CARBONE LORRAINE
2007 FINANCIAL REPORT

Chapters 2 to 9 include all the information comprising the Board of Director's report in accordance with article L. 225-102 of the French commercial code.

A detailed summary of each chapter is shown in the relevant chapter index.

1 General overview of the Group

GROUP PROFILE

GLOBAL LEADERSHIP AND INTERNATIONAL EXPANSION

Carbone Lorraine boasts **leadership** positions in its principal businesses. In particular, it ranks as the world no. 1 in graphite anticorrosion equipment, brushes for electric motors and fuses for power semiconductors. It also ranks as the world no. 2 in industrial fuses and high-temperature applications of isostatic graphite.

Positioned in highly buoyant markets, such as energy, electronics and fine chemicals/pharmaceuticals, Carbone Lorraine aims to turn itself into a **growth company**. The Group constantly listens to its customers and has a precise understanding of their business activities, needs and constraints. On these foundations, it has built an **innovative** offering that is constantly renewed. Over the years, Carbone Lorraine has established itself as an international group committed both to developing its existing business activities and to winning new markets. Thanks to a determined policy of organic growth and selective acquisitions, the Group has reinforced its global positions in each of its businesses, while considerably expanding its product ranges and its geographical presence. Over 85% of its sales come from outside France, and the Group is enjoying particularly brisk growth in **Asia**. Carbone Lorraine was very quick to embrace sustainable development that is socially responsible and environmentally-friendly. With these goals in mind, the Group manages its own activities and also makes a very tangible contribution to **renewable energies**, a sector in which it provides a growing number of technologies and equipment.

AREAS OF EXCELLENCE

Thanks to its globally renowned expertise in advanced technology materials, such as isostatic graphite, Car bone Lorraine develops and implements innovative solutions for its industrial customers. In particular, it excels in designing solutions geared to extreme industrial environments, as well as in developing equipment that contributes to the energy efficiency of industrial installations.

Advanced Materials and Technologie

Carbone Lorraine is the world leader in equipment manufactured using graphite and other high-performance materials geared to highly demanding industrial environments. The Advanced Materials and Technologies division offers solutions based on isostatic graphite designed for high-temperature industrial processes (e.g. manufacture of silicon chips and solar cells, kiln linings, glass-making), as well as graphite and noble metals equipment used by the chemical and pharmaceutical industries that can be used to transport, mix and store hot and corrosive fluids. Carbone Lorraine is world no. 2 in isostatic graphite applications.

Electrical Protection

Designing, manufacturing and marketing innovative products and systems contributing to energy efficiency and the safety of equipment and electrical installations: this is the area of expertise of Ferraz Shawmut, Carbone Lorraine's subsidiary specializing in electrical protection. This division develops solutions based on fuses and fuseholders protecting low-and medium-voltage installations, very high-power switches, cooling devices enhancing the yield of power semiconductors, and current collectors for urban transportation systems, etc., meeting all the norms applicable around the world. Carbone Lorraine ranks as the world no. 2 in industrial fuses. A large proportion of sales derives from the division's extensive network of electrical equipment distributors.

Electrical Applications

Carbone Lorraine's Electrical Applications division manufactures brushes and brushholders (key components in electric motors), slip-ring assemblies, slide contacts for current collection and signal transmission systems used in wind turbines. A world leader, Carbone Lorraine supplies the top global manufacturers and users of electric motors in all areas of industry, including rail, aerospace, automobiles, household electrical appliances, and power tools. There is also a growing demand for these products in the fast-expanding wind energy sector.

CLOSE TO CUSTOMERS RIGHT AROUND THE WORLD

Aside from its technical capabilities, Carbone Lorraine's pioneering spirit enables it to support its customers, wherever they go to develop their businesses. Capitalizing on its proximity to its business partners, the Group currently boasts a manufacturing base in over 40 countries, making it a global and local player at the same time. Intimate knowledge of its customers' industrial processes is one of the keys to Carbone Lorraine's success right around the world.

OVERVIEW OF BUSINESS ACTIVITIES

Business activities	Businesses	Main applications	Priorities
Advanced Materials and Technologies			
• World number one in graphite anticorrosion equipment • World number two in high-temperature applications of isostatic graphite • Sales of €264 million • 38% of total sales • Main competitors: - Toyo Tanso (Japan) - SGL Carbon (Germany)	• Development of isostatic graphite solutions for high-temperature applications (semiconductors, aerospace, glass industry, etc.) • Design, manufacture and marketing of anticorrosion equipment based on graphite, noble metals (tantalum, titanium, etc.) and fluorinated polymers (PTFE) for the chemicals and pharmaceuticals industries • Design, manufacture and sale of high-energy braking components based on graphite and sintered products, etc.	• Semiconductor production equipment and other refractory processes (dies, holders, etc.), electrodes for electrical discharge machining, kiln linings, etc. • Processing (heat exchangers, reactors, etc.), storage and distribution (tubing, pipes, etc.) of hot corrosive fluids • Braking for aerospace	• Develop new isostatic graphite solutions geared to the specific needs of the Group's customers and partners • Continue developing complete multi-material solutions for corrosive and hot chemicals and pharmaceuticals • Expand sales in Asia • Pursue the international expansion of the Group's expertise in high-energy braking
Electrical Protection			
• World number two in industrial fuses • Sales of €229 million • 33% of total sales Main competitor: - Bussmann (US)	• Design, manufacture and marketing of industrial fuses, cooling devices and protection systems for motors, circuit-breakers, current collectors and other electrical and electronic equipment protecting property and people	• Protection of industrial motors and industrial electrical and electronic equipment against short circuits and voltage surges • Thermal protection of industrial electronic equipment • Protection of electricity distribution grids • Electrical protection of property and people • Protection of rail and urban transportation power supply networks	• Reap the full benefit of the Group's optimized production facilities to increase worldwide market share, especially by penetrating new growth markets • pursue business development with equipment suppliers, distributors and end users by emphasizing innovation and quality of products and services
Electrical Applications			
• World number one in brushes and brushholders for small electric motors • Sales of €201 million • 29% of total sales • Main competitors: - Morgan Crucible (UK) - Schunk (Germany) - ECS (US)	• Design, manufacture and marketing of sliding electrical contacts, brushes for electric motors and brushcards comprising brushes, brushholders and electronic components • Diagnosis, assistance and maintenance	• Large motors: all industrial applications and robots, electricity generators for aviation, wind turbines, electric locomotives, etc. • Small motors: auxiliary motors for cars (wipers, window lifts, ABS, etc.), hand-held power tools (drills, etc.), small household appliances (vacuum cleaners, etc.)	• Large motors: Pursue a strategy of innovation in expanding niches and expand base in North America and Asia • Small motors: Pursue performance improvements and develop brushholder modules with additional features

CHAIRMAN'S MESSAGE

2007 was a year of strong sales growth for Carbone Lorraine, and a year in which we strengthened our **commitments to future growth**.

The previous year, our goal of transforming Carbone Lorraine into **a growth company** had already translated into a brisk increase in sales. Performance over 2007 showed fresh acceleration in our business activities, with an increase in our sales of 10% on a like-for-like basis. This represents a strong performance for an industrial group, driven by selective investments, permanent innovation program and a positioning in extremely buoyant markets. Here I am notably thinking of the electronics, fine chemicals and pharmaceuticals sectors, as well as renewable energies, the prospects for which currently appear to be tremendous for Carbone Lorraine. All the Group's businesses made progress during 2007 and contributed to the improvement in our earnings (excluding non-recurring items).

As you know, Carbone Lorraine's expansion strategy is predicated on robust development in **Asia**. From this standpoint, a key milestone was reached during 2007 with the successful start-up of our new graphite block production facility at Chongqing in China. This new plant will eventually enable us to double our isostatic graphite production capacity. It will significantly bolster our market positions in high-temperature applications and especially in equipment dedicated to the manufacture of solar cells, a sector that is currently booming. Also in the renewable energies sector, the year was marked by the entry into service in Shanghai of a new electrical applications workshop dedicated to wind energy and power generation markets.

With a strategy predicated on four effective growth drivers–rapid expansion in Asia, an innovative offering, a major contribution to renewable energies and an active strategy of selective acquisitions–Carbone Lorraine is firmly set on a course of continuous progress and expansion. That is why we decided to commit ourselves to achieving the following **four-year targets**: sales of €1 billion and a ROCE* before tax of 17% by 2011, assuming economic conditions remain similar to those prevailing last year. Considering the charges linked to non-recurring events (i.e. start-up of the Chongqing graphite plant, closure of the Farmville auto brush facility, and write-off of goodwill related to the automobile activity), the performances achieved in 2007 clearly represent a step in the right direction. We intend to make further progress towards our objectives during 2008, even though the economic environment will be less supportive this year. The global financial crisis that took hold during summer 2007 will have knock-on effects on the real economy, the scale and duration of which cannot yet be fully gauged. Nonetheless, we should be able to deliver a significant increase in our earnings during 2008 thanks to the ramp-up in the major projects we have launched in recent years and our positioning in markets, such as renewable energies, that will expand whatever happens.

This new positioning in expanding markets, just like the restructuring measures implemented in recent years, puts us in a far stronger position than previously to withstand the effects of economic downturns. In the same vein, the Group's international reach and the expansion of our manufacturing base in emerging markets afford us protection against ups and downs in the economic and monetary cycles.

Accordingly, we are well-positioned to execute successfully our strategy of profitable growth, and I am confident in our ability to reach our medium-term targets in spite of the ups and downs in economic conditions that may occur in the short term.

This confidence, which is shared by my fellow directors and the Group's senior managers, was clearly demonstrated through our acquisition last November (at the market price) of warrants entitling us to subscribe new Carbone Lorraine shares for €58 per share.

Carbone Lorraine has always completed its major projects successfully. We will make a success of our profitable growth plan.

Claude Cocozza

Chairman and Chief Executive Officer

* *Return on capital employed.*

CORPORATE GOVERNANCE

RIGOROUS STANDARDS

Carbone Lorraine, which first adopted the principles and methods of corporate governance over ten years ago, emphasizes the importance of transparency, quality of information and checks and balances.

Carbone Lorraine's ability to control and audit its business activities in all of their industrial, accounting and ethical aspects forms part of the quality and continuous improvement program introduced by the Group several years ago. Right around the world, Carbone Lorraine's teams take great care to abide by local and international regulations, while staying true to the Group's values and internal charters. Alongside the Executive Committee and Board of Directors, three committees help to promote good governance at the Group, namely the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee. Risk mapping covering operational, financial, strategic and information-related risks is managed and updated by the Risk and Internal Audit department. This system helps to anticipate risks and to implement the requisite preventative measures.

Thanks to this policy, Carbone Lorraine received a Prize for the best corporate governance in the French mid-cap sector during November 2007. This prize, which was given out at the Trophées Midcaps, an event organized by Euronext, Ernst & Young, MiddleNext and Oddo Midcap, is awarded to the company with the best corporate governance out of the over 200 companies listed on Euronext with market capitalization of between €10 million and €1 billion.

The governance prize went to Carbone Lorraine in particular for the quality of its organization in terms of the regulation of decision-making systems and for its internal control systems.

CONSTANTLY IN TOUCH WITH SHAREHOLDERS

Carbone Lorraine also makes sure that its relationships with shareholders are transparent and built on trust. It organizes presentations and seminars devoted to a particular topic, holds information meetings and communicates about the Group, its strategy and results. To stay close to its shareholders, Carbone Lorraine applies the same standards and methods as the world's leading companies.

COMMITMENT AND RESPONSIBILITY

PROTECTING THE PLANET AND VALUING PEOPLE

To achieve balanced, healthy and sustainable growth, Carbone Lorraine takes concrete steps to protect the environment, both directly, through its own operations, and through its production expertise and the technologies that it develops. From a human resources perspective, the Group's philosophy is also to share advances.

Carbone Lorraine's commitment to sustainable development carries two additional dimensions. Firstly, the Group endeavors to minimize the environmental impact of its own operations. During 2007, it made further strides towards reducing consumption of water, energy and raw materials at its plants. Making plant managers more accountable and securing ISO 14001 certification are important avenues of improvement, as is the systematic use of the "cleanest" technologies. Furthermore, the Group also makes a vital contribution to sustainable development through its expertise in renewable energies and energy efficiency. For instance, Carbone Lorraine boasts a large range of innovative products dedicated to the wind energy market, to which it supplies signal transmission systems and slip-ring assemblies. In the solar energy segment, the Group markets advanced technology systems dedicated to the production of silicon, a critical ingredient in the manufacture of solar panels.

HUMAN RESOURCES FOCUSED ON THE FUTURE

Carbone Lorraine's people-friendly human resources policy aims to provide effective support for the execution of the Group's expansion strategy. Managers' individual objectives, which are set annually, are always defined consistently with this approach. Likewise, to mobilize and motivate its teams, the Group informs, communicates internally and shares the benefits of its expansion with its workforce through an active policy of bonuses, profit-sharing and employee share ownership. Lastly, Carbone Lorraine has committed itself to an approach based on forward human resources planning. Initiated in 2007, this entails identifying the requisite resources for future growth, defining job descriptions based on key positions, and implementing specific initiatives to support expansion. In France, this approach has already led to the signature of an agreement with the unions on forward human resources and skills planning.

PERFORMANCE… IN COMPLETE SAFETY

The continuous development of safety-related managerial skills is another key area, and one in which Carbone Lorraine has been working for decades and is determined always to rank among the leading groups. During 2007, the Pagny-sur-Moselle plant (France) received the safety prize from the European association of carbon product companies for the second year in a row.

PRINCIPAL MARKETS

ENERGY: VAST SOURCES OF FUTURE GROWTH

By 2011, Carbone Lorraine has set itself the target of generating growth of 10-15% p.a. in energy generation and distribution markets. This expansion will notably be driven by the very rapid development of the renewable energies segment.

In the fast-expanding wind energy sector, Carbone Lorraine has built an extensive range of innovative high-performance products, encompassing brushes, brush-holders, slip-ring assemblies for power supply and signal transmission systems. Although demand is currently focused predominantly on the erection of new wind farms, service businesses active in the maintenance of existing installations have started to develop. Leveraging its worldwide network, its experience in replacement markets and its recognized ability to support its customers, Carbone Lorraine is also well-placed to establish itself in this burgeoning new market.

OPPORTUNITIES FOR CARBONE LORRAINE IN PHOTOVOLTAIC SYSTEMS

The solar energy sector boasts exceptionally strong momentum, resulting in very strong demand for graphite equipment intended for the production and processing of silicon, the principal raw material required for the manufacture of photovoltaic cells. Carbone Lorraine is reaping the full benefit of these dynamics. The Group is capable of producing and machining ultra-pure graphite, and is also one of the few players offering very large graphite blocks satisfying growing demand in the sector. Carbone Lorraine also boasts a high-performance range of fuses used to protect photovoltaic installations. Lastly, the Group has a strong presence in the regions of the world where production of solar energy is currently developing most rapidly, namely Europe, China and North America. The graphite production capacity available to the Group increased considerably during 2007 thanks to the opening of the plant in China, which is helping the Group to make the most of its partnership and joint developments with the leading players in the worldwide industry. Carbone Lorraine is also set to continue supporting the growth in conventional energy sources. Firmly positioned in the brushes and fuses markets for power plants, the Group is set to benefit from the very large programs to replace aging infrastructure planned over the next 10 years.

Developments expected in the nuclear energy sector should also harbor attractive growth opportunities in the future, and new technologies consuming graphite are currently being developed. Carbone Lorraine is actively participating in research programs in this field.

ELECTRONICS: AN EVER-EXPANDING MARKET

Growth in the market for semiconductors, which are increasingly being added to everyday and industrial equipment, represents a fundamental trend in the global economy. Thanks to its technological excellence and its leadership positions in isostatic graphite, as well as in protection for power semiconductors, Carbone Lorraine is reaping the full benefit of this trend.

The semiconductor market, which has seen brisk expansion for many years, is currently riding high on the back of growing demand for light-emitting diodes (LEDs). Generating an energy saving of 20 to 40% owing to their low power consumption and their longer life, LEDs no longer only be used in indicator panels and mobile phones, flat-screen displays and automobile indicators, they will now be used to an increasing extent for lighting purposes in buildings, a new mass market. Carbone Lorraine is able to leverage its technological expertise because LED manufacturing processes, like those for silicon for conventional electronics applications, require high value-added machined graphite. In addition, in monocrystalline silicon, the Group boasts a technological lead deriving from its ability to produce very large graphite blocks, notably including at its new facility in Chongqing, China. The machine shops recently set up by Carbone Lorraine in China, India and South Korea also represent a major strength.

PROTECTION OF HIGH-POWER ELECTRICAL INSTALLATIONS

Carbone Lorraine is particularly well-placed and is recording rapid expansion in the protection of power semi-conductors used in major electrical and electronic industrial installations. Thanks to its innovative high-performance offering, the Group's Electrical Protection division supplies all the leading manufacturers with fuses and cooling devices protecting these items of equipment against voltage surges and heat.

CHEMICALS AND PHARMACEUTICALS: PROMISING OUTLOOK

The launch of CL Clad®, a new corrosion-resistant material developed and patented by Carbone Lorraine, has enabled the Group to bolster its positions in expanding markets. The process consists in coating steel with a thin layer of a noble metal with highly corrosion-resistant properties (e.g. tantalum, zirconium).

Not only is CL Clad® more resilient to corrosion than rival materials, but it is cheaper to use and requires very little maintenance. The first items of equipment produced using CL Clad®, primarily for the pharmaceutical industry, were delivered to customers during 2007. Carbone Lorraine has also established strong positions in the fast-growing sectors of phosphate fertilizer production (increasingly used in major countries, such as China, India and Brazil) and in acetic acid applications related to the manufacture of transparent plastic materials.

AN OFFERING IN TUNE WITH THE MARKETS

Carbone Lorraine's other key assets in anticorrosion equipment include its ability to supply pre-assembled equipment meeting customer expectations and its unique 6m-long graphite tubes, which considerably reduce the risk of leaks. Lastly, thanks to the development of its graphite and noble metals production capacity in India and China, Carbone Lorraine is reaping the full benefit of expansion in the chemical and pharmaceutical industries in this very fast-growing region.

ASIA: A TREMENDOUS EXPANSION DRIVER

The growth recorded by Carbone Lorraine in 2007 in Asia was again very strong indeed. It provided further evidence that t he strategy of the Group, which has invested a lot in recent years to develop its production facilities and its sales network across Asia, is remarkably effective.

Over the past five years, the proportion of Carbone Lorraine's sales deriving from Asia has soared from 9% in 2002 to 17.5% in 2007. It is expected to reach at least 25% by 2011, with more than one-third of 2006-11 growth coming from Asia. Although these developments depend on the dynamism of the Asian economy, they are primarily predicated on Carbone Lorraine's positioning in business segments that are expanding at a brisk pace in the region, including chemicals, electronics, solar energy, plastics. All the Group's divisions bolstered their sales force in the region during 2007.

MORE AND MORE PRODUCTION IN ASIA

Aside from its sales presence, Carbone Lorraine has systematically strengthened its production capacity in Asia. Fully operational since September 2007, the new plant in Chongqing is emblematic of this strategy. Complying with the world's highest standards in terms of both its industrial and environmental performance, the plant aims to achieve an annual production capacity of 5,000 tonnes of isostatic graphite destined principally for high-temperature industrial applications. This plant saves several weeks in delivery times compared with shipments from the US, which represents a key advantage for the Group enabling it to be more responsive to the needs of its customers in Asia. During 2007, Carbone Lorraine commissioned two other manufacturing facilities in China. One produces advanced technology equipment for the wind energy sector (brushes, brush-holders, slip-ring assemblies and signal transmission systems), while the other manufactures semiconductor protection fuses, plus switching, isolation and current collection products. In anticorrosion equipment, a segment for which China represents a larger and larger client market–particularly for fine chemicals, phosphate fertilizers and acetic acid–the workshop commissioned in 2006 had ramped up to achieve its peak production capacity as soon as by year-end 2007. New development projects are currently in progress. During 2007, China alone contributed 50% of the total anticorrosion division growth.

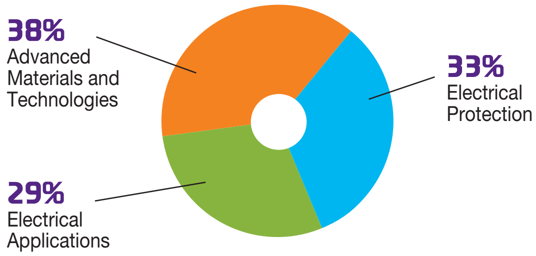
INDIA, SOUTH KOREA, JAPAN...

In India Carbone Lorraine trained and deployed during 2007 a sales team responsible for serving the Indian wind energy market and built a new graphite machine shop. In addition, production of small brushes for automobile auxiliary motors was transferred to India from the US and the Bangalore fuses plant now manufactures fuses to British standards, a key asset for the Electrical Protection activities. Also during 2007 Carbone Lorraine stepped up its production of machined graphite in South Korea, where the Group strengthened its market positions, notably with manufacturers in the photovoltaic segment.

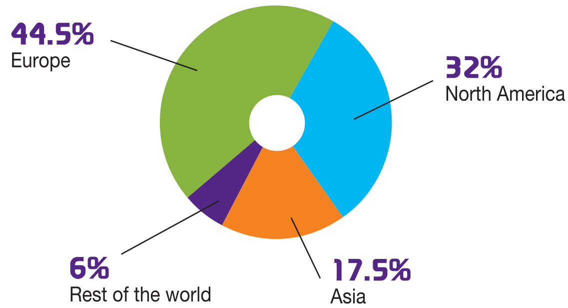
Lastly, the Group's sales in Japan were also first-class in Electrical Protection as well as in High-Temperature applications.

KEY FIGURES

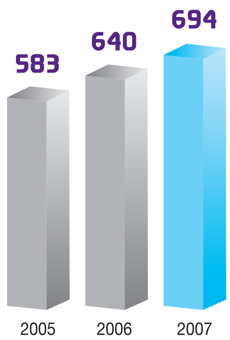
2007 sales
BUSINESS SEGMENT ANALYSIS



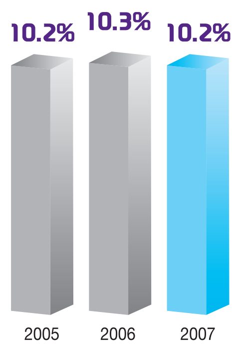
2007 sales
GEOGRAPHICAL ANALYSIS



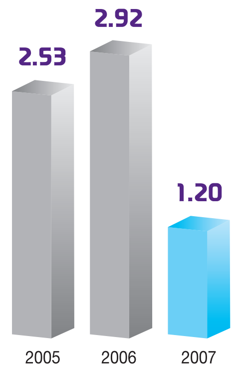
2007 sales
IN MILLIONS OF EUROS – IFRS
(CONTINUING OPERATIONS)



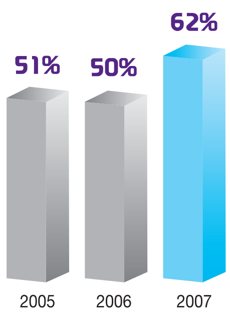
Operating margin before non-recurring items



Net income per share
(IN EUROS) – IFRS
(CONTINUING OPERATIONS)

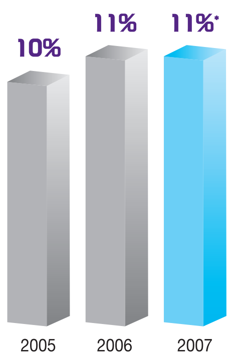


Debt-to-equity ratio*
IFRS



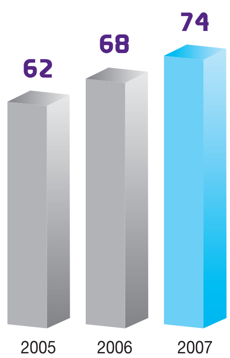
* *Ratio of net debt to equity.*

Return on capital employed (ROCE)
(CONTINUING OPERATIONS)



* *Restated for the write-off of automobile brush goodwill.*

Cash generated/(used) by operating activities
IN MILLIONS OF EUROS*



* *After the working capital requirement.*

CARBONE LORRAINE AND THE STOCK MARKET

Carbone Lorraine endeavors to meet the value creation targets of its shareholders and works continuously to promote a broader understanding of the Group by providing clear, regular and transparent information.

SHARE PRICE PERFORMANCE

Carbone Lorraine shares recorded a strong increase over the first ten months of 2007 on the back of a series of reports showing strong growth and firm earnings trends. The announcement of a 2011 expansion plan backed up by ambitious growth and profitability targets fueled the rally in Carbone Lorraine's share price during September and October, driving it up to a high for the year at €61.77. All the financial markets then turned abruptly lower over the following months, sparking a violent decline in industrial mid-cap stocks. This slump in the capital markets had its roots in the problems experienced by US banks in the sub prime loan sector. Investors fear that the financial crisis will spread to the real economy.

Carbone Lorraine shares dropped severely in the widespread fall in prices that ensued, apparently owing the Group's mid-cap status, as investors sought refuge in the liquidity of large caps, its exposure to the US market and its sensitivity to economic conditions. However, all in all, Carbone Lorraine shares climbed 10% during 2007 as a whole. Like all constituents of the SFB 120 index, Carbone Lorraine shares continued to move lower during the first few weeks of 2008.

As for it, the Group remains extremely confident in its resilience, amplified by the growing share of sales in Asia, now approaching 20% and its rapid expansion in segments with little exposure to the economic cycle (wind energy, solar power, energy efficiency).

There is a significant potential for an increase in results coming from these strengths, both in 2008 and the following years. This should turn eventually into a new positive evolution of the share price.

SHARE-RELATED DATA

- Listing: Euronext Paris;
- Market: Eurolist Compartment B;
- Indices: CAC Allshares, CAC Mid 100, Next 150, SFB 120;
- SRI Europe index of socially responsible companies;
- Eligible for deferred settlement and for inclusion in French PEA savings plans;
- ISIN code: FR0000039620.

SHARE PRICE

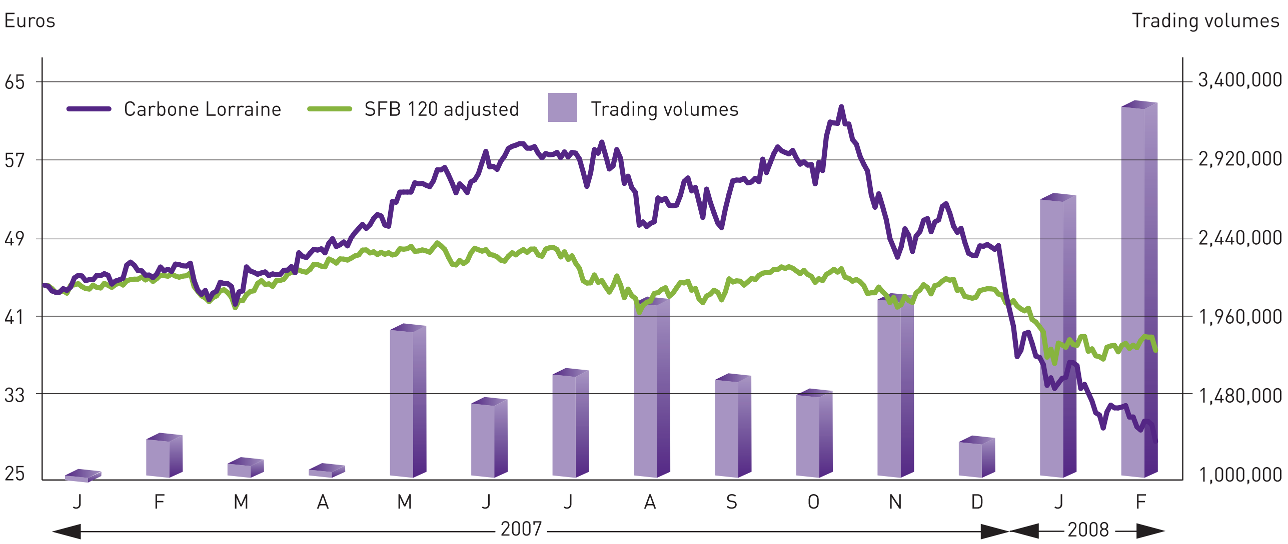
- At December 31, 2007*: €47.20;
- 2007 high*: €61.77;
- 2007 low*: €41.60.

** At the close.*

TRADING

Average 2007 trading monthly volume: 1,522,569 (average 2006 monthly trading volume: 975,646).

SHARE PRICE PERFORMANCE AND TRADING VOLUMES



A CONFIDENCE-BASED RELATIONSHIP WITH SHAREHOLDERS

Carbone Lorraine maintains a confidence-based relationship with its shareholders underpinned by transparency and communicates through various channels to give them a better insight into the Group, its strategy, businesses and fundamentals.

The Group's investor relations strategy is predicated on an active program of information meetings and presentations, including:

- presentations in Europe and North America to institutional investors;
- meetings and seminars on specific themes for investment analysts and business and financial journalists;
- information and question-and-answer sessions with individual shareholders in France, backed up by a half-yearly newsletter.

MARKET DATA

*Share price**	February 2008	January 2008	2007	2006	2005
High	35.00	48.76	61.82	51.00	43.95
Low	26.78	31.50	41.06	36.55	31.20
Average	30.50	37.27	52.00	43.00	38.00
At year-end	27.58	35.32	47.20	42.65	38.60
Number of shares at end of period	14,280,735	14,280,735	14,280,735	13,965,475	13,841,352
Market capitalization at end of period (in millions of euros)	393	504	674	596	534
Average number of shares traded (annual and/or monthly average)	156,838	127,404	1,522,569	975,646	1,105,351

** Highs/lows.*

NET DIVIDEND PER SHARE

In euros	2007	2006	2005	2004	2003
	0.85	0.85	0.70	0.55	0.0

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2007

Individual shareholders	27%
Employee shareholders	1.5%
French institutional investors	25.2%
International institutional investors	46%
Carbone Lorraine	0.3%

KEY EVENTS IN THE 2007 INVESTOR RELATIONS CALENDAR

SALES REPORTS

Full-year 2006 sales - January 31

First-quarter sales - April 25

Second-quarter sales - July 24

Third-quarter sales - October 24

EARNINGS REPORTS

Full-year 2006 results - March 20

Interim 2007 results - September 12

MEETINGS FOR INSTITUTIONAL INVESTORS

In Europe and North America - Throughout the year

ANNUAL GENERAL MEETING

Paris - May 24

PRESENTATIONS FOR INDIVIDUAL SHAREHOLDERS

Lyon - April 19

Bordeaux - May 29

Paris - October 12

Rouen - November 27

TECHNICAL PRESENTATION TO INVESTMENT ANALYSTS AND JOURNALISTS

Paris - Topic: Renewable energies - June 26

KEY EVENTS IN THE 2008 INVESTOR RELATIONS CALENDAR

SALES REPORTS

Fourth-quarter 2007 sales - January 31

First-quarter 2008 sales - April 16

Second-quarter 2008 sales - July 17

Third-quarter 2008 sales - October 22

EARNINGS REPORTS

Full-year 2007 results - March 18

Interim 2008 results - August 28

MEETINGS FOR INSTITUTIONAL INVESTORS

In Europe and North America - Throughout the year

ANNUAL GENERAL MEETING

Paris - May 21

PRESENTATIONS FOR INDIVIDUAL SHAREHOLDERS

Marseille - March 26

Lille - April 29

Strasbourg - October 7

Paris - October 17

TECHNICAL PRESENTATION TO INVESTMENT ANALYSTS AND JOURNALISTS

Subject: Carbone Lorraine in Asia - November

DOCUMENTS AVAILABLE TO THE PUBLIC

DOCUMENTS AVAILABLE FOR DOWNLOAD FROM THE COMPANY'S WEB SITE: WWW.CARBONELORRAINE.COM

The web site provides a valuable source of in-depth information about the Group's business activities. In line with the European Directive on Transparency, all the documents published and press releases issued by the Group are available online.

The following documents are notably available:

- this reference document filed as an annual report with the *Autorité des Marchés Financiers*;
- the interim 2007 report;
- financial press releases.

LIST OF THE INFORMATION PUBLISHED OR MADE PUBLIC SINCE JANUARY 1, 2007

Pursuant to Article 222-7 of the General Regulation of the *Autorité des Marchés Financiers*, the following list presents the information published by Carbone Lorraine since January 1, 2007.

PRESS RELEASES

January 31, 2008: Fourth-quarter 2007 results

January 23, 2008: Successful industrial and commercial start-up for CL Clad®

December 5, 2007: Acquisition of General Electric's medium-voltage fuse business

November 28, 2007: Carbone Lorraine receives the Midcaps Award for Corporate Governance

November 21, 2007: OBSAAR bond issue completed successfully

November 20, 2007: Plan to sell the sintered, rail and motorcycle braking business

October 24, 2007: Third-quarter 2007 results

October 11, 2007: Inauguration of the graphite plant in Chongqing, China

September 20, 2007: Opening of an advanced technology workshop in Shanghai

September 17, 2007: Appointment of a Senior Executive Vice President

September 12, 2007: Increase in interim results - 2011 expansion plan unveiled

August 30, 2007: 2007 interim report

July 24, 2007: Second-quarter 2007 results

July 23, 2007: Electrical Protection: positioning strengthened in complete systems

April 25, 2007: First-quarter 2007 results

March 20, 2007: Full-year 2006 results

January 31, 2007: Fourth-quarter 2006 results

OTHER NEWS

October 9, 2007 and October 17, 2007: Offering circular concerning the OBSAAR bond issue (AMF visa no. 07-350)

October 9, 2007: Update of the reference document (AMF visa no. D.07-0188-A01)

September 12, 2007: Presentation of 2007 interim results to analysts

March 20, 2007: Presentation of 2006 full-year results to analysts

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2 Management report

INTRODUCTION

2007 was marked by **fresh acceleration in sales**, with the top line moving up 10% on a like-for-like basis. This strong performance was driven by selective investments, an unwavering emphasis on innovation and a positioning in buoyant markets, notably including electronics, fine chemicals and pharmaceuticals, and in renewable energies. All the Group's businesses made progress during 2007 and contributed to the improvement in our recurring operating income.

During 2007, Carbone Lorraine further enhanced its new status as a **growth company**.

Over the past few years, the Group has strengthened its manufacturing base and sales positions in **Asia**. The proportion of sales deriving from the region now stands at **17.5%**, up from just 9% in 2002. A key milestone was reached during the year, with the successful start-up of the new graphite block production facility at Chongqing in China. This new plant will eventually enable the Group to double its isostatic graphite production capacity. This addition will significantly bolster the Group's market positions in high-temperature applications and especially in equipment dedicated to the manufacture of solar cells, a sector that is currently booming. Also in the **renewable energies** sector, the year was marked by the entry into service in Shanghai of a new electrical applications workshop dedicated to wind energy and power generation markets.

