2008 FINANCIAL REPORT

CARBONE LORRAINE

Carbone Lorraine

2008 Financial report

Chapters 2 to 9 include all the information comprising the Board o 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.

General Overview of the Group

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Group Profile

The Carbone Lorraine group is now organized into **two business lines** in which it holds leadership positions.

The **Advanced Materials and Technologies** line markets products and solutions made using graphite and other high-performance materials that can cope with extremely demanding industrial conditions, such as high-temperature applications and anticorrosion equipment.

The **Electrical Components and Technologies** line markets a complete range of brushes and brush-holders that are critical for the operation of electrical rotating machines, slip-ring assemblies and signal transmission systems for wind turbines, as well as innovative solutions helping to enhance the performance and safety of electrical installations, including low- and medium-voltage fuses, coolers for power semiconductors, and current collectors for mass transit systems.

Positioned in **highly buoyant markets**, such as **energy**, **electronics** and **fine chemicals/pharmaceuticals**, Carbone Lorraine is rapidly transforming itself into a genuine **growth company**.

Over the years, it has established itself as an international group committed to developing its existing activities and to moving into new markets. Thanks to a determined policy of organic growth and selective acquisitions, the Group has bolstered its **global positions** in each of its businesses, while considerably expanding its product range and its geographical presence.

Over 85% of its sales now come from outside France, and the Group is enjoying particularly brisk growth in **Asia**.

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 €278 million • 42% of total sales • Main competitors: - Toyo Tanso (Japan) - SGL Carbon (Germany)	• Development of isostatic graphite solutions for high-temperature applications (solar energy, 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	• 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	• 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
Electrical Components and Technologies			
Electrical Protection			
• world number two in industrial fuses • Sales of €255 million • 39% 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 of Graphite			
• world number one in brushes and brush-holders for electrical rotating machines • Sales of €129 million* • 19% of total sales* • Main competitors: - Morgan Crucible (UK) - Schunk (Germany)	• Design, manufacture and marketing of sliding electrical contacts, graphite brushes for electric motors and brushcards comprising brushes, brushholders and electronic components • Diagnostics, assistance and maintenance	• All industrial applications and robots, electricity generators for aviation, wind turbines, electric locomotives, etc. • Slip-ring assemblies and signal transmission systems for wind turbines	• Pursue a strategy of innovation in expanding niches (wind energy in particular) and expand base in North America and Asia

** continuing operations*

Chairman message

Our performance during 2008 was very satisfactory indeed. We achieved our growth objectives, we made significant progress in all our markets, and we completed our strategic refocusing drive. In spite of the adverse conditions prevailing in the final few months of the year, our results continued to improve, and we posted strong operating margins in our two key business lines, namely Electrical Components and Technologies and Advanced Materials and Technologies.

The growth drivers on which we have predicated our development again proved their efficacy. Thanks to the successful start-up of our Chongqing graphite block production facility and two further strategic acquisitions, Xianda and Mingrong, the proportion of our sales generated in Asia increased to 20%. To keep the momentum going, we are making substantial investments to increase our capacities in South Korea and India.

Sustainable development and, in particular, a focus on renewable energies and energy efficiency, which provide invaluable markets for our technologies and our products, represents another major growth driver for Carbone Lorraine. During 2008, 50% of our sales growth was driven by wind and solar energy!

This focus on growing markets went hand in hand with our withdrawal from two non-core businesses, namely sintered brakes, a unit sold in March 2008, and automobile brushes, an activity likely to be sold in early 2009 following the agreement reached in the first few weeks of this year. This refocusing of our business portfolio will further enhance our resilience in an unfavorable economic environment, which will certainly be an advantage during 2009.

The Group's expansion strategy was also bolstered through the friendly acquisition of major shareholdings in its capital by AXA Private Equity and Sofina, which intend to remain shareholders for the long term. This represents a mark of confidence greatly appreciated by the Group's management. All the strategic initiatives listed above are part of our Expansion 2011 plan, which was unveiled last fall and will create substantial value for our customers and our shareholders. This plan has set ambitious sales and margin improvement targets.

Ernest Totino, who was appointed as the Group's Chief Operating Officer this year, actively helped to draw up this initiative and will also oversee its implementation.

As far as I am concerned, I will relinquish my responsibilities at the close of the forthcoming Annual General Meeting. The Board has decided to make an amendment to the Articles of Association to accompany this transition. The Annual General Meeting will thus be asked to convert Carbone Lorraine into a company with a Supervisory Board and Management Board. If the Annual General Meeting were to approve this change, Hervé Couffin, director and Chairman of the Audit and Accounts Committee, would be named as Chairman of the Supervisory Board and Ernest Totino as Chairman of the Management Board.

He can count on the full support of all our teams and I am highly confident in the Group's ability to make rapid progress along the path to profitable growth.

No one can accurately predict at present the depth or duration of the economic downturn triggered by the financial crisis. That said, companies that have positioned themselves in segments poised for growth over the long term are bound to post an above-average performance. And this certainly applies to Carbone Lorraine.

Claude Cocozza

Chairman and Chief Executive Officer

Strategy

Ambitions and prospects in Asia

By deriving 20% of its sales from Asia (including the contributions made by Xianda and Mingrong), the Group met in 2008 a target that it had originally scheduled to reach in 2011. Spurred on by the development of Carbone Lorraine's manufacturing and sales presence in the region, this performance has prompted the Group to raise its goals even further, and it now aims to derive 30% of its sales from Asia by 2012.

China

All the Group's business activities are now present in China. Carbone Lorraine is particularly well-placed to meet the growing needs arising notably from the development of the wind and solar segments. The Group has some tremendous strengths, particularly for the Chinese photovoltaic industry, as the new Chongqing plant producing graphite blocks is now operational. It stands out on account of its ability to manufacture graphite blocks with a very large diameter.

In electrical protection, Carbone Lorraine has developed a range of products geared to the Chinese market, one of the fastest-growing in terms of electricity generation and distribution. Our close relationship with our Chinese customers was enhanced during 2008 through the acquisition of a majority shareholding in Zhejiang Mingrong Electrical Protection, making the Group the leader in the Chinese industrial fuses market.

China, which is already enjoying extremely brisk growth in the fine chemicals segment, is currently investing heavily in this area. To participate in these developments, Carbone Lorraine has bolstered its positions thanks to the acquisition of Xandia.

Japan

In electrical protection, technical excellence and product reliability have made Carbone Lorraine a leading player, and it has long been recognized as such by the major Japanese equipment makers, giving it a leadership position in industrial fuses in the local market. In anticorrosion equipment, Carbone Lorraine markets a broad range of high performance products. Thanks to the joint venture set up in 2005 with Nippon Carbon, Carbone Lorraine is now the leader in the Japanese market for graphite anticorrosion equipment.

India

First established over 30 years ago, Carbone Lorraine's presence expanded from 1995 onwards, with acquisitions of brush production companies, later supplemented by industrial ventures in high temperatures, fuses and anticorrosion equipment. At present, substantial investments are being channeled into supporting future projects in wind and solar energy, electronics and fine chemicals. India represents a country with growth potential equivalent to that of China, albeit with a time lag of a few years. The Group has firmly resolved to seize the opportunities arising there.

South Korea

US group MEMC, which ranks among the world leaders in the manufacture of polysilicon for the semiconductor and solar industries, gave Carbone Lorraine Korea its best supplier award. Fueled by the electronics and solar energy markets, which have benefited from massive investment in the country, local consumption of graphite equipment has grown very steeply. To take full advantage of this trend, Carbone Lorraine doubled the machining capacity of its South Korean unit during 2008.

Energy, a source of growth

Given the crucial importance of environmental issues, greater energy demand and higher oil and gas extraction costs, the ramp-up in renewable energies and energy efficiency systems represents a strong and irreversible trend. This backdrop has fostered an acceleration in Carbone Lorraine's development focused on expansion in these markets.

Achieve world leadership in solar graphite

The silicon for solar panels industry, which is a large consumer of isostatic graphite, will be one of the sectors enjoying very strong growth over the next few years, opening up exceptionally good expansion opportunities for Carbone Lorraine. The assumptions adopted by the Group point to demand for 26,000 tonnes of solar graphite in 2012,which would require global isostatic graphite capacity to double for this demand to be met. Keen to harness its strengths–its recognized expertise, a unique product range and global presence–and to become the world leader in solar graphite, the Group has set itself the target of achieving annual sales of €160 million in the solar market by 2012, up from around €25million in 2008. To this end, Carbone Lorraine continues to adapt its graphite production, machining and purification capacity to demand through organic and acquisition-led growth.

Support the acceleration in wind energy

In wind energy, the original-equipment market is forecast to continue expanding at an average of 10% to 15% p.a. over the next few years, with the replacement market starting to develop. Thanks to its recognized expertise in the operation of current generators and its extensive range of solutions (signal transmission systems, slip-ring assemblies for generators, brushes, brush-holders, fuses, etc.), Carbone Lorraine is looking to expand at a more rapid pace than the market at large. The Group aims to generate sales of over €50 million from the wind energy by 2012, compared with around €25 million in 2008. Carbone Lorraine is also well-placed to take advantage of the expected boom in hydro energy and to make components for future generations of nuclear power plants. Factoring in the contribution made by conventional sources, the energy sector is expected to contribute 30% of the Group's sales by 2012.

Expertise in current quality

To adapt to the new global energy paradigm, the electrical and electronics industry has developed systems delivering a significant reduction in the energy lost by motors. To maintain their reliability and performance, these systems require fuses, coolers, switches and other power-isolating switches. And Ferraz Shawmut, Carbone Lorraine's electrical protection subsidiary, is a recognized worldwide specialist in these product categories.

Business Lines

→ Advanced material and technologies

Sustainable and profitable growth

World leader in graphite and other high-performance material equipment designed for use in extremely demanding industrial environments, Carbone Lorraine's Advanced Materials and Technologies line benefits, among other strengths, from a nicely balanced mix of sales and of production facilities.

High-level performance in extreme temperatures.

Offering isostatic graphite-based solutions designed for very high temperatures, Carbone Lorraine serves the process industries (metal-working, glassmaking), the electronics sector and the aerospace sector.

Carbone Lorraine is also a leading supplier to the photovoltaic industry, which has become a major growth driver for the Group. To strengthen its expansion in this market, Carbone Lorraine has taken control of Scottish company Calcarb, which ranks second worldwide in rigid graphite felts used as insulators in furnaces operating at very high temperatures, notably for the production of solar silicon. The same furnaces already consume large quantities of isostatic graphite manufactured by Carbone Lorraine. In addition, the division's presence in Asia represents another major strength, especially since the state-of-the-art graphite facility at Chongqing in central China is now fully operational. In these market segments, Carbone Lorraine intends to expand its sales very substantially, while maintaining its already very high level of profitability.

Anticorrosion: a broad product range in tune with the market.

Carbone Lorraine markets an extensive range of graphite- and reactive metals-based equipment used in the chemicals and pharmaceutical industries to carry, mix and store highly corrosive fluids. Since it already boasts strong positions in these markets, the Group's anticorrosion business is now targeting expanding new segments. It has thus developed CL Clad®, a technology that consists in cladding steel with thin layers of ultra-corrosion-resistant metals, such as zirconium or tantalum, thereby expanding the range of advanced technology products offered to its customers. This innovation enabled Carbone Lorraine to launch new products, such as CL Clad® plate heat exchangers.

The division also strengthened its manufacturing base in Asia, by opening up new workshops and by acquiring Xandia during 2008.

Electrical components and technologies

Expertise makes the difference

Carbone Lorraine designs, manufactures and markets innovative products and systems boosting the performance and reliability of electrical equipment.

Electrical Protection

The latest generations of "smart" drives, which significantly enhance the yields of electric motors, are becoming increasingly widespread. To operate effectively and safely, this type of equipment requires fuses, high-performance coolers and switches/power-isolating switches that can handle high levels of power. And Carbone Lorraine's Electrical Protection division possesses recognized expertise in all these products, providing a considerable boost to its performance.

Other expanding markets include transportation, particularly rail (subways tramways, rail freight, high-speed trains, etc.),and energy. Carbone Lorraine recently extended its traditional product ranges by adding fuses and other products protecting the grid connection units of wind farms and solar energy facilities. During 2008, Carbone Lorraine completed two acquisitions in the medium-voltage segment–one in the US and the other in Europe–making the Group the world leader in medium-voltage fuses (products complying with North American, German and French norms). Meanwhile, the joint venture set up in 2008 with Zhejiang Mingrong has made Carbone Lorraine the leader in the rapidly expanding Chinese industrial fuse market. The Group has sharpened up its positioning in the highly dynamic segment of power electronics cooling. This business, which started up in Europe, assumed a global dimension with the acquisition of Canadian company R-Theta, the number one North American player in high-tech air cooling.

Electrical applications

In this segment, Carbone Lorraine's strategy consists in bolstering and developing its world leadership, while continuing to expand and solidify its network and delivering new services for customers. The division has enjoyed a real facelift thanks to developments in the wind energy segment. This business already contributes a significant part of Electrical Applications sales. Production capacity has been reinforced in Europe and in countries harboring strong growth potential. This was the case during 2008 in China, where the specialized work shop is now enjoying brisk business trends, and in India, where the workshop is due to start up in spring 2009. Further extensions, in particular from the Group's platform in Europe (which doubled in 2007), are poised to get the go-ahead in 2009.

The expertise acquired in wind energy has opened up development prospects in numerous areas other than those for which it was originally developed: a common form of growth for the Group!

Human resources

International expansion, new markets and innovation are some of the key reasons why Carbone Lorraine has made its human resources policy a core component of its expansion strategy.

To support its Expansion 2011 plan, Carbone Lorraine has launched several initiatives to develop the Group's human capital.

→ Projects launched in 2008

"Management of senior employees and Group culture"

Four work groups were set up to:

- analyze the divisions' age pyramid;
- define the core competencies of managers and notably seniors;
- formalize the process for passing on expertise;
- enhance the Group's corporate culture and disseminate its values.

This program, which aims to develop Carbone Lorraine's human capital to support its expansion, will lead to concrete accomplishments starting from 2009.

"Diversity"

Action plans to increase the proportion of women and international candidates in high-ranking positions at the Group have been prepared and are currently being rolled out.

→ A long-term strategy

To facilitate the forward planning of human resources, the key business segments and competencies for the future have been identified for each division. At the same time, the Group has embarked on a fundamental review of the issues of cultural diversity, gender balance, management of senior employees, the integration of new employees and internal mobility. In the field of safety, 160 managers have received training in "safety leadership", which means adopting an exemplary approach, rewarding those who abide by safety guidelines, enhancing communication and introducing educational initiatives.

Lastly, the development of internal communication tools was continued.

Governance

The Carbone Lorraine group has grown and expanded by consistently focusing on the quality of products and services, a rigorous approach and the quest for perfection. Since excellence is demanded across all the Group's business activities, the same standard is applied in its approach to environmental protection, risk control and corporate governance.

→ Sustainable development: an expert and committed group

Carbone Lorraine's commitment to sustainable development shows up in two ways. While the Group has increasingly positioned itself in renewable energies and energy efficiency, it has also been very active in terms of mitigating the environmental impact of its own operations. During 2008, efforts focused in particular on curbing its greenhouse gas emissions. A full carbon review was carried out at the Gennevilliers plant. Its objective is to determine areas where savings can be made and to prepare the Group's other major production facilities for implementation of this program right across the board.

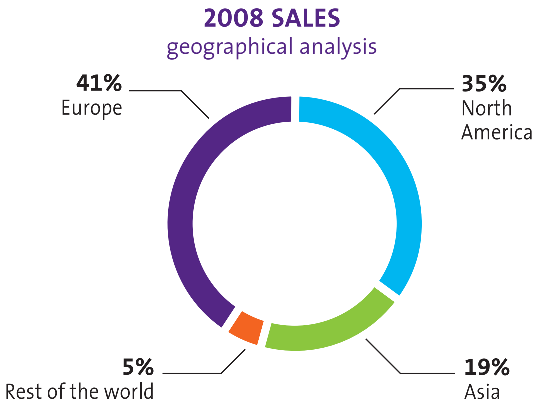
Best practices in terms of processing waste and harnessing energy savings are also shared on the Group's intranet in order to implement them across the board.

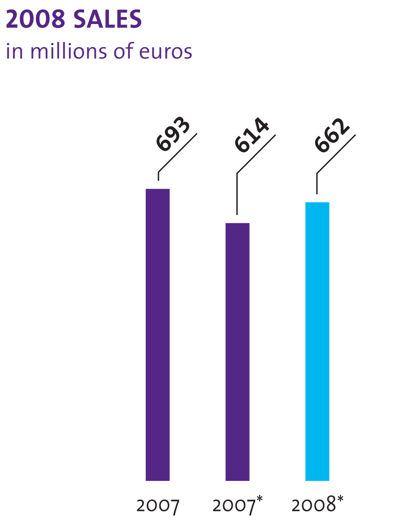
→ Mapping risks to bring them under control

Following on from 2001 and 2005, the Group carried out its third risk mapping assessment during 2008. It covers all our risks, naturally including industrial risks, but also those related to its strategy, finances and information management. This latest risk mapping assignment, which did not reveal any major risks, led to the updating of the action plans required to bring all the Group's risks under tight control.

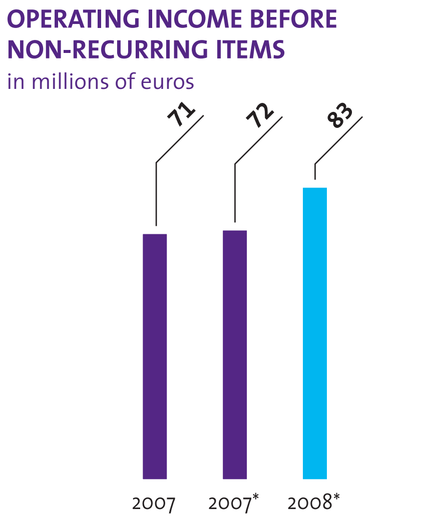
In addition, Carbone Lorraine pre-registered all the chemical products that the Group uses, in accordance with the European REACH directive

Key figures





* IFRS5 - Continuing Operations



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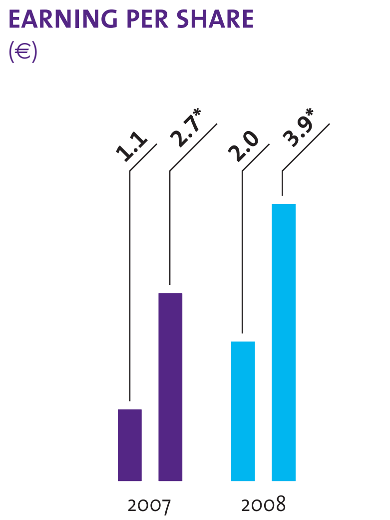

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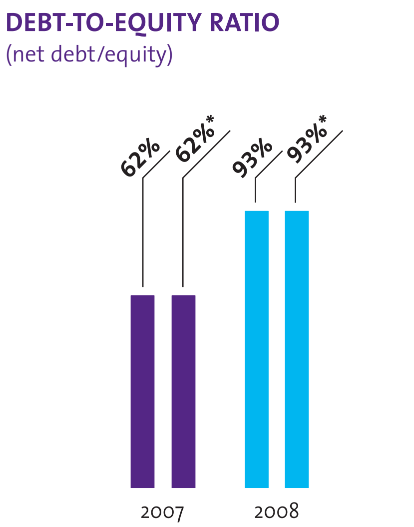

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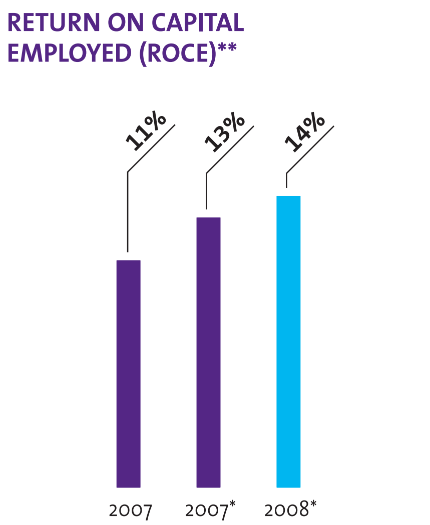
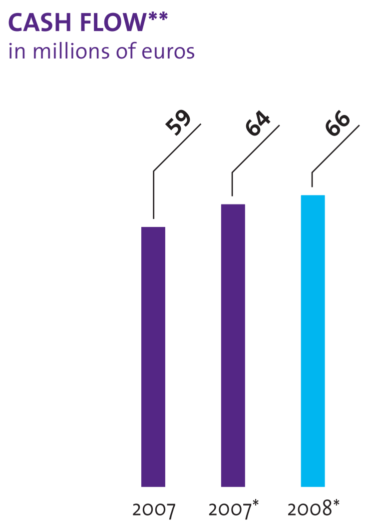


* IFRS5 - Continuing Operations

** Operating income (excluding capital gain related to braking division disposal)/fixed assets including goodwill + working capital requirement.



* IFRS5 - Continuing Operations

** After tax and the working capital requirement and before investments.

Carbone Lorraine and the stock market

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

→ Share price performance

Carbone Lorraine's share price declined by 62% over 2008 as a whole. This steep decline was recorded against the backdrop of a crisis in the capital markets. The slowdown during 2008 right across the global economy, which was particularly sharp in the automobile, banking and construction sectors, indirectly depressed demand for industrial capital goods, triggering a collapse in the share price of many industrial stocks as a knock-on effect. Even though some of Carbone Lorraine's markets were indeed less buoyant in the final quarter, the share price decline came during a year in which the Group recorded strong sales growth plus margin and earnings improvement. This made it particularly frustrating for our loyal shareholders, who have stayed with us, and for the Group's employees–many of whom are also shareholders–who worked very hard during 2008.

The crisis currently affecting the capital markets requires investors to exercise a greater degree of discrimination between the short-term factors driving down share prices and the fundamentals of listed companies. For several years now, Carbone Lorraine has been conducting an overhaul of its business lines, its markets and its profile. This transformation has made it more resilient to tougher times and should enable it to bounce back once economic conditions brighten up. Our hope is that sufficient numbers of investors will finally realize that this is the case.

Share-related data

- Listing: Euronext Paris;
- Market: Eurolist Compartment B;
- Indices: CAC Allshares, CAC Mid 100, Next 150, SBF 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, 2008: €17.81;
- high: €47.58;
- 2008 low: €17.06.

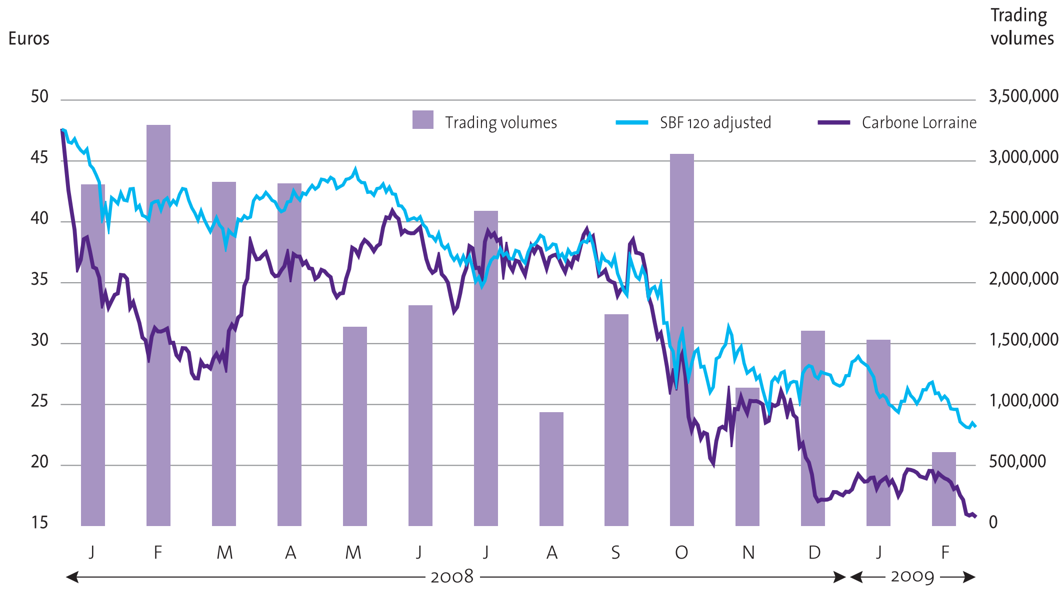
at the close

**at the close*

Trading

Average 2008 trading monthly volume: 2,185,780 (average 2007 monthly trading volume: 1,522,569).

→ Share price performance and trading volumes



A confidence-based relationship with shareholders

Carbone Lorraine maintains a confidence-based relationship with its shareholders built on transparency and communicates through various channels to give them a better understanding of 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 2009	January 2009	2008	2007	2006
High	19.62	19.84	48.76	61.82	51.00
Low	15.25	16.61	16.46	41.06	36.55
Average	18.20	18.75	32.50	52.00	43.00
At end of period	15.65	19.55	17.80	47.20	42.65
Number of shares at end of period	14,297,213	14,297,213	14,297,213	14,280,735	13,965,475
Market capitalization at end of period *(in millions of euros)*	223	279	254	674	596
Average number of shares traded (annual or monthly average)	30,362	72,707	2,185,780	1,522,569	975,646

NET DIVIDEND PER SHARE

In euros	2008	2007	2006	2005	2004
	0.62	0.85	0.85	0.70	0.55

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2008

Individual shareholders	28%
Employee shareholders	1.5%
French institutional investors	35%
International institutional investors	35%
Carbone Lorraine	0.5%

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

General Meeting of the Shareholders

Paris - May 21

Presentations for individual shareholders

Marseille - March 26

Lille - April 29

Strasbourg - October 7

Paris - October 17

Key events in the 2009 investor relations calendar

Sales reports

Fourth-quarter 2008 sales - January 27

First-quarter 2009 sales - April 28

Second-quarter 2009 sales - July 23

Third-quarter 2009 sales - October 20

Earnings reports

Full-year 2008 results - March 18

Interim 2009 results - August 31

Meetings for institutional investors

In Europe and North America - Throughout the year

General Meeting of the Shareholders

Paris - May 19

Presentations for individual shareholders

Nancy - April 30

Lyon - November 10

Nice - November 26

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.

Available documents notably include:

- this reference document filed as an annual report with the Autorité des Marchés Financiers;
- the interim 2008 report;
- financial press releases.

List of the information published or made public since January 1, 2008

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, 2008.

Press releases

January 27, 2009: Growth of 8% in 2008, in line with our objectives

January 23, 2009: Plan to sell the brushes for automobile and household electrical appliances division

December 18, 2008: Carbone Lorraine strengthens its positions in solar energy and graphite insulation

December 17, 2008: Minutes of the Annual General Meeting on December 12, 2008: Erratum

December 15, 2008: Minutes of the Annual General Meeting on December 12, 2008

November 25, 2008: Carbone Lorraine receives the Midcaps Award for Corporate Governance

November 13, 2008: Plan to issue share issuance rights

October 22, 2008: Further sales growth during the third quarter of 2008

September 17, 2008: Acceleration in the expansion plan, upward revision in the 2011 objectives

September 8, 2008: Major solar energy contracts

August 28, 2008: Announcement of interim 2008 results

August 21, 2008: Another acquisition in electrical protection

July 17, 2008: Strong growth during the second quarter of 2008

July 10, 2008: AXA Private Equity, a long-term investor in Carbone Lorraine's capital

July 3, 2008: Acquisition of Zhejiang Mingrong

May 21, 2008: Appointment of a new Chief Operating Officer

April 16, 2008: Strong sales growth during the first quarter of 2008

April 7, 2008: Acquisition of Xianda: Positions strengthened in anticorrosion equipment in China

April 1, 2008: Disposal of the rail and motorcycle braking business

March 18, 2008: Full-year 2007 results

March 5, 2008: Supplier of the year award from MEMC, a world leader in electronics

January 31, 2008: Strong growth in sales during the fourth quarter

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

Other news

December 5, 2008: An offering circular concerning the issue of Share Issuance Rights (BEAs) (AMF visa no. 08-271)

September 18, 2008: Update of the reference document (AMF visa no. D.08-114)

September 17, 2008: Presentation of 2008 interim results to analysts

March 18, 2008: Presentation of 2007 full-year results to analysts

For further information, please contact:

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Management report

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Introduction

Carbone Lorraine recorded a **substantial increase in its sales** during fiscal 2008 of 8% on a like-for-like basis. Its continuing operations, i.e. excluding the automobile and household electrical appliance brush division currently being sold, posted growth of 10%. This performance was driven by the Group's new **positioning in very buoyant markets,** such as renewable energies and Asia. This achievement also reflects the fact that the major transformation carried out by the Group over the past few years has **increased the resilience** of its operations. From year-end 2008, Carbone Lorraine has two robust segments, which are leaders in their markets and command lofty operating margins.

The Group further strengthened its manufacturing and sales base in **Asia** during fiscal 2008. The proportion of revenues generated in Asia (including Mingrong) now stands at **20%**, in line with the objective that the Group had originally set itself for 2011. The recent acquisitions of **Xianda** (anticorrosion equipment) and **Mingrong** (electrical protection) in China have further enhanced the Group's development potential in the region.

Carbone Lorraine built on the success of its **renewable energies** offering during 2008, increasing the percentage of its sales generated in these markets to close to 9% of the Group total*. The late 2008 acquisition of control of **Calcarb** (insulation/rigid graphite felts) has given Carbone Lorraine real leadership in graphite consumables for the solar energy sector.

