Carbone Lorraine

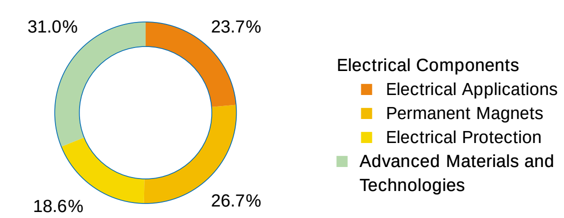
1999 ANNUAL REPORT

Profile of the Group

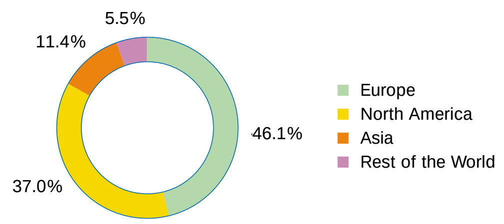
SALES OF **690** M€ **39** COUNTRIES **8,294** EMPLOYEES **30,000** SHAREHOLDERS

Carbone Lorraine has been developing graphite-based materials for use in electric motors for 100 years. The Group's expertise has naturally broadened to encompass the protection of these motors, of electrical and electronic equipment in general: activities which together form its main product line, Electrical Components. Building on its expertise in materials technology, the Group has become active in high-tech markets such as the aerospace, medical imagery, computing, chemical and electronics industries. Complete solutions have been found for customers in these fields. Carbone Lorraine has grouped these various activities to form its second product line, Advanced Materials and Technologies.

Sales broken down into activities



Sales broken down into geographical zones



85% of sales are generated outside France with industrial facilities and sales centers in **39 countries**.

Today, the Group is a key market leader on specialty markets, serving a highly diversified range of **industrial customers**.

Introduction

The Carbone Lorraine Group specializes in Electrical Components and in Advanced Materials and Technologies.
It is strongly customer-based, which is one of the reasons why it has developed market-leading positions in brushes for electric motors (world n°1), magnets for automobiles (world n°3), industrial fuses (world n°2) and anti-corrosion equipment for hot fluids (world n°1).

Contents

Message from the Chairman

1999 was devoted to the development of the Carbone Lorraine Group. It was a year in which a number of successful transactions were completed which guarantee a positive future for the Group and which will generate a significant improvement in our results starting from the year 2000.

In just two years, the Group has increased its sales through external growth by over 300 million euros. 1999 will be remembered as being both a turning point and a key year in our strategy of becoming a key market leader in each of our activities.

The success of our strategy is dependent on being able to satisfy three conditions: we must hold a significant **market share** in each of our activities, so that we are one of the top three players in the world for these activities. Secondly, we must reach a **size sufficient** to ensure our long-term success and competitiveness. This requires sustained organic growth as well as greater external growth through the acquisition of companies whose portfolio of products and geographical coverage complements our own. Thirdly we must build on the excellence of our industrial and commercial facilities to manufacture and sell, at **least cost**, products which satisfy all the requirements of our customers.

1999 was a year in which a number of acquisitions made in previous years were consolidated, in addition to the conclusion of two other excellent deals. The first of these, in the field of magnets, has enabled us to establish a solid base in Korea and to penetrate the market in Asian countries, starting with Japan. It has enabled Carbone Lorraine to acquire high-performance industrial facilities. The other, in the United States, strengthens our Electrical Protection and industrial fuses activities: we have acquired Gould Shawmut, and as a result have multiplied our sales in this activity almost three-fold. These two deals, perfectly in line with its strategy, have shown that the Group can react well to market situations and that it can swiftly negotiate to a satisfactory conclusion the opportunities that arise.

Of course, external growth is not an end in itself. For me, it serves to create value, through introducing synergies, new sources of organic growth and of competitivity.

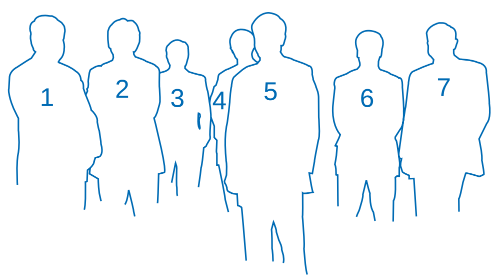
Improvements in this direction have also been provided by the “workshops for profitable growth” which, in each sector, require each of us to search for new ways of improving sales and of attaining further increases in productivity and profitability. Already, these workshops have produced tangible results in the Electrical Components division with, for example, the development of assemblies (both for brushes and magnets), and in the Advanced Materials and Technologies product line with the development of the Graphilor 3 range (for increasingly sophisticated applications of graphite in the chemical and pharmaceutical industries) in addition to our very promising entry into the international motorbike graphite brakes market.

In the year 2000, these prospects look set to develop further and our policy of achieving market leadership should be consolidated. The result will be the creation of even more value for our customers, our personnel and our shareholders.

Claude Cocozza
President and CEO

executive management

From left to right: 1 - Michel Coniglio
2 - Jean-Claude Sobel 3 - Richard Fourcault
4 - Marc Renart 5 - Claude Cocozza
6 - Jean-Michel Escondeur 7 - Jean-Claude Suquet.



Board of directors

Claude Cocozza
President and CEO

Robert Agenet*
Jean-Pierre Capron
Robert Chauprade
Hervé Couffin
Jean-Claude Karpeles**
Patrick Kron
Walter Pizzaferri**
Hervé Rudaux

Executive committee

Claude Cocozza
President and CEO

Michel Coniglio
Group Vice President, Advanced Materials and Technologies division
Vice President North and South America

Jean-Michel Escondeur
Group Vice President, Permanent Magnets division

Richard Fourcault
Group Vice President, Electrical Applications division
Vice President Europe

Marc Renart
Group Vice President, Electrical Protection division
Vice President Asia

Jean-Claude Sobel
Group Vice President, Human Resources

Jean-Claude Suquet
Group Vice President, Finance and Administration

* Until June 1999
** As from May 5, 1999

It is with great sadness that we announce the death of Robert Agenet, formerly President and CEO of the Group, who worked tirelessly to develop the Group, particularly in North America.

Key dates

March 1999	Publication of the annual results. Road shows in Great Britain and in the USA.
April 1999	Meeting with individual shareholders in Metz, France (sponsored by ParisBourse SA).
May 1999	Investors day in Münster (Germany).
June 1999	Individual shareholders day: a visit to the Pagny-sur-Moselle site, France.
September 1999	Publication of the half-year results. Road shows in Great Britain and in the USA.
October 1999	Meeting with individual shareholders in Amiens, France (sponsored by ParisBourse SA).
November 1999	Investors day in Brussels (sponsored by ParisBourse SA).
December 1999	Meeting with individual shareholders in Paris (sponsored by ParisBourse SA).

Communication with shareholders

At the end of 1999, Carbone Lorraine's 29,000 individual shareholders owned 25% of the share capital. In appreciation of the growing interest shown by individual shareholders, the Group is introducing a service specially for these investors, and aimed at providing information on financial matters.

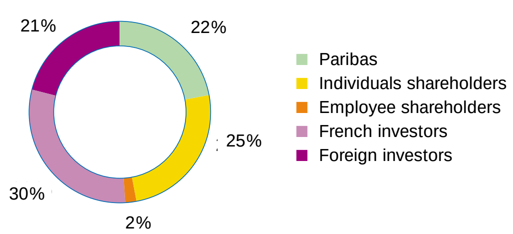
Since 1998, we have taken part in meetings with individual shareholders, three of which (sponsored by the Paris stock exchange) were held in 1999.

At the beginning of 2000, a "letter to shareholders" will be inaugurated which will enable everyone to understand more fully the Group's main strategic directions, and how it is changing.

Basic information

Market listing	Paris - First market - Monthly settlement
Reference index	SBF 120
Reuters code	CBLP.PA
SICOVAM code	3962

Share capital structure



Contact for financial communication

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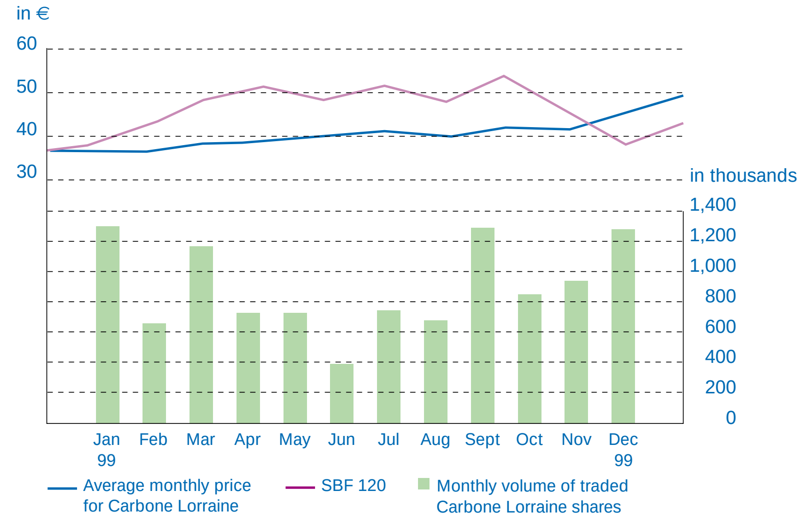
Fax: + 33 1 46 91 54 07

www.finance.carbonelorraine.com

Stock market

Carbone Lorraine's share price increased by 16% during 1999, reaching a high for the year of 57.70 euros in September. The end-of-year price was 46.8 €, following drop as investors waited for definite confirmation of a recovery in the Group's activities.

Changes in share price and volume of transactions



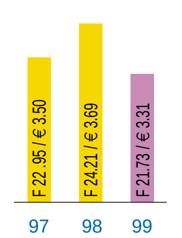
Stock market data

	1999	1998[1]	1997[1]
Number of shares on december 31	10,895,464	10,785,937	10,118,220
Price (in euros)			
Highest	57.70	93.39	57.93
Lowest	34.01	32.32	28.96
Average	45.30	60.67	43.78
On December 31	46.80	40.40	57.32
Stock market capitalization[2] (in M€)	509.9	435.8	580.0
Average number of shares trade per month	902,676	895,000	89,700

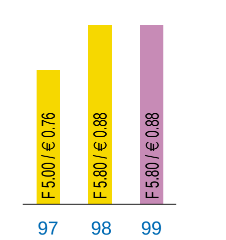
(1) On 19 June, 1998, the nominal value of Carbone Lorraine shares was split by 5, i.e. a reduction from French francs 50 to French francs 10. The per-share data has been adjusted so as to remain comparable.

(2) The capitalization is calculated based on the number of shares and the share price on December 31.

Net current income per share[1]
(in French francs and euros)



Net dividend per share[1]
(in French francs and euros)



Thanks mainly to an active policy of acquisitions, sales for the Carbone Lorraine Group's increased by 30% between 1997 and 1999 (or by 47% if the fuses activity of Gould Shawmut acquired in August 1999 is included on a full-year basis). Carbone Lorraine has thus become, in just two years, the world n°3 in magnets for automobiles and the world n°2 in industrial fuses. The integration of these acquisitions has generated a significant workload in 1999, but will result in important commercial and technical synergies which will help to increase further the Group's profitability.

Consolidated statement

Summary consolidated income statement

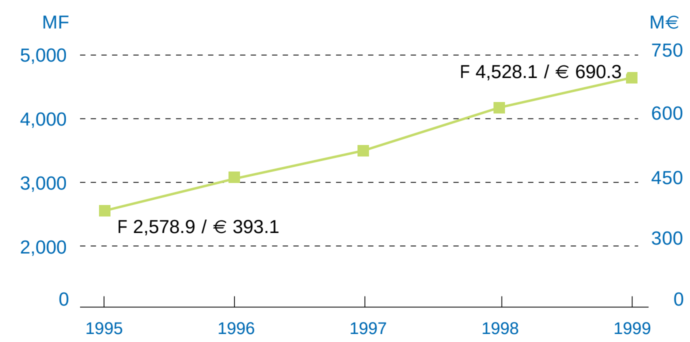
	1997 (in M€)	1998 (in M€)	1999 (in M€)	1997 (in MF)	1998 (in MF)	1999 (in MF)
Net sales	531.0	627.7	690.3	3,483.3	4,117.8	4,528.1
Operating profit	61.0	69.3	68.1	400.2	454.5	446.7
Financial expenses	(4.4)	(8.9)	(13.5)	(28.7)	(58.4)	(88.5)
Current income before tax	56.6	60.4	54.6	371.4	396.1	358.2
Net current income (Group share)	**35.4**	**39.8**	**36.1**	**232.2**	**261.1**	**236.8**

Summary consolidated balance sheet

	1997 (in M€)	1998 (in M€)	1999 (in M€)	1997 (in MF)	1998 (in MF)	1999 (in MF)
ASSETS						
Intangible assets	34.9	140.7	236.5	228.9	923.2	1,551.3
Tangible assets	113.4	140.8	183.8	743.9	923.2	1,205.7
Financial assets	106.2	30.8	40.5	696.9	202.3	265.7
Current assets	280.2	296.6	376.2	1,837.8	1,945.6	2,467.7
Total assets	**534.7**	**608.9**	**837.0**	**3,507.5**	**3,994.5**	**5,490.4**
LIABILITIES						
Shareholders'equity	208.4	248.9	270.8	1,367.2	1,632.8	1,776.3
Long-term provisions	25.1	26.5	36.7	164.8	173.9	240.7
Financial debt	193.1	193.0	352.9	1,266.1	1,265.7	2,314.9
Other debts and ST provisions	108.1	140.5	176.6	709.4	922.1	1,158.4
Total liabilities and shareholders'equity	**534.7**	**608.9**	**837.0**	**3,507.5**	**3,994.5**	**5,490.4**

Change in consolidated sales

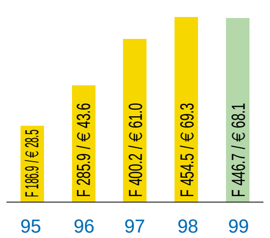
(in millions of French francs and in euros)



Thanks to sustained organic growth and an active policy of external growth, the Group managed to almost double its sales between 1995 and 1999 (if the fuses activity of Gould Shawmut acquired in August 1999 is included on a full-year basis). On the basis of published figures, the average growth is 15% per year.

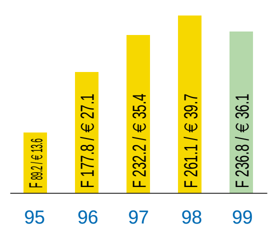
Operating profit

(in MF and M€)



Operating profit increased two-fold between 1995 and 1999. The dip in 1999 was caused by difficulties in the magnets activity, which the Group responded to by implementing effective corrective measures.

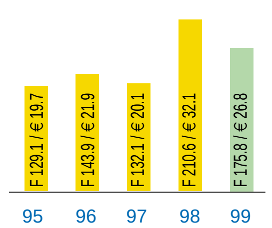
Net current income, Group share (in MF and M€)



Despite an unfavorable economic context, and the difficulties in the magnets markets, net current income accounted for 5.1% of sales in 1999, which confirms the Group's excellent ability to resist difficult contexts.

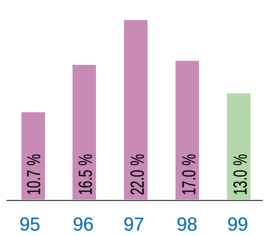
Physical investments

(in MF and M€)



The amount of investment coverage for the year was about the same as the annual depreciation charge.

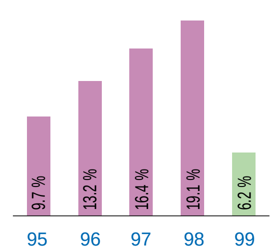
ROCE* (%)



The fall in ROCE is the direct consequence of the recent acquisitions which have significantly increased the capital employed, whereas the effect on the operating profit of the large-scale synergies expected will build up more gradually.

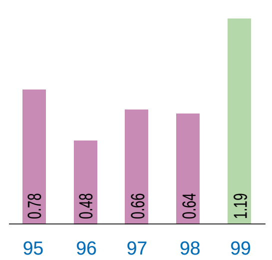
* Return on capital employed

Return on equity (%)



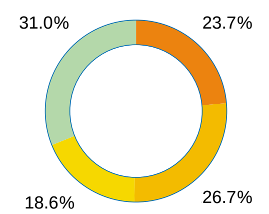
The decrease in the return on equity in 1999 was due to large non-recurring costs. These costs mainly consist of significant provisions for restructuring, which will have a positive effect as from the year 2000.

Debt equity ratio



The significant increase in debt equity ratio in 1999 was due to financing the acquisition of fuses (USA) and magnets (Korea) activities. The activities' impressive ability to generate cash (37 M€ in 1999 after funding non-acquisition-related investments) will enable this ratio to be reduced rapidly.

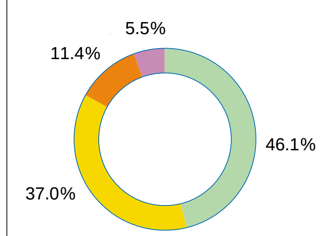
Sales broken down into activities



Electrical Components
- Electrical Applications
- Permanent Magnets
- Electrical Protection

Advanced Materials and Technologies

Sales broken down into geographical zones



- Europe
- North America
- Asia
- Rest of the World

Creating value for our international customers and our shareholders

1999: a spirit of conquest

CARBONE LORRAINE

Since 1892, Carbone Lorraine's approach has been to treat the planet as a global village. Further moves towards attaining its overall vision of activities were achieved last year in the form of two major acquisitions in two buoyant zones: North America and Asia. This philosophy of geographical expansion is one of the bases for the Group's organic growth, and is one that has been illustrated in the brakes market in 1999, with breakthroughs both in the USA and in Korea.

8,294	employees
690 M€	sales
250	sales centers
88	sites and finishing workshops in 39 countries

PRESENCE OF CARBONE LORRAINE
MAIN INDUSTRIAL SITES

Acquisition of Gould Shawmut

Gould Shawmut

Although Ferraz (a subsidiary of Carbone Lorraine) is the world n°2 in the protection of power semi-conductors, a key element was missing: a link with the other segments of the industrial fuses market. This piece of the jigsaw has now been found! In September 1999, Gould Shawmut, one of the major international players, was acquired by the Group and now provides this link in addition to established outlets for its products in the United States. The two companies complement each other perfectly, proof of which has been that a complete merger has been achieved in just a few months. Transverse working groups have ensured that the same objectives are shared and that the methods used have been optimized. The merger will enable Ferraz Shawmut to contest the world n°1 spot in the future and to make rapid improvements to its profitability.

Motorbike brakes: a strong development

Motorbike brakes

The joint venture between Carbone Lorraine and a tire distributor has cleared the way for a rapid expansion into the buoyant motorbike market. Carbone Lorraine has already made significant advances in the field of high-energy braking, supplying carbon brakes for Jumbo Jets and ceramic-metal brakes for railway applications. The Group now markets a complete range of products suited to motorbike applications. Their successful use in high-profile competition bikes have already gained the products an international reputation: the motorbike which won the "Bol d'Or" in 1999, for example, was fitted with Carbone Lorraine brakes. The Group's renown has now spread not only within Europe but also to the United States and Japan, paving the way for new developments.

