Carbone Lorraine
2003 Half-Year Report

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> Message from the Chairman

Dear Shareholders,

2003 is turning out to be a lynchpin year, with production in most of our divisions undergoing reorganisation. This will start to yield appreciable benefits in 2004, assuming comparable market conditions. The plethora of ongoing projects coupled with sluggish market conditions cut into the first-half results. Consequently, these fail to reflect the enormous efforts that the entire Carbone Lorraine staff has dedicated to achieving structural growth in profitability and cash generation.

We are in the process of instilling a real 'cash culture' within the Group. We are accomplishing this by using special cash forecasting management tools and by instituting strong financial incentives for managers involved in this process as from this year. We are also undertaking an ambitious property disposal programme to enable us to finance our restructurings without adding to our debt. We have extended the maturity of our debt through a private placement to US financial institutions. This gives us additional leeway to finance our growth.

In the production area, our ongoing cost-cutting plan is on track, in terms of both schedule and savings targets. Manufacturing of certain products is being transferred to more efficient sites in Europe and the United States. Other productions, which cannot be automated, are being relocated to low-labour cost countries. This rationalisation is followed by an adjustment of the host facilities' production flows and a lowering of operating expenses. The steps taken allow a cut of our costs while building an efficient manufacturing base on the long term.

The Group is concurrently pursuing its strategy of technological innovation. For example, in electronics, we are positioned in fast-growing segments such as coolers for power semi-conductors and graphites used to make light-emitting diodes, with highly encouraging initial results. In rail traction, Carbone Lorraine staged a world first by perfecting wireless current pick-ups, which hold great promise for the future. These developments, accomplished while working hand in hand with our customers, serve as a source of sustainable growth for our company and provide us with a technological advance vis-à-vis our competitors.

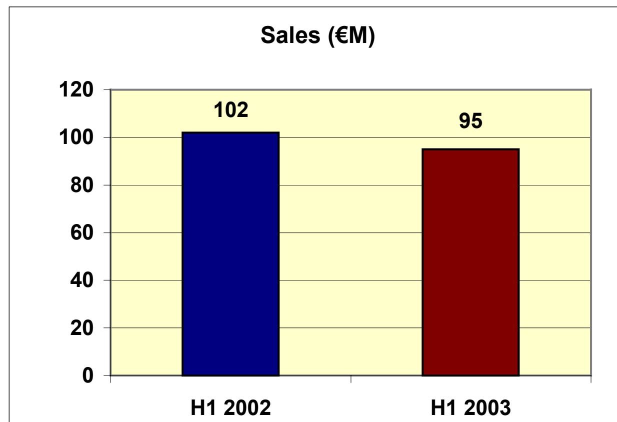
The array of production-enhancement programmes now underway at many Carbone Lorraine facilities should enable us to take advantage of the economic recovery under optimum conditions. The Group's management is making every effort to ensure that Carbone Lorraine moves forward, and our staff is working relentlessly towards this goal. As a result, I expect our profits to rise significantly as from 2004, assuming comparable market conditions. This rise will be further magnified when the economic recovery arrives.

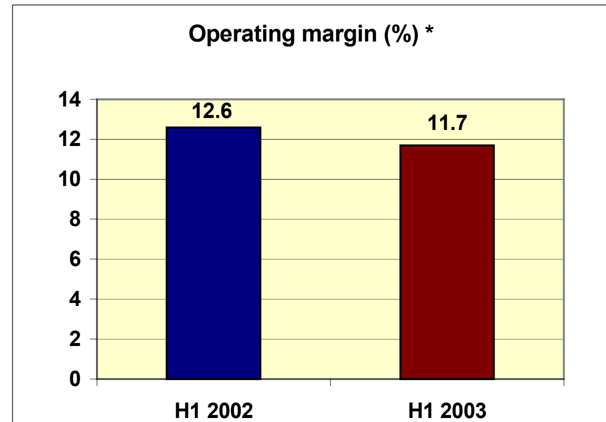
Claude Cocozza

Chairman and CEO

> Business Review

Electrical Applications





* Excluding corporate overheads

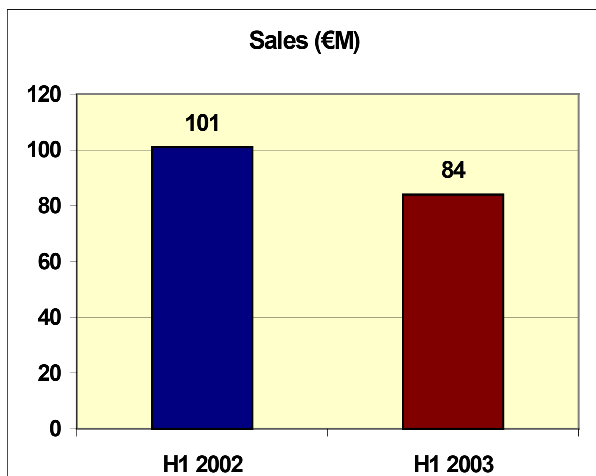
In Electrical Applications, sales were down 4% on a like-for-like basis.

