Carbone Lorraine

2009 Financial report

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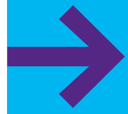
Chapters 2 to 9 include all the disclosures constituting the report of the Management Board pursuant to Article L.225-102 of the French Commercial Code, as well as the report of the Chairman of the Supervisory Board in accordance with Article L.225-68 of the French Commercial Code.

Detailed summaries are provided at the beginning of each chapter.



General overview of the Group

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Message from the Chairman of the Management Board

Two thousand and nine was marked by very challenging economic conditions. The economic and financial crisis struck with unprecedented force and the ensuing industrial slowdown took a toll on our business, especially in its traditional markets.

The Group still held up very well thanks in particular to its diversification over the past two years into alternative energies. Even though our earnings declined, we managed to keep our EBITDA margin up at 14% and our operating margin before non-recurring items at close to 9%. As a result, we demonstrated the resilience of our business model in these turbulent times.

Our teams responded extremely rapidly, taking action as soon as the crisis began. They reduced fixed costs beyond the initial objectives, cut the working capital requirement and adopted a selective and controlled approach to investments. The Group's men and women again demonstrated their ability to adapt and proved that human capital is one of Carbone Lorraine's critical strengths.

At the same time, we did not give up on our ambitious expansion strategy. We continued to reposition our businesses by selling the Automobile and household electrical appliance brush division and by developing our operations in expanding new markets, whilst rising to the challenges posed by sustainable development, notably in alternative, solar, wind and, more recently, nuclear energy. As a result, sales to the solar industry recorded very strong growth in 2009 and the medium-term outlook remains very promising indeed. Our renewable energies sales came to €81 million in 2009.

The shift in our geographical focus towards Asia, which accounted for 22% of our sales in 2009, continued with extensions to existing and the building of new manufacturing facilities in South Korea, China and India. Sales held up well during 2009 in the region, owing notably to the mid-2008 acquisition of Chinese company Xianda, which helped Carbone Lorraine to step up its expansion in the Asian anticorrosion equipment markets.

We continued to pursue our policy of selective acquisitions by purchasing Lumpp, which consolidated the Group's leadership in the phosphoric acid markets, and 2C Cellier, a specialist in the design and manufacture of the equipment used in nuclear power plants. We also made the acquisition of the remainder of the capital of Calcarb, number two worldwide in carbon bonded carbon fibers used notably in the solar sector.

We are continuing to shape the Group's new profile, with over half its business set to benefit in the future from its momentum in areas related to the quest for improved energy efficiency.

The implementation of these growth initiatives in a turbulent environment would not have been possible without the support of our shareholders, who again demonstrated their confidence by supporting our recent capital increase in very large numbers indeed. I would like to express my sincere gratitude to them.

2009 posed a large number of challenges, which the Group met with a great deal of passion and commitment. I firmly believe that our momentum will be a source of expansion in 2010 and in future years.

Ernest Totino

Message from the Chairman of the Supervisory Board

2009 was the toughest year that the global economy has experienced since the Second World War. It began amid very strong uncertainty concerning the very stability of our financial system, and continued against the backdrop of a steep recession, with a significant contraction in all the developed economies.

Our Group, which is active in a large range of sectors of industry, was not left unscathed by this extremely tough environment. Even so, it demonstrated an extremely high level of resilience owing to two factors:

- the efforts made over the past few years to step up our expansion into markets with a bright long-term future, be they new applications such as photovoltaic energy or emerging markets such as China;
- a vigorous action plan that was implemented rapidly by our management team to adjust our costs and to optimize cash management.

I wish to emphasize the very good results achieved by management in this environment: Our gross operating margin held up above 14%, contracting by barely more than two points compared with the previous year, even though sales fell by 16%. I wish to thank the Group's employees for their endeavors.

I would also like to thank our shareholders for their loyalty and backing: We called on them to support the capital increase in the autumn, and they responded extremely positively. The funds raised enabled us to pursue our developments in expanding niche markets and left us in a stronger position going forward.

As announced, the *Fonds Stratégique d'Investissement* fund has now acquired a presence in our share capital. We are very fortunate to have an extremely well-balanced ownership structure, with three major shareholders represented on the Board (AXA Private Equity, FSI and Sofina), plus numerous French and international institutional investors and around 30,000 individual shareholders. This represents a major strength for the future.

Lastly, I wish to briefly mention our corporate governance: Our shareholders decided in May to opt for a dual governance structure with a Supervisory Board and Management Board. I firmly believe that this new system, which clarifies the roles and responsibilities of all concerned, has worked very well. The Supervisory Board and Management Board worked together in a spirit of dialog and mutual trust and were able to make decisions in the best interests of the Group in an efficient manner.

Hervé Couffin

Group Profile

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

The **Advanced Materials and Technologies** segment delivers solutions based on high-performance materials geared to highly demanding industrial environments, such as high-temperature applications and anticorrosion equipment.

The **Electrical Components and Technologies** segment markets components and innovative solutions underpinning the performance and safety of electrical installations, including brushes and brushholders for power supplies, slip-ring assemblies and signal transmission systems for wind turbines, industrial fuses, coolers for power semiconductors, current collectors for urban mass transit systems, etc.

Underpinned by solid positions in its traditional markets, the Group has recently moved to establish new positions in **highly buoyant markets**, such as **energy**, **electronics** and **fine chemicals/pharmaceuticals**, the Carbone Lorraine group is rapidly transforming itself into a genuine **growth company**. Over the years, it has established itself as an international group committed to developing its existing activities and to moving into new markets. Thanks to a bold policy of organic growth and selective acquisitions, the Group has bolstered its **global positions** in each of its businesses, while considerably expanding its product range and its geographical presence.

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

OVERVIEW OF BUSINESS ACTIVITIES

Businesses	Divisional review	Main applications	Priorities
Advanced Materials and Technologies			
• World no. 1 in graphite anticorrosion equipment. • World no. 2 in high-temperature applications of isostatic graphite. • €256 million in sales. • 44% of total sales*. • Main competitors: - Toyo Tanso (Japan); - SGL Carbon (Germany).	• Isostatic graphite equipment for high-temperature applications (solar, semiconductors, aerospace, glass-making, etc.). • Graphite-based anticorrosion, noble metals (tantalum, titanium, etc.) and fluorinated polymers (PTFE, etc.) for the chemicals and pharmaceuticals, metal-working or nuclear industries.	• Manufacturing equipment for solar applications, semiconductors and other refractory processes, electrodes for electrical discharge machining or kiln linings, etc. • Processing (heat exchangers, reactors, etc.), storage and distribution (tubing, pipes, etc.) of hot corrosive fluids.	• Develop new isostatic graphite-cladded solutions geared to the specific needs of the Group's customers and partners. • Continue developing complete multi-material solutions for corrosive and hot chemicals and pharmaceuticals. • Develop solutions for the nuclear power market. • Expand sales in Asia.

Some of the Advanced Materials and Technologies businesses are covered by regulations on the control of exports of dual-use items and technology.

Businesses	Divisional review	Main applications	Priorities
Electrical Components and Technologies			
• World no. 1 in brushes and brushholders for industrial electric motors. • World no. 2 in industrial fuses. • €331 million in sales. • 56% of total sales*. • Main competitors: - Bussmann (US); - Morgan Crucible (United Kingdom); - Schunk (Germany).	• Industrial fuses, cooling devices and protection systems for motors, circuit-breakers, current collectors and other electrical and electronic equipment protecting property and people. • Power and signal transmission components: sliding electrical contacts, graphite brushes for electric motors and systems combining brushes, brushholders and electronic components. • Diagnostics, assistance and maintenance.	• Protection of motors and industrial electrical and electronic equipment against short circuits and voltage surges. • Thermal protection of industrial electronic equipment. • Protection of electricity distribution grids. • Electrical protection of property and people. • Protection of rail and mass transit power supply networks. • Slip-ring assemblies and signal transmission systems for wind turbines. • Solutions for rotating electrical machinery used in industry (steel-making, mining, power plants, etc.) and transportation (railways, mass transit, aviation, aerospace), etc.	• Reap the full benefit of the Group's optimized production facilities to increase worldwide market share, especially by penetrating new growth markets. • Pursue business development with equipment suppliers, distributors and end users by emphasizing innovation and quality of products and services. • Pursue a strategy of innovation in growing niches (notably wind energy) and expand its base in North America and Asia.

** Based on continuing operations.*

Strategy

Expertise in energy

During 2009, the Carbone Lorraine group continued to leverage its know-how in the generation of both conventional and renewable forms of energy. The energy market posted further strong growth in spite of the depressed economic environment.

The supply of equipment and solutions meeting the needs of various energy segments remained the principal driver of Carbone Lorraine's growth during 2009.

The Group has strongly developed its sales in renewable energy market:

- In the solar segment, the Group is the only global player capable of producing very large graphite blocks enabling its customers to harness very substantial savings on their production costs. Carbone Lorraine provides a broad range of graphite tooled products, ultra-pure graphite electrodes and chemical engineering equipment used throughout the process of polysilicon production, a material used in the manufacture of photovoltaic cells. The Group possesses unique expertise in the manufacture of these high value-added products and is increasingly establishing itself as an expert in customized solutions for the supply of its tooled products. Furthermore, the Group's offering was rounded out by the acquisition of Calcarb, which Carbone Lorraine now wholly owns and which derives close to half of its sales from the solar segment. During 2009, sales to the solar segment again posted very strong growth and the medium- to long-term prospects are very promising indeed.
- In the wind energy segment, Carbone Lorraine kept the level of its business at a similar level to that seen in 2008, notably thanks to the positions it holds in China and the United States, and despite the overcapacity in the wind segment. The Group also benefited from replacement markets in which the performance of its products and services and close relationships worked in favor of Carbone Lorraine's solutions. In electrical protection, research and development programs were carried out in the highly promising segment of smart grids, which are needed to interconnect wind farms and solar photovoltaic farms, as well as electricity grids, on the other.

In the conventional energy segment, Carbone Lorraine consolidated its leadership with the supply of brushes and brushholders for power plants. The Group's products are currently listed by all the world's leading manufacturers of turbogenerators.

In addition, developments in recent years have especially enabled Carbone Lorraine to contribute to the energy efficiency of industrial infrastructure, including the market for speed controllers, which help to reduce significantly the power consumption of electric motors. In Japan, Carbone Lorraine teamed up with a scientific partner to help it plan ahead for the needs of industry over the next five years.

Lastly during 2009, the Group's positioning in the energy segment was extended through the acquisition of 2C Cellier, a French company specializing in the design and manufacture of advanced technology equipment for nuclear power stations. As a result Carbone Lorraine is set to position itself in the nuclear power market by integrating the requisite expertise, notably proficiency in the regulatory aspects, specific quality control procedures and certifications from the principal operators. Through the acquisition of 2C Cellier, Carbone Lorraine aims to become a first-tier supplier for the principal players in the worldwide nuclear power sector, especially in China where French technology is the benchmark and the Group also boasts a major manufacturing base.

New frontiers in Asia

Asia accounts for a larger and larger proportion of Carbone Lorraine's sales. During 2009, the Group strengthened its presence in China, as well as in India and South Korea.

While half of Carbone Lorraine's sales in the Asian electrical protection segment has so far come from the Japanese market, business in China is set to catch up and possibly overtake Japanes sales during 2010, owing to the acquisition of a majority shareholding by the Group in Mingrong Zhejiong.

Carbone Lorraine continued to win new business in high-temperature applications of isostatic graphite. South Korea posted a good level of growth during 2009 and the tooling workshop close to Seoul expanded. India also represents a highly promising market, and Carbone Lorraine possesses some valuable strengths supporting its industrial growth there. With its economy being modernized at a rapid pace, India is also on the way to becoming a major market for graphite applications. In spite of a slowdown in China, which was a result of a temporary overstocking phenomenon in the photovoltaic segment, the Group continues to make strategic gains and bolster its advanced technology tooling capacity. This approach will enable Carbone Lorraine to deliver high value-adding equipment and participate in the technical development of the solar segment.

Lastly, the mid-2008 acquisition of Chinese company Xianda, which specializes in the manufacture of advanced technology steel and stainless steel equipment for the chemicals and pharmaceuticals markets, has enabled Carbone Lorraine to considerably step up the pace of its expansion in Asian anticorrosion equipment markets. This successful strategy helped the Group to win a USD13 million contract to supply seawater desalination equipment, which represents a new market for the Group. The bright prospects in this segment have been helped by the extension currently under way in the Xianda plant which will boast over 100,000m2 in space by the end of 2010.

→ Other markets still expanding

Even though the Group's performance was affected during 2009 by the economic slowdown, which hit its traditional industrial markets particularly hard, it strengthened its positions in markets with a bright future, such as transportation, chemicals and pharmaceuticals, and electronics.

The transportation market, in particular the rail segment, represents a major growth driver for the Group. Carbone Lorraine possess a broad range of products (brushes for motors, power connectors, pantograph strips) and has established itself as a technological leader.

Amid the tough conditions that prevailed in 2009, the rail segment held up well and still boasts a very bright future, especially in emerging markets in which the Group is already present. In this market, positions in China are crucial given the major plans to extend China's rail network.

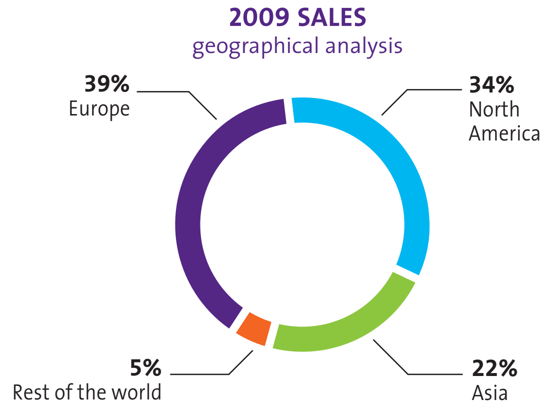
Carbone Lorraine markets an extensive range of graphite- and noble metals-based equipment used in the chemicals and pharmaceutical industries to carry, mix and store highly corrosive fluids. Since it already boasts strong positions in these markets, the Group's anticorrosion business is now targeting expanding new segments. It has expanded use of its patented CL Clad® technology, which consists in cladding steel with thin layers of ultra corrosion-resistant metal, such as zirconium and tantalum, to new applications. The Group has also bolstered its manufacturing base in Asia by opening up new workshops.

Lastly, the Group holds first-class strategic positions in the electronics segment. Thanks to its technological excellence in the production and tooling of isostatic graphite and in the protection of power semiconductors, Carbone Lorraine can reap the benefit of the fundamental trend in the global economy towards adoption of complex electronic equipment and the even more widespread use of electronic equipment, such as LEDs and chips.

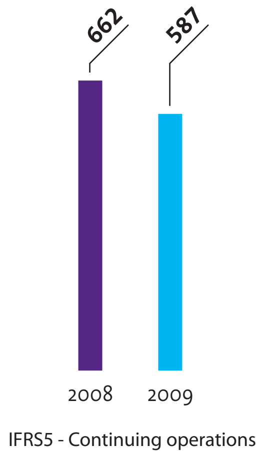
The electronics segment, which started to slow down in 2008, was the first to display tangible signs of recovery in late 2009, these are expected to strengthen during 2010. In the medium term, it boasts attractive growth prospects, especially in Asia.

Key figures

2009 SALES
geographical analysis

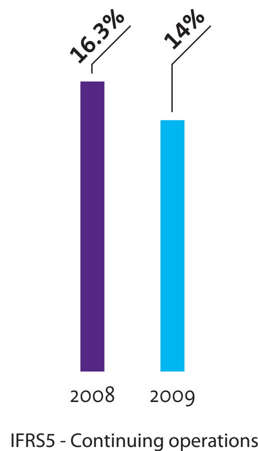


2009 SALES
(In millions of euros)



IFRS5 - Continuing operations

EBITDA MARGIN
(In %)



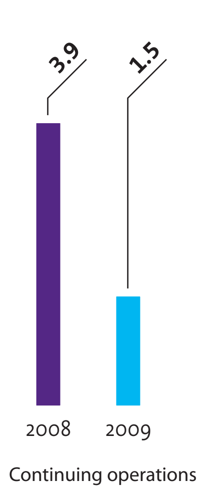
IFRS5 - Continuing operations

RETURN ON CAPITAL EMPLOYED (ROCE)*

IFRS5 - Continuing operations

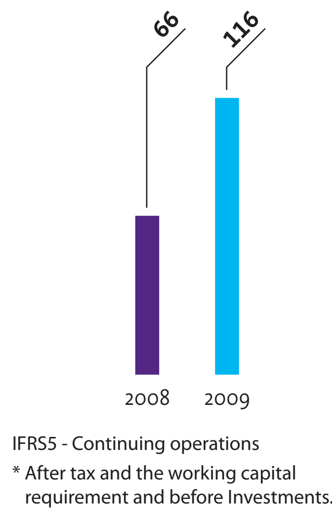
* Operating Income (excluding capital gain related to braking division disposal)/fixed assets Including goodwill + working capital requirement).

