2 | 2.0 |
| Change in cash | 17.5 | 20.9 |

### *9.2.8 Notes*

## NOTE 1 STATEMENT OF CONFORMITY

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

Mandatory standards and interpretations at January 1, 2009 and their impact are set out in Note 2. New standards and interpretations that are not yet being applied are set out in Note 2.W.

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

The interim consolidated financial statements for the six months ended June 30, 2009 have been prepared in accordance with IAS 34 "Interim financial reporting". They do not contain all information required in the full annual financial statements, and must be read in conjunction with the Group's financial statements for the year ended December 31, 2008, available at www.carbonelorraine.com.

The summary consolidated interim financial statements at June 30, 2009 have been prepared using the recognition and measurement principles stated in the IFRSs issued by IASB and adopted in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the General Regulation of the Autorité des Marchés Financiers (AMF, the French market regulator).

The summary interim consolidated financial statements at June 30, 2009 include for comparative purposes figures for the periods ended June 30, 2008 and December 31, 2008 adjusted using the same rules.

The accounting principles described in Note 2 et seq have been applied to prepare comparative information and the summary interim consolidated financial statements for the six months ended June 30, 2009.

## NOTE 2 ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

Except for the changes described below, the accounting policies and principles of consolidation applicable to the Group's summary consolidated financial statements for the six months ended June 30, 2009 are identical to those applied by the Group at December 31, 2008 for the year ended the same date.

### CHANGES IN ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

#### Presentation of financial statements

The Group applies IAS 1 (revised 2007) "Presentation of financial statements", which became applicable from January 1, 2009. The revision introduces the notion of comprehensive income, which takes into account changes in equity during the period other than those resulting from transactions with shareholders. The Group has chosen to present comprehensive income in two statements, i.e. an income statement and a separate statement covering income and other items of comprehensive income. Comparative data have been adjusted to ensure compliance with IAS 1 (revised). This change of accounting policy is merely presentational, and has no impact on income.

#### Identification and presentation of operating segments

The Group identifies and presents operating segments based on information reported internally to the Management Board, which is the Group's main operational decision-making body. This change in accounting policy results from the application of IFRS 8 "Operating segments". Comparative segment data have been adjusted in accordance with the transitional IFRS 8 rules. This change in accounting policy only affects the presentation of the financial statements and the content of the notes, and has no impact on income.

An operating segment is a unit of the Group that carries out activities in relation to which it is likely to derive revenues or bear expenses, including revenues and expenses related to transactions with other Group units. The Management Board regularly examines each segment's operating income in order to make decisions about the allocation of resources to it, and to assess its performance. Separate financial information is available for each segment. Unallocated items mainly include holding-company expenses.

**IAS 23 (revised) requires borrowing costs directly attributable to the acquisition,** construction or production of certain assets to be capitalized, and prevents borrowing costs from being expensed. These costs are considered as part of the asset acquisition cost. The Group already recognized directly attributable borrowing costs in the cost of the relevant assets. As a result, IAS 23 (revised) will have no impact on the Group's financial statements.

**The amendments to IFRS 2 "Share-based payment - vesting conditions and cancellations"** clarify the definition of vesting conditions, introduce the notion of conditions other than vesting conditions, require these other conditions to be reflected at fair value on the grant date, and specify the accounting treatment of other conditions and cancellations. These amendments do not affect the Group, given the grant conditions of existing plans.

**IFRIC 14 (IAS 19 "Employee benefits" – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)** clarifies the date on which repayments or reductions of future contributions to a defined-benefit plan are regarded as available, and gives details on the impact of a minimum funding requirement (MFR) on these assets. IFRIC 14 also deals with the issue of when a MFR may generate a liability. IFRIC 14 does not have any effect on the Group's interim financial statements.

## 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. Control is defined as the power to govern the financial and operating policies of a business so as to obtain benefits from its activities. Subsidiaries over which the Group directly or indirectly exerts exclusive control are fully consolidated.

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 loss of control respectively.

All associate undertakings over which the Group exerts significant influence, which is presumed to exist when the Group holds at least 20% of voting rights, are accounted for under the equity method. Subsidiaries' financial statements have been adjusted where necessary to ensure consistency with the policies used by all Group entities within the scope of consolidation.

All intra-group transactions and balances have been eliminated.

The consolidated financial statements have been prepared in euros.

Seasonal variations affecting the Group's activities are limited. Both sales and purchases of supplies take place steadily throughout the year.

## B - PRESENTATION OF THE FINANCIAL STATEMENTS

The Carbone Lorraine group prepares its financial statements in line with the accounting principles laid down in IAS 1 (revised) "Presentation of financial statements".

### B1 Comprehensive income statement

Given customary practice and the nature of its business activities, the Group has opted to present its income statement using the functional expense format, in which costs are classified according to their function under cost of sales, selling, administrative activities, and research and development.

The Group presents comprehensive income in two statements, i.e. an income statement and a separate statement covering income and other items of comprehensive income.

### B2 Balance sheet

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

### B3 Consolidated statement of cash flows

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

The indirect method consists of determining cash flows from operating activities whose net income or loss is adjusted for the effects of non-cash transactions and items arising from investing or financing activities.

### B4 Operations, assets and liabilities held for sale

In accordance with IFRS 5, assets and liabilities that are immediately available for sale in their current state and the sale of which is highly probable are shown on the balance sheet under assets and liabilities held for sale. Where a group of assets is held for sale in a single transaction and where this group represents a distinct component of the entity (a significant and distinct business line or geographical region for which there is a single, coordinated plan to sell it, or a subsidiary acquired solely with a view to selling it), the group of assets and corresponding liabilities is considered as a whole. The disposal must take place in the year following this presentation of the asset or group of assets.

The non-current assets or group of non-current assets held for sale are stated at the lower of their carrying amount and fair value net of disposal costs. Non-current assets appearing on the balance sheet as held for sale are no longer depreciated once they are presented as such.

The income of disposal groups is shown by separating it from the income of continuing operations, and their cash flows are presented on separate lines of the statement of cash flows.

## C - FOREIGN CURRENCY TRANSLATION

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

The balance sheets of companies whose functional currency is not the euro are translated into euros at the closing rate, except for equity, which is translated at the historic exchange rate. Income statement items are translated at the average exchange rate for the period. The average rate is the approximate exchange rate on the transaction date in the absence of material fluctuations.

Except for cash, which is translated at the period-end rate, items on the statement of cash flows are translated at the average rate except when the average rate is not appropriate.

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 period-end 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 period-end rate.

## D - FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency transactions are recognized and measured in accordance with IAS 21 "Effects of changes in foreign exchange rates".

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

Translation gains and losses on financial instruments denominated in foreign currencies representing a hedge of a net investment in a foreign operation are recorded in equity under cumulative translation adjustments.

## E - HEDGING

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

### E1 Currency and commodity hedges

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

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

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

- Changes in the fair value of instruments eligible as future cash flow hedges are accounted for directly in equity in respect of the effective portion of the hedge (intrinsic value). Changes in the fair value of these instruments are then recognized in operating income (under "cost of sales" for commodity hedges and under "other operating costs" for currency hedges) and offset changes in the value of assets, liabilities and firm commitments hedged, as they occur. The time value of hedges is recorded under "other operating costs" in operating income.
- Changes in the fair value of instruments not eligible as cash flow hedges are taken directly to income.

### E2 Interest rate hedging

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

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

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

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

## F - INTANGIBLE ASSETS

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

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

The Group's intangible assets comprise primarily goodwill.

Other intangible assets (customer relationships, technology) with a finite life are accounted for at cost less accumulated amortization and impairment. Amortization is calculated on a straight-line basis over the estimated useful life of the relevant intangible asset.

### F1 Goodwill

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

Goodwill is allocated individually to the Group's cash generating units (CGUs). The Group had the following four CGUs at December 31, 2008:

> Electrical Applications;

> Electrical Protection;

> High-Temperature Applications;

> Anticorrosion Equipment.

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

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

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

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

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

Value in use is determined based on free cash flow projections discounted over a period of five years, and a terminal value. The discount rate used for these calculations is the weighted average cost of capital for each of the cash generating units (see Note 7).

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

Goodwill impairment losses are irreversible.

### F2 Patents and licenses

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

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

### F3 Development costs

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

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

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

> the cost of the asset can be measured reliably;

> and the manner in which the intangible asset will generate probable future economic benefits.

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

## G - PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses, except for land, which was revalued at the IFRS transition date.

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are included in the cost of the asset.

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

The various components of an item of property, plant and equipment are recognized separately where their useful 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: 20-50 years;

> fixtures and fittings: 10-15 years;

> plant and equipment: 3-10 years;

> vehicles: 3-5 years.

These depreciation periods, along with residual values, are reviewed and adjusted at each period-end. These changes are applied prospectively.

Investment grants are recognized at the outset as a deduction from the gross value of the non-current asset.

## H - LEASES

Under IAS 17, a lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset.

Where the criteria laid down in the standard are not met, the costs resulting from leases are charged to income for the period and the lease is considered as an operating lease.

Non-current assets used under a finance lease give rise to the recognition on the balance sheet of both an item of property, plant and equipment and an obligation to make future lease payments. A finance lease is recognized in an amount equal to the fair value of the leased asset, or the present value of minimum payments if lower. At the inception of the lease, the asset and the liability for the future lease payments are recognized in the balance sheet at the same amounts.

Lease payments are broken down into a finance charge and the repayment of the outstanding debt. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The capitalized asset is depreciated over the useful life adopted by the Group for non-current assets of the same type. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

In addition, a portion of the capital amount of the debt is repaid in accordance with the debt repayment schedule contained in the finance lease agreement.

## I - IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

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

## J - FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are measured and recognized in line with IAS 39 "Financial instruments: Recognition and Measurement", with IAS 32 "Financial Instruments: Disclosures and Presentation" and with IFRS 7 "Financial Instruments: Disclosures".