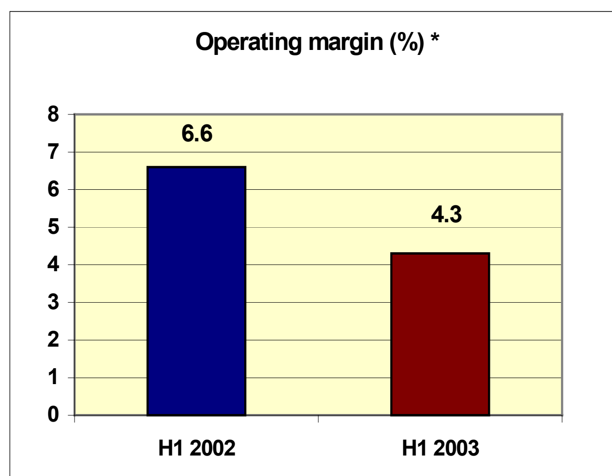
Sales of brushes and brush-holders for industrial motors and traction systems were adversely affected by the sharp downturn in industrial activity in Europe and due to an inventory adjustment by an aerospace industry customer. Conversely, sales picked up in North America and registered robust growth in Brazil and South Africa.

Sales of brushes for small electric motors tracked the downtrend in automotive production in Europe and North America. However, sales of brush assemblies for auxiliary motors used in automobiles rose sharply in North America, driven by the products we have developed for the new Valeo windshield-wiper system, which is in a strong growth phase.

To improve our resilience to the contraction in business while optimising our manufacturing organisation, we consolidated European production of brushes for automobiles and home appliances at the Amiens factory in France. Likewise, in North America, we entered into a joint venture with Kirkwood to pool our automobile brush businesses. During the second half of 2003, the transfer of Kirkwood's plant and business operations to our US site in Farmville, Virginia will boost production volume by approximately 50%. This will generate substantial productivity gains as from early 2004.

Electrical Protection



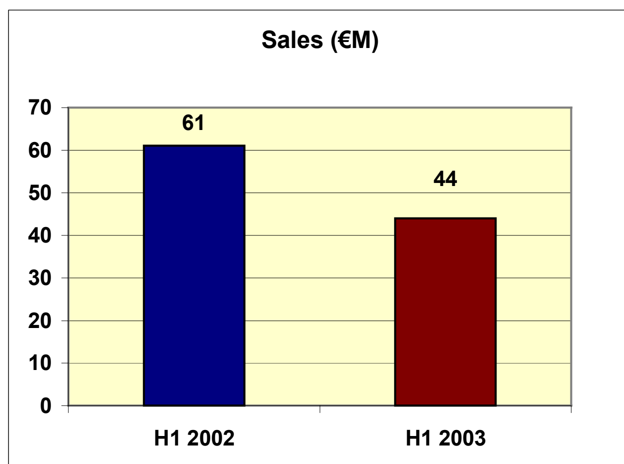


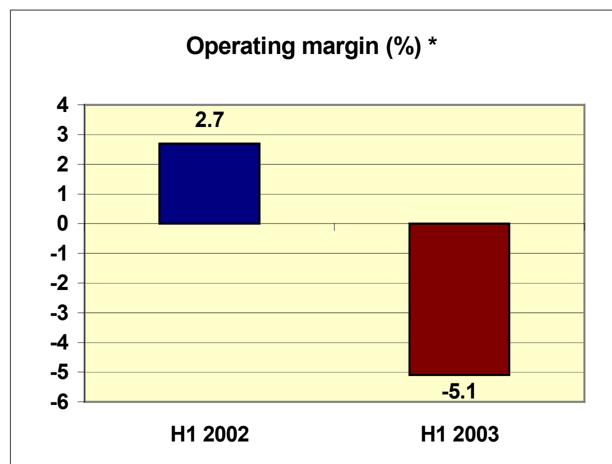
* Excluding corporate overheads

Electrical Protection sales receded by 6% on a like-for-like basis due to the plunge in world capital expenditure on electrical equipment. Business in Europe, particularly Germany, contracted sharply because of the economic downturn. The decline was not as pronounced in North America, where sales to distributors have risen slightly over the past several months and business with manufacturers has stabilised at a low level. The Asia region registered strong growth driven by sales of semi-conductor protection fuses and high-power switches in Japan and China.

The operating margin was adversely affected by lower volumes. The benefits from the major ongoing productivity-enhancement efforts have not yet flowed through. During the second half, we will discontinue production at two German factories and relocate these activities to France and Tunisia by the end of 2003. Part of this German production will be transferred to Saint-Bonnet-de-Mûre facility in France, where the operations of the factory in La Verpillière (France) were relocated last year and which is being reorganised. Optimising production flows at Saint-Bonnet-de-Mûre will appreciably improve the unit's productivity and lower its fixed costs. These measures are expected to start producing a positive impact on the operating margin in early 2004, assuming market conditions are comparable to this year's. This effect will be further magnified when sales volumes begin to pick up.