EARNING PER SHARE
(In euros)



Continuing operations

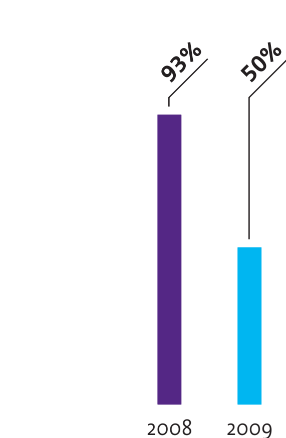
CASH FLOW*
(In millions of euros)



IFRS5 - Continuing operations

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

DEBT-TO-EQUITY RATIO
(net debt/equity)



Carbone Lorraine and the stock market

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

→ Share price performance

The exceptionally sudden dive in Carbone Lorraine's share price during the final quarter of 2008 was caused by both the collapsing financial markets and in the early part of 2009 by further uncertainty in the markets. Despite this, the share price gradually picked up again and this trend continued after the announcement of the Group's interim results, as investors factored in the Group's business performance which demonstrated encouraging resilience amid a still depressed industrial environment.

The successful capital increase issue launched on September 21, which was significantly oversubscribed, provided a perfect illustration of the confidence among our shareholders. The share price continued to move higher, peaking at €28.07 in mid-October. In summary, Carbone Lorraine shares climbed 40% during 2009 as a whole.

Share-related data

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

Share price (1)(2)

- At December 31, 2009: €25.40.
- 2009 high: €28.07.
- 2009 low: €14.47.

(1) At the close.

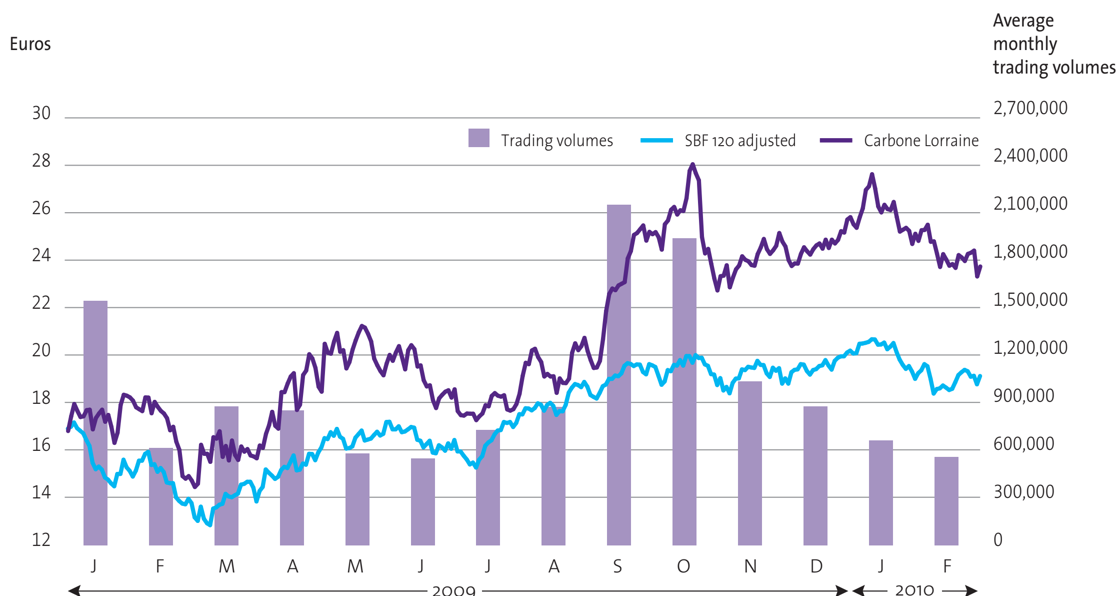
(2) Data adjusted following the capital increase.

Trading

Average 2009 monthly trading volume: 1,117,469 (average 2008 monthly trading volume: 2,185,780).

Average daily trading volume: 50 992

→ Share price* performance and trading volumes



** Data adjusted following the capital increase.*

Source: Euronext data.

→ A confidence-based relationship with shareholders

Carbone Lorraine maintains a confidence-based relationship with its shareholders built on transparency and communicates through various channels to give them a better understanding of the Group, its strategy, businesses and fundamentals.

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

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

To provide insight into the Group's business lines, *CL Magazine,* a new source of information about the Group distributed exclusively over the internet, was launched during 2009. Eight editions were published in 2009.

MARKET DATA

(Share price in euros)	February 2010	January 2010	2009	2008	2007
High	24.50	27.66	28.07	48.76	61.82
Low	23.21	24.71	14.47	16.46	41.06
Average	24.31	26.01	20.31	32.50	52.00
At end of period	23.77	24.85	25.40	17.80	47.20
Number of shares at end of period	19,645,409	19,645,409	19,645,409	14,297,213	14,280,735
Market capitalization at end of period *(in millions of euros)*	466	488	498	254	674
Average number of shares traded (monthly (or daily for January/February 2010) average)	27,604	32,735	1,087,837	2,185,780	1,522,569

** Data adjusted following the capital increase.*

DIVIDEND PER SHARE

(In euros)	2009	2008	2007	2006	2005
	0.50	0.62*	0.85	0.85	0.70

** Shareholders were given the option of receiving the dividend in shares, which was taken up by 73% of them.*

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2009

Individual shareholders	21.1%
Employee shareholders	1.4%
French institutional investors	38.5%
International institutional investors	38.8%
Carbone Lorraine	0.2%

Key events in the 2009 investor relations calendar

Sales reports

Fourth-quarter 2008 sales - January 27

First-quarter 2009 sales - April 28

Second-quarter 2009 sales - July 23

Third-quarter 2009 sales - October 20

Earnings reports

Full-year 2008 results - March 18

Interim 2009 results - August 31

Meetings for institutional investors

In Europe and North America - Throughout the year

General Meeting of the Shareholders

Paris - May 19

Presentations for individual shareholders

Nancy - April 30

Lyon - November 10

Key events in the 2010 investor relations calendar

Sales reports

Fourth-quarter 2009 sales - January 28

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Presentations for individual shareholders

Marseille – October 11

Toulouse - November 4

Documents available to the public

Documents available for download from the Company's web site: www.carbonelorraine.com

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

Available documents notably include:

- this reference document filed as an annual report with the *Autorité des Marchés Financiers*;
- the interim 2009 report;
- financial press releases.

List of the information published or made public since January 1, 2009

Pursuant to Article 222-7 of the General Regulation of the *Autorité des Marchés Financiers*, the following list presents the information published by Carbone Lorraine since January 1, 2009.

Press releases

February 4, 2010: FSI to be represented on the Supervisory Board

January 28, 2010: Fourth-quarter 2009 sales

January 20, 2010: Appointment at Carbone Lorraine

January 7, 2010: Major new contract for anticorrosion equipment in the water treatment sector

January 5, 2010: Carbone Lorraine buys all remaining shares in Calcarb

December 8, 2009: Inauguration of CLMA, Carbone Lorraine's regional platform in Morocco

January 20, 2009: Business slowdown continues during the third quarter of 2009

October 14, 2009: Capital increase completed successfully - *Fonds Stratégique d'Investissement* buys a stake in the share capital

September 18, 2009: Carbone Lorraine launches a €63.4 million share capital increase

September 16, 2009: Reinforcement of selective expansion strategy - Capital increase plan

September 14, 2009: Acquisition of Lumpp

September 9, 2009: Carbone Lorraine expands its range of products for alternative energies

August 31, 2009: Resilient first-half 2009 performance

July 23, 2009: Decline in first-half 2009 sales

June 26, 2009: Carbone Lorraine strengthens its equity

June 10, 2009: Carbone Lorraine strengthens its equity

May 20, 2009: Appointments to the Supervisory Board and Management Board

May 15, 2009: Prize for the best financing transaction in 2008

May 4, 2009: Disposal of the Brushes for automobile and household electrical appliances division

April 28, 2009: Sales slowdown during the first quarter of 2009

March 18, 2009: Strong earnings growth in 2008

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

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

Other news

September 17, 2009: Offering circular for the capital increase (BEA) (AMF visa no. 09-261)

September 17, 2009: Update of the reference document (AMF visa no. D.09-127)

September 17, 2009: Presentation of 2009 interim results to analysts

June 3, 2009: Regulated agreement subject to the TEPA law: Payment and benefits due or likely to be paid following the termination or change in the duties of Ernest Totino, Chairman of the Management Board

March 18, 2009: Presentation of 2008 full-year results to analysts

For further information, please contact:

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Management report

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Introduction

The dominant feature of 2009 was the global economic crisis, which affected every industry on every continent. As a result, Carbone Lorraine's sales declined by 11% on a reported basis and by 16% on a like-for-like basis.

The contraction in sales was particularly severe in traditional markets and in electronics, which nonetheless showed significant signs of recovery during the fourth quarter. In spite of the depressed environment, the Group's major markets recorded encouraging performances during 2009. The Group posted very strong growth in alternative energies, particularly in the solar segment, and a very moderate slowdown in rail transportation owing to the weaker performance of the US rail freight market. Lastly, Carbone Lorraine held up well in the chemicals and pharmaceuticals market owing to its positioning in China and in expanding segments, such as acetic and phosphoric acid production. In addition, it benefited from the strength of its order backlog in this segment at year-end 2008. These performances reinforce the long-term prospects created up by the strategic decisions made in recent years by Carbone Lorraine.

During 2009, the Group completed its withdrawal from the automobile market by selling off its business manufacturing brushes for electric motors. This major strategic move has sharpened the Group's new profile, which is focused on two robust business segments: Advanced Materials and Technologies, offers a range of graphite and metal equipment for extreme environments; Electrical Components and Technologies plays a crucial role in the reliability and safety of industrial equipment.

Accordingly, in spite of the unprecedented crisis, Carbone Lorraine kept its expansion plans on track and continued to make strategic inroads into its markets of the future. In addition, the Group has stuck with a dynamic program of investments and selective acquisitions that will enable it to rapidly reap the benefits of the economic recovery.

The major restructuring programs implemented in recent years and the Group's quick response to changes in economic conditions have made for resilience in its EBITDA margin[1], which remains over 14%, and in its operating margin before non-recurring items, which stood at 8.7% at the end of the year.

Lastly, the Group bolstered its finances during 2009, principally due to the €63 million issue of new shares, which was significantly oversubscribed, and also to strong cash generation linked to a major plan to cut back on inventories launched in late 2008. This additional liquidity helped to finance the Group's expansion plans, while improving its financial flexibility. Since it refinanced its credit lines in 2008, the Group now boasts significant liquidity and a robust balance sheet that will help it to seize the benefits of the economic recovery from a position of strength.

(1) The Group's EBITDA represents operating income before non-recurring items as shown in the consolidated income statement presented under IFRS, plus the depreciation and amortization shown in Note 20 "Operating income" of the consolidated financial statements.

Segment trends

The **Advanced Materials and Technologies** segment recorded sales of €256 million, down 14.5% on a like-for-like basis. Sales of graphite equipment were depressed by the steep business contraction in traditional industries and also in electronics markets. In the solar segment, sales continued to enjoy strong growth, except in North America where they were hit by inventory adjustments. The year was also marked by a move into the seawater desalination market, with the Group recording its first sales in this area.

It positioned itself for a bright future by continuing to invest in acquisitions and in industrial equipment.

During 2009, the Group exercised its option to buy the 40% of Calcarb's capital that it did not already own. Calcarb is a Scottish company that is the world number two in its area of expertise of producing carbon bonded carbon fibers used as sophisticated insulators in kilns operating at very high temperatures. Carbone Lorraine's full ownership of Calcarb will enable it to harness the full extent of the revenue enhancement and technological synergies between the two companies and to strengthen its positions in solar markets.

The Group also strengthened its position in alternative energies through the acquisition of 2C Cellier, a French SME specialized in the design and manufacture of advanced technology boilermaking equipment for nuclear power stations. This deal will enable Carbone Lorraine to position itself in the nuclear segment and harness the strong growth in the marketplace, notably in China.

Lastly, the range of anticorrosion products was expanded through the acquisition of Lumpp, a French company specializing in the manufacture of stirrers and mixers, thereby complementing the reactors already produced by Carbone Lorraine. Significant technical synergies will help the Group to strengthen its positions in the very fast-growing market of phosphoric acid production.

From an industrial standpoint, the Group is in the process of extending its anticorrosion equipment manufacturing facility located close to Shanghai in order to keep pace with growth in the Chinese market. The new manufacturing base will occupy over 100,000 m² and allow Carbone Lorraine to deliver very large equipment, while benefiting from the full range of its materials. The plant will solidify the division's manufacturing presence in China, which was already very well established through its graphite block production facility in Chongqing.

The Advanced Materials and Technologies segment's EBITDA margin edged down to 19% from 22% in 2008. This resilience was mainly attributable to the introduction of a savings plan to strip out overhead at the beginning of the year. The recurring operating margin recorded by the Advanced Materials and Technologies segment stood at 11% in 2009. It was depressed by the depreciation expense arising from the brisk pace of investment in future growth.

The **Electrical Components and Technologies** segment posted sales of €331 million in 2009, down 17% on a like-for-like basis.

Sales of equipment for industrial motors were dragged down by the impact of the economic environment, particularly in Europe and North America. The contraction in business within traditional industries (steel-making, paper manufacture, glass-making, etc.) was primarily to blame for the downturn in sales.

Wind energy markets remained brisk in Asia and North America, offsetting the declines seen in Europe owing to excess capacity, particularly in Spain. Over the year as a whole, sales of electrical components to the wind energy sector remained stable.

Electrical protection systems also suffered as a result of the economic crisis. All the division's geographical regions recorded declines during 2009. Conversely, Carbone Lorraine continued to win market share in both North America and Asia. In spite of the crisis, the Group's strategic markets continued to expand, particularly solar energy and electronic applications requiring speed controllers. In this segment, the Group has continued its drive to innovate in a bid to keep pace with the growing sophistication in electrical and those electronic systems. During 2009, Carbone Lorraine launched research and development programs into smart grids interconnecting wind and solar photovoltaic farms and electricity operators' grids.

The Electrical Components and Technologies segment's EBITDA margin edged down to 14% in 2009 from 16% in 2008. It managed to maintain a high margin as a result of previous restructuring and a savings plan that was launched at the beginning of 2009.

The operating margin before non-recurring items stood at 11%.

Consolidated financial statements

Sales

During fiscal 2009, Carbone Lorraine posted sales of €587 million, representing a decrease of 11% on a reported basis and 16% on a like-for-like basis compared with 2008. Currency effects had a positive impact, increasing sales by around 2%. Acquisitions net of disposals contributed three points of sales growth.

In spite of a significant sales contraction in Japan, business trends held up better in Asia (down 7%) than in North America where they slumped by 21% and in Europe, where sales declined by 16% on a like-for-like basis.

EBITDA and operating income

EBITDA slipped to €82.4 million in 2009 from €108 million in 2008. The EBITDA margin edged down by just 2 points to 14%. The Group's operating income before non-recurring items* (excluding assets held for sale and discontinued operations) totaled €51 million in 2009. This represented a fall of 39% compared with 2008. The operating margin before non-recurring items* was 8.7%, down by nearly four points in comparison with 2008. This resilience in the operating margin amid a major crisis that established itself very rapidly, gives credence to Carbone Lorraine's business model, which aims to achieve a margin of around 9% at the bottom of the cycle.

The Group's operating income* totaled €46 million in 2009. This figure reflects non-recurring expenses arising notably from the implementation of the savings plan and the amortization of acquisition-related intangible assets.