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

When first measured, all financial assets and liabilities not carried at fair value are measured at fair value taking into account transaction costs.

On subsequent measurements, loans and receivables are recognized at amortized cost.

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

Except where they are subject to a fair-value hedge (see Note E2), borrowings and other financial liabilities are stated at amortized cost using the effective interest rate (EIR). For example, lending fees are deducted from the initial amount of the debt, then added back period by period according to the calculation of the EIR, with the amounts added back being recognized in income.

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

### J1 Investments

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

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

These impairment losses are irreversible and are not written back.

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

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

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

**Equity**: the difference between net equity and the value of the securities exceeds 1% of the Group's equity in the previous year;

**Debt**: the amount of non-Group debt exceeds €5 million;

**Sales to third parties**: the entity's sales less intra-Group sales represent more than 1% of Group sales in the previous year;

**Net income**: net income exceeds €0.5 million.

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

### J2 Other non-current financial assets

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

## K - SHARE CAPITAL

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

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

## L - PROVISIONS

In accordance with IAS 37 "Provisions, contingent liabilities and contingent assets", provisions are recorded when the Group is under an obligation to a third party at the end of the fiscal year that is likely or certain to trigger an outflow of resources representing future economic benefits to the third party.

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

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

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

With restructurings, an obligation exists where the restructuring has been announced and execution of a detailed plan has commenced prior to the balance sheet date.

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

## M - INVENTORIES

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

Cost corresponds to acquisition or production cost.

The only indirect costs taken into account in the measurement of work in progress and finished goods are production-related expenses. No interest costs are capitalized.

## N - CONSOLIDATED SALES

Sales include sales of finished goods and related services, sales of scrap, sales of goods purchased for resale and invoiced shipping costs.

A product is recognized in sales when the entity transfers to the buyer the risks and rewards incidental to ownership.

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

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

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

## O - EMPLOYEE BENEFITS

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

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

These actuarial calculations are based on various estimates:

> mortality tables;

> retirement dates;

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

> expected return on plan assets;

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

Actuarial gains and losses comprise the cumulative impact of:

> experience adjustments (difference between previous actuarial assumptions and that which has actually occurred);

> changes in actuarial assumptions.

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

The Group has opted to use the following method:

> cumulative unrecognized actuarial gains and losses falling outside a corridor of plus or minus 10% of the value of the higher of the plan's assets and obligations are recognized and amortized over the expected average remaining working lives of the employees participating in the plan;

> gains and losses falling within the 10% corridor are not recognized;

> unrecognized net cumulative actuarial gains and losses include both the cumulative portion of the 10% within the corridor, as well as the portion outside the corridor, which has not been recognized at the balance sheet date. In accordance with IAS 19, they are disclosed in the notes to the financial statements.

### O1 Recognition of post-employment benefit obligations

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

> on the face of the balance sheet

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

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

> on the face of the income statement

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

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

### O2 Recognition of unrecognized past service cost

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

## P - NON-RECURRING INCOME AND EXPENSES

Non-recurring items correspond to income and expenses not arising during the Group's day-to-day operations. This item recognizes the impact of major events that may distort operational performance, and does not include any operational and recurring expense.

Non-recurring income and expenses include the following items:

> material and extraordinary disposal gains: on property, plant and equipment, intangible assets, investments, other financial assets and other assets;

> impairment losses recognized on investments, loans, goodwill and other assets;

> certain types of provision;

> reorganization and restructuring costs.

## Q - OPERATING INCOME

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

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

## R - DEFERRED TAXES

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

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

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

> projections of its future taxable income;

> its taxable income in previous years.

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

The measurement of deferred tax assets and liabilities reflects the tax consequences arising from the manner in which the entity expects at the balance sheet date to recover or to settle the carrying amount of these assets and liabilities.

## S - SEGMENT REPORTING

Since January 1, 2009, the Group has identified and presented operating segments based on information reported internally to the Management Board, which is the Group's main operational decision-making body. This change in accounting policy results from the application of IFRS 8 "Operating segments". Previously, operating segments were identified and presented in accordance with IAS 14 "Segment reporting", with business segments as primary segments and geographical areas as secondary segments. These secondary segments are no longer presented. The new accounting policy applied to information in the notes relating to operating segments is described below.

IFRS 8.36 requires comparative segment data to be adjusted in accordance with the transitional IFRS 8 rules. This change in accounting policy only affects the presentation of the financial statements and the content of disclosures in the notes, and therefore has no impact on earnings per share.

An operating segment is a unit of the Group that carries out activities in relation to which it is likely to derive revenues or bear expenses, including revenues and expenses related to transactions with other Group units. The Management Board regularly examines each segment's operating income in order to make decisions about the allocation of resources to it, and to assess its performance. Separate financial information is available for each segment.

The segment results reported to the Management Board include items directly attributable to the segment and those that can reasonably be attributed to it. The unattributed items mainly include holding-company assets and expenses and tax assets and liabilities.

Segment investments correspond to the costs incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The Group currently has two operating segments:

**Advanced Materials and Technologies:** equipment made of graphite and other high-performance materials, used in extreme industrial environments;

**Electrical Components and Technologies:** systems and components that protect and enhance the performance of electrical equipment.

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

## T - EARNINGS PER SHARE

Basic and diluted earnings per share are shown both for total net income and net income from continuing operations.

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

For the calculation of diluted earnings per share, net income attributable to holders of ordinary shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

## U - EQUITY-LINKED BENEFITS GRANTED TO EMPLOYEES

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

The value of stock purchase and subscription options depends on the 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, 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 over the vesting period, with a direct equivalent entry in equity for plans settled in equity and in liabilities to employees for plans settled in cash.

## V - USE OF ESTIMATES

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or assessments be made, particularly in relation to the calculation of provisions and impairment testing. These assumptions, estimates or assessments are prepared on the basis of the information available and the position at the balance sheet date. These estimates and assumptions are made based on past experience and various other factors. The current backdrop of a severe downturn in the economic and financial environment has made it hard to assess the business outlook. It is conceivable that actual figures will subsequently prove to differ from the estimates and assumptions adopted.

Actual events occurring after the balance sheet date may differ from the assumptions, estimates or assessments used.

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

Carbone Lorraine may make estimates and use assumptions affecting the carrying amount of assets and liabilities, income and expenses, as well as information about underlying assets and liabilities. Future results are liable to diverge significantly from these estimates.

The estimates and underlying assumptions are made based on past experience and other factors considered to be reasonable based on circumstances. They serve as the basis for the judgment exercised to determine the carrying amount of assets and liabilities, which cannot be obtained directly from other sources. Actual values may differ from estimated values.

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

Note 5 relates to net assets held for sale and discontinued operations. The impairment in these assets has been calculated by comparing the net carrying amount of these assets and liabilities with a best estimate of their realizable value.

Notes 2-F1, 2-I and 7 concern the testing of goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account.

Notes 13 and 14 concerning provisions and employee benefits describe the provisions set aside by Carbone Lorraine. To determine these provisions, Carbone Lorraine used the most reliable estimate of these obligations.

Note 22 concerning tax expense reflects the Group's tax position, which is based for France and Germany on the Group's best estimate of trends in its future taxable income.

All these estimates are predicated on a structured collection process for projections of future cash flows, providing for validation by line managers, as well as on expectations for market data based on external indicators and used according to consistent and documented methods.

### W – NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

New standards and amendments to standards and interpretations are not yet in force at June 30, 2009 and were not applied in the preparation of the consolidated financial statements:

> IFRS 3 (revised 2008) "Business combinations" contains the following changes, which will probably have an impact on the Group's transactions:

- The definition of a business has been expanded, which will probably increase the number of acquisitions treated as business combinations.
- Any consideration must be measured at fair value, with subsequent changes taken to income.
- Acquisition fees, other than fees relating to the issue of shares or debt, are expensed as incurred.
- Any previous interest owned in the acquired company is measured at fair value, with the gain or loss taken to income.
- Any (minority) stake that does not provide control is measured either at fair value or the proportion represented by that stake of the fair value of the acquired company's identifiable assets and liabilities, with the choice being made on a transaction-by-transaction basis.
- IFRS 3 (revised), application of which will be mandatory for the Group's 2010 consolidated financial statements, will be applied on a prospective basis and accordingly will not have any impact on prior periods in the Group's 2010 consolidated financial statements.

> IAS 27 (amended 2008) "Consolidated and Separate Financial Statements" states that changes in the level of the Group's ownership interests in a subsidiary, which maintain the Group's control, are accounted for as equity transactions. When the Group loses control of a subsidiary, any interest held in the former subsidiary is stated at fair value and any gain or loss is recognized in income. The amendments to IAS 27, application of which will be mandatory for the Group's 2010 consolidated financial statements, are not expected to have a material impact.

## NOTE 3 FINANCIAL RISK MANAGEMENT

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

> liquidity risk;

> commodity risk;

> currency risk;

> credit risk.

This note discloses information about the Group's exposure to each of the aforementioned risk factors, its objectives, its risk measurement and management policy and procedures.

Quantitative information is also provided in other sections of the consolidated financial statements.

Information on capital management is provided in Note 12.

### LIQUIDITY RISK

Carbone Lorraine has €422 million of confirmed credit facilities and borrowings, with an average maturity of 3.8 years. At end-June 2009, 71% of these facilities were used.

Carbone Lorraine has four major financing agreements:

> a RMB500 million loan arranged in September 2008, of which RMB350 million has a maturity of three years and RMB150 million has a renewable maturity of one year, syndicated with an international pool of banks, intended to finance the Carbone Lorraine group's operations in China;

> a USD350 million multi-currency loan arranged in July 2008 with a maturity of five years, syndicated with an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;

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

> a USD85 million private bond placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million tranche with a final maturity of 12 years. The average initial time to maturity of the private placement was around eight years because it is repayable in installments. Interest is paid at a fixed rate to investors.