Magnets





* Excluding corporate overheads

As we expected, Magnet sales contracted by 21% on a like-for-like basis. This decline was due to phasing out of certain models manufactured by our largest customer in North America coupled with substantial price concessions made at the end of 2002.

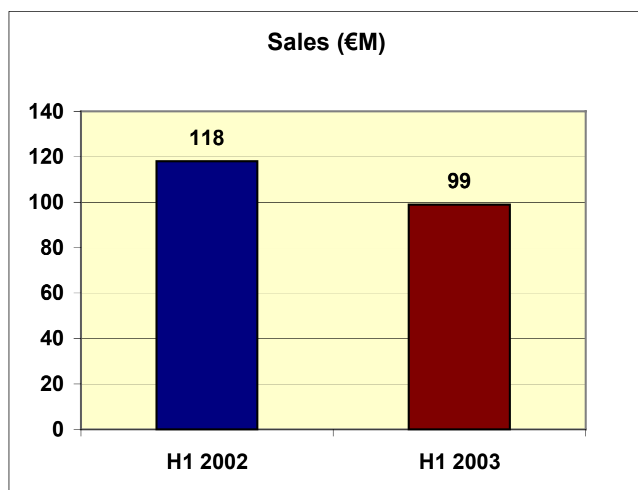
As a result, Magnet sales in North America were down 50%. Substantial cost-cutting measures were adopted in North America in 2002 and early 2003 to offset the impact from lower sales. These were supplemented by stepped-up marketing efforts, which resulted in acceptance of new products and broader diversification of our customer base.

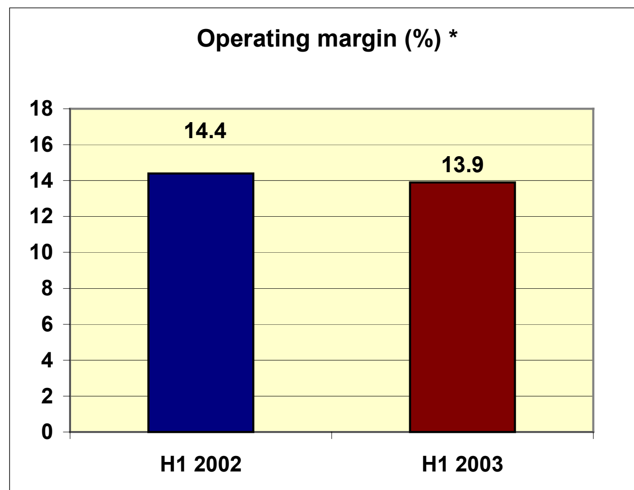
In Europe, the fall in sales was due to price declines. Flux packages (magnets + motor case assemblies) that we developed for the European market registered robust growth.

In Korea and Brazil, Magnet business was up sharply. In Brazil, sales were buoyed by growth in exports of electric motors by certain component manufacturers, driven by the favourable exchange rate for the Brazilian currency.

The operating margin in Magnets was negative 5% due to the volume and price declines mentioned above. However, the situation differs by production unit. Our North American facility is operating at breakeven despite a low level of sales. For the Korean and Brazilian factories, operating margins are high. Only the French sites are working on negative operating margins. To improve their productivity, we are planning to discontinue non-automated production in France and to relocate it to other sites by the end of 2003. These restructurings should enable the division to restore its operating margin to positive territory.

Advanced Materials and Technologies





* Excluding corporate overheads

Advanced Materials and Technologies sales were down 8% on a like-for-like basis.

Sales of anti-corrosion equipment registered a sharp decline in Europe and North America due to the plunge in capital expenditure by the chemicals and pharmaceuticals industries. Conversely, sales advanced in Asia. In China, we signed a US$7.5 million contract for the delivery of noble-metal anti-corrosion equipment by the end of 2003. We also launched new anti-corrosion equipment containing 6-metre long graphite tubes. These new products offer a unique solution to our customers by lowering their risks and maintenance costs.

In high-temperature graphite applications, the downturn in the major markets was in large part offset by the products we have developed for production of new semi-conductors, in particular light-emitting diodes.

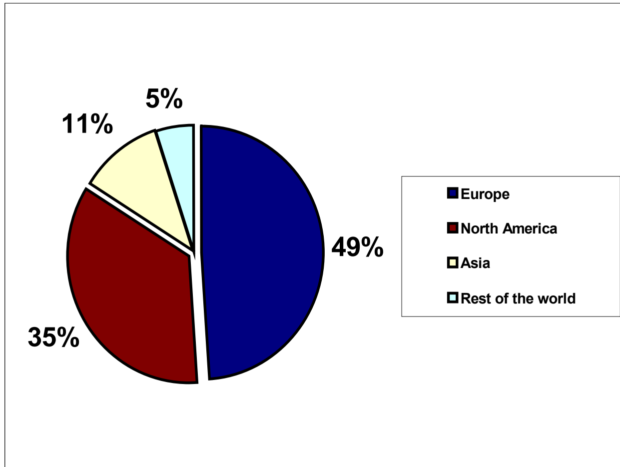
Sales of high-energy brake systems for rail and motorcycle applications continued to rise. Sales of pads for the Korean high-speed train were particularly robust during the first half.