Korea: an ultra-modern magnets plant

ultra-modern magnets plant

By purchasing, in April 1999, the magnets production facility operated by a Korean conglomerate, Carbone Lorraine has made both an excellent financial deal and a strategic leap forward in Asia. Constructed in compliance with the latest standards, the plant can produce high-tech grades of the new generation of magnets and satisfies the requirements of Japanese customers. By integrating the company rapidly and by implementing a particularly active sales policy, a penetration of japanese market has already been initiated. Carbone Lorraine also won the contract for supplying the brakes for the Korean TGV (high speed train), and as a result is now well established in Korea, with an advanced base set up for its development in the Far East.

human resources

Carbone Lorraine's true wealth

Its human resources

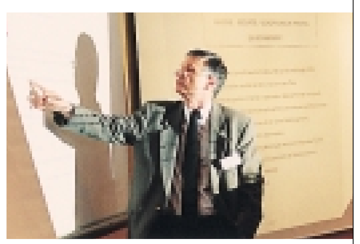
Priority objective: safety at the workplace

Priority objective

For many years, Carbone Lorraine has made safety at the workplace a priority objective. The new safety plan put in place in 1999 has been accompanied by numerous training initiatives. A "minimum safety plan" is now in force on all the industrial sites employing over 50 persons. The number of accidents at work has dropped even further due to the "organized involvement" of managerial staff and employees and through a particularly effective method of analyzing the causes of accidents.

8,294 people working to ensure customer satisfaction

Carbone Lorraine employs over 8,294 people internationally, 2,500 of whom in France. This international population is divided between 88 sites and finishing workshops and 250 sales centers around the world. The spirit and culture of the Group are particularly strong, based on sense of belonging and a "SME-feel" created by the size of the individual companies and their local roots.



The Carbone Lorraine network, an international organization

One of Carbone Lorraine's great strengths is its sales network, the fruit of 100 years of international development and of the Group's pragmatic approach to local contexts. Although the Group has always been well established in Europe and on the American continent, it is now developing its facilities in Asia and Eastern Europe. Some units are dedicated to a specific division, whereas others are multi-product. The intense external growth achieved over the last few years has led to the need to develop efficient means of communication between the various sites. In this respect, 1999 saw the development of video-conference systems which connect up plants around the world. The efficiency of the sales network has also been improved by holding numerous technical seminars and training initiatives.

A human resources policy focused on the long term and on increasing skills

"The family spirit" generated within Carbone Lorraine is maintained by the recruitment policy which lays a strong emphasis on loyalty and on employing for the long term, at all levels in the organization. The selection of managers is based both on their technical competencies, their ability to communicate and dialog, whether they can show initiative, their mobility and their management skills. The Group's international nature means that candidates should also have foreign language skills. Each year, an individual performance review is conducted to assess the specific competence of each manager, to evaluate what has been achieved over the last year, and to set, jointly, new objectives in line with the Group's strategy. Since 1998, management reviews have been performed to detect which skills each manager needs to develop and to propose the appropriate "learning situations".

Integrating the acquisitions

The Group's strong external growth has been accompanied by careful efforts to integrate the personnel from the purchased companies. Following, and indeed even before the acquisition of Gould Shawmut in the United States, exemplary work was conducted by managerial staff and the management of what is now Ferraz Shawmut. A new organization has been set up very rapidly and groups, consisting of both Ferraz and Shawmut personnel, have been set up in all functions and have validated the expected synergies and the initiatives of achieving them. An integration plan for human resources will make it possible, over the next two years, to use a common system measuring competences and to harmonize the remuneration within each of the local markets.

A policy of selective and motivating remuneration

The Group has set up a motivating remuneration policy. In addition to the regular increases in salaries, a profit-sharing scheme has been developed to implicate personnel in the results of the Group or of the site. This profit-sharing policy is based on criteria like financial efficiency figures, quality, stock management, low levels of absenteeism. A system of bonuses for managers has also been introduced which is used to reward performance both on an individual and group level (based on the return on capital employed). The awarding of stock options to about sixty top level managers implicates management more directly in the share price's progression. Finally, the employee shareholding has increased regularly through equity issues reserved for personnel. The objective is for 10% of the share capital to be held by personnel. Already, each employee is a shareholder following the distribution of one share per person to celebrate the year 2000.

Increasing skills...

The creation of value within the company involves implementing a dynamic policy of human resource management. The growth workshops promote new ideas and applications with the aim of increasing the sales for each division. Improved sales have been achieved by enhancing the technical sophistication of the products and by making the sales force and the organization as a whole more dynamic. The coaching system has been used to accompany managers on training projects. Between 1999 and 2000, all the sales personnel and managers will be made aware of and trained in the basic techniques which are essential in attaining Carbone Lorraine's ambitious objectives: sales, finance and cash-flow, for example.

... and better communication

The increase in skills, synergies and economies of scale necessitates better means of communication between the Group's entities and the introduction of high-performance communication and data-exchange systems. A number of tools operated on a Group level have been developed in 1999 and 2000: a new corporate journal, business letters, meetings between managers, videoconferencing systems, extended e-mail and intranet facilities.

Custommer service

An approach focused on the needs of customers

Carbone Lorraine lays great emphasis on listening carefully to the needs of its customers. Building on its expertise in materials, it has quickly developed an in-depth understanding of their applications and has fostered special relationships with customers. Since the nature of its products is highly technical, it is important for the Group to work very closely with its customers so that it can satisfy their needs fully and develop with them the most suitable applications. The decision to operate in the special products markets, whose global size are necessarily limited, has led the Group to optimize its fixed costs by developing an international market presence through setting up both industrial premises and sales centers on all five continents. As a result, Carbone Lorraine's extremely dynamic network is the origin of many development opportunities.

The requirements for international market leadership

3 conditions

Although Carbone Lorraine is already a global player, its intention is to become a key leading player in the world in each of its markets. To achieve this, it must develop:

• a significant market share by obtaining - both through organic growth and through acquisitions - a size which positions the Group as one of the three leaders in the world.

• a complete range of products which satisfy the most exacting standards in terms of quality, with the same quality level achieved by all the sites.

• production facilities and logistics that enable the Group's products to be the most competitive and to offer the shortest possible lead times.

The Group's development in 1999 was fully consistent with these requirements. Its two major acquisitions, Gould Shawmut and the Korean magnets facility, have given Carbone Lorraine world leading positions in industrial fuses and magnets for automobiles.

a key leader in its markets

A key leader in its markets

An international specialist in Electrical Components…

In 1985, the Group, who at that time concentrated mainly on developing its sales of brushes for electric motors, was approached by Ferraz, a company who specialized in industrial fuses and in protecting motors. The complementary nature of the two companies enabled Carbone Lorraine to establish itself rapidly as one of the leading players in the field of fuses, a position which was consolidated in 1999 by the purchase of one of the other key companies, the American corporation Gould Shawmut. The same "motors-based approach" led the Group to acquire Ugimag in 1995, followed by 5 other sites around the world, and to form, in just four years, the third-ranking Group in the world in the field of magnets for automobiles and further strengthening the Electrical Components product line.

…and Advanced Materials and Technologies

Carbone Lorraine has utilized the specific properties of graphite (resistance to corrosion, self-lubrication and heat conduction) to develop numerous other industrial applications. This customer-based approach has led to particular successes in chemical engineering (heat exchangers), high-temperature applications (sophisticated castings, handling equipment in the glass industry, coatings for equipment used in electronics, etc.) and in braking. This strategy has also led to the development of additions to the Group's range of materials, such as graphite derivatives (e.g. "Carbon-Carbon" composites and silicon carbide) and special metals (titanium, tantalum and zirconium).

1
Electrical Applications

World n°1* in brushes for electric motors

3
Permanent Magnets

World n°3* in magnets for automobiles

2
Electrical Protection

World n°2* in industrial fuses

1
Advanced Materials and Technologies

World n°1* in thermal anti-corrosion applications

*** Estimated by Carbone Lorraine**

Promoting integration and organic growth

Good geographical coverage and a complete range of products form the bases which are required but not necessarily sufficient for long-term growth and for consolidating the Group's market leading positions. For this reason, Carbone Lorraine has set up a dynamic internal process involving "growth workshops" on all the sites. They are concerned both with the development of new products (e.g. Graphilor 3, a very high performance graphite) and of new markets (e.g. brakes for motorbikes).

They have strengthened our working partnerships with our major international customers: e.g. assemblies in both the Electrical Applications and Magnets fields. Finally, these workshops have searched for an optimum organization which integrates safety, quality, a respect for the environment, logistics and the search for the lowest costs. Moreover, internal benchmarking has been systematically introduced, and has made it possible to ensure that all the units of a division adopt the industrial or commercial process which offers the best performance.

Electrical Applications

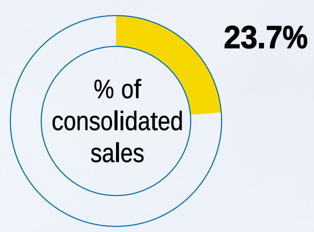
For one hundred years, Carbone Lorraine has manufactured graphite brushes, essential components in supplying power to d.c. electric motors. The Group is active in selling brushes directly to the manufacturers of large industrial motors, providing spare parts for a diverse range of industrial users, and supplying brushes for small motors used in household appliances and in automobiles.

Electricity is not only a clean energy but can also be renewable! Carbone Lorraine is making its contribution to the environment by developing generator brushes for wind turbines.

THE BRUSH which supplies electric motors with direct current is a sliding contact which transfers electricity from the electric wire (stationary) to the rotor (moving) and is thus a key element in the reliability and service life offered by the motor. Each type of motor (of which there are thousands) needs its own type of brush.

163.3 M€
Sales

14.1%
Operating margin



briefly,

The Electrical Applications activity generated sales of 163.3 M€, down 2% on 1998.

Two different techniques adapted to specific markets

The technologies implemented by Carbone Lorraine vary from market to market. Three production sites (Amiens in France, Saint Marys in the USA and Elca in India) produce plates of graphite whose grades are adapted to suit each industrial user by employing a highly sophisticated technique which involves temperatures of over 3000°C. These plates are then distributed, cut to size, finished and assembled in about forty finishing workshops around the world which all belong to Carbone Lorraine. For the mass-produced motors designed for automobiles and household applications, the brushes are manufactured as a one-stage process to their final size from blends of carbon powder and additives. The Carbone Lorraine factories (Farmville in Virginia, Amiens in France and Frankfurt in Germany) produce sintered components in ovens at about 900°C.

Joint market leader and the search for added value

With sales of 163.3 million euros in 1999, Carbone Lorraine maintains its position as joint leader in the world, sharing this position with a British group and ahead of two German manufacturers. Over the last few years, Carbone Lorraine has enhanced its relationships with its customer base by offering assemblies and brush holders. In 1999, this activity accounted for 20% of the division's sales. The development of assemblies allows additional added value to be incorporated, and simplifies the subsequent operations performed by the customer. These assemblies are often produced by dedicated factories, notably in Mexico and Hungary.

1999, a year of consolidation for brushes

In Europe, the industrial brushes activity was not very sustained due to a mediocre economic context in the heavy industries, although there was a sharp recovery towards the end of the year. In the United States and in Asia, the Group increased its market share and developed new products, including brush holders. Thanks to its own organic growth and to the recent acquisition of companies in Brazil and Italy, Carbone Lorraine is now the world n°1 in the brush-holder market, which is an important element in the Group's drive towards greater market share in the brush market.

Electrical Applications

Métro Val

Carbone Lorraine brushes are used by the Lille automated subway: both to operate the electric motors which power the windscreen wipers and the front-wheel traction, and to protect passengers based on a earth-current system.

Métro Val

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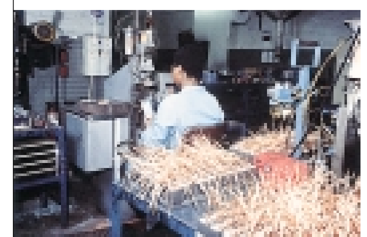
In Europe, an increase in automobile production of just 3%, the running down of stock and the transfer of market share between our customers resulted in slow sales of brushes for automobiles. In North America, in a sustained automobile market, our sales progressed modestly due to the losses of market share of one of our main manufacturing customers, and due to many changes of models. However, the numerous projects which have been developed jointly with customers should result in a sharp improvement in sales starting in the second half of 2000 in North America and in 2001 in Europe. Faced with pricing pressures, Carbone Lorraine has developed a targeted policy of capital expenditure on automation. The standardization of processes has started to show its worth in the USA. In order to take full advantage of the synergies between magnets and brushes, used in the same motors for automobiles, a new structure has also been set up headed by a single international marketing manager. Thanks to the improvements in sales resulting from the intense sales drive over the last 2 years and from the on-going restructuring initiatives, particularly in Europe, the profits generated by this activity will continue to rise in 2000 and 2001.



Benchmarking

Benchmarking: an initiative generalized in 1999

The policy of "internal benchmarking" applied over the last two years to industrial brushes was generalized in 1999. Basically, the process compares the various industrial processes and ensures that the best methods, in terms of productivity, are adopted by all the various finishing workshops. The expected results in terms of profitability are very promising. Many sites have benefited from this optimization. Benchmarking is not limited to industrial and technical aspects, but has also been applied to commercial and administrative procedures. By analyzing the various phases involved from the placing of the order to the delivery of the product, this optimization has made it possible to reduce stock levels and to enhance service quality. Our 24-hour delivery service now operates more efficiently than that of most of our competitors.

Permanent Magnets

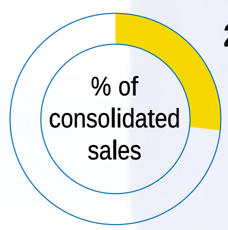
Carbone Lorraine manufactures ferrite magnets (60% of sales) for the automobile industry, which are used in the new generation of auxiliary electric motors (electric windows, air conditioning, ABS, ...) and also produces high power magnets made from “rare earths” for computer applications (actuating disk access arms) and industrial applications.

PERMANENT MAGNETS are an important component of the small auxiliary motors fitted to automobiles. Attached inside the casing of the motor, they attract and then repel in sequence the moving part (the rotor), itself transformed (by the electricity supplied by the brushes) into a variable magnet. The airgap, which is the free space between the magnet and the rotor, must be as thin as possible (about 1/10th of a millimeter), which requires extreme precision when machining the magnets.

To cater for the safety and comfort requirements demanded by modern users, an increasing number of electric motors are used in automobiles. The few dozen motors fitted to a middle-of-the-range car rises to seventy or even a hundred on an executive car (seats, aerial, boot, rear-view mirrors, etc).

184.5 M€
Sales

3.5%
Operating margin



briefly,

The Permanent Magnets division generated sales of 184.5 M€, up 2% compared with 1998.

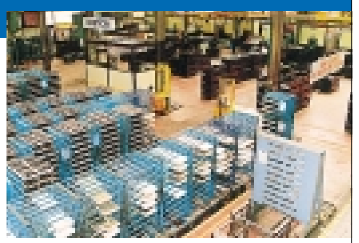
Rapid yet controlled external growth

Carbone Lorraine bought into the business of producing permanent magnets in 1995 by acquiring Ugimag, which offered synergies with the Group’s brushes for automobiles activity. Carbone Lorraine has lost no time in pursuing its strategy of external growth, a strategy which has enabled it to become one of the world leaders in this buoyant market. After integrating, in 1998, the ferrite activities of ITT-Automotive (North America) and having acquired Philips’s ferrite activities (in Europe and Brazil), Carbone Lorraine negotiated an excellent deal, at the start of 1999, by purchasing the ultramodern magnets factory operated by Tongkook Synthetic Fibers, one of the Korean “chaebols”. In just two years, the Group has considerably strengthened its industrial portfolio, growing from a local player with just one production site to the world n°3 in magnets for automobiles. Carbone Lorraine now has unparalleled industrial coverage internationally thanks to its 6 production sites in Europe, North and South America and Asia.

A strategy aimed at covering the major markets of tomorrow

As world n°3 in terms of its industrial and commercial coverage, Carbone Lorraine has acquired plant wherever the automobile market is developing. It holds market leading positions in Latin America and Eastern Europe and is firmly established in the Far East. The acquisition in Korea enables the Group to manufacture products for the major Asian markets extremely competitively, which is important since this zone already takes one third of the world’s production. 1999 saw the setting up in Korea of an industrial, logistical and commercial structure that has created a firm foothold for entry into the Japanese market starting in 2000. In fact, the excellence of the industrial facilities, the quality of the products and the introduction of “Just-in-time” logistics satisfy the strict requirements of the Japanese automobile market.
To complete its coverage of Asia, Carbone Lorraine has set up a sales office in Shanghai specifically to take full advantage of all the opportunities offered by the markets of tomorrow.

Permanent Magnets



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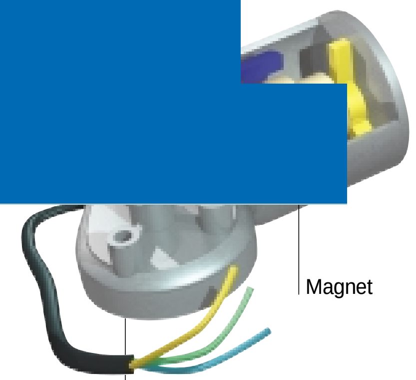


Magnet

Windscreen wipers

Windscreen wipers

Carbone Lorraine magnets, by creating a magnetic field, enable motors to rotate at optimal speed, like for example windscreen wipers motors.

The latest innovations

The manufacture of products offering ever better performance is the driving force behind Carbone Lorraine's research and development policy. In the field of electric motors for automobiles, the search for improvements in power-to-size ratio is one of the key issues for the future, since equipment manufacturers are looking to miniaturize the auxiliary motors fitted to vehicles. A great deal of progress was made in this area in 1999. The Carbone Lorraine offering of grades of ferrite magnets increased from family 6 to families 8 and 11. The addition of these new families of magnets to its catalog of products means that its offering is at least equivalent to that of the two market leaders, and superior to all its other competitors. This qualitative increase is an additional element which supports the credibility and strength of Carbone Lorraine's efforts to develop its presence in Asia.

innovations

Mexico: producing to the same level, but cheaper

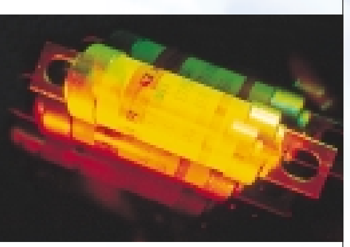
Mexico

The Nuevo Laredo plant in Mexico was taken over as part of the acquisition of the magnets activities of ITT Automotive and produces about 80 million magnets and 30 million assemblies per year. It benefits from the particularly advantageous tax status of the “Maquiladoras”, which enables the plant to produce to the same level of quality as the other sites, but at lower cost. The Mexican and American managerial staff is excellent and there is a strong sense of company loyalty. The key development in 1999 was a program designed to improve skills and to cut costs. Satisfactory results have already been achieved, with a significant increase in operating margin. The year 2000 should see productivity increase further as two innovative programs take effect: the introduction of new, more powerful grades (the transition from family 6 to family 8) and the automation of a large number of presses.

Electrical Protection

Carbone Lorraine produces a very broad range of fuses and devices (switches, cooling devices, isolating switches, etc.) designed to protect power electronics devices and low voltage industrial equipment, as well as fuses and lightning arresters for protecting medium voltage electrical distribution networks which supply, after transformation, the general public.

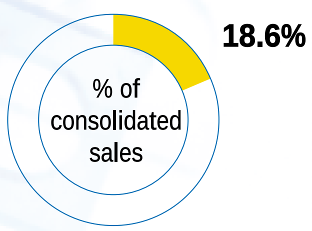
Carbone Lorraine specializes in the fuse-based protection of industrial electric equipment and of distribution networks. Its fuses, lightning arresters and fault detectors are essential features in the supply of reliable, high-quality electricity.