***Breakdown of confirmed credit facilities and borrowings by maturity***

| *In millions of euros* | Amount | Drawn down at June 30, 2009 | Draw-down rate at June 30, 2009 | Maturities | | |
|---|---|---|---|---|---|---|
| | | | | less than 1 year | between 1 and 5 years | over 5 years |
| Group syndicated loan | 247.6 | 155.2 | 63% | 0.0 | 247.6 | 0.0 |
| Confirmed credit facilities, China | 76.6 | 46.3 | 60% | 40.3 | 36.3 | 0.0 |
| US private placements | 40.4 | 40.4 | 100% | 6.6 | 31.0 | 2.8 |
| OBSAARs | 39.1 | 39.1 | 100% | 0.0 | 26.1 | 13.0 |
| Confirmed credit facilities, UK | 8.4 | 8.4 | 100% | 4.4 | 1.3 | 2.7 |
| Other | 9.9 | 9.9 | 100% | 6.2 | 3.7 | 0.0 |
| **Total** | **422.0** | **299.3** | **71%** | **Average time to maturity (years) =** | | **3.8** |

## INTEREST-RATE RISK

The interest-rate risk management policy is approved by the Group's Executive Committee based on the proposals submitted by Carbone Lorraine's finance department and consists at present of establishing positions from time to time depending on the direction of interest rates.

After significant falls in interest rates in late 2008 and early 2009, Carbone Lorraine took steps to fix part of its interest expenses.

In May 2003, the Group arranged several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. These swaps were sold in April 2009, converting this debt back to fixed-rate.

In June 2009, the Group put in place a swap covering an aggregate nominal amount of €39 million to turn the interest payable on OBSAARs into a fixed rate. Under this swap, the Company receives interest payable to the lenders and pays 2.815%. The starting date of the swap was June 26, 2009, and the swap has the same term and amortization profile as the OBSAARs.

On January 15, 2008, Calcarb purchased an interest-rate swap with a nominal amount of GBP4 million to turn the interest payable on part of its confirmed medium-term debt into a fixed rate. Under this swap, the

Company receives interest payable to the lender and pays 5.38%. The swap has the same term and amortization profile as the debt. At June 30, 2009, the nominal amount was GBP3.6 million.

*In millions of euros*

| | Amount in euros | Interest rate received | Interest rate paid | Maturities | | |
|---|---|---|---|---|---|---|
| | | | | less than 1 year | between 1 and 5 years | over 5 years |
| Swap | 39.0 | 3-month Euribor | 2.815% | 0.0 | 26.0 | 13.0 |
| Swap | 4.28 | 1-month GBP Libor | 5.38% | 0.34 | 1.25 | 2.69 |

*In millions of euros*

| **Swap** | **MTM*** |
|---|---|
| Assets | 0.0 |
| Liabilities | (0.9) |

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

## COMMODITY RISK

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals that account for a significant volume of purchases (over €10 million) for the Carbone Lorraine group. Different hedging techniques, such as index-linking of purchase prices, index-linking of selling prices and bank hedging, are applied.

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

Around 72% of copper price exposure and 83% of silver price exposure can be covered through bank hedging.

With regard to the 2009 quantities, 80% of the hedgeable copper tonnages and 71% of hedgeable silver tonnages were actually hedged.

### Impact of commodity hedging

| *In millions of euros* | **Balance-sheet impact at end-June 2009** | **H1 2009 income statement impact** |
|---|---|---|
| Copper | 0.1 | (1.6) |
| Silver | 0.0 | 0.4 |

### EXCHANGE-RATE RISK

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

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

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

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

For consolidation purposes, the income statement and statements of cash flows of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the period-end rate. The impact of this currency translation may be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt. The Group does not specifically hedge its net foreign assets.

The Group's operating income before non-recurring items is exposed to exchange rate fluctuations principally through the translation of earnings recorded by companies whose functional currency is not the euro. The principal exposure is to the US dollar. A 10% decline in the value of the US dollar compared with the average recorded from January to June 2009 would have had a translation impact of -€1.3 million on the Group's operating income before non-recurring items.

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

### Recognition at end-June 2009 of currency transactions

| **MTM*** *(in millions of euros)* | | **June 30, 2009** |
|---|---|---|
| Marked-to-market value of currency hedges | Equity | 1.1 |
| | Other financial components of operating income | 0.0 |

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

### Future cash flows on currency transactions recognized at end-June 2009

| **Currency transactions** *(in millions of euros)* | **MTM** | **Expected cash flows** |
|---|---|---|
| Assets | 1.5 | 1.5 |
| Liabilities | (0.4) | (0.4) |

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

### CREDIT RISK

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

In 2003, the Group set up an insurance program with commercial credit insurer Coface covering its principal companies in the US and France against the risk of non-payment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

The program has been extended to Germany and to the UK in the first half of 2009. It is being rolled out in China (domestic customers).

In the first half of 2009, amendments were made to the contracts covering French receivables ceded in the first half of 2009, granting rights to the factor.

## NOTE 4 BUSINESS COMBINATIONS

### BUSINESS COMBINATIONS DURING 2009

In December 2008, Carbone Lorraine acquired 60% of the shares in Calcarb, a Scottish company that ranks second in the world in rigid graphite felt.

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

- Carbone Lorraine's entry into a market adjacent to the graphite equipment market, and in which growth is being driven mainly by solar power;
- the good fit between Carbone Lorraine and Calcarb's technologies. The technology used by Calcarb will supplement the other technologies currently being developed by the Group in the insulation market, creating additional growth potential.

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

| *In millions of euros* | Net assets at acquisition date | Fair value adjustments | **Fair value of net assets** |
|---|---|---|---|
| Non-current assets | 10.8 | 0.4 | **11.2** |
| Other assets | 2.6 | 0.0 | **2.6** |
| Non-current liabilities | (2.4) | 0.0 | **(2.4)** |
| Current liabilities | (6.2) | (0.1) | **(6.3)** |
| **Net assets** | **4.8** | **0.3** | **5.1** |
| *Goodwill* | | | **42.6** |
| **Total acquisitions** | | | **47.7** |
| Including: | | | |
| ▪·Acquisition price paid in cash | | | **47.7** |

Fair value adjustments concern the depreciation period of non-current assets.

# NOTE 5 AUTOMOBILE AND HOUSEHOLD ELECTRICAL APPLIANCE BRUSH DIVISION HELD FOR SALE

During January 2009, the Group received a firm offer from US investment fund MidMark Capital to purchase its automobile and household electrical appliance brush and brush-holder division concerning:

> the automobile and household electrical appliance brush business activities of:

- CL Applications Électriques (Amiens),
- Deutsche Carbon AG (Germany),
- Carbono Lorena (Brazil),
- Dietrich Gmbh (Germany),
- Carbone Kirkwood (USA),
- Carbone of America Industries Corp. (USA).

> and the shares of the following companies:

- AVO SA (France),
- SCEET (Tunisia),
- Carbone Lorraine Madras (India),
- AVO Kunshan (China) - unconsolidated company,
- Carbono Lorena de Mexico (Mexico) - unconsolidated company.

Accordingly, the disposal group has been presented and measured in line with IFRS 5 "Non-current assets held for sale and discontinued operations" from December 31, 2008 onwards.

Given the disposal terms envisaged:

> The cash and debt of the assets and liabilities in the disposal group have been excluded from the financial statements below. As a result, interest expenses have been excluded from the income statement.

> The French, German and North American units belong to local consolidated tax groups. No tax expense has been calculated for these companies, as their net income is assessed directly at the level of their parent company. The Brazilian and Indian companies do not have any significant amounts of income tax in their financial statements.

> Impairment losses shown on the balance sheet relate to the net assets held for sale and discontinued operations. They were calculated by comparing the net carrying amount of these assets and liabilities with their realizable value. The resulting impairment losses amounted to €17.8 million.

In accordance with IFRS 5, the assets and liabilities held for sale and discontinued operations are shown on a separate line of the Group's balance sheet.

The divestment was completed on May 1, 2009.

The financial statements of the assets held for sale and discontinued operations, including the temporarily maintained operations closely linked to the disposal and due to be discontinued, are shown below.

### IFRS 5 BALANCE SHEET OF OPERATIONS SOLD OR DISCONTINUED

### ASSETS

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| - Plant, equipment and other assets | 0.7 | 0.0 |
| - Other financial assets | 0.0 | 0.0 |
| - Inventories | 0.3 | 10.1 |
| - Trade receivables | 0.7 | 10.9 |
| - Other receivables | 0.1 | 3.1 |
| **Assets held for sale and discontinued operations** | **1.8** | **24.1** |

### LIABILITIES

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| - Non-current provisions | | 0.3 |
| - Employee benefits | 0.4 | 1.9 |
| - Trade payables | 0.1 | 7.8 |
| - Other payables | 2.2 | 4.5 |
| - Other liabilities | | 0.5 |
| **Liabilities related to assets held for sale and discontinued operations** | **2.7** | **15.0** |
| **Net assets in process of being sold or discontinued operations** | **(0.9)** | **9.1** |

### IFRS 5 INCOME STATEMENT FOR OPERATIONS SOLD OR DISCONTINUED

| *In millions of euros* | First half 2009 | First half 2008 |
|---|---|---|
| Sales | 16.4 | 40.2 |
| Cost of sales | (18.4) | (35.6) |
| **Gross income** | **(2.0)** | **4.6** |
| Selling and marketing costs | (1.3) | (1.9) |
| Administrative and research costs | (2.3) | (3.1) |
| Other operating costs | (0.1) | (0.5) |
| **Operating income before non-recurring items** | **(5.7)** | **(0.9)** |
| Non-recurring income and expense | (2.3) | (0.3) |
| Impairment losses | (2.4) | |
| **Operating income** | **(10.4)** | **(1.2)** |
| Finance costs, net | 0.0 | 0.0 |
| **Income before tax** | **(10.4)** | **(1.2)** |
| Current and deferred income tax | 8.5 | 0.0 |
| **Net income from assets sold and discontinued operations** | **(1.9)** | **(1.2)** |
| **Net income per share from assets sold and discontinued operations:** | | |
| - Basic earnings per share (€) | (0.12) | (0.08) |
| - Diluted earnings per share (€) | (0.12) | (0.08) |

# NOTE 6 GOODWILL

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

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| Net value at Jan. 1 | 181.2 | 164.9 |
| Acquisitions (Note 4) | 42.6 | 20.8 |
| Other movements | (8.9) | (5.6) |
| Translation adjustments | 0.1 | 1.1 |
| Net value at end of period | 215.0 | 181.2 |
| Gross value at end of period | 215.0 | 181.2 |

The €8.9 million decrease shown under other movements related primarily to the definitive allocation of goodwill relating to Xianda, acquired in April 2008. The brand was valued at €4.0 million, technology at €2.3 million and customer relationships at €2.2 million.