The operating margin remained high despite a substantial volume decline. We continued our productivity-enhancement efforts with the inauguration last May of an ultra-modern facility in California combining the three North American production sites for noble-metal anti-corrosion equipment of.

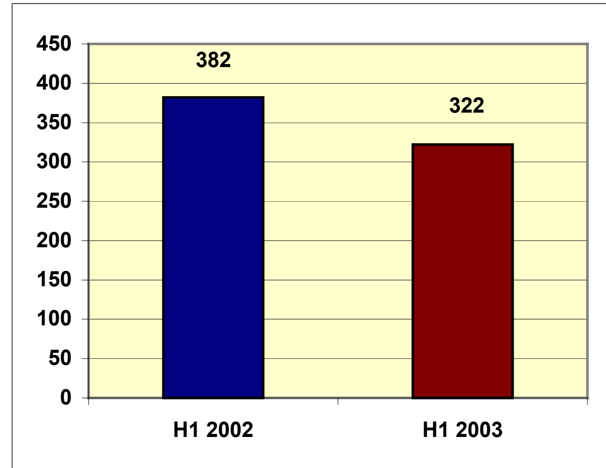
Note: all changes in sales figures for each activity are on a like-for-like basis.

> Earnings and Outlook

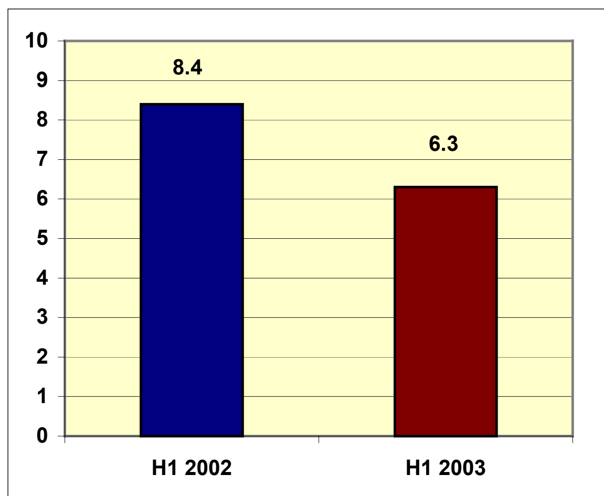
Breakdown of H1 net sales by geographical zone of destination



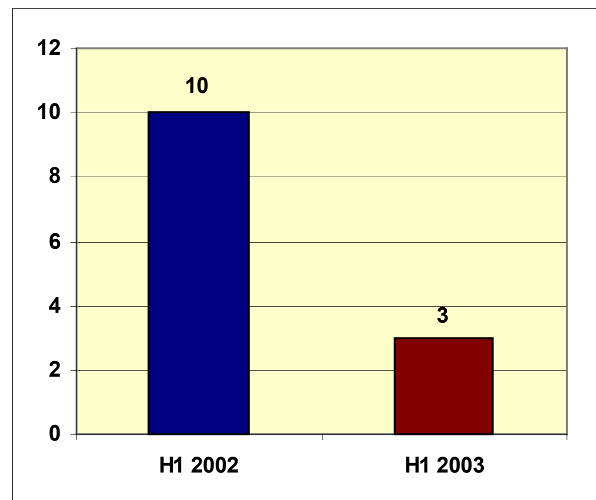
Consolidated sales (€M)



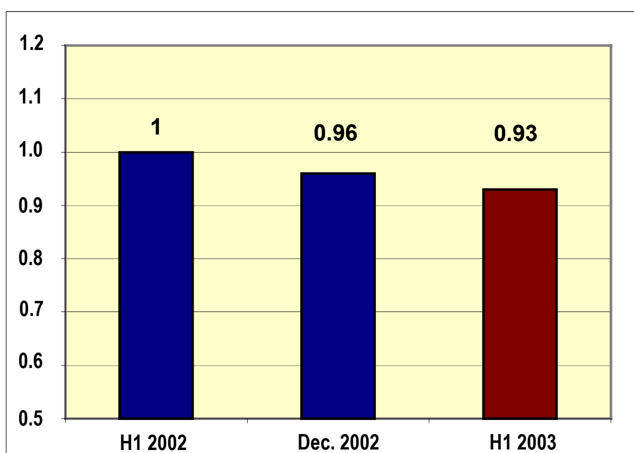
Operating margin (%)



Net income (Group share) (€M)



Gearing



Carbone Lorraine posted consolidated sales of €322 million during the first half of 2003, down 8% year-over-year on a like-for-like basis. Including the currency impact, sales declined by 16%. Most of this fall is attributable to the Magnets division, which benefited from a special situation in North America last year and made large price concessions at the end of 2002. To a lesser extent, it is also due to anti-corrosion equipment, where business receded owing to a lack of new capital expenditure by the pharmaceutical and chemical industries.