Lastly, the final few months of 2008 brought a **marked downturn in economic conditions**, especially in industrial markets. With its innovative products, positioning in upbeat markets and a significant percentage of its sales deriving from replacement business, both the Group's segments demonstrated a healthy ability to withstand the effects of tougher conditions.

Review of operations

The **Advanced Materials and Technologies** segment recorded sales of €278 million, up 12% on a like-for-like basis. Sales of graphite equipment were particularly brisk owing to strong demand from the solar energy sector and the ramp-up in the Chongqing production plant in China. Thanks to the success achieved by its new CL Clad® material, the broader range of materials offered and strong positioning in acetic acid processes, the anticorrosion equipment business made further headway in 2008. The segment recorded an operating margin before non-recurring items of 16.4% in 2008. This represented a slight decline (0.6 points), as expected, owing to the impact of the full depreciation costs for the new facility in China, even though it is not yet running at full capacity.

The **Electrical Systems and Components** segment recorded sales of €384 million or 58% of the Group's sales*. This segment comprises the **Electrical Protection** and **Electrical Applications businesses.**

The **Electrical Protection** division posted 2008 sales of €255 million, up 10% on a like-for-like basis. The increase in sales of semiconductor protection fuses, coolers and power interconnections was very strong in 2008. Sales of general-purpose fuses slowed down during the final quarter, especially in Europe and North America. The operating margin recorded a very strong advance before non-recurring items. It came to 12.3% in 2008, an increase of over two points compared with 2007.

Sales recorded by the **Electrical Applications*** division came to €128 million in 2008, up 9% on a like-for-like basis. The automobile and household electrical appliances brush division, currently being sold, is now excluded from the scope of continuing operations. It was severely hampered by the slowdown in the automobile industry, with its sales declining by 10% in 2008.

Top-line growth was particularly strong in wind turbine components and systems. Conversely, demand from the more traditional industrial markets gradually contracted during 2008. The operating margin* remained stable at 17%.

** continuing operations*

Consolidated financial statements

Sales

During fiscal 2008, Carbone Lorraine posted strong growth in its sales to €731 million, representing increases of 5% on a reported basis and 8% on a like-for-like basis compared with 2007. Currency effects had a negative impact, reducing sales by around 4%.

In accordance with IFRS 5, sales generated by continuing operations came to €662 million, representing an increase of 10% on a like-for-like basis. Business trends were particularly brisk in Asia (growth of 15%) and in North America (16%). The increase in renewable energy sales contributed around half of the Group's sales growth in 2008.

Operating income

The Group's operating income before non-recurring items* (excluding assets held for sale and discontinued operations) totaled €83 million in 2008. It advanced by 15% during 2008. The operating margin* came to 12.5%, up by one point by comparison with 2007. This strong increase was achieved through sales growth and efforts to optimize the Group's manufacturing base and sales network over the past few years.

The Group's operating income* came to €93 million in 2008. It advanced by 121% compared with the previous year because this figure includes the capital gain on the disposal of high-energy braking business (gain of €14 million), whereas it was depressed by a goodwill impairment loss on the automobile brush business of €20 million in the previous year.

Finance costs, net

Carbone Lorraine's net finance costs came to €12.1 million in 2008, up from €11.2 million in 2007. This slight increase was attributable primarily to the rise in net debt. It also included payment of interest linked to the anti-trust litigation in Europe and foreign exchange gains realized on refinancing operations.

** continuing operations*

Income before tax and non-recurring items

Income before tax and non-recurring items* rose to €81.2 million from €54.7 million in 2007. The Group's effective tax rate came to 30% in 2008.

Net income from continuing operations

Net income from continuing operations totaled €57.0 million, compared with €39.7 million in 2007.

Net income from operations sold or discontinued

The loss posted by assets held for sale and discontinued operations stood at €27 million. This included a provision for the capital loss on the disposal of the automobile brush business (€18 million) and the operating loss recorded by the same business, chiefly in the second half of the year, owing to the collapse in volumes in the automobile industry.

Net income attributable to equity holders of the parent

Net income attributable to Carbone Lorraine's shareholders rose to €29.8 million in 2008, up from €16.3 million in 2007.

Dividend

The Board of Directors will propose payment of a dividend of €0.62 per share at the Annual General Meeting of the shareholders. This would lead to a total payout of close to €8.7 million, representing 30% of 2008 net income attributable to equity holders of the parent, in line with the Group's dividend policy. The option of receiving this dividend in shares will be put to shareholders.

Investment policy

Investments made during the past three fiscal years

In 2006, the Group continued to modernize its manufacturing base, while investing in its production capacity in pursuit of further 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 €0.5 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 increasing demand from certain industries (notably wind and solar energy). 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. The increase in financial assets 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, €10 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.

During 2008, the principal investments were:

- investments in the Chongqing plant (China) and in the extension of production capacity at the St Mary's facility (United States). In addition, other capacity investments were made, notably at finishing facilities for high-temperature applications of graphite for the solar and electronics markets, as well as sites manufacturing products for the wind energy market;
- the acquisition of Xianda, a Chinese company specializing in the manufacture of advanced technology equipment in steel and stainless steel for the chemicals and pharmaceuticals markets;
- the acquisition of Canadian company R-Theta, a major player in air cooling for power electronics;
- the acquisition of a majority shareholding in the capital of Chinese company Zhejiang Mingrong Electrical Protection, one of the local market leaders in fuses and fuse-related equipment;
- the acquisition of a majority shareholding in the capital of Calcarb, the world number two in rigid graphite fibers, insulating products used for the solar and electronics markets. The Group holds an option enabling it to buy, should it so wish, the remainder of Calcarb's capital. This option may be exercised until December 31, 2009.

The rail and motorcycle braking business was sold for €25.6 million.

Lastly, the Company announced on January 23, 2009 that it had received a firm offer from US investment fund MidMark Capital to acquire its Brushes and brushholders for automobiles and household electrical appliances division.

In line with the Group's internal procedure, the Board of Directors authorizes all investments in excess of €6 million, as well as all acquisitions of over €3 million. To this extent, of the investments effected in 2008 and the firm commitments entered into by the management bodies, the acquisitions of Xianda, R-Theta, Zhejiang Mingrong and Calcarb, as well as investments in the extension of the St Mary's graphite block production plant (United States), were approved by the Board of Directors.

	Continuing operations		
In millions of euros	2008	2007*	2006
Increase in intangible assets	(0.5)	(0.6)	(1.0)
Increase in property, plant and equipment	(57.0)	(62.3)	(31.5)
Increase in financial assets	(0.3)	(2.9)	(6.9)
Other changes in cash generated/(used) by investing activities	(4.6)	9.7	0.6
SUB-TOTAL	(62.4)	**(56.1)**	**(38.8)**
Investments linked to acquisitions	(100.2)	(15.3)	(10.7)
Investments linked to asset disposals	26.8	-	0.5
TOTAL	(135.8)	**(71.4)**	**(49.0)**

* *Pro forma*

Financing policy

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

The Group has confirmed credit lines which are not completely used.

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.

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.

In 2008, the Group refinanced its syndicated loan due to expire in late 2009, replacing it with a new five-year syndicated loan. It also arranged a 3-year syndicated loan in China, which is partially renewable on an annual basis.

The 2008 refinancing operations made a significant contribution to extending the average maturity of the Group's borrowing facilities.

Full disclosure of borrowings is made in Note 15 to the consolidated financial statements.

Carbone Lorraine also issued during December 2008 share issuance rights reserved for Société Générale under a PACEO equity line program.

Full details about the PACEO program are provided in Note 3 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;
- reducing its manufacturing costs.

The Group devotes around 3% of its sales to research and development, which comprises the operating costs of the fully dedicated teams, product development (materials/processes) and marketing campaigns to keep developing new solutions and services for its customers.

Most of this expenditure is financed internally.

During 2008, innovation focused on two principal areas:

- sustainable development, through projects that will drive the Group's short- and long-term growth,
- improvement in the competitiveness of products in the Group's core businesses.

Of the 12 principal innovation projects pursued in 2008, six related to sustainable development in solar energy, wind energy, biofuels, energy efficiency and rail transportation, while the other six focused on a strategy of opening up new markets or consolidating the Group's positions through enhanced processes, targeting markets such as pharmaceuticals, electronics, organic and mineral chemistry.

The major innovations finalized in 2008 or still in progress include:

- production of the largest isostatic graphite cylinders available in the market, giving the Group's customers a decisive competitive advantage in the market for polysilicon used in the manufacture of photovoltaic cells;
- development of hydrochloric acid distillation systems for producers of polysilicon used in the photovoltaic and semiconductors industry;
- formulation of processes for the production of CL Clad® zirconium reactors and columns for industrial fine chemicals operators (acetic acid);
- development of new graphite grades for high-performance brushes for the wind energy industry;
- formulation of a unique automated manufacturing process for cylindrical fuses for industrial markets.

Net debt

Total consolidated net debt at December 31, 2008 rose to €305.9 million from €191.8 million at year-end 2007.

Cash generated by continuing operating activities after the change in the working capital requirement came to €65.6 million, up from €64.0 million in 2007 *(on a pro forma basis)*. This cash generation provided €62.4 million to help finance net capital expenditures excluding the impact of changes in the scope of consolidation, compared with €56.1 million in 2007 *(on a pro forma basis)*.

Of the increase in net debt, €73.4 million was attributable to net changes in the scope of consolidation (acquisition of a majority shareholding in Calcarb (UK), acquisition of R-Theta (Canada), Xianda and Miro (China), disposal of the sintered brakes business) and €6.7 million to assets held for sale and discontinued operations.

	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Total net debt *(in millions of euros)*	305.9	191.8	154.3
Net debt/equity	0.93	0.62	0.50
Net debt/EBITDA	2.73	2.07	1.74

Parent company financial statements

The sales and other revenues recorded by the parent company, Le Carbone Lorraine SA, amounted to €4.6 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 €4.7 million, compared with a loss of €3.9 million in 2007.

Net financial income remained stable at €8.1 million compared with €8.3 million in 2007. The exceptional foreign exchange gains arising from the refinancing of a medium-term credit line were offset by impairment losses on securities and provisions for risks on certain shareholdings closely related to the automobile sector.

The parent company's income before tax and non-recurring items came to €13.7 million. The parent company posted an exceptional profit of €2.0 million, compared with €0.5 million in fiscal 2007. This change was attributable chiefly to gains and losses recorded on the sale of investments.

The parent company recorded a tax benefit of €7.4 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 €12.8 million, well up from €8.3 million in 2007.

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 95 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, with the latter two forming the Electrical Systems and Components segment. 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

In 2008, the Group had a presence spanning five continents, where it forges close customer relationships. The international positioning of its manufacturing facilities protects the Group from the impact of currency fluctuations on its competitiveness.

The Group continued to strengthen its manufacturing base in international markets by making four acquisitions, namely Xianda (China), Zhejiang Mingrong Electrical Protection (China), R-Theta Thermal Solutions (Canada) and Calcarb (Scotland). As in 2007, around 70% of the Group's capital expenditures were made in international markets. The Group notably continued to beef up its graphite block production and machining capacity in North America and Asia. It also invested in its plants in Austria and India manufacturing items for the wind energy market.

In 2008, the Group derived 88%* 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 €494 million in 2008, up 11% compared with 2007 on a like-for-like basis.

Sales were very brisk in North America (growth of 16% on a like-for-like basis) and in the Asia-Pacific region (increase of 15% on a like-for-like basis). The latter region now generates around 20% of the Group's consolidated sales.

** continuing operations*

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 2009

The final two months of 2008 brought a tangible downturn in economic conditions, which dragged down the Group's growth in its traditional businesses. This downturn was offset by further brisk growth in certain upbeat markets, such as solar energy, wind energy and rail transportation, and by the substantial deliveries of anticorrosion equipment at the end of the year.

The weakness in traditional markets carried forward into the first few months of 2009. The first quarter is likely to bring a decline in sales of 5 to 9%, but this should be mitigated over the year as a whole by the high level of the anticorrosion equipment order backlog at year-end 2008 and by the Group's positioning in renewable energies.

Since the full extent of the global economic crisis is far from known, Carbone Lorraine will not issue any sales guidance for 2009. With a view to adapting its management to the new economic conditions, the Group has decided to implement a cost-cutting plan, optimize the working capital requirement and postpone certain investments in line with trends in the relevant markets.

The Group's repositioning in upbeat markets, its expansion in Asia and the drive to optimize its manufacturing base have considerably enhanced its resilience. Carbone Lorraine also possesses the necessary attributes to bounce back rapidly and move back onto a trajectory of strong growth once economic conditions improve.

Carbone Lorraine is reiterating the objectives contained in its Expansion 2011 plan, but these may take longer to achieve given the current economic environment.

Other disclosures in the management report included in the annual financial report

The other disclosures required by the legislation and regulations are included in the following chapters of the annual financial report:

- Information about the Company's capital is disclosed in chapters 6 and 7 of the annual financial report,
- Information about employees' ownership of the Company's share capital is disclosed in chapter 6 of the annual financial report,
- Information about directors and their compensation and benefits is disclosed in chapter 6 of the annual financial report, as well as in the Chairman's report on internal control, which is also presented in chapter 6,
- Information about how the social and environmental consequences of business trends are taken into account is presented in chapter 3 of the annual financial report.

Sustainable development

page

3

Economic and social responsibility

The Group's ability to pursue its growth and expansion during 2008 was fostered 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 in the form of a theatre play was performed at all the French facilities during 2008.

Gender balance has been clearly identified and stated by Carbone Lorraine as a priority area for improvement. An internal survey concerning gender balance was set up on the Group's intranet, with close to 1,000 people responding to it. Work groups following up on this survey and the round tables were held during the annual TOPEX management seminar in June, and the Executive Committee implemented concrete initiatives to achieve the goal of ensuring that at least 20% of managers are women by 2013, up from just 13% at present.

The action plan defined in 2008 will be rolled out from 2009 onwards in the form of six priority initiatives: recruitment of women, awareness-raising among managers, communication, career-tracking of women managers, measures to facilitate parents' professional life, compensation and benefits.

Relations with labor bodies

In addition to relations with employee representatives through the channels that exist in companies 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 France and the rest of Europe. These committees both met once during 2008. The Pagny-sur-Moselle plant played host to the Group Works Council.

In France, the union organizations were invited to discuss the issue of top-up pension plan regions with management. These discussions are set to continue during 2009.

The collective bargaining agreements signed by the French subsidiaries during 2008 related to the annual salary negotiations and profit-sharing arrangements.

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 short- and medium-term measures to ensure that the internal staff of each French subsidiary meets the legal obligations concerning the employment of disabled workers, which came into force in January 2006.

→ Business-specific expertise

Developing know-how and innovation is a priority 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 2009.

Anticipated competencies management

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

In the agreement signed in 2007 on the forward planning of jobs and skills, 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. Certain facilities started to deploy this agreement locally.

A process to hire managers was drawn up and deployed at all Group companies during 2008. It aims to harmonize recruitment practices in a bid to enhance professional standards and technical expertise.

This procedure includes the various stages in the recruitment process that needs to be implemented by all the Group's sites. It should be regarded as a minimum and serve as the basis for the preparation by each site of more detailed procedures geared to their specific needs. Implementing each of the various stages helps to ensure the success and quality of the Group's recruitment.

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 discussions 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 forms and facilitates the organization of annual reviews.

Training in how to implement performance reviews was delivered to plant managers in China and South Korea.

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

Two-day visits to assessment centers were arranged for certain up-and-coming managers. These visits are useful for identifying the competencies they have already acquired and those that they need to develop through professional role-play exercises.

Carbone Lorraine's international dimension provides employees with genuine career development opportunities. The Group has displayed its determination to promote discussions between the 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 2008, 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.

Special emphasis was placed in Asia on deploying the competency management, internal communication and safety processes to support the Group's development in this region.

All in all, the Group devoted 1.1% of its total payroll during 2008 to training, i.e. an average of 14 hours of training per employee.

Training at Carbone Lorraine

Training*	2008	2007	2006
As a % of total payroll costs			
Group total	1.1%	1.1%	1.6%
• o/w France	2%	2%	3.0%
Average number of hours per employee			
Group total	14	9	16
• o/w France	13	13	19.5

** Excluding India, China, Tunisia and Mexico, which do not yet apply the same accounting and monitoring processes for training as the rest of the Group.*

In 2009, the training policy will be continued by placing the priority on development of the requisite competencies to complete the projects underway in Asia and to roll out competency management, internal communication and safety processes, etc.

Highly motivated and committed employees: the Group's 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.

Circulation of the Group's **internal newsletter** *CL Infos* was extended to the Chinese sites during 2008. It is translated into five 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, three annual information seminars are held for managers in Europe, in the Americas and, for the first time in 2008, in Asia. Discussions between management and employees take place on a monthly basis at most facilities.

The Group's **intranet**, which was revamped during 2007, is now 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. Its functionality and ease of use help to foster communication and information-sharing. The number of intranet visits made by the roughly 3,000 employees with access to it topped the 50,000 monthly view mark in 2008.

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 to the performance of their business. 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' 2008 bonuses were 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. 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 corporate processes, both functional and operational, the 5S program makes a specific contribution to the improvement in business performance.

During 2008, the Group attempted to give a new dimension to its Worldwide 5S Challenge, by putting special emphasis on visual management. As the standard of the Group's 5S program has increased tangibly since the Challenge was first launched in 2004, a visual "Workshop" and "Office" visual communication plan reflecting organization and work methods has become an additional aspect.

The prize for the Group's best 5S workshop was awarded jointly to the capital goods maintenance workshop of Carbone Lorraine Electrical Applications (Amiens, France) and the maintenance workshop of Carbone Lorraine Anticorrosion Equipment Génie (Pagny-sur-Moselle, France). Employees' heavy involvement and the original ideas implemented to achieve effective use of visual management were the common points of both teams' efforts, which came close to 5S excellence.

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 straightforward way of working to a theoretical or formal approach.

Through its organization and its attachment to human values, the Group encourages its employees to take the initiative 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 business.

Health and safety, a priority for a responsible management team

In line with its "Safety Commitment", the Group continued to pursue and ramped up deployment during 2008 of its health and safety program around the world. It has thus demonstrated its top priority of giving all its employees a safe working environment, wherever it does business.

To this end, the Group draws on the leadership of all its managers, all of whom received training in this approach during 2007 and 2008. Over the next few years, the Group has decided to extend this program to team supervisors (i.e. around 1,000 employees around the world) in order to step up the pace at which the culture of prevention, the only possible way of guaranteeing further progress, is disseminated. Likewise, it continued and scaled up its assistance to facilities enabling them to roll out best health and safety practices and to apply the Group's internal standards rigorously.

To establish its emphasis on excellence in this area even more firmly, health and safety has been added to the Group's strategic projects for the coming years. This approach has helped to ensure very precise follow-up of the measures initiated by a steering committee comprising all the directors of the Group's divisions and to involve representatives of the principal regions of the world in which the Group is present in deployment of these initiatives. The Group is hopeful that they will help to accelerate the transition towards a culture of prevention from 2009 onwards.

At the same time, given that sharing best practices is a key factor for achieving the excellence the Group aspires to in terms of health and safety, cross-audits between sites will gradually be introduced to ensure that every site is audited by one of its peers each year. A quality label reflecting internal safety excellence will also be awarded to sites that have deployed best safety management practices.

More generally, the safety management system is underpinned by four major pillars: a leadership program, positive reinforcement because the Group wants to make health and safety a positive value shared by all, more extensive risk assessment and a continuous improvement program, which helps to safeguard sustainable progress over the long term.

Against this backdrop, even though it has experienced several very serious accidents, the Group's results have been relatively stable for several years. Its goal is to break through these levels and make further progress towards accidents.

NUMBER OF LOST-TIME OCCUPATIONAL ACCIDENTS PER MILLION MAN-HOURS (TF1)

2008	2007	2006
2.7	2.6	2.7

NUMBER OF OCCUPATIONAL ACCIDENTS WITH OR WITHOUT LOST TIME PER MILLION MAN-HOURS (TF2)

2008	2007	2006
11.7	10.9	10.9

NUMBER OF WORKING DAYS LOST TO OCCUPATIONAL ACCIDENTS PER THOUSAND MAN-HOURS (TG)

2008	2007	2006
0.20	0.19	0.19

→ A socially responsible Group

Ferroxdure at Evreux (France)

At year-end 2008, the plant had just one executive employee left, who is completing his gradual early retirement phase. In tandem with the local authorities, he liaises with the future buyers of the land and with the ASBCE (organization supporting and creating employment in the Évreux region).
This organization was set up in 2005 to share with other businesses the funds set aside to fulfill the Group's reindustrialization obligation and to optimize their efficacy.

Since then, new businesses have joined the founders, and by year-end 2008, the ASCBE had provided support to over 30 businesses creating jobs or new businesses and directly contributed to the actual or scheduled creation of 340 jobs.

In addition, all potential sources of pollution were eliminated, and the environmental diagnostic assessment was conducted. It was passed on to the future buyer, which validated it.

Carbone Lorraine Applications Électriques in Amiens (France)

A large-scale project was launched at the Carbone Lorraine Applications Electriques site in Amiens, France.

The EMC division (automobile and household electrical appliance brushes), which has long faced economic difficulties, could no longer continue to pursue its business activities sustainably and profitably. A decision was taken to transfer them to other Group production facilities.

Aware of its responsibility to its employees and to ensure its long-term survival, the facility implemented an innovative and ground-breaking project, with the support of the union organizations and local authorities.

The project consists in training and adapting employees for the capital goods division to avoid redundancies and to keep jobs at the plant.

This large-scale program attracted the attention of the French secretary of state for employment, who visited the Amiens plant and sent a message of encouragement and congratulations to all those involved.

Nine months after the project was given the go-ahead, 20% of the EMC division's employees had been transferred to similar positions after training and 5% of personal projects or business creation projects had been validated, with several retirements anticipated over the coming months. The Human resources department had already carried out one or more interviews with 55% of affected employees. In line with the agreement, this project is due to end on December 31, 2011.

Ethical business practices

A purchasing code of conduct first introduced in 2003 emphasizes the transparency of 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 systems, 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.

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, most 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. As in 2007, outsourcing costs amounted to €22 million, 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 2008. These services accounted for around 19.5% 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 55% of its employees located outside Europe. Its largest units in terms of the size of its workforce are France, the US, China and Tunisia.

GEOGRAPHICAL ANALYSIS OF THE WORKFORCE (AT END-DECEMBER 2008)

Country	2008*	2008	2007*	2006
Europe (including Tunisia)	45%	3,382	3,538	3,452
- o/w France	22%	1,664	1,749	1,762
North America (including Mexico)	31%	2,385	2,436	2,332
Asia-Pacific	20%	1,488	530	258
Rest of the world	4%	311	354	403
TOTAL	**100%**	**7,566**	**6,857**	**6,445**

** In 2008, the headcount includes the following units consolidated for the first time: Xianda (China), Le Carbone Lorraine Advanced Graphite (China), CL Shanghai (China), CL Madras (India) and R-Theta (Canada).*

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

	2008	2007	2006
Workforce	1,664	1,749	1,762
- o/w fixed-term contracts	21	14	16

RECRUITMENT

	2008	2007	2006
Recruitment	93	181	194
- o/w fixed-term contracts	37	23	31

Most of the French sites recruited new employees during 2008 (except for the AVO and Amiens facilities). The new hires were made across all socio-professional categories. There were no particular difficulties to report aside from the fact that machining, boiler-making and welding skills are in short supply in the marketplace.

TEMPORARY WORKERS

	2008	2007	2006
Average headcount	171	245	248
% of the headcount	10%	14%	15%

OVERTIME

	2008	2007	2006
Overtime	43,716	29,189	27,414
% of hours worked	1.2%	0.71%	0.75%

The steep increase in overtime hours was attributable to the electrical protection division and the reorganization at the Amiens plant.

ABSENTEEISM

	2008	2007	2006
Absenteeism rate	4.55%	4.52%	4.9%
- o/w illness	3.24%	2.97%	3.5%

During 2008, a total of 135 hours were lost to strikes, representing 0.004% of hours worked.

Organization of working hours

The working hours of engineers and managers are calculated based on an annual total of 217 work days.

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 working hours are thus tailored to the specific circumstances of each business and its economic constraints (team work, night shifts, etc.).

In 2008, 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 program is pursued by the entire Group at all its various levels.

→ 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. **Identify potential risks** related 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, a dedicated software system.

→ 2008: continued implementation of a pragmatic approach 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.

2008 was marked by the finalization of the first phase of the pre-registration of the chemical products used within the Group in line with the REACH directive (Registration, Evaluation, and Authorisation of Chemicals). In addition, the Group finalized the carbon footprint calculations for its test unit. Lastly, it also launched a wide-ranging "redesign to cost" campaign for its various products.

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

Ahead of the roll-out of REACH, the Group carried out an exhaustive inventory of all the chemical products used in its production processes and continued its analysis of these products. It pre-registered these products with the European Commission. The Group's conservative policy prompted it to carry out numerous pre-registrations to cover the risk of supply shortages affecting key products. At the same time, Carbone Lorraine continued its review during 2008 of CMR (carcinogenic, mutagenic or toxic to reproduction) substances, which prompted it to tighten up all the measures designed to protect employees and the environment. Numerous aspiration systems were changed, leading to a significant reduction in dust rates.

Applying the same approach of planning ahead to meet environmental challenges, the Group finalized its estimate of the carbon footprint of one of its principal manufacturing facilities, even though the latter is not covered by the first French national plan for the allocation of carbon dioxide emission quotas (PNAQ). This analysis will help to determine areas for potential savings and to adapt the findings of this survey to other facilities. This program will gradually be rolled out at all the Group's principal sites.

Work on a new fuse waste disposal solution paved the way for the start of an active phase of reprocessing used fuses, notably in the UK and France.

In terms of waste, gaseous effluents are collected and processed prior to 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 these stringent standards.

During 2008, the Group launched a "redesign to cost" campaign for its various products. This method is used not only to overhaul completely the various components of a product, but also to replace certain raw materials with other more environmentally-friendly items. The work initiated in 2008 will continue in 2009.

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.

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 emulation 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 relevant 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.

Following on from 2001 and 2005, the Group carried out its third risk mapping assessment during 2008. It covers several kinds of risks, naturally including industrial risks, but also those related to its strategy, finances and information management. Even though this latest risk mapping assignment did not reveal any major risks, it helped to update the action plans required to bring all the Group's risks under tight control.

In addition, Carbone Lorraine pre-registered all the chemical products that it uses, in accordance with the European REACH directive.

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.

The implementation of the REACH regulations has accelerated the existing trend at the Group of product development and processes factoring in environmental concerns.

Its proficiency in IT systems and specific eco-design skills enables 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), Carbone Lorraine (Chongqing, China).

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	2008 Group total*	2007 Group total	% chg. Group 2008/2007*	2008 France	2007 France	% chg. France 2008/2007
Water consumption	m³	591,235	461,558	+28%	343,080	283,212	+21%
Energy consumption							
Electricity	MWh	142,898	128,952	+11%	47,824	47,924	-1%
Gas	MWh	191,683	173,278	+10%	62,286	64,566	-4%
Consumption of raw materials and metals							
Wood	tons	1,998	1,766	+13%	662	810	-19%
Cardboard	tons	946	883	+7%	599	552	+8%
Copper	tons	2,196	1,773		1,097	928	+18%
Waste							
Wood, 100% recycled	tons	622	525	+18	427	363	+17%
Recycled cardboard	tons	369	165	+23	187	139	+26 %
Non-hazardous waste	tons	7,986	6,342	+25	1,209	1,142	+6%
Discharges							
Wastewater	m³	533,349	448,094	+19	355,538	290,575	22%

** Inclusion of the new Chongqing plant (China) for the first time in 2008*

The inclusion of the Chongqing plant in the Group's scope in 2008 accounts to a great extent for the increase in all consumption figures.

In terms of the French plants, the higher water consumption was attributable to two exceptional events, namely:

- refurbishment work on the water circuit including the water tower for the CLEGC site, which caused unusually high consumption;
- a breakdown affecting a gas-based cooling system at the CLAE site required the temporary restoration of a water cooling system.

As part of the Group's environmental program, plants continued their efforts to mitigate environmental impacts during 2008 and implemented significant improvements:

Amiens

- Initialization of the REACH program covering sourcing and development;
- Work on improving cooling circuits with implementation of closed circuits and decommissioning of the air-cooling tower;
- Work on improving dust and particle aspiration at certain workstations.

Gennevilliers

- Finalization of the plant's carbon footprint;
- Implementation of a closed-circuit air-cooling tower;
- Plan to reduce chlorine consumption, with a reduction in chlorine discharges;
- Improved organization of waste sorting;
- Purchase of an incinerator for gas effluents.

Pagny-sur-Moselle

- Improvement in dust aspiration networks;
- Work on sound proofing for a milling workshop;
- Repair and improvement of an air cooling tower.

St Bonnet de Mure

- Ferraz Shawmut found a waste recycling solution for its fuses in the UK. Work is underway to identify a similar solution in France;
- Work on submissions for an ISO 14025-compliant type III environmental declaration program.