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

| *In millions of euros* | Dec. 31, 2008 | Movements in 2009 | | | June 30, 2009 |
|---|---|---|---|---|---|
| | Net value | Acquisitions | Other movements | Translation adjustments | Net value |
| Anticorrosion equipment | 70.9 | | (8.9) | | 62.0 |
| High-temperature applications | 23.9 | 42.6 | | 0.8 | 67.3 |
| Electrical applications | 11.8 | | | | 11.8 |
| Electrical protection | 74.6 | | | (0.7) | 73.9 |
| **Total** | **181.2** | **42.6** | **(8.9)** | **0.1** | **215.0** |

# NOTE 7 ASSET IMPAIRMENT TESTS

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2008 was prepared.

Under IAS 36, tests were carried out on the basis of the value in use determined using the discounted cash flow method. Following the introduction of IFRS 5, the cash flows and assets of the automobile and household electrical appliance brush disposal group were excluded from the Electrical Applications CGU.

The key assumptions used were as follows:

- five-year cash flow forecasts based on the 2008 budget and projections for the following four fiscal years;
- an after-tax discount rate of 8%;
- a perpetual growth rate of 4% for the chemical engineering equipment CGU, 2% for the electrical applications CGU and 3% for the other CGUs;
- a normalized tax rate of 34%.

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

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

No evidence of impairment was identified. However, the deterioration in the economic environment has created a source of uncertainty affecting the preparation of the cash flow projections used and the valuations obtained.

# NOTE 8 PROPERTY, PLANT AND EQUIPMENT

| *In millions of euros* | Land | Buildings | Plant, equipment and other | Other | Total |
|---|---|---|---|---|---|
| **Net value at Jan 1, 2008** | **31.8** | **34.0** | **119.4** | **22.0** | **207.2** |
| Acquisitions | 0.1 | 0.1 | 3.8 | 19.1 | 23.1 |
| Retirements and disposals | - | - | (0.3) | - | (0.3) |
| Depreciation | - | (1.0) | (12.0) | - | (13.0) |
| Translation adjustments | (0.8) | (0.9) | (2.9) | (0.7) | (5.3) |
| Changes in the scope of consolidation | - | (1.6) | (1.4) | - | (3.0) |
| Other movements | 0.1 | 1.0 | 9.4 | (9.5) | 1.0 |
| **Net value at June 30, 2008** | **31.2** | **31.6** | **116.0** | **30.9** | **209.7** |
| Gross value at June 30, 2008 | 32.1 | 78.6 | 336.8 | 30.9 | 478.4 |
| Total depreciation at June 30, 2008 | (0.9) | (47.0) | (220.8) | - | (268.7) |
| Total impairment losses at June 30, 2008 | - | - | - | - | 0.0 |
| **Net value at December 31, 2008** | **30.9** | **39.2** | **135.8** | **29.1** | **235.0** |
| Gross value at December 31, 2008 | 31.8 | 87.2 | 328.0 | 29.1 | 476.1 |
| Total depreciation at December 31, 2008 | (0.9) | (48.0) | (192.2) | - | (241.1) |
| Total impairment losses at December 31, 2008 | - | - | - | - | 0.0 |
| **Net value at Jan 1, 2009** | **30.9** | **39.2** | **135.8** | **29.1** | **235.0** |
| Acquisitions | 0.1 | 3.4 | 6.6 | 17.2 | 27.3 |
| Retirements and disposals | | | (0.1) | | (0.1) |
| Depreciation | 0.1 | (0.2) | (15.8) | | (15.9) |
| Translation adjustments | 0.2 | 0.3 | 0.7 | | 1.2 |
| Changes in the scope of consolidation | 0.6 | 5.2 | 11.7 | 1.1 | 18.6 |
| Assets held for sale and discontinued operations | | | (0.7) | | (0.7) |
| Other movements | | 2.0 | 4.1 | (6.3) | (0.2) |
| **Net value at June 30, 2009** | **31.9** | **49.9** | **142.3** | **41.1** | **265.2** |
| **Gross value at June 30, 2009** | **32.4** | **95.6** | **355.5** | **41.1** | **524.6** |
| **Total depreciation at June 30, 2009** | **(0.5)** | **(45.7)** | **(213.2)** | | **(259.4)** |
| **Total impairment losses at June 30, 2009** | | | | | **0.0** |

## NOTE 9 INVESTMENTS

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

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| Gross value | 28.8 | 79.3 |
| Impairment losses | (8.6) | (10.2) |
| **Carrying amount** | **20.2** | **69.1** |

Impairment losses recognized on investments at June 30, 2009 mainly concern Turkey, Argentina, Singapore and Greece.

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

*In millions of euros*

| Company name | % held | Gross value | Net carrying amount |
|---|---|---|---|
| Fuses & Switchgear | 100 | 13.1 | 13.1 |
| Carbone Lorraine Sanayi Urünleri A.S (Turkey) | 100 | 5.0 | 1.0 |
| Carbone Lorraine Argentina SA (Argentina) | 100 | 3.7 | 0.8 |
| Fusetech (Hungary) | 50 | 1.3 | 1.3 |
| Carbone Lorraine Holding (Singapore) | 100 | 1.1 | 0.1 |
| Nortroll (Norway) | 34 | 0.8 | 0.5 |
| Carbone Lorraine Products de Mexico | 100 | 0.7 | 0.7 |
| Clisa (Mexico) | 49 | 0.6 | 0.6 |
| Carbone Lorraine Grèce | 100 | 0.6 | 0.3 |
| Ferraz Shawmut Shanghai (China) | 100 | 0.6 | 0.6 |
| Carbone-Lorraine Chile (Chile) | 100 | 0.2 | 0.2 |
| GMI Metaullics (USA) | 25 | 0.2 | 0.2 |
| Carbone Lorraine Maroc | 100 | 0.2 | 0.2 |
| Ferraz Shawmut Kunshan (China) | 100 | 0.2 | 0.2 |
| Carbone Lorraine de Columbia S.A. | 80 | 0.1 | 0.1 |
| Le Carbone Materials KK (Japan) | 49 | 0.1 | 0.1 |
| Investments in other companies | | 0.3 | 0.2 |
| **Total** | | **28.8** | **20.2** |

# NOTE 10 INVENTORIES

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| Raw materials and other supplies | 88.5 | 80.5 |
| Work in progress | 44.7 | 50.6 |
| Finished goods | 23.6 | 34.8 |
| Net carrying amount of inventories | 156.8 | 165.9 |

Inventories decreased by €9.1 million in the first half of 2009, with a decrease of €1.9 million attributable to changes in the scope of consolidation and a decrease of €0.3 million due to currency effects. On a like-for-like basis, inventories fell by 6.8% or €11.3 million.

# NOTE 11 TRADE RECEIVABLES

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| Gross trade receivables | 94.2 | 124.4 |
| Impairment losses | (3.3) | (3.4) |
| Trade receivables | 90.9 | 121.0 |

Net trade receivables decreased by €30.1 million in the first half of 2009. There was an increase of €2.8 million attributable to changes in the scope of consolidation and a €0.6 million increase due to currency effects, but a decrease of €13.5 million resulting from factoring, which reduced receivable collection times. On a like-for-like basis, trade receivables fell by 27.6% or €33.5 million.

# NOTE 12 SHARE CAPITAL

### 12.1 Composition of share capital

| *Number of shares (unless otherwise stated)* | **Ordinary shares** |
|---|---|
| Number of shares at January 1, 2009 | 14,297,213 |
| Issue of new shares (in millions of euros) | 2.4 |
| Number of shares at June 30, 2009 | 15,497,213 |
| Number of shares in issue and fully paid-up | 15,497,213 |
| Number of shares in issue and not fully paid-up | 0 |
| Par value of shares (euros) | 2 |
| Entity's shares held by itself or by its subsidiaries and associates | 58,098 |

### CAPITAL MANAGEMENT

At June 30, 2009, Carbone Lorraine's share capital amounted to €30,994,426, divided into 15,497,213 shares each with a nominal value of €2. The number of voting rights stood at 15,439,115, since shares held in treasury do not carry voting rights. There are no double voting rights.

To the best of our knowledge, ownership of the capital is as follows:

French institutional investors: 35.5%

| | |
|---|---|
| Institutional investors from other countries: | 36.5% |
| Individual shareholders: | 27.0% |
| Employees: | 0.7% |
| Treasury shares: | 0.3% |

During fiscal 2007, the Company issued 114,000 stock subscription warrants (BSAARs) in connection with the issue of bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds), authorized by the May 24, 2007 AGM. Since each BSAAR warrant entitles the holder to receive one new or existing share, the maximum number of shares to be issued through exercise of the warrants stands at 114,000, representing 0.71% of the capital.