The perfectly-controlled melting of a finely-calibrated metal strip provides absolute protection (often in just a few milliseconds) of expensive electrical equipment. To absorb the energy associated with melting, the strip is packed in sand stabilized with resins, and enclosed in a ceramic or plastic external casing. It's really just like a domestic fuse… but with a bit more demanding technology thrown in!

128.2 M€
Sales

8.3%
Operating margin



briefly,

The Electrical Protection division generated sales of 128.2 M€ up 55% compared with 1998.

Over 14 000 catalog references to satisfy all needs

The Electrical Protection division operates production sites in France, the United States, Mexico and Japan, and has built up a catalog of over 14 000 references that can satisfy the diverse needs of industry. In 1999, the "Industrial site redevelopment plan" was pursued, based on an exact-cost production methodology. In total, over 8 000 m² of plant was redeveloped last year with an emphasis placed on optimizing productivity, safety and profitability requirements. By increasing operator responsibility through cell-manufacturing the plants have gained the flexibility and reactivity demanded by the markets.

The acquisition of the American company, Gould Shawmut…

1999 was the year in which the acquisition of the American company, Gould Shawmut, was finally completed. Gould Shawmut is one of the major players in the industrial fuses sector. Recognized as having technological advances in relation to the most sophisticated types of fuses (used to protect power semi-conductors), Carbone Lorraine will now apply the same policy of innovation to become the key player in the entire industrial fuses market. The Group has become the world n°2 in this sector, almost tripling its activity on a full-year basis. The complementary nature of the two entities' product lines and sites in geographical terms, in addition to the ability they share for innovation are extremely promising in terms of increasing sales and exploiting cost synergies.

…and its integration

By acquiring Gould Shawmut, Carbone Lorraine's aim is to merge the two companies totally, as has been illustrated by the adoption of a single brand name: "Ferraz Shawmut". A great deal of work has been done to bring the teams together, work which began even before the transfer of ownership. Numerous missions have been put in place, and transverse working groups have been formed involving managerial staff from both entities, and meetings in France or in Spain, in the United States or in Mexico (in the two sites of Newburyport and Juarez).

The Ferraz Shawmut teams are living through exciting times.
Few people have the opportunity during their careers in industry to be able to construct, in just a few months, a new market leader by capitalizing on the clearly complementary nature of the original companies.

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In just a few months, all the industrial and commercial processes have been standardized. The functional organization of the new entity has been defined. A single sales department has been created, with at its head the former director of Gould Shawmut. The catalog of products has been recast, and all duplicates in the range will be withdrawn before the end of 2000. With the same approach, a single quality system, a single industrial department and a single research-development department have been put in place. The highest performing plant for each product line has been selected as a site of reference to upgrade the other plants to that level. As anticipated, the industrial and commercial synergies arising from this merger
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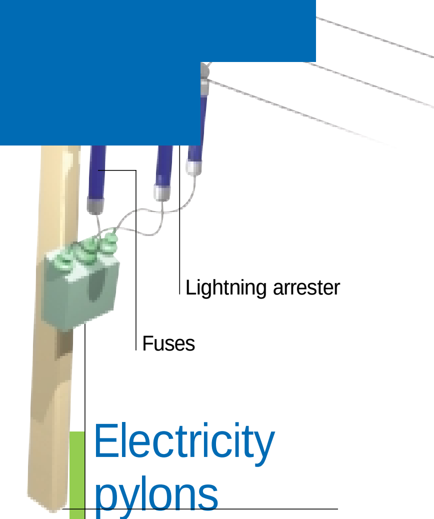


Electricity pylons

Carbone Lorraine fuses and lightning arresters are fitted to pylons to protect electricity distribution networks. Carbone Lorraine products thus play an indirect role in the supply of electricity to all users protecting.

Electricity pylons

The latest innovations

innovations

In the field of protecting power semi-conductors, Carbone Lorraine has made a technological breakthrough with the new IGBT (Isolated Gate Bipolar Transistors) industrial semi-conductors and their successors. The products proposed prevent these transistors from exploding, limit any damage to equipment and effectively protect personnel. They are characterized by a reduced overall size and an ultra-flat shape.
Carbone Lorraine has also developed numerous innovative products in the field of the protection of medium-voltage distribution networks ("unbreakable" fuses, fault detectors).

Serving electricity distribution networks

electricity

In 1999, a number of innovative products were developed and marketed in the field of the protection of medium-voltage distribution networks. A new "unbreakable" fuse reduces the risks associated with handling these large fuses (40 to 60 cm), enhances the safety and limits the risks of supply failures. This new product has just been approved in France. A new generation of so-called "Intrinsically Safe" fuses has recently been authorized for use in protecting oil-immersed transformers. One of the technological advances made by Ferraz Shawmut has been to eliminate the partial discharges between neighboring fuses. Moreover, two new fault indicators have been marketed which can detect current leaks and anomalies on both overhead and underground networks.

Advanced Materials

Carbone Lorraine has developed a varied range of technologically-sophisticated components and industrial equipment, which requires research based both on materials and on their industrial applications in a wide range of fields, and particularly the chemical, electronics, automobile and aeronautical industries.

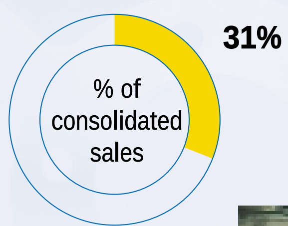
It was only a matter of time before a group of bikers working for Carbone Lorraine managed to adapt the products originally developed for railway or aircraft applications to competition motorbikes. Combining their passion with attention to detail, they have enhanced the safety of a means of transport that has become synonymous with freedom and the open road.

BRAKING

What's the common feature of the braking of an aircraft, a train and a motorbike? The answer is that tremendous amounts of energy must be dissipated very quickly… This is precisely the advantage offered by the carbon composite disk brakes which can become red hot inside the wheels of an aircraft, or of the ceramic/graphite/metal pads or shoes fitted to trains or motorbikes which wear three or four times more slowly that competing materials.

214.3 M€
Sales

16,6 %
Operating margin



briefly,

The Advanced Materials and Technology product line generated sales of 214.3 M€, up 12% compared with 1998.

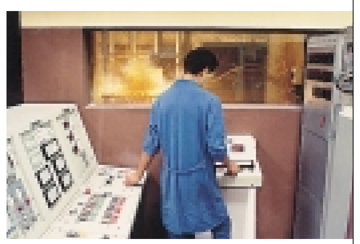
CHEMICAL ENGINEERING
The world leader in thermal anti-corrosion applications

The Chemical Engineering Equipment division has gained over 50 years of experience in the design and manufacture of equipment and systems used in chemical processes that involve corrosive and hot fluids. Its activity is based on the use of the latest, high-tech materials which are continually being refined and which are recognized as being the best in the world: Graphilor® 3, the product for the 3rd millennium, a range of new and exclusive graphite materials offering unequalled properties and approved by all the major testing organizations around the world, and Armylor® a PTFE material which can be used to coat steel and silicon carbide. These materials and the acquisition of Ralph Coïdan and Metaullics have enabled Carbone Lorraine to strengthen its world-leading position in thermal anti-corrosion applications and to satisfy its customers in over 80 countries.

Greater customer service through expansion regarding noble metals

In 1998, Carbone Lorraine increased its range of materials to include noble metals (tantalum, titanium, zirconium and high-nickel alloys) which are complementary to graphite in the thermal anti-corrosion applications market. The Group acquired AstroCosmos, the leading American company in anti-corrosion equipment made from these metals, and Cometec, the leading company in Europe. Their equipment offers impressive synergies with graphite range. Carbone Lorraine has thus acquired market share, particularly in the buoyant pharmaceutical and specialty chemicals industries and to further develop customer loyalty by offering them a complete range of solutions provided via a single sales network. The division now generates nearly 50% of total sales for the Advanced Materials and Technologies product line.

Materials and Technologies



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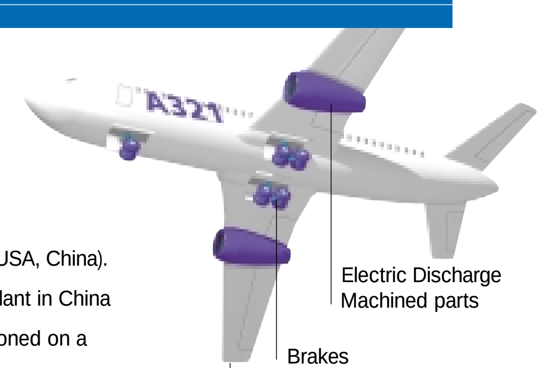
Supplying quality products around the world

Carbone Lorraine's market leading position has been achieved due to the quality of its products, served by an international network of specialists. Its new range of materials, Graphilor 3, is based on a unique graphite that has been specially developed for thermal anti-corrosion applications at the St Marys plant in the United States. This fine-grained material offers levels of corrosion resistance and strength that none of its competitors has been able to match.

It can resolve problems in areas that would otherwise be inaccessible. Building on this technological advance, Carbone Lorraine has developed special links with all the key players in the chemical and pharmaceutical industry in the world, and has thus been involved in all the major projects right from the start. Its international network of specialists provides much-appreciated help for customers right from the earliest stages in the design of installations. These specialists are based at a number of maintenance workshops carefully arranged so as to be near to the main customers and at manufacturing workshops at the center of the main market zones (Europe, USA, China). The creation of a new production plant in China has enabled the Group to be positioned on a particularly buoyant market, and one which is currently completely upgrading its equipment to bring it into compliance with today's strict quality, safety and environmental protection standards. This plant is also the hub through which all the markets in the region can be supplied.

Confirmation of the Group's market-leading position

In 1999, Carbone Lorraine obtained large orders from a Canadian company for hydrochloric acid treatment systems which form part of a new magnesium production process and for the equipment used to produce phosphoric acid, a very buoyant market due to the increasing demand for fertilizers in those developing countries which have a large population (China, India). This growth has been achieved despite a generally mediocre

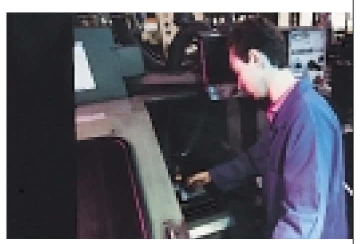


Airbus A321

Airbus A321

The Airbus A321 is fitted with Carbone Lorraine brakes. Moreover, Carbone Lorraine manufactures graphite electrodes for the machining of mechanical parts for jet engines.

Advanced Mate



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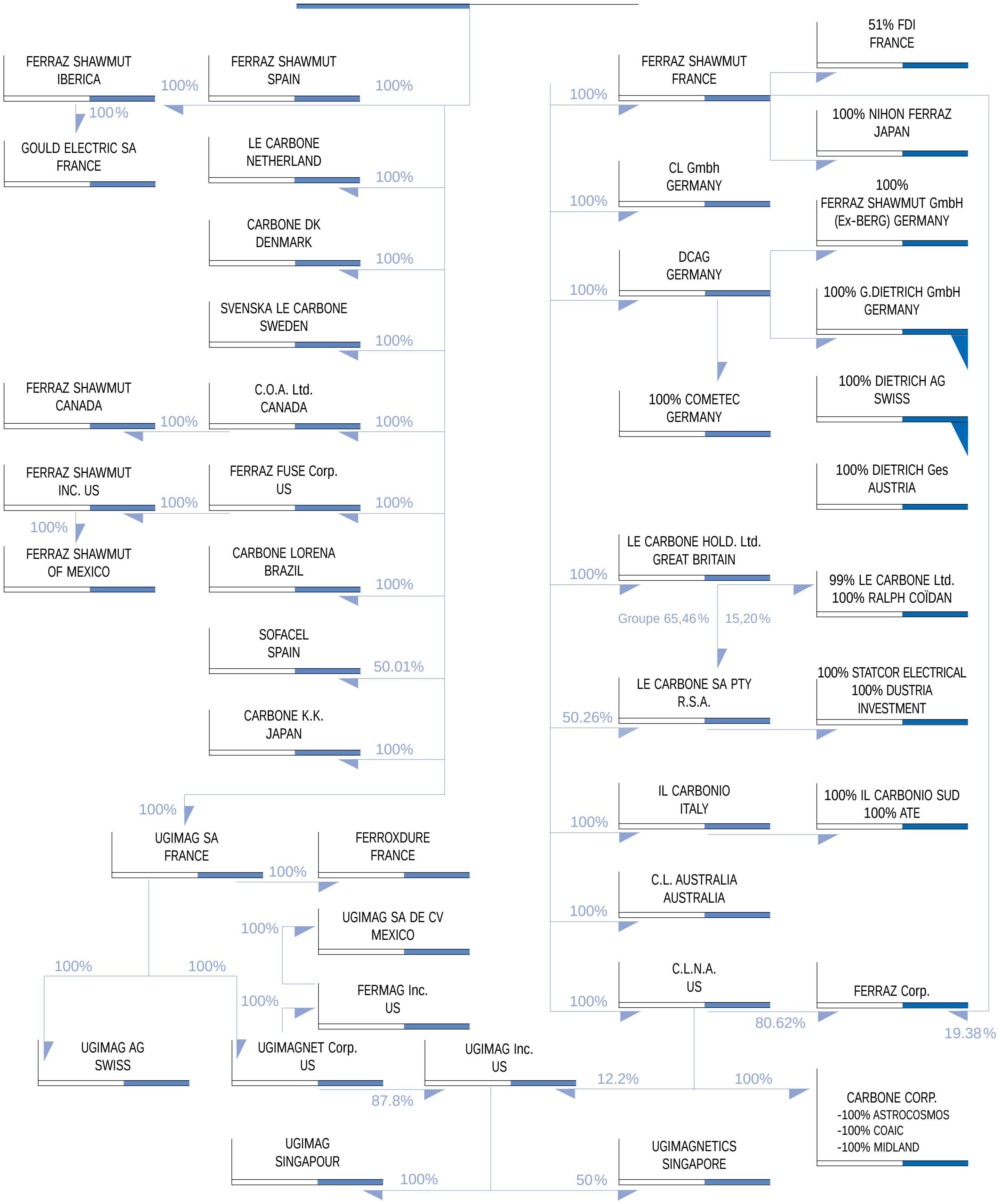
Board of Director's Management Report

organization chart for the group

CARBONE LORRAINE Group

LE CARBONE-LORRAINE
Parent company

Consolidated subsidiaries DECEMBER, 31, 1999



Statements

Consolidated financial Statements

All the financial data given in this document are expressed in euros.

Changes in consolidation over the last three years

The major changes that affected the consolidated financial statements in 1997, 1998 and 1999 are presented below:

• During 1997, Nihon Ferraz and Carbone Denmark were fully integrated. Carbone Lorraine acquired 12.2% of the shares of its Brazilian subsidiary that is now wholly owned.

Some Carbone Lorraine companies acquired assets during the year that have been included in the consolidated accounts: Molinox and Grafitel in Brazil, and Speer in Canada.

The Donald Brown company was no longer consolidated following its sale outside the Group by Carbone Lorraine Australia at the start of November, 1997.

• During 1998, the acquisitions made at the end of 1997 and in 1998 were fully consolidated:

Astrocosmos (acquired in 1997), Midlands and Vitre-Cell acquired in the United States by Carbone Lorraine North America, GLE Noram acquired in 1997 by Carbone of America;

Delredo acquired in Mexico by Fermag Inc.;

Ferroxdure / Philips acquired in France (Evreux);

Ferroxdure / Philips acquired in Brazil by Carbono Lorena

FDI set up by Ferraz and Date Industrie in France;

Ralph Coïdan acquired in 1997 in Great Britain by Le Carbone Holding;

Berg acquired in Germany by Deutsche Carbone AG

ATE acquired in 1997 in Italy by Il Carbonio;

Dansk Electrical Industri acquired in Denmark by Svenska Le Carbone.

The Cefilac (France) and Helicoflex (United States) companies were no longer consolidated following their sale outside the Group at the end of January 1998.

At the end of 1998, Carbone Lorraine acquired Cometec through its subsidiary Deutsche Carbone AG in Germany.

• During 1999, the acquisitions made at the end of 1998 and in 1999 were fully consolidated:

The Electrical Protection activity of the American company, Gould;

The assets of the Cerberite division of Johnson Raddley, acquired in Great Britain by Le Carbone Great Britain,

Cometec, acquired at the end of 1998 in Germany by Deutsche Carbone AG.

The Group also acquired, through its Korean subsidiary, the magnets activity of the Korean group, Tongkook, which will be consolidated in 2000.

Earnings per share (1)

Carbone Lorraine Group	1999	1998	1997
Number of shares	10,895,464	10,785,937	10,118,220
In millions of euros			
Current income	54.6	60.4	56.6
Net current income	36.1	39.7	35.4
Earnings before amortization of goodwill	20.5	49.8	34.0
Consolidated net earnings, Group share	16.3	46.3	33.2
In euros per share			
Current income	5.0	5.6	5.6
Net current income	3.3	3.7	3.5
Earnings before amortization of goodwill	1.9	4.6	3.4
Consolidated net earnings, Group share	1.5	4.3	3.3

Le Carbone-Lorraine	1999	1998	1997
Number of shares	10,895,464	10,785,937	10,118,220
In millions of euros			
Current income	20.1	18.4	16.9
Net income	14.6	5.8	29.9
In euros per share			
Current income	1.8	1.7	1.7
Net income	1.3	0.5	2.9

(1) On June 19, 1998, there was a 5-to-1 split in the nominal value of the share from FF50 to FF10. The data relating to the calculation of the per share figure was restated for fiscal 1998 and 1997 to allow comparison with 1999.