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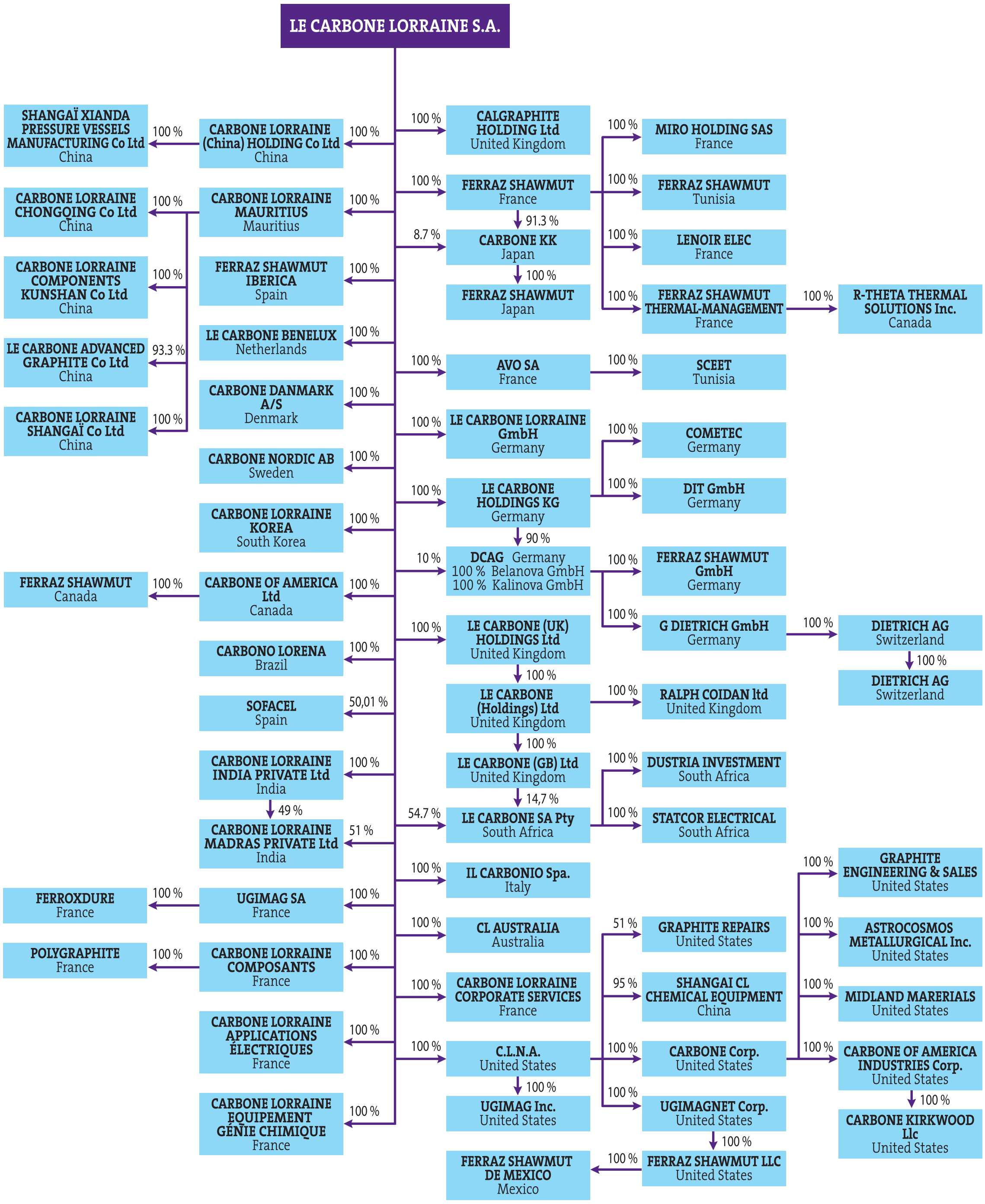
Scope of consolidation at December 31, 2008



List of consolidated companies

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

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
29. **Carbone Lorraine North America** (US)	FC	100	100
- Graphite Repairs	FC	51	51
- Carbone Corp.	FC	100	100
- Ugimagnet Corp.	FC	100	100
- Carbone of America Industries Corp.	FC	100	100
30. **Carbone Kirkwood LLC** (US)	FC	100	100
31. **Astrocosmos Metallurgical Inc.** (US)	FC	100	100
32. **Midland Materials** (US)	FC	100	100
33. **Graphite Engineering and Sales** (US)	FC	100	100
34. **Ferraz Shawmut LLC (US)**	FC	100	100
- Ferraz Shawmut de Mexico (Mexico)	FC	100	100
35. **Ugimag Inc. (US)**	FC	100	100
36. **Le Carbone Lorraine Australia**	FC	100	100
37. **Le Carbone KK** (Japan)	FC	100	100
38. **Ferraz Shawmut Japan**	FC	100	100
39. **Carbone Lorraine Korea**	FC	100	100
40. **Carbone Lorraine India Private Limited**	FC	100	100
41. **Carbone Lorraine Madras Private Limited** (India)	FC	100	100
42. **Carbone Lorraine Mauritius** (Mauritius)	FC	100	100
43. **Carbone Lorraine (CHINA) Holding Company Ltd** (China)	FC	100	100
44. **Carbone Lorraine Shanghai Co. Ltd** (China)	FC	100	100
45. **Carbone Lorraine Chongqing Co. Ltd** (China)	FC	100	100
46. **Carbone Lorraine Components Kunshan Co. Ltd** (China)	FC	100	100
47. **Le Carbone Advanced Graphite (Kunshan) Co. Ltd** (China)	FC	93	93
48. **Shanghai Carbone Lorraine Chemical Equipment Co. Ltd** (China)	FC	95	95
49. **Shanghai Xianda Pressure Vessels Manufacturing Co. Ltd** (China)	FC	100	100
50. **Le Carbone PTY Ltd** (South Africa)	FC	69	69
- Statcor Electrical	FC	69	69
- Dustria Investment	FC	69	69
51. **Carbono Lorena** (Brazil)	FC	100	100
52. **Ferraz Shawmut Tunisie** (Tunisia)	FC	100	100

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

Changes in the scope of consolidation
over the past three years

The principal changes that affected the consolidated financial statements in 2006, 2007 and 2008 are presented below:

- during fiscal 2006, the Group:
  - acquired US company Graphite Engineering & Sales on February 1, 2006,
  - acquired 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 Élec in January 2007,
  - CL India and CL Madras joined the scope of consolidation with effect from January 1, 2007,
  - Chinese companies CL Chongqing, Le Carbone Advanced Graphite and CL Components Kunshan, as well as the company holding these companies, CL Mauritius, joined the scope of consolidation during the second half of 2007 with retroactive effect from January 1, 2007,
  - Ferraz Shawmut LLC acquired General Electric's medium-voltage fuse business in December 2007.
- during fiscal 2008:
  - Le Carbone Holding KG acquired German company DIT GmbH during fiscal 2007 and it was consolidated for the first time from January 1, 2008,
  - Ferraz Shawmut Tunisie was consolidated for the first time from January 1, 2008,
  - Chinese company Carbone Lorraine Shanghai Co. Ltd was consolidated for the first time from January 1, 2008,
  - Chinese company Shanghai Xianda Pressure Vessels Manufacturing Co. Ltd, as well as its holding company CL (China) Holding Co. Ltd, was consolidated for the first time from April 1, 2008,
  - the rail and motorcycle braking sub-division was deconsolidated from April 1, 2008, following the disposal to Faiveley of this sub-division belonging to the Advanced Materials and Technologies business line,
  - Miro Holding SAS was consolidated for the first time from June 1, 2008. Since July 2008, this company has owned a 51% stake in Zhejiang Mingrong Electrical Protection via unconsolidated Hong Kong-based company Fuses and Switchgear Ltd.,
  - Canadian company R Theta Thermal Solutions Inc., which was acquired by Ferraz Shawmut Thermal Management during fiscal 2008, was consolidated for the first time from August 1, 2008,
  - Ferraz Shawmut SAS acquired the medium-voltage fuse manufacturing operations at Areva's Montpellier plant in September 2008.

Given that these changes in scope were not material, no pro forma financial statements were prepared.

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.

Disposal of the Automobile and household electrical appliance brush division currently underway

Given the firm offer received by the Group in January 2009 for the acquisition of the Automobile and household electrical appliance brush and brushholder division, which belongs to the Electrical Applications segment, the Group's financial statements are presented in accordance with IFRS 5 (Note 5).

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

The income statement and the statement of cash flows show fiscal 2007 on a pro forma basis for comparison purposes.

Consolidated income statement

In millions of euros	Note	2008	2007 pro forma	2007
CONTINUING OPERATIONS				
Consolidated sales	18	661.9	614.1	693.7
Cost of sales		(445.7)	(416.8)	(487.8)
Gross income		**216.2**	**197.3**	**205.9**
Selling and marketing costs		(64.7)	(62.1)	(65.8)
Administrative and research costs		(66.3)	(60.5)	(66.8)
Other costs and additions to provisions		(2.2)	(2.3)	(2.6)
Operating income before non-recurring items		**83.0**	**72.4**	**70.7**
Non-recurring income and expense	17	10.3	(6.4)	(7.8)
Impairment losses				(20.2)
Operating income	**18/20**	**93.3**	**66.0**	**42.7**
Finance costs		(12.1)	(11.3)	(11.3)
Finance costs, net		**(12.1)**	**(11.3)**	**(11.3)**
Income before tax		**81.2**	**54.7**	**31.4**
Current and deferred income tax	22	(24.2)	(15.0)	(15.1)
Net income from continuing operations		**57.0**	**39.7**	**16.3**
Assets held for sale and discontinued operations				
Net income from assets held for sale or discontinued operations	5	(27.2)	(23.4)	
Net income		**29.8**	**16.3**	**16.3**
Attributable to:				
- Carbone Lorraine's shareholders		29.1	15.4	15.4
- Minority interests		0.7	0.9	0.9
Earnings per share	**23**			
Basic earnings per share *(€)*		2.05	1.08	1.08
Diluted earnings per share *(€)*		1.99	1.05	1.05
Net income per share from continuing operations	**23**			
Basic earnings per share *(€)*		3.95	2.73	1.08
Diluted earnings per share *(€)*		3.84	2.65	1.05

Consolidated balance sheet

ASSETS

In millions of euros	Note	Dec. 31, 2008	Dec. 31, 2007
NON-CURRENT ASSETS			
Intangible assets			
- Goodwill	6	181.2	164.9
- Other intangible assets		8.2	4.6
Property, plant and equipment			
- Land		30.9	31.8
- Buildings		39.2	34.0
- Plant, equipment and other assets	8	135.8	119.4
- Assets in progress		29.1	22.0
Non-current financial assets			
- Investments	9	69.1	8.1
- Non-current derivatives		2.8	0.0
- Other financial assets	3/15	23.8	27.7
Non-current tax assets			
- Deferred tax assets	22	10.3	21.6
- Non-current income tax assets			1.3
TOTAL NON-CURRENT ASSETS		**530.4**	**435.4**
CURRENT ASSETS			
- Inventories	10	165.9	150.5
- Trade receivables	11	121.0	128.7
- Other receivables		29.1	21.2
- Current tax assets		10.4	3.9
- Other current assets		9.5	
- Current financial assets	15	0.5	3.0
- Current derivatives	3	2.0	2.1
- Trading financial assets	15	3.2	2.8
- Cash and cash equivalents	15	46.8	23.6
- Assets held for sale and discontinued operations	5	24.1	
TOTAL CURRENT ASSETS		**412.5**	**335.8**
TOTAL ASSETS		**942.9**	**771.2**

LIABILITIES AND EQUITY

In millions of euros	Note	Dec. 31, 2008	Dec. 31, 2007
EQUITY			
- Share capital	12	28.6	28.6
- Premiums and retained earnings		313.4	309.3
- Net income for the year		29.1	15.4
- Cumulative translation adjustments		(49.9)	(50.4)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**321.2**	**302.9**
- Minority interests		4.0	4.1
EQUITY		**325.2**	**307.0**
NON-CURRENT LIABILITIES			
- Non-current provisions	13	43.2	45.7
- Employee benefits	14	34.9	40.7
- Deferred tax liabilities	22	6.1	3.1
- Borrowings	15	297.6	176.4
- Non-current derivatives	3	0.5	0.8
TOTAL NON-CURRENT LIABILITIES		**382.3**	**266.7**
CURRENT LIABILITIES			
- Trade payables		72.0	71.7
- Other payables		64.3	56.5
- Current provisions	13	3.0	1.5
- Current income tax liabilities		4.4	4.3
- Other liabilities		14.0	15.7
- Other current financial liabilities	15	39.2	21.7
- Current derivatives		3.9	3.0
- Current advances	15	1.3	1.9
- Bank overdrafts	15	18.3	21.2
- Liabilities related to assets held for sale and discontinued operations	5	15.0	
TOTAL CURRENT LIABILITIES		**235.4**	**197.5**
TOTAL LIABILITIES AND EQUITY		**942.9**	**771.2**

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, 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**
Prior period net income		15.4	(15.4)		0.0		0.0
Dividends paid		(12.1)			(12.1)	(0.7)	(12.8)
Issue of new shares					0.0		0.0
Treasury shares		(0.1)			(0.1)		(0.1)
Change in fair value of hedging derivatives		(0.2)			(0.2)		(0.2)
Translation adjustments and other		1.1		0.5	1.6	(0.1)	1.5
Net income for the year			29.1		29.1	0.7	29.8
EQUITY AT DECEMBER 31, 2008	**28.6**	**313.4**	**29.1**	**(49.9)**	**321.2**	**4.0**	**325.2**

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.

In 2008, the principal movements were as follows:

- a transfer to equity of the 18,305 treasury shares held with a negative impact of €0.1 million;
- a reduction of €0.2 million in the fair value of derivatives at the balance sheet date.

Consolidated statement of cash flows

In millions of euros	2008	2007 pro forma	2007
Income before tax	81.2	54.7	31.4
Depreciation and amortization	25.1	20.9	24.8
Impairment losses			20.2
Additions to/(write-backs from) provisions	(5.2)	(3.9)	(4.5)
Finance costs, net	12.1	11.3	11.3
Capital gains/(losses) on asset disposals	0.3	0.7	(0.6)
Other movements	(10.6)	4.8	2.9
Cash generated by operating activities before change in the WCR	**102.9**	**88.5**	**85.5**
Change in the working capital requirement	(24.2)	(12.1)	(11.8)
Income tax paid	(13.1)	(12.4)	(12.4)
Net cash generated by continuing operations	**65.6**	**64.0**	**61.3**
Cash generated by discontinued operations	**(5.2)**	**(2.7)**	
Net cash generated by operating activities	**60.4**	**61.3**	**61.3**
Increase in intangible assets	(0.5)	(0.6)	(0.6)
Increase in property, plant and equipment	(57.0)	(62.3)	(66.8)
Increase in financial assets	(0.3)	(2.9)	(2.9)
Impact of changes in the scope of consolidation	(73.4)	(15.3)	(15.3)
Other changes in cash generated/(used) by investing activities	(4.6)	9.7	11.1
Cash generated/(used) by continuing investing activities	**(135.8)**	**(71.4)**	**(74.5)**
Cash generated/(used) by discontinued investing activities	**(1.5)**	**(3.1)**	
Cash generated/(used) by investing activities	**(137.3)**	**(74.5)**	**(74.5)**
Cash generated/(used) by operating and investing activities	**(76.9)**	**(13.2)**	**(13.2)**
Proceeds from issue of new shares	(0.5)	11.8	11.8
Net dividends paid to shareholders and minority interests	(12.8)	(12.6)	(12.6)
Interest payments	(9.1)	(11.2)	(11.2)
Change in debt (Note 15)	138.6	30.0	30.0
Cash generated/(used) by financing activities	**116.2**	**18.0**	**18.0**
Change in cash	**39.3**	**4.8**	**4.8**
Cash at beginning of fiscal year (Note 15)	26.4	21.2	21.2
Cash at end of fiscal year (Note 15)	50.1	26.4	26.4
Impact of changes in the scope of consolidation	1.0	(0.4)	(0.4)
Impact of currency fluctuations	14.6		0.0
CHANGE IN CASH	**39.3**	**4.8**	**4.8**

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.

IFRS 7 and amended IAS 1, 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 for fiscal 2008 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, 2008 have been prepared using the recognition and measurement principles stated in the IFRSs adopted in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the General Regulation of the *Autorité des Marchés Financiers* (AMF, the French market regulator).

For comparison purposes, the consolidated financial statements for the fiscal year to December 31, 2008 include data for fiscal 2006 and 2007 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 2008.

NOTE 2 Accounting policies and principles of consolidation

A - Basis of consolidation

The consolidated financial statements include those of the parent company and of all those companies in which the Group holds a controlling interest at December 31 each year. Control is defined as the power to govern the financial and operating policies of a business so as to obtain benefits from its activities. Subsidiaries over which the Group directly or indirectly exerts 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 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 non-current assets or group of assets held for sale are stated at the lower of their net 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 net income or loss of disposal groups is shown by separating the net income of continuing operations, and their cash flows are presented on a separate lines of the statement of cash flows.

C - Foreign currency translation

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

The balance 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.

Except for cash, which is translated at the closing rate, the cash flow statement items are translated at the average exchange rate, except where this is not appropriate.

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

- the impact of changes in exchange rates on balance sheet items;
- the difference between net income calculated at the average exchange rate and net income calculated at the 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 recognized in operating income (under "cost of sales" for commodity hedges and under "other costs and additions to provisions" for currency hedges) and offset changes in the value of assets, liabilities and firm commitments hedged, as they occur. The time value of hedges is recorded under "other costs and additions to provisions" in operating income;
- changes in the fair value of instruments not eligible as cash flow hedges are taken directly to income.

E2 Interest-rate hedging

Interest rate derivatives are stated at fair value on the balance sheet. Changes in 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.

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

F1 Goodwill

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

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

- Electrical Applications;
- Electrical Protection;
- High-Temperature Applications;
- Anticorrosion Equipment.

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

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

- preparing cash flow projections after normalized tax based on the Strategic Plan for 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 after tax 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.

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

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 resulting from leases are charged to income for the period and the lease is considered as an operating lease.

Non-current assets used under a finance lease give rise to the recognition on the balance sheet of both an item of property, plant and equipment and an obligation to make future lease payments. At the 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 finite 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, with IAS 32 - Financial Instruments: Disclosures and Presentation and with IFRS 7 - Financial Instruments: Disclosures.

Financial assets comprise investments available for sale, investments held to maturity, 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 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 are not material considered alone or on an aggregate basis 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 will have to incur to extinguish its obligation. Where this amount cannot be measured reliably, no provision is recorded. In this instance, information is disclosed in the notes to the financial statements.

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

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

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

M - Inventories

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

Cost 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 sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. This final obligation is then discounted to present value.

These actuarial calculations are based on various estimates:

- mortality tables;
- retirement dates;
- rate of future salary and benefit increases and employee turnover;

- 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 fiscal year in which the asset will be realized or the liability settled, based on tax rates (and tax laws) adopted or virtually adopted at the balance sheet date, taking into account future tax rate increases or decreases.

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

S - Segment reporting

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. The Group is currently organized in three business divisions:

- **Advanced Materials and Technologies:** applications of graphite for high-temperature industrial processes and anticorrosion equipment;
- **Electrical Applications:** brushes and sliding electrical contacts for industrial, motors and diagnostic analysis of malfunctions in industrial electric motors in the contact between the brushes and the collector;

Given the firm offer received by the Group in January 2009 for the acquisition of the Automobile and household electrical appliance brush division, the Group's financial statements are presented in accordance with IFRS 5 (Note 5).

- **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. These estimates and assumptions are made based on past experience and various other factors. The current backdrop of a severe downturn in the economic and financial environment has made it harder to assess the business outlook. It is conceivable that actual figures will subsequently prove to differ from the estimates and assumptions adopted.

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

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

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

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

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

- Note 5 relates to net assets held for sale and discontinued operations. The impairment in these assets has been calculated by comparing the net carrying amount of these assets and liabilities with a best estimate of their realizable value.
- Notes 2-F1, 2-I and 7 concern the testing of goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account.
- Notes 13 and 14 concerning provisions and employee benefits describe the provisions set aside by Carbone Lorraine. To determine these provisions, Carbone Lorraine used the most reliable estimate of these obligations.
- Note 22 concerning tax expense reflects the Group's tax position, which is based for France and Germany on the Group's best estimate of trends in its future taxable income.

All these estimates are predicated on a structured collection process for projections of future cash flows, providing for validation by line managers, as well as of expectations for market data based on external indicators and used in line with 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, 2008 and were not applied in the preparation of the consolidated financial statements:

- IFRS 8 - Operating Segments introduces the management approach. IFRS 8, which will become mandatory for the Group's 2009 financial statements, requires segment reporting to be based on the internal reporting analyzed on a regular basis by the Group's operational management to evaluate performance and allocate resources. At present, the Group presents its segment reporting based on its business and geographical segments;
- IAS 23 in its revised form requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset and removes the option to recognize these borrowing costs as an expense. These costs are treated as part of the acquisition cost of the asset. The Group already recognizes borrowing costs directly attributable to the cost of qualifying assets;
- IFRIC 13 - Customer Loyalty Programmes covers the recognition by entities operating or participating in any other way in customer loyalty programmes under which free or discounted goods or services are granted to customers who redeem award credits. IFRIC 13, application of which will be mandatory for the Group's 2009 consolidated financial statements, is not expected to have an impact on its financial statements;
- The revised IAS 1 - Presentation of Financial Statements (2007) introduces the comprehensive income concept, which shows changes in equity over the period other than those resulting from transactions with owners acting in this capacity. The statement of comprehensive income may be presented either in a single statement (including both the income statement and all the non-owner changes in equity in a single statement) or in two statements comprising an income statement and a separate statement showing income and other comprehensive income. The revised IAS 1, application of which will be mandatory for the Group's 2009 financial statements, is likely to have a material impact on the presentation of the consolidated financial statements. The Group has not yet decided which format it will adopt for its 2009 consolidated financial statements;
- Amendments to IAS 32 - Financial Instruments: Presentation and IAS 1 - Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation state that puttable financial instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, are classified as equity provided certain conditions are satisfied. These amendments, which will be mandatory with retroactive effect in the Group's 2009 consolidated financial statements, are not expected to have an impact on them;
- Revised IFRS 3 (2008) - Business Combinations contains the following changes, which will probably have an impact on the Group's transactions:
  - The definition of a business has been extended, which will probably increase the number of acquisitions treated as business combinations,
  - Any consideration must be stated at fair value, with subsequent changes being recognized in income,
  - Acquisition-related costs other than costs to issue debt or equity securities are expensed as incurred,
  - Any previously held equity interest is stated at fair value, with the resulting gain or loss being recognized in income,
  - Any (minority) equity interest not yielding control is stated either at fair value or based on its proportional share in the fair value of identifiable assets and liabilities of the acquiree, with the choice being made transaction by transaction.
  - Revised IFRS 3, application of which will be mandatory for the Group's 2010 consolidated financial statements, will be applied on a prospective basis and accordingly will not have any impact on prior periods in the Group's 2010 consolidated financial statements;
- Amended IAS 27 - Consolidated and Separate Financial Statements (2008) states that changes in the level of the Group's ownership interests in a subsidiary maintaining its control are accounted for as equity transactions. When the

Group loses control of a subsidiary, any interest held in the former subsidiary is stated at fair value and any gain or loss is recognized in income. The amendments to IAS 27, application of which will be mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact;

- The amendments to IFRS 2 - Share-based Payment - Vesting Conditions and Cancellations clarify the definition of the vesting conditions of rights, introduce the concept of conditions other than the vesting of rights, require that these other conditions are reflected in the fair value at the grant date and indicate the accounting treatment of the other conditions and cancellations. Application of the amendments to IFRS 2 will be mandatory with retroactive effect for the Group's 2009 consolidated financial statements. The Group has not yet determined the potential impact of this amendment;
- 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 will be mandatory with retroactive effect for the Group's 2009 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 USD350 million loan arranged in July 2008 with a maturity of five years was syndicated with an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;
- a RMB500 million loan arranged in September 2008, of which RMB350 million has a maturity of three years and RMB150 million has a maturity of one year, syndicated with an international pool of banks, intended to finance the Carbone Lorraine group's operations in China;
- 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.

In millions of euros	Amount	Drawn down at Dec. 31, 2008	Draw-down rate at Dec. 31, 2008	Maturities less than 1 year	between 1 and 5 years	over 5 years
Syndicated loan (USD350 million arranged in July 2008)	251.5	178.7	71%	0.0	251.5	0.0
Confirmed credit lines, China (RMB500 million+USD16 million BNP Paribas)	64.6	52.0	80%	27.8	36.8	0.0
Hybrid debt (OBSAAR + miscellaneous)	42.6	42.6	100%	0.0	29.6	13.0
US private placements, Tranche A	33.4	33.4	100%	6.7	26.7	0.0
US private placements, Tranche B	14.4	14.4	100%	0.00	8.6	5.8
Other	6.2	6.2	100%	0.0	6.2	0.0
TOTAL	**412.7**	**327.3**	**79%**	**Average maturity (year) = 4.3**		

In millions of euros DRAW-DOWNS	Drawn down at Dec. 31, 2008	Expected cash flows	Maturities 1-6 months	6-12 months	Over 1 year
Syndicated loan	178.7	179.0	179.0		
Confirmed credit lines, China	52.0	52.3	52.3		
Hybrid debt	42.6	46.3	0.7	0.7	44.9
US private placements, Tranche A	33.4	34.5	6.9	0.2	27.4
US private placements, Tranche B	14.4	15.1	0.1	0.1	14.9
Other	6.2	6.2	0.8	0.0	5.4
TOTAL	**327.3**	**333.4**	**239.8**	**1.0**	**92.6**

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 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 with 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, 2008, the swaps had a total nominal amount of USD66.5 million.

In October 2005, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD50 million. These swaps, which have a maturity of three years, expire in May 2009. Under the terms of these swaps, Carbone Lorraine pays a fixed interest rate of 4.6325% and receives 3-month USD Libor.

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

In millions of euros	Amount	Interest rate received	Interest rate paid	Maturities less than 1 year	between 1 and 5 years	Over 5 years
Swap	33.4	5.63%	Libor + margin	6.7	26.7	
Swap	14.4	6.35%	Libor + margin		8.6	5.8
Swap	35.9	3-month USD Libor	4.6325%	35.9		
TOTAL	**83.7**			**42.6**	**35.3**	**5.8**

In millions of euros			Maturities		
SWAP	MTM*	Expected cash flows	less than 1 year	between 1 and 5 years	over 5 years
Assets	2.9	3.8	1.1	2.5	0.2
Liabilities	(0.5)	(0.6)	(0.6)	0.0	0.0

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

Commodity risk

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

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

Around 70% of copper price exposure and 80% of silver price exposure can be covered through bank hedging.

With regard to the 2009 quantities, 50% of the hedgable copper tonnages and 50% of hedgable silver tonnages were actually hedged.

Impact of commodity hedging

In millions of euros	Balance sheet impact at year-end 2008	2008 income statement impact	Sensitivity of the impact on equity to a 5% increase
Copper	(2.2)	(1.2)	0.1
Silver	0.0	0.2	0.1

Sensitivity was calculated based on the exchange rates for the Group's currency transactions at December 31, 2008.

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 statements of cash flows of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the 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.

The Group does not specifically hedge its net foreign assets.

The Group's operating income before non-recurring items is exposed to exchange rate fluctuations principally through the translation of earnings recorded by companies whose functional currency is not the euro. The principal exposure is to the US dollar. A 10% decline in the value of the US dollar compared with the average recorded from January to December 2008 would have had a translation impact of negative €3.7 million on the Group's operating income before non-recurring items.

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

€/foreign currency risks

Risks *(stated in millions of euros)*	JPY	USD	KRW	GBP	RMB
Amounts due to the Group	2.9	4.2	0.0	(0.9)	(1.2)
Amounts payable by the Group	(0.7)	1.5	0.0	(1.1)	(0.7)
Balance sheet position	3.6	2.7	0.0	0.3	(0.5)
2008 off-balance sheet risk	10.9	6.7	4.1	(8.3)	(7.5)
Hedges at December 31, 2008	(14.5)	(6.9)	(0.8)	0.0	0.0
Net position	0.0	2.5	3.3	(8.0)	(8.0)
Impact in euros of a 5% fall in the euro*	0.0	0.1	0.2	(0.4)	(0.4)

**Sensitivities were calculated based on exchange rates at December 31, 2008.*

USD/foreign currency risks

Risks *(stated in millions of euros)*	GBP	JPY	KRW	RMB
Amounts due to the Group	0.0	1.3	0.0	(2.4)
Amounts payable by the Group	0.0	(2.7)	(0.8)	(3.0)
Balance sheet position	0.0	3.9	0.8	0.6
2008 off-balance sheet risk	(16.4)	2.2	8.2	(3.2)
Hedges in progress	0.0	(5.3)	0.0	0.0
Net position	(16.4)	0.8	9.0	(2.6)
Impact in euros of a 5% fall in the USD*	(0.9)	0.0	0.5	(0.1)

**Sensitivities were calculated based on exchange rates at December 31, 2008*

Recognition at year-end 2008 of currency transactions

MTM* *(stated in millions of euros)*		Dec. 31, 2008
Marked-to-market value of currency hedges	Equity	0.4
	Other financial components of operating income	(0.3)
Other currency hedges	Foreign exchange gains and losses	(0.3)

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

Future impact on income of currency transactions recognized at year-end 2008

(Stated in millions of euros) CURRENCY	Marked-to-market of currency derivatives in equity	Impact on income less than 6 months	Impact on income over 6 months
Assets	1.1	0.7	0.4
Liabilities	(0.7)	(0.7)	0.0

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

CURRENCY *(in millions of euros)*	MTM	Expected cash flows	Maturities: less than 6 months	Maturities: between 6 months and 1 year	Maturities: over 1 year
Assets	1.0	1.1	0.7	0.4	0
Liabilities	(1.2)	(1.2)	(1.1)	(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. The Group's top 10 customers generate €95 million in sales.