Another highlight of 2007 was the strengthening of the Group's **commitments** to future growth. These commitments were backed up by the announcement of **four-year targets**, i.e. sales of €1 billion euros and a ROCE [(1)] before tax of 17% by 2011, assuming economic conditions remain comparable to those seen last year. The performances posted during 2007 were already in line with the trends projected under this plan.

With a strategy predicated on four growth drivers–rapid expansion in **Asia**, an **innovative offering**, a major contribution to **renewable energies** and an active strategy of **selective acquisitions**–Carbone Lorraine is set on a course of continuous progress and expansion.

DIVISIONAL TRENDS

The **Advanced Materials and Technologies** division recorded sales of €263 million, up 8% on a like-for-like basis. The rise came to 10% including the sales of plate heat exchangers posted by Kapp, a company acquired at the end of 2006. This growth was driven by the growth in sales of graphite equipment in the electronics, chemicals, pharmaceuticals and renewable energies markets. Another feature of 2007 was the continued reinforcement of the division's market positions in Asia, especially in anticorrosion equipment. The divisional operating margin reached 17% in 2007 before non-recurring items and 15% after recognition of the start-up costs for the graphite plant and the tooling workshops in China.

The **Electrical Protection** division posted 2007 sales of €230 million, up 14% on a like-for-like basis. This growth was strong in general-purpose fuses, as well as in semiconductor protection fuses, across all the Group's regions. Products complementing low-voltage fuses, such as high-power switches, medium-voltage products, rail protection equipment and coolers recorded substantial gains during 2007. With the operating margin holding up around 9% in 2007, divisional operating income increased by 13%.

The **Electrical Applications** division posted 2007 sales of €201 million, up 6% on a like-for-like basis. Excluding non-recurring items, recurring operating income advanced by 35% to €19.5 million. Sales of brushes for industrial motors and slip-ring assemblies recorded further growth, especially in markets related to products and equipment for wind turbines. The closure of the Farmville manufacturing facility in Virginia and the transfer of its activities to France and India were completed on schedule during 2007. This transfer led to recognition of €3.3 million in non-recurring costs during 2007. After recognition of this impact and the goodwill write-off related to the automobile brush activities (see the Operating income section), the division posted an operating loss of €2.8 million.

(1) Return on capital employed.

CONSOLIDATED FINANCIAL STATEMENTS

SALES

During fiscal 2007, Carbone Lorraine posted strong growth in its sales to €694 million, representing increases of 8.4% on a reported basis, 10% on a like-for-like basis and 12% at constant exchange rates. Changes in the scope of consolidation were linked primarily to the recent acquisitions of Kapp and Lenoir Elec, as well as the first-time consolidation of units in China and India. Overall, currency effects were negative, reducing sales by 3.5%. Sales enjoyed a positive trend across all the Group's geographical regions, recording growth on a like-for-like basis in Asia (27%), Europe (6.5%) North America (4%) and the Rest of the world (21%).

OPERATING INCOME

The Group's operating income (before non-recurring items) came to €71 million in 2007, up 7% compared with the previous year. Its operating income stood at €42.6 million after €7.8 million in non-recurring income and costs (transfer of North American automobile brush production lines, start-up of companies in China, etc.) and the write-off of €20.2 million in goodwill related to automobile brush businesses. This write-off was prompted by the fact that the economic environment in which this business operates no longer justifies this goodwill from an economic standpoint.

FINANCE COSTS, NET

Carbone Lorraine's net finance costs came to €11.3 million in 2007, up from €9.7 million in 2006. This increase was driven by the upturn in interest rates over the period and by the rise in net debt.

INCOME BEFORE TAX AND NON-RECURRING ITEMS

Income before tax and non-recurring items dropped to €31.4 million from €51.3 million in 2006. The goodwill write-off related to the automobile brush business accounted for the bulk of this decline.

NET INCOME FROM CONTINUING OPERATIONS

Net income from continuing operations reached €16.3 million.

NET INCOME FROM OPERATIONS SOLD OR DISCONTINUED

The financial statements for 2007 do not show net income from operations sold or discontinued.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Net income attributable to Carbone Lorraine's shareholders came to €15.4 million in 2007, down from €35.3 million in 2006. The fall in net income was attributable to non-recurring charges and the goodwill write-off referred to above.

DIVIDEND

The Board of Directors will propose payment of a dividend of €0.85 per share at the Annual General Meeting of the shareholders, the same as in 2007. This would lead to a total payout of close to €12.2 million, representing 75% of 2007 net income attributable to equity holders of the parent and 35% of net income excluding the goodwill write-off related to the automobile brush business.

The Board believes that the firm operating performance before non-recurring items justifies the dividend per share being kept at the same level as in the previous year.

INVESTMENT POLICY

INVESTMENTS MADE DURING THE PAST THREE FISCAL YEARS

In 2005, €20 million of the amount shown under financial investment represented the downpayment made to the European Commission (see table footnote below). The remainder of €9.6 million related chiefly to the initial outlays on the new graphite block facility in Chongqing (China), as well as the acquisition of Astrad, a braking product distribution company. Lastly, the Group finalized the asset disposal program initiated in 2003, with the sale of its Crolles and La Verpillière (France) plants.

In 2006, the Group continued to modernize its manufacturing base, while investing in its production capacity to keep pace with its expansion. The €6.9 million increase in financial assets reflected further capital financing provided for the Chongqing plant. Investments linked to changes in the scope of consolidation derived chiefly from the acquisition of GES and Kapp and the receipt of an initial payment of €5 million following the sale of the Magnets division.

During 2007, the Group invested €25 million in the Chongqing plant, which commenced production of graphite blocks towards the end of the year. The Group also continued to expand its capacity against the backdrop of strong growth to plan ahead for growing demand from certain industries (notably wind and solar energy). Lastly, it finalized the transfer of activities from its Farmville facility. Investments linked to changes in the scope of consolidation were principally linked to the acquisition of Lenoir Elec and General Electric's medium-voltage fuse business. Financial investments comprised capital increases and acquisitions of small unconsolidated units ((Fusetech joint venture and Döhler joint venture). Of the other changes in cash flows from investing activities, €8 million derived from the increase in amounts due to suppliers of non-current assets in relation to investments in the Chongqing plant effected during the year but payable in 2008. They also include €2 million in proceeds from the disposal of real estate assets.

	Continuing operations		
In millions of euros	2007	2006	2005
Increase in intangible assets	(0.6)	(1.0)	(0.4)
Increase in property, plant and equipment	(66.8)	(31.5)	(24.1)
Increase in financial assets*	(2.9)	(6.9)	(28.5)
Other changes in cash generated/(used) by investing activities	11.1	0.6	3.0
Sub-total	**(59.2)**	**(38.8)**	**(50.0)**
Investments linked to acquisitions	(15.3)	(10.7)	(1.1)
Investments linked to asset disposals	0	0.5	0
TOTAL	**(74.5)**	**(49.0)**	**(51.1)**

** Including €20 million in 2005 comprising the downpayment made by the Group into an escrow account held by the European Commission as a guarantee for the appeal proceedings being heard by the EU Court of First Instance.*

FINANCING POLICY

A Group policy has been defined for financing, implementation of which is coordinated by the Finance and Administration department.

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

In most cases, Le Carbone-Lorraine SA arranges borrowings and then makes loans to the various Group units. Two cash pooling systems, one of which operates in Europe and the other in the United States, help to optimize use of all the credit lines.

In 2003, the Group refinanced a bank loan due for repayment by means of private placements in the US with an average redemption date of 2011 to diversify its sources of financing.

In 2004, the Group refinanced the long-term portion of the syndicated loan due to expire in late 2005, replacing it with a new five-year syndicated loan.

During 2007, the Group launched an issue of bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) with an average life of six years.

Both the OBSAAR bonds and the US private placements contributed to a significant extension in the average maturity of the Group's financing.

All the information about borrowings is stated in Note 14 to the consolidated financial statements.

RESEARCH POLICY

The Group's research and development activities primarily consist in developing materials, manufacturing processes, products, systems and applications with a view to:

- securing the Group's future expansion;
- and reducing its manufacturing costs.

The Group devotes around 3% of its sales to research and development in the form of the operating costs of the teams dedicated solely to this activity plus costs of product development (materials, processes) and of sales efforts in order to develop new solutions or services for its customers.

Most of this expenditure is financed internally.

The Group's major innovations during 2007 include:

- the formulation of new very fine grain grades of isostatic graphite, particularly well-suited to the needs of industry players operating at various stages of the semiconductor production chain and for plastic-injection mold manufacturers;
- development of hydrochloric acid synthesis units recovering the energy generated in order to produce high-pressure steam, thereby enhancing our customers' energy efficiency;
- development of patented systems protecting against voltage surges, in accordance with the latest technical standards, in order to improve current quality at industrial electrical installations with a view to raising their overall energy efficiency;
- the development of new water coolers for electronic equipment fitted in medical scanners and in most critical components of the latest generation of aircraft (brakes, control surfaces, thrust reversers, etc.), specifically designed in partnership with our customers;
- the development of slip-ring assemblies to transmit signals in wind turbines.

NET DEBT

Total consolidated net debt at December 31, 2007 rose to €191.8 million from €154.3 million at year-end 2006.

Debt increased by €37.5 million after the negative impact of a €8.9 million cumulative translation adjustment (positive effect of depreciation in the US dollar against the euro during 2007). This increase was chiefly attributable to the acquisitions (acquisition of a majority shareholding in Lenoir Elec in France and purchase of General Electric's medium-voltage fuse business in the US) made for €17.2 million, the recognition under "Other movements" of a €5.3 million liability to Lenoir Elec's minority shareholders and the first-time consolidation of the debt of the companies in India and China in 2007, which boosted debt by €14.3 million.

Cash generated by operating activities after the change in the working capital requirement came to €61.3 million, up from €59.4 million in 2006. This cash generation contributed to the financing of €59.2 million in net capital expenditures (including €25 million for the Chongqing plant in China) and €15.3 million in acquisitions during 2007, compared with €38.8 million and €10.2 million respectively in 2006.

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Total net debt	191.8	154.3	150.3
Net debt/equity	0.62x	0.50x	0.51x

PARENT COMPANY FINANCIAL STATEMENTS

The sales and other revenues recorded by the parent company, Le Carbone-Lorraine SA, amounted to €2.7 million. These revenues derived from Le Carbone-Lorraine SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and various other services.

The parent company posted an operating loss of €3.9 million, compared with a loss of €3.7 million in 2006.

The parent company's net financial income decreased to €8.3 million from €14 million in the previous year owing to the exceptional dividends received in 2006 in connection with the disposal of the Magnets business.

The parent company's income before tax and non-recurring items came to €4.4 million. The parent company posted an exceptional profit of €0.5 million, compared with a loss of €5.2 million in 2006. This change was attributable chiefly to losses recorded on the sale of the Magnets division in 2006.

The parent company recorded a tax benefit of €3.4 million. It was paid by the French subsidiaries consolidated for tax purposes.

Taking all these items into account, the parent company posted net income of €8.3 million, down from €9.4 million in 2006.

RELATIONS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES

Le Carbone-Lorraine SA is a holding company that manages the Group's investments in subsidiaries and associates and its 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 91 consolidated and unconsolidated companies in 35 countries. The Group's largest manufacturing facilities are located in France, the US, China, Mexico and Tunisia.

Carbone Lorraine is organized in three business divisions, namely Advanced Materials and Technologies, Electrical Applications and Electrical Protection. Each division is overseen by one or more members of the Executive Committee.

In some cases, the members of the Executive Committee hold directorships in companies belonging to their division.

OPERATIONS OUTSIDE FRANCE

The Group has a presence spanning five continents, forging close customer relationships.

The international footprint of the Group's manufacturing plants protects its competitiveness from the impact of currency fluctuations.

Backing up its strong positions in North America and Europe, it recently strengthened its manufacturing facilities in Asia, notably including its new plant producing graphite blocks in Chongqing (China). During 2007, over 70% of the Group's investments were made outside France, with around 40% devoted to Asia.

In 2007, the Group derived 86% of its sales from outside France (i.e. sales generated by foreign companies excluding those realized in France and exports by French companies).

The sales contribution made by the Group's consolidated subsidiaries outside France came to €492 million in 2007, up 11% compared with 2006 on a like-for-like basis. The Group enjoyed very brisk sales in the Asia-Pacific region, with growth reaching 27% on a like-for-like basis. This region now accounts for 17.5% of the Group's sales.

IAS/IFRS

In accordance with European regulation no. 1606-2002, which applies to the consolidated financial statements of listed European companies, the consolidated financial statements of the Carbone Lorraine group have been published using the internationally recognized IFRS since 2005 because the Group is listed in a member state of the European Union.

RECENT TRENDS AND OUTLOOK FOR 2008

The strong top-line increase during 2007 shows that the growth drivers in which the Group is investing heavily are expanding the business effectively. Carbone Lorraine's sales were again brisk during the final quarter of 2007 and the first months of 2008. Further ahead, the new plant in China producing graphite blocks, the development of industrial brushes for the wind energy sector, and new electrical protection products will make a significant contribution to the Group's activities in 2008.

The Group's new positioning in highly buoyant markets, its stronger presence in Asia and the now substantial proportion of its offering accounted for by new and innovative products have made it confident in its ability to make progress in 2008, even in an economic environment that is likely to be less supportive than in 2007, and to achieve its ambitious growth (sales of €1 billion) and profitability (ROCE[1] before tax of 17%) targets by 2011.

(1) Return on capital employed.

3 Sustainable development

ECONOMIC AND SOCIAL RESPONSIBILITY

The Group's ability to establish itself as a growth company during 2007 was enhanced by the qualities of Carbone Lorraine's employees, their diversity, their expertise, their level of motivation and their entrepreneurial spirit.

DIVERSITY, A SOURCE OF CREATIVITY AND INNOVATION

DIVERSITY

There is nothing like having different people on board, who complement and mutually enrich one another, when it comes to breaking with old habits and striking out in a new direction in order to innovate. With their diverse origins, training, cultures and ways of thinking, the Group's employees are fully appreciated for their development potential and their contribution to the performance of their business unit.

Its human resources teams make sure that all employees are given equal opportunities and that the multidisciplinary nature of teams is maintained or increased. A program raising awareness of the benefits of diversity has been designed. In France, this awareness-raising campaign was spearheaded by a theatre play performed at certain facilities. All the French plants will see it during 2008.

RELATIONS WITH LABOR BODIES

In addition to relations with employee representatives through the channels that exist in each company to share information and discuss issues, the meetings of the Group Works Council in France and the European Works Committee provide a forum for dialog and discussions with labor representatives concerning the Group's situation and strategic priorities in both France and Europe. These committees both met once during 2007. The agreements that set up these labor bodies, which were signed in 1997 for the European Works Committee and in 2001 for the Works Council in France, were updated through the signature of a supplemental agreement to factor in changes in the Group's structure and in the operation of these labor bodies.

In France, the union organizations were invited to negotiations covering several topics (insurance coverage of healthcare costs, top-up pension plan regime, etc.). An agreement concerning the insurance coverage of healthcare costs and another concerning the forward planning of jobs and skills, also covering the arrangements for informing and consulting with the employee representative bodies on the Group's strategy and its consequences for jobs and salaries, were signed by all the French union organizations.

The collective bargaining agreements signed by the French subsidiaries during 2007 related to the annual salary negotiations (five agreements) and profit-sharing arrangements (four agreements).

EMPLOYMENT AND INTEGRATION OF DISABLED WORKERS

AVO, the Group's subsidiary specializing in the assembly of electrical components for the automobile sector, employs 78 disabled workers (out of a total of 124 employees) at its sheltered workshop in Poitiers.

Furthermore, the diversity action plan includes measures to be taken in the short and medium term to ensure that the internal staff of each French subsidiary meet the legal obligations concerning the employment of disabled workers, which came into force in January 2006. In 2007, 78% of the French facilities satisfied this obligation, up from 33% in 2006.

BUSINESS-SPECIFIC EXPERTISE

Developing know-how and innovation are priorities for the Group's competency management policy.

INNOVATION AND PROJECT MANAGEMENT

An Innovation challenge, comprising a Creativity prize and a Growth+ prize, was again held this year to find the best two ideas generating value-added. These challenges will be held again and expanded in 2008.

A total of 248 managers attended training sessions in our **GPS** (Global Project Standard) optimized project management methodology during 2007. Generally speaking, managers involved in a major project are invited to participate in this two-day training module.

FORWARD SKILLS PLANNING

An analysis of the skills that the Group will need over the next five years taking its expansion policy into consideration has been carried out for each division. Identifying key business lines for the Group helps to prepare our existing teams for the acquisition of the relevant expertise. Planning ahead for departures linked to demographic trends in our workforce is another key aspect of our policy of forward human resource planning.

In the agreement on the forward planning of jobs and skills referred to above, the program to identify changing businesses/areas of expertise, professional training tools, the formal recognition of professional experience, internal mobility and end-of-career professional development were addressed together with union and employee representatives, and then the Group's commitments were described and restated.

The annual review is one of the key aspects of the competency development process implemented within the Carbone Lorraine group. Annual reviews, a special time for dialog and discussion between the employee and his/her direct management superior, help to assess individual performance over the previous year and set objectives for the following year. They also provide a chance to assess competency development initiatives carried out during the past year and to determine what action needs to be taken or continued to make progress in the employee's current position or with a view to future promotion. An application on the Group's intranet handles the online management of review forms and facilitates the organization of annual reviews.

In addition, management reviews provide an opportunity each year to review the career prospects of the Group's principal managers and are used to prepare individual competency development plans.

Carbone Lorraine's international dimension opens up genuine career development opportunities. In a "Mobility guide" distributed in early 2007, the Group displays its determination to promote transfers between various business units, divisions and geographical regions. The priority placed on internal recruitment helps to breathe life into the mobility drive and to enhance the international diversity of the Group's managers.

The mapping of reference jobs, which has identified 60 positions in a dozen or so functions (management, sales and marketing, R&D, purchasing, etc.), has led to the refinement of recruitment policy, made for greater consistency in the management of employees as a function of their contribution and facilitated competency development.

TRAINING AND COMPETENCY DEVELOPMENT

To help them progress and to take on responsibilities in the future, employees at all levels of the Group regularly attend training sessions, as well as performing training assignments that deliberately focus on topics outside their usual field of expertise.

In 2007, training efforts focused in particular on two priority areas:

- contributing to Carbone Lorraine's transformation into a growth company;
- achieving operational excellence in safety and man management, in line with the key tenets of the Quality and Continuous Improvement program.

All in all, the Group devoted 1.03% of its total payroll during 2007 to training, i.e. an average of 7 hours of training per employee.

TRAINING AT CARBONE LORRAINE

Training*	2007	2006	2005
as a % of total payroll costs			
Group total	1.1%	1.6%	1.6%
- o/w France	2%	3.0%	2.4%
average number of hours per employee			
Group total	9	16	15
- o/w France	13	19.5	17

* *Excluding India, China, Japan and Tunisia.*

During 2008, the training policy will continue to focus on the priority issues facing the Group. Particular emphasis will be placed on the skills required to see the projects in Asia through to fruition and to roll out competency management, internal communication, and safety processes, etc., there.

HIGHLY MOTIVATED AND COMMITTED EMPLOYEES, THE SECRET TO SUCCESS

INTERNAL COMMUNICATIONS

Sharing information is a key aspect of employee motivation. Carbone Lorraine intends to communicate internally concerning the performance of its businesses, including both its results and future projects. This emphasis on transparency enables each individual to gain a full sense of what it means to be part of the Group.

CL Infos, the Group's **internal newsletter** spruced up its layout and produced some special editions, such as Number 100 and the edition dedicated to the Chongqing facility. This newsletter is translated into four languages and each Group employee receives a copy.

Information is also passed on using complementary publications, such as *CL Flash* concerning the latest news and *Infos Sites*, which focuses on local information. In addition, managers in Europe and the Americas are convened to two annual information meetings, and discussion forums are scheduled for management and employees every month at most plants.

The Group's **intranet** has been completely overhauled to make it a user-friendly platform for sharing information and tools accessible in real time right around the world. Its contents are constantly enriched through active contributions by the numerous section managers. Internal job offers and forums help to foster communication and experience-sharing. The number of visits made by employees to this intranet has increased by close to 50% over two years.

EMPLOYEE COMPENSATION AND BENEFITS

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

Employee incentive and profit-sharing agreements take into account the Group's financial performance, as well as the individual contribution made by each employee. The development of technical incentive payments is predicated on collective criteria, such as productivity and safety improvements, customer satisfaction linked to product and service quality, ability to meet deadlines, innovation and reductions in non-quality costs. In addition, financial incentive payments are linked to attainment of operating margin targets at business unit or divisional level.

Managers' 2007 bonuses are calculated both on the EVA generated by their business unit and their results relative their individual annual targets, particularly those related to safety, cash generation and participation in growth projects. This policy helps to ensure that the Group's values and strategic objectives guide its day-to-day business decisions.

A CONTINUOUS IMPROVEMENT PROGRAM MOBILIZING THE ENTIRE WORKFORCE

The primary aim of the Quality and Continuous Improvement program, now firmly entrenched in the Group's business practices, is to drive the Group closer towards excellence in customer service in terms of both product and service quality. To this end, various programs, such as initiatives to shorten delivery times and improve product quality, have been rolled out at all the Group's sites. Consequently, the restructuring measures implemented since 2003 have led to major improvements in the organization of production and product flows to shorten lead times for customers. The 5S program is a critical component of this approach. The introduction of order, tidiness, cleanliness and discipline rules helps to enhance productivity, working conditions, safety and quality. By increasing the reliability of all business processes, both functional and operational, the 5S program makes a specific contribution to the improvement in economic performance.

Once again, the Worldwide 5S Challenge stepped up the pace of continuous improvement this year, and the quality of entries submitted provided ample evidence of the first-class 5S level at the Group's facilities. Of the 23 entries submitted to the 2007 contest, the prize for the Group's best 5S workshop went to the Customer Service workshop at Carbone Lorraine Equipements Génie Chimique (Pagny, France). One of last year's finalists, this workshop represents a fine example of how to maintain an excellent 5S level over time. Its workers have successfully incorporated quality, safety and the quest for excellence into their approach, enabling them to achieve a remarkable level of customer service.

The prize for the Greatest 5S improvement was awarded to Carbono Lorena Brazil's brush-holder manufacturing workshop. This brush-holder production workshop, which constantly strives to make progress, has made a tremendous effort to bring its workstations up to the highest standards. Using the 5S approach facilitated the complete reorganization of production flows, an improvement in working conditions and in safety. Lastly, the prize for the best 5S office was awarded to the human resources department of Carbone Lorraine Applications Electriques (Amiens, France). The Amiens HR department's offices now feature a welcoming visitor area and a customer-driven organization. The major efforts made by the team and its determination to make progress have produced results encouraging the entire site to follow suit.

ENTREPRENEURIAL SPIRIT IN A RESPONSIBLE ENVIRONMENT

FOSTERING A SENSE OF BELONGING AMONG GROUP EMPLOYEES

Job satisfaction, which helps to generate efficiency, is a factor contributing to the Group's success. The Group's culture and processes, which represent powerful sources of motivation for new recruits, encourage employees to work with passion and to aspire to excellence. The importance that Carbone Lorraine places on dynamism encourages them to prefer a practical and simple approach to a theoretical or formal attitude.

Through its organization and its attachment to human values, the Group encourages its employees to take initiatives and use their creativity. Employees are rapidly entrusted with responsibilities, irrespective of their grade through their participation in autonomous teams working on projects cutting across corporate boundaries. They devote all their energies to their work, as if it was their own activity. To this end, the Group proposed a capital increase reserved for employees in November 2007, as it has done for several years. This issue was subscribed by employees in nine European countries and in North America. Carbone Lorraine intends to continue pursuing its policy of encouraging employees to share in the Group's success by regularly organizing this type of issue.

HEALTH AND SAFETY, A PRIORITY FOR A RESPONSIBLE MANAGEMENT TEAM

Protecting the health and safety of all the Group's employees, wherever they are, is a top priority for the Group. It is well known how vital a firm grasp of health and safety is to driving performance and industrial and commercial excellence.

Based on this firmly held view and backed up by a written "Commitment to Safety" signed by each Executive Committee member and fully updated in 2007, the Group has rolled out a set of initiatives. Some carry on from programs initiated in previous years, such as the rigorous application of standards, direct communication through the Health and safety newsletter and the meeting held by the Chairman with each victim of a lost-time occupational accident and his/her manager. Additional measures epitomizing the high standards expected of each of the Group's employees were implemented during 2007.

For instance, the Group embarked on an ambitious training program for each of its managers. This "safety leadership" training has been deployed across the principal continents on which the Group operates and has already been attended by half of its managers. Roll-out of this program is due to be completed during the first half of 2008.

At the same time, local support for certain facilities translating health and safety guidelines into reality was also introduced in 2007. This program, which was given a warm reception in particular in the Chinese business press, illustrates the Group's determination to attach the same importance to health and safety matters while respecting local populations and cultures, wherever it operates.

The Group Safety Committee proposes future action priorities with input, as far as possible, from employee representatives (Works Council, European Works Committee, informal meetings at plants). In addition, the Safety Committee conducted 12 audits around the world during 2007.

Against this backdrop, the Group's safety performance held up in 2007 at the same excellent level achieved in previous years.

Number of lost-time occupational accidents per million man-hours (TF1)

2007	2006	2005
2.7	2.5	3.5

Number of occupational accidents with or without lost time per million man-hours (TF2)

2007	2006	2005
11.2	10.3	9

Number of working days lost to occupational accidents per thousand man-hours (TG)

2007	2006	2005
0.19	0.19	0.24

A SOCIALLY RESPONSIBLE GROUP

All activities were halted at the Ferroxdure plant in Evreux (France) during 2007.

Of the last nine employees to have left the facility, two are still currently on a lengthy retraining course, with a job awaiting them at the end. A personal or professional solution has been found for the seven others, including the buyout of a company by our former powder supervisor.

Following three successive restructuring plans, the plant's job-finding unit is to shut down for good.

In addition, the not-for-profit association we set up (ASCBE, organization supporting and creating employment in the Évreux region) expanded its scope to cover the entire department. By year-end 2007, it had supported over 25 companies creating jobs or new activities, and its actions have to date led to the planned or actual creation of 230 jobs.

The plan to wind down activities at the Farmville plant in the United States (Virginia), which was announced to the workforce and the local authorities in August 2006, was finalized on December 31, 2007. This closure was completed on schedule and on budget.

It was also carried out in accordance with the rights, needs and individual characteristics of each employee. Carbone Lorraine secured the support of the municipal, state and federal authorities for training and retraining programs, as well as financial assistance for the employees who lost their jobs.

Overall, 13 of the 218 employees at the plant in August 2006 continue to work at the facility in order to keep the mixes production workshop running. These mixes are used for the compression of brushes at the sites to which the Farmville production lines were transferred, i.e. Amiens, France and Chennai, India.

To date, 75% of the site's former workforce has now found a new job. The work carried out by local teams with the Virginia state universities led to some 50 people being recruited by the latter.

The Group pays a contribution towards the social insurance of the employees who lost their jobs for up to 36 months if they remain unemployed. To date, 50 of the redundant workers are participating in the plan. The goal is for all the former employees affected by the shutdown to have found another job by the end of 2008.

Thanks to the flexibility and mobility of its employees, the social cost was lower than expected.

ETHICAL BUSINESS PRACTICES

A purchasing code of conduct first introduced in 2003 emphasizes the transparency of its purchasing procedures and policy at every level of the Group, the fair selection of business partners and suppliers and the best practices adopted for supplier relationships.

The charter governing the use of IT and telecoms resources, which was also introduced in 2003, aims to reconcile respect for employees' individual freedoms with the need to protect the Group's security and legitimate interests.

An information system security officer oversees the protection of users and data processed by Group's IT and communication tools. A Group Data Protection Officer was appointed during 2007. He will share best practices in personal data protection.

Lastly, as part of the Group's ethical approach, employees are given the possibility of investing sums received as part of incentive and profit-sharing plans in a new vehicle abiding by Carbone Lorraine's high ethical standards. This fund, the majority of which is invested in equities, targets long-term investment performance and picks shares meeting the social, environmental and governance criteria of socially responsible investing.

OUTSOURCING

The Group partially outsources the manufacture of its products. In 2007, the cost of outsourced manufacturing amounted to €22 million, compared with €17 million in 2006, with assembly operations accounting for the bulk of this figure. Furthermore, metallic component cutting and stamping operations, as well as the manufacture of plastic components, were outsourced at a cost of €28 million and €12 million respectively in 2007, compared with €25 million and €11 million in 2006. These services accounted for around 18% of the Group's total purchases.

THE GROUP'S WORKFORCE

Close customer relationships represent a major pillar of the strategy pursued by Carbone Lorraine, which has built a large presence in international markets. The Group has established itself on five continents, with over 47% of its employees located outside Europe. Its largest units in terms of the size of its workforce are France, the US, Mexico and Tunisia.

GEOGRAPHICAL ANALYSIS OF THE WORKFORCE (AT END-DECEMBER 2007)

Country	2007*	2007*	2006	2005
Europe (including Tunisia)	51%	3,538	3,452	3,681
o/w France	26%	1749	1,762	2,037
North America (including Mexico)	36%	2,436	2,332	2,397
Asia-Pacific	8%	530	258	335
Rest of the world	5%	354	403	656
TOTAL	**100%**	**6,857**	**6,445**	**7,069**

** In 2007, the headcount includes the following units consolidated for the first time: CL India, CLCK (China), Chongqing (China) and Le Carbone Advanced (China).*

SOCIAL DATA (OPERATIONS IN FRANCE)

In accordance with the provisions of Decree no. 2002-221 of February 20, 2002 in application of Article L. 225-102-1 of the French Commercial Code (operations in France):

Headcount at December 31

	2007	2006	2005
Workforce	1,749	1,762	2,037
o/w fixed-term contracts	14	16	18

Recruitment

	2007	2006	2005
Recruitment	181	194	141
o/w fixed-term contracts	23	31	30

Most of the French facilities hired new employees during 2007. The new hires were made across all socio-professional categories. There were no particular difficulties to report aside from the fact that tooling, boiler-making and welding skills are in short supply in the marketplace.

Temporary workers

	2007	2006	2005
Average headcount	245	248	237
% of the headcount	14%	15%	11.4%

Overtime

	2007	2006	2005
Overtime	29,189	27,414	28,509
% of hours worked	0.71%	0.75%	0.75%

Absenteeism

	2007	2006	2005
Absenteeism	4.52%	4.9%	5.7%
o/w illness	2.97%	3.5%	4.4%

During 2007, a total of 2,722 hours were lost to strikes, representing 0.66% of hours worked.

Organization of working hours

The working hours of engineers and managers are calculated based on an annual total of 216 days, which gives them an average of 12 days of additional leave per year.

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

In 2007, 51 employees worked on a part-time basis.

ENVIRONMENTAL RESPONSIBILITY

Carbone Lorraine has committed itself to a strategy of profitable growth that is both environmentally friendly and socially responsible. A core Group value, its commitment to protecting the environment is part of a collective and pragmatic approach. The entire workforce is made aware of the relevant issues and trained in simple gestures that help to protect the environment. This approach has been rolled out right around the world, at every level of the Group, from business managers, to plant workers and functional teams.

CARBONE LORRAINE'S ENVIRONMENTAL POLICY

Carbone Lorraine endeavors to protect the environment and undertakes to:

1. **comply with the regulations in force**, in the form of legal and other requirements covering its products and existing installations;
2. **catalogue potential risks** to its installations and products, review whether prevention is sufficient to avoid any accidents that may pose a threat to people in the neighborhood or to the surrounding area (particularly to customers, the company's workforce and those living close to production sites);
3. **visit installations** periodically to detect anomalies;
4. **use incidents and best internal and external practices** to promote a program of quality and continuous improvement based on experience-sharing;
5. **minimize consumption** of water, energy, raw materials and packaging and **encourage recycling and waste-to-energy conversion;**
6. **foster progress through continuous improvement** by rolling out a ISO 14001 Environmental Management System at all the Group's major plants;
7. **foster the development of eco-design,** notably by extending use of EIME, the dedicated software system.

2007: CONTINUED IMPLEMENTATION OF THE PRAGMATIC PROGRAM AND LAUNCH OF MAJOR PROJECTS

In practice, Carbone Lorraine's environmental policy consists in identifying the best practices and adopting an extremely high level of vigilance in order to eliminate, reduce or process discharges of gas, liquid or solid pollutants and to minimize other nuisances.

During 2007, Carbone Lorraine initiated a review and took initiatives predicated on two major sustainable development projects: the launch of a worldwide savings plan and intensification of its efforts to bring its practices into line with European environmental standards.

Real technological progress was made in Carbone Lorraine's ability to **make energy savings**. As a result, the Group made a major leap forward during 2007 in the technology it uses to manufacture graphite tubes for the chemicals/pharmaceuticals market. Thanks to a new manufacturing process, the power consumption of the anticorrosion equipment production unit has been reduced significantly.

Carbone Lorraine stepped up its efforts to **comply with the new European environmental constraints** on several fronts.

Ahead of the roll-out of REACH (Registration, Evaluation and Authorisation of Chemicals), the Group carried out an exhaustive inventory of all the chemical products used in its production processes and has continued its analysis of these products. It should be in a position to pre-register them with the European Commission by year-end 2008. At the same time, Carbone Lorraine conducted a review of CMR substances (carcinogenic, mutagenic or toxic to reproduction) during 2007, which prompted it to tighten up all the appropriate measures designed to protect employees and the environment.

Applying the same approach of planning ahead to meet environmental challenges, the Group started estimating the carbon footprint of one of its principal manufacturing facilities, even though it is not covered by the first French national plan for the allocation of carbon dioxide emission quotas (PNAQ). This analysis will ultimately enable it to determine where savings can be made and to prepare as effectively as possible for the general introduction of this program at the appropriate juncture. The Group is particularly active in fuse recycling, and has worked with a number of recycling associations for several years, notably in Germany and in the Benelux countries, which has already led to a significant tonnage being recycled.

Aside from these major projects, Carbone Lorraine continues to pursue its core program, which consists in closely monitoring the risks of soil pollution, notably through in-depth audits, which did not reveal any major environmental risks.

In terms of waste, gaseous effluents are collected and processed before discharge into the atmosphere. Dust emissions are controlled through aspiration systems and machine hoods. Waste management is always given special attention. Certain improvements are designed by teams themselves as part of the 5S program and are then introduced right across the board. This method is predicated on sorting, tidiness, cleanliness, standardization and maintenance. Irrespective of their location, all the Group's facilities are obliged to meet the same stringent standards.