The drop in sales cut into the Group's operating margin, which narrowed to 6.3% of sales from 8.4% in the same year-ago period. Most of this change is attributable to Magnets (for the reasons mentioned above) and to Electrical Protection. In addition to a fall-off in business, the latter division's margin was affected by the ongoing, extensive cost-cutting measures. In Electrical Applications and Advanced Materials and Technologies, margins remained commendable despite a contraction in business.

Net financial expense fell by €2 million due to the combined effect of lower debt and the decline in interest rates.

As a result, net income (Group share) before non-recurring items and goodwill came to €11.4 million, or 4% of sales.

Non-recurring items (after tax) totalled €5.7 million. Most of these consisted of restructuring charges incurred in connection with the savings plan, particularly resulting from the closure of the two Electrical Protection sites in Germany.

Taking into account these non-recurring items and goodwill amortization, the Group's net income came to €3 million compared with €10 million in the year-earlier period.

The Group trimmed its net debt significantly – by €18 million – during the first six months. This reduction was achieved despite dividend payments totalling €7 million. It is attributable to our cash generation, to the property disposal programme that we initiated with the sale of an industrial building in Spain, and to the currency impact on our debt.

Net debt stood at €218 million at end-June 2003 and gearing was 0.93 against 1.0 a year earlier and 0.96 at 31 December 2002. Moreover, we refinanced the short-term component of our debt through a long-term private placement with US investors. This financing has an ultimate maturity of 12 years and an average lifespan of 8 years.

Outlook

The prevailing economic climate is one of persistent recession in Europe and stabilisation in North America, where we are starting to see some signs of improvement. Against this backdrop, we are concentrating on implementing our savings plan, which is on target, and on our efforts to generate cash.

The positive impact of these measures will start to flow through in 2004, even if economic activity remains at its 2003 level. This will lead to an improvement in our earnings, which will be further magnified by the economic recovery, once it arrives.

> Condensed Consolidated Financial Statements

Consolidated Balance Sheet

ASSETS In millions of euros	30/06/2003	31/12/2002	30/06/2002
FIXED ASSETS			
Intangible fixed assets			
– Goodwill	180.4	193.2	204.0
– Other intangible assets	15.7	15.6	16.9
Property, plant and equipment			
– Land	10.6	11.8	13.1
– Buildings	41.7	44.7	47.8
– Plant, equipment and other	87.5	94.9	100.2
– Fixed assets in progress	18.0	15.5	14.9
Financial assets			
– Long-term investment securities	11.9	13.6	13.1
– Other financial assets	11.8	17.3	17.2
TOTAL FIXED ASSETS	**377.6**	**406.6**	**427.2**
CURRENT ASSETS			
– Inventories	122.8	126.4	143.6
– Trade accounts and related receivables	138.2	142.5	162.2
– Other receivables	44.5	39.9	41.0
– Short-term advances	2.5	0.3	1.4
– Marketable securities	4.9	4.1	5.8
– Cash and equivalents	16.5	25.6	19.1
TOTAL CURRENT ASSETS	**329.4**	**338.8**	**373.1**
TOTAL ASSETS	**707.0**	**745.4**	**800.3**

LIABILITIES AND SHAREHOLDERS' EQUITY In millions of euros	30/06/2003	31/12/2002	30/06/2002
SHAREHOLDERS' EQUITY			
– Share capital	22.3	22.3	22.3
– Additional paid-in capital, reserves and retained earnings	223.0	239.9	240.3
– Net income for the period (Group share)	3.0	(10.8)	10.3
– Cumulative translation adjustment (Group share)	(20.8)	(9.5)	(2.1)
TOTAL SHAREHOLDERS' EQUITY	**227.5**	**241.9**	**270.8**
– Minority interests	7.7	4.4	3.3
SHAREHOLDERS' EQUITY AND MINORITY INTERESTS	**235.3**	**246.3**	**274.1**
– Long-term provisions	36.2	35.5	37.1
LIABILITIES			
– Long-term debt	201.7	201.1	139.4
– Trade accounts and related payables	59.2	62.5	69.5
– Other payables	66.9	57.2	72.2
– Current portion of long-term provisions	42.8	47.2	18.0
– Other liabilities	24.4	30.4	28.4
– Current portion of long-term debt	4.2	27.7	114.8
– Short-term loans	3.0	2.3	0.9
– Bank overdrafts	33.4	35.2	45.9
TOTAL LIABILITIES AND PROVISIONS	**471.8**	**499.1**	**526.2**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**707.0**	**745.4**	**800.3**