Dividend for last three fiscal years	1999	1998	1997
Dividends paid (in millions of euros)	9.6	9.5	7.7
Net dividend* per share (in euros)	0.9	0.9	0.8

** Paid during the next fiscal year.*

Consolidated income statement

In millions of euros	1999	1998	1997
Net sales	690.3	627.7	531.0
Cost of sales	(480.1)	(426.0)	(343.6)
Gross profit	210.2	201.7	187.5
Operating expenses	(55.6)	(51.0)	(52.5)
Administrative and research expenses	(52.3)	(49.4)	(44.6)
Other operating expenses	(4.5)	(4.7)	(6.0)
Operating profit before depreciation and amortization	97.8	96.7	84.3
Depreciation and amortization	(29.7)	(27.4)	(23.3)
Operating profit	68.1	69.3	61.0
Net financial expenses	(13.5)	(8.9)	(4.4)
Current income	54.6	60.4	56.6
Current and deferred income tax	(17.6)	(19.7)	(19.5)
Minority interest	(0.9)	(1.0)	(1.7)
Net current income (Group share)	36.1	39.7	35.4
Net of non-recurring items	(15.6)	10.0	(1.4)
Net income before goodwill	20.5	49.7	34.0
Amortization of goodwill	(4.2)	(3.4)	(0.8)
Net income (Group share)	16.3	46.3	33.2

Consolidated balance sheet

ASSETS

In millions of euros	1999	1998	1997
FIXED ASSETS			
Intangible assets			
- Goodwill	216.8	125.2	27.9
- Other intangible assets	19.7	15.5	7.0
Tangible assets			
- Land	8.9	6.0	4.5
- Buildings	47.9	46.2	27.4
- Plants. equipment and other tangible assets	107.9	77.1	69.7
- Capital expenditures in progress	19.1	11.4	11.8
Financial assets			
- Investments	26.7	22.2	101.2
- Other financial assets	13.8	8.6	5.0
TOTAL FIXED ASSETS	460.8	312.3	254.5
CURRENT ASSETS			
- Inventories	139.9	113.7	94.7
- Trade accounts and related receivables	162.4	123.1	109.7
- Other receivables	43.3	26.6	19.4
- Short-term advances	7.7	6.8	6.1
- Marketable securities	0.2	0.1	2.2
- Cash at bank and in hand	22.7	26.3	48.1
TOTAL CURRENT ASSETS	376.2	296.6	280.2
TOTAL ASSETS	837.0	608.9	534.7

LIABILITIES AND SHAREHOLDERS' EQUITY

In millions of euros	1999	1998	1997
SHAREHOLDERS' EQUITY			
- Share capital	21.8	16.4	15.4
- Premiums. reserves and retained earnings	222.7	187.9	153.9
- Net profit (Group share)	16.3	46.3	33.2
- Cumulative translation adjustment (Group share)	3.3	(8.1)	(0.3)
TOTAL SHAREHOLDERS' EQUITY	264.1	242.6	202.2
- Minority interests	6.7	6.3	6.2
TOTAL AND MINORITY INTERESTS	270.8	248.9	208.4
- Long-term provisions	36.7	26.5	25.1
LIABILITIES			
- Long-term debt	268.0	104.9	92.6
- Trade accounts and related payables	79.6	59.5	44.4
- Other payables	59.3	54.1	46.5
- Current portion of long-term provisions	24.6	7.7	3.9
- Other debt	13.1	19.2	13.3
- Current portion of long-term debt	10.7	8.8	46.2
- Short-term loans	2.0	–	–
- Bank overdrafts	72.2	79.3	54.3
TOTAL LIABILITIES AND PROVISIONS	566.2	360.0	326.3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	837.0	608.9	534.7

Consolidated statement of cash flows

In millions of euros	1999	1998	1997
CASH FLOW	70.9	70.9	59.9
Changes in working capital	8.2	(7.6)	5.4
Other changes	(4.6)	(3.5)	(4.5)
(A) Net cash from operations	**74.5**	**59.8**	**60.8**
INVESTMENTS			
Intangible assets	(7.2)	(7.0)	(3.1)
Tangible assets	(26.7)	(21.6)	(19.9)
Financial assets	(6.7)	(1.3)	(2.1)
Proceeds on sales of fixed assets	3.4	1.3	2.5
(B) Net cash used in investing in operation-related activities	**(37.2)**	**(28.6)**	**(22.6)**
(C) Cash flow from current operations	**37.3**	**31.2**	**38.2**
Net investments relating to the impact of changes in consolidation	(154.7)	(51.4)	(93.0)
(D) Net cash flow	**(117.4)**	**(20.2)**	**(54.8)**
Increase in share capital	3.3	10.0	10.4
Funded retirement indemnities	0.0	(2.3)	0.0
Net dividends paid to shareholders	(10.4)	(9.1)	(7.7)
(E) Net change in financial debt	**(124.5)**	**(21.6)**	**(52.1)**

Notes to the consolidated financial statements

Note N°1

Accounting policies and principles of consolidation

The consolidated financial statements of the Carbone Lorraine group have been prepared in accordance with the accounting regulations as set forth in the French law of January 3, 1985.

A - Consolidated subsidiaries

The consolidated financial statements of the group include Le Carbone-Lorraine and all significant subsidiaries in which the group holds a controlling interest, directly or indirectly, with the exception of its Korean subsidiary for which the group did not have the information necessary to enable it to be consolidated. This subsidiary will be consolidated in 2000.
All subsidiaries are consolidated by the global consolidation method.

B - Foreign currency translation

The financial statements of foreign subsidiaries are translated into euros according to the following method:
• Balance sheet items are translated into euros at year-end rates.
• Profit & Loss statement items are translated at average rates for the relevant year.
• Translation adjustments (the group's share of which appears under shareholders' equity) include the following elements:
- the effect of changes in foreign exchange rates on balance sheet items
- the difference between Net Profit calculated at the average exchange rate and Net Profit calculated at the year-end exchange rate.

C - Intangible assets

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

Start-up costs:
Start-up costs are amortized over a maximum of 5 years.

Patents and licenses:
Patents and licenses are amortized over the period during which they are protected by law. Software is amortized over its probable service life, with a maximum of 5 years.

D - Tangible assets

Tangible assets are valued at the cost of purchase or production.
The depreciation for tangible assets is calculated by the straight line method according to the projected life of the asset.
The periods used are:
• Buildings .... 20 to 50 years
• Fixtures and fittings .... 10 to 15 years
• Machinery and equipment .... 3 to 10 years
• Transport equipment .... 3 to 5 years

E - Financial assets

Long-term investments in non-consolidated subsidiaries are carried at cost. In the event of a lasting decline in value, a provision for depreciation is recorded if the book value exceeds current business value, which is determined by reference to the share of net assets held and taking into account medium-term development prospects.

There are 34 non-consolidated subsidiaries. Their primary business is to distribute goods produced by the consolidated companies, and including them in the consolidation would not have a significant impact on group sales (less than 7% of consolidated sales).

F - Inventories

Inventories are valued at cost price, which is determined by the weighted average cost method, or at market price if this is lower.
The only indirect costs taken into account in the valuation of inventories in progress and finished products are those related to production.
Provision is made for slow-moving inventories when this is economically justified.

G - Consolidated sales

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

Income from related operations is recorded in the income statement under the appropriate heading, other income, interest income, non-recurring income or, as a deduction from expenses, selling, general, administrative, or research expenses.

H - Research costs

Research costs are expensed as incurred.

I - Pension plans and retirement indemnities

Group commitments for pension plans and retirement indemnities are determined by applying a prospective actuarial method that takes into account the economic conditions of each country. These arrangements are funded pension plans or provisions recorded on the balance sheet as rights are acquired by employees.

With respect to French companies:

• pensions and retirement indemnities are paid by the appropriate agencies which are funded by employer contributions in proportion to total payroll costs. These contributions are recorded in the individual accounts of the companies. In certain cases, companies may offer additional retirement benefits which are added to the pension paid by the specialized agencies.

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

• all these commitments have been calculated on the basis of an actuarial study conducted in 1998, and the primary hypotheses used were an interest rate of 6.0% (versus 7.5% in a prior study) and a general rate of increase for salaries of 2% as in the previous study.

J - Operating profit

Operating profit corresponds to the operating income before financial expenses, taxes and non-recurring items are taken into consideration. The operating profit for each activity does not include corporate charges which are deducted from the Group's operating income.

Corporate charges correspond to the Group's expenditure on management, which cannot be charged directly against activities.

K - Deferred taxes

Accounting adjustments or restatements performed for consolidation purposes (depreciation, provisions, tax deductions) may affect the results of the consolidated companies. The temporary differences that appear between the taxable base and the consolidated profit result in the calculation of deferred taxes according to the variable carry forward method.

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

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

L - Non-recurring items

Non-recurring items correspond to the expenses and income generated that are not related to the day-to-day management of the company. They are characterized in general by their unusual and one-off nature.

Note N° 2

Changes in consolidated subsidiaries

In 1999, the following companies were consolidated:

• Ferraz Shawmut Inc. (United States/Mexico)
• Ferraz Shawmut Spain
• Ferraz Shawmut Canada
• Cometec (Germany - acquired at the end of 1998)

These companies are fully consolidated.

Certain companies of the group acquired assets which have been consolidated: the Electrical Protection assets of Lindner in Germany and those of the Cerberite division of Johnson Radley in Great Britain.

The proforma impact of these changes in consolidation is given thereafter; the income statement has been restated
to include all the changes to the consolidated structure and the balance sheet has been adjusted to include the acquisition of Gould (North America and Spain) which was the most important acquisition made.

A - Income statement

In millions of euros	1998			1999		
	Excluding changes in consolidation	Changes in consolidation (1)	Published	Excluding consolidation changes(2)	Changes in consolidation (3)	Published
Net assets	600.8	27.0	627.7	596.4	93.9	690.3
Operating profit	66.8	2.5	69.3	59.8	8.3	68.1
Financial expenses	(7.9)	(1.0)	(8.9)	(10.9)	(2.6)	(13.5)
Current income	58.9	1.5	60.4	48.9	5.7	54.6
Current taxes	(19.2)	(0.5)	(19.7)	(15.7)	(1.8)	(17.6)
Minority interest	(1.0)	0.0	(1.0)	(0.9)	0.0	(0.9)
Net current income	38.8	1.0	39.7	32.3	3.8	36.1
Net non-recurring items	(1.7)	11.7(4)	10.0	(13.9)	(1.7)	(15.6)
Net profit before goodwill	37.1	12.7	49.8	18.4	2.1	20.5
Amortization of goodwill	(3.1)	(0.3)	(3.4)	(2.7)	(1.5)	(4.2)
Net profit (Group share)	34.0	12.4	46.3	15.7	0.6	16.3

The proforma impact has been stated, taking into account that current free cash flows and proceeds of the sale of the sealing activity have contributed to the financing of acquisitions.

(1) Companies and/or activities partially consolidated or sold in 1998.
(2) Sales generated in 1999 by companies that were fully consolidated in 1998.
(3) Companies and/or activities consolidated during 1998 and 1999.
(4) Non-recurring items relating to the capital gain on the disposal of the Sealing activity.

B - Balance sheet

In millions of euros	Actual	1999		
	31-Dec-98	Excl. Gould	Gould	Published
Fixed assets	312	358	103	461
Inventories	114	119	21	140
Receivables	123	139	23	162
Payables	(59)	(67)	(13)	(80)
Other elements of working capital	(47)	(21)	(8)	(29)
Total Assets	443	528	126	654
Shareholders' equity	249	271	–	271
Group share	243	264	–	264
Minority interest	6	7	–	7
Lt & St provisions	34	58	3	61
Net debt	160	199	123	322
Total liabilities and shareholders' equity	443	528	126	654

Note N° 3

Intangible assets

In millions of euros	1999	1998	1997
Goodwill			
Gross value	231.6	135.0	34.9
- Amortization	(14.8)	(9.8)	(7.0)
= Net value	216.8	125.2	27.9
Other intangible assets	16.7	13.2	4.9
Debt issuance costs		0.1	0.5
Deferred expenses	3.0	2.2	1.6
Total	236.5	140.7	34.9

Goodwill results primarily from North American acquisitions (178.3 M€ at end of 1999) and British acquisitions (16.7 M€) and is amortized over 40 years; the other goodwill relating to smaller acquisitions is amortized over a period of 20 years.

The gross increase in goodwill in 1999 corresponds, firstly to the goodwill included with the acquisitions (80.3 M€, of which Gould accounted for 75.2 M€ gross at the end of 1999) and secondly to translation adjustments (16.3 M€).

Note N° 4

Tangible assets

In millions of euros	1997	Acquisit.	Sales and others	Changes in consolidation	Translation difference	1998
Land	5.2	0.1	0.3	1.3	(0.2)	6.7
Buildings	64.3	2.0	1.9	20.1	(2.4)	85.9
Plant. equipment and other tangible assets	232.3	7.9	10.0	13.8	(5.5)	258.5
Capital expenditures in progress	11.7	15.0	(15.0)	(0.1)	(0.2)	11.4
Total gross book value	313.5	25.0	(2.8)	35.1	(8.3)	362.5

In millions of euros	1997	Provision	Others	Changes in consolidation	Translation difference	1998
Land	0.6	0.0	0.0	0.0	0.0	0.7
Buildings	36.9	4.2	(1.6)	0.8	(0.5)	39.7
Plant. equipment and other tangible assets	162.6	21.2	(3.8)	5.0	(3.6)	181.4
Total depreciation	200.1	25.4	(5.4)	5.8	(4.1)	221.8
Net tangible assets	113.4	(0.4)	2.6	29.3	(4.2)	140.7

In millions of euros	1998	Acquisit.	Sales and others	Changes in consolidation	Translation difference	1999
Land	6.7	1.4	(0.2)	1.3	0.5	9.7
Buildings	85.9	2.6	(8.6)	7.0	6.4	93.3
Plant. equipment and other tangible assets	258.5	10.6	11.8	23.0	16.0	319.9
Capital expenditures in progress	11.4	18.3	(12.5)	1.1	0.7	19.0
Total gross book value	362.5	32.9	(9.5)	32.4	23.6	441.9

In millions of euros	1998	Provision	Others	Changes in consolidation	Translation difference	1999
Land	0.7	0.0	0.0	0.0	0.0	0.7
Buildings	39.7	2.9	0.5	0.7	1.5	45.3
Plant. equipment and other tangible assets	181.4	23.5	(8.7)	5.8	10.1	212.1
Total depreciation	221.8	26.5	(8.2)	6.5	11.5	258.1
Net tangible assets	140.7	6.4	(1.3)	25.9	12.1	183.8

Note N° 5

Investments in non-consolidated subsidiaries and affiliates

At the end of 1997, the group made major acquisitions worth 84.5 M€ which involved:
- Astrocosmos purchased in the United States by Carbone Lorraine North America,
- Ralph Coïdan purchased in Great Britain by Le Carbone Holding,
- ATE purchased in Italy by Il Carbonio.

These companies were consolidated in 1998 and were, therefore, removed from the portfolio of investment holdings at the end of 1998.

At the end of December 1998, the German subsidiary Deutsche Carbone AG purchased Cometec company; the holdings in this company were removed from the portfolio in 1999, since Cometec was consolidated on 1/1/1999.

In millions of euros	1999	1998	1997
At year end, the non-consolidated holdings of consolidated companies represented a gross book value of:	33.4	22.2	20.0
Less a depreciation allowance of:	(6.7)	(4.7)	(3.3)
Net book value:	26.7	17.5	16.7
Other holdings	–	4.7	84.5
Total	26.7	22.2	101.2

The gross change in holdings in non-consolidated companies over 1998 corresponds primarily to capital increases conducted in Korea (to finance the acquisition of the magnets activity of Tongkook) in India and in Turkey.
The 1999 year end allowance for impairment in value of interests in non-consolidated subsidiaries concerned primarily Argentina, Korea, Poland and Turkey.

The primary holdings are as follows:

Company	% held	GV (M€)	Net bk val (M€)
Carbone Lorraine Korea Co. Ltd (Korea)	100	12.1	9.1
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	4.3	3.2
Elca Carbone Lorraine (India)	51	4.3	4.2
Carbone Lorraine Argentina SA (Argentina)	100	3.7	3.4
Ugimag Polska (Poland)	100	1.4	0.0
Clisa (Mexico)	49	0.9	0.9
Carbone Lorraine India	100	0.8	0.8
Nortroll	34	0.8	0.8
Ugimag Limited (England)	100	0.8	0.8
Carbone Lorraine Holding (Singapore)	100	0.8	0.8
Shanghai Metaullics	100	0.6	0.6
Carbone Lorraine Greece	100	0.6	0.6
Carbone Lorraine (Malaysia) SDN BHD	90	0.4	0.4
Carbone Lorraine Chile (Chili)	100	0.2	0.2
Carbone Lorraine South East Asia (Indonesia)	100	0.2	0.2
PCL Hungary	100	0.2	0.1
Other holdings	–	1.3	0.6
Total		33.4	26.7

The unaudited total sales and net profit of these companies are approximately 43 M€ and (1.7) M€.

Note N° 6

Inventories

In millions of euros	1999	1998	1997
Raw materials and other supplies	61.7	43.8	39.2
Work-in-progress	47.2	47.0	38.8
Finished goods	42.0	30.3	23.9
Gross value inventories	150.9	121.1	101.9
Allowance	(11.0)	(7.4)	(7.3)
Net inventories	139.9	113.7	94.6

The change in inventories from 1998 includes the changes due to changes in consolidation (+26.3 M€) and the impact of translation adjustments (+9.7 M€). The inventories were thus reduced by 10 M€ on a like-for-like basis.

Note N° 7

Shareholders' equity (Group share)

In millions of euros	Number of shares	Share Capital	Paid-in capital and retained earnings	Net profit	Translation adjustments	Total
Shareholders' equity at 12/31/1996	9,647,045	14.7	130.2	20.8	(7.8)	157.9
1996 Net profit			20.8	(20.8)		0.0
Dividends paid			(6.6)			(6.6)
Capital increase	94,235	0.7	9.7			10.4
Amortization of paid-in capital			(0.2)			(0.2)
1997 Net profit (Group share)				33.2		33.2
Translation adjustments					7.5	7.5
Shareholders' equity at 12/31/1997	10,118,220	15.4	153.9	33.2	(0.3)	202.2
1997 Net profit			33.2	(33.2)		0.0
Dividends paid			(7.7)			(7.7)
Capital increase	667,717	1.1	9.0			10.1
Amortization of paid-in capital			(0.5)			(0.5)
1998 Net profit (Group share)				46.3		46.3
Translation adjustments					(7.8)	(7.8)
Shareholders' equity at 12/31/1998	10,785,937 (1)	16.5	187.9	46.3	(8.1)	242.6
1998 Net profit			46.3	(46.3)		0.0
Dividends paid			(9.5)			(9.5)
Capital increase	109,527	5.3	(2.0)			3.3
1999 Net profit (Group share)				16.3		16.3
Translation adjustments					11.4	11.4
Shareholders' equity at 12/31/1999	10,895,464	21.8	222.7	16.3	3.3	264.1

(1) Share split on 19 June 1998: 5 new shares with a nominal value of FF10 replaced one old share with a nominal value of FF50.

In 1997, the capital increase resulted from:
- the conversion of 46,289 convertible bonds from the 1993 issue and the conversion of 26,868 convertible bonds from the 1988 issue
- the capital increased reserved for employees with creation of 19,539 shares.

In 1998, the capital increase resulted from:
- the conversion of 128,330 convertible bonds from the 1993 issue.
- capital increase through exercise of stock options granted to employees with creation of 12,997 shares.

In 1999, the capital increase resulted from:
• the decision taken by the Combined General Meeting on 5 May 1999, in its seventh resolution, to convert the nominal value of the issued shares to 2 euros on 12/31/1998, by incorporating the share premium.
• capital increase through exercise of stock options granted to employees with creation of 9 565 shares.
• the capital increased reserved for employees with creation of 99 962 shares.

Note N° 8

Share capital

On December 1999, the share capital, composed of 10 895 464 shares with a nominal value of 2 euros, was held by:

As a %	
Paribas	21.6
Other investors	78.4

Note N° 9

Changes in minority interests

In millions of euros	
As of December 31, 1998	6.3
Dividends paid	(0.9)
Profit	0.9
Change in consolidation	0.0
Translation adjustments	0.4
Minority interests as of 12/31/1999	6.7

Note N° 10

Long and short-term provisions

	1999		1998		1997	
In millions of euros	LT	ST	LT	ST	LT	ST
Provisions for deferred income taxes	8.1	1.0	3.1	0.8	3.5	0.0
Provisions for pensions and retirement indemnities	22.1	2.2	21.0	1.5	19.8	2.0
Other provisions	5.7	21.4	1.5	5.4	0.6	1.9
Investment grants	0.8	0.0	0.9	0.0	1.1	0.0
Total	36.7	24.6	26.5	7.7	25.1	3.9

The provisions for pensions and retirement indemnities relate to unfunded benefits for French and German companies.

Note N° 11

Net corporate debt

In millions of euros	1999	1998	1997
Long and medium-term debt	268.0	104.9	92.6
Current portion of long-term debt (excl. accrued interest)	0.1	8.8	46.2
Short-term loans	12.6	–	0.0
Bank overdrafts	72.2	79.3	54.2
Total gross debt	352.9	193.0	193.0
Marketable securities	(0.1)	(0.1)	(2.2)
Short-term advances	(7.7)	(6.8)	(6.1)
Cash at bank and in hand	(22.7)	(26.3)	(48.1)
Total net debt	322.4	158.9	136.6

The Group's consolidated net corporate debt increased by 162.6 million euros in 1999.