From a quality standpoint, the Quality and Continuous Improvement (QPC) program has continued year after year, with training initiatives helping to achieve operational excellence. Competitions, such as the Worldwide 5S Challenge, help to promote a culture of excellence among all the Group's various companies.

The ISO 14001 certification program is expanding, and the Group's principal plants are now certified. Some sites have taken this process even further by striving to achieve OHSAS 18001 (Occupational Health and Safety Assessment Series) certification. The facilities at Ssangam in South Korea, Patrica in Italy, Pagny-sur-Moselle in France and Istanbul in Turkey have already achieved this accreditation, and others are working hard to achieve it, since it represents an additional advantage vis-à-vis their workforce and even their customers.

GLOBAL RISK MANAGEMENT

The Risk and Internal Audit department aims to provide a better assessment of the risks to which the Group may be exposed. It detects the principal risks facing the Group and defines the risk prevention and mitigation policy, proposes action plans and makes sure they are implemented.

The concept of risk is increasingly taken into account by the Group's senior managers in the operational and functional aspects of the business. This integration is fostered through systematic audits, which are critical aspects of the prevention policy.

The mapping of operational, financial, strategic and information-related risks carried out in 2001 was updated in 2005 and will be reviewed again in 2008. It did not identify any risk liable to have a material adverse effect on the Group's performance.

Furthermore, none of the Group's plants is classified under the Seveso Directive.

GROWING MOMENTUM OF ECO-DESIGN

Environmental protection systematically applies to all new business activities, manufacturing facilities, production processes and products. Carbone Lorraine seeks to equip itself with the best technologies available on the market when designing its new manufacturing lines and its new products.

Its proficiency in IT systems and specific eco-design skills now enable the Group to go further in the development of new products that place still greater emphasis on environmental protection.

ENVIRONMENTAL DATA

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

The Group scope encompasses plants in:

- France: CLAE (Amiens), CLEGC (Pagny-sur-Moselle), CLC (Gennevilliers), Ferraz Shawmut (Saint Bonnet de Mure, Provins, Saint Loup de Naud and La Mure), and AVO (Poitiers);
- Europe: Il Carbonio (Patrica, Italy), Cometec (Lisengericht, Germany), DCAG (Frankfurt, Germany), CLGBR (Portslade and Teesside, UK);
- Americas: COA (St Mary's, US), UCD (Bay City, US), Ferraz Shawmut (Newburyport, US), Ferraz Shawmut (Juarez, Mexico), Carbono Lorena (Sao Paulo, Brazil);
- Asia: Carbone Lorraine (Bommasandra, India).

The following indicators reflect the new scope. The plants included in the Group scope account for around 90% of the Group's sales.

KEY INDICATORS

	Unit	2007 Group	2006 Group	% chg. Group 2007/2006	2007 France	2006 France	% chg. France 2007/2006
Water consumption	**m³**	**461,558**	**431,215**	**+7%**	**283,212**	**271,810**	**+5%**
Energy consumption							
Electricity	MWh	128,952	123,515	+5%	47,924	48,966	-2%
Gas	MWh	173,278	196,799	-13%	64,566	62,657	+3%
Consumption of raw materials and metals							
Wood	tons	1766	1,561	+12%	810	756	+7%
Cardboard	tons	883	810	+9%	552	563	-1%
Copper	tons	1,773	1,521	+15%	660	652	+2%
Waste							
Wood, 100% recycled	tons	525	380	+28%	363	304	+17%
Recycled cardboard	tons	165	152	+8%	100	98	+2%
Non-hazardous waste	tons	6,342	5,690	+11%	1,142	1,250	-9%
Discharges							
Wastewater	m³	448,094	470,313	-4%	290,575	278,329	+5%

Given the increase in production of approximately 10% across the Group, it appears that consumption of most raw materials either declined or remained stable.

As part of the Group's environmental program, plants continued their efforts to mitigate environmental impacts during 2007 and implemented significant improvements:

AMIENS

- Investment to reduce and, where possible, eliminate completely leaks of vapor and/or particles of possibly toxic products;
- Atmospheric emission sampling to confirm the absence of metals in these emissions.

GENNEVILLIERS

- Carbon footprint of the plant;
- Implementation of anti-slip floors;
- Sound insulation of the presses;
- Upgrade of a hot composite workshop to reduce nuisances affecting both employees and the environment.

PAGNY-SUR-MOSELLE

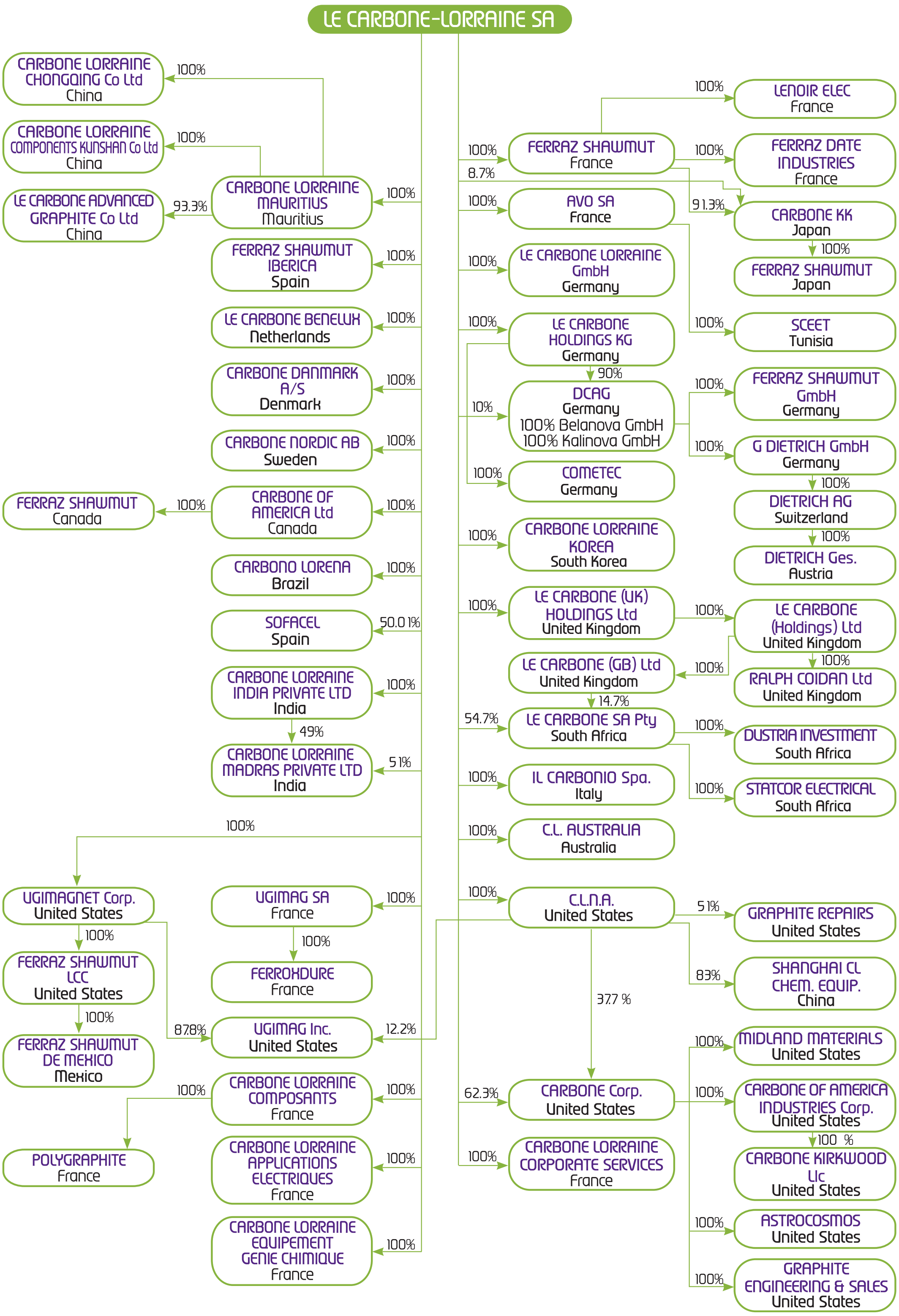
- Creation of a waste area;
- Major overhaul of a workstation for a disabled worker;
- Measures to improve safety and working conditions.

FERRAZ SHAWMUT

- Thermal insulation of a building;
- Identification of ways to recycle fuses.

4 Consolidated financial statements

SCOPE OF CONSOLIDATION
at December 31, 2007



LIST OF CONSOLIDATED COMPANIES

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
1. **Le Carbone-Lorraine SA** (France)	FC	100	100
2. **Carbone Lorraine Applications Électriques** (France)	FC	100	100
3. **Carbone Lorraine Composants** (France)	FC	100	100
4. **Carbone Lorraine Équipements Génie Chimique** (France)	FC	100	100
5. **Carbone Lorraine Corporate Services** (France)	FC	100	100
6. **AVO SA** (France)	FC	100	100
- SCEET (Tunisia)	FC	100	100
7. **Ferraz Shawmut SA** (France)	FC	100	100
- Ferraz Date Industries	FC	100	100
8. **Lenoir Elec** (France)	FC	100	100
9. **Ugimag SA** (France)	FC	100	100
10. **Ferroxdure** (France)	FC	100	100
11. **Polygraphite** (France)	FC	100	100
12. **Carbone Lorraine Holdings KG** (Germany)	FC	100	100
- Deutsche Carbone AG	FC	100	100
- Belanova-Kalbach GmbH	FC	100	100
- Kalinova-Kalbach GmbH	FC	100	100
- Ferraz Shawmut GmbH	FC	100	100
- Cometec	FC	100	100
13. **Carbone Danmark A/S (Denmark)**	FC	100	100
14. **G. Dietrich GmbH** (Germany)	FC	100	100
15. **Dietrich AG** (Switzerland)	FC	100	100
16. **Dietrich Ges.** (Austria)	FC	100	100
17. **Carbone Lorraine GmbH** (Germany)	FC	100	100
18. **Sofacel** (Spain)	FC	50	50
19. **Ferraz Shawmut Iberica**	FC	100	100
20. **Le Carbone Holdings Ltd GB**	FC	100	100
- Le Carbone (GB) Ltd	FC	100	100
- Le Carbone (Holdings) Ltd	FC	100	100
- Ralph Coïdan Ltd	FC	100	100
21. **Il Carbonio Spa.** (Italy)	FC	100	100
22. **Le Carbone-Lorraine Benelux** (Netherlands)	FC	100	100
23. **Carbone Nordic AB** (Sweden)	FC	100	100
24. **Carbone of America (LCL) Ltd** (Canada)	FC	100	100
25. **Ferraz Shawmut Canada**	FC	100	100
26. **Carbone Lorraine North America** (US)	FC	100	100
- Graphite Repairs	FC	51	51
- Carbone Corp.	FC	100	100
- Carbone of America Industries Corp.	FC	100	100
- Carbone Kirkwood LLC	FC	100	100
- Astrocosmos Metallurgical Inc.	FC	100	100
- Midland Materials	FC	100	100
- Graphite Engineering and Sales	FC	100	100
27. **Ugimagnet Corp.** (US)	FC	100	100
- Ferraz Shawmut LLC (US)	FC	100	100
- Ferraz Shawmut de Mexico (Mexico)	FC	100	100
- Ugimag Inc. (US)	FC	100	100

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
28. **Le Carbone-Lorraine Australia**	FC	100	100
29. **Le Carbone KK** (Japan)	FC	100	100
30. **Ferraz Shawmut Japan**	FC	100	100
30. **Carbone Lorraine India Private Limited**	FC	100	100
31. **Carbone Lorraine Madras Private Limited** (India)	FC	100	100
32. **Shanghai Carbone Lorraine Chemical Equipment Cy Ltd** (China)	FC	83	83
33. **Le Carbone** (South Africa) **PTY Ltd** (RSA)	FC	69	69
- Statcor Electrical	FC	69	69
- Dustria Investment	FC	69	69
34. **Carbono Lorena** (Brazil)	FC	100	100
35. **Carbone Lorraine Korea**	FC	100	100
36. **Carbone Lorraine Mauritius** (Mauritius)	FC	100	100
- Carbone Lorraine Chongqing Co Ltd (China)	FC	100	100
- Carbone Lorraine Components Kunshan Co Ltd (China)	FC	100	100
- Le Carbone Advanced Graphite (Kunshan) Co Ltd	FC	93	93

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

CHANGES IN THE SCOPE OF CONSOLIDATION over the past three years

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

- during fiscal 2005, Carbone Lorraine Composants absorbed Astrad, a brake marketing company that was acquired in the first quarter of 2005;
- during fiscal 2006, the Group acquired US company Graphite Engineering & Sales on February 1, 2006, French company Kapp in early September 2006 and sold the assets of Astro Service Center during the second half of 2006;
- during fiscal 2007:
  - Ferraz Shawmut France acquired a majority shareholding in Lenoir Elec 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 company holding these companies, CL Mauritius, joined the scope of consolidation during the second half with retrospective effect from January 1, 2007,
  - Ferraz Shawmut LLC acquired General Electric's medium-voltage fuse business in December 2007.

DISPOSAL OF THE MAGNETS DIVISION

The disposal of the Magnets division was presented in the consolidated financial statements for fiscal 2005 in accordance with IFRS 5. The divestment was completed on February 27, 2006.

The balance sheet, income statement and cash flow statement at December 31, 2005 and December 31, 2006 show the assets and liabilities held for sale and discontinued operations on a separate line.

CONSOLIDATED INCOME STATEMENT

In millions of euros	Note	2007	2006	2005
CONTINUING OPERATIONS				
Consolidated sales	17	693.7	639.8	583.4
Cost of sales		(487.8)	(444.4)	(407.1)
Gross income		**205.9**	**195.4**	**176.3**
Selling and marketing costs		(65.8)	(63.4)	(59.7)
Administrative and research costs		(66.8)	(62.9)	(54.8)
Other costs and additions to provisions		(1.3)	(1.7)	(1.1)
Financial components of operating income		(1.3)	(1.3)	(1.5)
Operating income before non-recurring items		**70.7**	**66.1**	**59.2**
Non-recurring income and expense	16	(7.8)	(5.1)	(5.7)
Goodwill impairment loss	5	(20.2)		
Operating income	**17-19**	**42.7**	**61.0**	**53.5**
Finance costs		(11.3)	(9.7)	(7.1)
Finance costs, net	**20**	**(11.3)**	**(9.7)**	**(7.1)**
Income before tax		**31.4**	**51.3**	**46.4**
Current and deferred income tax	21	(15.1)	(11.0)	(11.1)
Net income from continuing operations		**16.3**	**40.3**	**35.3**
Assets held for sale and discontinued operations				
Net income from assets held for sale or discontinued operations			(5.4)	(12.8)
Net income		**16.3**	**34.9**	**22.5**
Attributable to:				
- Carbone Lorraine's shareholders		15.4	35.3	22.1
- Minority interests		0.9	(0.4)	0.4
Earnings per share	**22**			
Basic earnings per share *(€)*		1.08	2.53	1.60
Diluted earnings per share *(€)*		1.05	2.44	1.53
Net income per share from continuing operations				
Basic earnings per share *(€)*		1.08	2.92	2.53
Diluted earnings per share *(€)*		1.05	2.82	2.43

CONSOLIDATED BALANCE SHEET

ASSETS

In millions of euros	Note	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
NON-CURRENT ASSETS				
Intangible assets & *goodwill*				
- Goodwill	5	164.9	176.7	182.1
- Other intangible assets		4.6	4.5	4.3
Property, plant and equipment	**7**			
- Land		31.8	30.0	30.5
- Buildings		34.0	25.5	23.9
- Plant, equipment and other assets		119.4	71.3	70.7
- Assets in progress		22.0	20.3	14.3
Non-current financial assets				
- Investments	8	8.1	28.3	21.6
- Non-current derivatives	3		0.5	
- Other financial assets	14	27.7	28.2	24.5
Non-current tax assets				
- Deferred tax assets	21	21.6	27.1	29.8
- Non-current income tax assets		1.3	1.2	1.9
TOTAL NON-CURRENT ASSETS		**435.4**	**413.6**	**403.6**
CURRENT ASSETS				
- Inventories	9	150.5	131.2	122.8
- Trade receivables	10	128.7	122.5	114.8
- Other receivables		21.2	25.9	18.4
- Current tax assets		3.9	2.0	2.9
- Current financial assets	14	3.0	2.9	2.5
- Current derivatives	3	2.1	2.0	0.9
- Trading financial assets	14	2.8	3.5	0.6
- Cash and cash equivalents	14	23.6	17.7	35.7
- Assets held for sale and discontinued operations			2.9	26.0
TOTAL CURRENT ASSETS		**335.8**	**310.6**	**324.6**
TOTAL ASSETS		**771.2**	**724.2**	**728.2**

LIABILITIES AND EQUITY

In millions of euros	Note	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
EQUITY				
- Share capital	11	28.6	27.9	27.7
- Premiums and retained earnings		309.3	274.9	253.2
- Net income for the year		15.4	35.3	22.1
- Cumulative translation adjustments		(50.4)	(34.5)	(14.3)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**302.9**	**303.6**	**288.7**
- Minority interests		4.1	4.4	5.9
EQUITY		**307.0**	**308.0**	**294.6**
NON-CURRENT LIABILITIES				
- Non-current provisions	12	45.7	45.4	43.9
- Employee benefits	13	40.7	41.8	46.7
- Deferred tax liabilities	21	3.1	1.9	6.4
- Borrowings	14	176.4	136.7	177.1
- Non-current derivatives	3	0.8	2.6	2.8
TOTAL NON-CURRENT LIABILITIES		**266.7**	**228.4**	**276.9**
CURRENT LIABILITIES				
- Trade payables		71.7	65.6	60.9
- Other payables		56.5	56.0	43.1
- Current provisions	12	1.5	0.5	5.2
- Current income tax liabilities		4.3	6.8	3.9
- Other liabilities		15.7	7.7	9.2
- Other current financial liabilities	14	21.7	3.8	3.0
- Current derivatives	3	3.0	1.1	0.2
- Current advances	14	1.9	1.1	1.4
- Bank overdrafts	14	21.2	36.8	7.6
- Liabilities related to assets held for sale and disc. op.			8.4	22.2
TOTAL CURRENT LIABILITIES		**197.5**	**187.8**	**156.7**
TOTAL LIABILITIES AND EQUITY		**771.2**	**724.2**	**728.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Attributable to Carbone Lorraine's shareholders						
	Share capital	Premiums and retained earnings	Net income for the year	Cumulative translation adjustment	Total	Minority interests	Equity
EQUITY AT DECEMBER 31, 2005	**27.7**	**253.2**	**22.1**	**(14.3)**	**288.7**	**5.9**	**294.6**
Prior period net income		22.1	(22.1)		0.0		0.0
Dividends paid		(9.7)			(9.7)	(0.7)	(10.4)
Issue of new shares	0.2	3.6			3.8		3.8
Treasury shares		(0.4)			(0.4)		(0.4)
Change in fair value of hedging derivatives		0.4			0.4		0.4
Translation adjustments and other		5.7		(20.2)	(14.5)	(0.4)	(14.9)
Net income for the year			35.3		35.3	(0.4)	34.9
EQUITY AT DECEMBER 31, 2006	**27.9**	**274.9**	**35.3**	**(34.5)**	**303.6**	**4.4**	**308.0**
Prior period net income		35.3	(35.3)		0.0		0.0
Dividends paid		(11.9)			(11.9)	(0.7)	(12.6)
Issue of new shares	0.7	11.5			12.2		12.2
Treasury shares		(0.1)			(0.1)		(0.1)
Change in fair value of hedging derivatives		(1.9)			(1.9)		(1.9)
Translation adjustments and other		1.5		(15.9)	(14.4)	(0.5)	(14.9)
Net income for the year			15.4		15.4	0.9	16.3
EQUITY AT DECEMBER 31, 2007	**28.6**	**309.3**	**15.4**	**(50.4)**	**302.9**	**4.1**	**307.0**

In 2006, the principal movements were as follows:

- an issue of shares deriving from:
  - the exercise of stock options granted to employees, leading to the issue of 79,629 shares for €2.3 million (increase of €0.1 million in the share capital and an issue premium of €2.2 million),
  - the issue of 44,494 shares arising from the capital increase reserved for employees, leading to an impact of €1.5 million (increase of €0.1 million in the share capital and an issue premium of €1.4 million);
- a transfer to equity of the 7,851 treasury shares held with a negative impact of €0.4 million;
- an increase of €0.4 million in the fair value of derivatives at the balance sheet date.

In 2007, the principal movements were as follows:

- an issue of shares deriving from:
  - the exercise of stock options granted to employees, leading to the issue of 240,266 new shares and the grant of 30,900 bonus shares for €10.2 million (increase of €0.6 million in the share capital and an issue premium of €9.6 million),
  - the issue of 44,094 shares arising from the capital increase reserved for employees, leading to an impact of €2.0 million (increase of €0.1 million in the share capital and an issue premium of €1.9 million);
- a transfer to equity of the 817 treasury shares held with a negative impact of €0.1 million;
- a reduction of €1.9 million in the fair value of derivatives at the balance sheet date.

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	2007	2006	2005
OPERATING ACTIVITIES			
Income before tax	31.4	51.3	46.4
Depreciation and amortization	24.8	21.6	21.1
Impairment	20.2		
Additions to/(write-backs from) provisions	(4.5)	(1.6)	(1.9)
Finance costs, net	11.3	9.7	7.1
Capital gains/(losses) on asset disposals	(0.6)	0.1	(0.6)
Other items	2.9	(0.8)	(2.3)
Cash generated by operating activities before change in the WCR	**85.5**	**80.3**	**69.8**
Change in the working capital requirement	(11.8)	(12.0)	(8.3)
Income tax paid	(12.4)	(8.9)	(8.7)
Net cash generated by operating activities	**61.3**	**59.4**	**52.8**
Investing activities			
Increase in intangible assets	(0.6)	(1.0)	(0.4)
Increase in property, plant and equipment	(66.8)	(31.5)	(24.1)
Increase in financial assets	(2.9)	(6.9)	(28.5)
Acquisition/sale of subsidiary with deduction of the cash acquired	(15.3)	(10.2)	(1.1)
Other changes in cash generated/(used) by investing activities	11.1	0.6	3.0
Cash generated/(used) by investing activities	**(74.5)**	**(49.0)**	**(51.1)**
Net cash generated/(used) by operating and investing activities	**(13.2)**	**10.4**	**1.7**
Financing activities			
Proceeds from issue of new shares	11.8	3.5	0.6
Net dividends paid to shareholders and minority interests	(12.6)	(10.6)	(8.2)
Interest payments	(11.2)	(9.5)	(6.3)
Change in debt (Note 14)	30.0	(1.2)	28.0
Cash generated by financing activities	**18.0**	**(17.8)**	**14.1**
Change in cash held by assets held for sale and discontinued operations		**(6.3)**	**4.6**
Change in cash	**4.8**	**(13.7)**	**11.2**
Cash at beginning of fiscal year (Note 14)	21.2	36.3	28.0
Cash at end of fiscal year (Note 14)	26.4	21.2	36.3
Changes in the scope of consolidation	(0.4)		
Impact of currency fluctuations	0.0	1.4	2.9
CHANGE IN CASH	**4.8**	**(13.7)**	**11.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 STATEMENT OF CONFORMITY

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

The mandatory standards and interpretations introduced at January 1, 2007 did not have any impact on the consolidated financial statements. IFRS 7 and IAS 1 as amended, application of which is mandatory for fiscal 2007, led to the disclosure of additional information about the Group's financial instruments and share capital. The other mandatory standards and interpretations did not have any impact on the consolidated financial statements.

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

The consolidated financial statements at December 31, 2007 have been prepared using the recognition and measurement principles stated in the IFRSs adopted in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the General Regulation of the *Autorité des Marchés Financiers* (AMF, the French market regulator).

For comparison purposes, the consolidated financial statements for the fiscal year to December 31, 2007 include data for fiscal 2005 and 2006 restated using the same accounting rules.

The accounting principles stated from Note 2 onwards have been used to prepare the comparative figures and the annual financial statements for 2007.

Note 2 ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

A - BASIS OF CONSOLIDATION

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

Jointly controlled companies are consolidated proportionately.

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

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

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

The consolidated financial statements have been prepared in euros.

B - PRESENTATION OF THE FINANCIAL STATEMENTS

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

B1 Income statement

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

B2 Balance sheet

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

B3 Consolidated statement of cash flows

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

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

B4 Operations, assets and liabilities held for sale

In accordance with IFRS 5, assets and liabilities that are immediately available for sale in their current state and the sale of which is highly probable are shown on the balance sheet under assets and liabilities held for sale. Where a group of assets is held for sale in a single transaction, the group of assets and corresponding liabilities is considered as a whole. The disposal must take place in the year following this presentation of the asset or group of assets.

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

The income of disposal groups is shown by separating the net income of continuing operations, and their cash flows are presented on a separate line of the statement of cash flows.

C - FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

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

D - FOREIGN CURRENCY ASSETS AND LIABILITIES

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

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

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

E - HEDGING

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

E1 *Currency and commodity hedges*

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

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

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

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

E2 *Interest rate hedging*

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

- the ineffective portion of the derivative instrument is taken to income under the cost of debt;
- the effective portion of the derivative instrument is recognized as follows:
  - in equity for a derivative accounted for as a cash flow hedge (e.g. a swap turning a debt carrying a floating interest rate into a fixed-rate liability),
  - in income (cost of debt) 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.

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 adopted the following four CGUs at December 31, 2007:

- Electrical Applications;
- Electrical Protection;
- High-temperature applications and high-energy braking;
- Anticorrosion equipment.

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

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

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

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

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

Goodwill impairment losses are irreversible.

F2 Patents and licenses

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

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

F3 Development costs

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

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

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

G - PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

The periods used are as follows:

- buildings: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;

- vehicles: 3 to 5 years.

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

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

H - LEASES

Under IAS 17, a lease is classified as a finance lease if it transfers 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 incurred under leases are charged to income for the period and the lease is considered as an operating lease.

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

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

The capitalized asset is depreciated over the useful life adopted by the Group for non-current assets of the same type.

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

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

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

Should the recoverable amount of assets fall below their carrying amount, an impairment loss is recognized in respect of the difference between these two amounts. Impairment losses recognized on property, plant and equipment and intangible assets (except for goodwill) with a defined useful life may be reversed subsequently if the recoverable amount becomes higher than the carrying amount again (without exceeding 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 notably by reference to the discounted future cash flows projected based on economic assumptions and operating budgets drawn up by Carbone Lorraine's senior management.

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

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

J - FINANCIAL ASSETS AND LIABILITIES

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

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

Loans and receivables are recognized at amortized cost.

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

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

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

J1 Investments

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

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

These impairment losses are irreversible and are not written back.

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

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

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

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

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

J2 *Other non-current financial assets*

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

K - SHARE CAPITAL

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

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

L - PROVISIONS

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

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

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

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

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

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

N - CONSOLIDATED SALES

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

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

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

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

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

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 treats 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 what has actually occurred);
- changes in actuarial assumptions.

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

The Group has opted to use 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 amount net 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 EXPENSE

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

Non-recurring income and expense include the following items:

- disposal gains: on property, plant and equipment, intangible assets, investments, other financial assets and other assets;
- impairment losses recognized on investments, loans, goodwill and other assets;

- certain types of provision;
- reorganization and restructuring costs.

Q - OPERATING INCOME

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

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

R - DEFERRED TAXES

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

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

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

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

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

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

S - SEGMENT REPORTING

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

- **Advanced Materials and Technologies:** applications of graphite for high-temperature industrial processes, anticorrosion equipment and high-energy braking;
- **Electrical Applications:** brushes and sliding electrical contacts for industrial, automotive and small household appliance motors and diagnostic analysis of malfunctions in industrial and automotive electric motors in the contact between the brushes and the collector;
- **Electrical Protection:** fuses and fuseholders protecting industrial equipment and power semiconductors, to ensure the safety of people and equipment.

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

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

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

V - USE OF ESTIMATES

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or assessments be made, particularly in relation to the calculation of provisions and impairment testing. These assumptions, estimates or assessments are prepared on the basis of the information available and the position at the balance sheet date.

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

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

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

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

- Notes 2-F1, 2-I and 6 concern the testing of goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account;
- Notes 12 and 13 concerning provisions and employee benefits describe the provisions set aside by Carbone Lorraine. To determine these provisions, Carbone Lorraine used the most reliable estimate of these obligations;
- Note 21 concerning tax expense reflects the Group's tax position, which is based for France, Germany and the US on the Group's best estimate of trends in its future taxable income.

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

W - NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

New standards and amendments to standards and interpretations are not yet in force for fiscal years ended on December 31, 2007 and were not applied in the preparation of the consolidated financial statements:

- IFRIC 11 (IFRS 2 - Group and treasury share transactions) concerning the options granted within a group and to the treasury shares acquired to cover a stock option plan confirms the treatment to be applied by the Group in certain specific instances to benefits granted to the employees of various group entities. IFRIC 11, which will be applicable to the Group's financial statements for 2008 with retroactive effect, is not expected to have an impact on the Group's consolidated financial statements;
- IFRS 8 - Operating Segments introduces the management approach. IFRS 8, which will become mandatory for the Group's 2009 financial statements, requires segment reporting to be based on the internal reporting analyzed on a regular basis by the Group's operational management to evaluate performance and allocate resources. At present, the Group presents its segment reporting based on its business and geographical segments;
- The revised IAS 23 removes the option of immediately recognizing as an expense borrowing costs and requires borrowing costs to be capitalized that relate to assets that take a substantial period of time to get ready for use or sale. These costs are treated as part of the acquisition cost of the asset. The revised IAS 23 will be applicable to the Group's 2009 financial statements and will represent a change in its accounting principles;
- IFRIC 14 (IAS 19 Employee benefits - The Limit on a defined benefit asset minimum funding requirements and their interaction) clarifies the date on which reimbursements or reductions in future contributions related to assets in a defined benefit plan are regarded as available and also the impact of the minimum funding requirement on these assets. The interpretation also addresses when a minimum funding requirement may give rise to an onerous obligation that should be recognized as a liability. Application of IFRIC 14 is mandatory with retroactive effect for the Group's 2008 financial statements. The Group has not yet determined the potential impact of this interpretation.

Note 3 FINANCIAL RISK MANAGEMENT

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

- liquidity risk;
- interest-rate risk;
- commodity risk;
- currency risk;
- credit risk.

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

LIQUIDITY RISK

Carbone Lorraine has four major financing agreements:

- a USD220 million loan arranged in December 2004 with a maturity of five years and syndicated to an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;
- a €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) finalized in November 2007 and repayable in one-third installments between 2012 and 2014, giving it an average life 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 placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. Interest is paid at a fixed rate to investors, but the interest-rate swaps negotiated at the outset mean that Carbone Lorraine pays a floating US dollar rate plus a credit margin;
- a bilateral confirmed credit line intended to finance Carbone Lorraine's business activities in China.

In millions of euros	Amount	Drawn down at Dec. 31, 2007	Draw-down rate at Dec. 31, 2007	Maturities: Less than one year	Maturities: Between one and five years	Maturities: Over 5 years
Syndicated loan	149.5	63.7	43%		149.5	
OBSAAR bond issue	38.7	38.7	100%		12.9	25.8
US private placements, Tranche A	37.8	37.8	100%	6.3	25.2	6.3
US private placements, Tranche B	13.6	13.6	100%		5.4	8.2
Confirmed credit line, China	11.0	11.0	100%		11.0	
Other	13.1	13.1	100%		13.1	
TOTAL	**263.7**	**177.9**	**67%**		**AVERAGE MATURITY (YEARS) =**	**3.0**

In millions of euros DRAW-DOWNS	Drawn down at Dec. 31, 2007	Expected cash flows	Maturities: 1-6 months	Maturities: 6-12 months	Maturities: Over 1 year
Syndicated loan	63.7	63.9	63.9		
OBSAAR bond issue	38.7	48.9	0.8	0.9	47.2
US private placements, Tranche A	37.8	45.3	7.4	1.1	36.9
US private placements, Tranche B	13.6	18.3	0.4	0.4	17.5
Confirmed credit line, China	11.0	11.0	11.0		
Other	13.1	13.6	1.2	0.2	12.2

In millions of euros SWAPS	MTM*	Expected cash flows	Maturities 1-6 months	6-12 months	Over 1 year
Liabilities and equity	(0.7)	(1.4)	(0.2)	(0.2)	(1.0)

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

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 in establishing positions from time to time as a function of the direction of interest rates.

In May 2003, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swaps was May 28, 2003, and the swaps have the same duration as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At December 31, 2007, the swaps covered a total nominal amount of USD75.7 million.

In October 2005, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD50 million. These swaps, which have a duration of three years, became effective in May 2006. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 4.6325% and receives 3-month USD Libor.

In October 2006, the Group purchased interest-rate swaps covering an aggregate nominal amount of €45 million. These swaps, which have a duration of 15 months, became effective in October 2006. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 3.6575% and receives 1-month Euribor.

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

In millions of euros	Amount	Interest rate received	Interest rate paid	Maturities Less than one year	Between one and five years	Over 5 years
Swap	37.8	5.63%	Libor + margin	6.3	25.2	6.3
Swap	13.6	6.35%	Libor + margin		5.4	8.2
Swap	34.0	3-month USD Libor	4.6325%		34.0	
Swap	45.0	1-month Euribor	3.6575%	45.0		
TOTAL	**130.4**			**51.3**	**64.6**	**14.5**

In millions of euros Swap	MTM*	Expected cash flows	Maturities Less than one year	Between one and five years	Over 5 years
Assets	0.0	0.0	0.0	0.0	0.0
Liabilities and equity	(0.7)	(1.4)	(0.4)	(0.9)	(0.1)

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

COMMODITY RISK

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

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

Impact of commodity hedging

In millions of euros	Balance sheet impact at year-end 2007	Income statement impact 2007	Sensitivity of the impact on equity to a 5% increase
Copper	(1.4)	1.2	0.5
Silver	0.2	(0.1)	0.1
Zinc	0	(0.1)	

Sensitivity was calculated based on metal prices at December 31, 2007 (USD6,676 per tonne of copper and USD14.9 per ounce of silver).

CURRENCY 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 in entering into forward currency purchases with prime lending institutions.

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

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

For consolidation purposes, the income statement and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the closing rate. The impact of this currency translation may be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt. All other factors remaining equal, the depreciation in the currency against the euro in 2007 led to a reduction in the Group's equity and debt.