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, 2008, Carbone Lorraine's share capital amounted to €28,594,426, divided into 14,297,213 shares each with a nominal value of €2. The number of voting rights stood at 14,237,692, since shares held in treasury do not carry voting rights.

At December 31, 2008, Carbone Lorraine's share capital was 28%-owned by around 30,000 individual shareholders, 35%-owned by French institutional shareholders and 35%-owned by institutional shareholders based in other countries. At December 31, 2008, 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. The exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of its young managers. The allottees of the bonus shares are not the same as the beneficiaries of the stock options. Take-up of these shares is contingent upon their presence within the Group at the end of the vesting period. At year-end 2008, a total of 67,378 bonus shares (taking cancellations into account), representing 0.4% of the current share capital, had been allotted.

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

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

During fiscal 2008, 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 2008

- In early April 2008, Carbone Lorraine finalized its first acquisition in China by purchasing 100% of the shares in Xianda, a Chinese company specializing in the manufacture of advanced technology equipment in steel and stainless steel for the chemicals and pharmaceuticals markets.

  The purchase price and goodwill are based on the synergies generated by this combination, in particular:

  - the reinforcement of Carbone Lorraine's manufacturing base in China, complementing its anticorrosion facilities while significantly boosting its production capacity,
  - the tight fit between the skill sets of Carbone Lorraine and Xianda. This acquisition will help to enrich Carbone Lorraine's offering, which is predicated on its highly reputed expertise in noble metals equipment. For its part, Xianda possesses recognized expertise in very large steel and stainless steel equipment,
  - the strengthening of Carbone Lorraine's presence in the fast-growing acetic acid market and in the penetration of the petrochemicals market, thereby consolidating its leadership positions,
  - the improvement in Carbone Lorraine's competitiveness, which will provide all of its units with the benefit of a low-cost source of steel and stainless steel, since China has become the world's leading producer of these materials.

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

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 annual financial statements preparation date, but will be worked out by April 2009.

- In early August 2008, Carbone Lorraine acquired Canadian company R-Theta Thermal Solutions Inc., a major player in air cooling for power electronics in North America.

  The purchase price and goodwill are based on the synergies generated by this combination, in particular:

  - realization of product range and network synergies between both companies, with Carbone Lorraine, through its Electrical Protection division, becoming the world leader in cooling for power electronics systems. In addition, the achievement of critical mass will pave the way for a faster pace of development in Asia,
  - the very tight fit between product ranges combining high-performance air cooling technologies with even more sophisticated water cooling technologies,
  - reinforcement of its technical presence and sales positions around the world, notably with OEM electrical and electronic equipment suppliers.

This selective acquisition, which will create significant value, fits perfectly with Carbone Lorraine's strategy of profitable growth predicated on energy efficiency, innovation and expansion in Asia.

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 annual financial statements preparation date, but will be worked out by August 2009.

- Carbone Lorraine continued during 2008 to bolster its worldwide position in the medium-voltage segment through the acquisition of Areva T&D's fuse business, which serves the buoyant power transmission and distribution market.

  This acquisition, which has the same strategic goals as the late 2007 acquisition of General Electric's medium-voltage fuses business in North America, has enabled the Group to become the world number two in the medium-voltage fuses market, at large as well as in the German and French norms segment.

  Fresh impetus will be injected into Areva T&D's historic fuse business, which generates recurring revenues of around €3 million, because it has joined a global sales network and is now enjoying the benefit of the manufacturing expertise of an Electrical Protection specialist.

  This move, which was finalized on September 1, 2008, has strengthened the Group's position, principally in Europe and Asia, in one of the fastest-growing segments of the fuse business, with the German DIN norm developing rapidly in certain key regions, such as China.

These acquisitions fit perfectly with the policy of accelerating the pace of Carbone Lorraine's growth through development of the Electrical Protection and Advanced Materials and Technologies.

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
Fixed assets	2.7	0.0	2.7
Other assets	8.7	0.0	8.7
Non-current liabilities	(0.8)	0.0	(0.8)
Current liabilities	(8.0)	6.9	(1.1)
Net assets	**2.6**	**6.9**	**9.5**
Goodwill			20.8
TOTAL ACQUISITIONS			**30.3**
including:			0.0
Acquisition price paid in cash			30.3

The fair value adjustments relate to the fixed asset suppliers arising from the transfer of assets paid by the Group after the acquisition.

The contribution made to Carbone Lorraine's net income by these acquisitions amounted to €1.7 million. These acquisitions led to an increase in the Group's net cash (excluding the purchase price) of €0.4 million.

Over the full year, the sales contribution made by these acquisitions (R-Theta, Xianda and Areva fuse business) came to €26.8 million and the net income contribution to €2.8 million.

NOTE 5 Automobile and household electrical appliance brush division held for sale

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

- the acquisition of the automobile and household electrical appliance brush business activities of:
  - CL Applications Electriques (Amiens),
  - Deutsche Carbon AG (Germany),
  - Carbono Lorena (Brazil),
  - Dietrich Gmbh (Germany),
  - Carbone Kirkwood (US),
  - Carbone of America Industries Corp. (US).
- and the shares of the following companies:
  - AVO SA (France),
  - SCEET (Tunisia),
  - Carbone Lorraine Madras (India),
  - AVO Kunshan (China) - unconsolidated company,
  - Carbono Lorena de Mexico (Mexico) - unconsolidated company.

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

Given the disposal terms envisaged:

- The cash and debt of the assets and liabilities in the disposal group have been excluded from the financial statements below. As a result, the cost of debt has been excluded from the income statement,
- The French, German and North American units belong to local consolidated tax groups. No tax expense has been calculated for these companies, as their net income is assessed directly at the level of their parent company. The Brazilian and Indian companies do not have any significant amounts of income tax in their financial statements,
- Impairment losses shown on the balance sheet relate to the net assets held for sale and discontinued operations. They were calculated by comparing the net carrying amount of these assets and liabilities with their realizable value. The resulting impairment losses amounted to €17.8 million.

Pursuant to the standard, the assets and liabilities held for sale and discontinued operations are shown on a separate line of the Group's balance sheet.

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

IFRS 5 balance sheet of operations sold or discontinued

ASSETS

In millions of euros	Total at Dec. 31, 2008
- Inventories	10.1
- Trade receivables	10.9
- Other receivables	3.1
Assets held for sale and discontinued operations	24.1

LIABILITIES

In millions of euros	Total at Dec. 31, 2008
- Non-current provisions	0.3
- Employee benefits	1.9
- Trade payables	7.8
- Other payables	4.5
- Other liabilities	0.5
Liabilities related to assets held for sale or and discontinued operations	15.0
Net assets in process of being sold or discontinued operations	9.1

IFRS 5 income statement for operations sold or discontinued

In millions of euros	2008	2007
Sales	70.4	80.2
Cost of sales	(66.3)	(71.6)
Gross income	4.1	8.6
Selling and marketing costs	(3.7)	(3.7)
Administrative and research costs	(6.3)	(6.3)
Financial components of operating income	(0.7)	(0.3)
Operating income before non-recurring items	(6.6)	(1.7)
Non-recurring income and expense	(2.8)	(1.5)
Impairment losses	(17.8)	(20.2)
Operating income	(27.2)	(23.4)
Finance costs, net	0.0	0.0
Income before tax	(27.2)	(23.4)
Current and deferred income tax	0.0	0.0
Net income from assets held for sale/discontinued operations	(27.2)	(23.4)
Net income per share from assets held for sale and discontinued operations:		
- Basic earnings per share *(€)*	(1.91)	(1.65)
- Diluted earnings per share *(€)*	(1.86)	(1.60)

NOTE 6 Goodwill

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Net value at Jan. 1	164.9	176.7
Acquisitions	20.8	18.3
Other movements	(5.6)	3.7
Translation adjustments	1.1	(13.6)
Impairment losses		(20.2)
Net value at end of period	**181.2**	**164.9**
Gross value at end of period	181.2	185.1
Total impairment losses at end of period		**(20.2)**

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

	Dec. 31, 2007	Movements during 2008			Dec. 31, 2008
In millions of euros	Net value	Acquisitions	Other movements	Cumulative translation adjustment	Net value
Anticorrosion equipment	56.5	13.0		1.4	70.9
High-temperature applications	25.7	0.1		(1.9)	23.9
Electrical Applications	12.5			(0.7)	11.8
Electrical Protection	70.2	7.7	(5.6)	2.3	74.6
TOTAL	**164.9**	**20.8**	**(5.6)**	**1.1**	**181.2**

The €5.6 million decrease shown under other movements related primarily to the definitive allocation of goodwill for the General Electric medium-voltage fuses business acquired in December 2007. The customer base was measured at €4.2 million and technology at €1.4 million.

The impairment loss recognized in 2007 related to the entire amount of the goodwill of the automobile and household electrical appliance brush business reclassified under IFRS 5 (Note 5).

NOTE 7 Asset impairment tests

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

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

The key assumptions used were as follows:

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

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

A sensitivity test was performed 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.

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

NOTE 8 Property, Plant, Equipment

In millions of euros	Land	Buildings	Plant, equipment and other	Other items	Total
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	478.5
Total depreciation at December 31, 2007	(0.9)	(47.1)	(221.5)		(269.5)
Total impairment losses at December 31, 2007	0.0	0.0	(1.8)		(1.8)
Net value at Jan 1, 2008	**31.8**	**34.0**	**119.4**	**22.0**	**207.2**
Acquisitions	0.1	8.0	28.6	22.8	59.5
Retirements and disposals		0.1	(0.4)	(0.1)	(0.4)
Depreciation	(0.1)	(2.4)	(24.2)		(26.7)
Translation adjustments	(0.8)	1.7	5.2	0.9	7.0
Changes in the scope of consolidation		(1.4)	1.1		(0.3)
Assets held for sale and discontinued operations	(0.1)	(0.5)	(8.6)	(1.2)	(10.4)
Other movements	0.0	(0.3)	14.7	(15.3)	(0.9)
NET VALUE AT DECEMBER 31, 2008	**30.9**	**39.2**	**135.8**	**29.1**	**235.0**
GROSS VALUE AT DECEMBER 31, 2008	**31.8**	**87.2**	**328.0**	**29.1**	**476.1**
TOTAL DEPRECIATION AT DECEMBER 31, 2008	**(0.9)**	**(48.0)**	**(192.2)**		**(241.1)**
TOTAL IMPAIRMENT LOSSES AT DECEMBER 31, 2008					**0.0**

NOTE 9 Investments

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

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Gross value	79.3	19.3
Impairment losses	(10.2)	(11.2)
CARRYING AMOUNT	**69.1**	**8.1**

The increase in investments derived primarily from the foundation in July 2008 of Fuses and Switchgear Ltd, which owns the Mingrong joint venture, and the December 2008 acquisition of a 60% interest in Scottish company Calcarb's share capital. These units were not consolidated in fiscal 2008 given the absence of available financial statements. Based on estimated data, the impact of consolidating them on the Group's financial statements would have been 3% on total assets, less than 1% on sales and no material effect on earnings. These units will be consolidated in 2009, once the requisite processes have been implemented..

The impairment losses recognized on investments at December 31, 2008 primarily affected units in Turkey, Argentina, Mexico, Greece and Singapore.

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

In millions of euros Company name	% held	Gross value	Net carrying amount
Calcarb (Scotland)	60	49.0	49.0
Fuses & Switchgear (China)	100	13.1	13.1
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA	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
Nortroll (Norway)	34	0.8	0.5
Clisa (Mexico)	49	0.6	0.6
Carbone Lorraine Grèce	100	0.6	0.3
Ferraz Electric Protection Hinode (China)	100	0.7	0.7
Carbone-Lorraine Chile (Chile)	100	0.2	0.2
GMI Metaullics (US)	25	0.2	0.2
Carbone Lorraine Maroca	100	0.2	0.2
Ferraz Shawmut Kunshan (China)	100	0.1	0.1
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Le Carbone Materials KK (Japan)	49	0.1	0.1
Investments in other companies		0.3	0.2
TOTAL		**79.3**	**69.1**

Excluding Mingrong and Calcarb, 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 €50.4 million (€42.7 million in fiscal 2007) and €0.7 million (€1.8 million in fiscal 2007) respectively. Their impact on the consolidated financial statements is not material. The consolidated sales of all these companies are estimated at around €14.0 million (€14.4 million in fiscal 2007) or 2.1% (2.3% in fiscal 2007) of total consolidated sales, after the elimination of intra-group transactions.

NOTE 10 Inventories

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Raw materials and other supplies	80.5	72.7
Work in progress	50.6	46.1
Finished goods	44.3	41.4
Carrying amount of inventories	**175.4**	**160.2**
Valuation allowances	(9.5)	(9.7)
NET CARRYING AMOUNT OF INVENTORIES	**165.9**	**150.5**

Net inventories increased by €15.4 million at December 31, 2008, with a decrease of €17.3 million attributable to assets held for sale reclassified on a separate line and a €5.3 million increase to changes in the scope of consolidation. On a like-for-like basis, inventories increased by €27.4 million (up 18.2%), which was primarily attributable to business expansion and the build-up of inventories ahead of future billings anticipated during 2009 in the anticorrosion equipment segment.

NOTE 11 Trade receivables

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Gross trade receivables	124.4	133.5
Valuation allowances	(3.4)	(4.8)
NET TRADE RECEIVABLES	**121.0**	**128.7**

Net trade receivables decreased by €7.7 million in fiscal 2008, with a fall of €1.2 million attributable to currency effects, a decline of €10.9 million to assets held for sale reclassified on a separate line and an increase of €2.1 million to changes in the scope of consolidation. On a like-for-like basis, trade receivables grew by €2.3 million or 1.8%.

At year-end 2008, late payments accounted for 8.8% of trade receivables compared with 8.7% at year-end 2007.

Overdue trade receivables broke down as follows at December 31:

In millions of euros	Dec. 31, 2008		Dec. 31, 2007	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	110.8	(0.4)	119.1	(1.6)
Receivables 0-30 days past due	7.6	(0.2)	6.9	(0.1)
Receivables 31-120 days past due	3.6	(0.5)	4.3	(0.3)
Receivables 121 days to 1 year past due	0.8	(0.7)	0.8	(0.5)
Receivables more than 1 year past due	1.6	(1.6)	2.4	(2.3)
NET TRADE RECEIVABLES	**124.4**	**(3.4)**	**133.5**	**(4.8)**

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

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Impairment losses at January 1	(4.8)	(5.7)
Allowance/reversal during the fiscal year	1.4	0.9
Impairment losses at December 31	(3.4)	(4.8)

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

NOTE 12 Share capital

In number of shares (unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2008	14,280,735
Issue of new shares *(in millions of euros)*	0.0
Number of shares at December 31, 2008	14,297,213
Number of shares in issue and fully paid-up	14,297,213
Number of shares in issue and not fully paid-up	0
Par value of shares *(euros)*	2
Entity's shares held by itself or by its subsidiaries and associates	59,521

The number of voting rights stood at 14,237,692 after deducting the 59,521 treasury shares held by the Company at December 31, 2008.

No shares carry double voting rights.

The number of stock subscription options granted to company officers and employees and still outstanding stood at 384,867 taking into account canceled options.

Two bonus share allotment plans were set up for Company officers and employees during fiscal 2005 and 2006, with the respective number of options granted amounting to 30,900 and 16,478 respectively.

An allotment plan of 19,800 bonus shares was set up for employees at the Board of Directors' meeting on February 26, 2008.

Furthermore, 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. On the recommendation of the Remuneration Committee, the Board of Directors regularly offers Group managers the possibility of subscribing these shares, subject to the attainment of objectives, notably based on EPS;
- three bonus share allotment plans set up on June 30, 2005, June 28, 2006 and February 26, 2008. On the recommendation of the Remuneration Committee, the Board of Directors has awarded bonus shares since 2006 to young managers, whose loyalty it wishes to retain. As such, the only criterion to be satisfied to receive the benefit of these shares is for them to remain part of the Group's workforce until a predetermined date.

The characteristics and assumptions used to value the (stock option) plans are as follows:

Characteristics/Assumptions	2003 plan Stock subscription options	2005 plan Bonus share allotments	2006 plan Bonus share allotments	2007 plan Stock subscription options	2008 plan Bonus share allotments
Allotment date	May 14, 2003	June 30, 2005	June 28, 2006	July 25, 2007	Feb. 26, 2008
Availability date	May 14, 2007	July 1, 2007	June 28, 2008	July 25, 2011	Feb. 26, 2011
Expiration date	May 13, 2013	July 1, 2007	June 28, 2008	July 25, 2017	Feb. 26, 2011
Adjusted exercise price *(€)*	€21.21	€0.00	€0.00	€57.24	€0.00
Adjusted share price at allotment date	€22.07	€39.25	€40.07	€56.44	€29.63
Estimated life *(number of years)*	5.5	2	2	5.5	3
Volatility	40.60%	39.90%	37.00%	30.90%	N/A
Dividend per share *(as a % of share price)*	2.40%	1.30%	1.60%	1.90%	2.30%
Risk-free interest rate	3.43%	2.68%	3.86%	4.44%	N/A
Exercise period *(number of years)*	4	2	2	4	3
Lock-up period *(number of years)*	0	2	3	0	2
Number of options/adjusted share allotments	130,163	42,700	17,975	165,000	20000
Estimated annual cancellation rate at year-end 2004	1.70%				
Estimated annual cancellation rate at year-end 2005	1.70%	1.70%			
Estimated annual cancellation rate at year-end 2006	1.50%	0.80%	1.50%		
Estimated annual cancellation rate at year-end 2007	End of the plan	End of the plan	1.50%	1.50%	
Estimated annual cancellation rate at year-end 2008	End of the plan	End of the plan	1.50%	1.50%	1.50%
% of shares/options acquired following satisfaction of the performance condition	66.70%	100%	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	
Estimate of the number of options/shares ultimately exercised in 2008	82,089	30,900	16,478	155,321	19,113
Valuation of options/shares	€7.80	€37.30	€38.80	€16.80	€27.68
Valuation as a % of the share price at grant	35.50%	94.90%	96.90%	29.80%	93.40%

Expense of €0.9 million was recognized in the income statement (€0.9 million in fiscal 2007) in respect of these equity-settled plans.

NOTE 13 Provisions and contingent liabilities

In millions of euros	Dec. 31, 2008 Non-current	Dec. 31, 2008 Current	Dec. 31, 2007 Non-current	Dec. 31, 2007 Current
Provision for restructuring	0.1	0.1	0.1	0.9
Provision for litigation	42.7	2.8	45.0	0.3
Other provisions	0.4	0.1	0.6	0.3
TOTAL	**43.2**	**3.0**	**45.7**	**1.5**

Current and non-current	2008	Additions	Uses	Other	IFRS 5	Cumulative translation adjustment	2007
Provision for restructuring	0.2		(0.8)				1.0
Provision for litigation	45.5	1.3	(0.5)			(0.6)	45.3
Other provisions	0.5	0.2	(0.4)	0.1	(0.3)		0.9
TOTAL	**46.2**	**1.5**	**(1.7)**	**0.1**	**(0.3)**	**(0.6)**	**47.2**

At December 31, 2008 provisions for litigation comprised:

- the entire amount of the fine handed down to the Group by the European authorities (€43 million),
- civil lawsuits in the United States (€1.7 million),
- and a dispute with the US Commerce Department over €0.9 million with regard to export licenses.

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

With regard to the civil lawsuits in the US, the provision amounted to €1.7 million to cover:

- firstly, the proceedings initiated at federal level by certain auto equipment suppliers, who withdrew from the federal class-action lawsuit and lodged a claim for compensation specific to the opt-out customers. 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 lodged by customers to sales realized in the United States. This decision prompted the plaintiffs to initiate proceedings in the United Kingdom. The Group regards the arguments put forward by the opt-out plaintiffs as baseless, and so it decided to keep the provision at the initial level under the August 2004 settlement agreement,
- and secondly, a civil action specific to the State of California.

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

NOTE 14 Employee benefits

The Carbone Lorraine group's principal pension plans are defined benefit plans and are located in the US (31% of obligations), the UK (22% of obligations), France (21% of obligations) and Germany (13% of obligations).

The Group's obligations were measured at December 31, 2008 with the assistance of independent actuaries in accordance with IAS 19. The cost in fiscal 2008 was estimated on the same basis.

The rates used for the principal countries are summarized below:

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

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

Reconciliation between assets and liabilities recognized

	Dec. 31, 2008	Dec. 31, 2007
Actuarial obligation	94.7	98.1
Fair value of plan assets	(44.2)	(58.3)
Unrecognized actuarial gains and losses	(14.1)	2.4
Unrecognized past service cost (rights not vested)	(1.5)	(1.5)
NET AMOUNT RECOGNIZED	**34.9**	**40.7**

Breakdown of the Group's obligations at December 31, 2008 by geographical area

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2008
Actuarial obligation	19.5	12.6	29.5	20.9	12.2	94.7
Fair value of plan assets	(4.5)		(16.7)	(16.7)	(6.3)	(44.2)
Unrecognized actuarial gains and losses	(0.7)	0.7	(8.0)	(3.7)	(2.4)	(14.1)
Unrecognized past service cost (rights not vested)	(1.2)		(0.3)			(1.5)
NET AMOUNT RECOGNIZED	**13.1**	**13.3**	**4.5**	**0.5**	**3.5**	**34.9**

Movements in the Group's obligations

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2007	20.3	14.3	23.9	26.0	13.6	98.1
Payments	(3.0)	(1.1)	(0.8)	(0.6)	(1.0)	(6.5)
Expense charged to income	1.8	0.9	2.9	1.6	1.3	8.5
Translation adjustment			1.6	(6.3)	(1.3)	(6.0)
Actuarial gains and losses	1.0	(0.3)	2.0		(0.5)	2.2
Assets held for sale/discontinued operations	(0.3)	(1.2)	(0.4)			(1.9)
Other movements	(0.3)		0.3	0.2	0.1	0.3
DECEMBER 31, 2008	**19.5**	**12.6**	**29.5**	**20.9**	**12.2**	**94.7**

Change in plan assets

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2007	5.0	0.0	17.4	27.5	8.4	58.3
Return on plan assets	(0.7)		(4.4)	(4.9)	(1.4)	(11.4)
Employer contribution	2.1	1.0	3.4	0.8	0.9	8.2
Employee contribution				0.2	0.1	0.3
Payment of benefits	(2.0)	(1.0)	(0.8)	(0.6)	(0.7)	(5.1)
Translation adjustment			1.1	(6.3)	(1.0)	(6.2)
Other movements	0.1					0.1
DECEMBER 31, 2008	**4.5**	**0.0**	**16.7**	**16.7**	**6.3**	**44.2**

The UK plan assets account for 38% of total plan assets, with 67% invested in equities and 28% in government bonds.

The US plan assets account for 38% of total plan assets, with 48% invested in equities and 52% in bonds.

The charge recognized at December 31, 2008 in respect of these plans was €6.4 million, compared with €5.3 million in 2007, which breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2008	Total at Dec. 31, 2007
Current service cost	0.8	0.2	1.5	0.2	0.7	3.4	3.6
Interest cost	1.0	0.7	1.4	1.4	0.7	5.2	4.9
Expected return on plan assets	(0.2)		(1.2)	(1.7)	(0.5)	(3.6)	(3.6)
Amortization of actuarial gains and losses	1.0	(0.1)		(0.1)	0.1	0.9	(0.2)
Other movements	0.4				0.1	0.5	0.6
TOTAL CHARGE FOR THE PERIOD	**3.0**	**0.8**	**1.7**	**(0.2)**	**1.1**	**6.4**	**5.3**

The change in actuarial gains and losses arising 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, 2008	Total at Dec. 31, 2007
Adjustments linked to changes in assumptions	(0.1)	(0.2)	1.3		(0.4)	0.6	(6.3)
Experience adjustments to obligations	1.2	(0.1)	0.6		(0.1)	1.6	1.5
Experience adjustments to plan assets	0.2		1.2	1.7	0.5	3.6	(0.3)
ACTUARIAL GAINS AND LOSSES	**1.3**	**(0.3)**	**3.1**	**1.7**	**0.0**	**5.8**	**(5.1)**

An increase of 0.25 points in discount rates would lead to a reduction of €2.9 million in the estimated actuarial obligation, breaking down as follows:

France	(0.3)
Germany	(0.3)
United Kingdom	(0.9)
United States	(0.9)
Rest of the world	(0.5)
TOTAL	**(2.9)**

As part of the measurement of its obligations in France, the Group did not take into account the implications of the French interprofessional agreement of January 11, 2008 on the modernization of the labor market, which is not yet applicable.

NOTE 15 Net debt

Analysis of total net debt at December 31, 2008

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Borrowings	297.6	176.4
Current financial liabilities	39.2	21.7
Current advances	1.3	1.9
Bank overdrafts	18.3	21.2
Current financial assets	(0.5)	(3.0)
TOTAL GROSS DEBT	**355.9**	**218.2**
Trading financial assets	(3.2)	(2.8)
Cash and cash equivalents	(46.8)	(23.6)
Cash	(50.0)	(26.4)
TOTAL NET DEBT	**305.9**	**191.8**

Total consolidated net debt at December 31, 2008 stood at €305.9 million compared with €191.8 million at year-end 2007.

Net debt/equity

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Total net debt	305.9	191.8
Net debt/equity	0.93	0.62

Net debt amounted to 93% of equity at December 31, 2008, compared with 62% at December 31, 2007.

Reconciliation between changes in net debt shown on the balance sheet and on the statement of cash flows

In millions of euros	2008	2007 pro forma
Prior year debt	**191.8**	**154.3**
Cash generated/(used) by operating and investing activities after tax	(5.1)	(11.1)
Cash used by restructurings	1.9	3.2
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	73.4	15.3
Non-operating cash flows	0	0
Cash generated by the operating and investing activities of continuing operations	**70.2**	**7.4**
Cash generated by the operating and investing activities of assets held for sale and discontinued operations	**6.7**	**5.8**
Proceeds from issue of new shares	0.5	(11.8)
Dividends paid	12.8	12.6
Interest payments	9.1	11.2
Translation adjustments and other	11.6	(9.1)
Changes in the scope of consolidation	3.2	16.1
Other movements		5.3
DEBT AT YEAR-END	**305.9**	**191.8**

Total consolidated net debt at December 31, 2008 rose to €305.9 million from €191.8 million at year-end 2007.

Debt increased by €34.0 million before the €6.7 million in cash generated by assets held for sales and discontinued operations and before the €73.4 million in net cash generated by changes in the scope of consolidation (acquisition of a majority shareholding in the capital of Calcarb (UK) and the acquisitions of R-Theta (Canada), Xianda and Miro (China)).

Financial covenants at December 31, 2008

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

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

Financial covenants* (consolidated financial statements)

In millions of euros	Net debt/ EBITDA	Net debt/ equity	EBITDA/net interest expense
Covenant ratios			
Group syndicated loan	< 3.35	< 1.3	-
US private placement	< 3.35	< 1.3	> 3
OBSAAR bond issue	-	< 1.35	-
Syndicated loan, China		< 1.35	
Actual ratios at December 31, 2008			
Group syndicated loan	2.73	0.93	
US private placement	2.73	0.93	12.07
OBSAAR		0.93	
Syndicated loan, China		0.93	
Actual ratios at December 31, 2007			
Group syndicated loan	-	0.63	-
US private placement	2.07	0.62	8.63
OBSAAR bond issue		0.62	
Actual ratios at December 31, 2006			
Group syndicated loan	-	0.51	-
US private placement	1.74	0.50	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. 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.*

At December 31, 2008, 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, 2008

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

In millions of euros	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	124.4	6.7	112.0	5.7
Borrowings in EUR	132.0	-	119.0	13.0
Borrowings in GBP	20.5	-	20.5	
Borrowings in RMB	50.4	27.8	22.6	
TOTAL	**327.3**	**34.5**	**274.1**	**18.7**
Amortization of issuance costs at the EIR*	(1.9)			
Fair value of interest-rate derivatives	2.9			
TOTAL	**328.3**			

**Effective interest rate*

Of the €274.1 million in debt due to mature in between one and five years' time, €227.4 million had a maturity of over three years at December 31, 2008.

Analysis of total net debt at December 31, 2008

By currency	%
EUR	43.0
USD	32.9
RMB	16.2
GBP	6.6
Other	1.3

By interest rate	%
Fixed	11.7
Floating	88.3

In millions of euros	Total	o/w maturity < 5 years	o/w maturity > 5 years
Floating rate debt*	356.4	337.7	18.7
Financial assets	(50.5)	(50.5)	-
Net position before hedging	**305.9**	**287.2**	**18.7**
Fixed-rate hedge	35.9	35.9	-
Net position after hedging	**270.0**	**251.3**	**18.7**

**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, 2008 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €2.7 million.