The reconciliation between the variation in net debt in the balance sheet and the increase (decrease) in financial debt shown in the consolidated statement of cash flows is detailed in the following table:

In millions of euros	1999	1998	1997
Net debt at year N-1	159.8	136.6	78.4
Net cash from current operations	(37.3)	(31.2)	(38.2)
Increase in capital	(3.3)	(10.0)	(10.4)
Dividends paid	10.4	9.1	7.7
Impact of changes in consolidation	162.4	62.2	94.0
Translation adjustments and others	30.4	(6.9)	5.1
Net debt at end of year N	322.4	159.8	136.6

The financing of the acquisitions completed at the end of 1997 and during 1998 primarily relied on a FF 700 M 5-year credit mounted in December 1997 and syndicated with a bank pool. The financing of the acquisitions made during the second half of 1999 relied on a 220 M. USD credit (consisting of 100 M. USD over 1 year and 120 M. USD over 3 years) mounted in August 1999 and syndicated with a bank pool.

Breakdown of the long and medium-term debt, including the current portion as of December 31, 1999

In millions of euros	Total	< 1yr	> 1 and 5 yrs	> 5yrs
Debt in FRF	7.0	0.1	6.9	–
Debt in USD	240.3	–	240.3	–
Debt in DEM	2.9	–	2.9	–
Debt in GBP	14.5	–	14.5	–
Debt in other currencies	3.4	–	0.1	3.3
Total	268.1	0.1	264.7	3.3

Structure of total net debt as of December 31, 1999

By currency:	%	By rate:	%
FRF	15.1	Fixed	29.3
USD	72.3	Variable	70.7
GBP	6.1		
EURO	3.3		
Others	3.2		

The Group's policy for managing rate exposure consists solely of taking fixed term positions that take into account changes in interest rates.

In December 1997, through the parent company (LCL France), the Group purchased a CAP against the 3-month Libor rate on the dollar in the nominal amount of USD 35 millions with a 5-year maturity, guaranteeing it a rate cap over the period of 6.12%. The premium paid in December 1997 for the CAP is paid over the term of the contract, which is 5 years.

In June 1999, the Group, again through the parent company (LCL France) purchased an interest-rate swap for a nominal amount of USD 60 millions. The terms of this swap are that the company pays a fixed rate of 6.38% and receives 3-month Libor USD. The withdrawal from the swap was fixed on 31 August 1999 for a duration of 3 years.

The company uses no derivative products other than the transactions described above.

Note N° 12

Consolidated net sales

Breakdown of net sales by activity

(as a %)	1999	1998	1997*
Electrical Applications	23.7	26.4	31.6
Permanent Magnets	26.7	29.0	20.9
Electrical Protection	18.6	13.2	14.4
Advanced Materials and Technologies	31.0	30.6	26.4
Sealing and others	–	0.8	6.7

Breakdown of net sales by geographic region

(as a %)	1999	1998	1997*
France	14.9	16.3	23.8
Europe outside France	31.2	32.5	32.6
North America	37.0	32.3	22.6
Asia (1)	11.4	11.9	14.0
Rest of the world	5.5	7.0	7.0

** The data relating to fiscal 1997 do not take into consideration the acquisitions made at the end of 1997.*

(1) About half the sales in Asia include the sales of magnets for computer disk drives generated by the Singapore plants. These disk drives are then resold throughout the world.

Note N° 13

Operating margin

(as a % of sales)	1999	1998	1997*
Electrical Applications	14.1	14.1	14.0
Permanent Magnets	3.5	6.5	7.9
Electrical Protection	8.3	7.7	8.5
Advanced Materials and Technologies	16.6	17.6	17.8
Sealing and others**	–		15.4

** Acquisitions made at the end of 1997 are not reflected in figures for fiscal 1997.*
*** Activity sold at the start of 1998.*

The operating profit for the activities is calculated before corporate charges. Corporate charges account for 1.6%, 1.1% and 1.1% of sales for the years 1997 to 1999 respectively.

Note N° 14

Payroll costs and number of employees

Group payroll costs (including social security contributions) totaled 233.5 M€ in 1999 compared with 216.4 M€ in 1998. The change in payroll costs due to changes in consolidation (sales and acquisitions) is 19.3 M€; on a like-for-like basis, payroll costs fell by 1.7%, with the drop in the number of employees compensating the increase in costs on a like-for-like basis (2.5%).
In 1999, the compensation allocated to the members of the Board of Directors and the Executive Committee totaled 1.4 M€ .

Average number of employees in consolidated companies by category:

Categories	1999*	1998	1997
Engineers and managers	609	558	506
Technicians and supervisors	962	920	914
Employees	1,000	968	734
Plant workers	4,829	4,465	3,465
Total	7,400	6,911	5,619

**including consolidation effect* *820*

Average number of employees in consolidated companies by geographical region:

Categories	1999	1998	1997
France	2,506	2,396	2,590
Europe outside France	1,315	1,194	1,096
North America (including Mexico)	2,823	2,570	1,253
Asia	321	330	297
Rest of the world	435	421	383
Total	7,400	6,911	5,619

The increase in 1999 of the average number of employees of 489 is due to consolidation effects for 820 employees. On a like-for-like basis, the average number of employees fell by 331.

Note N° 15

Other operating expenses and provisions

In millions of euros	1999	1998	1997
Provisions for plant, modernization and adaptation		(0,1)	0,2
Employee profit sharing and other benefits	(4,9)	(5,0)	(5,8)
Other changes in operating provisions	0,4	0,4	(0,4)
Total	(4,5)	(4,7)	6,0

Note N° 16

Depreciation and amortization

In millions of euros	1999	1998	1997
Intangible assets	(3,2)	(2,0)	(1,5)
Tangible assets	(26,5)	(25,4)	(21,8)
Total	(29,7)	(27,4)	(23,3)

Note N° 17

Financial expenses

In millions of euros	1999	1998	1997
Interest on long and medium-term debt	(8,4)	(10,5)	(1,2)
Interest on short-term debt and other expenses	(6,8)	(2,6)	(5,5)
Amortization of debt issuance costs	(0,3)	(0,1)	(0,1)
Total financial expenses	(15,5)	(13,2)	(6,8)
Financial income	1,9	3,2	1,6
Foreign exchange profits	0,1	1,1	0,8
Total net financial expenses	(13,5)	(8,9)	4,4

Insofar that the different companies of the Group realize almost all their sales in their local currency, the currency risk is centered on intra-group flows.

Commercial transactions are generally covered with maturities corresponding to current payment maturities. This currency exposure is covered by the parent company Le Carbone-Lorraine (France) which centralizes the cover needs and performs the necessary operations using conventional forward currency transactions.

Note N° 18

Current and deferred taxes

In millions of euros	1999	1998	1997
Current income tax	(11.5)	(16.2)	(19.2)
Deferred taxes	(6.0)	(3.2)	(0.1)
Withholding taxes	(0.1)	(0.3)	(0.2)
Total	(17.6)	(19.7)	(19.5)

The companies Le Carbone-Lorraine France, Ferraz Shawmut SA, Ugimag, and Ferroxdure are fiscally consolidated. There are two fiscal consolidated groups in USA, one within Carbone Lorraine North America and its subsidiaries (see note n°21) and the other consolidating Ugimagnet, Ugimagnetics and Fermag Inc.

The Group tax rate, excluding taxes on non-recurring items, was 32.2% in 1999, against 32.6% in 1998 and 34.5% in 1997.

Note N° 19

Net of non-recurring items

In millions of euros	1999	1998	1997
Investment impairment allowance	(2.1)	(1.4)	(0.9)
Retirement indemnity	(0.6)	(0.9)	(0.2)
Net capital gain (sale of Sealing)	–	18.7	–
American anti-trust dispute	(9.8)	–	–
Other non-recurring expenses and revenues	(3.1)	(6.4)	(0.3)
Total	(15.6)	10.0	(1.4)

The provision for the American anti-trust dispute is intended to cover any expenses which may result from the American Justice Department's investigation into the anti-trust practices in the graphite products industry in the United States. Carbone of America Industries Corp. is on the verge of a transaction with the American Justice Department which brings this investigation into its graphite activities to an end. Carbone of America Industries Corp. must pay a fine of 7.15 M US$.

In 1998, other non-recurring items primarily included the restructuring costs of various industrial sites (6.4 M€), and provisions for risks on products sold (0.4 M€).

In 1999, other non-recurring items primarily included industrial restructuring costs in France, in Germany and in the United States.
They also include the impact of the activation of deferred taxes on retirement provisions from French companies and on losses carried forward.

Note N° 20

Off-balance sheet commitments

A - Financial and other commitments

In millions of euros	1999	1998	1997
- Commitments received			
Discounted notes receivable with recourse	1.9	0.8	–
Securities	4.0	2.5	–
Other commitments received	2.3	–	–
Total commitments received	8.2	3.3	0.0
- Commitments given			
Discounted notes receivable with recourse	1.9	0.8	0.5
Collateralized debts and commitments	0.4	0.3	1.7
Securities	2.8	3.5	3.0
Non-cancellable leases	3.2	3.9	7.0
Lease operations	6.0	3.3	1.8
Guarantees	12.0	0.8	0.7
Payment guarantee on acquisition	0.3	–	3.9
Foreign Exchange operations	11.6		
- Purchases	0.2	5.3	5.2
- Sales	11.4	4.7	5.6
Other commitments given	0.8	2.3	0.4
Total commitments given	39.0	24.9	29.8

B - Retention of title clause

Not applicable.

Note N° 21

List of consolidated companies

	Group control as a %	Group interest as a %
1. Le Carbone-Lorraine (France)	100	100
2. Ferraz Shawmut SA (France)	100	100
- FDI	51	51
3. Ugimag SA (France)	100	100
4. Ferroxdure (France)	100	100
5. Deutsche Carbone AG (Germany)	100	100
- Ferraz Shawmut GmbH (formerly Berg)	100	100
6. Carbone Danemark (Denmark)	100	100
7. G. Dietrich GmbH (Germany)	100	100
8. Dietrich AG (Switzerland)	100	100
9. Dietrich Ges. (Austria)	100	100
10. Carbone Lorraine GmbH (Germany)	100	100
11. Sofacel (Spain)	50	50
12. Ferraz Shawmut España	100	100
- Ferraz Shawmut Iberica	100	100
- Gould Electrics SA (France)	100	100
13. Le Carbone (Holdings Ltd.) GB	100	100
- Portslade Works	100	100
- Le Carbone GB	100	100
- Ralph Coïdan	100	100
14. Il Carbonio Spa (Italy)	100	100
- Il Carbonio Sud	100	100
- ATE	100	100
15. Le Carbone-Lorraine (Netherlands) BV	100	100
16. Svenska Le Carbone (Sweden)	100	100
17. Ugimag AG (Switzerland)	100	100
18. Carbone of America (LCL) Ltd. (Canada)	100	100
19. Ferraz Shawmut Canada	100	100
20. Carbone Lorraine North America (USA)	100	100
- Ferraz Corporation	100	100
- Carbone Corp.	100	100
• Carbone of America Industries Corp.	100	100
• Astrocosmos	100	100
• Midlands	100	100
- Vitre-Cell	100	100
21. Ferraz Fuse Corp. (USA)	100	100
- Ferraz Shawmut Inc. (USA)	100	100
- Ferraz Shawmut de Mexico (Mexico)	100	100
22. Ugimagnet corp. (USA)	100	100
- Ugimag inc. (USA)	100	100
- Ugimag Singapour	100	100
- Ugimagnetics Singapore	50	50
- Fermag Inc	100	100
• Ugimag SA de CV	100	100
23. Le Carbone-Lorraine Australia	100	100
24. Carbone KK (Japan)	100	100
25. Nihon Ferraz (Japan)	100	100
26. Le Carbone (South Africa) PTY Ltd. (RSA)	65	65
- Statcor Electrical	65	65
- Dustria Investment	65	65
27. Carbono Lorena (Brazil)	100	100

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

In accordance with section 11 of article 24 of French ruling 83.1020 dated 11/29/1983, it is considered that subsidiary-by-subsidiary information could cause serious injury to the company.

Statutory Auditors' report on the consolidated financial statements

(For the year ending December 31,1999)

To the Shareholders and Directors of Le Carbone-Lorraine

In performance of the mission assigned to us by your Annual Meeting, we have conducted an audit of Le Carbone-Lorraine's consolidated financial statements for the year ended December 31, 1999, as attached to this report.

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

We conducted our audit in accordance with the standards of our profession. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement are free from material misstatements. An audit consists of examining, on a test basis, evidence supporting the data contained in these statements, assessing the accounting principles used and significant estimates made by management as well as the overall presentation of the statements. We believe that our audit provides a reasonable basis for the opinion expressed hereinafter.

We hereby certify that the consolidated financial statements present fairly, in all material respects, the holdings, financial position, and the results of Le Carbone-Lorraine and the consolidated companies.

We also audited the information provided in the group's management report. We have no observations to make with respect to its accuracy or its consistency with the consolidated financial statements.

Paris La Défense, March 10, 2000

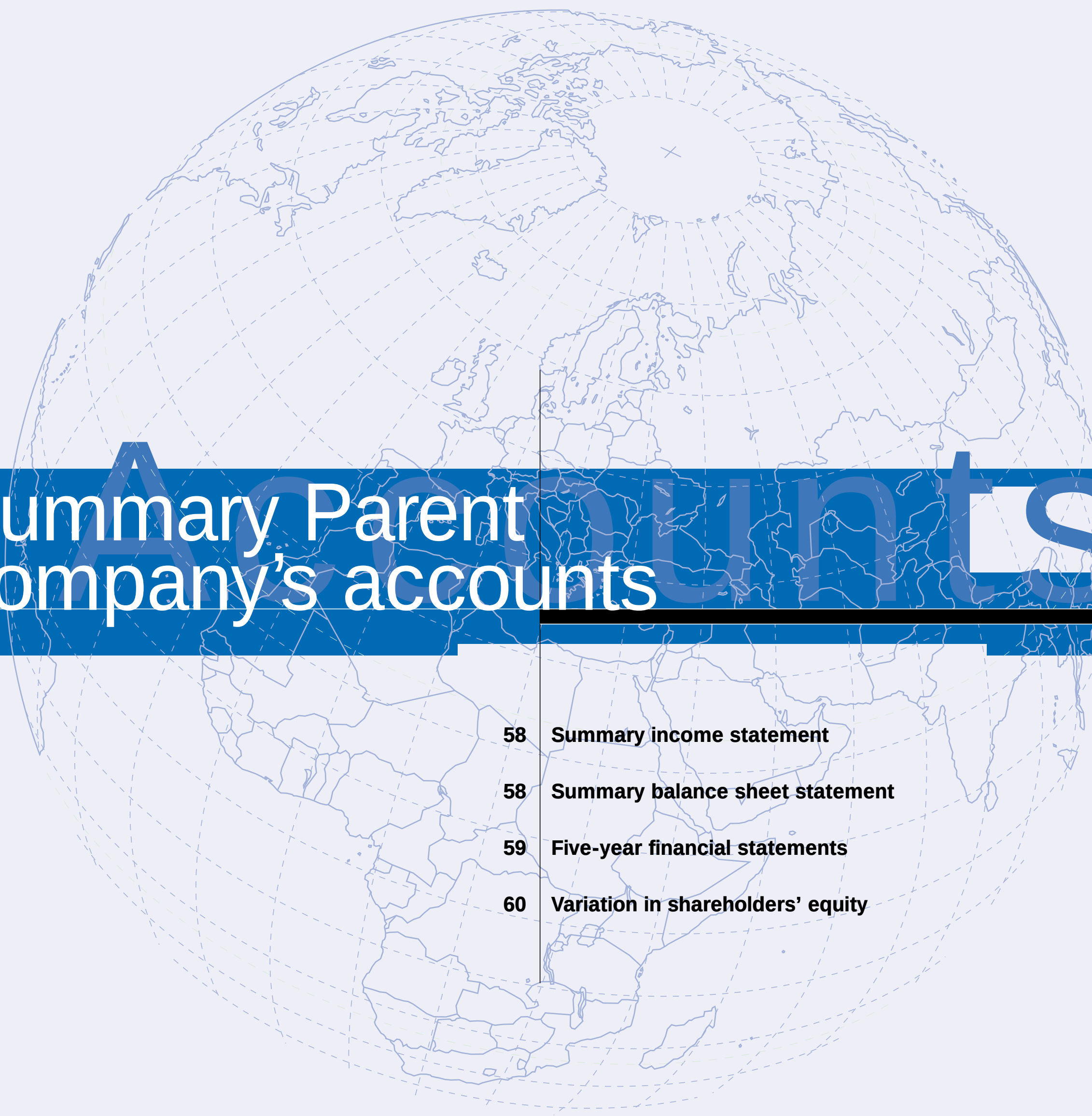
Ernst & Young Audit
J. Coroller

Neuilly/Seine, March 10, 2000

Deloitte Touche Tohmatsu
J.L. Poumarède

Accounts

Summary Parent company's accounts



Summary income statement

In millions of euros	1999	1998	1997
Sales and ather revenue	141.2	142.6	133.4
Purchases and changes in inventories	(39.7)	(42.9)	(41.5)
Salaries. wages and payroll taxes	(47.1)	(49.7)	(47.3)
Other overhead expenses	(38.8)	(35.3)	(29.7)
Depreciation and provisions	(8.6)	(8.1)	(6.5)
Operating income	7.0	6.6	8.4
Financial income	13.1	11.8	8.5
Current income	20.1	18.4	16.9
Extraordinary income	(6.9)	(3.1)	14.1
Corporation tax and employee profit sharing	1.3	(9.5)	(1.1)
NET INCOME	14.5	5.8	29.9

The sale of the sealing activity had an impact on the 1997 and 1998 financial statements.
If the impact of this sale is not considered, net income for 1998 was 13 M€ compared with 12.7 M€ in 1997.

Summary balance sheet

ASSETS

In millions of euros	1999	1998	1997
Tangible and intangible assets	31.5	31.1	30.5
Financial assets	401.2	206.6	211.6
FIXED ASSETS	432.7	237.7	242.1
Inventories	26.3	26.4	24.9
Clients	35.3	33.4	33.5
Other receivables	22.5	16.7	9.9
Cash and marketable securities	2.4	7.4	10.2
Positive translation differential	20.6	5.6	0.7
TOTAL ASSETS	539.8	327.2	321.3

LIABILITIES

	1999	1998	1997
Share capital	21.8	16.4	15.4
Premiums and reserves	142.8	147.3	115.1
Retained earnings	–	–	–
Net income	14.5	5.8	29.9
SHAREHOLDERS' EQUITY	179.1	169.5	160.4
Provisions for risks and expenses	7.5	2.2	2.8
Financial debt	306.4	110.8	120.7
Other liabilities	39.0	30.3	36.4
Negative translation differential	7.8	5.4	1.0
TOTAL LIABILITIES	539.8	327.2	321.3

Note: The complete financial statements of the parent company Le Carbone-Lorraine are available at company headquarters, Immeuble The Fayette, 2-3, place des Vosges - 92400 Courbevoie.