The Group does not specifically hedge its net foreign assets.

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

€/foreign currency risks

Risks *(stated in millions of euros)*	CAD	JPY	USD	KRW	GBP	RMB
Amounts due to the Group	0.2	1.7	4.3	0.0	(0.6)	(1.2)
Amounts payable by the Group	0.0	(0.7)	1.1	(0.4)	(0.6)	0.0
Balance sheet position	0.2	2.4	3.2	0.4	0.0	(1.2)
2008 off-balance sheet risk	2.6	6.0	(1.6)	4.7	2.4	(4.8)
Hedges at December 31, 2007	0.0	(2.5)	5.1	(0.8)	0.0	0.0
Net position	2.8	5.9	6.7	4.3	2.4	(5.9)
Impact in euros of a 5% fall in the euro*	0.1	0.3	0.4	0.2	0.1	(0.3)

** Sensitivities were calculated based on exchange rates at December 31, 2007.*

USD/foreign currency risks

Risks *(stated in millions of euros)*	CAD	JPY	KRW	RMB
Amounts due to the Group	0.0	0.9	(0.2)	(0.8)
Amounts payable by the Group	0.0	(0.4)	(1.0)	(2.7)
Balance sheet position	0.0	1.2	0.8	1.9
2008 off-balance sheet risk	1.0	5.6	4.5	1.3
Hedges in progress	0.0	(0.3)	0.0	0.0
Net position	1.0	6.5	5.3	3.2
Impact in euros of a 5% fall in the US dollar*	0.1	0.3	0.3	0.2

** Sensitivities were calculated based on exchange rates at December 31, 2007.*

Recognition at year-end 2007 of currency transactions

MTM* *(stated in millions of euros)*		Dec. 31, 2007
Mark-to-market of currency hedges	Equity	(0.1)
	Other financial components of operating income	0.4
Other currency hedges	Foreign exchange gains and losses	0.0

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

Future impact on income of currency transactions recognized at year-end 2007

(stated in millions of euros)		Impact on income	
CURRENCY	*Mark-to-market* of currency derivatives in equity	less than 6 months	over 6 months
Assets	0.4	0.4	0.0
Liabilities	(0.5)	(0.4)	(0.1)

Future cash flows on currency transactions recognized at year-end 2007

(stated in millions of euros)			Maturities		
CURRENCY	MTM	Expected cash flows	less than 6 months	between 6 months and 1 year	over 1 year
Assets	0.8	0.9	0.9	0.0	0
Liabilities	(0.5)	(0.5)	(0.4)	(0.1)	0

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

CREDIT RISK

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its portfolio. In sum, the Group's top ten customers generate over €125 million.

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

CAPITAL MANAGEMENT

At December 31, 2007, Carbone Lorraine's share capital was 29% owned by around 30,000 individual shareholders, 25%-owned by French institutional shareholders and 46%-owned by institutional shareholders based in other countries. At December 31, 2007, 0.3% of the share capital was held under a liquidity agreement approved by the *Autorité des Marchés Financiers* and entrusted to investment services provider Exane.

The Group's employees own 1.5% of the share capital, plus stock options that, if exercised in full, would represent 2.7% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of high-potential managers. Take-up of these shares is therefore contingent upon their presence within the Group at the end of the period. At year-end 2007, a total of 47,877 bonus shares, representing 0.3% of the current share capital, had been allotted.

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

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

During fiscal 2007, the Group did not alter its capital management policy.

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

Note 4 BUSINESS COMBINATIONS

BUSINESS COMBINATIONS DURING FISCAL 2007

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

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

- In December 2007, Ferraz Shawmut LLC acquired General Electric's medium-voltage fuse business. The unit acquired, which is based in Vieques (Puerto Rico), will be integrated within Ferraz Shawmut's medium-voltage fuse activities. The purchase price reflects the significant expansion it will lead to in Ferraz Shawmut's portfolio of technologies and its offering. Thanks to the addition of highly complementary products, the Group is consolidating its position as a supplier of innovative and high-quality electrical protection products and thereby strengthening its partnership with the leading electrical distributors and equipment vendors.

  The fair value of the assets and liabilities 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 2008.

These moves fit perfectly with the policy of accelerating the pace of Carbone Lorraine's growth through development of the Electrical Protection segment's activities.

The net assets acquired in these transactions and related goodwill are presented below:

In millions of euros	Net assets at acquisition date	Fair value adjustments	Fair value of net assets
Non-current assets	0.3	0.1	0.4
Other assets	5.6	0.3	5.9
Non-current liabilities	(0.1)		(0.1)
Current liabilities	(1.6)	(0.3)	(1.9)
NET ASSETS	**4.2**	**0.1**	**4.3**
Goodwill			18.3
TOTAL ACQUISITIONS			**22.6**
including:			
Acquisition price paid in cash			17.0
Debt			5.6

The fair value adjustments relate to the equipment, inventories and recognition of employee benefits.

The contribution made to Carbone Lorraine's net income by these acquisitions amounted to €1.2 million. These acquisitions led to an increase in the Group's net cash of €0.9 million.

Note 5 GOODWILL

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Net value at Jan. 1	176.7	182.1	164.4
Acquisitions	18.3	7.6	
Disposals			
Other movements	3.7		
Translation adjustments	(13.6)	(13.0)	17.7
Impairment	(20.2)		
Net value at end of period	**164.9**	**176.7**	**182.1**
Gross value at end of period	185.1	176.7	182.1
TOTAL IMPAIRMENT LOSSES AT END OF PERIOD	**(20.2)**	**0.0**	**0.0**

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

	Dec. 31, 2006	Movements during 2007				Dec. 31, 2007
In millions of euros	Net value	Acquisitions	Other movements	Impairment losses	Cumulative translation adjustment	Net value
Anticorrosion equipment	61.5		0.4		(5.4)	56.5
High-temperature applications and high-energy braking	28.4		(0.4)		(2.3)	25.7
Electrical Applications	29.6		3.6	(20.2)	(0.5)	12.5
Electrical Protection	57.2	18.3	0.1		(5.4)	70.2
TOTAL	**176.7**	**18.3**	**3.7**	**(20.2)**	**(13.6)**	**164.9**

The other movements of €3.7 million primarily comprise the value of the goodwill of the Indian units consolidated for the first time in 2007.

The potential disposal of the brush for automobiles business threatened to give rise to a loss owing to the size of the related goodwill. Accordingly, the Group recognized an impairment loss before tax of €20.2 million, which was allocated entirely to goodwill and recorded under non-recurring operating losses. The Group wrote off all the goodwill related to this business.

Note 6 ASSET IMPAIRMENT TESTS

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2007 was prepared.

Under IAS 36, tests were carried out on the basis of the value in use determined using the discounted cash flow method.

The key assumptions used were as follows:

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

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

The perpetual growth rate applied to the chemical engineering equipment CGU was revised upwards given the gradual shift towards the fine chemicals and pharmaceuticals industry.

The terminal values of the other CGUs were not altered.

The principal assumptions adopted in 2006 included minimum values for the perpetual growth rate without any sensitivity testing:

- five-year cash flow forecasts based on the 2007 budget and projections for the following four fiscal years;
- an after-tax discount rate of 8%;
- a perpetual growth rate of 1% for calculating terminal value;
- a normalized tax rate of 34%.

Except for the impairment loss referred to in Note 5, no other impairment losses were recognized following testing.

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

Note 7 PROPERTY, PLANT AND EQUIPMENT

In millions of euros	Land	Buildings	Plant, equipment and other	Other items	Total
Net value at December 31, 2005	**30.5**	**23.9**	**70.7**	**14.3**	**139.4**
Gross value at December 31, 2005	31.1	66.4	287.9	14.3	399.7
Total depreciation at December 31, 2005	(0.6)	(42.5)	(217.2)	-	(260.3)
Total impairment losses at December 31, 2005	-	-	-	-	-
Net value at Jan. 1, 2006	**30.5**	**23.9**	**70.7**	**14.3**	**139.4**
Acquisitions	0.2	3.6	12.3	15.2	31.3
Retirements and disposals	-	-	(1.1)	(0.4)	(1.5)
Depreciation	-	(2.3)	(17.9)	-	(20.2)
Translation adjustments	(0.4)	(1.5)	(3.4)	(0.7)	(6.0)
Changes in the scope of consolidation	-	2.1	2.8	-	4.9
Other movements	(0.3)	(0.3)	7.9	(8.1)	(0.8)
Net value at December 31, 2006	**30.0**	**25.5**	**71.3**	**20.3**	**147.1**
Gross value at December 31, 2006	31.1	69.6	292.0	20.3	413.0
Total depreciation at December 31, 2006	(0.6)	(43.6)	(218.9)		(263.1)
Total impairment losses at December 31, 2006	(0.5)	(0.5)	(1.8)		(2.8)
Net value at Jan. 1, 2007	**30.0**	**25.5**	**71.3**	**20.3**	**147.1**
Acquisitions	0.3	4.9	23.2	38.2	66.6
Retirements and disposals	(0.7)	(2.4)	(2.2)	(0.3)	(5.6)
Depreciation	(0.1)	(2.9)	(20.5)		(23.5)
Translation adjustments	(0.1)	(1.7)	(4.1)	(1.2)	(7.1)
Changes in the scope of consolidation	2.6	(0.4)	6.1	20.2	28.5
Other movements	(0.2)	11.0	45.6	(55.2)	1.2
NET VALUE AT DECEMBER 31, 2007	**31.8**	**34.0**	**119.4**	**22.0**	**207.2**
GROSS VALUE AT DECEMBER 31, 2007	**32.7**	**81.1**	**342.7**	**22.0**	**478.4**
TOTAL DEPRECIATION AT DECEMBER 31, 2007	**(0.9)**	**(47.1)**	**(221.5)**		**(269.4)**
TOTAL IMPAIRMENT LOSSES AT DECEMBER 31, 2007			**(1.8)**		**(1.8)**

Note 8 INVESTMENTS

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

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Gross value	19.3	41.1	34.4
Impairment losses	(11.2)	(12.8)	(12.8)
NET VALUE	**8.1**	**28.3**	**21.6**

The reduction in investments predominantly reflects the first-time consolidation of material units in India and China.

The impairment losses recognized on investments at December 31, 2007 primarily related to units in Turkey, Argentina, Mexico, Singapore and AVO Kunshan (China).

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

In millions of euros Company name	% held	Gross value	Net value
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
Carbono Lorena de Mexico S.A.	100	2.2	0.6
Fusetech (Hungary)	50	1.3	1.3
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
Carbone-Lorraine Shanghai (China)	100	0.9	0.9
Nortroll (Norway)	34	0.8	0.5
AVO Kunshan	100	0.7	0.0
Clisa (Mexico)	49	0.6	0.6
Carbone Lorraine Grèce	100	0.6	0.6
Ferraz Electric Protection Hinode (China)	70	0.5	0.5
Döhler Industrietechnik Gmbh	100	0.3	0.3
Carbone-Lorraine Chile (Chile)	100	0.2	0.2
GMI Metaullics (US)	25	0.2	0.2
Ferraz Shawmut Kunshan	80	0.1	0.1
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Le Carbone Materials KK	49	0.1	0.1
Investments in other companies		0.9	0.2
TOTAL		**19.3**	**8.1**

Total sales and total net income for these companies based on the as yet unaudited annual financial statements of the principal investments came to around €26.7 million (€41.4 million in fiscal 2006) and €1.1 million (€1.9 million in fiscal 2006) respectively. Their impact on the consolidated financial statements is not material. The consolidated sales of all these companies are estimated at around €11.5 million (€21.8 million in fiscal 2006) or 1.7% (3.4% in fiscal 2006) of total consolidated sales, after the elimination of intra-group transactions.

Note 9 INVENTORIES

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Raw materials and other supplies	72.7	59.7	57.7
Work in progress	46.1	41.6	36.7
Finished goods	41.4	39.0	39.3
Carrying amount of inventories	**160.2**	**140.3**	**133.7**
Valuation allowances	(9.7)	(9.1)	(10.9)
NET CARRYING AMOUNT OF INVENTORIES	**150.5**	**131.2**	**122.8**

Inventories increased by €19.3 million in fiscal 2007, with a decrease of €4.8 million attributable to currency effects and an increase of €8.7 million to changes in the scope of consolidation. On a like-for-like basis, inventories grew by €15.4 million (an increase of 12%) owing to the business transfers carried out during 2007 and to the implementation of the Chinese plant.

Note 10 TRADE RECEIVABLES

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Gross trade receivables	133.5	128.2	121.5
Valuation allowances	(4.8)	(5.7)	(6.7)
NET TRADE RECEIVABLES	**128.7**	**122.5**	**114.8**

Net trade receivables increased by €6.2 million in fiscal 2007, with a decrease of €3.9 million attributable to currency effects and an increase of €5.0 million to changes in the scope of consolidation. On a like-for-like basis, trade receivables grew by 4% to €5.1 million.

The slight increase in trade receivables was attributable to a tangible reduction in late payments as a result of a targeted action plan. At year-end 2007, late payments accounted for 8.7% of trade receivables compared with 11.0% at year-end 2006.

Overdue trade receivables broke down as follows at December 31:

In millions of euros	Dec. 31, 2007		Dec. 31, 2006	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	119.1	(1.6)	110.7	(1.7)
Receivables 0-30 days past due	6.9	(0.1)	8.4	(0.2)
Receivables 31-120 days past due	4.3	(0.3)	5.2	(0.4)
Receivables 121 days to 1 year past due	0.8	(0.5)	1.0	(0.6)
Receivables more than 1 year past due	2.4	(2.3)	2.9	(2.8)
NET TRADE RECEIVABLES	**133.5**	**(4.8)**	**128.2**	**(5.7)**

The movements related to impairment losses in trade receivables were as follows:

In millions of euros	Dec. 31, 2007	Dec. 31, 2006
Impairment losses at January 1,	(5.7)	(6.7)
Allowance/reversal during the fiscal year	0.9	1.0
Impairment losses at December 31	(4.8)	(5.7)

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

Note 11 SHARE CAPITAL

In number of shares (unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2007	13,965,475
Issue of new shares *(in millions of euros)*	0.7
Number of shares at December 31, 2007	14,280,735
Number of shares in issue and fully paid-up	14,280,735
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	€2
Entity's shares held by itself or by its subsidiaries and associates	41,216

The increase in the share capital during 2007 derived from the exercise of stock subscription options (240,266), bonus shares allotted to employees (30,900 shares) and the capital increase reserved for employees, leading to the issue of 44,094 shares.

The number of voting rights stood at 14,239,519 after deducting the 41,216 treasury shares held by the Company at December 31, 2007.

No shares carry double voting rights.

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

Two bonus share allotment plans were set up for Company officers and employees during fiscal 2005 and 2006. The number of bonus share allotment options still outstanding stands at 16,977.

In addition, no public tender or exchange offer, nor any guaranteed share price offer has been made in respect of the Company's shares over the past three years. The Company has not initiated any such offers for other companies over the same period.

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

- two stock option plans granted on May 14, 2003 and on July 25, 2007. The employee categories benefiting from these options are to be determined by the Board of Directors each time that it makes use of the authorization. Upon a proposal put forward by the Appointments and Remuneration Committee, the Board of Directors regularly offers Group managers the possibility of subscribing shares, subject to the attainment of objectives;
- two bonus share allotment plans set up on June 30, 2005 and June 28, 2006. Upon a proposal put forward by the Appointments and Remuneration Committee, the Board of Directors grants stock subscription options subject to attainment by the Group of specific targets based on the operating margin or growth in operating income.

The plans have the following characteristics:

Characteristics/Assumptions	2003 plan Stock options	2005 plan Bonus share allotments	2006 plan Bonus share allotments	2007 plan Stock options
Allotment date	May 14, 2003	June 30, 2005	June 28, 2006	July 25, 2007
Availability date	May 14, 2007	July 1, 2007	June 28, 2008	July 25, 2011
Expiration date	May 13, 2013	July 1, 2007	June 28, 2008	July 25, 2017
Adjusted exercise price *(€)*	€21.20	€0.00	€0.00	€57.24
Adjusted share price at allotment date	€22.07	€39.25	€40.07	€56.44
Estimated life *(number of years)*	5.5	2	2	5.5
Volatility	40.6%	39.9%	37.0%	30.9%
Dividend per share *(as a % of share price)*	2.4%	1.3%	1.6%	1.9%
Risk-free interest rate	3.43%	2.68%	3.86%	4.44%
Exercise period *(number of years)*	4	2	2	4
Lock-up period *(number of years)*	0	2	3	0
Number of options/adjusted share allotments	130,163	42,700	17,975	165,000
Estimated annual cancellation rate at year-end 2004	1.7%			
Estimated annual cancellation rate at year-end 2005	1.7%	1.7%		
Estimated annual cancellation rate at year-end 2006	1.5%	0.8%	1.5%	
Estimated annual cancellation rate at year-end 2007	Not applicable	End of the plan	1.5%	1.5%
% of shares/options acquired following satisfaction of the performance condition	66.7%	100%	100%	100%
Estimate of the number of options/shares ultimately exercised in 2005	81,023	30,945		
Estimate of the number of options/shares ultimately exercised in 2006	81,685	31,515	17,440	
Estimate of the number of options/shares ultimately exercised in 2007	82,089	30,900	17,440	155,321
Valuation of options/shares	€7.8	€37.3	€38.8	€16.8
Valuation as a % of the share price at grant	35.5%	94.9%	96.9%	29.8%

Expense of €0.9 million was recognized in the income statement (€0.9 million in 2006) in respect of these equity-settled plans.

Note 12 PROVISIONS AND CONTINGENT LIABILITIES

	Dec. 31, 2007		Dec. 31, 2006		Dec. 31, 2005	
In millions of euros	Non-current	Current	Non-current	Current	Non-current	Current
Provision for restructuring	0.1	0.9	0.1	0.1	0.1	0.9
Provision for litigation	45.0	0.3	45.3	0.1	43.0	3.7
Other provisions	0.6	0.3	0.0	0.3	0.8	0.6
TOTAL	**45.7**	**1.5**	**45.4**	**0.5**	**43.9**	**5.2**

Current and non-current	2006	Additions	Uses	Other	Cumulative translation adjustment	2007
Provision for restructuring	0.2		(1.8)	2.6		1.0
Provision for litigation	45.4		(0.3)	0.7	(0.5)	45.3
Other provisions	0.3	0.1	(0.7)	1.2		0.9
TOTAL	**45.9**	**0.1**	**(2.8)**	**4.5**	**(0.5)**	**47.2**

Provisions for litigation at year-end 2007 primarily covered the whole of the fine handed down to the Group by the European authorities (€43 million, this amount does not take into account possible late payment interest amounting to €3.9 million at year-end 2007) and class-action lawsuits in the US (€2 million). A settlement of these class-action lawsuits amounting to USD6 million was agreed in August 2004. This settlement was reduced to USD3.7 million in May 2006, of which USD3 million was paid in 2005 and USD0.7 million during the second half of 2006. This reduction followed specific proceedings launched by certain auto equipment manufacturers, who withdrew from the Federal class-action lawsuit and lodged a specific claim for damages. The Group believes that there is no legal basis for this separate legal action. This assessment was backed up by a decision made by the US judge on August 9, 2007 dismissing the admissibility of the request related to the worldwide cartel, thereby limiting the scope of the opt-out action to sales realized in the United States. This decision prompted the plaintiffs to initiate proceedings in the United Kingdom. The Group regards the arguments put forward by the opt-out plaintiffs as baseless, and so it decided to keep the provision at the initial level under the August 2004 settlement agreement.

No other material contingent liabilities were identified at year-end 2007.

Note 13 EMPLOYEE BENEFITS

The Carbone Lorraine group's principal pension plans are defined benefit plans and are located in the UK (26% of obligations), the US (24% of obligations), France (21% of obligations) and Germany (15% of obligations).

The Group's obligations were measured at December 31, 2007 with the assistance of independent actuaries in accordance with IAS 19. The cost in fiscal 2007 was estimated on the same basis.

The rates used for the principal countries are summarized below:

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

2006	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	4.50%	4.25%	2.00%	2.00%
Germany	4.50%	Not applicable	2.50%	2.00%
United States	6.00%	6.75%	Not applicable	Not applicable
United Kingdom	5.00%	6.75%	3.30%	2.80%

RECONCILIATION BETWEEN ASSETS AND LIABILITIES RECOGNIZED

	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Actuarial obligation	98.1	100.3	103.0
Fair value of plan assets	(58.3)	(56.4)	(49.4)
Unrecognized actuarial gains and losses	2.4	(2.5)	(6.9)
Unrecognized past service cost (rights not vested)	(1.5)	0.4	-
NET AMOUNT RECOGNIZED	**40.7**	**41.8**	**46.7**

BREAKDOWN OF THE GROUP'S OBLIGATIONS AT DECEMBER 31, 2007 BY GEOGRAPHICAL AREA

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2007
Actuarial obligation	20.3	14.3	23.9	26.0	13.6	98.1
Fair value of plan assets	(5.0)		(17.4)	(27.5)	(8.4)	(58.3)
Unrecognized actuarial gains and losses	(0.1)	0.5	(0.3)	3.4	(1.1)	2.4
Unrecognized past service cost (rights not vested)	(1.6)				0.1	(1.5)
NET AMOUNT RECOGNIZED	**13.6**	**14.8**	**6.2**	**1.9**	**4.2**	**40.7**

MOVEMENTS IN THE GROUP'S OBLIGATIONS

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2006	17.5	16.1	24.3	29.3	13.1	100.3
Payments	(1.2)	(1.1)	(0.6)	(1.0)	(0.8)	(4.7)
Expense charged to income	1.7	0.9	2.9	1.7	1.3	8.5
Translation adjustment			(2.8)	(2.6)	(0.2)	(5.6)
Actuarial gains and losses	(1.6)	(1.6)	0.1	(1.6)	0.1	(4.6)
Other movements	3.9			0.2	0.1	4.2
DECEMBER 31, 2007	**20.3**	**14.3**	**23.9**	**26.0**	**13.6**	**98.1**

CHANGE IN PLAN ASSETS

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2006	4.2		16.7	28.4	7.1	56.4
Return on plan assets	0.1		1.6	1.5	0.5	3.7
Employer contribution	1.3	1.0	1.5	0.7	0.8	5.3
Employee contribution				0.2	0.1	0.3
Payment of benefits	(0.6)	(1.0)	(0.6)	(0.9)	(0.1)	(3.2)
Translation adjustment			(1.8)	(2.4)	0.1	(4.1)
Other movements					(0.1)	(0.1)
DECEMBER 31, 2007	**5.0**	**0.0**	**17.4**	**27.5**	**8.4**	**58.3**

The return on plan assets came to €3.8 million in 2006.

The UK plan assets account for 47% of total plan assets, with 73% invested in equities and 22% in government bonds.

The US plan assets account for 30% of total plan assets, with 51% invested in equities and 48% in bonds.

The charge recognized at December 31, 2007 in respect of these plans was €5.3 million, compared with €6.5 million in 2006, which breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2007	Total at Dec. 31, 2006
Current service cost	0.8	0.2	1.6	0.3	0.7	3.6	4.2
Interest cost	0.8	0.7	1.4	1.4	0.6	4.9	4.7
Expected return on plan assets	(0.1)		(1.2)	(1.9)	(0.4)	(3.6)	(3.1)
Amortization of actuarial gains and losses	(0.3)	0.1				(0.2)	0.8
Other movements	0.5				0.1	0.6	(0.1)
TOTAL CHARGE FOR THE PERIOD	**1.7**	**1.0**	**1.8**	**(0.2)**	**1.0**	**5.3**	**6.5**

The change in actuarial gains and losses on the valuation of obligations and plan assets breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2007	Total at Dec. 31, 2006
Adjustments linked to changes in assumptions	(1.3)	(1.5)		(3.0)	(0.5)	(6.3)	(2.8)
Experience adjustments to obligations	(0.4)	(0.1)	0.1	1.3	0.6	1.5	0.1
Experience adjustments to plan assets			(0.6)	0.3		(0.3)	(0.9)
ACTUARIAL GAINS AND LOSSES	**(1.7)**	**(1.6)**	**(0.5)**	**(1.4)**	**0.1**	**(5.1)**	**(3.6)**

Figures for 2005 are not available. Guidance has been given on a rolling basis from 2006 onwards.

An increase of 0.25 points in discount rates would lead to a reduction of €3.2 million in the estimated actuarial obligation, breaking down as follows:

France	(0.5)
Germany	(0.4)
United Kingdom	(1.2)
US	(0.8)
Rest of the world	(0.3)
TOTAL	**(3.2)**

Note 14 NET DEBT

ANALYSIS OF TOTAL NET DEBT AT DECEMBER 31, 2007

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Borrowings	176.4	136.7	177.1
Current financial liabilities	21.7	3.8	3.0
Current advances	1.9	1.1	1.4
Current financial assets	(3.0)	(2.9)	(2.5)
Bank overdrafts	21.2	36.8	7.6
TOTAL GROSS DEBT	**218.2**	**175.5**	**186.6**
Trading financial assets	(2.8)	(3.5)	(0.6)
Cash and cash equivalents	(23.6)	(17.7)	(35.7)
Cash	**(26.4)**	**(21.2)**	**(36.3)**
TOTAL NET DEBT	**191.8**	**154.3**	**150.3**

Total consolidated net debt at December 31, 2007 stood at €191.8 million compared with €154.3 million at year-end 2006.

NET DEBT/EQUITY

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Total net debt	191.8	154.3	150.3
Net debt/equity	0.62	0.50	0.51

Net debt amounted to 62% of equity at December 31, 2007, compared with 50% at December 31, 2006.

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

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Prior year debt	**154.3**	**150.3**	**125.6**
Cash generated/(used) by recurring operating and investing activities after tax	(5.3)	(22.4)	(26.3)
Cash used by restructurings	3.2	1.1	1.1
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	15.3	10.2	1.1
Non-operating cash flows*		0.7	22.4
Cash generated by the operating and investing activities of continuing operations	**13.2**	**(10.4)**	**(1.7)**
Cash generated by the operating and investing activities of assets held for sale and discontinued operations	**0.0**	**6.3**	**4.6**
Proceeds from issue of new shares	(11.8)	(3.5)	(0.6)
Dividends paid	12.6	10.6	8.2
Interest payments	11.2	9.5	6.3
Translation adjustments and other	(9.1)	(8.7)	7.9
Changes in the scope of consolidation	16.1	0.2	
Other movements	5.3		
DEBT AT YEAR-END	**191.8**	**154.3**	**150.3**

** Including €20 million in 2005 representing a downpayment to the European Commission as a guarantee for appeal proceedings.*

Total consolidated net debt at December 31, 2007 stood at €191.8 million compared with €154.3 million at year-end 2006. Debt increased by €46.4 million excluding the negative impact of a €8.9 million cumulative translation adjustment (positive effect of depreciation in the US dollar against the euro during 2007). This increase was chiefly attributable to the acquisitions (acquisition of a majority shareholding in Lenoir Elec in France and purchase of General Electric's medium-voltage fuse business in the US) made for €15.3 million, the recognition under "Other movements" of a €5.3 million liability to Lenoir Elec's minority shareholders and the first-time consolidation of the debt of the companies in India and China in 2007, which boosted debt by €14.3 million.

In 2005, the Group made a €20 million downpayment into an escrow account held by the European Commission as a guarantee for the appeal proceedings being heard by the EU Court of First Instance. This follows the Group's decision to appeal the €43 million fine handed down in December 2003. This downpayment plus related interest will be repaid to Carbone Lorraine should this payment not be warranted by the appeal court's ruling. This downpayment was recorded on the balance sheet under non-current financial assets is shown under acquisitions of financial assets on the statement of cash flows.

FINANCIAL COVENANTS AT DECEMBER 31, 2007

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

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

Financial covenants (consolidated financial statements)*

In millions of euros	Net debt/EBITDA	Net debt/equity	EBITDA/net interest expense
Covenant ratios			
Syndicated loan	-	< 1.3	-
US private placement	< 3.35	< 1.3	> 3
OBSAAR bond issue	-	< 1.35	-
Actual ratios at December 31, 2007			
Syndicated loan	-	0.63	-
US private placement	2.07	0.62	8.63
OBSAAR bond issue		0.62x	
Actual ratios at December 31, 2006			
Syndicated loan	-	0.51	-
US private placement	1.74	0.50x	9.37

* *Method for calculating covenants: in line with the accounting rules, the net debt shown in the financial statements uses closing rates to calculate the euro-equivalent value of debt denominated in foreign currencies. For the purposes of the covenants, net debt does not take into account short-term financial receivables. In addition, solely for the calculation of the net debt/EBITDA ratio, net debt has to be recalculated at the average €/USD exchange rate for the period in the event of a difference of over 5% between the average exchange rate and the closing rate. To calculate the covenants at June 30, the convention is for EBITDA or gross operating income to be deemed to be EBITDA reported for the first six months of the year multiplied by two.*
In view of the first-time adoption of IFRS, EBITDA and net debt were recalculated on a pro forma basis under French GAAP for the purpose of the covenants.

At December 31, 2007, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

BREAKDOWN OF BORROWINGS, INCLUDING THE CURRENT PORTION AT DECEMBER 31, 2007

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

In millions of euros	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	82.8	6.3	62.0	14.5
Borrowings in EUR	78.2	-	52.4	25.8
Borrowings in GBP	7.5	-	7.5	
Borrowings in RMB	9.4	-	9.4	
TOTAL	**177.9**	**6.3**	**131.3**	**40.3**
Amortization of issuance costs at the EIR	(1.1)			
Fair value of interest-rate derivatives	(0.4)			
TOTAL	**176.4**			

Of the €131.3 million in debt due to mature in between one and five years' time, €18.1 million had a maturity of over three years at December 31, 2007.

ANALYSIS OF TOTAL NET DEBT AT DECEMBER 31, 2007

By currency	%
EUR	33.6
USD	53.0
RMB	10.8
Other items	2.6

By interest rate	%
Fixed	41.2
Floating	58.8

In millions of euros	Total	With a maturity < 5 years	With a maturity > 5 years
Floating rate debt*	221.2	181.0	40.2
Financial assets	(29.4)	(29.4)	-
Net position before hedging	**191.8**	**151.6**	**40.2**
Fixed-rate hedge	79.0	79.0	-
Net position after hedging	**112.8**	**72.6**	**40.2**

** After the fixed-for-floating rate swap on the US private placements and before amortization of issuance costs at the effective interest rate.*

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their December 31, 2007 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €1.1 million.

Note 15 FAIR VALUE

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

Dec. 31, 2007		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 amount of the category on the balance sheet	Fair value of the category
Unlisted investments	8			8.1			8.1	8.1
Other non-current financial assets and derivatives held as assets	3/14	0.0			27.7		27.7	27.7
Non-current financial assets		**0.0**	**0.0**	**8.1**	**27.7**	**0.0**	**35.8**	**35.8**
Trade receivables	**10**				**128.7**		**128.7**	**128.7**
Current financial assets	14				3.0		3.0	3.0
Trading financial assets	14			2.8			2.8	2.8
Current financial assets		**0.0**	**0.0**	**2.8**	**3.0**	**0.0**	**5.8**	**5.8**
Cash and cash equivalents	**14**	**23.6**					**23.6**	**23.6**
Bank borrowings*	14					(176.4)	(176.4)	(176.4)
Current advances	14					(1.9)	(1.9)	(1.9)
Bank overdrafts	14					(21.2)	(21.2)	(21.2)
Current financial liabilities	14					(21.7)	(21.7)	(21.7)
Borrowings	**14**	**0.0**	**0.0**	**0.0**	**0.0**	**(221.2)**	**(221.2)**	**(221.2)**
Trade payables						**(71.7)**	**(71.7)**	**(71.7)**
Carrying amount per category		**23.6**	**0.0**	**10.9**	**159.4**	**(292.9)**	**(99.0)**	**(99.0)**

** The nature of the borrowings and categories of analysis means that fair value is equal to amortized cost.*

Dec. 31, 2006		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 amount of the category on the balance sheet	Fair value of the category
Unlisted investments	8			28.3			28.3	28.3
Other non-current financial assets and derivatives held as assets	3/14	0.5			28.2		28.7	28.7
Non-current financial assets		**0.5**	**0.0**	**28.3**	**28.2**	**0.0**	**57.0**	**57.0**
Trade receivables	**10**				**122.5**		**122.5**	**122.5**
Current financial assets	14				2.9		2.9	2.9
Trading financial assets	14			3.5			3.5	3.5
Current financial assets		**0.0**	**0.0**	**3.5**	**2.9**	**0.0**	**6.4**	**6.4**
Cash and cash equivalents	**14**	**17.7**					**17.7**	**17.7**
Bank borrowings	14					(136.7)	(136.7)	(136.7)
Current advances	14					(1.1)	(1.1)	(1.1)
Bank overdrafts	14					(36.8)	(36.8)	(36.8)
Current financial liabilities	14					(3.8)	(3.8)	(3.8)
Borrowings		**0.0**	**0.0**	**0.0**	**0.0**	**(178.4)**	**(178.4)**	**(178.4)**
Trade payables						**(65.6)**	**(65.6)**	**(65.6)**
Carrying amount per category		**18.2**	**0.0**	**31.8**	**153.6**	**(244.0)**	**(40.4)**	**(40.4)**

Note 16 OTHER NON-RECURRING INCOME AND EXPENSE

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

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Restructuring costs	(3.3)	(0.9)	(3.7)
Prior income, China and India	(3.0)		
EU fine and US class-action lawsuits	(0.7)	(0.5)	(1.2)
Asset impairment	(0.9)	(2.8)	(0.9)
Other items	0.1	(0.9)	0.1
TOTAL	**(7.8)**	**(5.1)**	**(5.7)**

In fiscal 2005, non-recurring income and expense amounted to a net charge of €5.7 million. The principal factors were:

- an additional €3.7 million in industrial restructuring costs;
- an outlay of €1.0 million in connection with the settlement of US class-action lawsuits;
- recognition of an impairment loss of €0.9 million on the investment in the Mexican subsidiary.

In fiscal 2006, non-recurring income and expense amounted to a net charge of €5.1 million. The principal factors were:

- part of the cost of shutting down the Farmville manufacturing plant:
  - impairment losses of €1.8 million recognized on non-current assets,
  - non-current asset transfer costs and other costs amounting to €0.9 million;
- an outlay of €0.5 million in connection with the settlement of US class-action lawsuits;
- recognition of a €1.0 million impairment loss on land and buildings in Germany;
- the disposal of Astro Service Center's assets leading to a loss of €0.6 million.