In December 2008, the Group issued 2,500,000 share issuance rights (BEAs) to Société Générale under a PACEO equity line program approved by the Extraordinary General Meeting on December 12, 2008. The BEAs were subscribed by Société Générale on December 17, 2008. The rights may be exercised at Carbone Lorraine's request during a period of two years in tranches, representing a maximum number of 400,000 shares per tranche. The total number of shares that may be issued after two years may not exceed 2.5 million or 17.5% of the share capital prior to any issues made under this PACEO program. For each tranche, the issue price would be set based on the share price at the time less a discount of no more than 10%. In May and June 2009, the Company issued three tranches of 400,000 shares. The first tranche was issued at €20.35 per share, the second at €19.66 and the third at €17.62. Overall, the Company issued 1,200,000 new shares, representing 8.4% of the initial capital, for €22.3 million.

At June 30, 2009, 58,098 shares or 0.32% of the share capital was held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to investment services provider Exane.

At June 30, 2009 the Group's employees owned 119,914 shares, representing 0.75% of the share capital, plus 663,401 stock options that, if exercised in full, would represent 4.18% of the current share capital. The stock option plans set up by the Group are based on a strike price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of its young managers. The allottees of the bonus shares are not the same as the beneficiaries of the stock options. Take-up of these shares is contingent upon their presence within the Group at the end of the vesting period. At June 30, 2009, a total of 116,778 bonus shares (taking cancellations into account), representing 0.73% of the current share capital, had been allotted.

In the Company's May 19, 2009 AGM, shareholders passed the fourth resolution, under which all shareholders can opt to receive their full dividend entitlement in newly issued shares in the Company. On May 19, 2009, the Management Board set the issue price for new shares at €18.38. On July 7, 2009, the Management Board noted that at the end of the option period, 10,378,929 rights were invested in new shares, and decided to issue 355,484 new shares with par value of €2 each.

To date, the Group has not pursued stock repurchases because it uses its cash for its policy of selective acquisitions.

The Group did not alter its capital management policy in the first half of 2009.

Neither the Company nor its subsidiaries are subject to specific capital constraints under external rules.

No shares carry double voting rights.

With respect to share-based payments, plans set up after November 7, 2002 were measured in accordance with IFRS 2.

**12.2 Reserves**

A tax receivable of €3.2 million relating to a request for dividend withholding tax rebates has been recognized in equity. The risks related to this receivable have been transferred without recourse to a bank through the issue of contingent-payment debt securities. The risks related to this receivable have been transferred without recourse to a bank through the issue of contingent-payment debt securities. As a result, the related assets and liabilities have been deconsolidated.

# NOTE 13 PROVISIONS AND CONTINGENT LIABILITIES

| *In millions of euros* | June 30, 2009 | | Dec. 31, 2008 | |
|---|---|---|---|---|
| | Non-current | Current | Non-current | Current |
| - Provision for restructuring | 0.1 | 0.1 | 0.1 | 0.1 |
| - Provision for litigation | 42.8 | 2.5 | 42.7 | 2.8 |
| - Other provisions | 0.2 | 0.1 | 0.4 | 0.1 |
| **Total** | **43.1** | **2.7** | **43.2** | **3.0** |

| *In millions of euros*<br><br>Current and non-current | Dec. 31, 2008 | Additions | Uses | Other | Cumulative translation adjustment | June 30, 2009 |
|---|---|---|---|---|---|---|
| - Provision for restructuring | 0.2 | | | | | 0.2 |
| - Provision for litigation | 45.5 | (0.2) | (0.2) | | 0.2 | 45.3 |
| - Other provisions | 0.5 | | (0.1) | (0.1) | | 0.3 |
| Total | 46.2 | (0.2) | (0.3) | (0.1) | 0.2 | 45.8 |

At June 30, 2009 provisions for litigation comprised:

> the entire amount of the fine handed down to the Group by the European authorities (€42.8 million),

> civil lawsuits in the United States (€1.3 million),

> and a dispute with the US Department of Commerce (€0.9 million) with regard to export licenses.

As regards the European dispute, the ruling of the EU Court of First Instance was confirmed on appeal. In December 2008, the Group lodged an appeal with the European Court of Justice. The corresponding provision has thus been classified under non-current provisions. To recap, as a guarantee for the appeal heard by the EU Court of First Instance, the Group made a €20 million advance in 2005 into an escrow account held by the European Commission, recognized under other non-current financial assets.

As regards the civil lawsuits in the United States, the €1.3 million provision covers lawsuits brought at the federal level by certain auto equipment manufacturers, which opted out of the federal class-action lawsuit and lodged a separate claim for damages. The Group believes that there is no legal basis for this separate legal action. This assessment was backed up by a decision made by the US judge on August 9, 2007 dismissing the admissibility of the request relating to the worldwide cartel, thereby limiting the scope of the opt-out action lodged by customers to sales realized in the United States. This decision prompted the plaintiffs to initiate proceedings in the United Kingdom. The Group regards the arguments put forward by the opt-out plaintiffs as baseless, and so it decided to keep the provision at the initial level under the August 2004 settlement agreement.

No other material contingent liabilities were identified at June 30, 2009.

# NOTE 14 EMPLOYEE BENEFITS

The Carbone Lorraine group's principal pension plans are defined-benefit plans, including termination benefits, and are located in the US (26% of obligations), the UK (26%), France (22%) and Germany (14%).

The Group's obligations were measured at December 31, 2008 with the assistance of independent actuaries in accordance with IAS 19. Obligations, coverage assets and the charge recognized at June 30, 2009 were calculated by projecting the valuation at December 31, 2008.

The rates used for the principal countries are summarized below:

| 2008 | Discount rate | Return on plan assets | Average rate of salary increases | Inflation rate |
|---|---|---|---|---|
| France | 5.35% | 4.0%/4.25% | 2.5% | 2.0% |
| Germany | 5.35% | Not applicable | 2.5% | 2.0% |
| USA | 6.0% | 6.75% | Not applicable | Not applicable |
| United Kingdom | 6.0% | 6.75% | 3.75% | 3.0% |

### RECONCILIATION BETWEEN ASSETS AND LIABILITIES RECOGNIZED

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| Actuarial obligation | 93.1 | 94.7 |
| Fair value of plan assets | (44.4) | (44.2) |
| Unrecognized actuarial gains and losses | (11.6) | (14.1) |
| Unrecognized past service cost (rights not vested) | (1.4) | (1.5) |
| Net amount recognized | 35.7 | 34.9 |

### BREAKDOWN OF THE GROUP'S OBLIGATIONS AT JUNE 30, 2009 BY GEOGRAPHICAL AREA

| *In millions of euros* | France | Germany | United States | United Kingdom | Rest of the world | Total at June 30, 2009 |
|---|---|---|---|---|---|---|
| Actuarial obligation | 20.1 | 12.6 | 24.3 | 23.9 | 12.2 | 93.1 |
| Fair value of plan assets | (4.5) | | (13.6) | (19.3) | (7.0) | (44.4) |
| Unrecognized actuarial gains and losses | (0.5) | 0.6 | (5.7) | (4.0) | (2.0) | (11.6) |
| Unrecognized past service cost (rights not vested) | (1.1) | | (0.3) | | | (1.4) |
| Net amount recognized | 14.0 | 13.2 | 4.7 | 0.6 | 3.2 | 35.7 |

### MOVEMENTS IN THE GROUP'S OBLIGATIONS

| *In millions of euros* | **France** | **Germany** | **United States** | **United Kingdom** | **Rest of the world** | **Total** |
|---|---|---|---|---|---|---|
| December 31, 2008 | 19.5 | 12.6 | 29.5 | 20.9 | 12.2 | 94.7 |
| Payments | | (0.5) | (0.9) | (0.2) | (0.8) | (2.4) |
| Expense charged to income | 0.9 | 0.4 | 1.5 | 0.7 | 0.7 | 4.2 |
| Translation adjustment | | | (0.9) | 2.5 | 0.4 | 2.0 |
| Actuarial gains and losses | 0.1 | 0.2 | | | (0.2) | 0.1 |
| Other movements | (0.4) | (0.1) | (4.9) | | (0.1) | (5.5) |
| **June 30, 2009** | **20.1** | **12.6** | **24.3** | **23.9** | **12.2** | **93.1** |

### CHANGE IN PLAN ASSETS

| *In millions of euros* | **France** | **Germany** | **United States** | **United Kingdom** | **Rest of the world** | **Total** |
|---|---|---|---|---|---|---|
| December 31, 2008 | 4.5 | | 16.7 | 16.7 | 6.3 | 44.2 |
| Return on plan assets | | | 0.4 | 0.6 | 0.2 | 1.2 |
| Employer contribution | 0.2 | 0.5 | | | 0.3 | 1.0 |
| Employee contribution | | | | | | 0.0 |
| Payment of benefits | (0.2) | (0.3) | | | | (0.5) |
| Translation adjustment | | (0.2) | (0.5) | 2.0 | 0.2 | 1.5 |
| Other movements | | | (3.0) | | | (3.0) |
| **June 30, 2009** | **4.5** | **0.0** | **13.6** | **19.3** | **7.0** | **44.4** |

According to actuarial estimates, the charge recognized at June 30, 2009 in respect of these plans was €3.3 million, compared with €3.4 million in 2008, and breaks down as follows:

| *In millions of euros* | **France** | **Germany** | **United States** | **United Kingdom** | **Rest of the world** | **Total at June 30, 2009** | **Total at June 30, 2008** |
|---|---|---|---|---|---|---|---|
| Current service cost | 0.4 | | 0.9 | 0.1 | 0.4 | 1.8 | 1.7 |
| Interest cost | 0.4 | 0.3 | 0.8 | 0.7 | 0.3 | 2.5 | 2.6 |
| Expected return on plan assets | | | (0.5) | (0.6) | (0.2) | (1.3) | (1.8) |
| Amortization of actuarial gains and losses | 0.1 | | 0.2 | 0.1 | 0.1 | 0.5 | 0.5 |
| Other movements | (0.2) | | | | | (0.2) | 0.4 |
| **Total charge for the period** | **0.7** | **0.3** | **1.4** | **0.3** | **0.6** | **3.3** | **3.4** |

# NOTE 15 NET DEBT

### ANALYSIS OF TOTAL NET DEBT AT JUNE 30, 2009

| *In millions of euros* | **June 30, 2009** | **Dec. 31, 2008** |
|---|---|---|
| Borrowings | 278.5 | 297.6 |
| Current financial liabilities | 28.4 | 39.2 |
| Current advances | 1.9 | 1.3 |
| Bank overdrafts | 35.4 | 18.3 |
| Current financial assets | (3.7) | (0.5) |
| **Total gross debt** | **340.5** | **355.9** |
| Trading financial assets | (7.4) | (3.2) |
| Cash and cash equivalents | (56.7) | (46.8) |
| **Cash** | **(64.1)** | **(50.0)** |
| **Total net debt** | **276.4** | **305.9** |

Total consolidated net debt amounted to €276.4 million at June 30, 2009, compared with €305.9 million at December 31, 2008 and €214.8 million at June 30, 2008.