Finance costs, net

Carbone Lorraine's net finance costs came to €10.4 million in 2009, down from €12.1 million in 2008. This positive trend was achieved through a significant reduction in net debt and a fall in the Group's average interest rate.

** Continuing operations.*

Income before tax and non-recurring items

Income before tax and non-recurring items* dropped to €35.2 million from €81.2 million in 2008. The Group's effective tax rate was 27% in 2009.

Net income from continuing operations

Net income from continuing operations totaled €25.7 million, compared with €57.0 million in 2008.

Net income from operations sold or discontinued

The loss posted by assets held for sale and discontinued operations stood at €10.8 million. The €4.4 million settlement of the class-action lawsuit in the US in relation to the automobile brush activities that are no longer part of the group significantly contributed to this loss. This agreement, which did not include any admission of liability, put an end to the litigation proceedings in the US.

Net income attributable to Carbone Lorraine's shareholders

Net income attributable to Carbone Lorraine's shareholders dropped to €14.6 million in 2009 from €29.1 million in 2008.

Dividend

The Board of Directors will propose payment of a dividend of €0.50 per share at the Annual General Meeting of the shareholders. If approved, this would lead to a total payout of €9.8 million, representing 65% of net income attributable to Carbone Lorraine's shareholders and 38% of net income from continuing operations, in line with the dividend policy implemented by the Group over the past few years. The option of receiving this dividend in shares will be put to shareholders.

Investment policy

Investments made during the past TWO fiscal years

During 2008, investment amounted to €61.6 million, chiefly comprising additions to the Group's production capacity in order to keep pace with fast-expanding markets, such as solar and wind energy. Most of these capital expenditures related to the Chongqing plant (China) and the extension of production capacity at the St Mary's facility (United States). Other capacity investments were made at the finishing facilities for high-temperature applications of graphite. Spending on acquisitions totaled around €100 million, leading to the acquisition of control of four companies: Xianda, a Chinese company specializing in the manufacture of advanced technology equipment in steel and stainless steel for the chemicals and pharmaceuticals markets; R-Theta, a major player in air cooling for power electronics; Zhejiang Mingrong Electrical Protection, one of the leaders in the Chinese market for fuses and fusegear; Lastly a 60% interest in Calcarb, the world number two in carbon bonded carbon fibers, insulation products used in the solar energy and electronics markets.

The rail and motorcycle braking business was sold for €25.6 million during 2008.

During 2009, Carbone Lorraine maintained investment spending levels with a view to making further inroads into expanding segments such as alternative energies, Asia, chemicals and pharmaceuticals. Capital expenditures on continuing operations totaled €48.4 million. This spending was largely devoted to equipment intended to increase the Group's production capacity of graphite blocks, as well as its finishing capacity (ultra-fine tooling and ceramic coatings. These projects have afforded Carbone Lorraine leadership in its sector of advanced graphite equipment dedicated to the production of polysilicon for solar applications. The Group has also added more production capacity for specialty fuses and for electrical components intended for wind energy equipment.

In 2009, spending on acquisitions totaled €26.2 million. The principal transactions involved the following companies: 2C Cellier, which specializes in the design and manufacture of advanced technology boilermaking equipment predominantly for the nuclear power industry; Lumpp, which specializes in engineering solutions plus stirrers and mixers used primarily in the chemicals and pharmaceuticals markets. During 2009 Carbone Lorraine also exercised its option to purchase the 40% of Calcarb and the 49% of Lenoir Elec that it did not already own.

In line with the Group's internal procedures, the Supervisory Board authorizes all investments in excess of €10 million, as well as all acquisitions of over €3 million. Of the investments made during 2009 and the firm commitments entered into by the management bodies, the Board of Directors (until May 19, 2009) and then the Supervisory Board (after May 19, 2009) approved the exercise of the option on Calcarb, as well as investments in the extension of graphite block production capacity in North America.

	Continuing operations	
(In millions of euros)	2009	2008
Increase in intangible assets	(0.9)	(0.5)
Increase in property, plant and equipment	(42.5)	(57.0)
Increase in financial assets	(0.5)	(0.3)
Other changes in cash generated/(used) by investing activities	(5.9)	(4.6)
SUB-TOTAL	(49.8)	(62.4)
Investments linked to acquisitions	(26.2)	(100.2)
Investments linked to asset disposals	1.7	26.8
TOTAL	(74.3)	(135.8)

Financing policy

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

The Group possesses confirmed credit lines, which have not been drawn down in their entirety.

Most of the Group's borrowings have been arranged by Le Carbone Lorraine. Cash pooling systems in Europe, the United States and China help to optimize use of all the credit lines.

In 2003, the Group refinanced a bank loan due for repayment by means of private placements in the US with an average redemption date of 2015 to diversify its sources of financing.

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

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

All the information about borrowings is stated in Note 15 to the consolidated financial statements.

During December 2008 Carbone Lorraine also issued share issuance rights reserved for Société Générale under a PACEO (back-up equity line) program.

Full details about the PACEO program are provided in Note 12 to the consolidated financial statements.

Research policy

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

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

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

Most of this expenditure is financed internally.

During 2009, as in the previous year, innovation focused on two principal areas:

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

Of the 14 principal innovation projects pursued in 2009, six related to sustainable development in solar energy, wind energy, energy efficiency and rail transportation, while the other eight focused on a strategy of opening up new markets or consolidating the Group's positions through enhanced processes, targeting markets such as pharmaceuticals, electricity distribution, organic and mineral chemicals.

The major innovations finalized in 2009 or still in progress include:

- the design of a patented assembly system for 100% recyclable third-rail shoes for current collection for subways, enabling end users to replace worn pads;
- the development of silicon carbide coating processes for isostatic graphite cylinders, as well as carbon bonded carbon fibers as thermal insulators, generating a decisive competitive advantage for customers in the market for polysilicon used in the manufacture of photovoltaic cells;
- the adaptation of molecular sieve technology which is 100% recyclable, to the HCl gas generation process to produce an ultra-pure gas required for the manufacture of photovoltaic cells in a manner that is not harmful to the environment and will help to extend the Group's leadership in HCl systems;
- the design of systems protecting against voltage surges in anticipation of the tougher new connection standards for photovoltaic panels.

Net debt

Cash generated by continuing operating activities after the change in the working capital requirement came to €115.5 million, up from €65.6 million in 2008.

This cash generation, which was notably achieved through an action plan to reduce inventories, helped to finance €74.3 million in net investments, including €24.5 million in changes in the scope of consolidation.

This healthy level of cash generation and the €87.6 million capital injection led to a €91 million reduction in net debt. Total consolidated net debt at December 31, 2009 stood at €214.9 million compared with €305.9 million at year-end 2008.

The Group bolstered its financial structure, which will help it to reap the full benefit of the economic recovery.

	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Total net debt *(in millions of euros)*	214.9	305.9	191.8	154.3
Net debt/equity	0.50	0.93	0.62	0.50
Net debt/EBITDA	2.52	2.73	2.07	1.74

Parent company financial statements

Parent company's financial position

The sales and other revenues recorded by the parent company, Le Carbone Lorraine SA, amounted to €4.3 million. These revenues derived from Le Carbone Lorraine SA's activities as a holding company, namely the management of investments in subsidiaries and affiliates, Group financing and various other services.

It recorded an operating loss of €4.7 million, which was stable compared with 2008. This loss reflected the holding company's operating expenses.

Net financial income rose to €17.0 million compared with €8.1 million in 2008. Foreign exchange gains linked to the repayment of some of the medium-term credit lines, impairment losses on investments and lower charges to provisions than in 2008 contributed to this substantial improvement in net financial income.

The parent company's income before tax and non-recurring items came to €12.3 million. The parent company posted an exceptional loss of €1.3 million, compared with a profit of €2.0 million in fiscal 2008. This trend was attributable to the losses recorded on the disposal of the investments held in the automobile business and costs to sell.

The parent company recorded a tax benefit of €0.6 million. It was the result of the tax paid by the French subsidiaries consolidated for tax purposes.

Taking all these items into account, the parent company posted net income of €11.6 million, down from €12.8 million in 2008.

Information about payment terms for the parent company's suppliers

The standard terms of payment for suppliers are 45 days end of month.

In accordance with Article D. 441-4 of the French Commercial Code, the maturity schedule for trade payables at December 31, 2009 comprised €0.7 million in amounts payable within less than 30 days and €0.2 million in amounts payable between 30 and 45 days.

Relations between the parent company and its subsidiaries

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

Le Carbone Lorraine SA belongs to the Carbone Lorraine group, which encompasses 97 consolidated and unconsolidated companies in 35 countries. The Group's largest manufacturing facilities are located in France, the US, China, Mexico and Tunisia.

The Carbone Lorraine group is organized in two business segments, namely Advanced Materials and Technologies, and Electrical Components and Technologies. Each business segment is overseen by one or more members of the Executive Committee.

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

Operations outside France

In 2009, the Group had a customer-facing presence on five continents. The international positioning of its manufacturing facilities protects the Group from the impact of currency fluctuations on its competitiveness.

In 2009, around 65% of the Group's capital expenditures were devoted to international markets. The Group notably continued to beef up its graphite block production and tooling capacity in North America and Asia. It also invested in its plants in Austria and India manufacturing items for the wind energy market.

In 2009, the Group derived 89%* of its sales from outside France (i.e. sales generated by foreign companies excluding those realized in France and exports by French companies).

The sales contribution made by the Group's consolidated subsidiaries outside France came to €454 million, down 15% compared with 2008 on a like-for-like basis.

North America was badly affected by the crisis (sales down 21% on a like-for-like basis), while Europe posted a slightly smaller decline (sales down 16% on a like-for-like basis). Asia-Pacific was the region in which sales held up the best (down 7% on a like-for-like basis). The latter region now contributes around 22% of the Group's consolidated sales.

**Continuing operations.*

IFRS

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

Recent trends and outlook for 2010

Notwithstanding the global economic crisis that began in late 2008, Carbone Lorraine demonstrated the resilience of its business model during 2009. This resilience is founded on an optimized manufacturing base and a strategic repositioning in markets with a bright future. The Group's exit from the automobile sector and positioning in markets such as conventional and alternative energies, transportation, and chemicals and pharmaceuticals helped it to weather the storm.

As a result, the benefits of Carbone Lorraine's strategy clearly came to the fore during the crisis. The continued pursuit of a policy of significant investment during 2009 will mean that it is one of the first groups in its sector to benefit from the recovery once it kicks in.

What's more, the first signs of improvement were perceptible in certain segments during the fourth quarter of 2009. Even though business trends have remained in the doldrums in traditional industries, the current round of major inventory reductions seems to be nearly over. A recovery is notably materializing in general-purpose fuses in Europe. Sales of graphite equipment for electronics have staged a clear recovery across all the Group's geographical regions. Sales linked to renewable energies remain very firm.

Given these further signs of recovery seen over the past few months and in spite of a still uncertain environment, Carbone Lorraine is expected to record fresh growth in its sales and operating margin during 2010. Further efforts to optimize its working capital requirement and the return to a normal level of capital expenditures should pave the way for tight cash management. Carbone Lorraine will maintain its sales momentum and strategic advances, which are intended to underpin its sustainable development credentials.

Carbone Lorraine has kept its growth projects on track and reiterated the objectives laid down in the expansion plan unveiled in September 2008. Even so, the effects of the economic crisis and the lack of visibility concerning the speed of the recovery prevent the Group from committing itself to a timetable for attainment of the objectives.

Other disclosures in the management report included in the annual report

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

- information about the Company's share capital is disclosed in chapters 6 and 7 of the annual report;
- information about employees' ownership of the Company's share capital is disclosed in Chapter 6 of the annual report;
- information about Directors and Supervisory and Management Board members and their compensation and benefits is disclosed in Chapter 6 of the annual report, as well as in the Chairman of the Supervisory Board's report on the preparation and organization of the Board's work and on internal control procedures, which is also presented in Chapter 6;
- information about how the social and environmental consequences of business activities are taken into account is presented in Chapter 3 of the annual report;
- information about the principal risk factors facing the Group is provided in Chapter 6 of the annual report on risk management;
- a table showing the Group's results over the past five fiscal years is presented in Chapter 5 of the annual report in the parent company financial statements section.

Sustainable development

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3

Economic and social responsibility

The Group's ability to pursue its growth and expansion during 2009 was underpinned by the qualities of Carbone Lorraine's employees, their diversity, their expertise, their level of motivation and their entrepreneurial spirit.

→ Diversity, a source of creativity and innovation

Diversity

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

Its human resources teams make sure that all employees are given equal opportunities and that the multidisciplinary nature of teams is maintained or increased.

Gender balance has been clearly identified and stated by Carbone Lorraine as a priority area for improvement. The initiatives introduced since 2009 (new hires, career tracking, communication, awareness-raising among managers, rewards, greater flexibility for parents in professional life) helped to breathe real life into efforts in this area: over 16% of managers were women at year-end 2009, up from 13% in 2008. Note that Carbone Lorraine's objective is to reach the 20% mark by 2013.

Carbone Lorraine believes that the issue of seniors is strategically important for two reasons:

- it is a matter of social responsibility;
- and it will also affect the Group's future, its development and performance going forward. The skills, experience and expertise senior employees have gained are invaluable and will help to secure the Group's ability to move forward and innovate to maintain its leadership.

An action plan was finalized in 2009 that will be rolled out right around the world (with adaptation to the labor rules applicable in the various countries in which the Group is present). The plan aims to prepare for the retirement of senior employees as smoothly as possible and to help them to continue their professional activities in a motivating manner by strengthening inter-generational relationships and better organizing the sharing of technical expertise.

Lastly, the drive to recruit managers from more diverse backgrounds in order to help non-French employees to gain access to positions of responsibility remains a major priority, with the ultimate goal being for management teams to reflect the diversity of the Group's teams. This will entail curbs on expatriation assignments by French employees and the recruitment of local executives with the potential to move up within the Group, including in other regions.

Employment and integration of disabled workers

The measures already implemented at French facilities to promote the employment of disabled workers (e.g. the outsourcing of work to ESATs, French organizations that help disabled people back into work) helped to reduce the disabled levy paid by the Group. Above and beyond this obligation, the Group decided as part of its policy of promoting diversity to strengthen its emphasis on efforts to help disabled workers. A partnership was set up in late 2009 with ARPEJE H, a not-for-profit organization that helps to support educational projects for disabled school pupils and students. Thanks to this initiative, disabled interns will spend several months with the Group from the beginning of 2010 onwards. Bringing on board young people helps the Group to detect high-potential individuals with a view to recruiting them in the future and also helps to change the attitudes of Carbone Lorraine's employees to disabilities, while encouraging creativity and open-mindedness.

Relations with labor bodies

In addition to relations with employee representatives through the channels that exist in companies to share information and discuss relevant issues, the meetings of the Group Works Council in France and the European Works Committee provide a forum for dialog and discussions with labor representatives concerning the Group's situation and strategic priorities in France and the rest of Europe. These committees both met once during 2009.

In France, the union organizations were invited to discussions with management concerning seniors and the top-up pension plans. This constructive social dialog and the significant efforts made by labor representatives and the Executive Committee led to the signature of three agreements during December 2009:

- An agreement promoting the employment of seniors (employees aged 50 or over). This agreement, which was signed

with all the union organizations represented at Group level for a period of three years, aims to institute a bold policy, going well beyond the legal obligations, based on concrete measures as part of the Group's overall human resources policy. This agreement lies at the cusp of three aspects of the Group's HR policy: i) diversity and equal opportunities, ii) occupational safety and working conditions, and iii) the forward planning of jobs and skills. This agreement lays down a target of ensuring that 15% of the workforce are aged 55 or over, plus concrete measures to keep these employees in employment structured around four pillars:

- the reinforcement of individual reviews: notably including the creation of an experience interview for employees aged 58 to identify the skills that they need to pass on and to structure the final part of their working life, while incorporating the wishes of senior employees,
- development of a training policy for seniors,
- introduction of tutoring and other forms of passing on knowledge,
- tools to improve working conditions and occupational safety;

- PERCO (collective pension savings plans) and PERE (corporate pension savings plans) signed with the CFE/CGC, FO and CFDT union organizations. These new top-up pension arrangements, complementing the statutory regimes, reflect the Group's enduring commitment to help each of its employees to plan ahead for retirement. They also represent a major attraction for potential future employees. They cover the entire employee population while taking into account their specific characteristics:
  - the PERCO regime, which was up and running during the first quarter of 2010, covers all of the Group's employees in France. It provides for employer contributions that are highly advantageous for employees whose ability to save is the weakest,
  - the PERE agreement, which covers all employees with executive and similar status in France, will be rolled out by 2011.