In fiscal 2007, non-recurring income and expense amounted to a net charge of €7.8 million. The principal factors were:

- the closure of the Farmville production facility, leading to non-current asset transfer and other costs amounting to €3.3 million;
- recognition of an impairment loss on shares in Chinese subsidiary AVO Kunshan amounting to €0.9 million, which started operating in 2004;
- an outlay of €0.7 million in connection with the settlement of US class-action lawsuits;
- the prior income/(losses) of the companies in India and China consolidated for the first time in 2007, leading to a negative contribution of €3.0 million:
  - €4.4 million in losses attributable to the companies in China,
  - €1.4 million in income attributable to the companies in India.

Note 17 SEGMENT REPORTING

OPERATING INCOME

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Applications (EA)		Electrical P rotection (EP)		Total for continuing operations	
Sales	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Sales to third parties	262.8	246.9	201.2	188.7	229.7	204.2	693.7	639.8
Breakdown of sales	37.9%	38.6%	29.0%	29.5%	33.1%	31.9%	100.0%	100.0%
Operating income								
Segment operating income before non-recurring items	44.8	46.5	19.5	14.4	22.4	20.3	86.7	81.2
Segment operating margin before non-recurring items*	17.0%	18.8%	9.7%	7.6%	9.8%	10.0%	12.5%	12.7%
Segment non-recurring income and expense	(5.0)	(0.9)	(2.1)	(2.9)	(0.6)	(1.1)	(7.7)	(4.9)
Goodwill impairment *loss*			(20.2)				(20.2)	0.0
Segment operating income	39.8	45.6	(2.8)	11.5	21.8	19.2	58.8	76.3
Segment operating margin*	15.1%	18.4%	-1.4%	6.1%	9.4%	9.4%	8.5%	11.9%
Unallocated costs							(16.1)	(15.3)
Operating income from continuing operations							**42.7**	**61.0**
Operating margin from continuing operations							6.1%	9.5%
Finance costs, net							(11.3)	(9.7)
Current and deferred income tax							(15.1)	(11.0)
Net income from continuing operations							**16.3**	**40.3**

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

Inter-segment sales realized by the Advanced Materials and Technologies division came to € million in 2007 compared with €3.8 million in 2006.

BREAKDOWN OF SALES AND SALES TRENDS BY GEOGRAPHICAL AREA

In millions of euros	Dec. 31, 2007	%	Dec. 31, 2006	%	Dec. 31, 2005	%
France	95.6	13.8%	87.5	13.7%	86.5	14.8%
Rest of Europe	213.1	30.7%	193.0	30.2%	173.2	29.7%
North America	221.0	31.9%	228.6	35.7%	203.4	34.9%
Asia	121.4	17.5%	94.4	14.7%	83.0	14.2%
Rest of the world	42.6	6.1%	36.3	5.7%	37.3	6.4%
TOTAL	**693.7**	**100%**	**639.8**	**100%**	**583.4**	**100%**

BREAKDOWN OF DEPRECIATION AND AMORTIZATION RECOGNIZED BY SEGMENT

	Dec. 31, 2007					Dec. 31, 2006				
In millions of euros	AMT	EA	EP	Corporate costs	Total	AMT	EA	EP	Corporate costs	Total
France	(4.6)	(2.4)	(3.3)	(0.4)	(10.7)	(3.7)	(2.6)	(2.9)	(0.5)	(9.7)
Rest of Europe	(0.4)	(2.7)	(0.3)		(3.4)	(0.4)	(2.6)	(0.3)	0.0	(3.3)
Asia-Pacific	(1.9)	(0.4)	(0.1)		(2.4)	(0.4)	0.0	0.0	0.0	(0.4)
North America	(4.9)	(1.4)	(1.5)		(7.8)	(4.5)	(2.1)	(1.3)	0.0	(7.9)
Rest of the world	(0.2)	(0.3)			(0.5)	(0.1)	(0.2)	0.0	0.0	(0.3)
TOTAL	**(12.0)**	**(7.2)**	**(5.2)**	**(0.4)**	**(24.8)**	**(9.1)**	**(7.5)**	**(4.5)**	**(0.5)**	**(21.6)**

NET CARRYING AMOUNT OF ASSETS AT END OF PERIOD BY SEGMENT

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	Total at Dec. 31, 2007
Non-current assets, net (excluding investments)	228.7	77.5	98.2	404.4	0	404.4
Inventories, net	62.7	44.1	43.7	150.5	0	150.5
Trade receivables	57.5	46.4	54.4	158.3	(29.6)	128.7
Other receivables	22.8	9.2	6.6	38.6	(17.4)	21.2
TOTAL SEGMENT ASSETS	**371.7**	**177.2**	**202.9**	**751.8**	**(47.0)**	**704.8**
TOTAL UNALLOCATED ASSETS						**66.4**
TOTAL						**771.2**

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

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
France	383.9	396.0	380.8
Rest of Europe	116.0	113.8	108.5
North America	93.4	181.4	188.0
Asia	166.7	22.3	33.5
Rest of the world	11.2	10.7	17.4
TOTAL	**771.2**	**724.2**	**728.2**

NET CARRYING AMOUNT OF LIABILITIES AT END OF PERIOD BY SEGMENT

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	Total at Dec. 31, 2007
Trade payables	39.2	26.6	35.5	101.3	(29.6)	71.7
Other payables and other liabilities	39.5	18.9	31.2	89.6	(17.4)	72.2
Non-current and current provisions	4.8	42.1	0.3	47.2		47.2
Employee benefits	15.2	17.0	8.5	40.7		40.7
TOTAL SEGMENT LIABILITIES	**98.7**	**104.6**	**75.5**	**278.8**	**(47.0)**	**231.8**
TOTAL UNALLOCATED LIABILITIES						**232.4**
TOTAL						**464.2**

INVESTMENT FLOWS DURING THE PERIOD BY SEGMENT

In millions of euros		France	Rest of Europe	Asia-Pacific	North America	Rest of the world	Total at Dec. 31, 2007
Property, plant and equipment and intangible assets	AMT	(10.5)	(0.8)	(26.1)	(12.7)		(50.1)
	EA	(3.7)	(4.3)	(1.3)	(1.5)	(0.4)	(11.2)
	EP	(4.6)		(0.1)	(1.4)		(6.1)
TOTAL		**(18.8)**	**(5.1)**	**(27.5)**	**(15.6)**	**(0.4)**	**(67.4)**
Other changes and divestments	AMT	0.4		7.1	(0.1)		7.4
	EA	1.9	(1.5)		0.1	(0.1)	0.4
	EP	0.1	0.5	(0.1)	(0.1)		0.4
TOTAL		**2.4**	**(1.0)**	**7.0**	**(0.1)**	**(0.1)**	**8.2**
TOTAL INVESTMENT FLOWS		**(16.4)**	**(6.1)**	**(20.5)**	**(15.7)**	**(0.5)**	**(59.2)**

Note 18 STAFF COSTS AND HEADCOUNT

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €226.1 million in fiscal 2007 compared with €217.0 million in fiscal 2006.

On a like-for-like basis, staff costs decreased by 5.4%.

BREAKDOWN OF CONSOLIDATED AVERAGE HEADCOUNT BY EMPLOYEE CATEGORY

Categories	2007	%	2006	%	2005	%
Engineers and managers	711	10%	567	9%	520	8%
Technicians and supervisors	818	12%	746	11%	727	12%
Employees	716	11%	836	13%	797	13%
Blue-collar workers	4,612	67%	4,344	67%	4,163	67%
TOTAL	**6,857**	**100%**	**6,493**	**100%**	**6,207**	**100%**

BREAKDOWN OF THE CONSOLIDATED AVERAGE HEADCOUNT BY GEOGRAPHICAL AREA

Categories	2007	%	2006	%	2005	%
France	1,749	26%	1,766	27%	1,743	27%
Rest of Europe (+Tunisia)	1,788	27%	1,704	26%	1,632	26%
North America (+Mexico)	2,436	37%	2,350	36%	2,176	35%
Asia	530	4%	241	4%	211	3%
Rest of the world	354	6%	432	7%	445	7%
TOTAL	**6,857**	**100%**	**6,493**	**100%**	**6,207**	**100%**

At comparable scope, the average headcount rose by 132 employees.

Note 19 OPERATING INCOME

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

In millions of euros	2007	2006	2005
Product sales	622.0	591.6	528.8
Trading sales	71.7	48.2	54.6
TOTAL SALES	**693.7**	**639.8**	**583.4**
Other operating revenues	6.9	5.2	6.5
Cost of trading sales	(48.2)	(37.2)	(33.0)
Raw material costs	(154.0)	(145.0)	(132.4)
Costs on other operating revenues	(2.8)	(3.8)	(2.6)
Manufacturing costs	(116.4)	(102.1)	(94.0)
Salary costs	(221.4)	(212.5)	(199.0)
Employee incentives and profit-sharing	(4.7)	(4.5)	(4.3)
Other expenses	(62.9)	(52.2)	(43.6)
Financial components of operating income*	(2.2)	(2.1)	(2.4)
Depreciation and amortization	(24.8)	(21.6)	(21.1)
Additions to provisions	(0.9)	(0.1)	(4.6)
Impairment losses	(20.2)	(2.8)	
Gains/(losses) on non-current asset disposals	0.6	(0.1)	0.6
OPERATING INCOME	**42.7**	**61.0**	**53.5**

** Including negative translation adjustments of €1.0 million in 2007 and €0.8 million in 2006.*

Note 20 FINANCE INCOME AND COSTS

Recognized on the income statement *In millions of euros*	Dec. 31, 2007	Dec. 31, 2006
Amortization of bond issuance expenses	(0.3)	(0.3)
Interest paid on debt	(8.9)	(8.3)
Short-term finance expense	(2.2)	(0.9)
Debt-related fees	(0.4)	(0.2)
Ineffective portion of interest-rate hedges	(0.1)	(0.2)
Interest income from bank deposits	0.6	0.2
Finance costs, net	**(11.3)**	**(9.7)**

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

Recognized directly in equity *In millions of euros*	Dec. 31, 2007	Dec. 31, 2006
Change in fair value of currency hedges	(1.1)	0.2
Change in fair value of interest-rate hedges	(0.7)	0.1
Change in fair value of commodity hedges	(0.6)	0.2
Impact on changes recognized in equity	0.5	(0.1)
Net finance costs recognized directly in equity, net of tax	**(1.9)**	**0.4**

Note 21 INCOME TAX

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Current income tax	(7.8)	(13.5)	(9.9)
Deferred income tax	(7.1)	3.0	(1.2)
Withholding tax	(0.2)	(0.5)	-
TOTAL TAX EXPENSE	**(15.1)**	**(11.0)**	**(11.1)**

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

There are also:

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

The Group's effective tax rate came to 48% in fiscal 2007 compared with 24% in fiscal 2006. The tax rate excluding goodwill impairment losses not deductible for tax purposes stood at 33%.

ANALYSIS OF INCOME TAX EXPENSE

In millions of euros	Dec. 31, 2007
NET INCOME	**16.3**
Income tax expense/(benefit) on continuing operations	(15.1)
Income tax expense/(benefit) on impairment losses	0.0
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**(15.1)**
TAXABLE INCOME	**31.4**
Current tax rate in France	34.4%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(10.8)
Difference between income tax rate in France and other jurisdictions	(1.8)
Transactions qualifying for a reduced rate of taxation	0.1
Permanent timing differences	(1.7)
Impact of limiting deferred tax assets	(1.1)
Other items	0.2
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(15.1)**

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

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Deferred tax assets	21.6	27.1	29.8
Deferred tax liabilities	(3.1)	(1.9)	(6.4)
NET POSITION	**18.5**	**25.2**	**23.4**

Deferred tax movements during fiscal 2007 were as follows:

*In millions of euros**	Dec. 31, 2007	Net income for the year	Other items	Translation adjustments	Dec. 31, 2006
Employee benefit obligations	7.6	(0.2)	1.0	(0.2)	7.0
Provisions for restructuring	0.2	(0.3)			0.5
Depreciation of non-current assets	(15.3)	(0.7)	(2.1)	1.4	(13.9)
Tax-regulated provisions	(3.2)	(0.2)		0.1	(3.1)
Impact of tax losses	16.5	(6.6)	(0.2)	(0.5)	23.8
Impairment losses	0.6	(1.3)			1.9
Other	12.1	2.2	2.3	(1.4)	9.0
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	**18.5**	**(7.1)**	**1.0**	**(0.6)**	**25.2**

** (- liability/+ asset).*

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

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

Note 22 EARNINGS PER SHARE

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Numerator: Net income used to compute basic earnings per share (net income for the period).	15.4	35.3	22.1
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,239,519	13,923,442	13,807,170
Adjustment for dilutive potential ordinary shares: - unexercised options	405,094	509,906	577,432
Weighted average number of ordinary shares used to compute diluted earnings per share	14,644,613	14,433,348	14,384,602
Basic earnings per share *(€)*	1.08	2.53	1.6
Diluted earnings per share *(€)*	1.05	2.44	1.53

Continuing operations	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Numerator: Net income used to compute basic earnings per share (net income for the period).	15.4	40.7	34.9
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,239,519	13,923,442	13,807,170
Adjustment for dilutive potential ordinary shares: - unexercised options	405,094	509,906	577,432
Weighted average number of ordinary shares used to compute diluted earnings per share	14,644,613	14,433,348	14,384,602
Basic earnings per share *(€)*	1.08	2.92	2.53
Diluted earnings per share *(€)*	1.05	2.82	2.43

Note 23 DIVIDENDS

A dividend of €0.85 per share (vs. €0.70 in 2005) was paid to shareholders in May 2007 in respect of fiscal 2006, representing an aggregate payout of €11.8 million (vs. €9.7 million in 2005).

The dividend proposed in respect of fiscal 2007 stands at €0.85 per share, representing an aggregate amount of €12.2 million.

Note 24 LEASES

1 - FINANCE LEASES

Carrying amount by asset category

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Buildings	0	0.6	0.7

2 - THE GROUP IS THE LESSEE (OPERATING LEASE)

Schedule of minimum payments

In millions of euros	Total at Dec. 31, 2007	< one year	> one year	five years or more
Minimum payments	14.5	3.3	11.2	3.3

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 25 RELATIONS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES

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

Le Carbone-Lorraine SA belongs to the Carbone Lorraine group, which encompasses 91 consolidated and unconsolidated companies in 35 countries.

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

1 - RELATIONS WITH UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATES

Group sales to unconsolidated subsidiaries amounted to €15.1 million in fiscal 2007, compared with €19.5 million in fiscal 2006.

In fiscal 2007, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.3 million, down from €0.4 million in fiscal 2006.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €5.4 million at December 31, 2007, while amounts payable came to €2.3 million.

Advances made to unconsolidated subsidiaries by Le Carbone-Lorraine SA amounted to €0.0 million (vs. €1.0 million in fiscal 2006) at December 31, 2007.

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

In millions of euros	Dec. 31, 2007	Dec. 31, 2006
Salaries, bonuses, benefits in kind and directors' fees	**2.1**	**2.2**
Top-up pension plan payments(1)	0.7	0.5
Other long-term employee benefits		0.0
TOTAL	**2.8**	**2.7**

(1) The members of the Executive Committee, including the Chairman and Chief Executive Officer qualify for top-up pension payments. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows:
Provided that the relevant person is still employed by the Group upon retirement, this 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 December 31, 2007, compared with €3.9 million at December 31, 2006.

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

Furthermore, Executive Committee members (including the Chairman and CEO) were awarded the following share-based payments:

- stock options: no stock subscription options were granted to members of the Executive Committee (including the Chairman and CEO) during fiscal 2004, 2005 and 2006;
- bonus share allotments: see the table of previous allotments to the Executive Committee (including the Chairman and CEO) below.

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

No bonus shares were allotted to Executive Committee members under the 2006 plan.

Note 26 COMMITMENTS AND CONTINGENCIES

A - FINANCIAL COMMITMENTS AND LIABILITIES

In millions of euros	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Commitments received			
Guarantees and endorsements	0.3	0.4	0.2
Other commitments received	0.0	0.0	1.7
TOTAL	**0.3**	**0.4**	**1.9**
Commitments given			
Collateralized debts and commitments	0.3	0.1	0.3
Market guarantees and endorsements	10.6	11.5	9.9
Payment guarantees on acquisitions	-	-	-
Other guarantees	43.7	64.3	45.4
Other commitments given	1.1	0.2	0.1
TOTAL	**55.7**	**76.1**	**55.7**

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

Nature

The largest item totaling €43.7 million relates to other guarantees, which include a €24.5 million guarantee (initially €43 million) given to the European Commission as a result of the fine handed down during 2003 by the European Commission in respect of which an appeal before the European Communities Court of First Instance is still being heard. This guarantee has enabled the Group to postpone payment of the fine for the duration of the appeal procedure. This line item also includes a guarantee of €16 million covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €21.6 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees, the duration of which does not exceed three years. The €24.5 million guarantee given to the European Commission expires in December 2008. It may be extended with the consent of the guarantor banks depending on the date of the Court's ruling.

Internal control

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

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

B - TITLE RETENTION CLAUSE

None.

C - INDIVIDUAL RIGHT TO TRAINING

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

Note 27 SUBSEQUENT EVENTS

Following the November 2007 announcement, Carbone Lorraine confirms that it signed an agreement with Faiveley in February 2008 to sell the rail and motorcycle braking business with effect from April 1, 2008.

Note 28 APPROVAL OF THE FINANCIAL STATEMENTS

The Group's consolidated financial statements for the fiscal year to December 31, 2007 were approved by the Board of Directors at its meeting on March 17, 2008.

STATUTORY AUDITORS' REPORT
on the consolidated financial statements – Fiscal year ended December 31, 2007

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Le Carbone-Lorraine SA for the year ended December 31, 2007.

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

1. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2007, and of the results of its operations for the year then ended, in accordance with IFRSs as adopted for use in the European Union.

2. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

IMPAIRMENT

As disclosed in Notes 2.F.1 and 2.I to the consolidated financial statements, the Group performs goodwill impairment tests at least annually and assesses whether there is evidence of impairment in property, plant and equipment, and in intangible assets. We have examined the implementation method of the test as well as the estimated cash flows and the assumptions made. We have also verified that Notes 5 and 6 to the consolidated financial statements provide appropriate disclosures.

EMPLOYEE BENEFITS

Note 2.O to the consolidated financial statements describes the accounting policy for the evaluation of pension and other related obligations. These obligations were evaluated by external actuaries. Our procedures consisted of examining the data used and the assumptions made, and verifying that Note 13 to the consolidated financial statements provides appropriate disclosures.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

3 SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also verified the information given in the Group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

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

The Statutory Auditors

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

5 Parent company financial statements

INCOME STATEMENT

In thousands of euros	2007	2006
OPERATING REVENUES (1)		
Revenues	0	0
Sales of goods purchased for resale	0	0
Sales of manufactured goods		
Other revenues	1,535	1,432
TOTAL SALES	**1,535**	**1,432**
Change in inventories of finished goods and work in progress	0	0
Own work capitalized	0	0
Operating subsidies	0	0
Reversals of operating provisions	0	1
Transferred operating costs	528	1,667
Other income	685	728
TOTAL 1	**2,748**	**3,828**
OPERATING EXPENSES (2)		
Purchases of goods bought for resale	0	0
Change in inventories	0	0
Purchases of raw materials and other supplies	0	0
Change in inventories	0	0
Other purchases	18	40
External charges	3,757	3,762
Taxes other than income tax	635	383
Wages and salaries	1,693	2,375
Social security charges	329	584
Depreciation, amortization and charges to provisions:		
against fixed assets: amortization	50	157
of deferred costs	0	0
of current assets: charges to provisions	0	0
for liabilities and charges: charges to provisions	28	25
Other expenses	150	151
TOTAL 2	**6,660**	**7,477**
OPERATING INCOME (TOTAL 1-2)	**(3,912)**	**(3,649)**

In thousands of euros	2007	2006
FINANCIAL INCOME (3)		
Participating interests	20,560	37,822
Other income from fixed assets	133	112
Other interest and related income	9,082	7,826
Reversals of depreciation, amortization and charges to provisions	6,453	4
Foreign exchange gains	2,281	1,904
Gains on the disposal of marketable securities	0	0
TOTAL 3	**38,509**	**47,668**
FINANCIAL EXPENSES (4)		
Depreciation, amortization and charges to provisions	11,724	15,849
Interest and related expenses	16,742	15,942
Foreign exchange losses	1,689	1,910
TOTAL 4	**30,155**	**33,701**
NET FINANCIAL INCOME (3-4)	**8,354**	**13,967**
INCOME BEFORE TAX AND EXCEPTIONAL ITEMS	**4,442**	**10,318**
EXCEPTIONAL INCOME		
Management transactions	0	31
Capital transactions	1,155	57,611
Reversals of provisions and transferred costs	24	108
TOTAL 5	**1,179**	**57,750**
EXCEPTIONAL CHARGES		
Management transactions	150	1,844
Capital transactions	537	61,088
Depreciation, amortization and charges to provisions	3	3
TOTAL 6	**690**	**62,935**
NET EXCEPTIONAL INCOME (TOTAL 5-6)	**489**	**(5,185)**
EMPLOYEE PROFIT-SHARING	**0**	**0**
INCOME TAX	**(3,379)**	**(4,312)**
NET INCOME FOR THE YEAR	**8,310**	**9,445**
TOTAL INCOME	**42,436**	**109,246**
TOTAL EXPENSES	**34,126**	**99,801**

BALANCE SHEET

ASSETS

In thousands of euros	2007 Gross	2007 Depreciation and amortization	2007 Net	2006 Net
FIXED ASSETS				
Intangible fixed assets				
Concessions, patents, licenses, brands	8,865	8,798	67	26
Other intangible assets	0		0	0
Intangible fixed assets in progress	0		0	0
SUB-TOTAL	**8,865**	**8,798**	**67**	**26**
Property, plant and equipment				
Land	0	0	0	0
Buildings	0	0	0	0
Plant and other machinery	0	0	0	0
Other	424	375	49	41
Property, plant and equipment in progress	0		0	0
Advances and downpayments	0		0	0
SUB-TOTAL	**424**	**375**	**49**	**41**
Financial fixed assets (1)				
Participating interests	471,770	119,270	352,500	349,541
Loans and advances to participating interests	21,332	0	21,332	16,836
Other fixed assets	5		5	5
Other	7,963	74	7,889	7,345
TOTAL A	**501,070**	**119,344**	**381,726**	**373,727**
CURRENT ASSETS				
Advances and downpayments paid on orders	1		1	0
Trade receivables and related accounts (2)	519	0	519	397
Other (2)	57,942		57,942	52,798
Marketable securities	0		0	0
Cash and cash equivalents	881		881	3,116
ACCRUALS				
Prepaid expenses	362		362	306
TOTAL B	**59,705**	**0**	**59,705**	**56,617**
Bond redemption premiums **C**	0		0	0
Deferred costs **D**	828		828	723
Foreign currency translation losses **E**	417		417	581
TOTAL (A+B+C+D+E)	**571,309**	**128,517**	**442,792**	**431,715**

(1) Due in less than one year: 3,048.
(2) Due in over one year: 2,333.

LIABILITIES AND SHAREHOLDERS' EQUITY

In thousands of euros	2007	2006
TOTAL SHAREHOLDERS' EQUITY		
Share capital	28,562	27,931
Issue premium	123,863	116,705
Merger premium	8,252	8,252
Revaluation reserve	3,252	3,252
Unavailable reserves	1,722	0
Statutory reserve	2,793	2,591
Other reserves	29,476	31,259
Retained earnings	23	19
Net income for the year	8,310	9,445
Tax-regulated provisions	9	29
TOTAL A	**206,262**	**199,483**
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for liabilities	11,635	11,127
Provisions for charges	318	290
TOTAL B	**11,953**	**11,417**
BORROWINGS (1)		
Bond issues	40,187	0
Borrowings from credit institutions (2)	7,824	34,547
Other borrowings	122,530	138,575
Advances and downpayments received on orders in progress	0	0
Trade payables and related accounts	599	590
Tax and social security liabilities	2,234	2,364
Amounts payable on fixed assets and related accounts	1	0
Other financial liabilities	34,073	35,089
ACCRUALS		
Prepaid income	0	0
TOTAL C	**207,448**	**211,165**
Foreign exchange translation gains D	17,129	9,650
TOTAL (A+B+C+D)	**442,792**	**431,715**

(1) Due in over one year: 163,171 due in less than one year: 44,277.
(2) Including current bank loans and overdrafts: 6,952.

NOTES TO THE BALANCE SHEET AND THE INCOME STATEMENT

Note 1 ACCOUNTING PRINCIPLES AND METHODS

The financial statements of Le Carbone-Lorraine for fiscal 2007 have been prepared in accordance with the provisions of French law, notably including CRB Regulation no. 99-03 of June 22, 1999 and subsequent amendments.

The principal accounting methods used are as follows:

A - SHARE ISSUANCE COSTS

Share issuance costs are set off in full against share issue premiums.

B - INTANGIBLE FIXED ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Fixed assets are stated at acquisition or production cost.

They are depreciated over their estimated useful life.

Differences between depreciation for tax and accounting purposes are recognized under accelerated depreciation and recorded under exceptional expenses, with a corresponding adjustment to tax-regulated provisions under liabilities on the balance sheet.

Generally speaking, the following useful lives are adopted:

- software and other intangible fixed assets: 5 years
- fixtures and fittings: 10 years
- office equipment and furniture: 5 years or 10 years

Where there is evidence of impairment, an impairment test is conducted comparing the net book value of the intangible or tangible fixed asset with its current value. Where this current value has fallen below net book value, an impairment loss is recognized to bring the net book value into line with its current value. No such impairment losses were recognized during the fiscal year.

C - PARTICIPATING INTERESTS, OTHER FIXED ASSETS

Gross value comprises the contribution value or acquisition cost of the asset. An impairment loss may be recognized where the book value of an asset exceeds its value in use, with the latter notably determined by reference to the share of the equity, development prospects and sales recorded by the subsidiary.

Expenses related to the acquisition of participating interests and other fixed assets are included in the cost of securities.

Impairment losses and reversals of impairment in investments, as well as provisions related to participating interests are recorded under financial items.

D - CURRENT ASSETS - RECEIVABLES

Doubtful receivables are written down to reflect the probable loss.

E - FOREIGN CURRENCY TRANSACTIONS

At the balance sheet date, foreign currency assets and liabilities are stated at the official exchange rate. A corresponding adjustment is recorded under foreign currency translation gains or losses.

Unrealized currency gains or losses do not affect net income. This said, a provision is set aside to cover the risk arising from unhedged unrealized foreign currency losses related to these foreign currencies.

F - PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges are set aside to cover litigation, disputes, guarantee and risk-related commitments arising during the normal course of the Company's business and likely to give rise to an outflow of resources.

Accordingly, provisions were set aside to cover all significant risks that the situation or events known at December 31, 2007 rendered likely to occur.

G - COSTS DEFERRED OVER SEVERAL PERIODS

Bond issuance costs are allocated over the estimated average life of the relevant borrowing.

H - PENSION OBLIGATIONS AND RETIREMENT INDEMNITIES

Top-up pension obligations under "closed" defined benefit plans covering part of the workforce are recognized in the form of a provision. Obligations to still active employees are recorded under provisions for liabilities and charges. Obligations to retired employees are transferred to a deferred cost account.

Top-up pension obligations specifically related to the Group's senior managers are not recorded under provisions, but appear solely only off-balance sheet commitments.

Retirement indemnities and long-service awards payable under collective bargaining agreements are recognized under provisions for liabilities and charges.

Retirement indemnities and long-service awards are calculated on an annual basis by independent actuaries in accordance with the provisions of the collective bargaining agreement for the French chemicals industry and the CNC recommendation issued on April 1, 2003. The projected unit credit method is used for this purpose. It takes into account using actuarial assumptions the employee's probable future length of service, level of salary costs, life expectancy and the rate of staff turnover. The obligation is discounted at an appropriate discount rate. The obligation is partially funded through payments to an external organization under a collective life insurance policy, the assets of which are stated at fair value.

The principal assumptions used in this calculation are as follows:

- future salary costs calculated based on current salaries including an annual rate of salary increases of 2% and additional age-related increases;
- changes in the actuarial assumptions are taken into account only outside the corridor;
- discounting to present value at a rate of 5.25%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 4.5%;
- mortality table used: non-generational INSEE 98.

I - STOCK REPURCHASES

The stock repurchased by Le Carbone-Lorraine under the liquidity agreement entered into with a financial institution is shown under other fixed assets, in line with French accounting regulations.

An impairment loss in these shares is recognized when the cost of acquiring the stock exceeds the average share price during the final month of the fiscal year.

When these shares are sold, gains and losses are recognized under exceptional items.

J - EXCEPTIONAL ITEMS

The Company has adopted the official French chart of accounts. Exceptional items encompass items not arising during the normal course of the Company's business activities. Accordingly, exceptional items comprise the book value of and proceeds from the disposal of fixed assets, accelerated tax depreciation and exceptional fixed asset write-downs, non-recurring indemnities, fines and penalties, as well as expenses related to these non-recurring events.

K - STOCK OPTIONS AND BONUS SHARE ALLOTMENTS

The Company has put in place stock option and bonus share allotment plans for certain of its employees.

When stock subscription options are exercised by beneficiaries, the new shares are issued and are accounted for in the same manner as a conventional issue of shares. The share premium is equal to the difference between the subscription price paid by the employee and the increase in the share capital.

When bonus shares are allotted to beneficiaries, new shares are issued and are accounted for in the same manner as an increase in capital through the capitalization of reserves. The nominal amount of the shares is added to the share capital account, and the surplus is recorded under unavailable reserves.

The Company is not currently engaged in repurchasing shares on the market for allotment to beneficiaries under stock option and bonus share plans. If it were to do so, the relevant costs would be expensed as incurred.

Note 2 ANALYSIS AND COMMENTARY

INCOME STATEMENT

Sales

Revenues (€1,535,000) primarily derive from services billed in France and abroad.

Operating income

The operating loss after depreciation, amortization and charges to operating provisions amounted to €3,912,000 and primarily reflected the holding company's operating expenses.

Net financial income

Net financial income of €8,354,000 declined compared with the previous year (€13,967,000) owing mainly to the exceptional dividends paid out in 2006 in relation to the disposal of the Magnets business.

Exceptional items

Exceptional items showed a net gain of €489,000. This profit derived chiefly from the gain on the disposal of participating interests in Carbone Lorraine Shanghai as part of the Group's corporate reorganization.

Income tax

The Company recorded a 2007 income tax benefit of €3,379,000 owing to the consolidation of Le Carbone-Lorraine and its subsidiaries for tax purposes.

BALANCE SHEET

In addition to the preceding notes, please note the following:

Financial fixed assets

The €7,999,000 increase in the net value of this balance sheet item was attributable mainly to the financing raised for our expansion in Asia and an acquisition in North America. These amounts were offset to some extent by impairment losses recognized on participating interests.

Debt

The Company's total net debt at December 31, 2007 declined by €11,908,000.

In thousands of euros	2007	2006
Bank overdrafts	6,952	33,487
Bond issue	40,000	0
Other borrowings	122,243	138,137
Other financial liabilities (1)	33,616	34,635
Total debt	**202,811**	**206,259**
Cash and cash equivalents	(881)	(3,116)
Other receivables (2)	(53,764)	(47,943)
Marketable securities, cash and cash equivalents	**(54,645)**	**(51,059)**
Loans to subsidiaries	**(21,233)**	**(16,779)**
Other financial assets	**(7,631)**	**(7,211)**
Net debt	119,302	131,210
o/w: due in over one year	102,594	116,358
due in less than one year	16,708	14,852

(1) Financial advances received recognized under "Other financial liabilities".
(2) Financial advances made recognized under "Other receivables".

In November 2007, the Company completed the issue of a €40 million bond comprising 1,000 bonds convertible into new and/or exchangeable for existing shares through the attached warrants ("OBSAAR" bonds) with a nominal unit value of €40,000. Each bond carries 114 BSAAR warrants, representing a total of 114,000 warrants sold to the Group's senior managers, which could ultimately lead to the issuance of a maximum of 114,000 shares, i.e. around 0.80% of the Company's share capital and voting rights.

Note 3 FIXED ASSETS

In thousands of euros	FIXED ASSETS				DEPRECIATION, AMORTIZATION & CHARGES TO PROVISIONS			
Accounts	Gross value at beginning of period	Increases	Decreases	Gross value at end of period	Total at beginning of period	Increases	Decreases	Total at end of period
Intangible fixed assets								
Start-up costs	0	0	0	0	0	0	0	0
Concessions, patents, licenses, brands, processes, rights	8,794	71	0	8,865	8,768	30	0	8,798
Fixed assets in progress	0	0	0	0	0	0	0	0
TOTAL 1	**8,794**	**71**	**0**	**8,865**	**8,768**	**30**	**0**	**8,798**
Property, plant and equipment								
Buildings and technical installations	0	0	0	0	0	0	0	0
Other property, plant and equipment	437	27	40	424	396	19	40	375
Fixed assets in progress	0	0	0	0	0	0	0	0
Advances and downpayments	0	0	0	0	0	0	0	0
TOTAL 2	**437**	**27**	**40**	**424**	**396**	**19**	**40**	**375**
Financial fixed assets								
Participating interests	464,358	7,639	227	471,770	114,817	10,819	6,366	119,270
Loans and advances to participating interests	16,836	12,036	7,540	21,332	0	0	0	0
Other fixed assets	5	0	0	5	0	0	0	0
Other financial assets	7,406	19,310	18,753	7,963	61	74	61	74
TOTAL 3	**488,605**	**38,985**	**26,520**	**501,070**	**114,878**	**10,893**	**6,427**	**119,344**
TOTAL	**497,836**	**39,083**	**26,560**	**510,359**	**124,042**	**10,942**	**6,467**	**128,517**

Note 4 PROVISIONS

Accounts *In thousands of euros*	Amount at beginning of period	Charges	Reversals of provisions used	Reversals of provisions not used	Amount at end of period
Tax-regulated provisions					
Accelerated tax depreciation	30	3	24	0	9
TOTAL 1	**30**	**3**	**24**	**0**	**9**
Provisions for liabilities and charges					
Foreign currency losses	25	58	25	0	58
Risk of EU fine	2,249	0	0	0	2,249
Retirement indemnities	279	27	0	0	306
Long-service awards	11	1	0	0	12
Risk related to Ugimag [a]	8,853	475	0	0	9,328
TOTAL 2	**11,417**	**561**	**25**	**0**	**11,953**
Provisions for impairment					
Participating interests [b]	114,817	10,819	6,366	0	119,270
Shares held in treasury	61	74	61	0	74
TOTAL 3	**114,878**	**10,893**	**6,427**	**0**	**119,344**
TOTAL	**126,325**	**11,457**	**6,476**	**0**	**131,306**

(a) The provision for risks related to our Ugimag subsidiary is intended to cover the company's negative equity, which is financed by the parent company

(b) In connection with the restructuring of the "small brushes and brushcards for automobile auxiliary motors" business, an impairment test was carried out on AVO and demonstrated that capital employed was substantially lower than the book value of participating interests in the company.