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

| *In millions of euros* | **June 30, 2009** | **June 30, 2008 adjusted** |
|---|---|---|
| **Prior year debt (December 31)** | **305.9** | **191.8** |
| Cash generated/(used) by recurring operating and investing activities after tax | (23.4) | 13.8 |
| Cash used by restructurings | 0.2 | 0.3 |
| Net cash inflows/(outflows) attributable to changes in the scope of consolidation | (1.9) | (25.8) |
| Non-operating cash flows* | | 0.0 |
| **Cash generated by the operating and investing activities of continuing operations** | **(25.1)** | **(11.7)** |
| **Cash generated by the operating and investing activities of assets held for sale and discontinued operations** | **7.1** | **5.6** |
| Proceeds from issue of new shares and other increases in equity | (25.5) | (0.3) |
| Dividends paid | 0.1 | 12.8 |
| Interest payments | 5.2 | 6.4 |
| Translation adjustment and other | 0.9 | (4.4) |
| Changes in the scope of consolidation | 7.8 | 1.3 |
| Other movements | | 13.3 |
| **Debt at mid-year-end (June 30)** | **276.4** | **214.8** |

## FINANCIAL COVENANTS AT JUNE 30, 2009

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 cross-default clauses, early repayment of one significant borrowing may oblige the Group to repay other borrowings immediately.

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

## FINANCIAL COVENANTS* (CONSOLIDATED FINANCIAL STATEMENTS)

| *In millions of euros* | **Net debt/EBITDA** | **Net debt/equity** | **EBITDA/ net interest expense** |
|---|---|---|---|
| **Covenant ratios** | | | |
| Group syndicated loan | < 3.35 | < 1.3 | - |
| US private placement | < 3.35 | < 1.3 | > 3 |
| OBSAAR bond issue | - | < 1.35 | - |
| Syndicated loan, China | | < 1.35 | |
| **Actual ratios at June 30, 2009** | | | |
| Group syndicated loan | 3.06 | 0.76 | |
| US private placement | 3.06 | 0.76 | 8.81 |
| OBSAAR bond issue | | 0.78 | |
| Syndicated loan, China | | 0.76 | |
| **Actual ratios at December 31, 2008** | | | |
| Group syndicated loan | 2.73 | 0.93 | |
| US private placement | 2.73 | 0.93 | 12.07 |
| OBSAAR bond issue | | 0.93 | |
| Syndicated loan, China | | 0.93 | |

* Method for calculating covenants: in line with the accounting rules, the net debt shown in the financial statements uses closing rates to calculate the euro-equivalent value of debt denominated in foreign currencies. Solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average €/USD exchange rate for the period in the event of a difference of over 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed as EBITDA reported for the first six months of the year multiplied by two.

At June 30, 2009, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

### BREAKDOWN BY CURRENCY OF DRAWINGS ON CREDIT FACILITIES AND CONFIRMED BORROWINGS, INCLUDING THE CURRENT PORTION, AT JUNE 30, 2009

Operating receivables and payables all mature in less than one year. A breakdown of borrowings by maturity is shown below.

| *In millions of euros* | **Total** | **< 1 year** | **> 1 year and < 5 years** | **> 5 years** |
|---|---|---|---|---|
| Borrowings in USD | 113 | 6.6 | 103.6 | 2.8 |
| Borrowings in EUR | 107.0 | - | 94.0 | 13.0 |
| Borrowings in GBP | 33.0 | 26.1 | 4.2 | 2.7 |
| Borrowings in RMB | 46.3 | 40.3 | 6.0 | |
| **Total** | **299.3** | **73.0** | **207.8** | **18.5** |
| Amortization of issuance costs at the EIR* | -1.7 | | | |
| Fair value of interest-rate derivatives | 2.3 | | | |
| **Total** | **299.9** | | | |

* Effective interest rate

Of the €207.7 million in debt due to mature in between one and five years' time, €197.8 million had a maturity of over three years at June 30, 2009.

### ANALYSIS OF TOTAL NET DEBT AT JUNE 30, 2009

| By currency | **%** |
|---|---|
| EUR | 41.8 |
| USD | 29.6 |
| RMB | 14.5 |
| GBP | 11.6 |
| Other | 2.5 |

| By interest rate | **%** |
|---|---|
| Fixed | 30.3 |
| Floating | 69.7 |

| *In millions of euros* | **Total** | **o/w maturity < 5 years** | **o/w maturity > 5 years** |
|---|---|---|---|
| Debt | 344.2 | 325.6 | 18.6 |
| Financial assets | (67.8) | (67.8) | - |
| **Net position before hedging** | **276.4** | **257.8** | **18.6** |
| Fixed-rate hedge | 83.7 | 65.1 | 18.6 |
| **Net position after hedging** | **192.7** | **192.7** | **-** |

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their June 30, 2009 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €1.9 million.

## NOTE 16 FAIR VALUE

The following tables show the fair value of assets and liabilities, as well as their carrying amount on the balance sheet:

| **at June 30, 2009** | Note | | | **Accounting categories** | | | **Total net value of the category on the balance sheet** | **Fair value of the category** |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet accounts and instrument categories** | | Assets held at fair value through P&L | Held-to-maturity assets | Available-for-sale assets | Loans and receivables | Liabilities stated at amortized cost | | |
| Unlisted investments | 9 | | | 20.2 | | | **20.2** | **20.2** |
| Other non-current financial assets and derivatives held as assets | 3/15 | | | | 29.3 | | **29.3** | **29.3** |
| **Non-current financial assets** | | **0.0** | **0.0** | **20.2** | **29.3** | **0.0** | **49.5** | **49.5** |
| **Trade receivables** | **11** | | | | **90.9** | | **90.9** | **90.9** |
| Current financial assets | 15 | | | | 3.7 | | **3.7** | **3.7** |
| Other current assets | | | | | 10.4 | | **10.4** | **10.4** |
| Trading financial assets | 15 | | | 7.4 | | | **7.4** | **7.4** |
| **Current financial assets** | | **0.0** | **0.0** | **7.4** | **14.1** | **0.0** | **21.5** | **21.5** |
| **Cash and cash equivalents** | **15** | **56.7** | | | | | **56.7** | **56.7** |
| Bank borrowings | 15 | | | | | (278.5) | **(278.5)** | **(278.5)** |
| Current advances | 15 | | | | | (1.9) | **(1.9)** | **(1.9)** |
| Bank overdrafts | 15 | | | | | (35.4) | **(35.4)** | **(35.4)** |
| Current financial liabilities | 15 | | | | | (28.4) | **(28.4)** | **(28.4)** |
| **Borrowings** | **15** | **0.0** | **0.0** | **0.0** | **0.0** | **(344.2)** | **(344.2)** | **(344.2)** |
| **Trade payables** | | | | | | **(48.1)** | **(48.1)** | **(48.1)** |
| **Carrying amount per category** | | **56.7** | **0.0** | **27.6** | **134.3** | **(392.3)** | **(173.7)** | **(173.7)** |

**At December 31, 2008** **Accounting categories**

| Balance sheet accounts and instrument categories | Note | Assets held at fair value through P&L | Held-to-maturity assets | Available-for-sale assets | Loans and receivables | Liabilities stated at amortized cost | Total net value of the category on the balance sheet | Fair value of the category |
|---|---|---|---|---|---|---|---|---|
| Unlisted investments | 9 | | | 69.1 | | | 69.1 | 69.1 |
| Other non-current financial assets and derivatives held as assets | 3/15 | 2.8 | | | 23.8 | | 26.6 | 26.6 |
| **Non-current financial assets** | | **2.8** | **0.0** | **69.1** | **23.8** | **0.0** | **95.7** | **95.7** |
| **Trade receivables** | **11** | | | | **121.0** | | **121.0** | **121.0** |
| Current financial assets | 15 | | | | 0.5 | | 0.5 | 0.5 |
| Other assets | | | | | 9.5 | | 9.5 | 9.5 |
| Trading financial assets | 15 | | | 3.2 | | | 3.2 | 3.2 |
| **Current financial assets** | | **0.0** | **0.0** | **3.2** | **10.0** | **0.0** | **13.2** | **13.2** |
| **Cash and cash equivalents** | **15** | **46.8** | | | | | **46.8** | **46.8** |
| Bank borrowings | 15 | | | | | (297.6) | (297.6) | (297.6) |
| Current advances | 15 | | | | | (1.3) | (1.3) | (1.3) |
| Bank overdrafts | 15 | | | | | (18.3) | (18.3) | (18.3) |
| Current financial liabilities | 15 | | | | | (39.2) | (39.2) | (39.2) |
| **Borrowings** | | **0.0** | **0.0** | **0.0** | **0.0** | **(356.4)** | **(356.4)** | **(356.4)** |
| **Trade payables** | | | | | | **(72.0)** | **(72.0)** | **(72.0)** |
| **Carrying amount per category** | | **49.6** | **0.0** | **72.3** | **154.8** | **(428.4)** | **151.7** | **151.7** |

## NOTE 17 OTHER NON-RECURRING INCOME AND EXPENSE

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

| *In millions of euros* | First half 2009 | First half 2008 adjusted |
|---|---|---|
| Sale of brakes business | | 14.0 |
| Transfers/restructuring | (0.2) | (0.4) |
| EU fine and US civil lawsuits | (0.6) | (0.5) |
| Other items | (0.5) | (0.5) |
| **Total** | **(1.3)** | **12.6** |

In the first half of 2009, non-recurring income and expenses resulted in net expense of €1.3 million. The principal factors were:

> €0.6 million of costs relating to ongoing disputes with the European Community and civil lawsuits in the United States.