→ Business-specific expertise

Developing know-how and innovation is a priority for the Group's competency management policy.

Innovation and project management

Innovation lies at the heart of the Group's strategy because it helps to generate growth and to establish positions in product segments in which competition is weaker because they are distinctive. The Group has two aims in this area:

- bolster the culture, resources and oversight of innovation and of Research & Development (R&D);
- structure and promote sharing and synergies between the Group's various R&D resources.

At year-end 2008, decisions were made and measures implemented that yielded concrete benefits in 2009 and 2010. For example:

- an internal database was set up online listing experts (by materials, by physical and chemical phenomena and by industrial processes) and special equipment at all of the Group's facilities;
- research, development and technology watch priorities were laid down formally for the divisions and the Group, while ensuring that they remain consistent with its growth objectives in certain key markets, such as solar and wind energy;
- the "Innovation" challenge was extended to include a third competition for "Support Functions", in addition to the existing "Creativity" and "Growth"+ prizes. As a result, the three ideas creating the most value-added were rewarded this year. These challenges will be held again in 2010.

Forward skills planning

The Group's forward skills planning program was continued during 2009 at all its divisions, with each one forecasting the skills that it will need over the coming years based on its own and the Group's priorities. This forecast was reviewed and discussed by the Executive Committee.

Identifying key business lines for the Group helps to prepare its existing teams for the acquisition of the relevant expertise. Planning ahead for departures linked to demographic trends in the Group's workforce is another key aspect of the Group's policy of forward human resource planning.

The "Seniors and Group culture management" work group drafted an action plan that will be implemented progressively around the world (with adjustments to take into account the labor rules applicable in the various countries in which the Group is present). The aim of the action plan is to replace and pass on the knowledge gained by seniors, increase the size of the workforce and the managers' competencies to help drive the Group's growth, and develop communication about its values and corporate culture. It includes the implementation of a process identifying core competencies at global level and organizing their dissemination. The process of defining core competencies was rolled out at the Group's major manufacturing facilities from March 2009 onwards. For each employee whose skills are considered to be critical, a succession plan is drawn up and updated on an annual basis. The transfer of skills is recorded formally through an experience interview held by managers with each of their employees when they become 58 years old (this age may vary from country to country depending on the law and local practices).

In France, the program to identify changes in jobs/skills, professional training tools, recognition of professional experience, internal mobility and professional advancement for senior employees were addressed in the agreement on the forward planning of jobs and skills signed in 2007 with labor representatives. Certain facilities started to deploy this agreement locally.

A program to hire managers was drawn up in 2008 and has since been rolled out at all the Group's companies. It aims to harmonize recruitment practices in a bid to enhance professional standards and technical expertise.

The process of integrating new employees has been enhanced through the drafting and distribution of a Group welcome handbook.

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

Training in how to implement performance reviews was delivered to plant managers in various countries (France, Rest of Europe, etc.).

In France, the agreement on the forward planning of jobs and skills and the agreement on the management of senior employees have enhanced this competency development process. The professional milestone review, which complements annual reviews for all employees when they reach 45 years old, aims to add substance to each employee's professional plans based on their aspirations and competencies and the Group's current and forecast needs in terms of employees and skills. The overall aim is to prepare the second half of their career as effectively as possible.

In addition, career committees provide an opportunity each year to review the career prospects of the Group's principal managers and are used to prepare individual competency development plans. A career committee is now held at each of the Group's facilities around the world, to stay closely in touch with managers in the field. The Group career committee, which meets once a year for each division and each functional department, harnesses the information produced by these local committees to draw up development and advancement plans for the Group's key men and women by opening up opportunities for them at other divisions.

A two-day stay at an Assessment Center was arranged for certain young managers. These visits are useful for identifying the competencies they have already acquired and those that they need to develop through role-play exercises.

Carbone Lorraine's international dimension provides employees with genuine career development opportunities. The Group has displayed its determination to promote discussions between the various business units, divisions and geographical regions. The priority placed on internal recruitment helps to breathe life into the mobility drive and to boost the international diversity of the Group's managers.

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

→ Training and competency development

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

In 2009, training efforts focused in particular on two priority areas:

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

In what was a tough year for training, the acquisition of new skills took place in certain cases through changes in jobs.

All in all, the Group devoted 1% of its total payroll during 2009 to training, i.e. an average of 13 hours of training per employee.

TRAINING AT CARBONE LORRAINE

Training*	2009	2008	2007
As a % of total payroll costs			
Group total	1%	1.1%	1.1%
• o/w France	2%	2%	2%
Average number of hours per employee			
Group total	13	14	9
• o/w France	15	13	13

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

In 2010, the training policy will continue with a special emphasis on developing the requisite competencies to complete the projects underway in Asia and rolling out competency management, internal communication and safety processes, etc., there. Particular attention will be paid to facilitating the skills transfer process. At the same time, this training policy will seek to strengthen Carbone Lorraine's corporate culture by documenting it and passing it on to new arrivals.

→ Highly motivated and committed employees, the secret to success

Internal communications

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

Circulation of the internal newsletter *CL Infos* was extended to the Chinese sites from 2008. Available in seven languages (French, English, German, Spanish, Italian, Chinese and Portuguese), it is circulated to each Group employee. Since 2009, an interactive version has also been available on the intranet.

Information is also passed on using complementary publications, such as *CL Flash* concerning the latest news and *Infos Sites*, which focuses on local information. Discussions between management and employees take place on a monthly basis at most facilities.

The Group's intranet, which was revamped during 2007, is now a user-friendly platform for sharing information and tools accessible in real time right around the world. Its contents are constantly enriched through active contributions by the numerous section managers. Its functionality and ease of use help to foster communication and information-sharing.

Employee compensation and benefits

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

In November 2009, an issue of new shares reserved for employees was carried out in ten countries across Europe and North America. Carbone Lorraine continues to pursue its policy of ensuring that the Group's employees participate in the capital by offering this type of issue on a regular basis.

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

Managers' 2009 bonuses are calculated both on the EVA generated by their business unit and their results relative their individual annual targets, particularly those related to safety, productivity, cash generation and participation in growth projects. This policy helps to ensure that the Group's values and strategic objectives guide its day-to-day business decisions.

→ A continuous improvement program mobilizing the entire workforce

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

First launched in 2004, the World 5S Challenge continues to attract as many entries from the Group's sites. Two 5S entries are awarded each year, one for the best workshop and the other for the best office.

This year, the prize for the best 5S workshop was awarded jointly to Ferraz Shawmut Juarez's Busboy Area workshop (Mexico) and the semi-finished product grinding and weighing workshop of the capital goods division at Carbone Lorraine Applications Électriques in Amiens (France). These two workshops are very different from each other, providing further evidence that 5S can be applied to all types of production.

The prize for the best 5S office was awarded to the Quality-Safety-Environment department of Carbone Lorraine Equipements Génie at Pagny-sur-Moselle (France). The decision to combine the facility's Quality, Safety and Environment departments into a single QSE unit provided an opportunity to launch a 5S program that was really exemplary.

Entrepreneurial spirit in a responsible environment

Fostering a sense of belonging among Group employees

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

Through its organization and its attachment to human values, the Group encourages its employees to take the initiative and use their creativity. Employees are rapidly entrusted with responsibilities, irrespective of their grade, through their participation in autonomous teams working on projects cutting across corporate boundaries. They devote all their energies to their work, as if it was their own business.

Unwavering emphasis on health and safety

Based on the four key pillars of **leadership, positive reinforcement, risk analysis** and **continuous improvement**, the Group continued to strive towards **excellence** in health and safety in the medium term, in spite of the inauspicious economic environment.

Taking these factors into account, the Safety Leadership training program was extended to include all managers down to supervisor and head of workshop level. This initiative is due to be completed by year-end 2010 based on the number of employees involved around the world. Once this campaign has been carried out, the goal will be to ensure that the leadership expected of all our managers translates into concrete measures in the field to secure future improvements.

At the same time, a major initiative underway in risk analysis was launched at facilities. The Group has rolled out a common methodology for evaluating the risks across all its regions. This should lead to more effective control of critical risks with an unrelenting emphasis on improved prevention.

The Group also improved its global coordination significantly by overhauling its Safety Committee and emphasizing an intercultural approach. It meets every month in order to discuss and introduce measures in each of the major regions in which Carbone Lorraine does business. Cross-audits, which are critical for more effective sharing of experience and best practices, have gradually been introduced, initially in China and subsequently in North America and Europe.

Since the Group's common goal is to achieve excellence in health and safety, it held its first Safety Excellence Awards at three facilities in Mexico, China and Italy. These awards are handed out to facilities with first-rate management of safety issues combined with a very high level of safety performance. The Group's hope is that these facilities will retain this award for a very long time and that numerous other will gradually join them, thereby safeguarding the Group's success in terms of safety excellence.

This year the Group regrettably suffered a higher number of lost-time accidents, even though the total number of hours worked was far lower, which led to a deterioration in its occupational accident frequency rate (TF1). Included in these calculations are the companies acquired recently, which need to work on improving their safety consciousness.

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

2009	2008	2007
4.4	2.7	2.6

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

2009	2008	2007
12.4	11.7	10.9

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

2009	2008	2007
0.23	0.20	0.19

A socially responsible Group

Ferroxdure at Évreux (France)

The last executive left the payroll on August 31, 2009, thereby bringing his progressive pre-retirement to an end. In tandem with the local authorities, he liaised with the buyers of the land and with the ASBCE (organization supporting and creating employment in the Évreux region).

This organization was set up in 2005 to share with other businesses the funds set aside to fulfill the Group's reindustrialization obligation and to optimize their efficacy.

In the meantime, new businesses joined the founding members and at year-end 2008, the ASBCE was supporting over thirty businesses creating new jobs or new activities. It was directly involved in the actual or scheduled creation of 340 new jobs.

Carbone Lorraine Applications Électriques in Amiens (France)

A large-scale project was launched at the Carbone Lorraine Applications Électriques (CLAE) site in Amiens, France.

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

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

The project consists in training, reskilling and retraining the employees who used to work for the EMC division (since renamed AVO Carbon) to the facility's other activities in order to curb the social impact of the restructuring plan.

A professional solution had been found for 70% of the 135 employees who used to work for the EMC division 22 months after the program was initiated. An ambitious training plan representing close to 30,000 hours was launched. It is also worth noting that CLAE helped 16 employees to pursue their own personal ventures.

Ethical business practices

A purchasing code of conduct first introduced in 2003 emphasizes the transparency of purchasing procedures and policy at every level of the Group, the fair selection of business partners and suppliers and the best practices adopted for supplier relationships. In addition, the three-year purchasing plan that came to an end in 2009 saw the introduction of a selection process based on criteria linked to environmental protection and reductions in energy consumption.

With regard to information systems, the charter governing the use of IT and telecoms systems aims to reconcile the objectives of respecting employees' individual freedoms and protecting security and the Group's legitimate business interests.

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

→ Outsourcing

The Group partially outsources the manufacture of its products. As in 2009, outsourcing costs amounted to €15 million, with assembly operations accounting for the bulk of this figure. Furthermore, metallic component cutting and stamping operations, as well as the manufacture of plastic components, were outsourced at a cost of around €25 million. These services accounted for around 20% of the Group's total purchases.

→ The Group's workforce

Close customer relationships represent a major pillar of the strategy pursued by Carbone Lorraine, which has built a large presence in international markets. The Group has established itself on five continents, with over 55% of its employees located outside Europe. Its largest units in terms of the size of its workforce are France, the US, China and Tunisia.

GEOGRAPHICAL ANALYSIS OF THE WORKFORCE (AT END-DECEMBER)

Country	2009*		2008**	2007
Europe (including Tunisia)	44%	2,451	2,380	3,538
• o/w France	25%	1,399	1,440	1,749
North America (including Mexico)	30%	1,682	2,043	2,436
Asia-Pacific	22%	1,251	1,151	530
Rest of the world	4%	233	274	354
TOTAL	100%	5,617	5,848	6,857

** In 2009, the headcount includes the following units consolidated for the first time: Calcarb (GB).*
*** 2008 headcount based on continuing operations.*

Social data (operations in France)

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

HEADCOUNT AT DECEMBER 31

	2009	2008	2007
Workforce	1,399	1,664	1,749
• o/w fixed-term contracts	8	21	14

RECRUITMENT

	2009	2008	2007
Recruitment	70	93	181
• o/w fixed-term contracts	16	37	23

Most of the French facilities hired very few new employees during 2009. The new hires were made across all socio-professional categories. The slowdown in business activities at the facilities during 2009 considerably reduced recruitment needs. Work was organized differently, and working time allocated in a manner that optimized resources.

TEMPORARY WORKERS

	2009	2008	2007
Average headcount	103	171	245
% of the headcount	7%	10%	14%

OVERTIME

	2009	2008	2007
Overtime	27,357	43,716	29,189
% of hours worked	1.1%	1.2%	0.7%

The reduction in overtime was linked to the slowdown in certain activities requiring a different organization of working hours.

ABSENTEEISM

	2009	2008	2007
Absenteeism rate	5.16%	4.55%	4.52%
• o/w illness	3.86%	3.24%	2.97%

During 2009, a total of 830 hours were lost to strikes, representing 0.035% of hours worked.

Organization of working hours

The working hours of engineers and managers are calculated based on an annual total of 217 work days, which gives them an average of 12 days of additional leave per year.

At December 31, 2009, 63 employees worked on a part-time basis.

Environmental responsibility

Carbone Lorraine's commitment to sustainable development shows up in two ways. In line with its increasingly strong positions in renewable energies, Carbone Lorraine has committed itself to a policy of profitable growth that is both environmentally-friendly and socially responsible. A core Group value, its commitment to protecting the environment is part of a collective and pragmatic approach. The entire workforce is educated about the relevant issues and trained in simple actions that help to protect the environment. This program is pursued by the entire Group at all its various levels.

→ Carbone Lorraine's environmental policy

Carbone Lorraine endeavors to protect the environment and undertakes to:

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

→ A pragmatic approach to minimize the impact of the Group's operations on the environment

In practice, Carbone Lorraine's environmental policy consists in identifying the best practices and adopting an extremely high level of vigilance in order to eliminate, reduce or process discharges of gas, liquid or solid pollutants and to minimize other nuisances. Generally speaking, the Group strives to focus on measures that help to reduce CO_2 emissions.

To meet European environmental constraints and plan ahead for potential regulatory changes, Carbone Lorraine stepped up its preparations in several areas.

As part of the REACH regulations, the Group continued during 2009 to catalog and analyze all the chemical products it uses in its production processes. A decision was made to carry out extensive pre-registration of these products with the European Commission. Having conducted an inventory of all the substances used by the Group in Europe, certain substances considered as strategically important were pre-registered on a precautionary basis to guarantee the possibility of using them even if the Group's suppliers fails to pre-register them. At the same time, the Group is conducting a survey to make sure that its suppliers adhere to the regulations properly. Pre-emptive measures have also been taken to control the risk of shortages of key products.

At the same time, Carbone Lorraine continued to introduce measures to protect both employees and the environment against CMR (Carcinogenic, Mutagenic or toxic to Reproduction) substances. These included the replacement of aspiration systems to reduce dust significantly.

Applying the same approach of planning ahead to meet environmental challenges, the Group launched three new programs during 2009, after completing its estimate of the carbon footprint of one of its principal manufacturing facilities in 2008, even though it is not covered by the first French national plan for the allocation of carbon dioxide emission quotas (PNAQ). Two of these programs have already been completed. This analysis was used to determine sources of future savings and served as pilot projects prior to the general roll-out of the programs to the Group's principal facilities.

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

In terms of waste reprocessing, the Group is actively participating in efforts to recycle fuse waste by reusing large amounts of the metal content of used fuses.