NOTE 16 Fair value

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

at December 31, 2008		Accounting categories						
Balance sheet accounts and instrument categories	Note	Assets held at fair value through P&L	Held-to-maturity assets	Available-for-sale assets	Loans and receivables	Liabilities stated at amortized cost	Total net value of the category on the balance sheet	Fair value of the category
Unlisted investments	9			69.1			69.1	69.1
Other non-current financial assets and derivatives held as assets	3/15	2.8			23.8		26.6	26.6
Non-current financial assets		**2.8**	**0.0**	**69.1**	**23.8**	**0.0**	**95.7**	**95.7**
Trade receivables	**11**				**121.0**		**121.0**	**121.0**
Current financial assets	15				0.5		0.5	0.5
Other assets					9.5		9.5	9.5
Trading financial assets	15			3.2			3.2	3.2
Current financial assets		**0.0**	0.0	3.2	10.0	0.0	**13.2**	**13.2**
Cash and cash equivalents	**15**	**46.8**					**46.8**	**46.8**
Bank borrowings	15					(297.6)	(297.6)	(297.6)
Current advances	15					(1.3)	(1.3)	(1.3)
Bank overdrafts	15					(18.3)	(18.3)	(18.3)
Current financial liabilities	15					(39.2)	(39.2)	(39.2)
Borrowings		**0.0**	**0.0**	**0.0**	**0.0**	**(356.4)**	**(356.4)**	**(356.4)**
Trade payables						**(72.0)**	**(72.0)**	**(72.0)**
Carrying amount per category		**49.6**	**0.0**	**72.3**	**154.8**	**(428.4)**	**151.7**	**151.7**

at December 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 value of the category on the balance sheet	Fair value of the category
Unlisted investments	9			8.1			8.1	8.1
Other non-current financial assets and derivatives held as assets	3/15	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	**11**				**128.7**		**128.7**	**128.7**
Current financial assets	15				3.0		3.0	3.0
Trading financial assets	15			2.8	0.0		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	**15**	**23.6**					**23.6**	**23.6**
Bank borrowings	15					(176.4)	(176.4)	(176.4)
Current advances	15					(1.9)	(1.9)	(1.9)
Bank overdrafts	15					(21.2)	(21.2)	(21.2)
Current financial liabilities	15					(21.7)	(21.7)	(21.7)
Borrowings	**15**	**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)**

Note 17 Other non-recurring income and expense

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

In millions of euros	2008	Pro forma 2007	2007
Disposal of sintered brakes business	13.7		
Transfers/Restructuring	(1.7)		(3.3)
EU fine and US civil lawsuits	(1.4)	(0.7)	(0.7)
Other items	(0.3)	(1.3)	0.1
Prior income, China and India		(4.4)	(3.0)
Impairment of securities			(0.9)
TOTAL	**10.3**	**(6.4)**	**(7.8)**

In fiscal 2008, non-recurring income and expense amounted to a net gain of €10.3 million. The principal factors were:

- the capital gain on the disposal of the sintered brakes business amounting to €13.7 million;
- the cost of transferring non-current assets and other costs following the reorganization of the Electrical Protection sites following acquisitions in an amount of €1.7 million;
- costs linked to the proceedings in progress with the European Community and civil lawsuits in the United States in an amount of €1.4 million.

In the pro forma 2007 financial statements, non-recurring income and expense amounted to a net charge of €6.4 million; The principal factors were:

- an outlay of €0.7 million in connection with legal and settlement costs related to the US lawsuits;
- the prior income/(losses) of the primarily Chinese companies consolidated for the first time in 2007, leading to a negative contribution of €4.4 million.

NOTE 18 Segment reporting

Operating income

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Applications (EA)		Electrical Protection (EP)		Total for continuing operations	
Sales	**2008**	**2007 pro forma**	**2008**	**2007 pro forma**	**2008**	**2007 pro forma**	**2008**	**2007 pro forma**
Sales to third parties	278.1	262.7	128.4	121.7	255.4	229.7	661.9	614.1
Breakdown of sales	42.0%	42.8%	19.4%	19.8%	38.6%	37.4%	100.0%	100.0%
Segment operating income before non-recurring items	45.7	44.6	22.0	21.2	31.4	22.4	99.1	88.2
Segment operating margin before non-recurring items*	16.4%	17.0%	17.1%	17.4%	12.3%	9.8%		
Segment non-recurring income and expense	13.3	(4.9)	(1.3)	(0.5)	(1.6)	(0.7)	10.4	(6.1)
Segment operating income	59.0	39.7	20.7	20.7	29.8	21.7	109.5	82.1
Segment operating margin*	21.2%	15.1%	16.1%	17.0%	11.7%	9.4%		
Unallocated costs							(16.2)	(16.1)
Operating income from continuing operations							**93.3**	**66.0**
Operating margin from continuing operations							14.1%	10.8%
Finance costs, net							(12.1)	(11.3)
Current and deferred income tax							(24.2)	(15.0)
Net income from continuing operations							**57.0**	**39.7**

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

Inter-segments sales realized by the Advanced Materials and Technologies division came to €3.6 million in fiscal 2008 compared with €4.1 million in fiscal 2007.

Breakdown of sales and sales trends by geographical area

In millions of euros	2008	%	2007 pro forma	%	2007	%
France	79.9	12.1%	82.8	13.5%	95.6	13.8%
Rest of Europe	192.3	29.0%	187	30.4%	213.1	30.7%
North America and South America	243.3	36.7%	215	35.0%	221	31.9%
Asia	127.5	19.3%	106.6	17.4%	121.4	17.5%
Rest of the world	18.9	2.9%	22.7	3.7%	42.6	6.1%
TOTAL	**661.9**	**100%**	**614.1**	**100%**	**693.7**	**100%**

Breakdown of depreciation and amortization recognized by segment

In millions of euros	2008					Pro forma 2007				
	AMT	EA	EP	Corporate costs	Total	AMT	EA	EP	Corporate costs	Total
France	(4.6)	(1.2)	(3.0)	(0.3)	(9.1)	(4.6)	(1.3)	(3.3)	(0.4)	(9.6)
Rest of Europe	(0.5)	(1.5)	(0.5)		(2.5)	(0.5)	(1.4)	(0.3)		(2.2)
Asia-Pacific	(4.6)	(0.4)	(0.1)		(5.1)	(1.9)	(0.1)	(0.1)		(2.1)
North America	(5.8)	(0.6)	(1.6)		(8.0)	(4.9)	(0.5)	(1.5)		(6.9)
Rest of the world		(0.2)	(0.1)		(0.3)	(0.2)	(0.2)	(0.0)		(0.4)
TOTAL	**(15.5)**	**(3.9)**	**(5.3)**	**(0.3)**	**(25.0)**	**(12.1)**	**(3.5)**	**(5.2)**	**(0.4)**	**(21.2)**

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, 2008
Non-current assets, net (excluding investments)	267.2	70.5	113.3	451		451
Inventories, net	85.5	31.1	49.3	165.9		165.9
Trade receivables	68.5	28.2	57.2	153.9	(32.9)	121
Other receivables	24.2	5.5	6.8	36.5	(7.4)	29.1
TOTAL SEGMENT ASSETS	**445.4**	**135.3**	**226.6**	**807.3**	**(40.3)**	**767**
TOTAL UNALLOCATED ASSETS						**180.6**
TOTAL						**947.6**

Net carrying amount of assets at end of period by geographical area

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
France	434.5	383.9
Rest of Europe	154.2	116.0
Asia	136.9	93.4
North America	208.9	166.7
Rest of the world	8.4	11.2
TOTAL	**942.9**	**771.2**

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, 2008
Trade payables	46.9	15.4	42.6	104.9	(32.9)	72.0
Other payables and other liabilities	52.0	11.2	22.5	85.7	(7.4)	78.3
Non-current and current provisions	3.9	41.3	1.0	46.2		46.2
Employee benefits	11.7	15.1	8.1	34.9		34.9
TOTAL SEGMENT LIABILITIES	**114.5**	**83.0**	**74.2**	**271.7**	**(40.3)**	**231.4**
TOTAL UNALLOCATED LIABILITIES						**386.3**
TOTAL						**617.7**

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, 2008
Property, plant and equipment and intangible assets	AMT	(8.2)	(2.0)	(10.5)	(18.4)		(39.1)
	EA	(2.9)	(1.9)	(3.2)	(1.0)	(0.5)	(9.5)
	EP	(6.7)	(0.1)		(2.1)		(8.9)
TOTAL		**(17.8)**	**(4.0)**	**(13.7)**	**(21.5)**	**(0.5)**	**(57.5)**
Financial assets and other changes	AMT	(0.3)	0.1	(6.2)	0.7		(5.7)
	EA	0.7	(0.3)	(0.1)	(0.1)	(0.1)	0.1
	EP	0.7		(0.1)	0.1		0.7
TOTAL		**1.1**	**(0.2)**	**(6.4)**	**0.7**	**(0.1)**	**(4.9)**
TOTAL INVESTMENT FLOWS		**(16.7)**	**(4.2)**	**(20.1)**	**(20.8)**	**(0.6)**	**(62.4)**

NOTE 19 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €211.6 million in fiscal 2008 compared with €200.7 million in fiscal 2007.

On a like-for-like basis, staff costs decreased by 6%.

Breakdown of consolidated average headcount by employee category

Categories	2008	%	2007 pro forma	%
Engineers and managers	696	12%	658	12%
Technicians and supervisors	741	12%	735	14%
Employees	798	13%	638	12%
Blue-collar workers	3,777	63%	3,381	62%
TOTAL	6,012	100%	5,412	100%

Breakdown of the consolidated average headcount by geographical area

Categories	2008	%	2007 pro forma	%
France	1,540	26%	1,612	30%
Rest of Europe (+Tunisia)	1,039	17%	1,038	19%
North America (+Mexico)	1,971	33%	1,878	35%
Asia	1151	19%	530	10%
Rest of the world	311	5%	354	6%
TOTAL	6,012	100%	5,412	100%

At comparable scope, the average headcount rose by 93 employees.

NOTE 20 Operating income

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

In millions of euros	2008	2007 pro forma	2007
Product sales	594.2	550.6	622.0
Trading sales	67.7	63.5	71.7
TOTAL SALES	661.9	614.1	693.7
Other operating revenues	4.9	5.8	6.9
Cost of trading sales	(61.1)	(45.6)	(48.2)
Raw material costs	(130.1)	(125.5)	(154.0)
Costs on other operating revenues	(1.4)	(2.0)	(2.8)
Manufacturing costs	(99.5)	(99.1)	(116.4)
Salary costs	(205.6)	(196.2)	(221.4)
Employee incentives and profit-sharing	(6.0)	(4.5)	(4.7)
Other expenses	(42.6)	(57.2)	(62.3)
Financial components of operating income	(1.8)	(1.7)	(2.2)
Depreciation and amortization	(25.0)	(21.2)	(24.8)
Additions to provisions	(0.4)	(0.9)	(0.9)
Impairment losses	0.0	0.0	(20.2)
OPERATING INCOME	93.3	66.0	42.7

NOTE 21 Financial income and costs

Recognized on the income statement *In millions of euros*	2008	2007
Amortization of bond issuance expenses	(0.5)	(0.3)
Interest paid on debt	(11.0)	(11.1)
Debt-related fees	(1.0)	(0.4)
Ineffective portion of interest-rate hedges	0	(0.1)
Interest income from bank deposits	0.4	0.6
Finance costs, net	**(12.1)**	**(11.3)**

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

Recognized directly in equity *In millions of euros*	2008	2007
Change in fair value of currency hedges	1.0	(1.1)
Change in fair value of interest-rate hedges	(0.3)	(0.7)
Change in fair value of commodity hedges	(1.3)	(0.6)
Impact on changes recognized in equity	0.4	0.5
Net finance costs recognized directly in equity, net of tax	**(0.2)**	**(1.9)**

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

NOTE 22 Income tax

In millions of euros	2008	2007
Current income tax	(8.3)	(7.8)
Deferred income tax	(15.7)	(7.1)
Withholding tax	(0.2)	(0.2)
TOTAL TAX EXPENSE	**(24.2)**	**(15.1)**

The Group has:

- one consolidated tax group in France;
- one consolidated tax group in the United States;
- two consolidated tax groups in Germany;
- and one consolidated tax group in Japan.

The Group's effective tax rate came to 30% in fiscal 2008 compared with 27% in fiscal 2007.

Analysis of income tax expense

In millions of euros	2008
NET INCOME	**29.8**
Income tax expense/(benefit) on continuing operations	(24.2)
TAXABLE INCOME	**54.0**
Current tax rate in France	**34.4%**
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(18.6)
Difference between income tax rate in France and other jurisdictions	0.8
Transactions qualifying for a reduced rate of taxation	(1.1)
Permanent timing differences	**2.3**
Impact of limiting deferred tax assets	(2.9)
Other items	(4.7)
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(24.2)**

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

In millions of euros	2008	2007
Deferred tax assets	10.3	21.6
Deferred tax liabilities	(6.1)	(3.1)
Net position	4.2	18.5

Deferred tax movements during fiscal 2008 were as follows:

In millions of euros	Dec. 31, 2007	Net income for the year	Other	Translation adjustment	Dec. 31, 2008
Employee benefit obligations	7.6	(0.4)	0.1		7.3
Provisions for restructuring	0.2	(0.3)		0.1	0.0
Depreciation of non-current assets	(15.3)	(0.3)		(0.6)	(16.2)
Tax-regulated provisions	(3.2)	0.1	(0.2)		(3.3)
Impact of tax losses	16.5	(4.9)			11.6
Impairment losses	0.6		0.1		0.7
Other items	12.1	(9.9)	1.7	0.2	4.1
DEFERRED TAX ON THE BALANCE SHEET - NET POSITION	**18.5**	**(15.7)**	**1.7**	**(0.3)**	**4.2**

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 23 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	2008	2007 pro forma	2007
Numerator: Net income used to compute basic earnings per share (net income for the period).	29.1	15.4	15.4
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,237,692	14,239,519	14,239,519
Adjustment for dilutive potential ordinary shares: unexercised options	404,667	405,094	405,094
Weighted average number of ordinary shares used to compute diluted earnings per share	14,642,359	14,644,613	14,644,613
Basic earnings per share *(€)*	2.05	1.08	1.08
Diluted earnings per share *(€)*	1.99	1.05	1.05

Continuing operations	2008	2007 pro forma	2007
Numerator: Net income used to compute basic earnings per share (net income for the period).	56.3	38.8	15.4
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,237,692	14,239,519	14,239,519
Adjustment for dilutive potential ordinary shares: unexercised options	404,667	405,094	405,094
Weighted average number of ordinary shares used to compute diluted earnings per share	14,642,359	14,664,613	14,664,613
Basic earnings per share *(€)*	3.95	2.73	1.08
Diluted earnings per share *(€)*	3.84	2.65	1.05

Certain options are very unlikely to be exercised prior to their expiration date given the trend in share prices attributable to the financial crisis. The calculated dilution effect shown above is thus overstated.

NOTE 24 Dividends

A dividend of €0.85 per share was paid to shareholders in May 2008 in respect of fiscal 2007, representing an aggregate amount of €12.1 million.

The dividend proposed in respect of fiscal 2008 stands at €0.62 per share, representing an aggregate amount of €8.7 million. The option of receiving this dividend in shares will be put to shareholders.

NOTE 25 Leases

1 - Finance leases

Carrying amount by asset category

None.

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

In millions of euros	Total at Dec. 31, 2008	< one year	> one year	five years or more
Minimum payments	11.6	5.4	6.2	0.3

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 26 Related party disclosures

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

Le Carbone Lorraine SA belongs to the Carbone Lorraine group, which encompasses 95 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 €11.7 million in fiscal 2008, compared with €15.1 million in fiscal 2007.

In fiscal 2008, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.3 million, stable compared with the €0.3 million in fiscal 2007.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €4.1 million at December 31, 2008, while amounts payable came to €0.2 million.

Advances made to unconsolidated subsidiaries by Le Carbone Lorraine SA amounted to €4.0 million (vs. €0 million in fiscal 2007) at December 31, 2008.

2 - Disclosure of compensation paid to key management personnel (Executive Committee, including the Chairman and CEO)

In millions of euros	2008	2007
Salaries, bonuses, benefits in kind and directors' fees	2.4	2.1
Top-up pension plan payments (1)	1.8	0.7
Other long-term employee benefits	0.0	
TOTAL	**4.2**	**2.8**

(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 €5.4 million at December 31, 2008, compared with €5.0 million at December 31, 2007.
In addition, an additional charge was incurred owing to the retirement of a member of the Executive Committee at an earlier date than initially anticipated.

Members of the Executive Committee do not qualify for any other long-term employee benefits. Should his appointment be terminated, the Group's Chief Operating Officer will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the thirty-six month period preceding termination, subject to the attainment of performance criteria.

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

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

	2007 plan Tranche 1
Date of Board of Directors' meeting	July 25, 2007
Total number of shares allotted	75,000
Subscription price	57.24
Start of exercise period	July 2011
Expiration date	July 2017

- bonus share allotments: see the table of previous allotments to the Executive Committee (including the Chairman and CEO) below.

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

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

NOTE 27 Commitments and contingencies

A - Financial commitments and liabilities

In millions of euros	Dec. 31, 2008	Dec. 31, 2007
Commitments received		
Guarantees and endorsements	0.1	0.3
Other commitments received	0.9	0.0
TOTAL	**1.0**	**0.3**
Commitments given		
Collateralized debts and commitments	0.3	0.3
Market guarantees and endorsements	16.5	10.6
Payment guarantees on acquisitions	-	-
Other guarantees	48.6	43.7
Other commitments given	7.5	6.4
TOTAL	**72.9**	**61.0**

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

Nature

The largest item totaling €48.6 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 the Group lodged a new appeal with the European Court of Justice on December 18, 2008. 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 €25.9 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 2009. It may be extended with the consent of the guarantor banks depending on the date of the Court's ruling.

Internal control

Under the Group's internal control organization, Group companies are not authorized to enter into transactions giving rise to commitments and contingencies without obtaining the prior approval of the Group's Finance department and, where appropriate, of the 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 28 Subsequent events

There were no subsequent events aside from the offer received to purchase the automobile and household electrical appliance brush division.

NOTE 29 Approval of the financial statements

The Group's consolidated financial statements for the fiscal year to December 31, 2008 were approved by the Board of Directors at its meeting on March 17, 2009.

Statutory auditors' report on the consolidated financial statements

- Fiscal year ended December 31, 2008

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, 2008, on:

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

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

→ Opinion on the consolidated 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 or using other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2008, and of the results of its operations for the year then ended, in accordance with IFRSs as adopted for use in the European Union.

→ Justification of our assessments

The accounting estimates used in the preparation of the financial statements at December 31, 2008 were made against the backdrop of a steep downturn in the economic and financial environment, which makes it hard to assess the business outlook, as stated in Note 2-V to the consolidated financial statements (see section on "Use of estimates"). Pursuant to the provisions of Article L.823-9 of the French Commercial Code, we carried out our own assessments, which we wish to bring to your attention below:

Assets held for sale

Note 5 to the consolidated financial statements shows the automobile and household electrical appliance brush division classified under assets held for sale in accordance with IFRS 5. As part of our audit, we ensured that the criteria for classifying this business under assets held for sale defined in this standard were observed properly.

Impairment losses

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 method used to implement the test as well as the estimated cash flows and the assumptions made. We have also verified that Notes 6 and 7 to the consolidated financial statements provide appropriate disclosures.

Employee benefits

Note 2.O to the consolidated financial statements describes the accounting policy used to evaluate 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 14 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.

→ Specific verification

We also carried out the specific verifications required by law of the information about the Group disclosed in the management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

The Statutory Auditors

Paris La Défense, March 17, 2009
KPMG Audit
KPMG SA department

Jean-Paul Vellutini
Partner

Catherine Porta
Partner

Neuilly-sur-Seine, March 17, 2009
Deloitte & Associés

Alain Penanguer
Partner

Parent company financial statements

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Income statement

(€ 000s)	2008	2007
OPERATING REVENUES (1)		
Revenues		
Sales of goods purchased for resale	0	0
Sales of manufactured goods	0	0
Other revenues	1,976	1,535
TOTAL SALES	**1,976**	**1,535**
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	3	0
Transferred operating costs	1,921	528
Other income	714	685
TOTAL 1	**4,614**	**2,748**
OPERATING EXPENSES (2)		
Purchases of goods bought for resale	0	0
Purchases of raw materials and other supplies	0	0
Change in inventories	0	0
Other purchases	15	18
External charges	5,679	3,757
Taxes other than income tax	701	635
Wages and salaries	2,145	1,693
Social security charges	565	329
Depreciation, amortization and charges to provisions:		
against fixed assets: amortization	37	50
against deferred costs	0	0
against current assets: charges to provisions	0	0
for liabilities and charges: charges to provisions	27	28
Other expenses	163	150
TOTAL 2	**9,332**	**6,660**
OPERATING INCOME (TOTAL 1-2)	**(4,718)**	**(3,912)**

(€ 000s)	2008	2007
FINANCIAL INCOME (3)		
Participating interests	20,829	20,560
Other income from fixed assets	877	133
Other interest and related income	8,020	9,082
Reversals of depreciation, amortization and charges to provisions	949	6,453
Foreign exchange gains	16,243	2,281
Gains on the disposal of marketable securities	0	0
TOTAL 3	**46,918**	**38,509**
FINANCIAL EXPENSE (4)		
Depreciation, amortization and charges to provisions	13,079	11,724
Interest and related expenses	17,043	16,742
Foreign exchange losses	8,720	1,689
TOTAL 4	**38,842**	**30,155**
NET FINANCIAL INCOME (3 - 4)	**8,076**	**8,354**
INCOME BEFORE TAX AND EXCEPTIONAL ITEMS	**3,358**	**4,442**
EXCEPTIONAL INCOME		
Management transactions	732	0
Capital transactions	139,775	1,155
Reversals of provisions and transferred costs	6	24
TOTAL 5	**140,513**	**1,179**
EXCEPTIONAL CHARGES		
Management transactions	836	150
Capital transactions	137640	537
Depreciation, amortization and charges to provisions	1	3
TOTAL 6	**138,477**	**690**
NET EXCEPTIONAL INCOME (TOTAL 5 - 6)	**2,036**	**489**
EMPLOYEE PROFIT-SHARING	**0**	**0**
INCOME TAX	**(7,376)**	**(3,379)**
NET INCOME FOR THE YEAR	**12,770**	**8,310**
TOTAL INCOME	**192,045**	**42,436**
TOTAL EXPENSES	**179,275**	**34,126**

Balance sheet

ASSETS

(€ 000s)	2008 Gross	2008 Depreciation and amortization	2008 Net	2007 Net
FIXED ASSETS				
Intangible fixed assets				
Concessions, patents, licenses, brands	8,797	8,749	48	67
Other intangible assets	0		0	0
Intangible fixed assets in progress	0		0	0
SUB-TOTAL	**8,797**	**8,749**	**48**	**67**
Property, plant and equipment				
Land	0	0	0	0
Buildings	0	0	0	0
Plant and other machinery	0	0	0	0
Other	416	347	69	49
Property, plant and equipment in progress	0		0	0
Advances and downpayments	0		0	0
SUB-TOTAL	**416**	**347**	**69**	**49**
Financial fixed assets(1)				
Participating interests	464,041	122,223	341,818	352,500
Loans and advances to participating interests	125,726	0	125,726	21,332
Other fixed assets	5		5	5
Other	6,280	398	5,882	7,889
TOTAL A	**596,052**	**122,621**	**473,431**	**381,726**
CURRENT ASSETS				
Advances and downpayments paid on orders	0		0	1
Trade receivables and related accounts(2)	1,018		1,018	519
Other(2)	63,911		63,911	57,942
Marketable securities	0		0	0
Cash and cash equivalents	22,746		22,746	881
ACCRUALS				
Prepaid expenses(2)	378		378	3,362
TOTAL B	**88,053**	**0**	**88,053**	**59,705**
Bond redemption premiums **C**	0		0	0
Deferred costs **D**	1,439		1,439	828
Foreign currency translation losses **E**	1,210		1,210	417
TOTAL (A+B+C+D+E)	**695,967**	**131,717**	**564,250**	**442,792**

(1) due in less than one year: 3,708.
(2) due in over one year: 1,045.

LIABILITIES AND SHAREHOLDERS' EQUITY

(€ 000s)	2008	2007
TOTAL SHAREHOLDERS' EQUITY		
Share capital	28,595	28,562
Issue premium	119,995	123,863
Merger premium	8,252	8,252
Revaluation reserves	3,252	3,252
Unavailable reserves	2,262	1,722
Statutory reserve	2,856	2,793
Other reserves	28,902	29,476
Retained earnings	33	23
Net income for the year	12,770	8,310
Tax-regulated provisions	4	9
TOTAL A	**206,921**	**206,262**
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for liabilities	19,834	11,635
Provisions for charges	342	318
TOTAL B	**20,176**	**11,953**
BORROWINGS(1)		
Bond issues	40,152	40,187
Borrowings from credit institutions(2)	2,292	7,824
Other borrowings	226,963	122,530
Advances and downpayments received on orders in progress	0	0
Trade payables and related accounts	1,256	599
Tax and social security liabilities	3,213	2,234
Amounts payable on fixed assets and related accounts	0	1
Other financial liabilities	45,086	34,073
ACCRUALS		
Prepaid income	0	0
TOTAL C	**318,962**	**207,448**
Foreign exchange translation gains D	18,191	17,129
TOTAL (A+B+C+D)	**564,250**	**442,792**

(1) due in over one year: 267,557 due in less than one year: 51,405.
(2) including current bank loans and overdrafts: 551.

Notes to the balance sheet and income statement

NOTE 1 Accounting principles and methods

The financial statements of Le Carbone Lorraine for fiscal 2008 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 or amortized 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. Gross value represents the contribution value or acquisition cost. Impairment losses may be recognized if carrying amount is above the value in use, where this value in use is notably determined by reference to the equity interest, development outlook and sales generated by the subsidiary. The development outlook is assessed based on past experience and various factors. The current backdrop of a severe downturn in the economic and financial environment has made it harder to assess this outlook. It is therefore possible that actual future figures may differ from the estimates adopted to assess the value of the securities portfolio.

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, 2008 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 under 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 5.35%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 4.0%;
- 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. 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 subscription 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 in the market for allotment to beneficiaries under stock option and bonus share plans. In this case, the transaction would be recognized in accordance with Conseil National de la Comptabilité's notice no. 2008-17 on how to account for stock subscription and purchase plans and bonus share allotment plans for employees.

NOTE 2 Analysis and commentary

INCOME STATEMENT

Sales

Revenues (€1,976,000) primarily derive from services billed in France and abroad.

Operating income

The Company's operating loss came to €4,718,000, reflecting the impact of the holding company's operating costs.

Net financial income

Net financial income of €8,076,000 was stable compared with the previous year (€8,354,000). The foreign exchange gains recorded on the refinancing of the syndicated loan were offset by impairment losses on participating interests and provisions for liabilities related to the automobile division.

Exceptional items

The Company's net exceptional gain of €2,036,000 was primarily attributable to a capital gain on the internal disposal of participating interests within the Group.

Income tax

The Company recorded a 2008 income tax benefit of €7,376,000 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 increase in net value of €94,603,000 was the result of the acquisitions completed in Asia and Europe.

Debt

The Company's total net debt at December 31, 2008 declined by €24,705,000.

(€ 000s)	2008	2007
Bank overdrafts	551	6,952
Bond issue	40,000	40,000
Other borrowings	226,695	122,243
Other financial liabilities(1)	39,743	33,616
Total debt	**306,989**	**202,811**
Cash and cash equivalents	(22,746)	(881)
Other receivables(2)	(58,984)	(53,764)
Marketable securities, cash and cash equivalents	**(81,730)**	**(54,645)**
Loans to subsidiaries	**(125,543)**	**(21,233)**
Other financial assets	**(5,119)**	**(7,631)**
Net debt	94,597	119,302
o/w: due in over one year	138,969	136,083
due in less than one year	(44,372)	(16,781)

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

NOTE 3 Fixed assets

(€ 000s)	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	8,865	0	68	8,797	8,798	19	68	8,749
Fixed assets in progress	0	0	0	0	0	0	0	0
TOTAL 1	**8,865**	**0**	**68**	**8,797**	**8,798**	**19**	**68**	**8,749**
Property, plant and equipment								
Buildings and technical installations	0	0	0	0	0	0	0	0
Other property, plant and equipment	424	38	46	416	375	18	46	347
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	**424**	**38**	**46**	**416**	**375**	**18**	**46**	**347**
Financial fixed assets								
Participating interests	471,770	83,740	91,469	464,041	119,270	3,770	817	122,223
Loans and advances to participating interests	21,332	135,846	31,452	125,726	0	0	0	0
Other fixed assets	5	0	0	5	0	0	0	0
Other financial assets	7,963	12,034	13,717	6,280	74	398	74	398
TOTAL 3	**501,070**	**231,620**	**136,638**	**596,052**	**119,344**	**4,168**	**891**	**122,621**
TOTAL	**510,359**	**231,658**	**136,752**	**605,265**	**128,517**	**4,205**	**1,005**	**131,717**

NOTE 4 Provisions

Accounts (€ 000s)	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	9	1	6	0	4
TOTAL 1	**9**	**1**	**6**	**0**	**4**
Provisions for liabilities and charges					
Foreign currency losses	58	9	58	0	9
Provision for European Commission fine	2,249	0	0	0	2,249
Retirement indemnities	306	26	0	0	332
Long-service awards	12	1	0	3	10
Risk related to Ugimag	9,328	851	0	0	10,179
Risk related to AVO SA	0	1,881	0	0	1,881
Risk related to CL Madras	0	5,516	0	0	5,516
TOTAL 2	**11,953**	**8,284**	**58**	**3**	**20,176**
Provisions for impairment					
in participating interests	119,270	3,770	817	0	122,223
in shares held in treasury	74	398	74	0	398
TOTAL 3	**119,344**	**4,168**	**891**	**0**	**122,621**
TOTAL	**131,306**	**12,453**	**955**	**3**	**142,801**

NOTE 5 Maturity schedule of assets and liabilities

Receivables (€ 000s)	Gross balance sheet value	Due in one year or less	Due in over one year
Loans and advances to participating interests	125,726	183	125,543
Other financial assets	6,280	3,525	2,755
Trade receivables	1,018	1,018	0
Other receivables	63,911	62,866	1,045
Prepaid expenses	378	378	0
TOTAL	**197,313**	**67,970**	**129,343**

Borrowings (€ 000s)	Gross balance sheet value	Due in one year or less	Due in over one year	Due in over five years
Bond issue	40,152	152	40,000	0
Borrowings from credit institutions	2,292	2,292	0	0
Other borrowings	226,963	268	226,695	0
Trade payables and related accounts	1,256	1,256	0	0
Tax and social security liabilities	3,213	2,351	520	342
Other financial liabilities	45,086	45,086	0	0
TOTAL	**318,962**	**51,405**	**267,215**	**342**

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 *(€ 000s)*	Amount for related parties at least 50%-owned	Amount for participating interests (less than 50%-owned)
Loans and advances to participating interests	125,726	0
Trade receivables	999	0
Other receivables	59,861	33
Cash and cash equivalents	1,325	0
Borrowings from credit institutions	24	0
Other borrowings	267	0
Trade payables	13	0
Other financial liabilities	40,165	0
Financial expense	14,216	0
Financial income	26,208	7

NOTE 7 Revaluation reserve

(€ 000s)	
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

(€ 000s)		
1. Amount of accrued income included in the balance sheet items below		
Loans and advances to participating interests		183
Other financial assets		755
Trade receivables and related accounts		30
Other receivables		947
Trade payables and related accounts		35
Cash and cash equivalents		1,581
TOTAL		**3,531**
2. Amount of accrued expenses included in the balance sheet items below		
Bond issues		152
Borrowings from credit institutions		1,741
Other borrowings		268
Trade payables and related accounts		146
Tax and social security liabilities		3,058
Other financial liabilities		572
TOTAL		**5,937**
3. Amount of prepaid income and expenses	**Expenses**	**Income**
Operating items	376	0
Financial items	2	0
TOTAL	**378**	**0**
4. Costs deferred over several periods		
Bond issuance expenses	1,439	
TOTAL	**1,439**	

NOTE 9 Share capital

Share capital

The capital comprises 14,297,213 shares, each with a par value of €2, fully paid-up including 16,478 new shares deriving from an allotment of bonus shares in 2008.