Five-year financial summary

	1999	1998 (1)	1997 (1)	1996 (1)	1995 (1)
1. Share capital at year end					
Share capital (in millions d'euros)	21.8	16.4	15.4	14.7	14.0
Number of shares issued	10,895,464	10,785,937	10,118,220	9,647,045	9,181,760
Nominal value per share (in euros)	2	1.52	1.52	1.52	1.52
2. Total earnings from operations (in millions of euros)					
Income before taxes depreciation, provisions and employee profit sharing	27.6	22.4	37.5	14.4	10.8
Corporation taxes	(1.3)	9.5	0.7	(0.5)	(1.2)
Income for fiscal year after taxes, profit sharing, depreciation and provisions	14.5	5.8	29.9	7.1	7.5
Earning distributed (2)	9.6	9.5	7.7	6.6	5.0
3. Earnings from operations per share (in euros)					
Earnings after taxes and employee profit sharing but before depreciation and provisions	2.65	1.19	3.60	1.54	1.31
Earnings after taxes, depreciation and provisions	1.34	0.54	0.71	0.74	0.82
Dividend per share (net)	0.88	0.88	0.76	0.55	0.43
4. Employees					
Average number	1,091	1,116	1,144	1,491	1,546
Total salaries and wages (in millions of euros)	32.3	33.3	32.9	39.5	37.6
Amount paid out in benefits (in millions of euros)	14.3	14.1	14.4	17.4	17.4

(1) On 18 June 1998, the nominal value of the share was split by 5 from FF 50 to FF 10 and on 5 May 1999, the nominal value was converted into euros by changing the value from FF 10 to € 2 . The number of shares and the data relating to the per-share calculations have been restated for the years prior to 1999 to enable comparisons to be made.

(2) The earnings distributed include, for years 1995 and 1996, the payment of a dividend withholding tax of 1.1 M€ and 1.3 M€ respectively.

Variation in shareholders' equity for Le Carbone-Lorraine

In millions of euros	1999	1998	1997
AMOUNT AT 1ST JANUARY	169,5	160,4	125,6
Capital increase	–	–	–
Capital increase/employees	5.3	0.2	3.6
Whithdrawals from the reserves	(2)	0	0
Dividends paid	(9.5)	(7.7)	(5.3)
Dividend withholding tax	–	–	(1.3)
Net income for the year	14.5	5.8	29.9
Change in legal provisions	1.5	1.6	1.2
Investment subsidies	(0.03)	(0.1)	0.03
Bond conversions	–	9.8	6.8
Amortization of capital increase expenses over share premium	(0.2)	(0.5)	(0.1)
Excess of restated assets over historical cost 1976	(0.02)	(0.02)	(0.001)
AMOUNT AT 31 DECEMBER	179.1	169.5	160.4

Information

General legal and financial information

General information about Carbone Lorraine

Name and Headquarters

LE CARBONE-LORRAINE
Immeuble La Fayette
2-3, place des Vosges
La Défense 5, 92400 Courbevoie

Form, nationality and law

The company is a Société Anonyme governed by French law, in particular the Company Law of July 24, 1966.

Duration of Company

The company began operating on January 1, 1937 and shall continue to do so until December 31, 2035 unless the date is extended or the company is dissolved early by a vote of an Extraordinary General Meeting.

Corporate Purpose (By-laws, clause 3)

The purpose of the Company in France and in all countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:
1. carbon-based products, articles or equipment, whether or not they are combined with other materials;
2. metal powders, articles made from these powders, special alloys and articles made from these alloys;
3. electro-mechanical and electronic products;
4. all industrial products, especially metallurgical, mechanical, plastic and elastomer products;
5. all other products, articles or equipment that might be related to the preceding products;
• either by use of the latter to make the former,
• or research development,
• or through manufacturing processes, industrial applications or distribution networks.

In the area defined above, the Company may call on all activities related to:
• raw materials, prepared materials, components and elements, spare parts and semi-finished products, finished products and devices, combinations of devices, assemblies of all kinds and sizes combining devices,
• all works,
• all technical methods.

The Company may also carry out indirectly operations related to technical, industrial or commercial activities.
To this end, it may form any and all companies and groups of companies, acquire holdings in any and all company and partnerships, contribute assets to the capital of any company and subscribe to the stock of any company, purchase or sell any stock securities, partnership shares, or corporate rights. In general, the Company may carry out any and all industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities. Furthermore, the Company may acquire an interest, in any form, in any and all French or foreign companies or organizations.

Register of Commerce and Companies

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

Consultation of Corporate Documents

Company documents, especially by-laws, financial statements and reports to Shareholder Meetings by the Board of Directors and the Auditors, may be consulted at the headquarters by contacting:

Jean-Claude SUQUET
Director of Administration and Finance
LE CARBONE-LORRAINE
Immeuble La Fayette
2-3, place des Vosges
La Défense 5, 92400 Courbevoie
Tel.: (33) (1) 46 91 54 19

Fiscal Year

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

Distribution of Profits (By-laws, Clause 26)

At the end of each fiscal year, the Board of Directors establishes an inventory and the annual financial statements as set forth in Section II Book I of the Commercial Code.
Profits for the fiscal year, as shown on the income statement, is the difference between the revenue and expenses for the year after deduction of amortizations and provisions.

At least one twentieth of the profits for the fiscal year, minus prior losses, if any, is allocated to a reserve fund known as the “legal reserve”.
When the amount in this reserve fund reaches one tenth of the share capital, that deduction ceases to be mandatory but if, for any reason, the reserve fund falls below one tenth of the capital, the deduction is resumed.
Earnings to be distributed to shareholders consist of the profits for the fiscal year minus prior losses and the amounts to be allocated to reserve funds as stipulated by law, plus any earnings carried forward.

An initial dividend of 5% of the paid-in-full and unredeemed par value of the shares is distributed from the profits and the shareholders may not demand the payment out of subsequent years' profits, should the profit from one year, after the aforementioned deduction, make it impossible to make this payment. Next, the Annual Meeting of the Shareholders, on the proposal of the Board of Directors, has the right to decide to withhold amounts it deems suitable, either to be carried forward or for reserves to be used as directed by the Board. The balance is then divided among the shareholders.

The Ordinary General Meeting ruling on the financial statements for the year has the option to grant each shareholder, for all or part of the dividend distributed or interim dividends, a choice between the payment of the dividend or interim dividends in cash or in shares.
The Ordinary General Meeting of the Shareholders may in addition decide to distribute sums taken from the reserves at its disposal. In this case, the decision must indicate expressly the reserves out of which the amounts are drawn. However, dividends are first taken from the profits to be paid out for the year.

Meeting of Shareholders (By-laws, article 25)

Notice-Admission

General Meetings of shareholders are conveyed under the conditions set forth by law and their proceedings are governed by legal requirement in respect of quorum and majority vote.

The meetings are held at the company headquarters or at any other location specified in the notice of the meeting. General Meetings are composed of all shareholders owning at least one paid-in-full share.

Registered shareholders may attend General Meetings if their shares have been registered at least five days before the date set for the Meeting.
To be eligible to attend the Meeting, holders of bearer shares must prove that their shares are not transferable and are locked up until the time fixed for the Meeting at least five days before the date of the meeting.

The Board of Directors has the right to reduce these time limits requirements.
The Chairman of the Board of Directors chairs these Meetings and, in his absence, the Vice-Chairman or one of the Vice-Chairman chairs the Meeting. Failing these, a member of the Board who has been delegated by the Board shall chair. Otherwise, the General Meeting may elect its own Chairman at the meeting.

Minutes of the Meetings are drawn up and the Chairman of the Board, the Chief Executive Officer, the Secretary of the Board or an authorized person certifies copies of the minutes.

Threshold Limits

No obligation regarding the declaration on exceeding thresholds is set forth in the by-laws other than legal provisions. New provisions, which envisage including in the company's by-laws the obligation to declare in the event of any limit being exceeded by 1% or more in terms of share capital or voting rights, are proposed at the Combined General Meeting of Shareholders of 10 May 2000 (cf. Eleventh resolution).

Purchase by the Company of Its Own Shares

The General Meeting of Shareholders of 5 May 1999 has authorized the company, pursuant to Articles 217-2 and following of Law 66-537 of July 24, 1966, to conduct transactions on its own shares on the Paris Stock exchange:

- in order to adjust the market price,
- to allocate shares to employees as part of the implementation of stock purchase programs for the employees or in the framework of employee profit-sharing plans,
- to be used as part of external growth operations,
- or, generally, to be used as part of the asset and financial management policy.

The purchase price should not exceed 90 euros per share and the sale price should not be less than 35 euros per share, subject to adjustments associated with possible changes in the company's capital.

As of the close of the General Meeting called to rule on the financial statements for the year ended 12/31/1999, the Company has not made use of the aforementioned authorization.

A new authorization to purchase shares is being proposed to the General Meeting of Shareholders of May 10, 2000 (cf. Fourth resolution). The company is already authorized to cancel purchased shares.

Double voting right.

There is no double voting right.

Dependence of the Company

No patent, license or supply contract significantly affects the activity or profitability of the company.
Valéo is the Group's principal customer and accounts for 9.8% of net consolidated sales. A large proportion of Carbone Lorraine's sales to this customer falls within the terms of an attractive exclusive supply contract that expires at the end of 2002. This situation has arisen as a result of the Group's acquisition of a magnets activity belonging to ITT-Automotive, a company which was subsequently taken over by Valéo. The Group intends to diversify its customer base in North America by developing its technical facilities and commercial services.
No other customer accounts for more than 3% of net consolidated sales.

Disputes

The American Justice Department is conducting an investigation into anti-trust practices in the graphite products industry in the USA.
Carbone of America Industries Corp. is on the verge of signing a transaction with the American Justice Department to bring an end to this Department's investigation of its graphites activities. The Group set up strict procedures designed to prevent a similar situation from recurring.
The consequences of this dispute are described in note n°18 in the notes to the consolidated financial statement.

To the company's knowledge, there is no other dispute or arbitration that could have or could have had a significant impact on the financial position, business, or revenues of the company or the group.

General information about share capital

Conditions

Changes in share capital and the rights of respective class of shares are made in accordance with provisions of the law.

Amount and structure of capital (By-laws, Article 6)

On December 31, 1999, the share capital was set at € 21 790 928 divided into 10 895 464 shares of € 2 each, all of the same category.

Authorizations for capital increases

The new equity issues reserved for employees are allocated to employees belonging to the Group Investment Plan via a company investment plan for French employees and by direct shareholding for non-French employees.

Extraordinary Meeting of Shareholders of 5 May 1999

The Extraordinary Meeting of the Shareholders of 5 May 1999 decided to convert the share capital into euros, by converting the nominal value of the existing shares. Consequently, the share capital, converted into euros was increased by 5,128,819.0437 euros to 21,571,874 euros through incorporation of the share premium to this limit. The increase is carried out by rounding off the amount resulting from the conversion of the par value of the existing shares to the next highest Euro unit, thus increasing the par value to 2 euros.

Extraordinary Meeting of Shareholders of 20 April 1998

The Extraordinary Meeting of the Shareholders of April 20, 1998 authorized the Board of Directors to take the following actions:
• issue shares or shares warrants with preemptive subscription rights,
• issue convertible bonds with no preemptive subscription rights, bond warrants and any and all securities giving immediate or future access to shares of the company.
The maximum nominal amount of the immediate and/or long-term capital increases that may be carried out under this authorization is FF 30 million corresponding to 3,000,000 new shares with a par value of 10 francs each, it being specified that to this nominal amount may be added the nominal amount of the additional shares to be issued to preserve the right of the holders of securities with equity option, in accordance with the law.
The authorization is valid until June 19, 2000 and has not yet been used.
• The Extraordinary Meeting of the Shareholders of April 20, 1998 authorized the Board of Directors to take the following actions:
- issue shares reserved for employees participating in the company's savings plan.
- issue shares with equity warrants reserved for employees participating in the company's savings plan.
The maximum nominal accumulated amount of the immediate or future capital increases so authorized is

3 million francs, corresponding to 300,000 new shares with a par value of 10 francs each, it being specified that to this nominal amount may be added the nominal amount of the supplementary shares to be issued to preserve the rights of holders of securities with equity options in accordance with the law. The Board, meeting on 8 March 1999, exercised its authorization by offering employees the option to subscribe to 100,000 new shares at 31 euros. 99 962 new shares were thus subscribed to, representing a capital increase of 199,924 euros. The Board, meeting on 18 January 2000 decided to use up the unallocated balance of this authorization by offering employees the option to subscribe to 200,000 new shares at 36.1 euros. The subscription period will extend from 17 April to 12 May 2000.

Extraordinary Meeting of Shareholders of April 22, 1997

The Extraordinary Meeting of the Shareholders of April 22, 1997 authorized the Board of Directors to grant options giving the right to subscribe new shares to the management and employees of Carbone-Lorraine or to some of them only. The maximum nominal amount of the capital increases authorized by this issue is FF 3,500,000 corresponding to 350,000 new shares with a par value of 10 francs each. At its June 17, 1997, January 15, 1998 and March 8, 1999 meetings, the Board decided to exercise this authorization by granting options to allow certain senior executives and company officers to acquire a total of 326,875 shares with a par value of 2 euros each. The unallocated balance of the authorization is 23,125.

The authorization remains valid until April 21, 2002

Voting Rights' Certificates - Investment Certificates

Not applicable.

Share Options

Subscription options were attributed in July 1995, June 1996, June 1997, January 1998, and March 1999, 9,565 of which were exercised during the 1999 fiscal year. At 12/31/99 the remaining options to be exercised allow the acquisition of 318,438 new shares with a par value of 2 euros each.

There are no other share options.

Changes in Share Capital*

Date	Type of Operation	Capital after operation (in francs)	Issue premium (in francs)	Cumulated number after the operation
06/14/1995	Conversion of 4,079 convertible bonds into 4,079 shares with a par value of FF 50	72,080,500	1,837,650	1,441,610
06/23/1995	Capital increase by issue of 384,428 shares with a par value of FF 50	91,301,900	192,214,000	1,826,038
10/12/1995	Capital increase reserved for employees by issue of 10,112 shares at a par value of FF 50	91,807,500	4,317,824	1,836,150
12/31/1995	Conversion of 198 convertible bonds into 202 shares at a par value of FF 50	91,817,600	89,713	1,836,352
12/31/1996	Conversion of 9,123 1988 convertible bonds into 9,330 shares at a par value of FF 50	92,284,100	6,835,753	1,845,682
12/31/1996	Conversion of 82,079 1993 convertible bonds into 83,727 shares at a par value of FF 50	96,470,450	36,876,889	1,929,409
10/31/1997	Capital increase reserved for employees by issue of 19,539 shares at a par value of FF 50	97,447,400	22,626,162	1,948,948
12/31/1997	Conversion of 26,862 convertible bonds (1988) into 27,483 shares at a par value of FF 50	98,821,550	20,205,723	1,976,431
12/31/1997	Conversion of 46,289 convertible bonds (1993) into 47,213 shares at a par value of FF 50	101,182,200	20,779,332	2,083,644
12/31/1998	Pre-split conversion of 128,300 convertible bonds (1993) to 654,720 shares at a par value of FF 10			10,118,220
June 1998	5-to-1 split in the nominal value of the share (Board of Director's Management Report to the General Meeting of Shareholders of May 5, 1999)	107,729,400	57,711,624	10,772,940
12/31/1998	Creation of 12,997 shares with a par value of FF 10 through the exercise of subscription options, with 1,437 exercised before split and 5,812 after split	107,859,370	1,378,575	10,785,937
05/05/1999	Conversion of the par value of the shares from FF 10 to € 2 (7th resolution of Combined Meeting of the Shareholders of 5 May 1999)	21,571,874	(5,128,819)	10,785,937
05/27/1999	Capital increase reserved for employees by issue of 99,962 shares with a par value of € 2	21,771,798	2,898,898	10,885,899
12/31/1999	Creation of 9,565 shares with a par value of € 2 through the exercise of subscription options	21,790,928	170,470	10,895,464

** After 5 May 1999, the date of the conversion of the share capital into euros, the figures are given in euros.*

Capital share structure and voting rights

Recent shareholder changes

On April 2, 1997, Pechiney sold its 37.7% stake (727,042 shares) as part of a private investment to various institutional investors in France, to non-U.S. investors –as defined in regulation S of the U.S. Securities Act of 1933– in the rest of the world (outside the U.S.), and to qualified institutional investors in the U.S. as defined by, and in compliance with Rule 144A of the same act.
On this occasion Paribas exercised its preemptive right over a total of 80,000 shares and its voting rights and stake rose from 20.2% to 24.3%.

This preemptive right was pursued to a shareholder's agreement entered into on April 5, 1998 among Pechiney and Paribas which ended once only one company held more than 5% of share capital.

Changes in capital share structure

% capital	12/31/99	12/31/98	12/31/97
Paribas	21.6	21.8	23.2
Other investors	78.4	78.2	76.8
Total	100.0	100.0	100.0

Share capital

At 12/31/1999, the capital stock of the company was € 21,790, 928 for 10,895,464 shares with a par value of € 2 per share. The number of voting rights was 10,895,464.

Share structure as at 31 December 1999

31/121999	Number of shares	% Capital	% Voting Rights
Paribas	2,348,760	21.6	21.6
Other investors	8,546,704	78.4	78.4
Total	10,895,464	100.0	100.0

To the knowledge of the Company, Paribas is the only shareholder with a stake and voting rights greater than 5%. Board of Directors and Executive Committee held 15,117 shares. Employees own 2% of share capital, mainly as part of company investment funds.
205 000 share subscription options have been allocated to the officers.

• Number of shareholders: 30 000 based on shares deposited with Sicovam at December 31, 1999.
• Threshold limit:
On April 2, 1997, Pechiney fell below the thresholds of 20, 10 and 5% following the sale of its stake to various institutional investors.
To the knowledge of the company, about 27% of the shareholders are individual shareholders, 30% are French investors and 21% are non-French investors (with 8% British and 7% American).

To date, the company is not aware of any agreement among shareholders regarding its share capital.

The company does not have any direct or indirect control of its own shares.

Furthermore, no tender offer or exchange offer, nor any price guarantee concerning the issuer's shares has been made in the last three years. The issuer has also not initiated any operation of this kind with regard to other companies over the same period.

Stock exchange

Listing market and category of listed shares

The shares have been traded on the *Premier Marché* of the Paris stock exchange, with monthly settlement, since March 25, 1996. The Carbone Lorraine share has been included in the SBF 120 index since March 1997. 10,895,464 shares are listed. The data presented in the following table has been adjusted over the entire period so as to take into consideration both the 5-to1 share split of the par value (which occurred on June 19, 1998) and the conversion to the euro (on 4 January 1999).

Trades over the last 18 months [1]

Shares Carbone Lorraine	Number of traded shares (units)	Share capital trade (in M€)	Price range Highest (in €)	Price range Lowest (in €)
1998				
August	648,207	38.1	63.72	47.23
September	1,944,134	82.0	53.34	32.32
October	1,050,667	43.6	49.39	36.74
November	1,249,178	59.2	54.87	42.53
December	944,400	38.5	45.43	35.29
1999				
January	1,317,144	48.3	41.61	34.01
February	671,846	25.2	39.60	36.05
March	1,190,309	50.8	46.78	36.00
April	743,115	36.1	52.40	43.70
May	739,815	38.2	54.00	47.69
June	396,713	19.1	50.00	46.55
July	753,944	38.9	54.35	46.11
August	689,842	32.6	51.60	44.00
September	1,308,705	69.0	57.70	48.00
October	861,075	37.6	52.30	39.37
November	955,073	36.7	40.90	35.22
December	1,204,534	52.0	46.80	37.22
2000				
January	511,178	22.1	45.60	40.60

(1) Source: ParisBourse S.A.