During 2009, Carbone Lorraine continued to pursue the redesign to cost drive it launched in 2008 for some of its products. This method is used not only to overhaul completely the various components of products, but also to replace certain raw materials with other more environmentally-friendly items.

Lastly, pursuant to the European directive concerning the best technology available for curbing industrial pollution, the Group conducted studies during 2009 of the technologies currently used in our major processes in order to assess differences vis-à-vis these technologies and to draw up any action plans required.

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

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

The ISO 14001 certification program is continuing, and the Group's principal plants are now certified. Some sites have taken this process even further by striving to achieve OHSAS 18001 (Occupational Health and Safety Assessment Series) certification.

→ Global risk management

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

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

During 2009, the Group began to implement action plans following the third risk mapping completed during 2008, which did not identify any major risk factors. These measures relate to all the Group's risk factors, irrespective of whether they relate to industrial, strategic, financial or information management issues.

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

→ Produce more effectively using eco-design strategies

The Group strives to offer products with a limited impact on the environment. To this end, it seeks to equip itself with the best technologies available when designing its new manufacturing lines and its new products.

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

→ Environmental data

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

The Group scope encompasses plants in:

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

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

KEY INDICATORS

	Unit	2009 Group total	2008 Group total	% chg. Group 2009/2008	2009 France	2008 France	% chg. France 2009/2008
Water consumption	m^3	563,816	591,235	(4%)	289,385	343,080	(15%)
Energy consumption							
Electricity	MWh	133,565	142,898	(6%)	40,070	47,824	(16%)
Gas	MWh	140,613	191,683	(26%)	47,093	62,286	(24%)
Consumption of raw materials and metals							
Wood	tons	1,071	1,998	(46%)	550	662	(16%)
Cardboard	tons	945	946	0	516	599	(13%)
Copper	tons	1,675	2,196	(23%)	793	1,097	(27%)
Waste							
Wood, 100% recycled	tons	484	622	(22%)	304	427	(28%)
Recycled cardboard	tons	250	369	(32%)	181	187	(3%)
Non-hazardous waste	tons	5,613	7,986	(29%)	820	1,209	(32%)
Discharges							
Wastewater	m^3	505,332	533,349	(5%)	289,385	355,538	(18%)

As part of the Group's environmental program, plants continued their efforts to mitigate environmental impacts during 2009 and implemented improvements:

Amiens

- renewal of ISO 14001 certification;
- follow-up on the REACH program with a Health, Safety and Environment (HSE), Purchasing and R&D monitoring group;
- update of the impact study for the operating review;
- development of a new graphitization process, which includes the elimination of gaseous effluents through pyrolysis, leading to energy savings.

Gennevilliers

- carbon footprint assessment completed at the beginning of the year;
- renewal of ISO 14001 certification;
- follow-up on the REACH program with a Health, Safety and Environment (HSE), Purchasing and R&D monitoring group;
- introduction of effluent washers, with a complete filter for new graphite purification kilns;
- introduction of a new electrical kiln fitted with an incinerator for gaseous effluents;
- consideration of environmental aspects at the design stage of new projects;
- incorporation of a gaseous effluent disposal unit through pyrolysis in a new anti-oxidation coating kiln;
- the new coating kiln unit incorporates a gas washer.

Pagny-sur-Moselle

- follow-up on the REACH program with a Health, Safety and Environment (HSE), Purchasing and R&D monitoring group;
- carbon footprint assessment.

St Bonnet de Mure

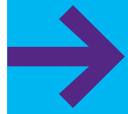
- follow-up on the REACH program as a downstream user.

St Mary's

- installation of an RTO (Regenerative Thermal Oxidation) incinerator: to save energy.
- commissioning of a smoke washer system in the raw material mixing workshop.

Newburyport

- very clear trend since 2005 of reductions in the consumption of water, electricity and gas following the implementation of a energy saving program and tighter controls.



Consolidated financial statements

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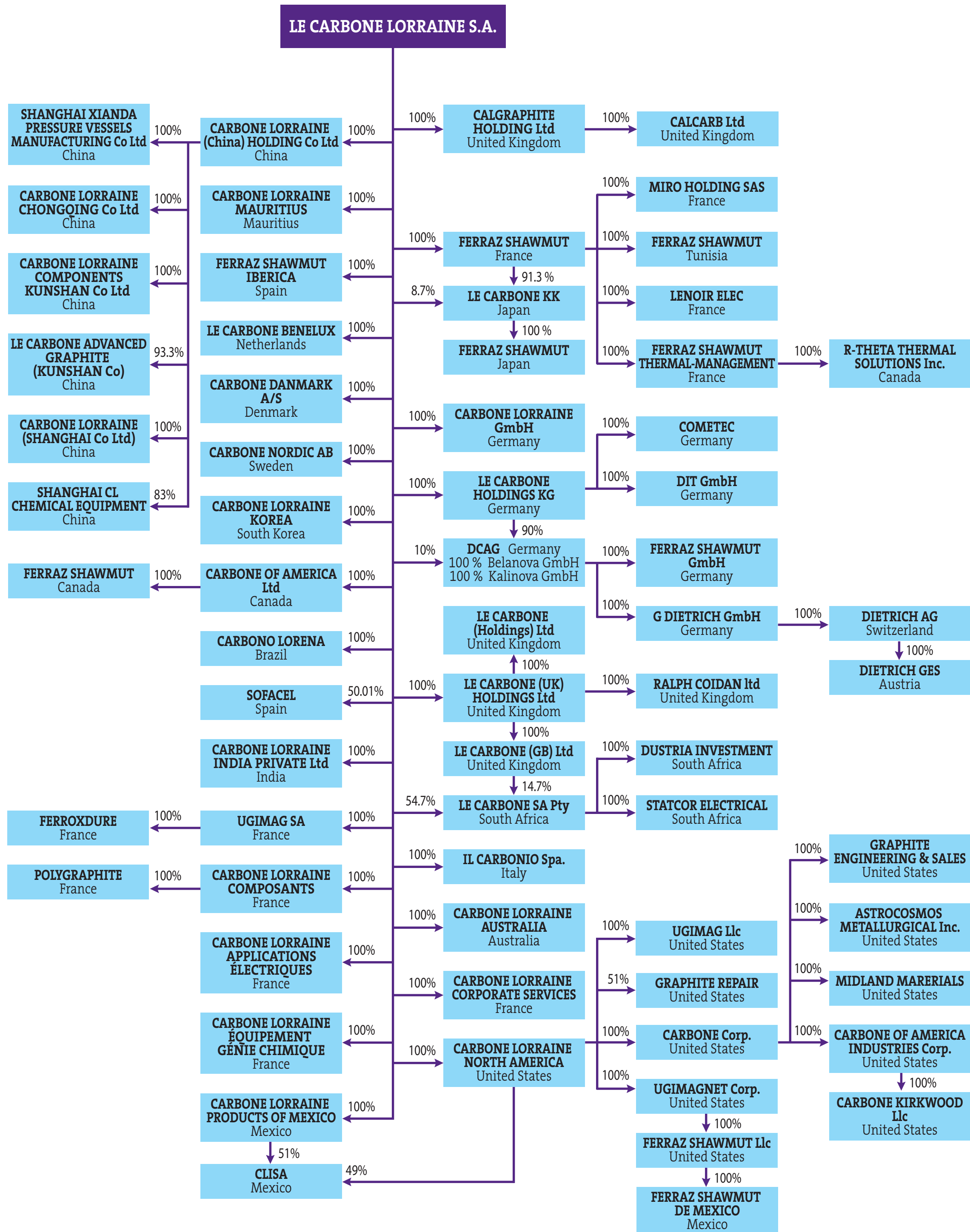
Scope of consolidation at December 31, 2009



List of consolidated companies

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

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

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

Changes in the scope of consolidation
during the past two years

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

- during fiscal 2008:
  - Le Carbone Holding KG acquired German company DIT GmbH during fiscal 2007 and it was consolidated for the first time from January 1, 2008,
  - Ferraz Shawmut Tunisie was consolidated for the first time from January 1, 2008,
  - Chinese company Carbone Lorraine Shanghai Co. Ltd was consolidated for the first time from January 1, 2008,
  - Chinese company Shanghai Xianda Pressure Vessels Manufacturing Co. Ltd, as well as its holding company CL (China) Holding Co. Ltd, was consolidated for the first time from April 1, 2008,
  - the rail and motorcycle braking sub-division was deconsolidated from April 1, 2008, following the disposal to Faiveley of this sub-division belonging to the Advanced Materials and Technologies segment,
  - Miro Holding SAS was consolidated for the first time from June 1, 2008. Since July 2008, this company has owned a 51% stake in Zhejiang Mingrong Electrical Protection via unconsolidated Hong Kong-based company Fuses and Switchgear Ltd.
  - Canadian company R Theta Thermal Solutions Inc., which was acquired by Ferraz Shawmut Thermal Management during fiscal 2008, was consolidated for the first time from August 1, 2008,
  - Ferraz Shawmut SAS acquired the medium-voltage fuse manufacturing operations at Areva's Montpellier plant in September 2008;
- during fiscal 2009:
  - UK company Calcarb Limited, which was acquired in December 2008 was consolidated for the first time from January 1, 2009,
  - Carbone Lorraine Products de Mexico and Carbone Lorraine Immobiliaria SA were consolidated for the first time from March 1, 2009.

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

→ Sale of the automobile and household electrical appliance brush division

- At December 31, 2008:

Given the firm offer received by the Group in January 2009 for the acquisition of the Automobile and household electrical appliance brush and brushholder division, which belonged to the Electrical Applications segment, the Group's 2008 financial statements were presented in accordance with IFRS 5 (Note 5).

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

- At December 31, 2009:

The divestment was completed on May 1, 2009.

The Group's consolidated financial statements for 2009 take the sale of the division into account (see Note 5).

Consolidated income statement

(In millions of euros)	Note	Dec. 31, 2009	Dec. 31, 2008
CONTINUING OPERATIONS			
Consolidated sales	18	587.3	661.9
Cost of sales		(412.5)	(445.7)
Gross income		**174.8**	**216.2**
Selling and marketing costs		(60.3)	(64.7)
Administrative and research costs		(61.3)	(66.3)
Other operating costs		(2.3)	(2.2)
Operating income before non-recurring items		**50.9**	**83.0**
Non-recurring charges	17	(6.5)	(3.9)
Non-recurring income	17	2.0	14.2
Amortization of revalued intangible assets		(0.8)	
Operating income	**18/20**	**45.6**	**93.3**
Finance costs	21	(10.4)	(12.1)
Finance costs, net		**(10.4)**	**(12.1)**
Income before tax and non-recurring items		**35.2**	**81.2**
Current and deferred income tax	22	(9.5)	(24.2)
Net income from continuing operations		**25.7**	**57.0**
Net income from assets held for sale or discontinued operations	5	(10.8)	(27.2)
Net income for the year		**14.9**	**29.8**
Attributable to:			
- Carbone Lorraine's shareholders		14.6	**29.1**
- Minority interests		0.3	0.7
NET INCOME FOR THE YEAR		**14.9**	**29.8**
Earnings per share	**23**		
Basic earnings per share *(€)*		0.89	2.05
Diluted earnings per share*(€)*		0.85	1.99
Earnings per share from continuing operations	**23**		
Basic earnings per share *(€)*		1.55	3.95
Diluted earnings per share *(€)*		1.48	3.84

(In millions of euros)	Note	Dec. 31, 2009	Dec. 31, 2008
CONDENSED STATEMENT OF COMPREHENSIVE INCOME			
NET INCOME FOR THE YEAR		**14.9**	**29.8**
Change in fair value of hedging derivatives	21	1.4	(0.6)
Change in balance sheet items at year-end exchange rate		(3.8)	1.5
Tax on income recognized in equity		(0.6)	0.4
INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY		**(3.0)**	**1.3**
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**11,995**	**31.1**
Attributable to:			
- Carbone Lorraine's shareholders		11.5	30.5
- Minority interests		0.4	0.6
TOTAL INCOME AND EXPENSE RECOGNIZED DURING THE PERIOD		**11.9**	**31.1**

Statement of financial position

ASSETS

(In millions of euros)	Note	Dec. 31, 2009	Dec. 31, 2008
NON-CURRENT ASSETS			
Intangible assets			
- Goodwill	6	231.3	181.2
- Other intangible assets	8	31.0	8.2
Property, plant and equipment			
- Land		32.1	30.9
- Buildings		47.8	39.2
- Plant, equipment and other assets	8	146.2	135.8
- Assets in progress		37.6	29.1
Non-current financial assets			
- Investments	9	21.8	69.1
- Non-current derivatives		0.0	2.8
- Other financial assets	3/13	9.4	23.8
Non-current tax assets			
- Deferred tax assets	22	20.0	10.3
- Non-current income tax assets		0.1	
TOTAL NON-CURRENT ASSETS		577.3	530.4
CURRENT ASSETS			
- Inventories	10	138.5	165.9
- Trade receivables	11	92.0	121.0
- Other receivables		15.8	29.1
- Current tax assets		7.6	10.4
- Other current assets		1.7	9.5
- Current financial assets	15	6.0	0.5
- Current derivatives	3	0.5	2.0
- Financial assets	15	1.2	3.2
- Cash and cash equivalents	15	32.9	46.8
- Assets held for sale and discontinued operations	5	1.3	24.1
TOTAL CURRENT ASSETS		297.5	412.5
TOTAL ASSETS		874.8	942.9

LIABILITIES AND EQUITY

(In millions of euros)	Note	Dec. 31, 2009	Dec. 31, 2008
EQUITY			
- Share capital	12	39.3	28.6
- Premiums and retained earnings		420.5	313.4
- Net income for the year		14.6	29.1
- Cumulative translation adjustments		(53.8)	(49.9)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**420.6**	**321.2**
- Minority interests		4.3	4.0
EQUITY		**424.9**	**325.2**
NON-CURRENT LIABILITIES			
- Non-current provisions	13	0.4	43.2
- Employee benefits	14	34.2	34.9
- Deferred tax liabilities	22	15.6	6.1
- Borrowings	15	192.7	297.6
- Non-current derivatives	3	1.2	0.5
TOTAL NON-CURRENT LIABILITIES		**244.1**	**382.3**
CURRENT LIABILITIES			
- Trade payables		53.7	72.0
- Other payables		51.4	64.3
- Current provisions	13	0.6	3.0
- Current income tax liabilities		2.0	4.4
- Other liabilities	13	33.6	14.0
- Other current financial liabilities	15	29.4	39.2
- Current derivatives		0.1	3.9
- Current advances	15	1.9	1.3
- Bank overdrafts	15	31.0	18.3
- Liabilities related to assets held for sale and disc. op.	5	2.1	15.0
TOTAL CURRENT LIABILITIES		**205.8**	**235.4**
TOTAL LIABILITIES AND EQUITY		**874.8**	**942.9**

Consolidated statement of changes in equity

(In millions of euros)	Attributable to Carbone Lorraine's shareholders						
	Share capital	Premiums and retained earnings	Net income for the year	Cumulative translation adjustment	Total	Minority interests	Equity
EQUITY AT DECEMBER 31, 2007	**28.6**	**309.3**	**15.4**	**(50.4)**	**302.9**	**4.1**	**307.0**
Prior period net income		15.4	(15.4)		0.0		0.0
Net income for the year			29.1		29.1	0.7	29.8
Change in fair value of hedging derivatives		(0.2)			(0.2)		(0.2)
Translation adjustments and other		1.1		0.5	1.6	(0.1)	1.5
Comprehensive income for the year	0.0	0.9	29.1	0.5	30.5	0.6	31.1
Dividends paid		(12.1)			(12.1)	(0.7)	(12.8)
Issue of new shares					0.0		0.0
Treasury shares		(0.1)			(0.1)		(0.1)
EQUITY AT DECEMBER 31, 2008	**28.6**	**313.4**	**29.1**	**(49.9)**	**321.2**	**4.0**	**325.2**
Prior period net income		29.1	(29.1)		0.0		0.0
Net income for the year			14.6		14.6	0.3	14.9
Change in fair value of hedging derivatives		0.8			0.8		0.8
Cumulative translation adjustment				(3.9)	(3.9)	0.1	(3.8)
Comprehensive income for the year	0.0	0.8	14.6	(3.9)	11.5	0.4	11.9
Dividends paid		(8.9)			(8.9)	(0.1)	(9.0)
Issue of new shares	10.7	83.4			94.1		94.1
Expenses on issue of new shares		(2.4)			(2.4)		(2.4)
Treasury shares		0.5			0.5		0.5
Other items		4.6			4.6		4.6
EQUITY AT DECEMBER 31, 2009	**39.3**	**420.5**	**14.6**	**(53.8)**	**420.6**	**4.3**	**424.9**