In the first half of 2008, non-recurring income and expenses resulted in net income of €12.6 million. The principal factors were:

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

> €0.5 million of costs relating to the European Community procedure and to class-action lawsuits in the United States;

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

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

## NOTE 18 SEGMENT REPORTING

### OPERATING INCOME

| *In millions of euros* | **Advanced Materials and Technologies (AMT)** | | **Electrical Components and Technologies (ECT)** | | **Total for continuing operations** | |
|---|---|---|---|---|---|---|
| **Sales** | **First half 2009** | **First half 2008 adjusted** | **First half 2009** | **First half 2008 adjusted** | **First half 2009** | **First half 2008 adjusted** |
| Sales to third parties | 134.2 | 130.8 | 168.9 | 191.0 | 303.1 | 321.8 |
| Breakdown of sales | 44.3% | 40.6% | 55.7% | 59.4% | 100.0% | 100.0% |
| **Segment operating income before non-recurring items** | **17.6** | **22.7** | **17.9** | **27.5** | **35.5** | **50.2** |
| Segment operating margin before non-recurring items* | 13.0% | 17.4% | 10.6% | 14.4% | 11.7% | 15.6% |
| Segment non-recurring income and expenses | (0.5) | 13.9 | (0.9) | (0.7) | (1.4) | 13.2 |
| **Segment operating income** | **17.1** | **36.6** | **17.0** | **26.8** | **34.1** | **63.4** |
| Segment operating margin* | 12.7% | 27.9% | 10.1% | 14.0% | 11.2% | 19.7% |
| | | | | Unallocated costs | (6.5) | (8.2) |
| | | | | Operating income from continuing operations | 27.6 | 55.2 |
| | | | | Operating margin from continuing operations | 9.1% | 17.2% |
| | | | | Finance costs, net | (5.7) | (6.0) |
| | | | | Current and deferred income tax | (6.2) | (14.4) |
| | | | | Net income from continuing operations | 15.7 | 34.8 |

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

## BREAKDOWN OF DEPRECIATION AND AMORTIZATION RECOGNIZED BY SEGMENT

| *In millions of euros* | First half 2009 | | | | First half 2008 adjusted | | | |
|---|---|---|---|---|---|---|---|---|
| | AMT | ECT | Corporate costs | Total | AMT | ECT | Corporate costs | Total |
| **Total** | **(10.7)** | **(5.0)** | **(0.1)** | **(15.8)** | **(7.5)** | **(4.2)** | **(0.2)** | **(11.9)** |

## SEGMENT ASSETS

| *In millions of euros* | AMT | ECT | TOTAL | Intra-Group transactions eliminated | June 30, 2009 |
|---|---|---|---|---|---|
| Non-current assets, net (excluding investments) | 335.8 | 190.7 | 526.5 | | 526.5 |
| Inventories, net | 89.4 | 67.4 | 156.8 | | 156.8 |
| Trade receivables | 52.8 | 66.1 | 118.9 | (28.0) | 90.9 |
| Other receivables | 12.4 | 10.5 | 22.9 | (5.7) | 17.2 |
| **Total segment assets** | **490.4** | **334.7** | **825.1** | **(33.7)** | **791.4** |
| **Total unallocated assets** | | | | | **128.6** |
| **Total** | | | | | **920.0** |

## SEGMENT LIABILITIES

| *In millions of euros* | AMT | ECT | TOTAL | Intra-Group transactions eliminated | June 30, 2009 |
|---|---|---|---|---|---|
| Trade payables | 37.7 | 38.4 | 76.1 | (28.0) | 48.1 |
| Other payables and other liabilities | 47.7 | 28.8 | 76.5 | (5.7) | 70.8 |
| Non-current and current provisions | 4.6 | 41.2 | 45.8 | | 45.8 |
| Employee benefits | 12.0 | 23.7 | 35.7 | | 35.7 |
| **Total segment liabilities** | **102.0** | **132.1** | **234.1** | **(33.7)** | **200.4** |
| **Total unallocated liabilities** | | | | | **417.3** |
| **Total** | | | | | **617.7** |

## NOTE 19 STAFF COSTS AND HEADCOUNT

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €99.7 million in the first half of 2009 compared with €103.8 million in the first half of 2008.

On a like-for-like basis, staff costs decreased by 10%.

### BREAKDOWN OF THE CONSOLIDATED AVERAGE HEADCOUNT BY GEOGRAPHICAL AREA*

| | 2009 | % | 2008 adjusted | % |
|---|---|---|---|---|
| France | 1,441 | 27% | 1,438 | 26% |
| Rest of Europe (+ Tunisia) | 928 | 17% | 944 | 17% |
| North America (+ Mexico) | 1,678 | 30% | 1,977 | 35% |
| Asia | 1154 | 21% | 982 | 17% |
| Rest of the world | 288 | 5% | 285 | 5% |
| **Total** | **5,489** | **100%** | **5,626** | **100%** |

* *Continuing operations*

At comparable scope, the average headcount fell by 212 employees.

## NOTE 20 OPERATING INCOME

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

| *In millions of euros* | First half 2009 | First half 2008 adjusted |
|---|---|---|
| Product sales | 264.5 | 292.7 |
| Trading sales | 38.6 | 29.1 |
| **Total sales** | **303.1** | **321.8** |
| Other operating revenues | 3.0 | 2.6 |
| Cost of trading sales | (28.1) | (25.8) |
| Raw material costs | (57.5) | (62.9) |
| Costs on other operating revenues | (0.8) | (0.3) |
| Manufacturing costs | (50.7) | (48.7) |
| Salary costs | (98.4) | (100.7) |
| Employee incentives and profit-sharing | (1.3) | (3.1) |
| Other expenses | (24.6) | (27.8) |
| Financial components of operating income (*) | (1.1) | (1.7) |
| Depreciation and amortization | (15.8) | (11.9) |
| Additions to provisions | | (0.2) |
| Impairment losses | | 0.0 |
| Capital gain on the disposal of the brakes business | | 14.0 |
| Income from sales of non-current assets | (0.2) | (0.1) |
| **Operating income** | **27.6** | **55.2** |

## NOTE 21 FINANCIAL INCOME AND COSTS

| *In millions of euros* | First half 2009 | First half 2008 adjusted |
|---|---|---|
| Amortization of bond issuance expenses | (0.2) | (0.1) |
| Interest paid on debt | (5.5) | (5.1) |
| Short-term financial expense | (0.1) | (1.4) |
| Interest income from bank deposits | 0.1 | 0.6 |
| **Finance costs, net** | **(5.7)** | **(6.0)** |

The net finance costs stated above include the following items resulting from assets and liabilities not measured at fair value through profit and loss:

| | | |
|---|---|---|
| Total interest income on financial assets | (5.8) | (6.6) |
| Total interest income on financial liabilities | 0.1 | 0.6 |
| **Finance costs, net** | **(5.7)** | **(6.0)** |

**Recognized directly in equity**

| *In millions of euros* | First half 2009 | First half 2008 adjusted |
|---|---|---|
| Change in fair value of currency hedges | 0.7 | 0.0 |
| Change in fair value of interest-rate hedges | 0.1 | (0.2) |
| Change in fair value of commodity hedges | 2.2 | 1.4 |
| Tax on changes recognized in equity | (1.0) | (0.4) |
| **Net finance costs recognized directly in equity, net of tax** | **2.0** | **0.8** |

## NOTE 22 INCOME TAX

| *In millions of euros* | First half 2009 | First half 2008 adjusted |
|---|---|---|
| Current income tax | (8.5) | (8.4) |
| Deferred income tax | 2.4 | (5.8) |
| Withholding tax | (0.1) | (0.2) |
| **Total tax expense** | **(6.2)** | **(14.4)** |

The Group has:

> one consolidated tax group in France;

> one consolidated tax group in the United States;

> two consolidated tax groups in Germany;

> and one consolidated tax group in Japan.

The Group's effective tax rate on continuing operations came to 28% in the first half of 2009 compared with 30% in fiscal 2008.