Consolidated Income Statement – Groupe Carbone Lorraine

In millions of euros	30/06/2003	31/12/2002	30/06/2002
Sales, net	321.8	720.9	382.1
Cost of sales	(222.9)	(499.6)	(264.2)
Gross profit	**98.9**	**221.3**	**117.9**
Selling and marketing expense	(30.6)	(63.1)	(32.6)
Administrative and research expense	(30.0)	(61.9)	(32.9)
Other operating expense	(2.1)	(3.2)	(2.2)
Operating profit before depreciation and amortization	**36.2**	**93.1**	**50.2**
Depreciation and amortization	(15.9)	(33.5)	(18.2)
Operating profit	**20.3**	**59.6**	**32.0**
Net financial expense	(5.1)	(14.1)	(6.8)
Income before tax and non-recurring items	**15.2**	**45.5**	**25.2**
Income tax	(3.4)	(12.8)	(7.4)
Minority interests	(0.4)	(0.5)	(0.3)
Net income before non-recurring items, Group share	**11.4**	**32.2**	**17.5**
Non-recurring items (after tax)	(5.7)	(36.9)	(4.0)
Net income before goodwill amortization	**5.7**	**(4.7)**	**13.5**
Goodwill amortization	(2.7)	(6.1)	(3.2)
Net income, Group share	**3.0**	**(10.8)**	**10.3**

Consolidated Statement of Cash Flows

In millions of euros	30/06/2003	31/12/2002	30/06/2002
CASH FLOW FROM OPERATIONS	**24.9**	**67.2**	**38.9**
Changes in working capital	2.1	19.1	(0.8)
Other changes	(6.4)	(5.7)	(3.2)
(A) Net cash flow generated by operating activities	**20.6**	**80.6**	**34.9**
INVESTING ACTIVITIES			
Increase in intangible fixed assets	(2.2)	(2.6)	(1.3)
Increase in property, plant and equipment	(13.1)	(23.2)	(11.2)
Increase in financial assets	0.1	(0.2)	(0.8)
Disposals of fixed assets	0.7	1.6	1.0
(B) Net cash used in investing activities	**(14.5)**	**(24.4)**	**(12.3)**
(C) Net cash flow generated by operating and investing activities	**6.1**	**56.2**	**22.6**
Net investments related to the impact of changes in consolidation	(4.6)	(2.8)	(2.9)
Non-recurring asset disposals	9.5	3.5	2.3
(D) Net cash flow	**11.0**	**56.9**	**22.0**
Proceeds of capital increase	0.0	0.2	0.2
Net dividends paid to shareholders and minority interests	(7.0)	(14.1)	(9.5)
Non-operating cash flows	(0.1)	(0.4)	(0.4)
(E) Net decrease in debt	**3.9**	**42.6**	**12.3**

> Summary of the Notes to the Condensed Consolidated Financial Statements

Note 1 • Accounting Policies and Principles of Consolidation

The consolidated financial statements of Groupe Carbone Lorraine have been prepared in accordance with the accounting regulations as set forth in CRC rule 99-02 pertaining to the consolidated financial statements of commercial and public companies.

The half-year financial statements have been prepared in accordance with the same principles applied in preparing the full-year consolidated financial statements and have thus been prepared in line with CRC rule 99-01 of 18 March 1999.

A – Scope of consolidation

The consolidated financial statements of the Group include Le Carbone Lorraine and all significant subsidiaries over which the Group exercises significant management influence, directly or indirectly.

All companies within the scope of consolidation are fully consolidated.

B – Foreign currency translation

The financial statements of foreign subsidiaries are translated into euros using the following methods:

- balance sheet items are translated at the exchange rates in effect as of 30 June 2003;
- income statement items are translated at the average rate for the first six months of the year;
- translation adjustments (the Group's share of which is booked under shareholders' equity) include the following:
  - the effect of changes in foreign exchange rates on balance sheet items;
  - the difference between net income calculated at the average exchange rates for the first six months and net income calculated at the rates in effect as of 30 June 2003.

C – Foreign-currency assets and liabilities

Transactions denominated in currencies other than the functional currency are recorded at the exchange rate in effect as of the transaction date. Assets and liabilities denominated in these other currencies are translated at the exchange rate ruling on the balance sheet date. Any gains and losses arising from currency translation are taken to the income statement for the period.

D – Intangible fixed assets

a) Goodwill

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

b) Start-up costs

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

c) Patents and licences

Patents and licenses are amortized over the period during which they are protected by law. Software is amortized over its estimated service life, which may not exceed 5 years.

E – Property, plant and equipment

Property, plant and equipment is stated at purchase or production cost. Property, plant and equipment is depreciated on a straight-line basis over the estimated service life of the asset. The following depreciation periods have been applied:

- Buildings 20 to 50 years
- Fixtures and fittings 10 to 15 years
- Plant and machinery 3 to 10 years
- Vehicles 3 to 5 years

Property, plant and equipment financed by long-term leases with a value of over €1 million is booked under assets and amortized in line with the Group's accounting principles for property, plant and equipment.