Consolidated statement of cash flows

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
OPERATING ACTIVITIES		
Income before tax	35.2	81.2
Depreciation and amortization	31.4	25.1
Additions to/(write-backs from) provisions	(3.9)	(5.2)
Finance costs, net	10.4	12.1
Capital gains/(losses) on asset disposals	2.3	0.3
Other	1.8	(10.6)
Cash generated by operating activities before change in the WCR	**77.2**	**102.9**
Change in the working capital requirement	43.1	(24.2)
Income tax paid	(4.8)	(13.1)
Net cash generated by continuing operations	**115.5**	**65.6**
Cash generated by discontinued operations	**(20.2)**	**(5.2)**
Net cash generated by operating activities	**95.3**	**60.4**
Investing activities		
Increase in intangible assets	(0.9)	(0.5)
Increase in property, plant and equipment	(42.5)	(57.0)
Increase in financial assets	(0.5)	(0.3)
Impact of changes in the scope of consolidation	(24.5)	(73.4)
Other changes in cash generated/(used) by investing activities	(5.9)	(4.6)
Cash generated/(used) by investing activities from continuing operations	**(74.3)**	**(135.8)**
Cash generated/(used) by investing activities from discontinued operations	**2.2**	**(1.5)**
Cash generated/(used) by investing activities	**(72.1)**	**(137.3)**
Cash generated/(used) by operating and investing activities	**23.2**	**(76.9)**
Proceeds from issue of new shares and other increases in equity	87.6	(0.5)
Net dividends paid to shareholders and minority interests	(2.5)	(12.8)
Interest payments	(10.5)	(9.1)
Change in debt (Note 15)	(111.0)	138.6
Cash generated/(used) by financing activities	**(36.4)**	**116.2**
Change in cash	**(13.2)**	**39.3**
Cash at beginning of fiscal year (Note 15)	50.1	26.4
Cash at end of fiscal year (Note 15)	34.1	50.1
Impact of changes in the scope of consolidation	(1.5)	1.0
Impact of currency fluctuations	4.3	14.6
CHANGE IN CASH	**(13.2)**	**39.3**

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NOTE 1 Statement of conformity

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

The mandatory standards and interpretations at January 1, 2009 and their impact are presented in Note 2. The new standards and interpretations not yet applied are presented in Note W.

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

The consolidated financial statements at December 31, 2009 have been prepared using the recognition and measurement principles stated in the IFRSs adopted in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the General Regulation of the *Autorité des Marchés Financiers* (AMF, the French market regulator).

For comparison purposes, the consolidated financial statements for the fiscal year to December 31, 2009 include data for fiscal 2008 restated using the same accounting rules.

The accounting principles stated from Note 2 onwards have been used to prepare the comparative figures and the annual financial statements for 2009.

NOTE 2 Accounting policies and principles of consolidation

Change in accounting policies and principles of consolidation

Basis of preparation

The Group applies the revised IAS 1 - Presentation of financial statements (2007), which was adopted from January 1, 2009. The revised version introduces the concept of total comprehensive income including changes in equity over the period, other than those resulting from transactions with owners. The Group opted to present comprehensive income in two statements consisting of an income statement and a separate statement showing income and other components of comprehensive income. The comparative figures were restated to bring them into line with the revised version of the standard. As the change in accounting policy only affects presentation aspects, there is no impact on earnings per share.

Identification and presentation of operating segments

The Group identifies and presents operating segments based on information provided internally to the Management Board, which is the Group's chief operating decision maker. This change in accounting policy is the result of the adoption of IFRS 8 - Operating segments. The comparative segment information has been restated in accordance with the transitional arrangements of IFRS 8. This change in accounting policy affects only the presentation and disclosures to be provided in the notes and has no impact on earnings per share.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the same entity. The segment's operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance. Discrete financial information is available for this component. Unallocated items chiefly include expenses incurred by the holding company.

IAS 23 in its revised form requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset and removes the option to recognize these borrowing costs as an expense. These costs are treated as part of the acquisition cost of the asset. The Group already recognized borrowing costs directly attributable to the cost of qualifying assets. Accordingly, the revised version of IAS 23 has no impact on the Group's consolidated financial statements.

The amendments to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations clarify the definition of the vesting conditions of rights, introduce the concept of conditions other than the vesting of rights, require that these other conditions are reflected in the fair value at the grant date and indicate the accounting treatment of the other conditions and cancellations. These amendments do not have any impact on the Group given the conditions under which the existing plans were awarded.

IFRIC 14 (IAS 19 - Employee benefits - The Limit on a defined benefit asset minimum funding requirements and their interaction) clarifies the date on which reimbursements or reductions in future contributions related to assets in a defined benefit plan are regarded as available and also the impact of the minimum funding requirement on these assets. The interpretation also addresses when a minimum funding requirement may give rise to an onerous obligation that should be recognized as a liability. Accordingly, IFRIC 14 has no impact on the consolidated financial statements.

A - Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the fiscal year are included in the consolidated income statement from the acquisition date or up to the loss of control respectively.

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

All intra-Group transactions and balances have been eliminated.

The consolidated financial statements have been prepared in euros.

The Group's business activities do not experience significant seasonal fluctuations. Both sales and purchases are spread on a linear basis throughout the year.

B - Presentation of the financial statements

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

B1 Statement of comprehensive income

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

The Group presents comprehensive income in two statements consisting of an income statement and a separate statement showing income and other components of comprehensive income.

B2 Statement of financial position

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

B3 Statement of cash flows

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

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

B4 Assets and liabilities held for sale and discontinued operations

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

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

For groups of assets satisfying the definition of a business held for sale or discontinued operation, their results are presented by separating results from continuing operations, and their cash flows are presented separately on the cash flow statement.

C - Foreign currency translation

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

The balance sheet of companies whose functional currency is not the euro is translated into euros at the closing rate, except for equity, which is translated at the historic exchange rate. Income statement items are translated at the average exchange rate for the period, where the average exchange rate represents the value approached by the exchange rate at the transaction date in the absence of significant fluctuations.

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

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

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

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

D - Foreign currency assets and liabilities

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

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

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

E - Hedging

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

E1 Currency and commodity hedges

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

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

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

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

E2 Interest-rate hedging

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

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

F - Intangible assets

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

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

The Group's intangible assets primarily comprise goodwill.

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

F1 Goodwill

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

Goodwill is allocated individually to the Group's cash generating units (CGUs). The Group adopted the following four CGUs at December 31, 2009:

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

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

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

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

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

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

Goodwill impairment losses are not reversible.

F2 Patents and licenses

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

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

G3 Development costs

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

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

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

F4 Intangible assets acquired in connection with a business combination

Intangible assets also include technology, brands and customer relationships valued upon the acquisition of companies in accordance with IFRS 3 - Business combinations.

Except for brands, all intangible assets are subject to amortization and are amortized on a straight-line basis over their useful life.

G - Property, plant and equipment

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

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

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

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

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

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

The periods used are as follows:

- buildings: 20 to 50 years;
- fixtures and fittings: 10 to 15 years;
- plant and equipment: 3 to 10 years;
- vehicles: 3 to 5 years.

These depreciation periods, as well as the residual values, are reviewed and adjusted at the end of each fiscal year. These changes are applied prospectively.

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

H - Leases

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

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

Non-current assets used under a finance lease give rise to the recognition on the Group's balance sheet of both an item of property, plant and equipment and an obligation to make future lease payments. Leases are recognized at the fair value of the leased property or at the present value of minimum payments, if lower. At the commencement of the lease term, the asset and relevant liability of the same value corresponding to the future payments under the lease are recognized on the balance sheet.

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

The capitalized asset is depreciated over the useful life adopted by the Group for non-current assets of the same type. Where the Group is not reasonably certain that the lessee will take ownership of the asset at the end of the lease term, the asset is depreciated in full over the shorter of the term of the lease and the useful life.

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

I - Impairment of property, plant and equipment and intangible assets

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

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

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

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

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

J - Financial assets and liabilities

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

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

Upon their initial measurement, all assets and liabilities not stated at fair value are measured at fair value taking transaction costs into account.

Subsequently, loans and receivables are recognized at amortized cost.

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

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

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

J1 Investments

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

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

These impairment losses are irreversible and are not written back.

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

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

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

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

The materiality of unconsolidated subsidiaries is reassessed at each balance sheet date.

J2 Other non-current financial assets

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

K - Share capital

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

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

L - Provisions

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

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

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

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

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

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

M - Inventories

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

Cost comprises acquisition or production cost.

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

N - Consolidated sales

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

A sale is recognized when the entity transfers to the buyer the risks and rewards incidental to ownership.

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

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

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

O - Employee benefits

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

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

These actuarial calculations are based on various estimates:

- mortality tables;
- retirement dates;
- rate of future salary and benefit increases and employee turnover;
- expected return on plan assets;
- discount and inflation rates set for each of the relevant entities taking into account their local macro-economic environment.

Actuarial gains and losses comprise the cumulative impact of:

- experience adjustments (difference between previous actuarial assumptions and what has actually occurred);
- changes in actuarial assumptions.

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

The Group has opted to use the following method:

- cumulative unrecognized actuarial gains and losses falling outside a corridor of plus or minus 10% of the value of the higher of the plan's assets and obligations are recognized and amortized over the expected average remaining working lives of the employees participating in the plan;
- gains and losses falling within the 10% corridor are not recognized;
- unrecognized net cumulative actuarial gains and losses include both the cumulative portion of the 10% within the corridor, as well as the portion outside the corridor, which has not been recognized at the balance sheet date. In accordance with IAS 19, they are disclosed in the notes to the financial statements.

O1 Recognition of post-employment benefit obligations

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

- on the face of the balance sheet :

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

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

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

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

O2 Recognition of unrecognized past service cost

Unrecognized past benefits are recognized in income on a prorata basis with the corresponding obligation.

P - Non-recurring income and expense

Non-recurring items correspond to income and expense not arising during the combined entity's day-to-day operations. Major events likely to skew operating performance are recognized under this heading, which does not include any recurring operating expenses.

Non-recurring income and expense include the following items:

- material non-recurring gains and losses on disposal: on property, plant and equipment, intangible assets, investments, other financial assets and other assets;
- impairment losses recognized on investments, loans, goodwill and other assets;
- certain types of provision;
- reorganization and restructuring costs.

Q - Operating income

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

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

R - Deferred taxes

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

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

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

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

Deferred tax assets and liabilities are stated using the liability method for the balance sheet, i.e. using the tax rate that is expected to be applied in the fiscal year in which the asset will

be realized or the liability settled, based on tax rates (and tax laws) enacted or substantively enacted at the balance sheet date, taking into account future tax rate increases or decreases.

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

S - Segment reporting

The new IFRS 8 on segment reporting defines an operating segment as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The internal reporting provided to the chief operating decision maker, i.e. the Management Board, and to the Supervisory Board, reflects the management structure of the Carbone Lorraine group, which is based on the following segmentation:

- **Advanced Materials and Technologies:** graphite equipment and other high-performance materials dedicated to extreme industrial environments;
- **Electrical Components and Technologies:** systems and components contributing to the performance and protection of electrical equipment.

Pursuant to IFRS 8, the Group has identified and presented since January 1, 2009 operating segments based on the information provided internally to the Management Board.

Previously, the Group presented its segment reporting based on three segments:

- **Advanced Materials and Technologies:** a segment unchanged pursuant to adoption of IFRS 8;
- **Electrical Protection:** now integrated within the Electrical Components and Technologies segment;
- **Electrical Applications:** this business, which included the brushes for automobiles and household electrical appliances division, which was sold at the beginning of fiscal 2009, was incorporated within the Electrical Components and Technologies segment.

The combination of these two sectors into a single segment upon the first-time adoption of IFRS 8 was justified by the following developments:

- the disposal of the brushes for automobiles and household electrical appliances division from the **Electrical Applications** segment and the development of this segment's activities into energy prompted the Group to combine it with the **Electrical Protection** segment, which has itself expanded in this area;
- the Electrical Components and Technologies division now includes all the industrial expertise linked to the supply of power to and protection of machines and electrical equipment;
- the products manufactured by the Electrical Applications division and the Electrical Protection division are intended for common client industries based on the applications considered;
- these two divisions use comparable marketing channels, which are organized into both direct sales and the use of local and international distributors.

This organization into two segments does not call into question the CGUs previously defined by the Group, of which there are still four, namely:

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

T - Earnings per share

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

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

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

U - Equity-linked benefits granted to employees

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

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

V - Use of estimates

For the preparation of the consolidated financial statements, the calculation of certain figures shown in the financial statements requires that assumptions, estimates or assessments be made, particularly in relation to the calculation of provisions and

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

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

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

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

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

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

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

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

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

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

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

W - New standards and interpretations not yet applied

New standards and amendments to standards and interpretations not yet in force at December 31, 2009 were not applied in the preparation of the consolidated financial statements:

- Revised IFRS 3 (2008) - Business Combinations contains the following changes, which will probably have an impact on the Group's transactions:
  - the definition of a business has been extended, which will probably increase the number of acquisitions treated as business combinations,
  - any consideration must be stated at fair value, with subsequent changes being recognized in income,
  - acquisition-related costs other than costs to issue debt or equity securities are expensed as incurred,
  - any previously held equity interest is stated at fair value, with the resulting gain or loss being recognized in income,
  - any (minority) equity interest not yielding control is stated either at fair value or based on its proportional share in the fair value of identifiable assets and liabilities of the acquiree, with the choice being made transaction by transaction.
  - revised IFRS 3, application of which will be mandatory for the Group's 2010 consolidated financial statements, will be applied early and accordingly will not have any impact on prior periods in the Group's 2010 consolidated financial statements;
- Amended IAS 27 - Consolidated and Separate Financial Statements (2008) states that changes in the level of the Group's ownership interests in a subsidiary maintaining its control are accounted for as equity transactions. When the Group loses control of a subsidiary, any interest held in the former subsidiary is stated at fair value and any gain or loss is recognized in income. The amendments to IAS 27, application of which will be mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact.

NOTE 3 Financial risk management

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

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

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

Liquidity risk

Carbone Lorraine has at its disposal credit lines and confirmed borrowings representing a total amount of €425.6 million with an average maturity of 3.2 years, of which 56% was drawn down at December 31, 2009.

Carbone Lorraine has four major financing agreements:

- a USD350 million loan arranged in July 2008 with a maturity of five years syndicated with an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;
- a RMB500 million loan arranged in September 2008, of which RMB350 million has a maturity of three years and RMB150 million has a maturity of one year, syndicated with an international pool of banks, intended to finance the Carbone Lorraine group's operations in China. In September 2009, the RMB150 million loan was renewed for one year;
- a €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) finalized in November 2007 and repayable in one-third installments between 2012 and 2014, giving it an average life of six years (at issue). The interest rate paid is 3-month Euribor plus a fixed margin. This margin is negative owing to the sale of the warrants;
- a USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. The interest paid to investors carries a fixed rate.

Breakdown by maturity of credit lines and confirmed borrowings

(In millions of euros)	Amount	Drawn down at Dec. 31, 2009	Draw-down rate at Dec. 31, 2009	Maturities: less than 1 year	Maturities: Between 1 and 5 years	Maturities: Over 5 years
Group syndicated loan	242.9	73.5	30%	0.0	242.9	0.0
Confirmed credit lines, China	64.1	44.9	70%	28.5	35.6	0.0
US private placements	39.7	39.7	100%	6.5	30.4	2.8
Other confirmed borrowings	39.7	39.7	100%	32.3	4.9	2.5
OBSAAR bond issue	39.2	39.2	100%	0.0	39.2	0.0
TOTAL	425.6	237.0	56%	Average maturity (year) = 3.2		

Breakdown by maturity of cash flows from credit line drawdowns and confirmed borrowings

(In millions of euros) DRAW-DOWNS	Drawn down at Dec. 31, 2009	Expected cash flows	Maturities: 1-6 months	Maturities: 6-12 months	Maturities: Over 1 year
Group syndicated loan	73.5	73.6	73.6		
Confirmed credit lines, China	44.9	45.2	45.2		
US private placements	39.7	45.7	7.6	1.0	37.1
Other confirmed borrowings	39.7	41.6	32.2	0.3	9.1
OBSAAR bond issue	39.2	43.2	0.5	0.5	42.2
TOTAL	237.0	249.3	159.1	1.8	88.4

Interest-rate risk

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

Since Carbone Lorraine considered that interest rates are at low levels by historic standards, it decided to fix part of its cost of debt in late 2009.