Dividends

Year	Number of shares at fiscal year end	earnings per share (in €) Net dividend	Tax Credit	Total amount	Stock exchange price (in €) Highest	Lowest	Last	Global yield [3]
1995	9,181,760	0.43	0.21	0.64	22.26	11.89	12.80	5.00%
1996	9,647,045	0.55	0.27	0.82	31.98	12.65	29.94	2.75%
1997	10,118,220	0.76	0.38	1.14	57.93	28.96	57.32	2.00%
1998 [1]	10,785,937	0.88	0.44	1.32	93.39	32.32	40.40	3.28%
1999 [2]	10,895,464	0.88	0.44	1.32	57.70	34.01	46.80	2.82 %

(1) On June 19, 1998, the par value was split by 5, to FF10 per share. Consequently, the pre-1998 data has been adjusted to allow comparison with preceding years.
(2) On May 5, 1999, the par value was converted into euros, and became worth 2€ per share.
(3) The overall rate of return was calculated based on the share price at fiscal year end.

Dividends are forfeited according to legally-defined time periods and forms, that is, five years after they have been paid. After this time they are paid to the French Tax Administration.
For fiscal 1999, the second resolution of the Combined General Meeting of Shareholders of May 10, 2000, proposes setting the dividend at €0.88 per share, to which will be added a tax credit of €0.44 per share giving a total amount of €1.32.

Board of Directors, executive and committees

Board of Directors as of March 10, 2000

Chairman:

Claude COCOZZA
appointed on March 6, 1997

Director and Chairman:
FERRAZ SA - CARBONE LORRAINE NORTH AMERICA - UGIMAG SA -
Director:
Compagnie de FIVES-LILLE - Entreprise THIVENT SA - UGIMAG AG - UGIMAG INC - SOFACEL

Directors*:

Jean-Pierre CAPRON
appointed on July 11, 1995

Director and Chairman & Chief Executive Officer:
Compagnie de FIVES-LILLE-FCB- STEIN HEURTEY-D.M.S.-STEIN ATKINSON STORDY Ltd-
Member of the Supervisory Committee:
Consortium de Réalisation
Director:
COPAREX International-NORDON & CIE-COFLEXIP-PIERRE GUERIN SA- E.G.C.I. PILLARD-
Permanent Representative from:
• FCB to FCB DMI and GI 96
• STEIN HEURTEY to CELES
• Compagnie de FIVES-LILLE to FIVES Combustion, CINETIC INDUSTRIES and PROCEDAIR SA

Robert CHAUPRADE
appointed on July 11,1995

Manager:
SARL Robert CHAUPRADE Consultant
Former Chairman & Chief Executive Officer of :
Matra Électronique

Hervé COUFFIN
appointed on July 11, 1995

Chairman & Chief Executive Officer of:
PARIBAS SANTÉ
Chairman of:
FINANCIÈRE FELIX
Chief Executive Officer of:
PARIBAS INVESTISSEMENT DÉVELOPPEMENT
Director:
Compagnie de FIVES-LILLE-SSNA
Member of the Supervisory Committee:
ATOS
Permanent Representative of:
PARIBAS PARTICIPATIONS on the Boards of Directors of COPAREX INTERNATIONAL, PARIBAS INVESTISSEMENT DEVELOPPEMENT, SIS, and BOUYGUES TELECOM , SOCIÉTÉ GÉNÉRALE COMMERCIALE ET FINANCIÈRE on the Board of Directors of SEMA GROUP SA, PAI MANAGEMENT on the Board of Directors of GERFIN (Groupe GERFLOR), PAI MANAGEMENT on the Board of Directors of BEAUFOUR IPSEN

Jean-Claude KARPELES
appointed on May 5, 1999

Chairman of the Supervisory Committee:
Société Agricole du Château de Campaguet
Director:
RGE SA, BIPE

Patrick KRON
appointed on July 11, 1995

Chairman of the Executive Board of:
IMERYS
Chairman of:
MIRCAL (France), IMERYS UK Ltd (Great Britain), IMERYS USA, Inc (USA), PLIBRICO S.A (Luxembourg) and PLIBRICO GmbH (Germany)
Director of:
TIMCAL SA (Switzerland), CIE IND & FIN CONCORDE

Walter PIZZAFERRI
appointed on May 5, 1999

Associate managing director of:
STRATORG

Hervé RUDAUX
appointed on July 11, 1995

Director of:
INTERCOS, CEVA Santé Animale
Member of the Supervisory Committee of:
EFFIK
Vice President of:
NICOX

** Robert Agenet, appointed to the Board of Directors on July 11, 1995, former Chairman and CEO of Carbone Lorraine, former Director of the Department of Components and Systems at Pechiney, former Honorary Counselor of Foreign Trade for France, passed away on June 9, 1999.*

At its July 11, 1995 meeting, the Board of Directors adopted an internal regulation which specifies that, in addition to its legal powers, the Board of Directors shall approve each year the strategic direction and medium-term objectives in a three-year plan, review the budget for the following year, take note of future plans, set the total envelope for capital expenditures and be informed of major investments.

The internal regulation also defined the responsibilities of the Accounting Committee and the Compensation Committee set forth below.

The Board of Directors met six times in 1999.

Committees set up by the Board of Directors

Accounting Committee

At its July 11, 1995 meeting, the Board of Directors voted to set up an Accounting Committee under its responsibility. The Accounting Committee is composed of a minimum of 3 members and a maximum of 5 members appointed from among the members of the Board. The mission of the committee, which meets at least twice a year, is:

- to review and evaluate the financial documents distributed by the Company as part of the annual closing of accounts;
- to ensure that recommendations made by the internal auditor and the independent auditors have been followed up;
- generally, to review any and all issues related to the preparation, audit and publication of the annual or interim statutory accounts and consolidated financial statements of the Company;
- and to monitor the effectiveness of internal and external audits of the Company.

At its July 11, 1995 meeting, the Board of Directors appointed Robert Agenet, Robert Chauprade, Hervé Rudaux to the Accounting Committee.

At its July 19, 1999 meeting, the Board of Directors appointed Jean-Claude KARPELES to the Accounting Committee and Hervé RUDAUX as Chairman of the Accounting Committee, taking over from Robert AGENET. The Accounting Committee met four times during 1999.

Compensation Committee

At its July 11, 1995 meeting, the Board of Directors voted to set up a Compensation Committee under its responsibility. The Compensation Committee is composed of a minimum of 3 members and a maximum of 5 members appointed from the members of the Board. This committee makes recommendations on the following:

- Officer and members of the Management Committee;
- various benefits (retirement, insurance etc.) that might be added to such compensation;
- the possible allocation of stock subscription or purchase options (beneficiaries, number of shares, price terms).

At its July 11, 1995 meeting, the Board of Directors appointed Jean-Pierre Capron, Hervé Couffin, and Patrick Kron to the Compensation Committee.

At its June 17, 1997 meeting, the Board of Directors appointed Claude Cocozza to the Compensation Committee. He participates in deliberations on issues that do not concern him personally.

The Compensation Committee met three times in 1999.

Executive Committee

The Executive Committee has seven members.

C. COCOZZA	Chairman & Chief Executive Officer
M. CONIGLIO	Vice-President Advanced Materials and Technologies Department Vice-President, North America and South America
J.M. ESCONDEUR	Vice-President Permanent Magnets Department
R. FOURCAULT	Vice-President Electrical Applications Department Vice-President - Europe
M. RENART	Vice-President Electrical Protection Department Vice-President - Asia
J.C. SOBEL	Vice-President Human Resources
J.C. SUQUET	Vice-President Finance and Administration

Stock held by the board of directors and officers

Number of shares held by directors and officers: 15 117.

Compensation and Benefits

The total amount of the compensation and directors' fees for the Board of Directors and officers of the company for 1999 was 1,400,000 euros and breaks down as follows:
• Directors' fees: 48,000 euros in total.
• 1999 compensation to officers: 1,352,000 euros which includes 6,000 euros in directors' fees.
This remuneration consists of a basic remuneration (1,108,000 euros) plus a variable remuneration that corresponds to the bonus determined by the performance achieved in 1998 and paid in 1999. The basic remuneration is fixed by the Remunerations Committee who takes advice from consultants with specialist knowledge of current market practices. The bonus system for the Executive Committee (which has an upper limit of 75% of the basic remuneration for the Chairman and 50% for the other members) is based on what is achieved in relation to :
- return on capital employed (ROCE) objectives, which are in turn based on the Group's general objectives and on the impact of acquisitions;
- objectives relating to the growth of net current earnings per share;
- certain individual objectives.

Options conferred on the issuer's shares to officers of the company

205,000 stock options were allocated to the officers: 50,000 for the 1995 plan, 32,500 for the 1996 plan, 57,500 for the 1997 plan, and 65,000 for the 1999 plan.

The officers do not have subscription or purchase options for the subsidiaries of the company.

Agreements regulated by article 101 of the law of July 24, 1966

The parent company has signed a cash agreement with its French subsidiaries. This agreement is considered as being current management. The parent company centralizes the day-to-day financing needs or surpluses of its French companies. It receives a normal administrative remuneration in respect of its centralizing role.
The parent company, Le Carbone-Lorraine S.A. signed in 1998 a service provision agreement with an administrator who acts in an advisory role and who is remunerated on the basis of a daily fee. This role was extended in 1999 to another of the Group's activities.

Loans and guarantee granted to officers and directors.

None.

Employee incentive plans

Profit-sharing and participation schemes

Employee profit-sharing

Since 1982, LCL France has developed a policy of involving its personnel in the company's financial performance.
On June 5, 1997, a new profit-sharing agreement was signed for the years 1997 and 1998.
The total amount allocated to employee profit-sharing was set at 8.4% of the operating profit, after deducting the financial expenses associated with the working capital required to manage LCL France and after adding 3.6% of the current consolidated income of the Carbone Lorraine Group.
A ceiling is set for the adjusted operating profit of LCL France and the consolidated current income at 9% of their respective net sales.

(in thousands of euros)	1999	1998	1997	1996	1995
Amounts allocated to personnel	2,333	2,354	1,959	1,371	739

Participation

On June 27, 1985, and extended by the amendments agreed on June 29, 1990, and then on May 21, 1991, an agreement, enabling employees to participate in the benefits of the expansion of LCL France, states that a special participation reserve is set up in accordance with the obligation set forth in the provisions of articles L442-2 and R442-2 of the labor law.

(in thousands of euros)	1999	1998	1997	1996	1995
Amounts allocated to personnel	0	0	483	0	0

The total amount relating to profit-sharing and participation (cf. above) cannot exceed 8.5% of the annual payroll cost.

Options and Group Investment Plans

The Extraordinary Meetings of Shareholders on May 22, 1995, April 22, 1997 and April 20, 1998 granted financial authorizations to develop stock ownership by employees through an enterprise investment plan and stock options plans.

Group Investment Plan

The Extraordinary Meeting of Shareholders on May 22, 1995 authorized the Board of Directors to increase share capital on one or more occasions by issuing shares to employees, especially as part of a Group Investment Plan.

The maximum total nominal authorized amount was FF 1,922,100 corresponding to 38,442 new shares with a par value of FF 50 each. The Board of Directors voted at its July 11, 1995 meeting to exercise this authorization and to increase the share capital by a maximum amount of FF 1,250,000 representing 25,000 new shares with a par value of FF 50 each by, opening subscriptions to a capital increase at an issue price of FF 477.

The price was paid by the subscriber after the deduction of a "contribution" paid by the company which was set at:
• 20% for the acquisition of the first 10 shares
• 10% for the acquisition of the next 10 shares
• 0% for an acquisition above this number.

During the subscription period from July 17, 1995 to September 15, 1995, 10,112 shares were subscribed, representing a capital increase of FF 505,600 with an issue premium of FF 4,317,824.

No share issues reserved for employees occurred during 1996.

The Board voted at its September 15, 1997 meeting to use the balance of 28,330 shares, and to exercise the authorization given by the Extraordinary Meeting of Shareholders of May 22, 1995, to open a subscription to a reserved capital increase that became active as of 1/1/97 at a price of FF 1,208. The price was paid by the subscriber after the deducting a "contribution" paid by the company under the same rules as in 1995.

During the subscription period from September 22 to October 22, 1997, 19,539 shares were subscribed, representing a capital increase of FF 976,950 with an issue premium of FF 22,626,162.

The Extraordinary Meeting of Shareholders on April 20, 1998 authorized the Board of Directors to increase share capital on one or more occasions by issuing shares to employees, especially as part of a Group Investment Plan.
The maximum nominal authorized amount was FF 3 million.
No issue of shares reserved for employees occurred during 1998.

The Board voted at its March 8, 1999 meeting to exercise this authorization to open a subscription to a reserved capital increase for a maximum amount of 200,000 euros, equivalent to 100,000 new shares at a price of 31 euros. The price was paid by the subscriber after the deduction of a 25% "contribution" (for up to 1,525 euros).
During the subscription period from March 29, 1999 to April 16, 1999, 99,962 shares were subscribed, representing a capital increase of 199,924 euros; with an issue premium of 2,898,898 euros. The shares became active on May 27, 1999, the date when the capital increase was realized.

The Board voted at its January 18, 2000 meeting to use the unallocated balance, and to exercise the authorization given by the Extraordinary Meeting of Shareholders of April 20, 1998, to open a subscription to a reserved capital increase of 400,000 euros representing 200,000 new shares at a price of 36.1 euros each. The subscription period will extend from April 17, 2000 to May 12, 2000.

Options

The Extraordinary Meetings of Shareholders on May 22, 1995 and April 22, 1997 authorized the Board of Directors to offer stock options on one or more occasions to all or any managers and employees of the company and its affiliates.

Employee categories benefiting from these options are determined by the Board of Directors each time the authorization is used. The maximum nominal amount of capital increase authorized is € 1,084,420, representing 542,210 new shares with a par value of € 2 each.

On the proposal of the Compensation Committee, the Board of Directors offered in 1999 to 57 executives of the Group the possibility of purchasing 518,500 shares under the following conditions:

	Plan 1999	Plan 1998	Plan 1997	Plan 1996	Plan 1995
Options issued	172,500	20,000	134,375	69,750	121,875
Exercise Price (in Euro)	36.0	53.78	37.86	22.29	17.26
Exercise date	3/9/2004 to 3/9/2009	12/15/2003 to 1/14/2005	6/18/2002 to 6/17/2005	7/1/1999 to 6/20/2003	1/1/1998 to 6/30/2002
Options exercised at 12/31/1999	0	0	0	4,750	17,812
Options remaining to be exercised	172,500	20,000	134,375	65,000	104,063

Report by the Board of Directors

Ladies and Gentlemen,

This Combined General Meeting of the Shareholders' has been called in order to:

- approve the financial statements for fiscal year 1999 and allocate the profits,
- authorize the company to deal in its own shares on the market in accordance with the regulations in force,
- authorize the Board of Directors to issue securities giving access to share capital,
- authorize the Board of Directors to implement capital increases reserved for employees,
- authorize the Board of Directors to implement a share subscription plan for the benefit of certain managers and employee of the company and of those of its associated companies,
- introduce a statutory threshold limit.

In respect of the Ordinary General Meeting of Shareholders

Allocation of earnings

The Board of Directors is proposing the payment of a net dividend of € 0.88 per share. Earnings for the 1999 fiscal year would be allocated as follows:

Source (in thousands of euros)		
Retained earnings	------	
Net income (Profit)		14,565
Withdrawal from reserves		------
Use		
Legal reserve	535	
Statutory dividends (5 % of share capital)	1,090	
Additional dividend	8,544	
Other reserves	4,396	
Retained	------	
Totals	14,565	14,565

The comparison with dividends from previous years (adjusted for the stock split) would be as follows:

In euros	Net dividend	Tax Credit	Total dividend
1996	0.55	0.27	0.82
1997	0.76	0.38	1.14
1998	0.88	0.44	1.32
1999	0.88	0.44	1.32

Regulated agreements

In accordance with the provisions of article 104 of the law of July 24, 1966, the statutory auditors are presenting a special report on the agreements regulated by article 101 of the law.

Buyback of company shares

The Ordinary General Meeting of Shareholders held on May 5, 1999 authorized to trade its own shares in order to stabilize the market price in accordance with law 66-537 of 1966.

The company did not use this authorization.

Your Board of Directors would like to renew the authorization granted by the General Meeting of Shareholders of May 5, 1999 which authorized the company to deal in its own shares under the conditions stipulated in law 98-546 dated July 2, 1998 and to delegate to the Company's General Management the option of purchasing shares in a price range falling within a maximum purchase price of 90 euros per share and a minimum selling price of 35 euros per action.

In Respect of the Extraordinary General Meeting of Shareholders

Issue of securities giving access to share capital

We propose that you renew the powers granted by the Extraordinary General Meeting of Shareholders of April 20, 1998 to the Board of Directors to allow it to issue securities giving access to share capital, since the period of validity of these authorizations is reaching its end without being used.

To this end, we propose that you grant to the Board of Directors the powers necessary to:

• issue securities giving access to share capital with pre-emptive right to subscription,

• issue securities giving access to share capital without pre-emptive right to subscription.

The overall amount of the increase in the company's share capital resulting, immediately or in the future, from these authorizations cannot exceed 10 million euros. The period of validity of these authorizations is 26 months.

Increase in share capital reserved for employees

The Board used, on January 18, 2000 the balance of the authorizations given by the Extraordinary General Meeting of April 20, 1998 to enable it to realize capital increases reserved for employees. If the 200,000 corresponding shares are fully subscribed, the personnel will hold 4% of the share capital at the end of this operation.

With the aim of continuing to develop the employee shareholding, and to involve personnel with the company's success, we propose that you grant to the Board of Directors the powers needed to realize the capital increases by issuing shares reserved for employees who belong to the Group investment plan. The maximum overall amount of capital increases will be set at 800,000 euros nominal. The period of validity of this authorization will be three years.

Allocation of share subscription options

The Board of Directors, meeting on March 8, 1999 exercised most of the unallocated balance of the authorization given by the Extraordinary General Meeting of April 22, 1997, that enabled the Board to grant, on one or several occasions, for the benefit of managerial staff and other employees of Le Carbone-Lorraine and of its associated companies options giving the right to subscribe to new shares in Le Carbone-Lorraine.

Your Board would like to continue to take advantage of the possibilities offered by the law of July 9, 1984 relating to the development of economic initiative, the law of 17 June 1987 relating to Savings and thus to maintain the spirit of enterprise which has always been a key feature of the Company.

We therefore propose that you delegate to the Board of Directors the power to grant for the benefit of managers and employees of the company and of its associated companies, or to some of them, options giving right to the subscription of shares in the company.

The subscription price of the shares available to beneficiaries shall be fixed by the Board of Directors on the day when the options are granted and cannot be less than the average of the opening price of the shares quoted on the 20 Stock Exchange sittings prior to the day on which the options will be granted. No option can be granted less than 20 Stock Exchange sittings after the detachment of the coupon giving the right to a dividend or to an increase in capital.

We propose setting a limit of 435,000 shares (i.e. approximately 4% of the share capital) to the number of new shares issued in respect of these subscription options and to limit the period during which this authorization can be exercised to five years.

The Board would like to inform the Meeting that it envisages allocating most of these 435, 000 options on a single occasion and does not envisage renewing the allocation significantly within three years. The exercising of options will be conditional and related to the expectation of satisfactory annual growth in net current earning per share over the period 2000/2002 (these conditions correspond to an average growth of 15 to 20% per year in net current earnings per share).