The financial commitments resulting from these leases are accounted for under long-term debt.

F – Financial assets

Long-term investments in unconsolidated subsidiaries are carried at cost. In the event of a lasting decline in value, an allowance for impairment in value is recorded if book value exceeds fair value, which is determined by reference to the share of net assets held and the investee's medium-term development prospects.

There are 27 unconsolidated subsidiaries. Their primary business is to distribute goods produced by the consolidated companies, and including them in the scope of consolidation would not have a material impact on Group sales.

G – Inventories

Inventories are stated at the lower of cost, as determined by the weighted average cost method, and market price.

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

Allowances for impairment in value are set aside for slow-moving inventories where appropriate.

H – Consolidated sales

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

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

I – Research costs

Research costs are expensed as incurred.

J – Pension plans and retirements indemnities

Group commitments under defined benefit pension plans and retirement indemnities are determined on an actuarial basis using the projected benefit obligation method, which takes into account the economic conditions prevailing in each country. These commitments are funded by pension plans or provisions recorded on the balance sheet as rights are vested by employees.

With respect to the French companies:

- pensions and retirement indemnities are paid by the appropriate agencies, which are funded by employer contributions as a proportion of total payroll costs. These employer contributions are accounted for in the individual financial statements of the relevant companies. In certain cases, companies may offer additional retirement benefits that 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 provisions was paid in 1998 to a guarantee fund managed by a specialized organization;
- all these commitments were calculated on the basis of an actuarial study conducted in 2000. The primary assumptions used were an interest rate of 6% and a general rate of increase in salaries of 2%.

K – Operating income

Operating income is shown before net financial expense, taxes and non-recurring items. The operating income for each business segment does not include any corporate overheads. These are deducted from the Group's operating income.

Corporate overheads correspond to the Group's expenditure on central corporate functions, which cannot be allocated directly to activities.

L – Deferred taxes

Accounting restatements or consolidation adjustments (depreciation, amortization, provisions, tax deductions) may affect the figures appearing on the balance sheets of the consolidated companies. Timing differences between taxable income and restated accounting income give rise to the calculation of deferred taxes under the liability 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.

M – Non-recurring items

Non-recurring items represent expenses and income incurred outside the scope of the Group's ordinary activities. They are characterized in general by their unusual and one-off nature.

Note 2 • Shareholders' Equity (Group Share)

In millions of euros	Number of shares	Share capital	Additional paid-in capital, reserves	Net income	Cumulative translation adjustment	Total
Shareholders' equity at 31 December 2001	**11,128,462**	**22.3**	**261.4**	**(8.1)**	**15.9**	**291.5**
Prior period's net income			(8.1)	8.1		0.0
Dividends paid			(13.1)			(13.1)
Capital increase	10,688	0.0	0.2			0.2
Net income (Group share)				10.3		10.3
Translation adjustments and other			(0.1)		(18.0)	(18.1)
Shareholders' equity at 30 June 2002	**11,139,150**	**22.3**	**240.3**	**10.3**	**(2.1)**	**270.8**
Prior period's net income						0.0
Dividends paid						0.0
Capital increase			0.0			0.0
Net income (Group share)				(21.1)		(21.1)
Translation adjustment and other			(0.4)		(7.4)	(7.8)
Shareholders' equity at 31 December 2002	**11,139,150**	**22.3**	**239.9**	**(10.8)**	**(9.5)**	**241.9**
Prior period's net income			(10.8)	10.8		0.0
Dividends paid			(8.6)			(8.6)
Capital increase		0.0	0.0			0.0
Net income (Group share)				3.0		3.0
Translation adjustment and other			2.6		(11.3)	(8.8)
Shareholders' equity at 30 June 2003	**11,139,150**	**22.3**	**223.1**	**3.0**	**(20.8)**	**227.5**

Note 3 • Fixed Assets

In millions of euros	06/2003	12/2002	06/2002
Goodwill, net	180.4	193.2	204.0
Other intangible assets	15.7	15.6	16.9
Intangible assets	**196.1**	**208.8**	**220.9**
Property, plant and equipment	**157.8**	**166.9**	**176.0**
Financial assets	**23.7**	**30.9**	**30.3**
Total fixed assets	**377.6**	**406.6**	**427.2**

Total net fixed assets decreased by €29.0 million during the first six months of the year owing mainly to the following factors:

- a reduction of €12.8 million in goodwill, €11.8 million of which was attributable to currency fluctuations;
- a decrease of €9.1 million in property, plant and equipment, €6 million of which was attributable to currency fluctuations;
- a fall of €7.2 million in financial assets, including €1.7 million of provisions for shares held in non-consolidated companies and €4.9million due to accounting reclassifications.