Note 5 MATURITY SCHEDULE OF ASSETS AND LIABILITIES

Receivables *In thousands of euros*	Gross balance sheet value	Due in one year or less	Due in over one year
Loans and advances to participating interests	21,332	99	21,233
Other financial assets	7,963	2,949	5,014
Advances and downpayments paid on orders	1	1	0
Trade receivables	519	519	0
Other receivables	57,942	55,609	2,333
Prepaid expenses	362	362	0
TOTAL	**88,119**	**59,539**	**28,580**

Borrowings *In thousands of euros*	Gross balance sheet value	Due in one year or less	Due in over one year	Due in over five years
Bond issue	40,187	187	0	40,000
Borrowings from credit institutions	7,824	7,824	0	0
Other borrowings	122,530	287	70,810	51,433
Trade payables and related accounts	599	599	0	0
Tax and social security liabilities	2,234	1,305	544	385
Amounts payable on fixed assets and related accounts	1	1	0	0
Other financial liabilities	34,073	34,073	0	0
TOTAL	**207,448**	**44,276**	**71,354**	**91,818**

Note 6 INFORMATION ABOUT RELATED PARTIES

The amounts shown in the columns below are taken from the balance sheet and income statement items referred to in the left-hand column.

Balance sheet or income statement item *In thousands of euros*	Amount for related parties at least 50%-owned	Amount for participating interests (less than 50%-owned)
Loans and advances to participating interests	21,332	0
Trade receivables	519	0
Other receivables	54,746	29
Cash and cash equivalents	83	0
Trade payables	9	0
Borrowings from credit institutions	432	0
Other borrowings	362	0
Other financial liabilities	33,907	0
Financial expense	14,037	0
Financial income	30,436	(23)

Note 7 REVALUATION RESERVE

In thousands of euros	
1. Revaluation reserves	
At beginning of period	3,252
Reversed during period	0
At end of period	3,252

Note 8 ACCRUED INCOME AND EXPENSES

In thousands of euros		
1. Amount of accrued income included in the balance sheet items below		
Loans and advances to participating interests		99
Other financial assets		245
Other receivables		1,011
Trade payables and related accounts		32
Cash and cash equivalents		834
TOTAL		**2,221**
2. Amount of accrued expenses included in the balance sheet items below		
Bond issues		187
Borrowings from credit institutions		872
Other borrowings		287
Trade payables and related accounts		58
Amounts payable on fixed assets		1
Tax and social security liabilities		2,082
Other financial liabilities		441
TOTAL		**3,928**
3. Amount of prepaid income and expenses	**Expenses**	**Income**
Operating items	360	0
Financial items	2	0
TOTAL	**362**	**0**
4. Costs deferred over several periods		
Bond issuance expenses	828	
TOTAL	**828**	

Note 9 SHARE CAPITAL AND CHANGES IN SHAREHOLDERS' EQUITY

SHARE CAPITAL

The share capital comprises 14,280,735 fully-paid up shares each with a par value of €2, of which 240,266 shares derived from the exercise of stock subscription options granted to employees, 30,900 shares from a bonus share allotment and 44,094 shares from a capital increase reserved for employees.

STATEMENT OF CHANGES IN EQUITY

In thousands of euros	
Opening equity at January 1, 2007	**199,483**
Capital increase subscribed by employees	10,382
Net income for the year	8,310
Change in tax-regulated provisions	(20)
Amortization of 2007 capital increase expense against share premiums	(45)
Dividend payment	(11,848)
Closing equity at December 31, 2007	**206,262**

Note 10 COMMITMENTS AND CONTINGENCIES

COMMITMENTS AND CONTINGENCIES

In thousands of euros	
Commitments given	
Guarantee for euro cash pooling agreement	16,000
Guarantee covering pension obligations at our Deutsche Carbone Germany subsidiary	600
Security deposit for appeal of EU fine	24,524
BNP guarantee covering Carbone Lorraine Chongqing China borrowings	16,983
Other guarantees and deposits [(a)]	2,853
TOTAL	**60,960**
Commitments received	**0**
TOTAL	**60,960**

(a) In addition to the security deposits granted, the tax administration has recorded a charge of €509,000 covering disputed tax reassessments.

OTHER RECIPROCAL COMMITMENTS

In thousands of euros	
Reciprocal commitments given	
Currency hedges	19,357
Commodity hedges	1,172
TOTAL	**20,529**
Reciprocal commitments received	
Currency hedges	19,357
Commodity hedges	1,172
TOTAL	**20,529**

OTHER EMPLOYEE COMMITMENTS

In thousands of euros	
Top-up pension plan covering senior managers belonging to the Executive Committee	
Present value of plan obligations at December 31, 2007	2,939
Fair value of assets held by AXA Assurances	(1,583)
TOTAL	**1,356**

OTHER COMMITMENTS RELATED TO FINANCIAL INSTRUMENTS

In thousands of euros	
Fair value of financial instruments at December 31, 2007	
Interest rate swaps	(735)
Currency hedges	341
Commodity hedges	(1,172)
TOTAL	**(1,566)**

Note 11 LEASES

The Company did not hold any finance leases in progress at December 31, 2007.

Note 12 EMPLOYEES

Total payroll costs for tax purposes amounted to €1,243,000 in 2007.

The compensation and benefits paid to officers and directors in respect of fiscal 2007 amounted to €817,000.

Note 13 AVERAGE HEADCOUNT

	Salaried employees	Seconded employees
Executives	4	0
Supervisors and technicians	2	0
TOTAL	**6**	**0**

Note 14

ANALYSIS OF TAX EXPENSE

In thousands of euros	Income before tax	Tax payable
Current	13,181	0
Exceptional	489	0
Tax benefit received from subsidiaries consolidated for tax purposes		3,379

INCREASE AND DECREASE IN FUTURE TAX LIABILITY

In thousands of euros	Beginning of period	Change during period	End of period
Accelerated tax depreciation	(30)	22	(8)
Provisions for GPC pension obligations	676	(22)	654
Top-up pension provision	471	(61)	410
Income from future hedges	6	(6)	0
Accrued expense, social solidarity contribution	7	2	9
Accrued income, Italian tax credit	(1,005)	1,005	0
Paid vacation	66	2	68
Retirement indemnities	279	27	306
Tax base or future tax credit	470	969	1,439
Tax losses	33,348	(2,157)	31,191
Total	33,818	(1,188)	32,630
Future tax rate adopted	34.43%		34.43%
Amount of future tax receivable	11,644		11,235

Note 15 TAX CONSOLIDATION

On January 1, 2007, Le Carbone-Lorraine formed a consolidated tax group as defined in Articles 223 *et seq.* of the French General Tax Code. This tax group primarily comprises Ferraz Shawmut, Ferraz Date Industries, CL Composants, CL Applications Electriques, CL Equipements Génie Chimique, CL Corporate Services and AVO SA.

Tax expense is calculated for each subsidiary every year as if the company were not a member of the tax group. This tax expense thus takes into account the losses recorded by the subsidiary during the period for which it has belonged to the tax group, which it can offset pursuant to ordinary law.

No arrangements have been made for repayment of tax to a loss-making subsidiary based on its current situation. In addition, no compensation is provided for should a loss-making subsidiary leave the group.

The tax benefit recorded by the parent company primarily reflects tax payments made by subsidiaries in profit less the tax liability payable by the tax group to the tax administration.

Subsidiaries are jointly and severally liable for payment of their tax to the French treasury, should Le Carbone-Lorraine default on payment.

Note 16 TRANSLATION ADJUSTMENTS

In thousands of euros	Amounts	o/w set off by hedges or global currency position	o/w deferred foreign exchange gains and losses	Other	Provisions for liabilities and charges
Foreign currency translation losses (unrealized)					
On financial fixed assets	406	359			47
On trade receivables	11				11
TOTAL	**417**	**359**			**58**
Foreign currency translation gains (unrealized)					
On miscellaneous borrowings	17,123	359	16,374	390	
On trade payables	6			6	
TOTAL	**17,129**	**359**	**16,374**	**396**	

Note 17 TREASURY SHARES

Pursuant to the liquidity agreement entered into with Exane-BNP Paribas, the Company held 41,216 treasury shares at December 31, 2007.

Note 18 INFORMATION ABOUT EXCEPTIONAL ITEMS

EXCEPTIONAL INCOME

In thousands of euros	
Capital transactions	
Sale price of the Carbone Lorraine Shanghai China shares	550
Gains on the sale of treasury shares	605
SUB-TOTAL	**1,155**
Reversals of provisions and transferred costs	
Reversal of accelerated tax depreciation	24
SUB-TOTAL	**24**
TOTAL	**1,179**

EXCEPTIONAL CHARGES

In thousands of euros	
Management transactions	
Professional fees and expenses related to EU fine	85
GPC pensions for non-active workers	53
Other	12
SUB-TOTAL	**150**
Capital transactions	
Net book value of Carbone Lorraine Shanghai China shares	228
Losses on the sale of treasury shares	309
SUB-TOTAL	**537**
Depreciation, amortization and charges to provisions	
Allowance for accelerated tax depreciation	3
SUB-TOTAL	**3**
TOTAL	**690**

Note 19 INFORMATION ABOUT RISK FACTORS

The financial risk management policy is approved by the Executive Committee based on proposals submitted by the finance department. Currency and commodity hedging transactions are carried out subject to strictly defined procedures.

LIQUIDITY RISK

The Company holds three significant borrowing agreements:

- a USD220 million loan arranged in December 2004 with a maturity of five years and syndicated to an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;
- a €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through the attached warrants ("OBSAAR" bonds) arranged in November 2007 (please see Note 2 for a detailed description);
- a USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. Interest is paid at a fixed rate to investors, but the interest-rate swaps negotiated at the outset mean that Carbone Lorraine pays a floating US dollar rate plus a credit margin.

INTEREST-RATE RISK

The interest-rate risk management policy consists at present in establishing positions from time to time as a function of the direction of interest rates.

In May 2003, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swap was May 28, 2003, and the swap has the same duration as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At December 31, 2007, the swaps had a total nominal amount of USD75.7 million.

In October 2005, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD50 million. These swaps, which have a duration of three years, became effective in May 2006. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 4.6325% and receives 3-month USD Libor.

In October 2006, the Group purchased interest-rate swaps covering an aggregate nominal amount of €45 million. These swaps, which have a duration of 15 months, became effective in October 2006. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 3.6575% and receives 1-month Euribor.

COMMODITY RISK

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

The commodity price risk management policy currently consists in arranging forward commodity purchases with prime banking institutions. These are passed on symmetrically to the subsidiaries affected by commodity purchases.

CURRENCY RISK

The currency risk management policy consists, based on a complete inventory of inter-company and external risks, in arranging forward currency purchases with prime banking institutions.

Except in special non-material cases, the hedges arranged with banks are centralized with the parent company and passed on symmetrically to the relevant subsidiaries to hedge trading flows based either on specific orders or on annual budgets.

The Group does not specifically hedge its net foreign assets.

Note 20 CONSOLIDATION

Le Carbone-Lorraine is fully consolidated by the Carbone Lorraine group.

LIST OF SUBSIDIARIES AND SHAREHOLDINGS

Detailed information (gross book value exceeding 1% of the share capital) *In thousands of euros*	Share capital	Shareholders' equity excluding the share capital	% of share capital owned	Book value in Le Carbone-Lorraine SA's financial statements		Dividends received by the Company	Loans and advances	Guarantees and sureties given
				Gross	Net			
AVO SA (France)	224	2,372	99.59	17,553	2,596			
Ferraz Shawmut SA (France)	20,936	695	99.99	29,589	29,589			
Ugimag SA (France)	3,208	(12,536)	100	73,483	0			
Carbone Lorraine Applications Électriques (France)	22,477	4,953	100	25,402	25,402			
Carbone Lorraine Composants (France)	19,896	7,747	100	19,896	19,896	4,391		
Carbone Lorraine Corporate Services (France)	3,574	649	100	3,646	3,646	378		
Carbone Lorraine Équipements Génie Chimique (France)	17,321	411	100	17,321	17,321	1,227		
Deutsche Carbone AG (Germany)	10,021	15,983	10	1,635	1,635			600
CL KG (Germany)	28,700	(13,836)	100	28,700	15,123		414	
Carbone Lorraine Argentina SA (Argentina)	118	148	99.99	962	807	68		
Carbone Lorraine Australia PTY Ltd (Australia)	656	2,944	100	702	702	1,529		
Carbono Lorena SA (Brazil)	13,686	(9,096)	99.99	23,847	16,800			
Carbone of America Ltd (Canada)	1,336	8,787	100	1,322	1,322	1,358		
Carbone Lorraine Korea Co. Ltd (South Korea)	3,541	1,590	100	12,060	11,540	1,079		
Carbone Danmark A/S (Denmark)	67	(7)	100	477	477			
Sofacel (Spain)	2,404	2,599	50.02	680	680	296		
Ferraz Shawmut Ibérica (Spain)	2,043	57	100	2,396	2,396		1,355	
Carbone Lorraine Corporation (US)	42,796	33,763	62.28	91,469	91,469	5,836		
Carbone Lorraine North America (US)	19,157	29,137	100	24,085	24,085			
Unimagnet Corp. (US)	5,169	51,251	100	44,841	44,841			1,698
Le Carbone UK (Holdings) Ltd (UK)	8,493	326	100	903	903		7,500	
Carbone Lorraine Grèce SA (Greece)	3 83	248	100	638	638	20		
Carbone Lorraine Mauritius (Mauritius)	20,597	(41)	100	23,182	23,182			16,983
The Carbon Company Mauritius (Mauritius)	167	(167)	100	2,337	0			
New Carbone Lorraine India (India)	362	1,738	100	6,062	6,062			
Carbone Lorraine Madras PVT Ltd (India)	351	1,054	51	407	0			
Il Carbonio Spa. (Italy)	2,500	767	99.99	4,590	4,590	1,137		
Le Carbone KK (Japan)	304	6,596	8.70	2,977	917	21		
Carbono Lorena (Mexico)	2,670	(1423)	100	2,177	578			340
Le Carbone (S.A.) PTY Ltd (RSA)	105	2,833	54.77	813	813	322		
Carbone Lorraine Singapore Holding PTE Ltd	791	(601)	100	1,065	57			
Carbone Nordic AB (Sweden)	212	675	100	551	551	689		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	6,546	(4,078)	99.99	5,016	2,907	150		
Total figures (concerning the other subsidiaries and shareholdings)								
Subsidiaries (at least 50%-owned)								
in France				38	28			
outside France				730	730	1,138	76	
Shareholdings (10% to 50%-owned)								
outside France				217	217	(22)		
Other shareholdings (less than 10%-owned)				**0**	**0**			
TOTAL				**471,769**	**352,500**	**19,617**	**9,345**	**19,621**

FIVE-YEAR FINANCIAL SUMMARY

	2007	2006	2005	2004	2003
1. Share capital at year-end					
Share capital *(in thousands of euros)*	28,562	27,931	27,683	22,394	22,394
Number of shares outstanding	14,280,735	13,965,475	13,841,352	13,755,577	11,197,890
Nominal value of shares *(in euros)*	2	2	2	2	2
2. Overall result of operations *(in thousands of euros)*					
Income before tax, depreciation, amortization, charges to provisions and employee profit-sharing	10,259	21,054	9,679	7,295	23,423
Income tax	(3,379)	(4,312)	(5,537)	(6,852)	(4,976)
Employee profit-sharing	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	8,310	9,445	4,398	2,859	(14,436)
Total earnings paid out	12,138	11,871	9,689	7,566	0.0
3. Overall result of operations per share (in euros)(1)					
Net income after tax and employee profit-sharing, but before depreciation, amortization and charges to provisions	0.95	1.82	1.10	0.84	2.54
Net income after tax, depreciation, amortization and charges to provisions	0.58	0.68	0.32	0.25	(1.29)
Dividend paid on each share	0.85	0.85	0.70	0.55	0.0
4. Employees					
Average headcount	6	6	6	6	6
Total payroll costs *(in thousands of euros)*	1,693	2,375	1,832	1,009	739
Amount paid for welfare benefits *(in thousands of euros)*	329	584	368	305	400

(1) Earnings per share have been calculated based on 11,690,661 shares, which includes the capital increases carried out during fiscal 2004 on a pro rata basis.

STATUTORY AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS
- Fiscal year ended December 31, 2007

Mesdames, Messieurs les Actionnaires,

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2007, on:

- the audit of the accompanying financial statements of Le Carbone-Lorraine SA;
- the justification of our assessments;
- the specific verifications and disclosures required by law.

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

1 OPINION ON THE FINANCIAL STATEMENTS

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

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2007, and of the results of operations for the year then ended in accordance with the accounting principles generally accepted in France.

2 JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de Commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Note 1.c to the financial statements presents the accounting methods and principles adopted for participating interests and other fixed assets.

In the context of our assessment of the accounting rules and principles adopted by your Company, we verified the appropriateness of the accounting methods stated above and the information disclosed in the notes to the financial statements, and we ensured that they were applied correctly.

These assessments were made in the context of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed, which is expressed in the first part of this report.

3 SPECIFIC VERIFICATIONS AND DISCLOSURES

We also performed the specific verifications required by law in accordance with the professional standards applied in France.

We have no comments to make as to:

- the fair presentation and conformity with the financial statements of the information disclosed in the Board of Directors' management report and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information disclosed in the management report concerning the compensation and benefits paid to relevant directors, as well as the commitments made to them upon their appointment, the end of their term of office or change in their duties or subsequent thereto.

In accordance with the law, we verified that the management report contains the appropriate disclosures as to the percentage interests and voting rights held by shareholders.

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

The Statutory Auditors

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

6 Legal and financial information

RISK MANAGEMENT

The Risk and Internal Audit department is responsible for risk management. The Risk and Internal Audit department is charged with:

- detecting the principal risks facing the Group;
- defining a risk prevention and mitigation policy;
- proposing action plans and making sure they are implemented;
- and handling the security of information systems.

The Risk and Internal Audit Department reports to the Executive Committee, as well as to the Board of Directors' Audit and Accounts Committee.

The mapping of operational, financial, strategic and information-related risks carried out in 2001 was updated in 2005. The Company plans to carry out another update during 2008.

Certain risks were reassessed, but none likely to affect the Group's performance significantly has been identified to date.

INDUSTRIAL RISKS

In line with initiatives taken during previous years, the Risk Department endeavoured to identify all the business risks that may arise at what are regarded as the Group's core facilities. As a result of this analysis, the Group implemented action plans to reduce the severity and/or likelihood of these risks. Some of these action plans were completed, while others are still underway. These initiatives focused primarily on:

- securing installations that use explosive or toxic gases;
- continuing to implement the program to secure access to facilities;
- the deployment of action plans linked to the highly specialized nature of the production facilities:
  - replacing installations,
  - certifying new suppliers.

The measures implemented helped to eliminate almost all the risks.

As in previous years, visits were made in conjunction with the Group's insurance experts to assess the level of fire prevention and protection at the Group's principal manufacturing facilities in and outside France. The recommendations made following these visits increased the level of fire prevention and detection resources, where appropriate.

TECHNOLOGICAL RISKS

The information system security function, now part of the Risk and Internal Audit Department, continued to implement a series of measures aimed at ensuring the integrity, availability and confidentiality of the Group's information systems.

In particular, it:

- tightened up contingency planning to mitigate the risk of IT systems unavailability;
- defined a continuity plan in the event of a major incident affecting major IT systems.

The contingency and business continuity and resumption plans were tested at the two principal centres in Europe and the US.

During 2007, efforts to secure IT systems (antivirus and spam, etc.) were continued.

In addition, the Group commenced work on contingency planning for major IT systems in Asia. These contingency plans are due to become operational during 2008.

ENVIRONMENTAL RISKS

In 2007, the Group continued its policy of aiming to secure ISO 14001 certification. Work is currently continuing to eliminate use of potential pollutants or to curtail their use very severely. Carbone Lorraine also conducted a review of CMR substances (carcinogenic, mutagenic or toxic to reproduction), which prompted it to tighten up all the measures designed to protect employees and the environment.

Management did not deem it necessary to set aside a provision for material environmental risks.

RAW MATERIALS RISKS

To protect its supply chain, the Group continued its efforts to find alternative procurement sources where it deals with a monopoly supplier, enabling it to secure purchases of its most sensitive raw materials.

From a more general standpoint, a key development during 2007 was the fact that teams responsible for procurement worked closely with technical teams on plans to reformulate tender specification documents in a bid to broaden the supplier base and secure more competitive prices. What's more, to protect against price increases, exposure to certain raw materials was hedged either using derivative products or using supplier-provided protection (see the section on financial market and financing risks).

COMMERCIAL RISKS

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its portfolio. In sum, the Group's top ten customers generate €125 million.

PROPORTION OF SALES DERIVING FROM THE GROUP'S PRINCIPAL CUSTOMERS

	2007		2006	
In millions of euros	Volume of sales	Percentage of sales	Volume of sales	Percentage of sales
With the Group's leading customer	20,182	2.9	22,500	3.5
With the Group's 5 leading customers	81,292	11.7	75,965	11.9
With the Group's 10 leading customers	124,902	18	114,326	17.9

In addition, the contraction in sales to the automobile industry has contributed to the fall in commercial risks linked to this industry.

COUNTRY RISKS

The Group has manufacturing facilities in countries considered to be at high risk (based on the Coface's classification), i.e. in Argentina, Colombia and Turkey. These unconsolidated subsidiaries potentially represent a risk, albeit a very modest one given their size, since their sales totalled €11 million in 2007.

In China, the Group is not immune from geopolitical risk.

INSURANCE

The Group has put in place worldwide insurance programs with prime insurance companies to cover its main property/business interruption, civil liability, environmental, civil aviation and transport risks. These worldwide programs provide all the Group's subsidiaries with cover and restrictions tailored to their needs. No captive insurance policies were arranged.

The Group's civil liability (exploitation, before and after delivery) and environmental insurance program notably covers bodily injury, physical and nonphysical damage, site clearance and rebuilding costs, withdrawal costs, damage to property in the Group's care and pollution abatement costs subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries. The total amount of premiums paid by the Carbone Lorraine group during fiscal 2007 in respect of its civil liability, environmental and civil aviation insurance program came to €568,463.

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as fire, storm, explosion, electrical damage, theft, etc.), subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €80,000,000 with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical risks. The total amount of premiums paid by the Carbone Lorraine group during fiscal 2007 in respect of this insurance program came to €785,702.

Under the Group's transport insurance program, Carbone Lorraine and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5,000,000 per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The total amount of premiums paid by the Carbone Lorraine group during fiscal 2007 in respect of this insurance program came to €60,000.

The Group's insurance policy is determined by executive management. To protect the Group's future, the levels of coverage are set based on an assessment of the risks incurred by each Group subsidiary. Given that the insurance market again remained stable, the levels of coverage in 2008 were unchanged on the previous year.

LABOR RISKS

The Company pays particular attention to the quality of its labor relations and to the development of dialogue with employees and unions. For instance, union representatives, employee representatives and the Group's management meet each year as part of the Group Works Committee in France and the European Works Committee. In addition, the central delegates of all the unions represented at the Group's plants in France meet with the Group's human resources department at least once each year.

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

To guard as best it can against the risk of losing expertise, the Group prepared action plans with respect to the key personnel within its organization during its management reviews and introduced measures to maintain their loyalty and/or ensure that they could be replaced.

In France, an agreement covering the forward planning of jobs and skills was signed by all the union organizations. This agreement covers arrangements for informing and consulting the employee representation bodies about corporate strategy and its implications for jobs and salaries, the program to identify changes in jobs and competencies required, professional training tools, the formal recognition of professional experience, internal mobility, and end-of-career professional development.

A review of the competencies that the Group will need over the next five years has been carried out at each division, and the identification of key jobs for the Group is helping to equip our current teams with the know-how they will need. Planning ahead for departures linked to demographic trends in our workforce is also a key aspect of our policy of forward human resource planning.

TAX RISKS

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

FINANCIAL MARKET AND FINANCING RISKS

CURRENCY RISKS

Currency risks are addressed in the "Currency risks" section of Note 3 to the consolidated financial statements (p. 55).

INTEREST RATE RISK

Interest-rate risks are addressed in the "Interest-rate risks" section of Note 3 to the consolidated financial statements (p. 54).

COMMODITY RISKS

Commodity risks are addressed in the "Commodity risks" section of Note 3 to the consolidated financial statements (p. 54).

COUNTERPARTY RISKS

All hedging transactions are entered into with prime financial institutions. The Group has no material investment securities and is not exposed to counterparty risks on such securities. In terms of credit risk, 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 nonpayment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

LIQUIDITY RISKS

Liquidity risks are addressed in the "Liquidity risks" section of Note 3 to the consolidated financial statements (p. 53).

EQUITY RISKS

At December 31, 2007, the Group held 41,216 shares in treasury worth €2.0 million. At the same date, the Group had not subscribed any shares in listed companies.

LEGAL RISKS

DEPENDENCE OF THE COMPANY

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

The Group's principal customer is IMARK (a group of US electrical distributors), which represents 2.9% of sales. No other customer accounts for more than 3% of sales.

LITIGATION

Appeal procedure in Europe

The appeal procedure launched by Carbone Lorraine during February 2004 in the EU Court of First Instance against the €43.05 million fine imposed by the European Commission in December 2003 for antitrust practices in brushes for electric motors and products for mechanical applications is still in progress. No new developments occurred in 2007. To recap, Carbone Lorraine paid a sum of €20 million into an escrow account held by the European Commission in March 2005, without this having an impact on the outcome of the appeal in progress, to reduce the expenses caused by the protracted appeal process.

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

In 2004, a settlement in principle of USD6 million was agreed with regard to the class-action lawsuits brought in 2002 by certain customers in the US against COAIC, a Carbone Lorraine subsidiary marketing brushes for electric motors. The size of the settlement was reduced by the federal court to USD3.7 million in October 2006 as part of its definitive approval of the settlement.

The size of the aforementioned settlement was reduced because a limited number of beneficiaries refused the terms of the settlement and decided to pursue a claim directly against COAIC as part of separate proceedings on the grounds that the amounts initially offered in settlement of their claims were insufficient. The separate proceedings are still being heard by the US federal courts. COAIC firmly rejects all the additional claims and has maintained its request for the dismissal of the separate proceedings on the grounds they have no legal basis.

The lawsuit initiated during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Carbone of America Ltd., a subsidiary of Carbone Lorraine, is still in progress and there were no new developments during 2007. To recap, this lawsuit was instigated following the fine of CAD1,000,000 that Morgan Crucible Ltd was ordered to pay in July 2004 for antitrust practices during the 1995-98 period in the field of graphite brushes for traction applications. No new developments occurred in 2006. In February 2007, the Canadian judge ruled that only Canadian urban transportation companies could join the proceedings in progress. The amount at risk for Carbone of America Ltd. (Canada) remains nonmaterial.

Class-action lawsuit in the United Kingdom

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

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

Based on the information available, the requisite provisions have been set aside for all the identified litigation in progress.

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

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

GENERAL INFORMATION ABOUT THE SHARE CAPITAL

CONDITIONS

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

AMOUNT AND STRUCTURE OF THE SHARE CAPITAL (ARTICLE 6 OF THE ARTICLES OF ASSOCIATION)

At December 31, 2007, the share capital amounted to €28,561,470 divided into 14,280,735 shares, each with a nominal value of €2 and belonging to the same category.

AUTHORIZATIONS TO CARRY OUT A CAPITAL INCREASE

COMBINED GENERAL MEETING OF MAY 24, 2007

Issue of new shares with preferential subscription rights for shareholders

At the Combined General Meeting of May 24, 2007, shareholders authorized the Board of Directors to increase, on one or more occasions, the share capital with preferential subscription rights for existing shareholders, through the issue in or outside France of ordinary shares in the Company or any other securities (including debt instruments) conferring rights in any way whatsoever, either immediately or in the future, to the Company's ordinary shares. Securities other than shares may also be denominated in foreign currencies or in any other currency units determined by reference to a basket of several currencies. The nominal amount of increases in the share capital that may be carried out immediately and/or in the future pursuant to this authorization may not exceed €10 million, it being stipulated that this nominal amount may be increased where appropriate by the nominal amount of additional shares to be issued to protect the rights of holders of securities conferring rights to the Company's shares, in accordance with the French Commercial Code. The aforementioned ceiling does not apply to increases in the share capital through the capitalization of reserves. This authorization replaces and supersedes that granted by the Combined General Meeting of May 12, 2005, which was given for a period of 26 months and which was not used.

Issue of bonds convertible into shares

Shareholders also authorized the Board of Directors at the Combined General Meeting to issue bonds convertible into the Company's shares at bondholders' discretion on the French market on one or more occasions without preferential subscription rights for shareholders. The aggregate nominal amount of the increases in the share capital that may be carried out pursuant to this authorization may not exceed €5 million, and this cap is part of the aggregate restriction of €10 million decided by shareholders at the Combined General Meeting of May 24, 2007. This authorization was granted for a period of 26 months from the Combined General Meeting of May 24, 2007. To date, the Board of Directors has not made any use of this authorization. This authorization replaces and supersedes that granted by the Combined General Meeting of May 18, 2006, which was given for a period of 13 months and which was not used.

Issue of bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds)

Shareholders at the Combined General Meeting of May 24, 2007 authorized the Board of Directors, with an option to sub-delegate this authority, to decide to increase the share capital through the issue on a single occasion of bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds), with the warrants being detachable from the bonds immediately following the issue. The nominal amount of OBSAARs that may be issued pursuant to this authorization may not exceed €40 million. In addition, the maximum nominal amount of increases in capital that may be carried out either immediately or in the future pursuant to this authorization is automatically deducted from the aggregate €10 million cap decided by the Combined General Meeting on May 24, 2007. This authorization was granted for a period of 18 months from the Combined General Meeting of May 24, 2007.

At its meeting on October 5, 2007, the Board of Directors used this authorization by deciding to issue OBSAAR bonds with warrants attached for a nominal amount of €40 million and set, within the category defined by the General Meeting, the list of banks in favor of which shareholders' preferential subscription right to the OBSAAR bonds was removed, as well as the number of OBSAAR bonds reserved for each bank, and the categories of Carbone Lorraine employees, officers and directors that may acquire the warrants detached from the OBSAAR bonds subscribed by the Banks.

The issue of OBSAAR bonds decided pursuant to this authorization by the Board of Directors was presented in an offering circular approved by the *Autorité des Marchés Financiers* under visa no. 07-350 dated October 9, 2007.

In a decision dated November 19, 2007, the Chairman, acting under the Board of Directors' authorization, defined the final characteristics of the OBSAAR issue:

- **Characteristics of the OBSAAR bonds**: number of OBSAAR bonds issued: 1,000. Nominal unit value of the bonds: €40,000. Issue price: at par, i.e. €40,000. Gross issue proceeds: €40,000,000. Net proceeds: around €39,700,000. Subscription/issuance date: November 22, 2007. Duration of the borrowing: 7 years; bonds are redeemed at par in equal tranches or broadly equal tranches on November 22, 2012, 2013 and 2014. Annual interest: 3-month Euribor less a margin of 0.31% payable on a quarterly basis in arrears on February 22, May 22, August 22 and November 22 each year.
- **Characteristics of the warrants attached to the OBSAAR bonds**: 114 warrants are attached to each bond. 114,000 warrants were issued. The warrants are detached immediately from the bonds. A warrant entitles the holder to receive one new or existing share. Number of shares likely to be issued through exercise of the warrants: maximum of 114,000 shares, representing 0.80% of the share capital and voting rights on the date of issuance of the AMF visa. Sale price of a warrant: €12, set on the basis of a valuation report drafted by specialized firm Accuracy. Exercise price of the warrants: €58.49. Exercise period: at any time during the five years from November 30, 2007 through November 30, 2012. The warrants may be redeemed at €0.01 at the Company's discretion with effect from November 30, 2007 if the product of the share price and the exercise parity exceeds €111.13.

Capital increase reserved for employees participating in the Group Investment Plan

Shareholders also authorized the Board of Directors at the Combined General Meeting on May 24, 2004 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 €140,000, i.e. approximately 0.5% of the Company's share capital.

This authorization replaces and supersedes the previous one granted by the Combined General Meeting of May 12, 2005 for a period of 26 months from the Combined General Meeting of May 27, 2007.

At its meeting on July 25, 2007, the Board, using the authorization granted to it at the Combined General Meeting of May 24, 2007, decided to offer employees of the Group's European and North American subsidiaries the option of acquiring new shares priced at €45.80. By the end of the subscription period, a total of 44,094 new shares had been issued, increasing the Company's share capital to 28,481,320, divided into 14,240,660 shares each with a nominal value of €2, fully paid-up and belonging to the same category.

Grant of stock subscription or purchase options

Shareholders at the Combined General Meeting of May 24, 2007 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 165,000 shares, each with a nominal value of €2. At its meeting on July 25, 2007, the Board decided to make use of said authorization, by granting 30 senior managers options entitling them to subscribe a total of 165,000 shares, each with a nominal value of €2. Exercise of these options is contingent upon growth in consolidated net income per share (i.e. basic earnings per share) over the 2007 to 2010 period.

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 20,000, which currently represents around 0.2% of the share capital. The authorization is valid for a period of 38 months. At its meeting on February 26, 2008, the Board of Directors decided to use this authorization by granting 2,000 shares to 89 Group executives, who were not granted stock subscription options (under the 2007 plan). The vesting and holding period are respectively set at 2 and 3 years. The grant is contingent upon continuation of beneficiaries' employment contract until the end of the vesting period.