Declaration of breaking threshold limits

So as to enable the company to identify the holders of Carbone Lorraine shares and their percentage stake, we propose adding to the by-laws the obligation for holders to declare their holding should the specified threshold limits be exceeded.

Proposed resolutions

To be decided by the Ordinary General Meeting of shareholders

First resolution

Approving the financial statements

The General Meeting, after reading the management report of the Board of Directors and hearing a reading of the reports of the Statutory Auditors on the financial statements for fiscal year 1999, approves the financial statements as presented, all the transactions reflected in the statements, the assessments presented therein, as well as the allocation to depreciation and provisions.
It therefore closes the net profit of FF 95,537,409.25.

Second resolution

Allocation of the profits

The Annual Meeting approves the allocation of the profits proposed by the Board of Directors. It allocates € 535 thousands to the legal reserve. It sets the dividend for the year at € 0.88 per share to which is added, under the conditions set forth in current regulations, a tax credit of € 0.44 making the total dividend € 1.32.
This dividend will be financed by taking € 9,634 thousands from earnings. The balance, i.e. € 4,396 thousands will be placed in the reserves.

This dividend compares as follows to the dividends of the last three years, adjusted after the 5-to-1 split:

In euros	Net dividend	Tax Credit	Total dividend
1996	0.55	0.27	0.82
1997	0.76	0.38	1.14
1998	0.88	0.44	1.32

Third resolution

Approving the staturory auditors' report

The General Meeting, after hearing a reading of the report of the statutory auditors as stipulated in the provisions of Article 104 of the Law of July 24, 1966 acknowledges and approves its contents.

Fourth resolution

Purchase of Carbone Lorraine shares

The General Meeting, after hearing a reading of the report of the Board of Directors and noticing the memorandum approved by the *Commission des Opérations de Bourse,* authorizes the Board of Directors to purchase a number of shares in the company that is equivalent to up to 10% of the number of shares that make up the company's share capital, under the conditions set forth in Article 217-2 of the Law of July 24, 1966.

The General Meeting of Shareholders decided that shares could be purchased particularly with a view to stabilizing the market price, to allocating or transferring shares to employees as part of the employees' participation in employee profit-sharing plans, employee share ownership incentives or the company investment scheme, to using the shares as part of external growth operations, or more generally, to using the shares as part of the assets and financial management policy.

The maximum purchase price is set at 90 euros per share and the minimum selling price at 35 euros per share. These prices are set subject to adjustments related to possible capital transactions.

These shares may be purchased, sold or transferred at any time and by any means, including the utilization of optional mechanisms and through acquisitions via identified third parties.

Shares purchased pursuant to this resolution may be kept, sold or assigned, in whole or in part, by any means. They may also be cancelled by a capital reduction under the conditions stipulated by law.

The authorization is valid until the General Meeting called to approve the financial statements for 2000. In any case, it may not exceed eighteen months.

The General Meeting grants full powers to the Board of Directors, with the right of delegation to the Chairman, to place all market orders, enter into any and all agreements, perform all formalities and, in general, do what is necessary to apply this authorization.

Fifth resolution

Powers

The Annual Meeting, having heard the report of the Board of Directors, votes all powers to said Board to give the necessary powers to the bearer of a copy or excerpt of the minutes of this Meeting in order to carry out the notification and filing formalities required by law.

To be decided by the Extraordinary General Meeting of shareholders

Sixth resolution

Issuing with pre-emptive right to subscription of securities giving acces to capital

The General Meeting, having acknowledged the report of the Board of Directors and the special report of the Statutory Auditors and in accordance with the provisions of paragraph 3 of article 180-III of law n° 66-537 of July 24, 1966:

1- Grants to the Board of Directors the powers necessary to realize, on one or several occasions, in the proportions and at the times that it considers appropriate, and both in France and anywhere else in the world, Company shares or any other securities of any type that give access, immediately and/or in the future to Company shares. This delegation of power may be used during periods of public offer of purchase or exchange initiated in Company shares;

2 - Resolves that the shareholders can exercise, under the conditions set forth by the law, their pre-emptive right to subscribe to new shares. Moreover, the Board of Directors will have the power to grant shareholders the right to subscribe to a number of available shares that is greater than the number of new shares that the shareholder could subscribe to, and in proportion to the subscription rights held by the shareholder, and in all cases, not exceeding the request formulated by the shareholder;

If the subscriptions for new shares, and, where applicable, for available shares, have not exhausted the total number of issued shares, then the Board may implement, wherever it deems fit, one or other of the following powers:
- limiting the issue to the total value of the subscriptions insofar as this value reaches not less than three quarters of the amount decided for the issue;
- freely allotting all or a part of the shares which have not been subscribed to;
- offering to the general public all or some of the unsubscribed shares.

3 - Resolves that the issue of warrants for subscription to shares in the Company, pursuant to article 339-5 of the law of July 24, 1966 may occur by an offer for subscription under the conditions envisaged above, or by free allocation to the holders of old shares;

4 - Notes that, where applicable, this delegation of powers legally implies, for the benefit of the holders of securities which allow access at some time in the future to Company shares likely to be issued, the renunciation of the shareholders of their pre-emptive right to subscribe to the shares to which the securities give access;

Resolves to cancel the shareholders’ pre-emptive right to subscribe to the shares issued by the conversion of bonds or by the exercise of bonds;

5 - Resolves that the Board of Directors will have full powers, and power to subdelegate to its Chairman, under the conditions stipulated by the law, to implement this delegation of power, principally to determine the dates and terms of the issues in addition to the form and characteristics of the securities to be created, to set the prices and terms of the issues, to set the amounts to be issued, to set the day from which interest begins to run (even retrospectively) for the shares to be issued, to determine how the shares or other stock issued will be paid up and, if applicable, to envisage the terms of their purchase on the Paris Stock Exchange, to have the power to suspend the exercise of the rights to allot the shares linked with the securities to be issued during a period which cannot exceed three months, to set the terms governing the maintenance of the rights of the holders of securities allowing access to company share capital at some time in the future, and in accordance with the legal and regulatory provisions. Moreover, the Board of Directors or its Chairman may make any deductions, where necessary, from the premium(s), and particularly to pay for the expenditure associated with the process of issuing, and generally do all that is necessary and conclude all agreement to satisfactorily carry out the issuing envisaged and to record the capital increases resulting from any issue achieved through the exercise of this delegation of power and to modify the memorandum and articles of association accordingly;
In the event of the issue of debt securities, the Board of Directors will have full powers, and power to subdelegate to the Chairman (particularly in terms of deciding to what extent they are dependent on other factors), to set their

rate of interest, their duration, the redemption prices (fixed or variable), with or without premium, the terms of depreciation as a function of market conditions and the conditions under which these securities will give right to shares in the company;

6 - Resolves that this delegation of power cancels any previous delegation of power relating to the immediate and/or future issuing of Company shares with pre-emptive right to subscribe.
The power granted in this way to the Board of Directors takes effect, starting from this meeting, for a period of 26 months.

Seventh resolution

Issuing, without the pre-emptive right to subscribe, of securities giving access to share capital

The General Meeting, having acknowledged the report of the Board of Directors and the special report of the Statutory Auditors and in accordance with the provisions of paragraph 3 of article 180 III of law N° 66-537 of July 24, 1996:

1- Delegates to the Board of Directors the powers necessary to issue, via public issue, on one or several occasions, in the proportions and at the times that it considers appropriate and anywhere in the world, convertible bonds, bonds with equity warrants for company shares as well as any securities of any type which allow access immediately and/or at some time in the future, to Company shares, and even if these securities are issued in accordance with article 339-3 of the aforementioned law of July 24, 1966. This delegation of power may be used during periods of public offer of purchase or exchange initiated in Company shares;

2 - Resolves to withdraw the pre-emptive right of shareholders to subscribe to any issue of securities, on the understanding that the Board of Directors may grant the shareholders the power to have priority subscription rights to all or part of the issue, during the period and in accordance with the terms that it sets. This priority subscription will not lead to the creation of negotiable rights, but may, if the Board of Directors considers it to be appropriate, be exercised both for new and available shares;

3 - Resolves that if the subscriptions received from shareholders and the general public have not taken up the entire issue of shares or of the securities as described above, then the Board may implement, wherever it deems fit, one or other of the following powers:
- limiting, if applicable, the issue to the total value of the subscriptions insofar as this value reaches not less than three quarters of the amount decided for the issue;
- freely allotting all or a part of the shares which have not been subscribed to;

4 - Notes that, where applicable, the aforementioned delegation of powers legally implies, for the benefit of the bearers of securities which allow access at some time in the future to Company shares likely to be issued, the renunciation of the shareholders of their pre-emptive right to subscribe to the shares to which the securities give access;
Resolves to cancel the shareholders' pre-emptive right to subscribe to the shares issued by the conversion of bonds or by the exercise of bonds;

5 - Resolves that the amount due, or which should be due, to the Company for each of the shares issued in the context of the aforementioned delegation of power, after taking into account (in the event of the issue of bonds independent of subscription to shares) the issue price of these bonds, will be more than the average of the opening prices of the company shares on the Paris Stock exchange for ten consecutive trading days selected from among the twenty trading days preceding the start of the issue of the securities mentioned above, after, if necessary, this average has been corrected to take into account the date on which interest starts to run.

6 - Resolves that the Board of Directors will have full powers, and power to subdelegate to its Chairman, under the conditions stipulated by the law, to implement this delegation of power, principally to determine the dates and terms of the issues in addition to the form and characteristics of the securities to be created, to set the prices and terms of the issues, to set the amounts to be issued, to set the day from which interest begins to run (even retrospectively) for the shares to be issued, to determine how the shares or other stock issued will be paid up and, if applicable, to envisage the terms of their purchase on the Paris Stock exchange, to have the power to suspend the exercise of the rights to allot the shares linked with the securities to be issued during a period which cannot exceed three months, to set the terms governing the maintenance of the rights of the holders of securities allowing access to company share capital at some time in the future, and in accordance with the legal and regulatory provisions. Moreover, the Board of Directors or its Chairman may make any deductions, where necessary, from the premium(s), and particularly to pay for the expenditure associated with the process of issuing, and generally do all that is necessary and conclude all agreement to satisfactorily

carry out the issuing envisaged and to record the capital increases resulting from any issue achieved through the exercise of this delegation of power and to modify the memorandum and articles of association accordingly;

In the event of the issue of debt securities, the Board of Directors will have full powers, and power to subdelegate to the Chairman (particularly in terms of deciding to what extent they are dependent on other factors), to set their rate of interest, their duration, the redemption prices (fixed or variable), with or without premium, the terms of depreciation as a function of market conditions and the conditions under which these securities will give right to shares in the company;

7 - Resolves that this delegation of power cancels any previous delegation of power relating to the immediate and/or future issuing of Company shares with no pre-emptive right to subscribe and the option to grant a fixed period during which the priority is valid.

The power granted in this way to the Board of Directors takes effect, starting from this meeting, for a period of 26 months.

Eight resolution

Overall limitation of authorizations

The General Meeting, having acknowledged the report by the Board of Directors, and as a consequence of the adoption of the sixth and seventh resolutions above, resolves to set at 10 million euros the maximum nominal amount for increases in company share capital, immediately and/or in the future, which could potentially be raised pursuant to the authorizations granted to the Board by the two aforementioned resolutions. In this respect, it is hereby specified that to this nominal amount will be added, if applicable, the nominal amount of the additional shares to be issued to preserve the rights of the holders of the securities which give access to company shares in accordance with the law.

Ninth resolution

New equity issue reserved for employees belonging to the group savings plan

The General Meeting, giving their approval within the framework of the provisions of article L 443.5 of the labor law and article 186.3 of the law of July 24, 1966 relating to companies, and having read the management report by the Board of Directors and having heard the Statutory Auditors’ special report, grant to the Board of Directors full powers to increase, on one or several occasions, at its own discretion, the company share capital by issuing ordinary shares which can only be subscribed to by members of the Group Investment Plan.
The General Meeting resolves that the nominal amount of new equity issues likely to be raised pursuant to this delegation of power cannot exceed a maximum nominal amount of 800,000 euros. The shareholders resolve to expressly renounce their right to pre-emptive subscription for the benefit of the members of the Group Investment Plan. Each new equity issue cannot exceed the total value of the shares subscribed to by the employees individually or via the Company Investment Fund.

The General Meeting gives full powers to the Board of Directors, with the power to subdelegate to its Chairman under the conditions stipulated by the law, in order to exercise, on one or several occasions, this delegation of power and particularly to determine whether or not the issues will be undertaken directly for the benefit of the aforementioned beneficiaries or via the trust for securities, to set the amounts to be issued, to determine the issue dates, the opening and closing dates for applications (subscriptions), to set the issue price of the new shares to be created within the limits of the legislative and regulatory texts in force, the date from which interests starts to run, the terms relating to how the shares will be paid up, on the understanding that the paying up period cannot be greater than three years, to record the realization of the increase in capital up to the amount of shares actually subscribed to, to request that the shares created are listed on the Paris Stock Exchange, wherever it recommends, to make any changes to the memoranda and articles of association made necessary by the exercise of this delegation of power.
In more general terms, the Board or the Chairman are granted powers to determine the conditions and terms of the transactions performed in the context of this resolution, to make any adjustments required in conformance with the legal and regulatory provisions and to take all necessary measures and conclude all agreements or conventions in order to arrive at a satisfactory outcome.
The period during which the Board of Directors can exercise, on one or more occasions, this authorization is set to three years starting from today.
The Board of Directors will also have full powers to charge, if it judges it to be appropriate, the expenses associated with the new equity issue against the value of the premiums accruing to these equity issues and to deduct from this amount the sums necessary to bring up the legal reserve to one tenth of the new capital after each increase. This authorization cancels and replaces that given by the Combined General Meeting of April 20, 1998, in its tenth resolution.

Tenth resolution

Allocation of share subscription options to employees

The General Meeting, having acknowledged the report of the Board of Directors and the special report of the Statutory Auditors authorizes the Board of Directors to grant, on one or several occasions, for the benefit of management and other employees of the Company, or certain of them only, and of those of affiliates, subject to the conditions set forth in article 208-4 of the law of July 24, 1996, options giving the right to a subscription of new shares in the Company in accordance with the provisions of articles 208-1 et seq of the law of July 24, 1966 mentioned above and of articles 174-8 et seq of the ruling of March 23, 1967 relating to commercial companies.

Any managers or other employees of the Company and of those of affiliates holding more than 10% of the Company's share capital are excluded from benefiting from these options.
The Board of Directors may, over a period of five years starting from this Meeting, on one or several occasions, exercise the authorization referred to above.
The cumulated total number of new issued shares which may be allocated in respect of the options to subscribe for shares is set at 435,000 share with a nominal value of 2 euros.

The subscription price of the share subject to the options shall be fixed by the Board of Directors, in accordance with the legal provisions in force at the time of the granting of options, being stipulated that the subscription price cannot be less than the average of the opening share price quoted on the Paris Stock Exchange during the 20 trading days leading up to the day on which the options are granted.
No option may be granted sooner than 20 Paris Stock Exchange trading days after the detachment of the coupon giving the right to a dividend or to an increase in capital.
This price shall not be modified unless the Company should complete a financial transaction during the period of the exercise of options; in such a case, an adjustment to the number and price of the shares shall be made in accordance with the legal provisions and regulations in force.

The Board of Directors will set the objectives to be achieved as a condition to the exercise of the options and will also set the period(s) during which the options can be exercised, although the period for which these options are valid cannot exceed 10 years beginning from their date of allocation.

The above-mentioned authorization includes, for the benefit of the holders of the options, express waiver by the shareholders of their pre-emptive right to subscribe for the shares which shall be issued as these options are exercised.
The General Meeting grants full powers to the Board of Directors, with power to subdelegate to the Chairman, to establish, if applicable, with effect from its first meeting following the end of the Company's financial year, the number and total value of new shares issued throughout the year as a result of the exercise of options and to make modifications to the by-laws of the Company rendered necessary by the exercise of these options.

Eleventh resolution

Declaration of breaking threshold limits

The General Meeting, having heard a reading of the Board of Director's report, resolves to include in the by-laws the obligation for parties to declare their holding should certain thresholds be exceeded. Consequently, the General Meeting resolves to add to the by-laws a new article, drafted as below:

"Article 11c "Declaration of breaking threshold limits": Any person, acting alone or jointly with others, who has come to hold, directly or indirectly through the intermediary of companies that this person controls, as defined in article 355-1 of the law of July 24, 1966, a percentage of the share capital or voting rights of 1% or more is required, within five days of acquiring the shares, and regardless of whether they have been delivered, which brought this person up to or over this limit, to declare to the Company, by registered letter with acknowledgement of receipt, the total number of shares and the number of voting rights that this person holds. This obligation applies whenever the percentage of share capital or voting rights held rises to 1% or more.

Unless they have been declared under the conditions stated above, the shares that bring the person over the limit and which should have been declared confer no voting rights at any meeting of shareholders which is held within a period of two years beginning on the notification date, should one or several shareholders holding at least 1% of the share capital or voting rights make this request to the Meeting.

In addition to the obligation to declare stated above, there is also an obligation to declare whenever the limits stipulated by the law are exceeded."

Twelfth resolution

All powers are granted to the bearer of a copy or excerpt of these minutes for the completion of all formalities.

Officer responsible for this financial report and auditors

Officer responsible for this financial report

M. Claude Cocozza
Chairman of the Board

Statement by the officer

To my knowledge, the facts in this annual report are true facts; they comprise all the information required by investors as a basis for judging the net worth, activity, financial position, results and future outlook of Carbone Lorraine; no information has been omitted that would alter the scope thereof.

Claude Cocozza

Auditors

Statutory Auditors

Deloitte Touche Tohmatsu
183, avenue Charles de Gaulle - 92200 Neuilly
Date of first term: 1986
Duration of six fiscal years with the term expiring at the Annual Meeting ruling on the financial statements for the fiscal year ending December 31, 2003.

Ernst & Young Audit
Tour Ernst & Young Audit
Faubourg de l'Arche
92037 Paris la Défense 6
Date of first term: 1998
Duration of six fiscal years with the term expiring at the Annual Meeting ruling on the financial statements for the fiscal year ending December 31, 2003.

Alternate Auditors

Michel Bousquet
6, avenue du Belvédère - 78100 Saint-Germain-en-Laye
Date of first term: 1992
Duration of six fiscal years with the term expiring at the Annual Meeting ruling on the financial statements for the fiscal year ending December 31, 2003.

Gabriel Galet
Ernst & Young Audit
Tour Ernst & Young Audit
Faubourg de l'Arche
92037 - Paris La Défense 6
Date of first term: 1998
Duration of six fiscal years with the term expiring at the Annual Meeting ruling on the financial statements for the fiscal year ending December 31, 2003.

Statement by the Carbone Lorraine's statutory auditors

We have conducted an audit of the accounting and financial statements in this document with the due diligence we deemed necessary in accordance with the standards of our profession Deloitte Touche Tohmatsu and Befec - Price Waterhouse audited the 1997 annual and consolidated financial statements and Deloitte Touche Tohmatsu and Ernst & Young Audit audited the 1998 and 1999 statements.
We have no observation to make on the accuracy of the financial and accounting information presented herein.

The Statutory Auditors

Deloitte Touche Tohmatsu	Ernst & Young Audit
J.L. Poumarède	J. Coroller

Information manager

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