Note 4 • Long- and Short-Term Provisions

In millions of euros	06/2003 LT	06/2003 ST	12/2002 LT	12/2002 ST	06/2002 LT	06/2002 ST
Provision for deferred income tax	8.5	1.1	7.8	2.2	9.2	2.4
Provisions for pensions and retirement indemnities	26.7	1.9	26.4	2.1	25.2	2.2
Other provisions for liabilities	0.9	39.7	1.3	42.9	2.5	13.4
Investment grants	0.1	0.0	0.1	0.0	0.2	0.0
Total	**36.2**	**42.7**	**35.6**	**47.2**	**37.1**	**18.0**

Provisions for pensions and retirement indemnities relate primarily to unfunded benefits concerning French and German companies.

Other provisions for liabilities mainly include restructuring costs for various industrial facilities (€10million) and provisions for litigation, which were the same as at the end of 2002 (€25.9 million).

In the normal course of its business activities, the Group is involved in tax, regulatory and administrative proceedings in several countries where it operates. The outcome of these proceedings is uncertain. Based on the information available, the provisions already set aside cover all known and assessable risks as of the closing date.

Note 5 • Net Debt

The Group's consolidated net debt decreased by €17.7 million during the first half of 2003, in spite of dividend payments totalling €7 million. Currency fluctuations led to a €13.8 million reduction in debt.

In millions of euros	06/2003	12/2002	06/2002
Long and medium-term debt	201.7	201.1	139.4
Current portion of long-term debt (excluding accrued interest)	0.1	24.7	106.4
Short-term loans	7.2	5.2	9.3
Bank overdrafts	33.4	35.2	45.9
Total gross debt	**242.4**	**266.2**	**301.0**
Marketable securities	(4.9)	(4.1)	(5.8)
Short-term advances	(2.5)	(0.3)	(1.4)
Cash and equivalents	(16.5)	(25.6)	(19.1)
Total net debt	**218.5**	**236.2**	**274.7**

Note 6 • Non-Recurring Items after Tax

In millions of euros	06/2003	12/2002	06/2002
Allowance for impairment in the value of investment securities	(1.5)	(0.4)	(0.5)
Retirement indemnities	(0.4)	(1.0)	(0.4)
Provision for litigation	0.0	(28.6)	0.0
Net capital gains on sales of fixed assets	5.1	2.5	2.1
Other non-recurring income and expense	(8.9)	(9.4)	(5.2)
Total non-recurring items	**(5.7)**	**(36.9)**	**(4.0)**

- As of December 2002, net capital gains derived mainly from the sale of the Italian subsidiary's head office in Milan (€2.0 million).

  Provisions for litigation include an estimate of all the financial penalties that may arise from ongoing proceedings regarding anti-trust practices potentially affecting some of the Group's activities.

  The other non-recurring income and expense comprises primarily restructuring costs of €11.8 million, the repayment of €4 million in receivables from Valeo that were written off at the end of 2001, and the negative impact of the impairment losses on treasury shares and on share purchase options (€1.6 million).
- As of June 2003, other non-recurring income and expense mainly include the €7.3 million cost of industrial restructuring and discontinued businesses; capital gains mainly include the €4.9 million gain on the sale of property assets of Ferraz Shawmut's Spanish subsidiary.

Note 7 • Segmental Reporting

Breakdown of Sales by Division

As a % of total sales	06/2003	12/2002	06/2002
Electrical Applications	29.5	26.6	26.7
Electrical Protection	26.2	26.8	26.6
Permanent Magnets	13.5	14.7	16.0
Advanced Materials and Technologies	30.7	31.9	30.7

Breakdown of Operating Margin (operating income/sales) by Division (1)

As a %	06/2003	12/2002	06/2002
Electrical Applications	11.7	11.7	12.6
Electrical Protection	4.3	6.0	6.6
Permanent Magnets	(5.1)	2.9	2.7
Advanced Materials and Technologies	13.9	15.2	14.4

(1) The operating income of the divisions is calculated excluding corporate overheads. Corporate overheads accounted for 1.6% of sales to end-June 2002, 1.7% of sales to end-December 2002 and 1.8% of sales to end-June 2003.

> Statutory Auditors' Review Report on the Half-Year Consolidated Condensed Financial Statements

Period from 1 January to 30 June 2003

Pursuant to article L. 232-7 of the French Companies Act (Code de commerce), we have reviewed the accompanying half-year consolidated condensed financial statements of Le Carbone Lorraine, covering the period from 1 January to 30 June 2003 and verified the information contained in the half-year management report.

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

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

Based on our review, nothing has come to our attention that causes us to believe that the half-year consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in France, do not give a true and fair view of the financial position and the assets and liabilities of the Group as at 30 June 2003 and of the results of its operations for the six month period then ended.

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

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

Paris and Neuilly, 10 September 2003

The Statutory Auditors

Ernst & Young Audit

Gilles Rabier

Deloitte Touche Tohmatsu

Jean-Luc Poumarede - Alain Penanguer

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