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. The sale of the warrants to the Group’s senior executives made for a significant reduction in the interest rates on the bond.

At the end of the year, the Company also issued 2,500,000 share issuance rights subscribed by Société Générale at a price of €0.01, which may be exercised at Le Carbone Lorraine’s request for a period of two years in tranches of no more than 400,000 shares each. For each tranche, the issue price would be set based on the price when the rights are exercised less a discount not exceeding 10%. This discount would enable Société Générale to subscribe then resell the shares in spite of the strong volatility in the capital markets, since Société Générale merely acts as a financial intermediary in this transaction. The total number of shares that may be issued after two years may not exceed 2.5 million or 17.5% of the share capital prior to any issues made under this PACEO program.

Stock subscription options and bonus share allotments

On the recommendation of the Appointments and Remuneration Committee, the Board of Directors regularly offers Group managers the chance to subscribe stock subscription options, subject to attainment of specific earnings targets, or bonus shares, provided that they remain with the Group for a certain period of time.

Two stock option plans were 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.

Three bonus share allotment plans were set up on June 30, 2005, June 28, 2006 and February 26, 2008.

The bonus share allotment plans and exercise of the stock options plans have to date been fulfilled through the issuance of new shares. As a result, no expenses or liabilities were recognized during the fiscal year in respect of these plans.

Characteristics/Assumptions	2003 stock option plan	2005 bonus share plan	2006 bonus share plan	2007 stock option plan	2008 bonus share plan
Allotment date	May 14, 2003	June 30, 2005	June 28, 2006	July 25, 2007	Feb. 26, 2008
Availability date	May 14, 2007	July 1, 2007	June 28, 2008	July 25, 2011	Feb. 26, 2011
Expiration date	May 13, 2013	July 1, 2007	June 28, 2008	July 25, 2017	Feb. 26, 2011
Adjusted exercise price *(€)*	21.21	0.00	0.00	57.24	0.00
Adjusted share price at allotment date *(€)*	22.07	39.25	40.07	56.44	29.63
Estimated life *(number of years)*	5.5	2	2	5.5	3
Volatility	40.6%	39.9%	37.0%	30.9%	n/a
Dividend per share *(as a % of share price)*	2.4	1.3	1.6	1.9	2.3
Risk-free interest rate	3.43%	2.68%	3.86%	4.44%	n/a
Exercise period *(number of years)*	4	2	2	4	3
Lock-up period *(number of years)*	0	2	3	0	2
Number of options/adjusted share allotments	130,163	42,700	17,975	165,000	20,000
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	End of the plan	End of the plan	1.5%	1.5%	
Estimated annual cancellation rate at year-end 2008	End of the plan	End of the plan	1.5%	1.5%	1.5%
% of shares/options acquired following satisfaction of the performance condition	66.7	100	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	
Estimate of the number of options/shares ultimately exercised in 2008	82,089	30,900	16,478	155,321	19,113
Valuation of options/shares	€7.80	€37.30	€38.80	€16.80	€27.68
Valuation as a % of the share price at grant	35.5%	94.9%	96.9%	29.8%	93.4%

Statement of changes in equity

(€ 000s)	
Opening equity at January 1, 2008	**206,262**
Net income for the year	12,770
Change in tax-regulated provisions	(5)
Dividend payment	(12,106)
Closing equity at December 31, 2008	**206,921**

NOTE 10 Commitments

Commitments and contingencies

(€ 000s)	
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	11,497
Guarantee for the syndicated loan to the holding company in China	52,656
Guarantee for Nippon Carbon Lorraine's credit line	1,189
Other guarantees and deposits	2,281
TOTAL	**108,747**
Commitments received	**0**
TOTAL	**108,747**

Other reciprocal commitments

(€ 000s)	
Reciprocal commitments given	
Currency hedges	42,046
Commodity hedges	2,219
TOTAL	**44,265**
Reciprocal commitments received	
Currency hedges	36,603
Commodity hedges	2,219
TOTAL	**38,822**

Other employee commitments

(€ 000s)	
Top-up pension plan covering senior managers belonging to the Executive Committee	
Present value of plan obligations at December 31, 2008	3,925
Fair value of assets held by AXA Assurances	(2,064)
TOTAL	**1,861**

Other commitments related to financial instruments

(€ 000s)	
Fair value of financial instruments at December 31, 2008	
Interest rate swaps	2,401
Currency hedges	(180)
Commodity hedges	(2,219)
TOTAL	**2**

NOTE 11 Leases

The Company did not hold any finance leases in progress at December 31, 2008.

NOTE 12 Employees

Total payroll costs for tax purposes amounted to €1,364,000 in 2008.

The compensation and benefits paid to officers and directors in respect of fiscal 2008 amounted to €1,486,000.

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

(€ 000s)	Income before tax	Tax payable
Current	3,358	0
Exceptional	2,036	0
Tax benefit received from subsidiaries consolidated for tax purposes		7,376

Increase and decrease in future tax liability

(€ 000s)	Beginning of period	Change during period	End of period
Accelerated tax depreciation	(8)	5	(3)
Provisions for GPC pension obligations	654	(25)	629
Top-up pension provision	410	(48)	362
Income from future hedges	0	56	56
Accrued expense, social solidarity contribution	9	9	18
Paid vacation	68	7	75
Retirement indemnities	306	26	332
Tax base or future tax credit (significant items)	1,439	30	1,469
Tax losses	31,191	(14,331)	16,860
Total	32,630	(14,301)	18,329
Future tax rate adopted	34.43%		34.43%
Amount of future tax receivable	11,235		6,311

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 Shawmut Thermal Management, 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 each subsidiary's 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

(€ 000s)	Amounts	o/w set off by hedges or global currency position	Provisions for liabilities and charges	Other
Foreign currency translation losses (unrealized)				
On financial fixed assets	1,199	1,197	2	
On receivables and payables	11	4	7	
TOTAL	**1,210**	**1,201**	**9**	
Foreign currency translation gains (unrealized)				
On financial fixed assets	8,521	391		8,130
On miscellaneous borrowings	9,666	806		8,860
On trade payables	4	4		
TOTAL	**18,191**	**1,201**		**16,990**

NOTE 17 Treasury shares

Pursuant to the liquidity agreement entered into with Exane-BNP Paribas, the Company held 59,521 treasury shares at December 31, 2008.

NOTE 18 Information about exceptional items

Exceptional income

(€ 000s)	
Management transactions	
Restructuring, professionals fees and expenses	732
SUB-TOTAL	**732**
Capital transactions	
Disposal price of shares in Carbone Corporation USA	94,616
Disposal price of shares in Ugimagnet Corporation USA	44,841
Gains on the sale of treasury shares	318
SUB-TOTAL	**139,775**
Reversal of accelerated tax depreciation	6
SUB-TOTAL	**6**
TOTAL	**140,513**

Exceptional charges

(€ 000s)	
Management transactions	
Professional fees and expenses	603
GPC pensions for non-active workers	53
Tax reassessment	165
Other	15
SUB-TOTAL	**836**
Capital transactions	
Net book value of Carbone Lorraine Corporation USA shares	91,469
Net book value of Ugimagnet Corporation USA shares	44,841
Losses on the sale of treasury shares	1,330
SUB-TOTAL	**137,640**
Allowance for accelerated tax depreciation	1
SUB-TOTAL	**1**
TOTAL	**138,477**

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 has signed three major borrowing agreements:

- 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 9 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;
- a USD350 million loan arranged in July 2008 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.

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, 2008, the swaps had a total nominal amount of USD66.4 million.

In October 2005, the Group purchased 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.

Commodity risk

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

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.

NOTE 21 Subsequent events

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

- the acquisition of the automobile and household electrical appliance brush business activities of:
  - CL Applications Electriques (Amiens),
  - Deutsche Carbon AG (Germany),
  - Carbono Lorena (Brazil),
  - Carbone Kirkwood (US),
  - Carbone of America industries Corp. (US);
- and the shares of the following companies:
  - AVO SA (Poitiers France),
  - SCEET (Tunisia),
  - Carbone Lorraine Madras (India),
  - AVO Kunshan (China),
  - Carbono Lorena de Mexico (Mexico).

List of subsidiaries and shareholdings

Detailed information (gross book value exceeding 1% of the share capital) *(€ 000s)*	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, net	Guarantees and sureties given
				Gross	Net			
AVO SA (France)	224	2,366	99.59	17,553	0			
Ferraz Shawmut SA (France)	40,936	1,359	99.99	49,589	49,589			
Ugimag SA (France)	3,208	(13,387)	100	73,483	0			
Carbone Lorraine Applications Électriques (France)	22,477	3,575	100	25,402	25,402	2,697		
Carbone Lorraine Composants (France)	19,896	15,179	100	19,896	19,896	3,184		
Carbone Lorraine Corporate Services (France)	3,574	545	100	3,646	3,646	358		
Carbone Lorraine Équipements Génie Chimique (France)	17,321	473	100	17,321	17,321	1,135		
Deutsche Carbone AG (Germany)	10,021	15,983	10	1,635	1,635			600
CL KG (Germany)	28,700	(10,201)	100	28,700	15,939		414	
Carbone Lorraine Argentina SA (Argentina)	253	481	99.99	962	807			
Carbone Lorraine Australia PTY Ltd (Australia)	543	2,642	100	702	702	898		
Carbono Lorena SA (Brazil)	10,946	(7,089)	99.99	23,847	16,800			
Carbone of America Ltd (Canada)	1,135	9,774	100	1,322	1,322	2,263		
Carbone Lorraine China Holding (China)	21,927	(244)	100	20,564	20,564			52,656
Carbone Lorraine Korea Co. Ltd (South Korea)	2,653	1,844	100	12,060	11,540	800		
Carbone Danmark A/S (Denmark)	67	(57)	100	477	477			
Sofacel (Spain)	2,404	2,478	50.02	680	680	400		
Ferraz Shawmut Iberica (Spain)	2,043	(630)	100	2,396	2,396		1,355	
Carbone Lorraine North America (US)	25,732	23,992	100	68,926	68,926		101,429	
Le Carbone UK (Holdings) Ltd (UK)	6,539	(82)	100	903	903		5,774	
Calgraphite holding (UK)	42,000	(3)	100	42,000	42,000		14,698	
Carbone Lorraine Grèce SA (Greece)	383	129	100	638	260			
Carbone Lorraine Mauritius (Mauritius)	21,787	(1,075)	100	23,182	23,182			11,497
The Carbon Company Mauritius (Mauritius)	177	(175)	100	2,337	0			
Carbone Lorraine India (India)	3,670	2,347	100	7,239	7,021			
Carbone Lorraine Madras PVT Ltd (India)	301	(923)	51	407	0			
Il Carbonio Spa. (Italy)	2,500	391	99.99	4,590	4,590	476		
Le Carbone KK (Japan)	397	8,546	8.70	2,977	917	27		
Carbono Lorena (Mexico)	2,293	(1,068)	100	2,177	0			359
Le Carbone (SA) PTY Ltd (RSA)	80	2,141	54.77	813	813	179		
Carbone Lorraine Singapore Holding PTE Ltd	836	(652)	100	1,065	57			
Carbone Nordic AB (Sweden)	184	648	100	551	551	850		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	5,231	(3,120)	99.99	5,016	2,907	343		
Total figures (concerning the other subsidiaries and shareholdings)								
Subsidiaries (at least 50%-owned)								
in France				38	28			
outside France				730	730	604	76	
Shareholdings (10% to 50%-owned)								
outside France				217	217	7		1189
Other shareholdings (less than 10%-owned)				**0**	**0**			
TOTAL				**464,041**	**341,818**	**14,221**	**123,746**	**66,301**

Five-year financial summary

	2008	2007	2006	2005	2004
1. Share capital at year-end					
Capital *(€ 000s)*	28,595	28,562	27,931	27,683	22,394
Number of shares outstanding	14,297,213	14,280,735	13,965,475	13,841,352	13,755,577
Nominal value of shares *(€)*	2	2	2	2	2
2. Overall result of operations *(€ 000s)*					
Income before tax, depreciation, amortization, charges to provisions and employee profit-sharing	17,580	10,259	21,054	9,679	7,295
Income tax	(7,376)	(3,379)	(4,312)	(5,537)	(6,852)
Employee profit-sharing	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	12,770	8,310	9,445	4,398	2,859
Total earnings paid out	8,864	12,138	11,871	9,689	7,566
3. Overall result of operations per share *(€)* (1)					
Net income after tax and employee profit-sharing, but before depreciation, amortization and charges to provisions	1.75	0.95	1.82	1.10	0.84 (1)
Net income after tax, depreciation, amortization and charges to provisions	0.89	0.58	0.68	0.32	0.25 (1)
Dividend paid on each share	0.62	0.85	0.85	0.70	0.55 (1)
4. Employees					
Average headcount	6	6	6	6	6
Total payroll costs *(€ 000s)*	2,145	1,693	2,375	1,832	1,009
Amount paid for welfare benefits *(€ 000s)*	565	329	584	368	305

(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, 2008

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, 2008, 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.

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 or using other selection methods, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2008, and of the results of operations for the year then ended in accordance with the accounting principles generally accepted in France.

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.

The Company assesses on an annual basis the carrying amount of its participating interests and other fixed assets using the method described in Note 1.C to the financial statements on accounting principles and methods. We carried out an assessment of the approach adopted by the Company, against the backdrop of a severe downturn in the economic and financial environment, which makes it hard to evaluate the business outlook and, based on the information available at present, we ensured that the information disclosed in the notes is appropriate.

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.

→ Specific verifications and disclosures

We also conducted the specific verifications required by law.

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.

The Statutory Auditors

Paris La Défense, March 17, 2009

KPMG Audit

KPMG SA department

Jean-Paul Vellutini
Partner

Catherine Porta
Partner

Neuilly-sur-Seine, March 17, 2009

Deloitte & Associés

Alain Penanguer
Partner

Legal and financial information

page

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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 safeguarding 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. During 2008, the Group conducted its third risk mapping survey. It covers all its risks, naturally including industrial risks, but also those related to its strategy, finances and information management. This latest risk mapping did not reveal any major risks and helped to update the action plans required to bring all the Group's risks under tight control.

Industrial risks

In addition to the pre-registration phase for chemical products under the REACH regulations, the Risk Department continued 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:

- continuing to deploy action plans linked to the highly specialized nature of the production facilities:
  - replacing installations,
  - improving contingency plans activated in the event of equipment failure.
- continuing to secure installations using explosive or toxic gases;
- enhancing feedback.

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 continued to implement a series of measures aimed at safeguarding 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 mainframe IT systems.

The contingency and business continuity and resumption plans were tested at the two principal centers in Europe and the US. The Asian platforms were also tested during 2008 in China and India.

During 2008, work to secure IT installations (virus attacks, spam, internet access, etc.) was continued, together with site audits, to ensure that the Group rules are applied properly.

Environmental risks

Efforts during 2008 focused principally on the pre-registration of products under the REACH regulations. This task was completed by the deadline set in the European regulations. Other work was carried out, notably including the completion of the carbon footprint assessment for a pilot site in France. This analysis will make it possible to apply certain conclusions to other sites and to pursue this program across the Group over the next few years based on the experience gained from the pilot project. Carbone Lorraine also actively continued its efforts to eliminate the use of potential pollutants or to curb their use very strictly indeed. The Group has invested in improving aspiration systems to reduce the risks arising from CMR (carcinogenic, mutagenic or toxic to reproduction) substances as far as possible. Work was also performed on cooling circuits to eliminate certain risks linked to the operation of air cooling towers. Soil monitoring was stepped up by fitting measurement devices. The evidence collected to date has not revealed any cause for concern.

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

Raw materials risks

To secure its supply chain, the Group stepped up its efforts to identify alternative procurement sources should it have to deal with a supplier enjoying a dominant position so that it can protect its purchases of the most sensitive materials over the long term.

From a more global perspective, the purchasing teams increased their collaboration with technical teams on redesign to cost projects in order to enhance performance of suppliers with a view to:

- securing more competitive purchasing prices and industrialization solutions,
- planning ahead for the possible replacement of purchased products not deemed to comply with the REACH regulations,
- employing equipment and purchasing goods and services that reduce greenhouse gases and power consumption in general.

What's more, to protect against price increases, exposure to certain raw materials was hedged using either derivative products or 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. The Group's top ten customers accounted for just 14% of the Group's consolidated sales.

PROPORTION OF SALES DERIVING FROM THE GROUP'S PRINCIPAL CUSTOMERS

	2008		Historic data for 2007	
(€ 000s)	Volume of sales	Percentage of sales	Volume of sales	Percentage of sales
With the Group's leading customer	18,806	2.8%	20,182	2.9%
With the Group's 5 leading customers	65,008	9.8%	81,392	11.7%
With the Group's 10 leading customers	94,651	14.3%	124,902	18.0%

In addition, the disposal of the EMC business will help to reduce commercial risks.

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 totaled just €11 million in 2008.

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

Insurance

The Group has arranged 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 (operations, before and after delivery) and environmental insurance programs notably cover bodily injury, physical and consequential damage, site clearance and rebuilding costs, withdrawal costs, damage to property entrusted with the Group and pollution abatement costs, subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries. The total premiums paid by the Carbone Lorraine group during fiscal 2008 in respect of its civil liability, environmental and civil aviation insurance program came to €757,216.

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 €100 million 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 premiums paid by the Carbone Lorraine group during fiscal 2008 in respect of this insurance program came to €731,688.

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 million per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The total premiums paid by the Carbone Lorraine group during fiscal 2008 in respect of this insurance program came to €54,025.

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. Amid the apparent onset of a contraction in the insurance market, the levels of coverage arranged in 2009 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 dialog 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 on an annual basis.

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.

The Amiens production plant provides an instructive example of how the Group's policy is applied. The plant has two longstanding units:

- the first, which serves the automobile, household electrical appliance and hand-held power tool industries, has faced economic difficulties for several years. Its activities can no longer be pursued sustainably and profitably.
- the second, whose principal customers are in the energy, transportation and process industries, is expanding and harnessing genuine growth opportunities on which Carbone Lorraine intends to capitalize.

Taking these factors into account, a streamlining and industrial retraining plan was drawn up for the Amiens plant. This plan consists in gradually transferring the CLAE's automobile operations to two other plants and initiating substantial investments to increase its research and development capabilities and the volume of business linked to rail collection, brushholders and commodities.

In parallel to this production plan, a training, adaptation and retraining plan was launched. Its goal is to restrict the social impact of the production plan on the first unit's employees by enabling them to retrain in the second unit's business under an ambitious professional training and adaptation plan. By pursuing this approach, CLAE intends to keep 134 jobs.

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 during 2007. 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. These steps were commenced at the French plants during 2008.

In general terms, a review of the competencies that the Group will need over the next five years was carried out for each division to identify the key jobs for the Group and to equip existing teams with the know-how they will need. Planning ahead for departures linked to demographic trends in its workforce is also a key aspect of our policy of forward human resource planning.

A work group was set up in late 2008 to address the issue of how to manage seniors and Group culture.

The aim of the project is to replace and pass on the knowledge gained by seniors, increase the size of the workforce and the managers' competencies to help drive the Group's growth, develop communication about its values and build up its corporate culture.

→ 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. 57).

Interest-rate risk

Interest-rate risks are addressed in the "Interest-rate risks" section of Note 3 to the consolidated financial statements (p. 56).

Commodity risks

Commodity risks are addressed in the "Commodity risks" section of Note 3 to the consolidated financial statements (p. 57).

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 non-payment 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. 55).

Equity risks

At December 31, 2008, the Group held 59,521 shares in treasury worth €1.1 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 2.8% 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 fine imposed by the European Commission in December 2003 for anti-trust practices in brushes for electric motors and products for mechanical applications is still in progress. On October 8, 2008, the European Court of First Instance confirmed the size of the fine (€43.05 million) meted out to the Company by the European Commission. The amount had been set aside in full in the Company's financial statements. On December 18, 2008, the Group lodged a fresh appeal with the European Court of Justice. 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 fresh appeal now in progress, to reduce the expenses caused by the protracted appeal process.

Civil lawsuits in North America (US - Canada)

The separate proceedings initiated in 2005 by certain customers (opt-out) in the US federal court in brushes for electric motors have reached the so-called discovery phase, during which evidence is disclosed and plaintiffs make depositions, based on the decision made by the federal judge in August 2007. In June 2008, the Company reached a full and final settlement of USD135,000 with four opt-out customers. In November 2008, the Company reached a full and final settlement with another opt-out customer in an amount of USD450,000. The Company has also asked the federal judge to dismiss two opt-out customers' claim for compensation. 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.

This separate procedure initiated in 2005 came after the civil action launched in 2002 by certain customers in the United States against COAIC, Carbone Lorraine's subsidiary producing brushes for electric motors. These civil proceedings of 2002 culminated in a settlement during 2004 in an amount of USD6 million. 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 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 million that Morgan Crucible Ltd was ordered to pay in July 2004 for anti-trust 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 non-material.

Civil action in the United Kingdom

The Competition Appeal Tribunal (CAT) handed down in April 2008 a decision to reject claims for compensation against the Company. The CAT decided that no claim for compensation could be made against the Company while the appeal procedure launched by the Company before the European Court of First Instance or European Court of Justice was still underway.

To recap, in October 2007, certain customers party to the separate proceedings in the US against COAIC called on Carbone Lorraine to appear in the proceedings that they initiated at the beginning of 2007 in the 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 rejected 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.

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

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, 2008, the share capital amounted to €28,594,426 divided into 14,297,213 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

Increase in the capital with preferential subscription rights for shareholders

At the Combined General Meeting on May 24, 2007, shareholders authorized the Board of Directors to issue ordinary shares and any securities conferring rights to the capital, with preferential subscription rights for shareholders, through the capitalization of share premiums, reserves or retained earnings. The aggregate nominal amount of the immediate and/or future increases in the share capital that may be carried out under this authorization may not exceed €10 million. This authorization is valid for 26 months. To date, the Board of Directors has not made any use of this authorization.

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 in 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.

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

Shareholders at the Combined General Meeting 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 BSAAR 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. This authorization was given for a period of 18 months. This authorization has now become null and void.

At its meeting on October 5, 2007, the Board of Directors used this authorization by deciding to issue OBSAAR bonds with BSAAR 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 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 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: 1000. Nominal unit value of the bonds: €40,000. Issue price: at par, i.e. €40.000. Gross issue proceeds: €40 million. 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 or broadly equal tranches on November 22, 2012, 2013 and 2014. Annual interest payments: 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 BSAAR warrants attached to the OBSAAR bonds:** 114 BSAAR warrants are attached to each bond. 114,000 BSAAR warrants were issued. The BSAAR warrants are detached immediately from the bonds. A BSAAR warrant entitles the holder to receive one new or existing share. Number of shares likely to be issued through exercise of the BSAAR warrants: a 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 BSAAR warrant: €12 set on the basis of a valuation report drafted by specialized firm Accuracy. Exercise price of the BSAAR warrants: €58.49. Exercise period: at any time during the five years from November 30, 2007 through November 30, 2012. The BSAAR 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.

Bonus share allotments:

Shareholders authorized the Board of Directors to allot 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.

On February 26, 2008, the Board of Directors used this authorization by offering 20,000 bonus performance shares to 89 of the Group's executives. The allotment of bonus performance shares is contingent upon continued employment of the allottees at the end of the vesting period, set at three (3) years. The lock-up period was set at two (2) years.

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

Combined General Meeting of May 21, 2008

Capital increase reserved for employees participating in the Group Investment Plan:

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

Using the option granted it at the Combined General Meeting of May 21, 2008, the Board decided at its meeting of June 9, 2008 to offer employees of the Group's European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €30.30 per share, which represents 80% of the average opening price in the 20 stock market sessions preceding the Board meeting of June 9, 2008. Owing to the downtrend in the share price during the second half of 2008, said increase in the capital reserved for employees was not implemented.

Combined General Meeting of December 12, 2008

Issue of share issuance rights (BEAs):

Shareholders at the Combined General Meeting authorized the Board of Directors, with an option to sub-delegate this authority, to decide to issue share issuance rights (BEAs), on one or more occasions, to Société Générale, which will then be bound to subscribe ordinary shares in the Company at the latter's request, it being specified that the issue of shares may take place at any time during the two-year (2) period following the issue of BEAs. The BEAs may not be issued after expiration of a period of eighteen (18) months following the date of this Combined General Meeting.

The nominal amount of new shares that may be carried out by exercising the BEAs may not exceed €5 million, it being stipulated that this nominal amount may be increased, where appropriate, by the nominal amount of shares to be issued to protect the rights of holders of securities giving access to the Company's shares.

The unit subscription price for the BEAs was set at €0.01 (zero point zero one euros) and the unit price for the subscription of ordinary shares issued through exercise of the BEAs will be determined based on the average share price weighted by trading volumes of the Company's ordinary shares over the three session period immediately preceding exercise of the BEAs, less a discount not exceeding 10%.

With effect from December 12, 2008, the Board decided to issue immediately 2,500,000 BEAs to Société Générale at a unit price of €0.01. The BEAs were fully subscribed by Société Générale effective December 17, 2008.

To date, the Company has not submitted any requests for the exercise of the BEAs to Société Générale.

The issue of BEAs decided pursuant to this authorization by the Board of Directors was presented in an offering circular approved by the Autorité des Marchés Financiers under no. 08-271 dated December 5, 2008.

Capital increase reserved for employees participating in the Group Investment Plan

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

The delegation of authority is valid for a period of 26 months. It replaces and supersedes the previous delegation granted by the Combined General Meeting of May 21, 2008.

Grant of stock subscription or purchase options

Shareholders at the Combined General Meeting of December 12, 2008 also authorized the Board of Directors to grant officers and employees of the Company and its subsidiaries options entitling them to subscribe new shares in the Company. The maximum number of new shares that may be issued through the exercise of options granted is capped at 340,000 shares, each with a nominal value of €2.

Claude Cocozza, the Chairman and Chief Executive Officer, the beneficiaries of bonus share allotments referred to in the Fifth Resolution of this General Meeting, as well as officers and employees of the Company and of affiliated companies holding over 10% of the Company's share capital, are excluded from receiving the options referred to in this authorization.

The subscription or purchase price of the shares covered by the options will be determined by the Board of Directors, with no discount, in accordance with the legislation in force on the day of grant of the options subject to the restrictions provided for in Articles L.225-177 and L.225-179 of the French Commercial Code.

The Board of Directors will determine the performance conditions that need to be satisfied for the options to be exercised by the beneficiaries and will also set the period(s) during which the options may and may not be exercised, it being stipulated that the life of the options may not exceed 10 years from their date of grant.

Should the Chief Operating Officers be granted options entitling them to subscribe or purchase shares, the Board of Directors would either have to decide, in accordance with the provisions of Article L.225-185 of the French Commercial Code, that said options may not be exercised until their duties cease, or set the quantity of shares to be issued through exercise of the options that they will be obliged to hold in registered form until their duties cease. This information will be disclosed in the report provided for in Article L.225-102-1 of the French Commercial Code.

This authorization is valid for a period of 36 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

Bonus share allotments

Lastly, shareholders authorized the Board of Directors to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months.

Directors of the Company and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from the bonus share allotment.