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Description of the transaction	Share capital following the transaction	Share premium	Total number of shares after the transaction
Dec. 31, 2001	Issue of 18,729 new shares each with a nominal value of €2 through the exercise of subscription options	22,256,924	292,041	11,128,462
Dec. 31, 2002	Issue of 10,688 new shares each with a nominal value of €2 through the exercise of subscription options	22,278,300	180,704	11,139,150
Nov. 27, 2003	Issue of 3,750 new shares each with a nominal value of €2 through the exercise of subscription options	22,285,800	63,512	11,142,900
Dec. 23, 2003	Issue of 54,990 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	22,395,780	1,110,798	11,197,890
April 15, 2004	Issue of 2,000 new shares each with a nominal value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
Aug. 20, 2004	Issue of 2,500 new shares each with a nominal value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390
Oct. 19, 2004	Issue of 2,489,420 new shares each with a nominal value of €2 through a capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
Dec. 16, 2004	Issue of 46,328 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,476,276	1,176,731	13,738,138
Dec. 31, 2004	Issue of 17,439 new shares each with a nominal value of €2 through the exercise of subscription options	27,511,154	254,261	13,755,577
Dec. 31, 2005	Issue of 85,775 new shares each with a nominal value of €2 through the exercise of subscription options	27,682,704	1,829,333	13,841,352
June 28, 2006	Issue of 44,494 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,771,692	1,388,213	13,885,846
Dec. 31, 2006	Issue of 79,629 new shares each with a nominal value of €2 through the exercise of subscription options	27,930,950	2,219,832	13,965,475
July 25, 2007	Issue of 30,900 each with a nominal value of €2 through the grant of bonus shares	27,992,750	1,721,748*	13,996,375
Sept. 11, 2007	Issue of 200,191 new shares each with a nominal value of €2 through the exercise of subscription options	28,393,132	6,627,591	14,196,566
Dec. 17, 2007	Issue of 44,094 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	28,481,320	1,931,317	14.240.660
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

** Unavailable reserve.*

VOTING RIGHT CERTIFICATES

None.

INVESTMENT CERTIFICATES

None.

SHARES PLEDGED

None.

SHAREHOLDERS' AGREEMENT

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

SECURITIES CONFERRING RIGHTS TO THE SHARE CAPITAL

Between July 1995 and December 31, 2007, stock subscription options were granted, 240,266 of which were exercised during fiscal 2007. The options still to be exercised at December 31, 2007, after taking into account cancellations, entitle their holders to acquire a total number of 388,117 shares, each with a nominal value of €2.

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 the attached warrants ("OBSAAR" bonds). Since each 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.

During fiscal 2007, the Company did not carry out any bonus share allotments.

There are no other instruments or securities conferring rights to the Company's share capital.

OWNERSHIP OF THE SHARE CAPITAL

The Company's share capital at December 31, 2007 amounted to €28,561,470, comprising 14,280,735 shares each with a nominal value of €2.

The number of voting rights stands at 14,280,735.

At January 31, 2008, 50,296 shares were held by the Company pursuant to the liquidity agreement entered into with Exane-BNP Paribas. The Company did not buy or sell its own shares during fiscal 2007. The Company did not hold any other of its own shares at this date.

No shares carry double voting rights.

The number of stock subscription options granted to company officers and still outstanding stood at 137,399, taking into account the cancelled options.

In addition, no public tender or exchange offer, nor any guaranteed share price offer has been made in respect of the Company's shares over the past three years. The Company has not initiated any such offers for other companies over the same period.

SHARE OWNERSHIP THRESHOLDS CROSSED

February 19, 2007: Amber Master Fund (Cayman) SPC raised its interest above the 4% threshold of the share capital and voting rights by establishing a holding of 4.18% of the share capital and 4.17% of voting rights.

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

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

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

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

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

June 14, 2007: FMR Corp. and Fidelity International Limited (FIL) raised its interest above the 5% threshold of the share capital and voting rights by establishing a holding of 5.39% in the share capital and voting rights.

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

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

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

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

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

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

November 13, 2007: Sofina raised its interest to 3% of the share capital and voting rights.

November 16, 2007: FMR and Fidelity International Ltd cut their interest to below the 5% threshold of the share capital and voting rights, with its shareholding at 4.94%.

November 30, 2007: Fidelity International moved above the 5% ownership threshold of the share capital and voting rights, increasing its interest to 5.07%.

January 30, 2008: Natixis Asset Management cut its interest to below the 1% threshold of the share capital and voting rights, by reducing its stake to 0.426% of the share capital and voting rights.

CHANGES IN OWNERSHIP OF THE SHARE CAPITAL

Shareholders	Dec. 31, 2007			Dec. 31, 2006			Dec. 31, 2005		
	Number of shares	% of the share capital	% of voting rights	Number of shares	% of the share capital	% of voting rights	Number of shares	% of the share capital	% of voting rights
Free float, comprising	14,280,735			13,965,475			13,841,352		
- French institutional investors	3,598,597	25.2%	25.2%	4,790,157	34.3%	34.3%	4,786,941	34.6%	34.6%
- individual shareholders	3,855,835	27%	27%	4,022,056	28.8%	28.8%	4,371,701	31.6%	31.6%
- employee shareholders	214,248	1.5%	1.5%	200,243	1.4%	1.4%	221,461	1.6%	1.6%
- international institutional investors	6,569,176	46%	46%	4,887,916	35%	35%	4,427,067	32%	32%
Treasury shares	41,216	0.3%	0.3%	65,103	0.5%	0.5%	34,182	0.2%	0.2%
TOTAL	**14,280,735**	**100%**	**100%**	**13,965,475**	**100%**	**100%**	**13,841,352**	**100%**	**100%**

To the best of the Company's knowledge, no shareholder other than Columbia Wanger Asset Management L.P. holds more than 5% of the Company's share capital and voting rights.

The directors and company officers hold 17,297 registered shares, as well 10,286 shares via the Carbone Lorraine FCPE (corporate mutual fund), representing a total of 0.19% of the share capital. The Company held a total of 41,216 of its own shares at December 31, 2007 under a liquidity agreement complying with the AFEI's charter.

MARKET IN THE COMPANY'S SHARES

Shares are admitted for trading on the *Premier Marché* of the Paris Stock Exchange and are eligible for the SRD (deferred settlement) service. Carbone Lorraine shares are a constituent of the SBF 120, CAC Mid100 and the Next 150 indices.

A total of 14,280,735 shares are listed on the market.

Carbone Lorraine shares	Number of shares traded *Units*	Trading volumes *In millions of euros* (1)	High-low (2) High *In euros*	Low *In euros*
2006				
January	1,037,421	41.98	41.30	38.22
February	917,362	38.32	42.62	39.82
March	1,173,798	51.81	44.48	39.10
April	963,397	43.82	46.40	41.00
May	1,510,525	65.35	51.00	39.56
June	937,354	40.26	43.90	36.55
July	760,010	31.26	43.60	37.41
August	469,573	19.17	41.00	39.10
September	1,075,966	47.06	43.89	43.74
October	787,581	34.33	45.00	41.70
November	929,624	40.35	45.00	41.30
December	1,145,140	48.89	43.90	40.01
2007				
January	1,025,715	45.31	44.84	42.65
February	1,273,907	54.87	46.00	41.20
March	1,125,979	49.29	45.68	41.06
April	1,089,672	51.06	48.39	44.50
May	1,938,239	100.22	54.37	48.00
June	1,491,290	82.36	58.20	52.83
July	1,667,459	94.74	58.46	52.50
August	2,101,050	111.98	59.38	48.20
September	1,635,094	86.41	55.60	49.80
October	1,542,984	87.96	61.82	53.58
November	2,122,229	110.48	61.80	45.75
December	1,257,204	61.32	52.27	46.38
2008				
January	2,730,598	101.76	48.76	31.50
February	3,293,607	100.45	35.00	26.78

Source: Euronext.

(1) Based on the monthly average share price.

(2) Based on monthly intraday highs and lows.

	Nbr of shares at year-end	Earnings per share *In euros*			Share price *In euros*			Overall yield based on year-end share price
		Net dividend	Tax credit	Total dividend	High	Low	Last	
2003	11,197,890	0	0	0	34.49	13.80	29.15	n/a
2004	13,755,577	0.55	n/a	0.55	39.60	27.12	39.03	1.41 %
2005	13,841,352	0.70	n/a	0.70	43.75	31.20	38.60	1.81 %
2006	13,965,475	0.85	n/a	0.85	51.00	36.55	42.65	2.0 %
2007	14,280,735	0.85	n/a	0.85	61.77	41.60	47.20	1.8 %

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

With respect to fiscal 2007, the third Resolution of the Combined General Meeting of May 21, 2008 provides for payment of a dividend of €0.85 per share, subject to shareholders' approval.

DESCRIPTION OF THE STOCK REPURCHASE PROGRAM FOR SHAREHOLDERS' APPROVAL AT THE COMBINED GENERAL MEETING (DUE TO BE HELD ON MAY 13, 2008 (FIRST NOTICE) OR MAY 21, 2008 (SECOND NOTICE))

In accordance with Articles 241-1 *et seq.* of the General Regulation of the *Autorité des Marchés Financiers*, as well as EC regulation 2273/2003 of December 22, 2003, which entered force on October 13, 2004, this information memorandum is intended to present the objectives and arrangements for the renewal of the stock repurchase program, as well as its expected impact on the Company's shareholders.

SUMMARY OF THE PRINCIPAL CHARACTERISTICS OF THE PROGRAM

Issuer: Le Carbone-Lorraine

Shares concerned: Carbone Lorraine's ordinary shares, admitted for trading on Compartment B of Eurolist by Euronext Paris (ISIN code: FR0000039620)

Maximum percentage of the capital authorized for repurchase by shareholders at the General Meeting: 10%

Maximum acquisition price per share: €100

Aims of the program in order of priority:

- **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 pursuant to the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital; or**
- **cancel them through a reduction in the share capital in accordance with the French Commercial Code;**
- **purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.**

Duration of the program: 18 months from Combined General Meeting of May 13, 2008 (first notice) or May 21, 2008 (second notice) until the date of the General Meeting convened to approve the financial statements for fiscal 2007.

I - OUTCOME OF THE PREVIOUS PROGRAM

With the exception of the repurchases made under the liquidity agreement, the Company did not make any use of the authorization granted by shareholders at the Combined General Meeting of May 24, 2007 in connection with the previous stock repurchase program (visa no. 05-253 of April 12, 2005) to stabilize the share price. At January 31, 2008, 50,296 shares were held in relation to this liquidity agreement.

The Company did not use any derivatives.

Summary statement

Issuer's declaration of transactions in its own shares between May 24, 2007 and January 31, 2008

Percentage of the share capital held directly and indirectly	0.35%
Number of shares cancelled over the past 24 months	None
Number of shares held in the portfolio	None
Book value of the portfolio	None
Market value of the portfolio	None

	Total gross cash flows		Open interest on the filing date of the information memorandum					
	Purchases	Sales/ Transfers	Open interest, buy side			Open interest, sell side		
			Calls purchased	Puts sold	Future purchases	Calls sold	Puts purchased	Future sales
Number of instruments	none							
Average maximum life			none	none	none	none	none	none
Average transaction price	none							
Average exercise price			none	none	none	none	none	none
Amounts	none		none	none	none	none	none	none

Since February 25, 2005, the Company has entrusted Exane-BNP Paribas (investment services provider) with implementing a liquidity agreement in accordance with the AFEI's charter approved by the *Autorité des Marchés Financiers* for an automatically renewable period of one year. The funds and shares made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 were as follows: €2,200,000 and no shares.

II - OBJECTIVES OF THE STOCK REPURCHASE PROGRAM

Carbone Lorraine wishes to implement a program to repurchase its own stock pursuant to the authorization submitted for approval by shareholders at the Combined General Meeting on May 13, 2008 (first notice) or May 21, 2008 (second notice).

Share purchases may be carried out, in decreasing order of priority, 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 pursuant to the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital; or
- cancel them through a reduction in the share capital in accordance with the French Commercial Code;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.

III - LEGAL FRAMEWORK

This program conforms to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code, as well as EC Regulation no. 2273/2003 of December 22, 2003, implementing the Market Abuse Directive 2003/6/EC of January 28, 2003, which entered force on October 13, 2004. It will be submitted for shareholders' approval at the Combined General Meeting of May 13, 2008 (first notice) or May 21, 2008 (second notice), deliberating in accordance with the quorum and majority voting requirements for Ordinary General Meetings (Fifth Resolution). The Fifth Resolution put forward by the Board of Directors is drafted as follows:

Fifth Resolution – Purchase of Carbone Lorraine's own shares

After hearing the Board of Directors' report and having familiarized itself with the description of the stock repurchase program, the General Meeting authorizes the Board of Directors under the conditions stipulated in Article L. 225-209 *et seq.* of the French Commercial Code to acquire, on one or more occasions and by any means, a number of shares representing up to 10% of the shares comprising the Company's share capital, or 1,428,073 shares.

The General Meeting resolves that purchases of the Company's shares may be made 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 pursuant to the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital; or
- cancel them through a reduction in the share capital in accordance with the French Commercial Code;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.

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

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2008. In no case whatsoever will this authorization remain valid for more than 18 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

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

IV - TERMS AND CONDITIONS

1) Maximum percentage of the share capital to be acquired and maximum amount payable by Carbone Lorraine

Carbone Lorraine will have the option of acquiring up to 10% of the share capital at the date of the General Meeting, i.e. 1,428,073 shares. The Company reserves the right to make full use of the authorized program. Accordingly, the maximum amount that Carbone Lorraine may pay assuming that it acquires shares at the maximum price set by the General Meeting, i.e. €100 per share, would be €142,807,300.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2007, amounted to €161,592,000. Pursuant to law, the size of the stock repurchase program may not exceed this figure ahead of the December 31, 2008 close.

Carbone Lorraine undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

2) Conditions governing repurchases

Stock repurchases, sales and transfers may take place at any time within the restrictions laid down in the stock market regulations and by any means, through trading on the market, through the use of options instruments or through block share purchases, provided that the General Meeting does not place any special restrictions on acquisitions of blocks of shares.

The Company will be careful not to increase the volatility of its shares when using options instruments.

3) Schedule for the program

These stock repurchases may take place only after the approval of the Fifth Resolution to be presented to the Combined General Meeting of May 13, 2008 (first notice) or May 21, 2008 (second notice) until the date of the General Meeting convened to approve the financial statements for fiscal 2008. In no case whatsoever will this authorization remain valid for more than 18 months.

4) Financing for the stock repurchase program

Stock repurchases will be financed using the Company's cash funds or using debt finance. The Company will adjust its credit lines to cover these stock repurchases.

As a guide, net cash from operating activities before capital expenditures came to €61.3 million at December 31, 2007. Equity attributable to the Group's shareholders stood at €307 million, and net debt at €191.8 million.

V - PRESENTATION OF THE LIKELY IMPACT OF THE STOCK REPURCHASE PROGRAM ON CARBONE LORRAINE'S FINANCIAL SITUATION

Calculations of the impact of the program on the Group's financial statements were made assuming the repurchase of 10% of the share capital based on Carbone Lorraine's share capital at December 31, 2007.

The other assumptions were as follows:

- interest expense estimated at the gross annual rate of 4.3%;
- unit repurchase price of €33.96, the average closing price for sessions between January 14 and February 11, 2008;
- theoretical tax rate: 33%.

On this basis, the impact of the stock repurchase program on the Group's consolidated financial statements would be as follows:

In millions of euros	Consolidated financial statements at Dec. 31, 2007	Impact of the repurchase of 10% of the share capital	Pro forma after the repurchase of 10% of the share capital	Impact of the repurchase *In%*
Equity attributable to Group shareholders	307	-49.9	257	-16.3%
Total equity	303	-49.9	253	-16.5%
Net debt	192	48.5	240	+25.3%
Total number of shares outstanding at Dec. 31	14,280,735	1,428,073	12,852,662	-10.0%
Net income attributable to Carbone Lorraine's shareholders	**16.3**	**-1.4**	**14.9**	**-8.6%**
Earnings per share	**1.14**	**-0.98**	**1.16**	**+1.6%**

VI – TAX TREATMENT OF STOCK REPURCHASES

1) For Carbone Lorraine

The repurchase by Carbone Lorraine of its own shares as part of the present program without cancellation of the shares would have an impact on its taxable income if the shares were sold or transferred at a price other than their repurchase price. Taxable income would then be affected by the capital gain or loss arising.

2) For shareholders selling their shares

Capital gains tax applies to the present repurchase program (Article 112-6 of the French General Tax Code). Gains realized by legal entities subject to French corporate income tax incur business capital gains tax, in line with Article 39 *duodecies* of the French General Tax Code. Gains realized by individuals in France are subject to the disposal gains on securities or corporate rights regime provided for in Article 150-0-A of the French General Tax Code. Under this regime, capital gains are taxable in France only if the aggregate annual amount of assets sold by the shareholder whose shares are repurchased exceeds €20,000 for 2007 and €25,000 from January 1, 2008. The tax rate stands at 16% or 27% including social security contributions in 2007 and at 18% or 29% including social security contributions, from January 1, 2008. Gains are not liable to this tax in France when realized by individuals not domiciled in France for tax purposes or by entities having a head office located outside France (and with no permanent establishment in France holding the shares on its balance sheet), without the former at any time having owned directly or indirectly, alone or with family members, a shareholding of over 25% in rights to the Company's corporate profits at any time whatsoever during the five years preceding the sale (Article 244 *bis* C of the French General Tax Code).

VII - INTERVENTION BY THE PERSON(S) CONTROLLING THE ISSUER ALONE OR IN CONCERT

No individual or legal entity controls Carbone Lorraine either alone or in concert.

VIII - BREAKDOWN OF OWNERSHIP OF CARBONE LORRAINE'S SHARE CAPITAL AT DECEMBER 31, 2007

Carbone Lorraine's share capital is divided into 14,280,735 shares, each with a nominal value of €2, ownership of which at December 31, 2007 was as follows based on the information received by Carbone Lorraine:

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2007

Shareholders	Number of shares	% of the share capital	% of voting rights
Free float, comprising:	14,280,735	100	100
- employee shareholders	214,248	1.5%	1.5%
- individual shareholders	3,855,835	27%	27%
- French institutional investors	3,598,597	25.2%	25.2%
- international institutional investors	6,569,176	46%	46%
Treasury shares (liquidity agreement)	41,216	0.3%	0.3%
TOTAL	**14,280,735**	**100**	**100**

To the best of the Company's knowledge, no shareholders other than Columbia Wanger Asset Management L.P. hold more than 5% of the Company's share capital and voting rights.

No shareholders' agreement is in place.

Taking into account the stock subscription options granted under the 1995 to 2007 plans still outstanding at December 31, 2007 a total of 388,117 new shares may still be issued. The information concerning Carbone Lorraine's stock subscription options is shown on pages 125 to 127 of this reference document.

IX - PERSONS RESPONSIBLE FOR THE INFORMATION MEMORANDUM

To the best of our knowledge, the information provided in this information memorandum is true and accurate. It provides all the information required for investors to make an informed judgment of Carbone Lorraine's stock repurchase program.

There are no omissions liable to impair its significance.

CORPORATE GOVERNANCE

COMPOSITION OF THE BOARD OF DIRECTORS AT MARCH 18, 2008

Name	Date of first appointment	Most recent renewal date	End of term of office	Number of shares or BSAAR held in Carbone Lorraine's share capital*	Other positions held
Claude Cocozza DoB: June 1, 1947 Chairman and Chief Executive Officer	June 8, 1993	May 24, 2007	2013 Annual General Meeting	8,306(1) 16,500(2)	**Director and Chairman of:** Carbone Lorraine North America, Ugimag SA **Chairman of the Management Board of:** Compagnie Financière Thivent (CFT) **Director of:** Sofacel
Hervé Couffin DoB: October 26, 1951 Director, Chairman of the Audit and Accounts Committee Members of the Appointments and Remuneration Committee	May 22, 1995	May 24, 2007	2013 Annual General Meeting	150(1) 13,000(2)	**Chairman and Chief Executive Officer of:** Callisto **Managing Partner of:** HC Conseil **Director of:** Antargaz, Ipsen, Neuf Cegetel and Compagnie Franco-Tunisienne des Pétroles (Tunisia) **Former Director of:** Gerflor, Ceva, Coparex
Jean-Paul Jacamon DoB: August 5, 1947 Director, Chairman of the Appointments and Remuneration Committee Member of the Strategy Committee	Jan. 22, 2003	May 24, 2007	2013 Annual General Meeting	148(1) 8,000(2)	**Director of:** Tockheim **Chairman of the Supervisory Board of:** Cameron France **Former Director of:** Alcan, Amec
Jean-Claude Karpeles DoB: June 15, 1940 Director, Member of the Audit and Accounts Committee	April 6, 1999	May 12, 2005	2011 Annual General Meeting	1,346(1) 5,000(2)	**General delegate of:** Gimelec **Manager of:** Elec Promotion SARL and Gimelec Promotion SARL **Director of:** CPI Media, Paris region development and urban planning institute **Chairman of the Supervisory Board of:** SA du Château de Campuget **Chairman of:** ELEN (Électricité Environnement) **Member of:** the Paris Chamber of Commerce and Industry - Hauts-de-Seine department
Agnès Lemarchand DoB: December 29, 1954 Director Member of the Strategy Committee Member of the Appointments and Remuneration Committee	May 24, 2007		2013 Annual General Meeting	120(1) 4,000(2)	**Chairman and Director of:** Steetley Dolomite Ltd.

Name	Date of first appointment	Most recent renewal date	End of term of office	Number of shares or BSAAR held in Carbone Lorraine's share capital*	Other positions held
Henri-Dominique Petit DoB: July 3, 1948 Director Member of the Appointments and Remuneration Committee	May 24, 2007		2013 Annual General Meeting	120(1) 2,000(2)	**Chairman and Chief Executive Officer of:** Sperian Protection (formerly Bacou Dalloz) **Director of:** Sperian Protective Apparel Ltd (Canada), Sperian Protection USA Inc. (US), Respiratory Protection de Sperian S. de RL de CV (US), Bacou-Dalloz Safety Inc. (US), Sperian Eye & Face Protection Inc. (US), Sperian Protection Instrumentation LLC (US), Glendale Protective Technologies Inc. (US), Sperian Protection Investment Inc. (US), SP USA Finance Inc. (US), Sperian Fall Protection Inc. (US), Sperian Protective Apparel USA LLC (US), BMP I Inc. (US), Sperian Fall Arrest Systems Inc. (US), Sperian Protective Gloves USA LLC (US), Sperian Metal Mesh Protection USA Inc., Sperian Protection Americas Inc. (US) Sperian Hearing Protection LLC (US), Sperian Protection Optical Inc. (US), Chesapeake Corp. (US)
Walter Pizzaferri DoB: August 20, 1957 Director, Chairman of the Strategy Committee	April 6, 1999	May 12, 2005	2011 Annual General Meeting	240(1)	**Chairman and Chief Executive Officer of:** Akeance Industries **Manager of:** Tercara, Les Verrières de Montagnac, L'Observatoire de l'Innovation dans l'Énergie
Philippe Rollier DoB: February 19, 1943 Director Member of the Audit and Accounts Committee	May 24, 2007		2013 Annual General Meeting	120(1) 5,000(2)	**Director of:** Moria SA, Sperian Protection (formerly Bacou Dalloz), Sonoco (USA), Monier **Manager of:** Cybèle

** In accordance with Article 17 of the Articles of Association, each director must hold at least 120 shares for the entire duration of his or her term of office. These shares must be held in registered form.*
(1) Number of shares held
(2) Number of BSAAR held

SUMMARY BIOGRAPHIES OF THE DIRECTORS

CLAUDE COCOZZA

A graduate of the École Polytechnique and a qualified Ponts et Chaussées engineer, Claude Cocozza began his career at the French infrastructure ministry, before joining the Paris port authority, which he directed from 1978 to 1981. He then moved on to the Pechiney group, where he held various responsibilities, notably as a member of the Aluminium department's executive committee. After developing Aluminium Pechiney's speciality activities, he took over Pechiney's zirconium and titanium department and was appointed chairman and chief executive officer of Cezus, an industrial subsidiary, in January 1990. In April 1993, he joined the Carbone Lorraine group as Chief Executive Officer, and was later named Chairman and Chief Executive Officer in March 1997.

HERVÉ COUFFIN

A graduate of the École Polytechnique and a qualified Corps des Mines engineer, Hervé Couffin started his career working for the French industry ministry. He joined the Paribas group in 1983 as director responsible for principal investments. He became a member of Paribas Principal Investments' executive committee in 1993, before being named senior partner and member of PAI Partners' executive committee until 2004. In 2005, he founded Callisto, a company providing financial advice to senior management teams in relation to LBO transactions, and is its chairman and chief executive officer.

JEAN-PAUL JACAMON

A graduate of the École Polytechnique and École des Mines, Jean-Paul Jacamon joined Schneider Electric in 1981, having begun his career with the French industry ministry and Datar. He became chairman and chief executive officer of Spie-Trindel and Spie Enertrans, before being named senior executive vice president of Spie Batignolles in 1993. In 1995, he was appointed

CEO of the European division, then CEO in 1996. From 1999 to 2002, he was vice-chairman and chief operating officer of Schneider Electric. Since then, he has been a nonexecutive director of several companies and is senior advisor to Cognetas, a private equity fund.

JEAN-CLAUDE KARPELES

A graduate of the École Supérieure d'Ingénieur in electrical and electronic engineering, with an MBA from EDHEC and a postgraduate degree in economics, Jean-Claude Karpeles began his career as an administrator with the European Commission in 1963. He was then responsible for international affairs for the electrical and electronics industries and, in this role, he created and managed several export consortiums. In 1981, he was appointed as the General Delegate at Gimelec and General Delegate of the French electrical and electronics industry in 1991, a position that he held until 2007. At the same time, he was named by the French finance ministry as Chairman of Actim in 1986 then of CFME Actim and UbiFrance, organizations promoting French foreign trade, until 2004. He is also chairman of ELEN (electricity and the environment) and director of the CPI Media press group and manager and CEO of Elec Promotion.

AGNÈS LEMARCHAND

Following advanced scientific engineering training at the ENS Chemistry school in Paris and then at MIT in Boston, Agnès Lemarchand gained an MBA from INSEAD. She began her career in industry with Rhône-Poulenc. She was chairman and chief executive officer of Prodical (at that time a subsidiary of Ciments Français), before joining the Lafarge group as director of strategy for Lafarge-Specialty Materials and becoming chairman and chief executive officer of Lafarge-Chaux. After overseeing the disposal of the lime business for Lafarge, she acquired Steetley Dolomite Ltd (UK) from the group in a MBO and has been its Executive Chairman ever since.

HENRI-DOMINIQUE PETIT

Currently chairman and chief executive officer of Sperian Protection (formerly Bacou-Dalloz), a company listed in Paris, Henri-Dominique Petit has spent his entire career in industry. After high-level scientific training (Ecole Supérieure de Physique et de Chimie in Paris, followed by a postgraduate degree in nuclear physics and a PhD in particle electronics at Orsay university) and three years of research, Henri-Dominique Petit joined Kodak in Paris, a group with which he has spent the bulk of his career. He has held a wide variety of positions in France (purchasing, production, marketing and sales) and in the rest of the world (divisional manager in London, then president of the cinema and television division in Los Angeles, European president of Eastman Kodak, based in London, COO of the Consumer Imaging division based in the US and, lastly, president of Eastman Kodak Asia-Pacific based in Shanghai). He took over at the helm of Bacou-Dalloz in 2004 and has consolidated on the group's merger and international development.

WALTER PIZZAFERRI

Walter Pizzaferri is the founder and manager of Tercara, a company that invests in advisory firms and innovative SMEs. He is also a founder and chairman of Akeance Industries, a management consulting firm specialized in growth and innovation strategies for the automobile, transportation and energy sectors. After spending over 25 years working in strategic and organization consulting for the leading firms (Orga Consultants, KPMG Peat Marwick, Bain & Co.) and as the founder and chief executive officer of US and UK-based firms (PRTM, JSA), Walter Pizzaferri was a partner for seven years at Stratorg, where he was responsible for the automobile sector and international development. A lecturer at HEC Entrepreneurs, he also set up and directed the Observatoire de l'Innovation Automobile and the Observatoire de l'Innovation dans l'Énergie, observatories monitoring innovation in the automobile and energy sectors, with the support of industry leaders.

PHILIPPE ROLLIER

A graduate of the Institut National Agronomique Paris-Grignon and of Sciences-Po in Paris, Philippe Rollier has spent his entire career with the Lafarge group, including 15 years abroad.

From 1980 to 1995, he directed two of Lafarge's diversification subsidiaries: Allia (sanitary ceramics) and Orsan (biotechnologies). He then became executive vice president for Central and Eastern Europe. In 1999, he was appointed as chief operating officer of the Lafarge group. And from 2001 to 2006, he served as chairman and CEO of Lafarge North America, which is based in Washington.

He is a director of Sonoco Products (US), Sperian Protection, Moria SA, Monier SA and of the Charter Committee. He is also a member of Financière Grégoire's supervisory board.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD OF DIRECTORS

Until May 24, 2007(1)	Since May 24, 2007(1)
Claude Cocozza(2)	Claude Cocozza(2)
Jean-Pierre Capron(3)	Hervé Couffin(3)
Robert Chauprade(3)	Jean-Paul Jacamon(3)
Hervé Couffin(3)	Jean-Claude Karpeles(3)
Jean-Paul Jacamon(3)	Agnès Lemarchand(3)
Jean-Claude Karpeles(3)	Henri-Dominique Petit(3)
Walter Pizzaferri(3)	Walter Pizzaferri(3)
Ervin Rosenberg(3)	Philippe Rollier(3)

(1) *2007 Annual General Meeting*
(2) *Chairman and Chief Executive Officer*
(3) *Independent director*

A director is said to be independent where he or she has no direct or indirect link with Carbone Lorraine, such as being an employee, chairman, chief executive officer or major shareholder, and is not affiliated in any way with a major shareholder or affiliated with a major and/or usual trading or financial partner of the company.

The Board of Directors has eight members, seven of whom are independent directors. The Board met ten times during 2007. The average attendance rate at the Board's meetings stood at 89%.

At each meeting, the Board reviewed trends in the Group's sales and earnings. The Board approved the interim and annual financial statements after meeting with the Statutory Auditors.

The Board conducted a review of the strategy proposed by each division. It reviewed the work of a strategy consultant concerning the possibilities for expansion by the Group into markets adjacent to its existing markets.

The Board was also kept informed of progress made by the principal organic growth projects it had previously authorized. It approved the guarantees required to finance them.

The Board approved the restructuring plan for the brushes for electric motors activities in Europe. The aim of the plan is to pool the brushes for industrial motors business at the Amiens facility and to transfer to Frankfurt (Germany) and Chennai (India) the brush activities for automobile and household electrical appliances. This transfer is expected to take place over around four years to curb substantially its social impact and the relevant costs.

The Board gave its approval to the terms for the acquisition of General Electric's medium-voltage fuse business.

The Board also gave its approval to the launch of the sale process for the rail and motorcycle sintered brakes activities through competitive bidding. It decided to recommend the bid submitted by Faiveley, which appeared to meet most closely the interests of the Group and the business being sold.

Upon a proposal submitted by the Appointments and Remuneration Committee, and in accordance with the authorization granted at the Combined General Meeting of May 24, 2007, the Board of Directors decided to grant 30 of the Group's senior managers options enabling them to subscribe 165,000 shares at a price of €57.24 per share, provided that a target of growth in earnings per share is achieved.

Based on a proposal tabled by the Appointments and Remuneration Committee, the Board decided to offer employees of the Group's European and North American companies the opportunity to acquire 69,800 shares at a price of €45.80 per share, in accordance with the authorization granted to it by shareholders at the Combined General Meeting of May 24, 2007.

In accordance with the authorization granted at the Combined General Meeting of May 24, 2007, the Board decided to carry out a €40 million issue of bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds). This issue gave the Company new financial resources to cover its general funding needs on extremely competitive terms and enabled it to share the benefits of its performance with managers, officers and directors who so desired, through the sale of the warrants at a market price set by an independent assessor.

The Board ratified the proposals submitted by the Appointments and Remuneration Committee concerning the compensation and benefits payable to Executive Committee members and changes to their top-up pension plan in order to bring these into line with the market.

The Board altered certain clauses in its internal charter to bring it into line with updated corporate governance recommendations.

The Board adopted the Appointments and Remuneration Committee's proposal to conduct an evaluation of the Board's procedures using the same approach as in previous years. It consisted in an independent director designated by the Board holding individual interviews with each of the other directors. The conclusions of these meetings helped to assess the current procedures and to establish areas for improvement. The decision was made to continue the program at the beginning of 2008.

The Board of Directors coopted three new directors presented to it by the Appointments and Remuneration Committee as replacements for three directors who did not wish or are unable to have their term of office renewed after the 2007 Annual General Meeting.

Lastly, the Board of Directors evaluated the performance of executive management.

COMMITTEES SET UP BY THE BOARD OF DIRECTORS

AUDIT AND ACCOUNTS COMMITTEE

Members of the Audit and Accounts Committee

Until May 24, 2007[1]	Since May 25, 2007[2]
Jean-Pierre Capron[3]	Hervé Couffin[3]
Hervé Couffin	Jean-Claude Karpeles
Jean-Claude Karpeles	Philippe Rollier

(1) 2007 Annual General Meeting
(2) Board of Directors Meeting
(3) Chairman

The Audit and Accounts Committee comprises three independent directors. It met five times during 2007. The attendance rate at the Audit and Accounts Committee's meetings stood at 100%.

The Committee conducted an in-depth review of the Group's consolidated financial statements and gave its seal of approval to the publication of the interim and annual reports after making the improvements that it deemed necessary. To this end, it met with the Statutory Auditors on several occasions, both with and without management.

The Committee approved the audit program for 2007. It comprised audit assignments at 15 manufacturing facilities, including one follow-up audit to ensure that the action plans drawn up after previous audits had been implemented. Three cross-functional assignments spanning the entire Group were also carried out. The first assignment examined application of the competition law compliance program, while the other two focused on the terms under which contracts were terminated and catalogued the various top-up pension plans covering the Group's senior executives.

The Committee studied the features of the bids received in connection with the plan to sell the rail and motorcycle sintered brakes business. It recommended that the Board of Directors should take up the offer submitted by Faiveley.

The Committee also issued a favourable opinion on the arrangements for the issue of the OBSAAR bonds with warrants, before the plan was presented to the Board.

Lastly, the Committee examined the work performed by the Risk and Internal Audit department, notably including efforts to prepare for the new environmental regulations due to be adopted in the European Union.

In addition, the Committee decided that the Group would conduct its third risk mapping assignment during the first half of 2008.

STRATEGY COMMITTEE

Members of the Strategy Committee

Until May 24, 2007[1]	Since May 25, 2007[2]
Walter Pizzaferri[3]	Walter Pizzaferri[3]
Robert Chauprade	Claude Cocozza
Claude Cocozza	Jean-Paul Jacamon
Jean-Paul Jacamon	Jean-Claude Karpeles
	Agnès Lemarchand

(1) 2007 Annual General Meeting
(2) Board of Directors Meeting
(3) Chairman

The Strategy Committee comprises five members, four of whom are independent. It met three times during 2007. The attendance rate was 100%.