## ANALYSIS OF INCOME TAX EXPENSE

| *In millions of euros* | First half 2009 |
|---|---|
| **Net income from continuing operations** | **15.7** |
| Income tax expense/(benefit) on continuing operations | (6.2) |
| **Total income tax expense/(benefit)** | **(6.2)** |
| **Taxable income** | **21.9** |
| Current tax rate in France | 34.4% |
| Theoretical tax benefit/(expense) (taxable income x current income tax rate in France) | (7.5) |
| Difference between income tax rate in France and other jurisdictions | (0.9) |
| Transactions qualifying for a reduced rate of taxation | 0.1 |
| Permanent timing differences | (0.3) |
| Impact of limiting deferred tax assets | 0.9 |
| Other items | 1.5 |
| **Actual income tax benefit/(expense) recognized** | **(6.2)** |

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

| *In millions of euros* | June 30, 2009 | Dec. 31, 2008 |
|---|---|---|
| Deferred tax assets | 21.3 | 10.3 |
| Deferred tax liabilities | (9.2) | (6.1) |
| **Net position** | **12.1** | **4.2** |

Deferred tax movements in the first half of 2009 were as follows:

| *In millions of euros** | **Dec. 31, 2008** | **Net income for the year** | **Translation adjustment** | **Disposal of EMC** | **Other** | **June 30, 2009** |
|---|---|---|---|---|---|---|
| Employee benefit obligations | 7.3 | 0.1 | | | (0.1) | 7.3 |
| Provisions for restructuring | 0.0 | | | | | 0.0 |
| Depreciation of non-current assets | (16.2) | (0.8) | 0.2 | | 0.3 | (16.5) |
| Tax-regulated provisions | (3.3) | 0.1 | | | | (3.2) |
| Impact of tax losses | 11.6 | 3.1 | | 4.2 | (1.6) | 17.3 |
| Impairment losses | 0.7 | | | | (0.4) | 0.3 |
| Other items | 4.1 | (0.1) | | | 2.9 | 6.9 |
| **Deferred tax on the balance sheet - net position** | **4.2** | **2.4** | **0.2** | **4.2** | **1.1** | **12.1** |

** (liability)/asset*

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

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

## NOTE 23 EARNINGS PER SHARE

Basic and diluted earnings per share are presented below:

| Continuing operations and assets held for sale | First half 2009 | First half 2008 |
|---|---|---|
| Numerator: Net income used to compute basic earnings per share (net income for the period). | 13.3 | 33.1 |
| Denominator: Weighted average number of ordinary shares used to compute basic earnings per share | 15,439,115 | 14,246,815 |
| Adjustment for dilutive potential ordinary shares: - unexercised options | 732,801 | 424,595 |
| Weighted average number of ordinary shares used to compute diluted earnings per share | 16,171,916 | 14,671,410 |
| Basic earnings per share (€) | 0.86 | 2.33 |
| Diluted earnings per share (€) | 0.82 | 2.26 |

| Continuing operations | First half 2009 | First half 2008 |
|---|---|---|
| Numerator: Net income used to compute basic earnings per share (net income for the period). | 15.2 | 34.3 |
| Denominator: Weighted average number of ordinary shares used to compute basic earnings per share | 15,439,115 | 14,246,815 |
| Adjustment for dilutive potential ordinary shares: - unexercised options | 732,801 | 424,595 |
| Weighted average number of ordinary shares used to compute diluted earnings per share | 16,171,916 | 14,671,410 |
| Basic earnings per share (€) | 0.98 | 2.41 |
| Diluted earnings per share (€) | 0.94 | 2.34 |

## NOTE 24 DIVIDENDS

Shareholders in the AGM approved a dividend of €0.62 per share in respect of fiscal 2008, representing an aggregate amount of €8.9 million. The option of receiving this dividend in shares was put to shareholders.

## NOTE 25 LEASES

### 1 - FINANCE LEASES

#### Carrying amount by asset category

None.

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

#### Schedule of minimum payments

| *In millions of euros* | Total at June 30, 2009 | < 1 year | > 1 year | o/w five years or more |
|---|---|---|---|---|
| Minimum payments | 9.7 | 2.9 | 6.8 | 0.2 |

Minimum payments represent the amount of certain future property lease payments up until the expiration of the lease prior to any renewals. The leases do not contain any clause restricting debt or on dividend payments.

# NOTE 26 RELATED PARTY DISCLOSURES

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

Le Carbone-Lorraine SA belongs to the Carbone Lorraine group, which encompasses 96 consolidated and unconsolidated companies in 36 countries.

Transactions between the Group's consolidated companies are eliminated for consolidation purposes.

## 1 - RELATIONS WITH UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATES.

Group sales to unconsolidated subsidiaries amounted to €7.0 million in the first half of 2009, compared with €8.1 million in the first half of 2008.

In the first half of fiscal 2009, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million (2008: €0.1 million).

The amounts receivable by the Group from its unconsolidated subsidiaries came to €3.4 million at June 30, 2009, while amounts payable came to €0.3 million.

Advances made to unconsolidated subsidiaries by Le Carbone Lorraine SA amounted to €0 million at June 30, 2009 (2008: €0.1 million).

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

| In millions of euros | First half 2009 | First half 2008 |
|---|---|---|
| Salaries, bonuses, benefits in kind and directors' fees | 1.0 | 1.2 |
| Top-up pension plan payments(1) | 0.3 | 0.7 |
| Other long-term employee benefits | 0.0 | 0.0 |
| **TOTAL** | **1.3** | **1.9** |

*(1) The members of the Executive Committee qualify for top-up pension payments. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows:*
*Provided that the relevant person is still employed by the Group upon retirement, the regime guarantees top-up pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.*
*Actuarial obligations were measured at €5.0 million at June 30, 2009, compared with €5.4 million at December 31, 2008.*

Members of the Executive Committee do not qualify for any other long-term employee benefits.

Should his appointment be terminated, the Chairman of the Management Board will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the thirty-six month period preceding termination, subject to the attainment of performance criteria.

Furthermore, Executive Committee members (including the Chairman of the Management Board) were awarded the following share-based payments:

> stock options: 198,000 stock options were granted to the Executive Committee members (including the Chairman of the Management Board) in 2007 and 2009:

| | **2007 plan, tranche 1** |
|---|---|
| Date of Board meeting | July 25, 2007 |
| Total number of shares allotted | 75,000 |
| Subscription price | 57.24 |
| Start of exercise period | July 2011 |
| Expiration date | July 2017 |
| | **2009 plan, tranche 1** |
| Date of Board meeting | January 22, 2009 |
| Total number of shares allotted | 123,000 |
| Subscription price | 18.90 |
| Start of exercise period | February 2013 |
| Expiration date | February 2019 |

> bonus share allotments: see the table of previous allotments to the Executive Committee (including the Chairman of the Management Board) below.

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

No bonus shares were allotted to Executive Committee members under the 2008 plan.

# NOTE 27 COMMITMENTS AND CONTINGENCIES

## A - FINANCIAL COMMITMENTS AND LIABILITIES

| *In millions of euros* | **June 30, 2009** | **Dec. 31, 2008** | **June 30, 2008** |
|---|---|---|---|
| **Commitments received** | | | |
| Guarantees and endorsements | 0.2 | 0.1 | 0.1 |
| Other commitments received | 1.3 | 0.9 | 1.9 |
| **TOTAL** | **1.4** | **1.0** | **2.0** |
| **Commitments given** | | | |
| Collateralized debts and commitments | 0.3 | 0.3 | 0.3 |
| Market guarantees and endorsements | 18.8 | 16.5 | 13.8 |
| Payment guarantees on acquisitions | - | - | - |
| Other guarantees | 49.4 | 48.6 | 43.5 |
| Other commitments given | 3.1 | 7.3 | 3.8 |
| **TOTAL** | **71.5** | **72.6** | **61.4** |

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

### *Nature*

The largest item totaling €49.4 million relates to other guarantees, which include a €24.5 million guarantee (initially €43 million) given to the European Commission as a result of the fine handed down during 2003 by the European Commission relating to activities in electric motor brushes and products for electrical applications. In respect of this fine, the Group has lodged a new appeal with the European Court of Justice. This guarantee has enabled the Group to postpone payment of the fine for the duration of the appeal procedure. This line item also includes a guarantee of €16 million covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

### *Maturity*

Commitments and contingencies with a maturity of over 1 year amounted to €28.3 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees whose duration does not exceed three years. The €24.5 million guarantee given to the European Commission expires in December 2009. It may be extended with the consent of the guarantor banks depending on the date of the Court's ruling.

### *Internal control*

Under the Group's internal control organization, Group companies are not authorized to enter into transactions giving rise to commitments and contingencies without obtaining the prior approval of the Group's finance department and, where appropriate, of the Management Board or the Supervisory Board. Nonetheless, certain Group companies have the option of issuing market guarantees not exceeding €150,000 with a maturity of less than two years without prior authorization in the normal course of their business activities. These guarantees are listed in the documents completed by the companies as part of the accounts consolidation procedure.

### *Disposal of the EMC division*

The EMC disposal includes an earn-out of up to €10 million. The earn-out is subject to EMC achieving certain operating income targets.

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

## B - TITLE RETENTION CLAUSE

None.

### C - INDIVIDUAL RIGHT TO TRAINING

In France, employees have an individual right to training. No provisions are set aside to cover these rights because the Group does not have the requisite information to assess them reliably.

## NOTE 28 SUBSEQUENT EVENTS

None.

## NOTE 29 APPROVAL OF THE FINANCIAL STATEMENTS

The Group's interim consolidated financial statements for the six months ended June 30, 2009 were approved by the Management Board at its meeting on August 28, 2009.

### 9.2.9 *Statutory auditors' report on the 2009 interim financial statements*

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with Article L.451-1-2 III of the French Monetary and Financial Code, we have conducted:

- the review of the accompanying condensed interim consolidated financial statements of Le Carbone Lorraine SA for the period from January 1, 2009 to June 30, 2009,
- the verification of information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Management Board against the backdrop, described in Note 2-V to the financial statements ("Use of estimates" section), characterized by some degree of difficulty in assessing the future outlook, which was already present at the end of the financial year to December 31, 2008. Our role is to express an opinion on these financial statements based on our review.

**I - Conclusion on the financial statements**

We conducted our review in accordance with the professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – "Interim Financial Reporting" of IFRS, as adopted by the European Union.

Without qualifying the opinion expressed above, we wish to draw your attention to Note 2 presenting the changes to the presentation method following the adoption of IFRS 8 "Operating Segments" and the revised IAS 1 "Presentation of financial statements", as adopted by the European Union and application of which is mandatory from January 1, 2009.

**II - Specific verification**

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the condensed interim consolidated financial statements.

Paris La Défense, August 28, 2009

KPMG Audit

*Département de KPMG S.A.*

Catherine Porta

*Partner*

Neuilly-sur-Seine, August 28, 2009

Deloitte & Associés

Joël Assayah

*Partner*

Alain Penanguer

*Partner*

## 10. CROSS REFERENCE TABLE

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