It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Description of the transaction	Share capital following the transaction	Share premiums	Total number of shares after the transaction
Dec. 31, 2001	Issue of 18,729 new shares each with a nominal value of €2 through the exercise of subscription options	22,256,924	292,041	11,128,462
Dec. 31, 2002	Issue of 10,688 new shares each with a nominal value of €2 through the exercise of subscription options	22,278,300	180,704	11,139,150
Nov. 27, 2003	Issue of 3,750 new shares each with a nominal value of €2 through the exercise of subscription options	22,285,800	63,512	11,142,900
Dec. 23, 2003	Issue of 54,990 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	22,395,780	1,110,798	11,197,890
April 15, 2004	Issue of 2,000 new shares each with a nominal value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
Aug. 20, 2004	Issue of 2,500 new shares each with a nominal value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390
Oct. 19, 2004	Issue of 2,489,420 new shares each with a nominal value of €2 through a capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
Dec. 16, 2004	Issue of 46,328 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,476,276	1,176,731	13,738,138
Dec. 31, 2004	Issue of 17,439 new shares each with a nominal value of €2 through the exercise of subscription options	27,511,154	254,261	13,755,577
Dec. 31, 2005	Issue of 85,775 new shares each with a nominal value of €2 through the exercise of subscription options	27,682,704	1,829,333	13,841,352
June 28, 2006	Issue of 44,494 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	27,771,692	1,388,213	13,885,846
Dec. 31, 2006	Issue of 79,629 new shares each with a nominal value of €2 through the exercise of subscription options	27,930,950	2,219,832	13,965,475
July 25, 2007	Issue of 30,900 each with a nominal value of €2 through the grant of bonus shares	27,992,750	1,721,748* *unavailable reserve	13,996,375
Sept. 11, 2007	Issue of 200,191 new shares each with a nominal value of €2 through the exercise of subscription options	28,393,132	6,627,591	14,196,566
Dec. 17, 2007	Issue of 44,094 new shares each with a nominal value of €2 as a result of a capital increase reserved for employees	28,481,320	1,931,317	14,240,660
Jan. 24, 2008	Issue of 40,075 new shares each with a nominal value of €2 through the exercise of subscription options	28,561,470	1,254,681	14,280,735
July 24, 2008	Issue of 16,478 each with a nominal value of €2 through the grant of bonus shares	28,594,426	540,478* *unavailable reserve	14,297,213

→ 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, none of which were exercised during fiscal 2008. The options still to be exercised at December 31, 2008, after taking into account cancellations, entitle their holders to acquire a total number of 384,867 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 BSAAR warrant entitles the holder to receive one new or existing share, the maximum number of shares to be issued through exercise of the warrants stands at 114,000.

During fiscal 2008, the Company issued 2,500,000 BEAs, all of which were subscribed by Société Générale at a unit price of €0.01. Société Générale will then be obliged to subscribe new ordinary shares in the Company at the latter's request, it being specified that the issue of shares may take place at any time during the two-year (2) period following the issue of the BEAs. The unit price for the subscription of ordinary shares issued through exercise of the BEAs will be determined based on the average share price weighted by trading volumes of the Company's ordinary shares over the three-session period immediately preceding exercise of the BEAs, less a discount not exceeding 10%. The nominal amount of new shares that may be carried out by exercising the BEAs may not exceed €5 million, it being stipulated that this nominal amount may be increased, where appropriate, by the nominal amount of shares to be issued to protect the rights of holders of securities giving access to the Company's shares. To date, the Company has not submitted any request to Société Générale for the BEAs to be exercised.

The total number of bonus shares likely to be granted definitively stands at 20,000 new shares, each with a nominal value of €2.

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

Based on the number of stock subscription options, BSAAR warrants that may be exercised by BSAAR grantees and the shares that may be definitively granted, the maximum dilution would be 0.8%.

→ Ownership of the share capital

The Company's share capital at December 31, 2008 amounted to €28,594,426, comprising 14,297,213 shares each with a nominal value of €2 and all belonging to the same category.

The number of voting rights stands at 14,297,213.

At January 31, 2009, 57,656 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 2008. 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 canceled options.

Furthermore, 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.

Following the investment by AXA Private Equity in the Company's share capital, an agreement was entered into with the Company. This agreement notably includes commitments concerning the long-term and friendly nature of its investment in Carbone Lorraine. Under this agreement, AXA Private Equity may increase its shareholding to 22.5% of the share capital and voting rights, and it provided for a self-imposed limit of 35% of the quorum of voting rights exercisable at Carbone Lorraine's Annual General Meeting. Except in special circumstances, AXA Private Equity has undertaken to retain its shareholding in Carbone Lorraine until June 30, 2010.

Pursuant to the terms of this agreement, Carbone Lorraine has undertaken to support the appointment of two representatives of AXA Capital Fund LP to the Board of Directors. To this end, the Company's Annual General Meeting on December 12, 2008 approved the appointment as directors of Dominique Gaillard and Yann Chareton.

Barring a public offer, AXA Capital has undertaken not to sell a block of 5% or more of Carbone Lorraine's share capital to an identified investor. Any sale by AXA Capital of its shares on the market is to be performed in an orderly manner, to the full extent possible, with a view to restricting the effects of such a disposal on the Company's share price.

The agreement is due to expire on June 30, 2012. It will automatically expire ahead of this date when AXA Capital crosses below the threshold of 10% of Carbone Lorraine's share capital and voting rights. If the agreement ends early, the arrangements for an orderly sale of the Carbone Lorraine shares will remain in force until June 30, 2012.

At the Company's Annual General Meeting on December 12, 2008, a representative of AXA Private Equity stated that three provisions of the agreement had become null and void. The relevant provisions concern the cap on the shareholding at 22.5%, the self-imposed limit on voting rights of 35% and the inalienability of the shares acquired by AXA Private Equity. The other provisions of the agreement, notably in terms of the corporate governance and orderly sale of shares remain fully in force.

→ Share ownership thresholds crossed

January 30, 2008: Natixis Asset Management cuts its interest below the 1% threshold, holding a stake of 0.42% of the share capital and voting rights.

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

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

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

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

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

April 29, 2008: Crédit Suisse cut its interest to less than 1% of the share capital and voting rights.

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

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

May 16, 2008: Fidelity Investments announced that it will declare the holdings of Fidelity International Limited (FIL) and FMR LLC independently.

Together, FMR LLC and FIL reported holding 9.67% of the share capital and voting rights at April 23, 2008. Separately, FIL moved below the 5% threshold and held 2.37% of the share capital and voting rights at April 24, 2008, while FMR LLC held 6.10% of the share capital and voting rights on the same date.

May 27, 2008: UBS raised its interest above the 1% threshold of the share capital and voting rights, with a stake of 1.83% of the share capital and voting rights.

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

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

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

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

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

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

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

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

July 8, 2008: ACF I Investment(1) crossed above the 1%, 2%, 3%, 4% and 5% thresholds and held 5.04% of the share capital and voting rights.

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

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

July 24, 2008: FMR LCC cut its interest below the 5% mark, holding a stake of 4.99% of the share capital and voting rights.

August 12, 2008: AXA Private Equity (for Matignon Développement 3) crossed below the 6%, 5%, 4%, 3%, 2% and 1% threshold of the share capital and voting rights following the disposal of the entire shareholding (912,788 shares) to ACF I Investment.

August 12, 2008: AXA Private Equity (for ACF I Investment) crossed above the 10% threshold of the share capital and voting rights, holding 912,788 shares. *(AXA IM PE plans to continue its purchases without exceeding a 22.5% interest in the capital. AXA stated that it does not envisage acquiring control of Carbone Lorraine).*

August 14, 2008: Indus Capital Partners LLC (for Indus Japan Master Fund, Indus EnterAsia Master Fund and Indus Global Strategies Master Fund) crossed above the 5% threshold, holding 721,286 shares or 5.05% of the share capital and voting rights.

September 15, 2008: Indus Capital Partners LLC (for Indus Japan Master Fund, Indus EnterAsia Master Fund and Indus Global Strategies Master Fund) crossed below the 5% threshold, holding 704,293 shares or 4.93% of the share capital and voting rights.

September 24, 2008: Sofina crossed above the 5% threshold, holding 715,000 shares or 5% of the share capital and voting rights.

October 2 2008: ACF I Investment crossed above the 12% threshold, holding 1,773,502 shares or 12.40% of the share capital and voting rights.

October 3, 2008: ACF I Investment crossed above the 13% threshold, holding 1,902,544 shares or 13.45% of the share capital and voting rights.

October 6, 2008: ACF I Investment crossed above the 14% threshold, holding 2,066,544 shares or 14.45% of the share capital and voting rights.

October 7, 2008: ACF I Investment crossed above the 15% threshold, holding 2,149,544 shares or 15.03% of the share capital and voting rights.

October 13, 2008: Columbia Wanger Asset Management crossed below the 6% threshold, holding 818,400 shares or 5.72% of the share capital and voting rights.

October 21, 2008: Sofina crossed above the 6% threshold, holding 865,000 shares or 6.05% of the share capital and voting rights.

December 4, 2008: Sofina crossed above the 7% threshold, holding 1,015,000 shares or 7.1% of the share capital and voting rights.

December 22, 2008: ACF I Investment crossed above the 15.25% and 15.50% thresholds of the share capital.

December 29, 2008: ACF I Investment crossed above the 15.75% threshold, holding 2,284,629 shares or 15.98% of the share capital and voting rights.

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

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

Changes in ownership of the share capital

Shareholders	Dec. 31, 2008			Dec. 31, 2007			Dec. 31, 2006		
	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, o/w	14,237,692			14,239,519			13,900,372		
- French institutional investors	5,096,348	35.7%	35.7%	3,598,597	25.2%	25.2%	4,790,157	34.3%	34.3%
- individual shareholders	4,010,561	28%	28%	3,855,835	27%	27%	4,022,056	28.8%	28.8%
- employee shareholders	202,559	1.4%	1.4%	214,248	1.5%	1.5%	200,243	1.4%	1.4%
- international institutional investors	4,928,224	34.5%	34.5%	6,569,176	46%	46%	4,887,916	35%	35%
Treasury shares	59,521	0.4%	0.4%	41,216	0.3%	0.3%	65,103	0.5%	0.5%
TOTAL	**14,297,213**	**100%**	**100%**	**14,280,735**	**100%**	**100%**	**13,965,475**	**100%**	**100%**

To the best of the Company's knowledge, no shareholders other than AXA Private Equity and Sofina hold more than 5% of the Company's share capital and voting rights.

The directors and company officers hold 25 312 registered shares, as well as 11 166 shares via the Carbone Lorraine FCPE (corporate mutual fund), representing a total of 0.25% of the share capital. The Company held a total of 59,521 of its own shares at December 31, 2008 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 14,297,213 shares are listed on the market.

Carbone Lorraine shares	Number of shares traded *In units*	Capital traded *In millions of euros*(1)	High/low(2) High (€)	Low (€)
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
March	2,823,499	85.86	39.50	26.60
April	2,813,238	102.71	38.31	34.00
May	1,633,173	59.89	39.70	33.58
June	1,812,288	69.30	41.55	34.20
July	2,585,286	94.54	40.00	29.10
August	932,709	34.57	39.00	35.46
September	1,739,520	62.95	39.80	32.70
October	3,054,393	77.92	33.50	20.10
November	1,135,004	28.07	27.30	22.71
December	1,603,749	31.37	25.39	16.46
2009				
January	1,526,857	28.28	19.84	16.61
February	607,237	11.05	19.62	15.62

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

	Nbr of shares at year-end	Earnings per share (€)			Share price (€)			Overall yield based on year-end share price
		Net dividend	Tax credit	Total dividend	High	Low	Last	
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%
2008	14,297,213	0.62	n/a	0.62	47.58	17.06	17.81	3.5%

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 2008, the 4th Resolution of the Combined General Meeting of May 19, 2009 provides for payment of a dividend of €0.62 per share, subject to shareholders' approval. The option of receiving this dividend in shares will be put to shareholders.

Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of May 19, 2009

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: €50

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 in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;**
- **purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.**
- **cancel shares through a reduction in the share capital in accordance with the French Commercial Code;**

Duration of the program: 18 months from Combined General Meeting of May 19, 2009 until the date of the General Meeting convened to approve the financial statements for fiscal 2009.

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 21, 2008 in connection with the previous stock repurchase program to stabilize the share price. At January 31, 2009, 57,656 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 21, 2008 and January 31, 2009

Percentage of the share capital held directly and indirectly	0.40%
Number of shares canceled over the previous 24 months	None
Number of shares held in the portfolio	None
Carrying amount 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 wants to be able to implement a program to repurchase its own shares pursuant to the authorization submitted for approval by shareholders at the Combined General Meeting on May 19, 2009.

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 in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code;

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 19, 2009, deliberating in accordance with the quorum and majority voting requirements for Ordinary General Meetings. The corresponding Fifth Resolution proposed by the Board of Directors is worded as follows:

Purchase of Carbone Lorraine 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 1,429,721 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 in connection with the conversion or exchange of securities (including debt securities) conferring rights to the Company's share capital;
- purchase them for holding purposes and subsequently remit them as part of an exchange offer or in consideration for any acquisitions.
- cancel shares through a reduction in the share capital in accordance with the French Commercial Code;

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

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 2009. 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 21, 2008.

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. 1,429,721 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. €50 per share, would be €71,486,050.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2008, amounted to €157,149,137. Pursuant to law, the size of the stock repurchase program may not exceed this figure ahead of the December 31, 2009 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 corresponding Resolution to be presented to the Combined General Meeting of May 19, 2009 and until the date of the General Meeting convened to approve the financial statements for 2009. In no case whatsoever will this authorization remain valid for more than 18 months.

4) Financing for the share buyback 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 €60.4 million at December 31, 2008. Equity attributable to the Group's shareholders stood at €326.9 million and net debt at €305.9 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, 2008.

The other assumptions were as follows:

- interest expense estimated at a gross annual rate of 4.3%;
- a unit repurchase price of €18.96, the average closing price for sessions between January 15 and February 13, 2009;
- 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, 2008	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 *As a %*
Equity attributable to Group shareholders	321.2	(27.9)	293.0	(8.7%)
Total equity	325.2	(27.9)	297.3	(8.6%)
Net debt	305.9	27.1	333.0	8.9%
Total number of shares outstanding at Dec. 31	14,297,213	1,429,721	12,867,492	(10.0%)
Net income attributable to Carbone Lorraine's shareholders	**29.1**	**(0.8)**	**28.3**	**(2.7%)**
Earnings per share	**2.05**		**2.20**	**8.1%**

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 €25,000. The tax rate stands at 18% or 29% including social security contributions. 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, 2008

Carbone Lorraine's share capital is divided into 14,297,213 shares, each with a nominal value of €2, ownership of which at December 31, 2008 was as follows based on the information received by Carbone Lorraine:

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2008

Shareholders	Number of shares	% of the share capital	% of voting rights
Free float, comprising:	14,237,692	99.6	99.6
- employee shareholders	202,559	1.4%	1.4%
- individual shareholders	4,010,561	28%	28%
- French institutional investors	5,096,348	35.7%	35.7%
- international institutional investors	4,928,224	34.5%	34.5%
Treasury shares (liquidity agreement)	59,521	0.4%	0.4%
TOTAL	**14,297,213**	**100**	**100**

To the best of the Company's knowledge, no shareholders other than ACF I Investment and Sofina 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 1999 to 2008 plans still outstanding at December 31, 2008, a total of 384,867 new shares may still be issued. The information concerning Carbone Lorraine's stock subscription options is shown on pages 139 to 140 of this reference document.

The BSAAR warrants that may be exercised at December 31, 2008 entitle their holders to acquire a total of 114,000 new shares, each with a nominal value of €2.

The total number of bonus shares that may be granted definitively at December 31, 2008 stands at 67,178 new shares, each with a nominal value of €2. Shareholders authorized the Board of Directors on December 12, 2008 to allot shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months.

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

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAAR stock warrants conferring rights to 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	2011 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
Yann Chareton DoB: January 8, 1978	January 1, 2009		2013 Annual General Meeting	120(1) 0(2)	**Supervisory Committee of:** Alvest (ex. TLD Int. Holding), Floor'In, Kerisper **Manager of:** ACF Investment 1, ACF Investment 2
Hervé Couffin DoB: October 26, 1951 Director, Chairman of the Audit and Accounts Committee Member of the Appointments and Remuneration Committee	May 22, 1995	May 24, 2007	2011 Annual General Meeting	150(1) 13,000(2)	**Chairman and Chief Executive Officer of:** Callisto **Managing Partner of:** HC Conseil **Director of:** Antargaz, Ipsen and Compagnie Franco-Tunisienne des Pétroles (Tunisia) **Former Director of:** Gerflor, CEVA, Coparex, Neuf-Cegetel
Dominique Gaillard DoB: February 17, 1960	January 1, 2009		2013 Annual General Meeting	120(1) 0(2)	**Director and member of the Supervisory Board of:** several subsidiaries of AXA Private Equity Group **Permanent Representative of Matignon Développement and Censor of:** Gautier France SA **Chairman of the Supervisory Board of:** Moteurs Baudouin and Vieux-Port Equity **Member of the Supervisory Committee of:** Alvest, Floor'in **Member of the Supervisory Board of:** Kuvera Développement, Kebexa Participations, Financière Keos **Chief Executive Officer of:** AXA Private Equity Participations GmbH **Director of:** ACF Investment 1 **Manager of:** ACF Investment II
Jean-Paul Jacamon DoB: August 5, 1947 Director, Chairman of the Appointments and Remuneration Committee Member of the Strategy Committee	Jan. 1, 2003	May 24, 2007	2011 Annual General Meeting	148(1) 8,000(2)	**Director of:** Tockheim **Former Director of:** ALCAN, AMEC

Names	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAAR stock warrants conferring rights to Carbone Lorraine's share capital*	Other positions held
Jean-Claude Karpeles DoB: June 15, 1940 Director, Member of the Audit and Accounts Committee Member of the Strategy Committee	April 6, 1999	May 12, 2005	2009 Annual General Meeting	3,200(1) 5,000(2)	**Honorary General Delegate:** Gimelec **Manager and Chief Executive Officer of:** ELEC Promotion SARL, Gimelec Promotion SARL **Director of:** CPI Media, Paris region development and urban planning institute, Streamcore **Chairman of:** ELEN (Électricité Environnement) **Elected member of:** the Paris Chamber of Commerce and Industry - Hauts de Seine department
Agnès Lemarchand DoB: December 29, 1954, Director Member of the Appointments and Remuneration Committee Member of the Strategy Committee	May 24, 2007		2013 Annual General Meeting	220(1) 4,000(2)	**Chairman and Director of:** Steetley Dolomite Ltd **Director of:** Plüss-Staufer AG, Biotechnics Inc. **Manager of:** Steetley Development
Henri-Dominique Petit DoB: July 3, 1948 Director Member of the Appointments and Remuneration Committee	May 24, 2007		2011 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), Sperian Respiratory Protection USA LLC (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	2009 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'Energie
Philippe Rollier DoB: February 19, 1943 Director Member of the Audit and Accounts Committee	May 24, 2007		2013 Annual General Meeting	520(1) 5,000(2)	**Director of:** Moria SA, Sperian Protection (formerly Bacou Dalloz), Sonoco (US), Monier **Manager of:** Cybèle
Marc Speeckaert May 23, 1951	January 1, 2009		2013 Annual General Meeting	600(1) 0(2)	**Chief Executive Officer of:** Sofina **Director of:** SES (Luxembourg), Rapala (Finland), Landis Gyr (Switzerland), Petit-Forestier (France)

**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 in office. These shares must be held in registered form.*
(1) Number of shares held
(2) Number of BSAAR stock warrants held

→ Summary biographies of the directors

Claude Cocozza

A graduate of the Ecole Polytechnique and a qualified Ponts et Chaussées engineer, Claude Cocozza began his career at the French infrastructure ministry, before joining the Paris port authorities, where he was director of operations from 1978 to 1981. He then moved on to the Pechiney group, where he held various responsibilities, notably as a member of the Aluminum department's executive committee. After developing Aluminium Pechiney's specialty 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 named Chairman and Chief Executive Officer in March 1997.

Yann Chareton

After graduating from the IEP in Paris in 2000 and from the ESSEC business school in 2002, Yann Chareton studied at the London School of Economics and the Università Commerciale Luigi Bocconi in Milan. From 2003 to 2005, he worked at Calyon in acquisition finance. In October 2005, he joined AXA Private Equity's Mid Cap LBO team where he has been senior investment manager at the Milan office since October 2008. He was notably involved in deals related to Camaïeu and TLD group.

Hervé Couffin

A graduate of the Ecole 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.

Dominique Gaillard

A graduate of the Ecole Polytechnique, Ecole Nationale des Ponts et Chaussées, the IAE in Paris and the University of Berkeley, California (MSc), Dominique Gaillard began his career working for a Pechiney subsidiary as a R&D director, then sales and marketing director (1988-1990). From 1990 to 1997, he worked in private equity at Charterhouse, during which time he arranged numerous development capital and LBO transactions. He joined AXA Private Equity in 1997 as head of LBOs. He is now managing director in charge of Direct Funds (development capital, Small & Mid Cap LBOs, Co-Investment, Infrastructure).

Jean-Paul Jacamon

A graduate of the Ecole Polytechnique and Ecole 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. He has since been a company director.

Jean-Claude Karpeles

A graduate of the Ecole 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 formed and led several export consortiums. In 1981, he was appointed as the general delegate at Gimelec then honorary general delegate from 2008, 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 until 2004 of CFME Actim and UbiFrance, organizations promoting French foreign trade. He is also chairman of ELEN (electricity and the environment) and director of the CPI Media press group, Streamcore, and manager and CEO of Elec Promotion.

Agnès Lemarchand

After graduating from the Ecole Nationale Supérieure de Chimie in Paris and MIT in Boston, with an MBA from INSEAD, Agnès Lemarchand began her career in the chemicals and pharmaceutical industry with Rhône-Poulenc. In 1986, she was appointed chairman and chief executive officer of IBF (a biotechnology company), then joined Ciments Français in 1991, where she ran its Prodical subsidiary. In 1997, she moved to the Lafarge group as strategy director at Lafarge specialty materials, before being named chairman and chief executive officer of the lime business in 1999, a position she held until 2004. After handling the sale of Lafarge's lime assets in the US and in Europe, she led an MBO of the UK lime business and founded Steetley Dolomite Ltd (UK), of which she has since been the Executive Chairman.

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 consulting firm specialized in growth and innovation strategies for the automobile, transportation and energy sectors. After spending over 25 years working in strategy and organization consulting for the leading firms (Orga Consultants, KPMG Peat Marwick, Bain & Co.) and as the founder and chief executive officer of the European arms 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'Energie, observatories monitoring innovation in the automobile and energy sectors, with the support of leaders in these two industries.

Philippe Rollier

A graduate of the Paris-Grignon Institut National Agronomique 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 deputy general manager 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 Gregoire's supervisory board.

Marc Speeckaert

After graduating in applied economics and taking an MBA at the Catholic University of Louvain (Belgium), Marc Speeckaert also attended an Advanced Management Program at Wharton (University of Pennsylvania, US). He began his career with Touche Ross & Cie, before spending ten years with ITT Corporation, where he held several financial positions. During 1986, he joined the Glaverbel group in Belgium where he went on to become chief financial officer, after taking responsibility for management control. From 1991 to 1994, he held the same position with the Lhoist group. From 1994 to 2004, he was chief financial officer, then chief strategy officer of Belgacom in Belgium. Since 2004, he has been chief executive officer of Sofina.

→ Board's report on application of the AFEP-MEDEF's code of corporate governance for listed companies.

At its meeting on October 30, 2008, the Board of Directors confirmed that the AFEP-MEDEF recommendations of October 6, 2008 concerning the compensation of officers and directors of listed companies were adopted from October 17, 2008 by the Board as part of the decisions made on that day because they are in line with the Company's approach to corporate governance.

Pursuant to Article L.225-37 para. 6, the Board of Directors summarizes and describes in the Chairman's report on internal control (pages 142 and 143 of this document) several recommendations of said corporate governance code, which are likely to be applied in part, as they currently stand, by the Company.

→ Board of Directors

Composition of the Board of Directors in 2008*

Claude Cocozza(1)

Hervé Couffin(2)

Jean-Paul Jacamon(2)

Jean-Claude Karpeles(2)

Agnès Lemarchand(2)

Henri-Dominique Petit(2)

Walter Pizzaferri(2)

Philippe Rollier(2)

* *At the General Meeting on December 12, 2008, shareholders approved the appointment with effect from January 1, 2009 of three new directors Yann Chareton, Dominique Gaillard and Marc Speeckaert. These directors will not be considered as independent.*
(1) Chairman and Chief Executive Officer
(2) 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 had eight members in 2008, seven of whom are independent directors. The Board met 14 times during 2008. The average attendance rate at the Board's meetings stood at 77%.

The Board reviewed the proposals submitted by the Appointments and Remuneration Committee concerning planning for Claude Cocozza's succession at the helm of the Group. It heard from

Ernest Totino and discussed his proposals concerning the Group's strategy and management. It decided to appoint him as Chief Operating Officer with effect from July 1, 2008, with a view to his subsequently becoming the Group's Chief Executive Officer.

The Board of Directors gave its approval to the terms on which AXA Private Equity acquired a stake in the Company's share capital. It decided to submit three new directors for shareholders' approval at the Annual General Meeting, including two proposed by AXA Private Equity and one by Sofina.

At each meeting, the Board reviewed trends in the Group's sales and earnings. The Board approved the interim and annual financial statements after they had been audited by the Statutory Auditors.

The Board examined and approved the strategy proposed by Executive management for the Group, which is predicated on the Expansion 2011 plan, which was published in September 2008. In addition, it conducted a review of the strategy proposed by each division. It gave its backing to the plan to expand graphite block production capacity to 17,000 tons, while ensuring that this capacity extension may be introduced progressively, according to general demand trends.

It was kept informed of the progress made by the principal organic growth projects previously given the go-ahead. It approved the requisite guarantees for their financing, notably those related to the USD350 million and RMB500 million syndicated loans.

The Board was kept informed on a regular basis about the concentration of production of the automobile and household electrical appliance brush business at Frankfurt (Germany) and Chennai (India), as well as the negotiations underway with a view to the sale of the automobile brush and brushholder division (EMC).

The Board gave its approval to the acquisition of and financing arrangements for Xianda, Mingrong and Calcarb.

The Board analyzed the findings of the new risk mapping survey, as well as the measures implemented to control these risks.

It studied the arrangements for the PACEO equity line program, which was approved by shareholders at the December 12, 2008 General Meeting.

The Board of Directors ratified the proposals made by the Appointments and Remuneration Committee concerning the remuneration paid to Executive Committee members. It ruled on Ernest Totino's compensation and benefits and potential severance payments as Chief Operating Officer, after terminating his employment agreement as an employee.

The Board altered certain clauses in its internal charter to bring it into line with the latest corporate governance recommendations. It notably proposed at the General Meeting that directors' terms in office should be reduced to four years. It publicly confirmed its intention of adopting the AFEP-MEDEF corporate governance recommendations in line with the comply or explain principle.

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 asking an independent director designated by the Board to hold individual interviews with each of the other directors. The conclusions of these meetings help to assess the current procedures and to establish areas for improvement. Although the Board's workings appeared satisfactory to all the independent directors and the number of areas for improvement have declined over the course of the years, this exercise has been implemented each year and was set in motion again at the beginning of 2009.

Lastly, the Board of Directors evaluated the performance of executive management, as it does every year.

→ Committees set up by the Board of Directors

Audit and Accounts Committee

Members of the Audit and Accounts Committee

Hervé Couffin[1]

Jean-Claude Karpeles

Philippe Rollier

(1) Chairman

The Audit and Accounts Committee comprises three independent directors. It met five times during 2008. 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 examined the financing arrangements (syndicated loan, PACEO program) before they were passed on to the Board for approval.

The Committee approved the audit program for 2008. 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. A Group-wide assignment to verify application of the Group's salary policy by all the Group's companies was also conducted.

The Committee was involved in implementing the Group's third risk mapping survey. It notably met with the specialized external team in charge of this risk mapping survey to gain a better understanding of the real nature of the risks identified and the systems in place to control them. It looked at the additional action plans.

Moreover, 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.

Strategy Committee

Members of the Strategy Committee

In 2008[1]

Walter Pizzaferri[2]

Claude Cocozza

Jean-Paul Jacamon

Agnès Lemarchand

(1) Dominique Gaillard joined the Committee at the beginning of 2009
(2) Chairman

The Strategy Committee had four members during 2008, three of whom are independent. It met three times. 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 examined various options for the automobile brush and brushholder division and suggested to the Board that management's proposal of a disposal be pursued. It also carried out an in-depth review of the Calcarb acquisition, which has helped to establish the Group in a segment adjacent to isostatic graphite, and serving the same customers to a very great extent as the High Temperatures Applications division. The work initiated in previous years was continued in other areas. As part of this approach, the Committee reviewed management's proposals to move into new adjacent segments of the anticorrosion equipment and industrial electrical applications markets.

The Committee also conducted a detailed review of the divisions' strategy, as it does every year. It carried out an in-depth review of the opportunities for the Group in sustainable energies and energy efficiency, and examined the detailed production plan of one of its divisions. It was given a presentation of the applications for acquisitions underway, including Mingrong and Xianda, as well as of the possible applications of the new CL Clad® material outside the chemicals and pharmaceuticals sectors.

The Committee reviewed the Group's innovation and development process. It analyzed Carbone Lorraine's strategic plan, including the possibility of carrying out one or more paradigm-changing acquisitions over the next few years, should circumstances permit. It encouraged Executive management to publish "Expansion 2011", an ambitious expansion plan out to 2011. Lastly, the Committee discussed with management several points that may enhance the Group's investor relations and financial reporting.