The Committee reviewed the Group's strategic business portfolio and contributed to senior management's analysis of the possible strategic options. In particular, it reviewed the various possible options for the braking business and proposed to the Board that it should approve the sale option envisaged by management. It also examined in detail the Group's possible expansion into a new adjacent segment. This possibility was considered by management as a result of a major acquisition opportunity. Since it was not possible to seize this opportunity during the year, interest in this adjacent segment was abandoned because the Group would have been unable to acquire a leadership position rapidly. The work initiated during 2006 was continued in other segments. The Committee also conducted a detailed review of the divisions' strategy, as it does every year. It familiarized itself with the opportunities arising for the Group through developments in sustainable energies and energy efficiency.

Lastly, the Committee examined several acquisition plans, one of which was completed in late 2007, while others are still at the negotiation stage.

APPOINTMENTS AND REMUNERATION COMMITTEE

Members of the Appointments and Remuneration Committee

Until May 24, 2007[1]	Since May 25, 2007[2]
Robert Chauprade[3]	Jean-Paul Jacamon[3]
Claude Cocozza	Hervé Couffin
Hervé Couffin	Agnès Lemarchand
Jean-Paul Jacamon	Henri-Dominique Petit

(1) 2007 Annual General Meeting
(2) Board of Directors Meeting
(3) Chairman

The Appointments and Remuneration Committee has four members, all of whom are independent. Claude Cocozza has no longer been a member of the Appointments and Remuneration Committee since 2007. He attends meetings concerning issues that do not concern him, but does not have a vote.

The Committee met six times during 2007. The average attendance rate at the Appointments and Remuneration Committee's meetings stood at 95%.

The Committee worked hard during 2006 to prepare succession plans for three directors, as stated in the 2006 annual report. It completed its efforts at the beginning of 2007, by selecting the names of three candidates, which it proposed to the Board should be submitted for shareholders' approval at the Annual General Meeting.

The Committee examined on several occasions the medium- and long-term financial incentives for the Group's managers and prepared recommendations for the Board. These resulted in different policies for the grant of stock options (reserved for senior managers given the higher risks, and with a view to limiting shareholder dilution) and for bonus share allotments (principally intended to secure the loyalty of managers and to reward managers who have achieved very good results). The lists of beneficiaries are mutually exclusive. It issued recommendations to the Board of Directors concerning the corresponding resolutions to be submitted to the Annual General Meeting. Since the Board wanted to issue stock options and allot bonus shares alternately to curb the accounting cost, the Appointments and Remuneration Committee proposed a list of stock option beneficiaries for 2007 in line with the principles stated above.

Following discussions concerning medium- and long-term financial incentives, the Appointments and Remuneration Committee asked executive management to submit to it an update of the Group's entire compensation and benefits policy, which was done in autumn 2007. This review enabled the Appointments and Remuneration Committee to acknowledge formally that all the financial tools used to promote motivation are used correctly by the Group and are in line with market practices. In particular, the Group's policy is to pay fixed compensation and benefits slightly below the market level and bonuses that may exceed the market norm depending on the results achieved, so that the overall package is attractive.

As part of its review of executive motivation, the Appointments and Remuneration Committee also examined, with the assistance of a specialized consultant, the top-up pensions covering Executive Committee members. Too wide a gap with other companies would become a demotivating factor. It noted that the level of Carbone Lorraine's packages was fairly significantly below the market, with an increase of 15% in the average level of compensation and benefits over the past three years, compared with 20-25% for the market at large. The Committee submitted a proposal to the Board, which approved it, that the Group should align itself with the lower end of the range and differentiate additions based on length of service in the Group (10% after 10 years, 15% after 15 years, 20% beyond). This change, which took place during the first quarter of 2007, was mentioned for transparency's sake at the May 2007 Annual General Meeting.

As part of the package of medium- to long-term financial incentives, the Appointments and Remuneration Committee also examined and submitted to the Board proposed terms for an increase in capital reserved for employees. This transaction was completed in fall 2007.

The important tasks carried out during the year included the Appointments and Remuneration Committee's work on succession planning for members of the Executive Committee, including the Chairman. It examined the various possible internal candidates. Evaluations were carried out by external firms to identify areas in which potential candidates need to improve, leading to training and development plans being drawn up. The Committee also approved the Chairman's proposal concerning the profitable growth strategy. Lastly, it formally acknowledged that the Group has high-quality internal resources that should enable it to execute successfully its profitable growth strategy.

As part of its annual tasks, the Appointments and Remuneration Committee also addressed the following points:

- assessment of directors' independence. The Committee deemed that all the directors, with the exception of the Chairman, are independent as defined by the Bouton report on corporate governance;
- definition of the 2006 bonuses. Bonuses were set based on accounting results and personal achievements during 2006;
- setting of personal targets and bonus for 2007. The Appointments and Remuneration Committee examined and approved the Chairman's proposals and set the latter's targets for 2007;
- review of how the Executive Committee's C&B package compares to the market norm. The Committee made a proposal to the Board to increase the salaries of certain Executive Committee members based on this comparison;
- preparation of the Committee's 2008 work program.

EXECUTIVE COMMITTEE

Members of the Executive Committee

Claude Cocozza

Chairman and Chief Executive Officer

Ernest Totino

Senior Executive Vice President

Bernard Leduc

Director of Human Resources, Quality and Continuous Improvement

Marc Renart

Group Vice President, Electrical Protection

Jean-Claude Suquet

Group Vice President, Finance and Administration

Luc Themelin

Group Vice President, High-Temperature applications and Braking

The Executive Committee comprises six senior managers whose role is to run and supervise the Group's day-to-day operations. It met once every month. It conducted a detailed analysis of the monthly earnings and cash generation trends at each division and examined the remedial measures implemented where actual performance fell short of budget. Each divisional management team gave at least one detailed presentation to the Executive Committee during the year of its position and how it planned to improve.

The Executive Committee also controlled the progress made by expansion projects currently being implemented. In addition, it:

- discussed and adopted the Group's divisional budgets;
- defined the investment program and authorized spending on each major investment project;
- studied the strategic options for the Group's various divisions. The Executive Committee also analyzed the surveys made by strategy consultants concerning potential acquisition targets with a view to stepping up the pace of organic growth;
- studied the various plans to acquire or dispose of companies and businesses;
- reviewed the major research and development priorities being explored with the divisional heads of Marketing and of Research and Development;
- examined management succession plans for the Group's divisions and main subsidiaries: and mapped out desirable career opportunities for its key executives and new skills that they first need to acquire;
- continued to pursue the Group's safety policy. The Executive Committee visited a manufacturing facility to work on safety issues with the local management team;
- analyzed the operation of the Executive Committee and made improvements.

COMPENSATION AND BENEFITS

DISCLOSURE OF DIRECTORS' REMUNERATION IN ACCORDANCE WITH ARTICLE L. 225-102 OF THE FRENCH COMMERCIAL CODE

The aggregate amount of compensation and benefits of all kinds paid during fiscal 2007 to the 11 directors of Le Carbone-Lorraine, including the Chairman and Chief Executive Officer, came to €883,251, which breaks down as follows:

- remuneration paid to the members of the Board of Directors (excluding the Chairman and Chief Executive Officer): €150,000 in directors' fees, allocated on a *pro rata* basis to members of the Board of Directors according to their attendance at Board meetings and the various Committees run by the Board of Directors. These directors' fees will be paid in 2008. They will be allocated between the ten members of the Board of Directors as follows:

In euros	2007	2006
Jean-Pierre Capron	9,717	23,643
Robert Chauprade	14,385	26,879
Hervé Couffin	29,954	27,157
Jean-Paul Jacamon	21,662	22,678
Jean-Claude Karpeles	21,128	18,587
Agnès Lemarchand	9,295	
Henri-Dominique Petit	7,482	
Erwin Rosenberg	5,814	10,840
Walter Pizzaferri	18,479	20,215
Philippe Rollier	12,084	
TOTAL	**150,000**	**150,000**

- remuneration paid to the Chairman and Chief Executive Officer:

Gross amount in euros	2007	2006
Basic salary	380,000	380,000
Performance-related bonus	276,070	342,000
Bonus as a % of the basic salary	72.5	90
Benefits in kind	11,560	11,251
Directors' fees	0	0
TOTAL	**667,630**	**733,251**

Nota 1: The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
Nota 2: Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

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

During 2007, 25,000 stock subscription options were granted to the Chairman and Chief Executive Officer.

COMPENSATION PAID TO COMPANY OFFICERS (EXECUTIVE COMMITTEE MEMBERS) WHO ARE NOT DIRECTORS

Gross amounts in euros	2007	2006
Basic salaries	897,000	868,000
Performance-related bonuses	554,419	621,559
Benefits in kind	21,663	20,622
TOTAL	**1,473,082**	**1,489,559**

Nota 1: The bonus, which varies between 0% and 80 or 90% of the basic salary, is paid in year n+1.
Nota 2: Benefits in kind correspond to a company car.

Recommendations concerning basic salaries are made to the Board of Directors by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on current market rates.

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

- the Group's Economic Value Added (EVA) targets (operating income after tax less the cost of capital employed);
- the Group's ROCE targets set based on the average posted by a sample of 25 industrial companies;
- certain individual targets.

The members of the Executive Committee, including the Chairman and Chief Executive Officer qualify for top-up pension payments. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows: provided that the relevant person is still employed by the Group upon their retirement, this regime guarantees top-up pension income of 10-20% depending on length of service of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.

During 2007, 25,000 stock subscription options were granted to the Chairman and CEO. The number of stock subscription options granted to Company officers other than the Chairman and CEO stood at 50,000.

AGREEMENTS REGULATED BY ARTICLE L. 225-38 OF THE FRENCH COMMERCIAL CODE

None.

LOANS AND GUARANTEES GRANTED TO OFFICERS AND DIRECTORS

None.

EMPLOYEE INCENTIVE AGREEMENTS

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

In thousands of euros	2007	2006	2005	2004	2003
Amounts allocated to employees	2,492	2,233	3,267	2,493	2,577
Number of beneficiaries	1,600	1,860	2,701	2,526	2,240

EMPLOYEE PROFIT-SHARING

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

In thousands of euros	2007	2006	2005	2004	2003
Amounts allocated to employees	2249	2,219	1,082	1,520	1,278
Number of beneficiaries	1423	1,498	973	720	1,336

GROUP INVESTMENT PLAN – OPTIONS AND BONUS SHARES

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

STOCK SUBSCRIPTION OPTIONS

At the Extraordinary General Meetings since 1995, shareholders have authorized the Board of Directors to grant, on one or more occasions, stock subscription options to all or some of the Company's officers or those of affiliated companies. The employee categories benefiting from these options are to be determined by the Board of Directors each time that it makes use of the authorization.

Since 1995, upon the proposal of the Appointments and Remuneration Committee, the Board of Directors has regularly offered certain Group managers the possibility of subscribing 700,072 options (after taking cancellations into account).

In 2007, 90,000 stock subscription options were granted to 24 managers who do not sit on the Executive Committee.

During 2007, 240,266 options were exercised at a weighted average exercise price of €34.81.

The total number of stock subscription options still outstanding stands at 388,117, i.e. 2.7% of the share capital. Members of the Board of Directors have no options to purchase or to subscribe shares in subsidiaries of the Group.

GROUP INVESTMENT PLAN

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

At the Combined General Meeting of May 24, 2007, the Board of Directors was authorized to increase the share capital, on one or more occasions, through the issue of shares reserved for employees participating in the Group Investment Plan. The maximum nominal amount authorized was €140,000. This authorization, which replaced and superseded the authorization granted at the Combined General Meeting of May 12, 2005 and was used in part by the Board of Directors on October 14, 2006, was valid until July 23, 2009.

The Board of Directors made use of this authorization on July 25, 2007 by opening the subscription period for a reserved capital increase leading to the issuance of 69,800 new shares at a price of €45.80. At the close of the subscription period, 44,094 new shares were issued, representing an increase in the share capital of €2,019,505.20 and an issue premium of €1,931,317.20. These shares carry dividend rights from January 1, 2008.

PREVIOUS ISSUES OF STOCK 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	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	
Total number of shares available for subscription	190,025	449,145	9,370	4,685	130,163	165,000	1,088,297
o/w directors	*15,617*	*31,234*	*0*	*0*	*9,370*	*25,000*	*94,235*
o/w top 10 allottees	*70,931*	*149,922*	*9,370*	*4,685*	*44,825*	*72,250*	*417,057*
Subscription price	34.58	45.14	46.01	48.5	21.21	57.24	
Start of exercise period	March 2004	May 2005	Sept. 2005	Jan. 2006	May 2007	July 2011	
Expiration date	March 2009	May 2010	Sept. 2010	Jan. 2011	May 2013	July 2017	
Total number of shares subscribed at Dec. 31, 2007	96,021	43,628	0	0	42,158	0	311,955
Options cancelled by Dec. 31, 2007	32,538	288,483	6,246	3,123	48,074	0	388,225
o/w canceled in 2007	*0*	*0*	*0*	*0*	*0*	*0*	*0*
OPTIONS THAT MAY STILL BE EXERCISED	**61,466**	**117,034**	**3,124**	**1,562**	**39,931**	**165,000**	**388,117***

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

STOCK OPTIONS: DIRECTORS

	Number of options granted/subscribed	Price	Expiration date
Options granted during fiscal 2007 to each director Chairman and CEO	25,000	57.24	July 2017
Options exercised during fiscal 2007 by each director Chairman and CEO	13,014	36.36	June 2007

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

	Number of options granted/ subscribed	Weighted average exercise price	1997 plan Tranche 3	1999 plan Tranche 5	1999 plan Tranche 6	2003 plan Tranche 10
Options granted during fiscal 2007 to the 10 employees holding the largest number of options	72,250					
Options exercised during fiscal 2007 by the 10 employees that have subscribed the largest number of options	101,564	34.48	31,133	36,800	16,035	17,596

BONUS SHARE ALLOTMENTS

At the Extraordinary General Meeting of May 12, 2005, shareholders authorized the Board of Directors on one or more occasions to allot 50,000 bonus shares to all or some of the Company's officers or those of affiliated companies. The employee categories benefiting from these bonus shares are to be determined by the Board of Directors each time that it makes use of the authorization. The authorization is valid for a period of 38 months.

Based on a proposal submitted by the Appointments and Remuneration Committee, the Board of Directors made use of this authorization during fiscal 2005 and 2006:

- in a decision on June 30, 2005, it allotted 42,700 bonus shares to around sixty of the Group's senior managers. The allotment of shares was contingent upon attainment of 2005 operating margin and operating income growth targets by the Group. Given the only partial attainment of these objectives, 32,025 shares (i.e. 75% of the initial allotment) were allotted in the end;
- in a decision made on June 28, 2006, the remaining balance authorized, i.e. 17,975 bonus shares were allotted to around thirty managers that the Group wanted to reward and retain. These shares will vest with their beneficiaries only if the latter are still Group employees two years after the date of allotment of the shares by the Board of Directors.

No new bonus shares were allotted during 2007.

PREVIOUS BONUS SHARE ALLOTMENTS

	2005 plan Tranche 1	2006 plan Tranche 2	Total
Date of Board of Directors' meeting	June 30, 2005	June 28, 1997	
Total number of shares allotted	42,700	17,975	60,675
o/w directors	*3,300*	*0*	*3,300*
o/w Executive Committee	*12,000*	*0*	*12,000*
o/w top 10 allottees	*16,500*	*5,001*	*21,501*
Share price at allotment date	39.25	40.07	
Definitive allotment date	July 1, 2007	July 1, 2008	
End of lock-up period	July 1, 2009	July 1, 2011	
Allotments canceled at Dec. 31, 2007	11,800	998	12,798
o/w canceled in 2007	*750*	*499*	*1,249*
Balance at December 31, 2007	30,900	16,977	47,877

BONUS SHARE ALLOTMENTS TO DIRECTORS

	Number of shares allotted/subscribed
Shares allotted during fiscal 2007 to each director	
Chairman and CEO	0
Shares allotted during fiscal 2007 to each director	
Chairman and CEO	0

BONUS SHARES ALLOTTED TO THE 10 EMPLOYEES (NOT DIRECTORS) WHO RECEIVED THE LARGEST NUMBER

	Number of shares allotted/subscribed
Shares allotted during fiscal 2007 to the 10 employees holding the largest number of options	0
Options exercised during fiscal 2007 by the 10 employees that have subscribed the largest number of options*	0

** After taking into account the cancellation of 1/4 of the shares.*

FEES PAID TO THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS BY THE GROUP

	2007				2006			
	Deloitte		KPMG		Deloitte		KPMG	
In thousands of euros	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
- Statutory audit, certification, review of the individual and consolidated financial statements	618	68%	552	87%	607	86%	565	88%
- Other accessory and audit assignments	239	27%	63	10%	26	4%	30	5%
SUB-TOTAL	**857**	**95%**	**615**	**97%**	**633**	**90%**	**565**	**93%**
Other services, etc								
- Legal, tax law, labor law	44	4%	5	1%	22	3%	31	5%
- Other (state where > 10% of audit fees)	6	1%	14	2%	51	7%	15	2%
SUB-TOTAL	**50**	**5%**	**19**	**3%**	**73**	**10%**	**46**	**7%**
TOTAL	**907**	**100%**	**634**	**100%**	**706**	**100%**	**641**	**100%**

SHARES IN THE COMPANY'S CAPITAL HELD BY DIRECTORS AND OFFICERS

The directors and officers directly hold 24,131 shares.

The Company officers hold a total of 10,286 shares through the Carbone Lorraine FCPE (corporate mutual fund).

Directors and Company officers hold 80,400 warrants (BSAARs), entitling them to subscribe an equivalent number of shares at a price of €58.49 per share out to November 2012.

In accordance with Article 17 of the Articles of Association, each director must hold at least 120 shares for the entire duration of his or her term of office. These shares must be held in registered form.

CHAIRMAN OF THE BOARD OF DIRECTORS' REPORT ON INTERNAL CONTROL

This report was prepared by the Chairman of the Board of Directors in accordance with the provisions of Article L. 225-37 of the French Commercial Code for the fiscal year ended December 31, 2007.

Under the responsibility of the Board, it is incumbent upon management to determine and implement appropriate and effective internal control procedures. In accordance with the law, the purpose of this report is to present the preparations made for and organization of the work performed by the Board of Directors and any restrictions that the Board of Directors has placed on the powers of the Chairman and Chief Executive Officer, as well as the internal control procedures in place within the Carbone Lorraine group.

PREPARATION AND ORGANIZATION OF THE WORK PERFORMED BY THE BOARD OF DIRECTORS

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

RESTRICTIONS THAT THE BOARD OF DIRECTORS HAS PLACED ON THE POWERS OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and Chief Executive Officer is invested with the power to act in all circumstances on behalf of the Carbone Lorraine group and to represent it in its dealings with third parties. The Board of Directors' regulations stipulate, however, that certain decisions must be submitted for prior authorization by the Board of Directors in the following areas:

- Investments/disposal projects;
- Strategic priorities;
- Capital increases;
- Settlements and major disputes.

PRINCIPAL INTERNAL CONTROL PROCEDURES IMPLEMENTED BY THE CARBONE LORRAINE GROUP

1 - DEFINITION OF INTERNAL CONTROL

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

Therefore, Carbone Lorraine's Internal control aims to achieve the following objectives:

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

Carbone Lorraine's definition of internal control is comparable to the international standard laid down by COSO (Committee of Sponsoring Organizations of the Treadway Commission), whose findings were published in the US during 1992. Like all control systems, it does not provide absolute assurance that risks have been completely eliminated. In addition, the Group has taken into account aspects of the reference framework disseminated in January 2007 by the AMF concerning the general principles of internal control.

2 - GENERAL PRINCIPLES OF INTERNAL CONTROL

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

2.1. Internal control organization

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

- reviewing and assessing all issues relating to the production, verification and publication of financial documents by the Company in connection with its annual financial statements;

- validating the annual internal audit program and ensuring that the recommendations made by the Statutory Auditors and internal audit department are followed up;
- keeping itself informed of and monitoring risk management. In this area, it draws on the work performed by the Risk Department.

The Group's internal audit department, whose role is to ensure that procedures are followed correctly, reports to the finance department and to the Audit and Accounts Committee.

2.2. Risk management

The Group updated its risk mapping in 2005.

Risks were classified into the following four categories:

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

Within each category, the potential risk factors were ranked depending on their potential impact and likelihood of occurrence. No major risk factors came to light that are not under satisfactory control. The risk management policy is described in the Risk management section of the reference document.

The Group has decided to update its mapping in 2008.

2.3. Control activities

Carbone Lorraine has formally defined and circulated an Internal Control Handbook to all its subsidiaries. This handbook encompasses all the basic internal control procedures applicable at every Group unit. To provide optimum access for all the Group's business units, this document was made available on Carbone Lorraine's intranet. This document was updated in 2007. It covers the following points:

- an initial section describing the background, objectives and resources used for internal control;
- a second section including a description of the internal control organization and reference to the internal control framework adopted by the Group (COSO);
- a section on risks addresses the definition of risk, measurement of a risk weighting as described in the risk mapping tool;
- with a final section covering all the fundamental internal controls to be implemented to ensure efficient operation of the main business processes:
    - sales/customers,
    - purchases/suppliers,
    - logistics,
    - human relationship management,
    - investments/fixed assets,
    - information system;
- all the fundamental internal controls to be implemented to ensure the reliability of the accounting and reporting systems and financial statements with regard to the following objectives:
    - safeguarding assets,
    - compiling an exhaustive record of accounting transactions,
    - making sure transactions correspond to reality,
    - complying with the dates on which transactions are recorded,
    - correctly valuing assets and liabilities,
    - confidentiality.

2.4. Internal control oversight

2.4.1 Internal audit department

The Group's internal audit department is responsible for overseeing proper implementation of the internal control handbook and for running the Group's internal control program. It submits its findings to the Audit and Accounts Committee on a regular basis, as well as to the Statutory Auditors. During 2007, the department conducted 17 assignments in line with the program defined at the start of the year. The purpose of these assignments was to:

- analyze the effectiveness of the internal control framework at 13 manufacturing facilities;
- perform a customs regulations compliance audit for a French unit that had requested it;
- carry out cross-functional studies that focused on:
    - observance of the competition law compliance program,
    - analysis of contract terminations and top-up pensions within the Group.

The internal audit department calls on the services of a specialized external firm to ensure the quality of the Group's audit program and to facilitate continuous improvement. In 2008, a quality review by the internal audit department will be carried out by an external firm.

2.4.2 Information systems security

Since 2005, the information systems security officer has been part of the Risk and Internal Audit department. The officer's role is to:

- secure the IT system and protect data confidentiality;
- tighten up the security of IT infrastructure and applications to ensure the continuity of operations.

To ensure proper implementation of existing procedures, this department carries several site audits.

2.5. Other factors contributing to the Group's internal control framework

Although there is no direct link with the accounting and financial aspects, the Group's management control and strategic planning, human resources management, sustainable development policy and quality-related procedures also contribute to ensuring compliance with the policies defined by the Group.

2.5.1 Management control and strategic planning

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

At the start of each year, the Group's Executive Committee decides on the key initiatives that need to be launched by each division to achieve the goals set. It receives a monthly update and analysis of these action plans.

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

Forecasts are made each quarter on a rolling basis for the following four quarters. This process allows adjustments to be made for trend reversals and thus helps to speed up the decision-making process for remedial measures.

2.5.2 Human resources procedures

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

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

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

2.5.3 Sustainable development

Carbone Lorraine has long pursued a responsible approach to environmental, economic and social affairs. Aside from the economic aspects, which remain a constant priority for the development of all companies, the Group also puts particular emphasis on promoting new social and environmental initiatives. This commitment is described in greater detail in the Sustainable development section of the reference document.

2.5.4 Quality procedures

The Carbone Lorraine group pursues a Group-wide quality policy through the Quality and Continuous Improvement (QPC) plan launched in 2000. This Group-wide plan is underpinned by ten priorities ranging from technical organization to employee involvement and including customer satisfaction, a quality assurance system, internal communications, production and purchasing. Work in each of these priority areas focuses on proven methods. For instance, the production department employs tools such as: 5S, SMED, Kanban, Hoshin, SPC, etc.

The 5S method, which introduces rules concerning the order, tidiness and cleanliness of workstations laid down in the QPC plan, does not apply solely to the workshops, but also to the Group's offices. Each year, a worldwide 5S challenge rewards the Group's top-performing workshops and offices.

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

- the customer satisfaction and service level:
  - average response time to offers,
  - customer satisfaction surveys;
- non-quality costs;
- productivity indicators.

3 - ACCOUNTING AND FINANCIAL INTERNAL CONTROL

3.1 General organization

Carbone Lorraine's Finance and Administration department is responsible for accounting and financial internal control. Its role is to produce and ensure the quality of the financial statements and management accounts. It is backed up by the finance departments of each of the three divisions (Advanced Materials and Technologies, Electrical Applications, Electrical Protection). In turn, these departments are in contact with each business unit's finance department. This organization allows targets to be set and accounting and financial information to be collected and analyzed at different levels of the organization.

3.2 Preparation of accounting and financial information

The finance and accounting department has formally documented and distributed a handbook of accounting and consolidation principles to all subsidiaries. This handbook contains the accounting principles applicable to every Group unit, as well as a description of the process of closing the accounts. It also contains the timetable for the various accounting closes, as well as a list of the information to be reported as part of the consolidation procedure. It lays down the rules that need to be followed by the consolidated sub-groups. To provide optimum access for all the Group's business units, this document was made available on Carbone Lorraine's intranet.

The handbook is updated based on external changes affecting areas such as accounting standards in perfect harmony with the Statutory Auditors, who validate the changes made with the Group's finance department.

Each Group business unit produces monthly accounts and a standardized consolidation package by the deadline set by the Group. When this data is reported using a Group-wide consolidation software, consistency checks are applied at each stage of the data gathering and processing process. The purpose of these checks is to:

- apply the Group's standards properly;
- adjust and eliminate intra-Group transactions correctly;
- make consolidation adjustments.

3.3 Treasury and financing

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

The Group has pursued a major drive to develop its culture of cash-focused management over the past few years, mainly at manager level. Managers are now involved in day-to-day management of their unit's cash flow. The goal is to raise decision-makers' awareness of the importance of cash, to give them the tools they need to adapt their management to their unit's finances and to make their cash forecasts more reliable.

4 - ACCOUNTING PRINCIPLES AND RULES DEFINED FOR THE COMPENSATION AND BENEFITS GRANTED TO DIRECTORS

Directors' remuneration (excluding that paid to the Chairman and Chief Executive Officer) is allocated on a *pro rata* basis to attendance at meetings of the Board and the Board's various committees.

Recommendations concerning the compensation and benefits paid to the Chairman and Chief Executive Officer are made to the Board of Directors by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on current market rates. The Appointments and Remuneration Committee meets without the Chairman and Chief Executive Officer when it is studying the latter's compensation and benefits. The bonus system is based on results achieved relative to:

- the Group's Economic Value Added (EVA) targets (operating income after tax less the cost of capital employed);
- the Group's ROCE after tax targets set based on the average posted by a sample of industrial companies;
- certain individual targets.

Additional information concerning the compensation and benefits paid to directors is disclosed in the "Compensation and benefits" section of the reference document.

PROGRAM ADOPTED IN 2007 AND ACTION PLAN FOR 2008

Aside from the action principles and tools described in this report, application of which is intended to be permanent, the Group requests on an annual basis all the plant managers to provide a formal undertaking that the principal internal control points are applied properly at their business unit. The following specific initiatives were initiated in 2007 to tighten up internal control:

- the internal control handbook was fully updated to take into account changes in the external environment and to make the handbook easier to use and more accessible for internal control participants at business units;
- a comparison of the reference framework used by the Group and the framework proposed by the AMF. The General Principles of Internal Control section was covered. The comparison carried out in relation to this chapter did not reveal any major deficiencies. Work on the accounting and financial internal control section was begun.

During 2008, the following projects are set to be launched:

- a review of the contents of the code of conduct charter and the communication plan within the Group;
- update of the risk mapping;
- quality review of the internal audit department;
- further comparison work of the framework used by the Group with the AMF framework concerning the accounting and financial internal control section;
- a self-assessment will be requested systematically from each business unit prior to an audit by the internal audit department. These self-assessments will be carried out using the Group system implemented in 2004 and updated in 2007 based on the latest internal control handbook. The aim of this self-assessment is to reinforce the internal control culture of the Group's sites;
- the accounting and consolidation principles handbook will also be updated to take into account recent changes affecting IFRSs.

GENERAL CONCLUSION

In 2007, the internal audit department executed the audit program approved by the Audit and Accounts Committee. It oversaw implementation of the action plans needed to remedy any deficiencies that came to light.

These audits did not reveal any significant internal control failings or deficiencies.

STATUTORY AUDITORS' REPORT

Statutory Auditors' report, prepared in accordance with Article L. 225-235 of the French Commercial Code on the report by the Chairman of the Board of Directors of Le Carbone-Lorraine SA on the internal control procedures relating to the preparation and processing of accounting and financial information Year ended December 31, 2007

To the Shareholders,

In our capacity as Statutory Auditors of Le Carbone-Lorraine SA, and in accordance with Article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2007.

It is the role of the Chairman to give an account in his report on the conditions under which the duties of the Board of Directors are prepared and organized and on the internal control procedures in place within the Company. It is our responsibility to report to you our observations on the disclosures contained in the Chairman's report on the internal control procedures relating to the preparation and processing of accounting and financial information.

We performed our procedures in accordance with the professional guidelines applicable in France. These procedures require us to perform procedures to assess the fairness of the information contained in the Chairman's report on the internal control procedures relating to the preparation and processing of accounting and financial information. These procedures notably consisted of:

- obtaining an understanding of the internal control procedures relating to the preparation and processing of accounting and financial information underpinning the disclosures provided in the Chairman's report and in existing documentation;
- obtaining an understanding of the work performed to prepare the disclosures and existing documentation;
- determining whether the major deficiencies in internal control relating to the preparation and processing of accounting and financial information that we identified as part of our assignment are disclosed appropriately in the Chairman's report.

On the basis of these procedures, we have no matters to report concerning the disclosures provided regarding the Company's internal control procedures relating to the preparation and processing of accounting and financial information contained in the report by the Chairman of the Board of Directors, prepared in accordance with Article L. 225-37 of the French Commercial Code.

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

The Statutory Auditors

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

7 General information about Carbone Lorraine

GENERAL INFORMATION ABOUT CARBONE LORRAINE

CORPORATE NAME AND HEADQUARTERS

Le Carbone-Lorraine

Immeuble La Fayette

2 place des Vosges

92400 - Courbevoie La Défense 5

FORM, NATIONALITY AND LAW

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

INCORPORATION AND CORPORATE LIFE

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

CORPORATE PURPOSE (ARTICLE 3 OF THE ARTICLES OF ASSOCIATION)

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

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

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

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

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

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

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

TRADE AND COMPANIES REGISTER CODE

RCS NANTERRE B 572 060 333 - APE Code: 6420Z (effective January 1, 2008).

ACCESS TO THE COMPANY'S CORPORATE DOCUMENTS

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

Jean-Claude Suquet
Group Vice President, Finance and Administration
Carbone Lorraine
Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5 (France)
Tel.: +33 (0) 1 46 91 54 19

FISCAL YEAR

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

STATUTORY DISTRIBUTION OF INCOME (ARTICLE 26 OF THE ARTICLES OF ASSOCIATION)

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

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

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

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

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

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

The balance is then divided among the shareholders without distinction.

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

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

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

GENERAL MEETINGS OF SHAREHOLDERS (ARTICLE 25 OF THE ARTICLES OF ASSOCIATION)

NOTICE OF MEETINGS - ADMISSION

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

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

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

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

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

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

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

DISCLOSURE THRESHOLDS (ARTICLE 11 *TER* OF THE ARTICLES OF ASSOCIATION)

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

PURCHASE BY THE COMPANY OF ITS OWN SHARES

At the Combined General Meeting of May 24, 2007 (second notice), the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L. 225-209 *et seq.* of the French Commercial Code in order to:

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

The maximal purchase price is set at €100 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €139,654,700.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

This authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 18, 2006.

The Company has not used said authorization since May 24, 2007 in connection with its efforts to stabilize the share price on the stock market.

In March 2005, the Company signed a liquidity agreement with Exane-BNP Paribas conforming to the AFEI's charter. At January 31, 2008, 50,296 of its own shares were held by the Company pursuant to this agreement.

The Company did not hold any other of its own shares at this date.

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2007. Another stock repurchase authorization will be proposed at the Combined General Meeting of Shareholders of May 13, 2008 (first notice) and of May 21, 2008 (second notice).

DOUBLE VOTING RIGHTS

No shares carry double voting rights.

8 Officer responsible for the reference document and auditors

OFFICER RESPONSIBLE FOR THE REFERENCE DOCUMENT

Claude Cocozza

Chairman of the Board of Directors

STATEMENT BY THE OFFICER

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

We certify that, to the best of our knowledge, these 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 management report on pages 18-24 presents a faithful picture of the business trends, earnings and financial position of the Company and of all the entities included in the consolidation, as well as a description of the principal risks and uncertainties they are facing.

We obtained an end-of-assignment letter from the statutory auditors, Deloitte & Associés and KPMG Audit, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and their reading of this entire report.

Claude Cocozza

INFORMATION INCLUDED BY REFERENCE

The following information is included by reference in this annual report:

FISCAL 2006

Included in annual report no. D-07-0188 submitted to the *Autorité des Marchés Financiers* on March 19, 2007:

- the 2006 financial statements prepared in accordance with the international accounting standards in force in 2006 on pages 37 to 72;
- an analysis of the 2006 results on pages 15 to 21;
- the Statutory Auditors' report on the consolidated financial statements on page 73.

FISCAL 2005

Included in annual report no. D-06-0132 submitted to the *Autorité des Marchés Financiers* on March 14, 2006:

- the 2005 consolidated financial statements prepared in accordance with the international accounting standards in force in 2005 on pages 39 to 85;
- an analysis of the 2005 results on pages 19 to 26;
- the Statutory Auditors' report on the consolidated financial statements, and the Special report of the Statutory Auditors on regulated agreements on pages 86 and 129.

AUDITORS

ALTERNATE AUDITORS

Deloitte & Associés,
183, avenue Charles-de-Gaulle,
92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

KPMG Audit - KPMG SA department
Immeuble KPMG, 1 cours Valmy,
92923 Paris-La Défense Cedex

Date of first term: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

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)

OFFICER RESPONSIBLE FOR INFORMATION

Jean-Claude Suquet
Le Carbone-Lorraine
Immeuble La Fayette
2 place des Vosges,
92400 Courbevoie La Défense 5
Tel.: + 33 (0) 1 46 91 54 19

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