In May 2003, the Group arranged several interest-rate swaps with an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swaps was May 28, 2003, and the swaps have the same duration as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At December 31, 2008, the swaps had a total nominal amount of USD66.5 million. These swaps were sold again in April 2009, bringing the debt back to a fixed rate.

When it was acquired by Carbone Lorraine, Calcarb had an interest rate swap with a nominal amount of GBP4 million that was arranged on January 15, 2008 to convert part of the interest on its confirmed medium-term debt into a fixed rate. Under this swap, the Company receives interest due to the lender and pays a fixed rate of 5.38%. The repayment and duration profile of the swap match those of the debt. At December 31, 2009, the nominal amount stood at GBP3.6 million.

In June 2009, the Group arranged an interest-rate swap with an aggregate nominal amount of €39 million to convert the interest due on the OBSAAR issues into a fixed rate. Under this swap, the Company receives the interest due to the lenders and pays a fixed rate of 2.815% with a repayment profile and term equivalent to those of the OBSAAR issues.

At December 21, 2009, the Group arranged two interest rate swaps with nominal amounts of USD30 million and GBP20 million in order to convert the interest on part of its medium-term debt into a fixed rate. Under these swaps, the Company receives the interest due to the lender and pays a fixed rate of 1.175% for the US dollar swap and 1.58% for the sterling swap.

(In millions of euros)	Amount	Interest rate received	Interest rate paid	Maturities less than 1 year	 between 1 and 5 years	 Over 5 years
Swap	39.0	3-month Euribor	2.815%		39.0	
Swap	22.5	1-month GBP Libor	1.58%		22.5	
Swap	20.8	1-month USD Libor	1.175%		20.8	
Swap	4.0	1-month GBP Libor	5.38%	0.3	1.5	2.2
TOTAL	86.3			0.3	83.8	2.2

(In millions of euros) *SWAP*	MTM*	Expected cash flows	Maturities less than 1 year	 between 1 and 5 years	 Over 5 years
Assets	0.1	1.2	0.5	0.7	0.0
Liabilities	(1.2)	(5.6)	(1.9)	(3.2)	(0.5)

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

Commodity risk

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

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

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

At year-end 2009, the Carbone Lorraine group did not want to hedge all or part of its 2010 commodity exposure, but reserves the right to hedge these risks in 2010.

Impact of commodity hedging

(In millions of euros)	Balance sheet impact at year-end 2009	2009 income statement impact
Copper	0.0	(0.9)
Silver	0.0	0.6

Currency risk

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

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

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

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

For consolidation purposes, the income statement and statements of cash flows of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the closing rate. The impact of this currency translation may be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt.

The Group's operating income before non-recurring items is exposed to exchange rate fluctuations principally through the translation of earnings recorded by companies whose functional currency is not the euro. The principal exposure is to the US dollar. A 10% decline in the value of the US dollar compared with the average recorded from January to December 2009 would have had a translation impact of negative €2.6 million on the Group's operating income before non-recurring items.

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

€/foreign currency risks

Risks *(stated in millions of euros)*	JPY	USD	KRW	GBP	RMB
Amounts due to the Group	1.8	6.7	0.3	0.9	2.1
Amounts payable by the Group	0.3	3.2	0.0	2.6	1.9
Balance sheet position	1.5	3.5	0.3	(1.6)	0.2
Potential 2010 exposure	8.6	1.7	3.2	(1.1)	3.0
Hedges at December 31, 2009	(4.6)	(4.4)	0.0	0.6	0.0
Net position	5.5	0.7	3.5	(2.1)	3.2
Impact in euros of a 5% fall in the euro*	0.3	0.0	0.2	(0.1)	0.2

** Sensitivities were calculated based on exchange rates at December 31, 2009.*

USD/foreign currency risks

Risks *(stated in millions of euros)*	GBP	JPY	KRW	RMB
Amounts due to the Group	0.1	0.8	1.0	0.6
Amounts payable by the Group	1.8	0.0	0.0	3.0
Balance sheet position	(1.7)	0.8	1.0	(2.3)
Potential 2010 exposure	(1.2)	1.2	5.4	(7.5)
Hedges at December 31, 2009	1.4	(1.1)	0.0	1.7
Net position	(1.5)	0.9	6.4	(8.2)
Impact in euros of a 5% fall in the USD*	(0.1)	0.0	0.3	(0.4)

** Sensitivities were calculated based on exchange rates at December 31, 2009.*

RECOGNITION AT YEAR-END 2009 OF CURRENCY TRANSACTIONS

MTM* *(stated in millions of euros)*		Dec. 31, 2009
Marking to market value of currency hedges	Equity	0.4
	Other financial components of operating income	0.0
Other currency hedges	Foreign exchange gains and losses	0.0

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

FUTURE IMPACT ON INCOME OF CURRENCY TRANSACTIONS RECOGNIZED AT YEAR-END 2009

(Stated in millions of euros)	Marking to market of currency derivatives in equity	Impact on income	
CURRENCY		Less than 6 months	Over 6 months
Assets	0.5	0.4	0.1
Liabilities	(0.1)	(0.1)	0.0

FUTURE CASH FLOWS ON CURRENCY TRANSACTIONS RECOGNIZED AT YEAR-END 2009

(In millions of euros)			Maturities		
CURRENCY	MTM	Expected cash flows	Less than 6 months	Between 6 months and 1 year	Over 1 year
Assets	0.5	0.5	0.4	0.1	0.0
Liabilities	(0.1)	(0.1)	(0.1)	0.0	0.0

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

Credit risk

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

During 2009, this program was extended to cover Germany, the United Kingdom and China (domestic customers).

Supplemental agreements to the policies covering the French receivables transferred during 2009 were signed in favor of the factor (see Note 11).

NOTE 4 Business combinations

Business combinations during fiscal 2009

During December 2008, Carbone Lorraine acquired a 60% interest in the share capital of Calcarb, a Scottish company ranking number two worldwide in carbon bonded carbon fibers. The Group acquired the remaining 40% interest that it did not already own in December 2009.

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

- the move by Carbone Lorraine into carbon bonded carbon fibers, the growth of which is driven to a great extent by the solar segment;
- and the tight fit between Carbone Lorraine's and Calcarb's technologies. The technology used by Calcarb will round out other technologies that the Group is currently developing for the insulation market to unlock additional expansion potential.

The allocation of the acquisition cost was completed in December 2009 and intangible assets in an amount of €13.2 million were identified and measured (€8.3 million for technology and €4.9 million for customer relationships).

During 2009, the Group acquired French companies Lumpp and 2C Cellier, which will be consolidated in 2010.

(In millions of euros)	Net assets at acquisition date	Fair value adjustments	Allocation of the acquisition cost	Fair value of net assets
Non-current assets	18.0	(1.3)	13.2	29.9
Other assets	3.5	0.9	0.0	4.4
Non-current liabilities	(4.0)	0.0	0.0	(4.0)
Current liabilities	(9.6)	1.1	(3.7)	(12.2)
Net assets	7.9	0.7	9.5	18.1
Goodwill				62.1
TOTAL				80.2

The fair value adjustments relate to the amortization period of the non-current assets.

NOTE 5 Sale of the automobile and household electrical appliance brush division

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

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

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

Given the planned disposal arrangements, in the 2008 consolidated financial statements:

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

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

The divestment was completed on May 1, 2009.

For fiscal 2009, the financial statements of the assets held for sale and discontinued operations include the temporarily maintained operations closely linked to the disposal and due to be discontinued.

IFRS 5 balance sheet of operations sold or discontinued

ASSETS

(In millions of euros)	Total at Dec. 31, 2009	Total at Dec. 31, 2008
- Plant, equipment and other assets	0.7	
- Inventories	0.1	10.1
- Trade receivables	0.5	10.9
- Other receivables		3.1
Assets held for sale and disc. op.	1.3	24.1

LIABILITIES AND EQUITY

(In millions of euros)	Total at Dec. 31, 2009	Total at Dec. 31, 2008
- Non-current provisions		0.3
- Employee benefits	0.4	1.9
- Trade payables	0.1	7.8
- Other payables	1.6	4.5
- Other liabilities		0.5
Liabilities related to assets held for sale or and disc. op.	2.1	15.0
Net assets in process of being sold or disc. op.	(0.8)	9.1

IFRS 5 income statement for operations sold or discontinued

(In millions of euros)	2009	2008
Sales	17.6	70.4
Cost of sales	(22.6)	(66.3)
Gross income	(5.0)	4.1
Selling and marketing costs	(1.5)	(3.7)
Administrative and research costs	(2.9)	(6.3)
Other operating costs	1.8	(0.7)
Operating income before non-recurring items	(7.6)	(6.6)
Non-recurring income and expense	(9.3)	(2.8)
Loss on disposal/impairment	(2.5)	(17.8)
Operating income	(19.4)	(27.2)
Finance costs, net	0.0	0.0
Income before tax and non-recurring items	(19.4)	(27.2)
Current and deferred income tax	8.6	0.0
Net income from assets held for sale/discontinued operations	(10.8)	(27.2)
Earnings per share from assets held for sale and discontinued operations:		
- Basic earnings per share *(€)*	(0.66)	(1.91)
- Diluted earnings per share *(€)*	(0.63)	(1.86)

NOTE 6 Goodwill

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Net carrying amount at January 1	181.2	164.9
Acquisitions	62.1	20.8
Other movements	(10.4)	(5.6)
Translation adjustments	(1.6)	1.1
Net carrying amount at end of period	**231.3**	**181.2**
Gross value at end of period	231.3	181.2
Total impairment losses at end of period	**0.0**	**0.0**

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

	Dec. 31, 2008	Movements during 2009			Dec. 31, 2009
(In millions of euros)	Net carrying amount	Acquisitions	Other movements	Cumulative translation adjustment	Net carrying amount
Anticorrosion Equipment	70.9		(8.9)		62.0
High-Temperature Applications	23.9	62.1		(0.6)	85.4
Electrical Applications	11.8			0.5	12.3
Electrical Protection	74.6		(1.5)	(1.5)	71.6
TOTAL	181.2	62.1	(10.4)	(1.6)	231.3

The acquisition relates to the Calcarb goodwill after allocation of the acquisition cost.

The €(10.4) million in other movements primarily relate to the definitive allocation of the Xianda goodwill after the company was acquired in April 2008. The brand was measured at €4.0 million, technology at €2.3 million and customer relationships at €2.2 million.

NOTE 7 Asset impairment tests

Impairment tests were conducted for each of the cash-generating units when the balance sheet at December 31, 2009 was prepared.

Under IAS 36, tests were carried out on the basis of the value in use determined using the discounted cash flow method. The key assumptions used were as follows:

- five-year cash flow forecasts based on the 2010 budget and projections for the following four fiscal years.;
- a discount rate after tax of 8% for all the CGUs. There was no significant evidence suggesting that different discount rates should be applied to the individual CGUs;
- a perpetual growth rate of 4% for the chemical engineering equipment CGU, 2% for the Electrical Applications CGU and 3% for the other CGUs. These perpetual growth rates were left unchanged, as the effects of the economic situation did not prompt a change in the long-term prospects of the Group's markets, products and services based on the assessment made at year-end 2009;
- a normalized tax rate of 34%.

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

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

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

A calculation of sensitivity to the discount rate was conducted such that the recoverable amount was equal to the carrying amount. The discount rates obtained are:

- around 15.6% for the Electrical Protection and Electrical Applications CGU;
- around 13.7% for the High-Temperatures and Chemical Engineering CGU.

NOTE 8 Property, plant and equipment and intangible assets

(In millions of euros)	Intangible assets	Land	Buildings	Plant, equipment and other	Other	Total property, plant and equipment
Net carrying amount at January 1, 2008	**4.6**	**31.8**	**34.0**	**119.4**	**22.0**	**207.2**
Acquisitions	0.8	0.1	8.0	28.6	22.8	59.5
Retirements and disposals			0.1	(0.4)	(0.1)	(0.4)
Depreciation and amortization	(1.5)	(0.1)	(2.4)	(24.2)		(26.7)
Translation adjustments	0.4	(0.8)	1.7	5.2	0.9	7.0
Changes in the scope of consolidation	5.5		(1.4)	1.1		(0.3)
Assets held for sale and discontinued operations	(0.3)	(0.1)	(0.5)	(8.6)	(1.2)	(10.4)
Other movements	(1.3)		(0.3)	14.7	(15.3)	(0.9)
Net carrying amount at December 31, 2008	**8.2**	**30.9**	**39.2**	**135.8**	**29.1**	**235.0**
Gross value at December 31, 2008	30.4	31.8	87.2	328.0	29.1	476.1
Total depreciation and amortization at December 31, 2008	(22.2)	(0.9)	(48.0)	(192.2)		(241.1)
Total impairment losses at December 31, 2008						0.0
Net carrying amount at January 1, 2009	**8.2**	**30.9**	**39.2**	**135.8**	**29.1**	**235.0**
Acquisitions	1.2	0.1	4.0	14.6	25.0	43.7
Retirements and disposals				(0.6)	0.6	0.0
Depreciation and amortization	(1.2)		(2.9)	(28.4)		(31.3)
Translation adjustments		0.3	(0.2)	(0.8)	(0.6)	(1.3)
Changes in the scope of consolidation	(0.2)	1.7	6.1	9.9	1.1	18.8
Assets held for sale and discontinued operations		(0.3)	(0.1)	(0.3)		(0.7)
Other movements	23.0	(0.6)	1.7	16.0	(17.6)	(0.5)
NET CARRYING AMOUNT AT DECEMBER 31, 2009	**31.0**	**32.1**	**47.8**	**146.2**	**37.6**	**263.7**
GROSS VALUE AT DECEMBER 31, 2009	**54.0**	**32.9**	**95.0**	**362.2**	**37.6**	**527.7**
TOTAL DEPRECIATION AND AMORTIZATION AT DECEMBER 31, 2009	**(23.0)**	**(0.8)**	**(47.2)**	**(216.0)**		**(264.0)**
TOTAL IMPAIRMENT LOSSES AT DECEMBER 31, 2009						**0.0**

The €23 million increase in intangible assets primarily reflects the definitive allocation of the cost of acquiring Calcarb (€13.2 million) and Xianda (€8.9 million).

NOTE 9 Investments

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

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Gross value	30.6	79.3
Impairment losses	(8.8)	(10.2)
NET CARRYING AMOUNT	**21.8**	**69.1**

The reduction in investments predominantly reflects the first-time consolidation of Scottish company Calcarb from January 1, 2009.

The impairment losses recognized on investments at December 31, 2009 primarily affected units in Turkey, Argentina, Singapore and Greece.

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

(In millions of euros) Company name	% held	Gross value	Net carrying amount
Fuses & Switchgear	100	13.1	13.1
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
2C Cellier	100	1.7	1.7
Lumpp	100	1.4	1.4
Fusetech	50	1.3	1.3
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
Nortroll (Norway)	34	0.8	0.5
Carbone Lorraine Grèce	100	0.6	0.1
Ferraz Shawmut Shanghai	100	0.6	0.6
Carbone-Lorraine Chile (Chile)	100	0.2	0.2
GMI Metaullics (US)	25	0.2	0.2
Carbone Lorraine Maroc	100	0.2	0.2
Ferraz Shawmut Kunshan	100	0.2	0.2
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Le Carbone Materials KK	49	0.1	0.1
Investments in other companies		0.3	0.2
TOTAL		**30.6**	**21.8**

NOTE 10 Inventories

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Raw materials and other supplies	64.2	82.9
Work in progress	51.8	51.6
Finished goods	31.9	39.1
Carrying amount of inventories	**147.9**	**173.6**
Valuation allowances	(9.4)	(7.7)
NET CARRYING AMOUNT OF INVENTORIES	**138.5**	**165.9**

Net inventories declined by €27.4 million in the year to December 31, 2009, of which €1.8 million was attributable to changes in the scope of consolidation. On a like-for-like basis, inventories decreased by 17.6% to €29.2 million.