Appointments and Remuneration Committee

Members of the Appointments and Remuneration Committee

In 2008

Jean-Paul Jacamon[1]

Hervé Couffin

Agnès Lemarchand

Henri-Dominique Petit

(1) Chairman

The Appointments and Remuneration Committee has four members, all of whom are independent. Claude Cocozza, who has no longer been a member of the Appointments and Remuneration Committee since 2007, attends meetings concerning issues that do not concern him, but does not cast a vote.

The Committee met six times during 2008. The average attendance rate at the Appointments and Remuneration Committee's meetings stood at 90%.

Among the tasks carried out by the Committee specifically in 2008, the main focus was succession planning for the Chairman and Chief Executive Officer, who stated at the beginning of the year his desire to be relieved of his operational duties with effect from spring 2009. The Committee solicited the advice of external consultants to assess the merits of the internal candidates for the position of Chief Executive Officer. A detailed evaluation process was implemented, and the outcome was the Ernest Totino's candidacy was adjudged to have the most compelling professional and personal attributes. The Committee took the view that it was preferable to propose a gradual transition to the Board, with Ernest Totino being appointed to the newly created position of Chief Operating Officer with effect from July 1, 2008, then as Chief Executive Officer in spring 2009. The Committee also began to assess at the same time the comparative benefits of two organizational changes, namely the separation of the duties of Chairman and Chief Executive Officer, and Carbone Lorraine's adoption of a dual-headed governance structure (Supervisory Board and Management Board). The Committee submitted all these proposals to the Board. After hearing from Ernest Totino and reviewing the business plan that he proposed, the Board then approved these moves in May 2008.

As a consequence of the previous point, the Committee proposed that the Board should set Ernest Totino's compensation and benefits as Chief Operating Officer, those of his principal colleague and the compensation and benefits of the Chairman, both in his current role and as a Non-Executive Chairman.

The Committee also reviewed all the aspects of the agreement between it and its Chief Operating Officer in connection with the AFEP-MEDEF recommendations. This included termination of his employment agreement as a management employee, determination of his compensation, benefits and pension arrangements. This agreement also lays down the severance payments that would be due to Ernest Totino, should his term in office be ended. This agreement was approved by shareholders at the December 12, 2008 General Meeting.

In addition, the Committee proposed that the Board should allot bonus shares to 89 managers, whose loyalty the Group wishes to retain and/or reward. The Group's policy is to concentrate the award of stock options on 30 or 40 principal managers and to keep the allotments of bonus shares as a means of retaining up-and-coming managers. Consequently, the sole condition for beneficiaries to fulfill in order to gain possession of the bonus shares is their continued presence on the Group's payroll four or five years after the grant date, depending on the circumstances.

Lastly, the Committee examined the forward human resources planning policy that the Group is in the process of developing. The Group's strategy of rapid expansion requires it to plan ahead for the skills and workforce it will need in three to five years' time or even further for highly specific jobs, which differ tremendously from one division to another. This forward planning is prepared through in-depth analysis of the requirements entailed by strategic developments, an assessment of the differences between the current and the desired situation and actions plans making it possible to align the former with the latter.

As part of its annual tasks, the Appointments and Remuneration Committee also addressed the following points:

- Assessment of directors' independence. The Committee deemed that for 2008 all the directors, with the exception of the Chairman, are independent as defined by the Bouton report. A Committee meeting held in early 2009 deemed that the three directors proposed for appointment at the December 2008 General Meeting by AXA and Sofina may not be considered as independent because of the substantial interests held by their Company. It also reviewed the situation of Hervé Couffin, who has been a director for more than 12 years, deeming that he may be considered as an independent director. At January 1, 2009, the Board had 11 members, seven of whom were independent and four of whom were not independent (including the Chairman);
- Definition of the 2007 bonuses. Bonuses were set based on accounting results and personal achievements during 2007;
- Setting of personal targets and bonus objectives for 2008. The Appointments and Remuneration Committee examined and approved the Chairman's proposals and set the latter's targets for 2008;
- Review of how the Executive Committee's C&B package compares to the market norm: it was conducted, as it was each year, by an external consultant. 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 2009 work program.

Executive Committee

Composition of the Executive Committee through June 30, 2008

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

Composition of the Executive Committee from July 1, 2008

Claude Cocozza
Chairman and Chief Executive Officer

Ernest Totino
Chief Operating Officer, responsible for all operations, as well as for supervising the chemical engineering equipment and Electrical Protection divisions

Bernard Leduc
Director of Human Resources, Quality and Continuous Improvement

Jean-Claude Suquet
Group Vice President, Finance and Administration

Luc Themelin
Director, responsible for supervising the industrial brushes, electrical motor components (EMC) and high-temperature divisions.

The Executive Committee comprises 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. It decided to step up efforts to control the WCR, and in particular to launch a supply chain-based WCR management program, which is likely to come to conclusion in 2009. 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 visited the La Mûre plant to review current and future developments at the Electrical Protection division's thermal management business.

The Executive Committee also checked on the progress made by expansion projects currently being implemented.

In addition, it:

- devised the Group's strategy, in particular the "Expansion 2011" long-term growth plan;
- studied the strategic options proposed by the Divisions. The Executive Committee also analyzed the proposals made by strategy consultants concerning potential acquisition targets with a view to stepping up the pace of organic growth. In particular, it conducted an in-depth analysis of several paradigm-changing acquisitions;
- drew up the business plan for the Group and its divisions;
- reviewed the case and search for a core shareholder;
- reviewed and adopted the budget for the Group and the divisions;
- defined the investment program and authorized spending on each major investment project;
- studied the various plans to acquire or dispose of companies and businesses;
- determined the major investor relations and financial reporting priorities and the objectives to be presented to investors;
- reviewed the major research and development priorities being explored with the divisional heads of Marketing and of Research and Development;
- determined the Group's human capital development policy, which is underpinned by forward human resources planning (issues common to divisions, applications specific to Asia), with particular attention being paid to diversity, gender balance and how to manage senior employees;
- updated management succession plans for the Group's divisions and main subsidiaries: mapped out desirable career opportunities for its key executives and new skills that they first need to acquire;

- continued to roll out the Group's safety policy. The Executive Committee notably visited a production plant to illustrate its commitment to safety and to identify possible improvements that can be introduced right across the Group. It renewed the composition of the Group Safety Committee and approved the plan to extend the Group's program in this area;
- analyzed the latest risk mapping survey, as well as an external evaluation of the internal audits and the areas for improvement detected. It aligned the 2009 internal audit program with the results of the risk mapping
- determined the Group's employee policy for 2009.

Compensation and benefits

At its meeting on October 30, 2008, the Board of Directors confirmed that the AFEP-MEDEF recommendations of October 6, 2008 concerning the compensation of officers and directors of listed companies were adopted from October 17, 2008 by the Board as part of the decisions made on that day because they are in line with the Company's approach to corporate governance.

The Board stated that in accordance with the law of July 3, 2008 transposing into French law EU directive 2006/46/EC of June 14, 2006, the amended AFEP-MEDEF code is the document to which the Company refers when drafting the report provided for in Article L.225-37 of the French Commercial Code with effect from the current fiscal year.

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

Ernest Totino took over his duties as Chief Operating Officer with effect from July 1, 2008, leading to termination of his employment agreement. There are no other directors holding an employment agreement with the Group.

The aggregate amount of compensation and benefits of all kinds paid during fiscal 2008 to the eight directors of Le Carbone Lorraine, including the Chairman and Chief Executive Officer and the Chief Operating Officer, came to €1,212,159, which breaks down as follows:

- compensation and benefits 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 for fiscal 2008 are paid at the beginning of 2009. They will be allocated between the seven members of the Board of Directors as follows:

(€)	2008	2007
Hervé Couffin	29,771	29,954
Jean-Paul Jacamon	22,447	21,662
Jean-Claude Karpeles	23,486	21,128
Agnès Lemarchand	20,194	9,295
Henri-Dominique Petit	16,169	7,482
Walter Pizzaferri	17,948	18,479
Philippe Rollier	20,986	12,084
TOTAL	**150,000**	**120,084**

SUMMARY OF THE COMPENSATION AND BENEFITS, OPTIONS AND SHARES GRANTED TO EACH DIRECTOR

Claude Cocozza, Chairman and Chief Executive Officer

(€)	2008	2007
Compensation and benefits payable during the fiscal year (broken down below)	898,322	667,630
Valuation of options granted during the fiscal year	-	420,000
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	**898,322**	**1,087,630**

Ernest Totino, Chief Operating Officer

(€)	2008	2007
Compensation and benefits payable during the fiscal year (broken down below)	437,186	304,823
Valuation of options granted during the fiscal year	-	168,000
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	**437,186**	**472,823**

SUMMARY OF THE COMPENSATION AND BENEFITS PAYABLE TO EACH DIRECTOR

Claude Cocozza, Chairman and Chief Executive Officer

(€)	2008		2007	
	Amounts payable	Payments made	Amounts payable	Payments made
Fixed salary	418,000	418,000	380,000	380,000
Variable salary	468,453	276,070	276,070	342,000
Exceptional salary	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind	11,869	11,869	11,560	11,560

N.B. The bonus, which varies between 0% and 140% of the basic salary, is paid in year n+1.
N.B. Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

Ernest Totino, Chief Operating Officer

(€)	2008		2007	
	Amounts payable	Payments made	Amounts payable	Payments
Fixed salary	237,750	237,750	188,000	188,000
Variable salary	193,172	112,198	112,198	130,104
Exceptional salary	0	0	0	0
Directors' fees	0	0	0	0
Benefits in kind	6,264	6,264	4,625	4,625

N.B. The bonus, which varies between 0% and 100% of the basic salary, is paid in year n+1.
N.B. Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.
N.B. The position of Chief Operating Officer has been occupied by Ernest Totino since July 1, 2008

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

In 2008, no stock subscription options were granted to the Chairman and Chief Executive Officer or to the Chief Operating Officer.

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

Gross amounts in euros	2008	2007
Basic salaries	558,008	897,000
Performance-related bonuses	499,639	554,419
Benefits in kind	12,615	21,663
TOTAL	1,070,262	1,473,082

N.B. The bonus, which varies between 0% and 80% or 90% of the basic salary, is paid in year n+1.
N.B. Benefits in kind correspond to a company car.
N.B. E. Totino who became a director and an Executive Committee who retired were not taken into account in 2008.

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 after tax 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 his/her 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.

No stock subscription options were granted during 2008.

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

In accordance with the provisions of Articles L.225-38 and L.225-42-1 of the French Commercial Code, the Board of Directors decided at its meeting on October 17, 2008, to grant Ernest Totino a severance payment in the event that his term in office as Chief Operating Officer were to be terminated. This authorization granted to the Board of Directors has been published on the Company's web site pursuant to the provisions of Article R.225-34-1 of the French Commercial Code. This agreement was approved by shareholders at the December 12, 2008 Combined General Meeting.

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.

(€ 000s)	2008	2007	2006	2005	2004
Amounts allocated to employees	3,953	2,492	2,233	3,267	2,493
Number of beneficiaries	1,545	1,600	1,860	2,701	2,526

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.

(€ 000s)	2008	2007	2006	2005	2004
Amounts allocated to employees	2,265	2,249	2,219	1,082	1,520
Number of beneficiaries	1,496	1,423	1,498	973	720

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.

All the stock subscription plans are subject to performance conditions.

No subscription options were granted in 2008.

In 2008, no options were exercised.

The total number of stock subscription options still outstanding stands at 384,867, 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.

Shareholders at the Combined General Meeting of December 12, 2008 authorized the Board of Directors to grant officers and employees of the Company and its subsidiaries options entitling them to subscribe new shares in the Company. The maximum number of new shares that may be issued through the exercise of options granted is capped at 340,000 shares, each with a nominal value of €2.

Claude Cocozza, the Chairman and Chief Executive Officer, the beneficiaries of bonus share allotments, as well as officers and employees of the Company and of affiliated companies holding over 10% of the Company's share capital, are excluded from receiving the options referred to in this authorization.

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.

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

Using the option granted it at the Combined General Meeting of May 21, 2008, the Board decided at its meeting of June 9, 2008 to offer employees of the Group's European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €30.30 per share, which represents 80% of the average opening price in the 20 stock market sessions preceding the Board meeting of June 9, 2008. Owing to the downtrend in the share price during the second half of 2008, said increase in the capital reserved for employees was not implemented.

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

The delegation of authority is valid for a period of 26 months. It replaces and supersedes the previous delegation granted by the Combined General Meeting of May 21, 2008.

Given the crisis that shocked the capital markets in 2008, no increase in capital was offered to employees. An issue is planned at the beginning of 2009.

Previous grants of stock subscription options

	1999 plan Tranche 5	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2003 plan Tranche 10	2007 plan Tranche 11	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	948,388
o/w directors (CEO)	*15,617*	*31,234*	*0*	*0*	*9,370*	*25,000*	*81,221*
o/w top 10 allottees	*70,931*	*149,922*	*9,370*	*4,685*	*44,825*	*72,250*	*351,983*
Subscription price	34.58	45.14	46.01	48.5	21.21	57.24	
Start of exercise period	March 2004	May 2005	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, 2008	96,021	43,628	0	0	42,158	0	181,807
Options canceled by Dec. 31, 2008	32,538	288,483	6,246	3,123	48,074	3,250	381,714
o/w canceled in 2008	*0*	*0*	*0*	*0*	*0*	*3,250*	*3,250*
OPTIONS THAT MAY STILL BE EXERCISED	**61,466**	**117,034**	**3,124**	**1,562**	**39,931**	**161,750**	**384,867***

** including 57,276 held by directors (Chairman and CEO).*

Stock subscription options: directors

	Number of options granted/subscribed	Price	Expiration date
Options granted during fiscal 2008 to each director			
Chairman and CEO: Claude Cocozza	0		
Chief Operating Officer: Ernest Totino	0		
Options exercised during fiscal 2008 by each director	0		
Chairman and CEO: Claude Cocozza	0		
Chief Operating Officer: Ernest Totino			

Stock subscription options: options granted to the 10 employees (not directors) who received the largest number

	Number of options granted/ subscribed	Weighted average exercise price	1999 plan Tranche 5	1999 plan Tranche 6	2003 plan Tranche 10
Options granted during fiscal 2008 to the 10 employees holding the largest number of options	0				
Options exercised during fiscal 2008 by the 10 employees who have subscribed the largest number of options	0				

Bonus share allotments

Shareholders authorized the Board of Directors on May 24, 2007 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.

On February 26, 2008, the Board of Directors used this authorization by offering 20,000 bonus performance shares to 89 of the Group's executives. The allotment of bonus performance shares is contingent upon continued employment of the allottees at the end of the vesting period, set at three (3) years. The lock-up period was set at two (2) years.

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

Shareholders authorized the Board of Directors on December 12, 2008 to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months.

Directors of the Company and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from the bonus share allotment.

This new authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

Previous bonus share allotments

	2005 plan Tranche 1	2006 plan Tranche 2	2008 plan Tranche 3	Total
Date of Board of Directors' meeting	June 30, 2005	June 28, 2006	February 26, 2008	
Total number of shares allotted	42,700	17,975	20,000	80,675
o/w directors: Chairman and CEO	*3,300*	*0*	*0*	*3,300*
o/w Executive Committee	*12,000*	*0*	*0*	*12,000*
o/w top 10 allottees	*16,500*	*5,001*	*3,000*	*24,501*
Share price at allotment date	39.25	40.07	29.63	
Definitive allotment date (end of the vesting period)	July 1, 2007	July 1, 2008	March 1, 2011	
End of lock-up period	July 1, 2009	July 1, 2011	March 1, 2013	
Allotments canceled at Dec. 31, 2008	11,800	1497	200	13,497
o/w canceled in 2008		*499*	*200*	*699*
Balance at December 31, 2008	30,900	16,478	19,800	67,178

Bonus share allotments: directors

	Number of shares allotted/subscribed
Shares allotted during fiscal 2008 to each director:	
Chairman and CEO: Claude Cocozza	0
Chief Operating Officer: Ernest Totino	0
Shares allotted during fiscal 2008 to each director:	
Chairman and CEO: Claude Cocozza	0
Chief Operating Officer: Ernest Totino	0

Bonus share allotments: allotments granted to the 10 employees (not directors) who received the largest number

	Number of shares allotted/subscribed
Shares allotted during fiscal 2008 to the 10 employees having received the largest number of shares	3,000

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

	2008				2007			
	Deloitte		KPMG		Deloitte		KPMG	
(€ 000s)	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Statutory audit, certification, review of the individual and consolidated financial statements	747	56%	592	80%	618	68%	552	87%
Other accessory and audit assignments	325	24%	83	11%	239	27%	63	10%
SUB-TOTAL	**1073**	**80%**	**674**	**91%**	**857**	**95%**	**615**	**97%**
Other services, etc								
Legal, tax law, labor law	240	18%	29	4%	44	4%	5	1%
Other (state where > 10% of audit fees)	30	2%	34	5%	6	1%	14	2%
SUB-TOTAL	**270**	**20%**	**63**	**9%**	**50**	**5%**	**19**	**3%**
TOTAL	**1343**	**100%**	**737**	**100%**	**907**	**100%**	**634**	**100%**

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

The directors and officers directly hold 25,312 shares.

The Company officers hold a total of 11,166 shares through the Carbone Lorraine FCPE (corporate mutual fund).

Directors and company officers hold 80,400 warrants (BSAARs), entitling enabling them to subscribe an equivalent number of shares at a price of €58.49 per share by 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 in 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, 2008.

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. Note that the procedures described in this report apply to the parent company and all the companies included in the Group's consolidated financial statements.

→ 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 below.

At its meeting on October 30, 2008, the Board of Directors confirmed that the AFEP-MEDEF recommendations of October 6, 2008 concerning the compensation of officers and directors of listed companies were adopted from October 17, 2008 by the Board as part of the decisions made on that day because they are in line with the Company's approach to corporate governance.

The Company clarified in a press release that in accordance with the law of July 3, 2008 transposing into French law EU directive 2006/46/EC of June 14, 2006, the AFEP-MEDEF corporate governance code for listed companies as amended is the document to which the Company refers when drafting the report provided for in Article L.225-37, paragraph 6 of the French Commercial Code with effect from the current fiscal year.

Pursuant to Article L.225-37 para. 6, the Board of Directors summarizes and describes below several recommendations of said corporate governance code, which are likely to be applied in part, as they currently stand, by the Company:

Evaluation of the Board of Directors

The Board's internal charter does not currently provide for the possibility of a meeting of the Company's external directors, without internal directors and officers being in attendance, to assess the performance of the Chairman, the Chief Executive Officer and the Chief Operating Officer and to discuss the future of the management team. This point of corporate governance has been addressed on several occasions during the Board's work, without the latter taking a position concerning a change in the internal charter. Nonetheless, it is worth noting that the Appointments and Remuneration Committee, which comprises four independent directors, meets without the Chief Executive Officer being in attendance to assess the performance of the Chief Executive Officer and Chief Operating Officer.

Staggered renewal of directors

The Board of Directors currently has 11 directors. The terms in office of two directors were renewed at the Combined General Meeting of May 12, 2005. The terms in office of three directors were renewed at the Combined General Meeting of May 24, 2007. Three new directors were appointed at the same General Meeting of May 24, 2007. Three new directors were appointed at the General Meeting of December 12, 2008.

In accordance with the AFEP-MEDEF recommendations, the same General Meeting of December 12, 2008 decided, on the recommendation of the Board of Directors, to cut directors' term in office to four years. The net result of the shortening in the term in office of directors is that it partially affects implementation of another AFEP-MEDEF recommendation concerning the staggered renewal of directors' term in office. Accordingly, the term in office of directors appointed or renewed in office at the General Meetings of May 12, 2005 and May 24, 2007 was amended as follows:

- the term in office of Jean-Claude Karpeles and Walter Pizzaferri will expire at the close of the General Meeting voting on 2008 financial statements,
- the term in office of Claude Cocozza, Hervé Couffin, Jean-Paul Jacamon, Agnès Lemarchand, Henri-Dominique Petit and Philippe Rollier will expire at the close of the General Meeting voting on the financial statements for fiscal 2010,
- the term in office of Dominique Gaillard, Yann Chareton and Marc Speeckaert will expire at the close of the General Meeting voting on the 2012 financial statements.

In the future, the Board will ensure a smoother rate of renewals, including by setting different terms based on proposed renewals.

Fixed portion of officers' and directors' compensation and benefits

The Company intends to maintain an annual review of the compensation and benefits paid to the Chief Executive Officer and Chief Operating Officer. This decision is attributable to the fact that this annual review is conducted relative to trends in salaries paid to officers and directors of companies of a similar size. It is worth noting that changes to the compensation and benefits package are made only when significant gaps are observed with the going market rates.

Frequency of stock option and bonus share allotments

From 2000 onwards, the Company sought to introduce a biannual authorization policy for stock subscription options with a view to curbing the dilution suffered by shareholders. The same policy has also applied to authorizations for bonus share allotments granted since 2005. The most recent grants were authorized at the Combined General Meeting of December 12, 2008.

The Board of Directors proposed at the Combined General Meeting of December 12, 2008, which passed the relevant resolution, that a stock subscription plan and a bonus share allotment plan should be set up, without waiting for the Annual General Meeting to be called to vote on the 2008 financial statements. This departure from the Board's biannual grant policy is attributable to the fact that the Company believed that it needs to be in a position to offer a medium-term incentive plan for the Group's managers if it is to achieve the stated objectives of the Expansion 2011 plan, which were revised upwards in September 2008.
As stated in this chapter, the Board of Directors is backed up by four specialized committees making proposals and exercising control, namely the Audit and Accounts Committee, the Strategy Committee, the Appointments Committee 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 requisite powers 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.

Shareholders

All shareholders have the right to attend general meetings under the terms and conditions provided for in law. The arrangements concerning this participation are described in the provisions of Article 25 of the Articles of Association and are summarized on page 151 of this document.

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.

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;
- implementing the internal processes properly and notably those helping to protect 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 1992 in the United States and are available from the www.coso.org web site. Like all control systems, it does not provide absolute assurance that risks have been completely eliminated. In addition, the Group took into account the items contained in the reference framework circulated by the AMF in January 2007 concerning the general principles of internal control and has continued to pursue its efforts in accounting and financial 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 oversight 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 efficacy of internal control systems is monitored and that the recommendations made by the Statutory Auditors and internal audit teams are implemented;
- keeping itself informed of and monitoring risk management.

The Risk and Internal Audit department follows up on initiatives related to internal control and risk management. It reports to the finance department and to the Audit and Accounts Committee.

2.2 Risk management

The Group updated its risk mapping in 2008.

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. Following this analysis, action plans were implemented. The aim of these plans is to reduce the impact and/or potential occurence of each risk. As with the previous mapping carried out in 2005, a progress report on the action plans is given on a regular basis and at least once a year to the Group's Audit and Accounts Committee and Executive Committee. The risk management policy is described in the Risk management section of the reference document.

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 online on Carbone Lorraine's intranet. This document was updated in 2007. It covers the following points:

- an initial section describes the background, objectives and resources used for internal control;
- a second section includes a description of the internal control organization and refers 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;
- the final section lists 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,
  - maintaining 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 leading 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 2008, 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 internal control and to verify proper application of the action plans implemented following the audits conducted in 2007 at 15 production plants;

- conduct a Group-wide review to check whether the salary policy defined by the Group is applied correctly by all its companies.

The internal audit department calls on the services of a specialized external firm to ensure the quality of the audit program and to facilitate continuous improvement. In 2008, a quality review by the internal audit department was carried out by an external firm.

2.4.2 Information systems security

The Risk and Internal Audit department is responsible for safeguarding the security of information systems and notably:

- securing the IT system and protecting data confidentiality;
- tightening up the security of IT infrastructure and applications to ensure the continuity of operations.

To ensure that existing procedures are applied properly, three site audits were carried out during 2008.

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 a year 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 any remedial measures required.

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:

- 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 businesses (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 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 notably based on external changes in accounting standards in close collaboration 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:

- ensure proper application of the Group's standards;
- 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 and the Chief Operating Officer are made to the Board 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. Like that of the Chief Operating Officer, his 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.

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 his/her 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.

No subscription options were granted in 2008.

The Appointments and Remuneration Committee also reviewed all the aspects of the agreement between it and its Chief Operating Officer in connection with the AFEP-MEDEF recommendations. This included termination of his employment agreement as a management employee, determination of his compensation, benefits and pension arrangements. This agreement also determines the severance payments that would be made to Ernest Totino, should his term in office be terminated. This agreement was approved by shareholders at the December 12, 2008 General Meeting. Should his appointment be terminated, the Group's Chief Operating Officer will receive a severance payment of no more than 0.5 times the total gross compensation and benefits paid to him in respect of the thirty-six month period preceding termination, subject to the attainment of performance criteria.

In addition, the Committee proposed that the Board should allot bonus shares to 89 managers, whose the Group wishes to retain and/or reward. The Group's policy is to concentrate the award of stock options on 30 or 40 principal managers and to keep the allotments of bonus shares as a means of retaining young managers. Consequently, the sole condition for beneficiaries to fulfill in order to gain possession of the bonus shares is their continued presence on the Group's payroll four or five years after the grant date, depending on the circumstances.

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 2008 and action plan for 2009

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 points of internal control are applied properly at their business unit. The following specific initiatives were initiated in 2008 to tighten up internal control:

- A quality review of the internal audit department was carried out by an external firm. This review revealed several areas for further reflection concerning the current organization of the internal audit department. The findings issued in this report were presented to the Audit and Accounts Committee and to the Executive Committee.
- A comparison of the reference framework used by the Group and the framework proposed by the AMF was launched. 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 and will be completed during 2009. The study performed during 2008 did not reveal any major departures from the AMF's reference framework.
- The units audited during 2008 sent in a self-assessment of their internal control system in advance of the internal audit department's review. These assessments reviewed by the internal audit helped to correct certain differences in viewpoints and to enhance the culture of internal control within the units.
- The internal audit department participated in the risk mapping survey.

During 2009, the following projects are set to be launched by the internal audit department:

- A review will be conducted concerning the current organization of the internal audit department to take into account the recommendations made during the quality review carried out in 2008. Pilot measures will be implemented to test the efficacy of the proposed solutions.
- Further comparisons will be made of the framework used by the Group with the AMF framework concerning the accounting and financial internal control section. Action plans will be implemented to remedy the several minor divergences identified during the work performed in 2008.
- A self-assessment questionnaire will be completed by business units before the audit department arrives.
- It contributed to certain action plans linked to risk mapping and provided a regular summary of the risks and internal control to the Audit Committee in line with the requirements of the 8th European directive.

General conclusion

In 2008, 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. It actively participated in the performance of the risk mapping survey. Through the quality review, it helped to produce a list of measures that will contribute to an enhancement in the overall quality of internal control.

The various audits conducted during 2008 did not reveal any significant internal control failings or deficiencies.

Statutory Auditor’s 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 - Fiscal year ended December 31, 2008

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, 2008.

It is the Chairman’s responsibility to prepare and submit for the approval of the Board of Directors a report on the internal control and risk management procedures implemented within the Company and containing the disclosures required by Article L.225-37 of the French Commercial Code related to the corporate governance system.

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, and
- certify that the report contains other disclosures required by the Article L.225-37 of the French Commercial Code, it being stipulated that it is not our responsibility to verify the fair presentation of this other information.

We performed our procedures in accordance with the professional standards applicable in France.

Disclosures concerning the internal control procedures related to the preparation and processing of accounting and financial information.

The professional standards require that we plan and perform procedures to assess the fair presentation of the information concerning the internal control procedures related to the preparation and processing of accounting and financial information in the Chairman’s report. 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.

Other disclosures

We certify that the Chairman of the Board of Directors’ report includes the other disclosures required by Article L.225-37 of the French Commercial Code.

The Statutory Auditors

Paris La Défense, March 17, 2009
KPMG Audit
KPMG SA department

Jean-Paul Vellutini
Partner

Catherine Porta
Partner

Neuilly-sur-Seine, March 17, 2009
Deloitte & Associés

Alain Penanguer
Partner

General information about Carbone Lorraine

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General information about Carbone Lorraine

Corporate name and headquarters

Le Carbone Lorraine

Immeuble La Fayette

2 place des Vosges

92400 – Courbevoie La Défense 5

Société Anonyme régie par la législation française, notamment par la loi du 24 juillet 1966.

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 21, 2008 (second notice), the Company was authorized to trade in its own shares on the stock exchange in accordance with Article L.225-209 *et seq.* of the French Commercial Code in order to:

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

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

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.

The Company has not used said authorization since May 21, 2008 except for the acquisitions made under the liquidity agreement. At December 31, 2008, 59,521 of its own shares were held by the Company pursuant to this agreement.

In March 2005, the Company signed a liquidity agreement with Exane-BNP Paribas conforming to the AFEI's charter.

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2008. Another stock repurchase authorization will be proposed at the Combined General Meeting of Shareholders of May 19, 2009.

Double voting rights

No shares carry double voting rights.

Officer responsible for the reference document and auditors

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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 17 to 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 2007

Included in annual report no. D-08-114 submitted to the *Autorité des Marchés Financiers* on March 17, 2008:

- the 2007 financial statements prepared in accordance with the international accounting standards in force in 2007 on pages 36 to 80;
- an analysis of the 2007 results on pages 18 to 24;
- the Statutory Auditors' report on the consolidated financial statements on page 81.

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.

Auditors

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
Tél. : + 33 (0) 1 46 91 54 19

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