NOTE 11 Trade receivables

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Gross trade receivables	95.1	124.4
Valuation allowances	(3.1)	(3.4)
NET TRADE RECEIVABLES	**92.0**	**121.0**

Net trade receivables declined by €29.0 million in the fiscal year to December 31, 2009, with €2.3 million attributable to changes in the scope of consolidation, €1.0 million to currency effects and €(15.4) million to the introduction of factoring in order to shorten collection times for trade receivables. On a like-for-like basis, trade receivables decreased by €32.3 million or 26.5%.

At year-end 2009, late payments accounted for 8.8% of trade receivables compared with 8.8% at year-end 2008.

Overdue trade receivables broke down as follows at December 31:

(In millions of euros)	Dec. 31, 2009		Dec. 31, 2008	
	Gross	Impairment	Gross	Impairment
Receivables not yet due	84.5	(0.6)	110.8	(0.4)
Receivables 0-30 days past due	3.0	(0.2)	7.6	(0.2)
Receivables 31-120 days past due	4.1	(0.3)	3.6	(0.5)
Receivables 121 days to 1 year past due	0.9	(0.4)	0.8	(0.7)
Receivables more than 1 year past due	2.6	(1.6)	1.6	(1.6)
NET TRADE RECEIVABLES	**95.1**	**(3.1)**	**124.4**	**(3.4)**

The movements related to valuation allowances on trade receivables were as follows:

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Impairment losses at January 1	(3.4)	(4.8)
Allowance/reversal during the fiscal year	0.3	1.4
Impairment losses at December 31	(3.1)	(3.4)

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

NOTE 12 Equity

12.1 Share capital

(In number of shares - unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2009	14,297,213
Issue of new shares	5,348,196
Number of shares at December 31, 2009	19,645,409
Number of shares in issue and fully paid-up	19,645,409
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	2
Entity's shares held by itself or by its subsidiaries and associates	42,187

Capital management

At December 31, 2009, Carbone Lorraine's share capital amounted to €39,290,818, divided into 19,645,409 shares each with a par value of €2. The number of voting rights stood at 19,603,222, since shares held in treasury do not carry voting rights. No shares carry double voting rights.

To the best of the Group's knowledge, ownership of the share capital breaks down as follows:

- French institutional investors: 38.5%
- International institutional investors: 38.8%
- Individual shareholders: 21.1%
- Employee shareholders: 1.4%
- Treasury shares: 0.2%

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

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

Pursuant to the overall authorization granted by the Combined General Meeting in its tenth resolution on May 19, 2009 in its extraordinary session, the Management Board decided on September 15, 2009 to issue new shares for a maximum nominal amount of €7.6 million with preferential subscription rights for shareholders. On October 19, 2009, the Management Board formally noted that 3,730,044 shares each with a par value of €2, had been issued at the end of the subscription period.

Pursuant to the overall authorization granted by the Combined General Meeting on May 19, 2009, the Management Board decided on September 24 to offer the employees of the Group's European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €17.67 per share. On December 15, 2009, the Management Board formally noted that 62,668 shares each with a par value of €2, had been issued at the end of the subscription period.

At December 31, 2009, 42,187 shares representing 0.21% of the share capital were held under a liquidity agreement approved by the *Autorité des Marchés Financiers* and entrusted to investment services provider Exane.

At December 31, 2009, the Group's employees own 273,095 shares representing 1.39% of the share capital, plus 715,213 stock options that, if exercised in full, would represent 3.64% of the current share capital. The stock option plans set up by the Group are based on an exercise price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of its up-and-coming managers. The allottees of the bonus shares are not the same as the beneficiaries of the stock options. Take-up of these shares is contingent upon their presence on the Group's payroll at the end of the vesting period. At December 31, 2009, a total of 74,819 bonus shares (taking cancellations into account), representing 0.38% of the current share capital, had been allotted.

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

In fiscal 2009, the Group did not alter its capital management policy.

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

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

The characteristics and assumptions used to value the plans are as follows:

Characteristics/Assumptions	2007 plan Stock options	2008 plan Bonus share allotments	2009 plan Stock options	2009 plan Bonus share allotments
Allotment date	July 25, 2007	Feb. 26, 2008	Feb. 11, 2009	Feb. 11, 2009
Availability date	July 25, 2011	March 1, 2011	Feb. 11, 2013	Feb. 11, 2013
Expiration date	July 25, 2017	March 1, 2013	Feb. 11, 2019	Feb. 11, 2014
Adjusted exercise price *(€)*	€53.10	n/a	€17.53	n/a
Adjusted share price at allotment date	€52.35	€27.48	€17.95	€17.95
Estimated life *(number of years)*	5.5	3	8	4
Volatility	30.90%	n/a	38.10%	n/a
Dividend per share *(as a % of share price)*	1.90%	2.30%	2.50%	2.50%
Risk-free interest rate	4.44%	n/a	3.26%	n/a
Exercise period *(number of years)*	4	3	4	4
Lock-up period *(number of years)*	0	2	0	0
Number of options/adjusted share allotments	177,877	21,567	366,581	53,900
Estimated annual cancellation rate		1.50%	7.00%	2.50%
% of shares/options acquired following satisfaction of the performance condition	100%	100%	100%	100%
Estimated number of options at end of vesting period	167,442	20,611	274,222	48,708
Valuation of options/shares	€15.58	€25.67	€6.11	€16.24
Valuation as a % of the share price at grant	29.80%	93.40%	34.10%	90.50%

Expense of €1.4 million was recognized in the income statement (€0.9 million in fiscal 2008) in respect of these equity-settled plans.

12.2 Premiums and retained earnings

A tax receivable of €3.2 million related to a request for repayment of withholding tax was recognized in equity. The risks associated with this receivable were transferred with no recourse to a banking institution through the issue of a conditional redemption debenture. As a result, the asset and liability were deconsolidated.

NOTE 13 Provisions, other liabilities and contingent liabilities

(In millions of euros)	Dec. 31, 2009		Dec. 31, 2008	
	Non-current	Current	Non-current	Current
Provision for restructuring	0.2	0.1	0.1	0.1
Provision for litigation	0.0	0.3	42.7	2.8
Other provisions	0.2	0.2	0.4	0.1
TOTAL	**0.4**	**0.6**	**43.2**	**3.0**

Current and non-current	2008	Additions	Uses	Other	Cumulative translation adjustment	2009
Provision for restructuring	0.2	0.0	(0.0)	0.1	0.0	0.3
Provision for litigation	45.5	(0.2)	(2.5)	(42.6)	0.1	0.3
Other provisions	0.5	(0.1)	(0.2)	0.2	0.0	0.4
TOTAL	**46.2**	**(0.3)**	**(2.7)**	**(42.3)**	**0.1**	**1.0**

The reduction in provisions for litigation was attributable to:

- the fine meted out to the Group by the European authorities (€43 million at December 31, 2008): In a decision handed down on November 12, 2009, the European Court of Justice dismissed the appeal lodged by Carbone Lorraine and confirmed the amount of the €43 million fine issued by the European Commission in 2003. A partial payment of €20 million was made in 2005.

  Accordingly, the provision at December 31, 2009 was reversed. The €23 million balance of the fine recorded on the balance sheet under "Other liabilities" will be settled in two installments during 2010;
- the US class-action lawsuits (€1.7 million at December 31, 2008): Following a mediation procedure that ended on September 1, 2009, a definitive settlement was reached with all the customers (opt-out) amounting to USD8 million, putting an end to the US civil proceedings. This agreement was reached without any admission of liability and also means that no more costs related to such proceedings will be incurred. In addition, the opt-out customers in the US class-action lawsuit initiated legal proceedings in the UK. Since the Group considers that there is no basis for this legal action, no provision was set aside;
- the dispute with the US Department of Commerce concerning US export licenses (amounting to €0.9 million at December 31, 2008): the Group took the view that as the administrative case currently stands, any irregularities observed would not be likely to lead to significant pecuniary penalties. The provision stood at €0.1 million at December 31, 2009.

No other material contingent liabilities were identified at year-end 2009.

The increase in other liabilities was chiefly attributable to the final decision handed down in the litigation over the fine from the European authorities. This ruling led to a reclassification of €43 million from provisions for other liabilities, offset partially from the €20 million reclassification from non-current assets to other liabilities, representing the advance payment made by the Group to the European Union in 2004.

NOTE 14 Employee benefits

The Carbone Lorraine group's principal pension plans are defined benefit plans and are located in the US (29% of obligations), the UK (26% of obligations), France (17% of obligations) and Germany (13% of obligations).

The Group's obligations were measured at December 31, 2009 with the assistance of independent actuaries in accordance with IAS 19. The cost in fiscal 2009 was estimated on the same basis.

The rates used for the principal countries are summarized below:

2009	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	4.75%	4.0%/4.25%	2.5%	2.0%
Germany	4.75%	Not applicable	2.5%	2.0%
United States	5.75%	5.25%/6.25%	Not applicable	Not applicable
United Kingdom	5.75%	6.75%	3.75%	3.5%

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

Reconciliation between assets and liabilities recognized

	Dec. 31, 2009	Dec. 31, 2008
Actuarial obligation	98.8	94.7
Fair value of plan assets	(47.4)	(44.2)
Unrecognized actuarial gains and losses	(15.3)	(14.1)
Unrecognized past service cost (rights not vested)	(1.9)	(1.5)
NET AMOUNT RECOGNIZED	**34.2**	**34.9**

Breakdown of the Group's obligations at December 31, 2009 by geographical area

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2009
Actuarial obligation	16.5	12.9	29.0	26.0	14.4	98.8
Fair value of plan assets	(0.7)		(16.4)	(22.4)	(7.9)	(47.4)
Unrecognized actuarial gains and losses	(1.4)	(0.1)	(7.4)	(3.4)	(3.0)	(15.3)
Unrecognized past service cost (rights not vested)	(1.7)		(0.2)			(1.9)
NET AMOUNT RECOGNIZED	**12.7**	**12.8**	**5.0**	**0.2**	**3.5**	**34.2**

Movements in the Group's obligations

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2008	19.5	12.6	29.5	20.9	12.2	94.7
Payments	(1.3)	(1.1)	(0.6)	(0.8)	(0.9)	(4.7)
Expense charged to income	1.8	0.5	3.2	1.5	1.3	8.3
Translation adjustment	(0.1)		(0.6)	1.5	1.0	1.8
Actuarial gains and losses	0.4	0.2	2.2	2.7	0.8	6.3
Other movements	(3.8)	0.7	(4.7)	0.2		(7.6)
DECEMBER 31, 2009	**16.5**	**12.9**	**29.0**	**26.0**	**14.4**	**98.8**

Change in plan assets

	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2008	4.5		16.7	16.7	6.3	44.2
Return on plan assets	0.1		2.1	4.4	0.5	7.1
Employer contribution	1.9	1.1	1.7	0.8	1.2	6.7
Employee contribution				0.1	0.1	0.2
Payment of benefits	(2.2)	(1.1)	(0.6)	(0.8)	(0.7)	(5.4)
Translation adjustment			(0.6)	1.2	0.6	1.2
Other movements	(3.6)		(2.9)		(0.1)	(6.6)
DECEMBER 31, 2009	**0.7**	**0.0**	**16.4**	**22.4**	**7.9**	**47.4**

The UK plan assets account for 47% of total plan assets, with 72% invested in equities and 24% in government bonds.

The US plan assets account for 35% of total plan assets, with 52% invested in equities and 43% in bonds.

The charge recognized at December 31, 2009 in respect of these plans was €6.1 million, compared with €6.4 million in 2008, which breaks down as follows:

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2009	Total at Dec. 31, 2008
Current service cost	0.8		1.7	0.2	0.7	3.4	3.4
Interest cost	1.0	0.5	1.5	1.3	0.6	4.9	5.2
Expected return on plan assets	(0.2)		(1.2)	(1.2)	(0.4)	(3.0)	(3.6)
Amortization of actuarial gains and losses	(0.3)		0.5	0.1	0.4	0.7	0.9
Other movements	0.1					0.1	0.5
TOTAL CHARGE FOR THE PERIOD	1.4	0.5	2.5	0.4	1.3	6.1	6.4

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

	France	Germany	United States	United Kingdom	Rest of the world	Total at Dec. 31, 2009	Total at Dec. 31, 2008
Adjustments linked to changes in assumptions	0.7	0.8	2.4	2.7	0.3	6.9	0.6
Experience adjustments to obligations	(0.5)		(0.1)		0.4	(0.2)	1.6
Experience adjustments to plan assets	0.2		1.5	1.2	0.4	3.3	3.6
ACTUARIAL GAINS AND LOSSES	0.4	0.8	3.8	3.9	1.1	10.0	5.8

An increase of 0.25 points in discount rates would lead to a reduction of €3.4 million in the estimated actuarial obligation, breaking down as follows:

France	(0.4)
Germany	(0.3)
United Kingdom	(1.1)
United States	(1.2)
Rest of the world	(0.4)
TOTAL	(3.4)

NOTE 15 Net debt

Analysis of total net debt at December 31, 2009

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Borrowings	192.7	297.6
Current financial liabilities	29.4	39.2
Current advances	1.9	1.3
Bank overdrafts	31.0	18.3
TOTAL GROSS DEBT	255.0	356.4
Current financial assets	(6.0)	(0.5)
Financial assets	(1.2)	(3.2)
Cash and cash equivalents	(32.9)	(46.8)
Cash	(34.1)	(50.0)
TOTAL NET DEBT	214.9	305.9

Total consolidated net debt at December 31, 2009 rose to €214.9 million from €305.9 million at year-end 2008.

Of the €255 million in total gross debt, €237 million stems from the use of the confirmed loans and borrowings and the remainder chiefly from use of the non-confirmed lines (bank overdrafts and other lines).

Net debt/equity

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Total net debt	214.9	305.9
Net debt/equity	0.50	0.93

Net debt amounted to 50% of equity at December 31, 2009, compared with 93% at December 31, 2008.

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

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Prior year debt	305.9	191.8
Cash generated by operating and investing activities after tax	(68.7)	(5.1)
Cash used by restructurings	3.0	1.9
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	24.5	73.4
Non-operating cash flows	0.0	0.0
Cash generated by the operating and investing activities of continuing operations	(41.2)	70.2
Cash generated by the operating and investing activities of assets held for sale and discontinued operations	18.0	6.7
Proceeds from issuance of new shares	(87.6)	0.5
Dividends paid	2.5	12.8
Interest payments	10.5	9.1
Translation adjustments and other	(1.6)	11.6
Impact of changes in the scope of consolidation	7.3	3.2
Other changes	1.1	
DEBT AT YEAR-END	214.9	305.9

Total consolidated net debt at December 31, 2009 rose to €214.9 million from €305.9 million at year-end 2008.

Debt was reduced by €91.0 million. This notably reflected €87.6 million in capital injections and €24.5 million in net cash outflows linked to changes in the scope of consolidation.

Financial covenants at December 31, 2009

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

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

FINANCIAL COVENANTS* (CONSOLIDATED FINANCIAL STATEMENTS)

(In millions of euros)	Net debt/EBITDA	Net debt/equity	EBITDA/ net interest expense
Covenant ratios			
Group syndicated loan	< 3.35	< 1.3	-
US private placement	< 3.35	< 1.3	> 3
OBSAAR bond issue	-	< 1.35	-
Syndicated loan, China		< 1.35	
Actual ratios at December 31, 2009			
Group syndicated loan	2.52	0.50 -	
US private placement	2.52	0.50	8.07
OBSAAR bond issue		0.52	
Syndicated loan, China		0.50	
Actual ratios at December 31, 2008			
Group syndicated loan	2.73	0.93	
US private placement	2.73	0.93	12.07
OBSAAR bond issue		0.93	
Syndicated loan, China		0.93	
Actual ratios at December 31, 2007			
Group syndicated loan	-	0.63	-
US private placement	2.07	0.62	8.63
OBSAAR bond issue		0.62	
Actual ratios at December 31, 2006			
Group syndicated loan	-	0.51	-
US private placement	1.74	0.50	9.37

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

At December 31, 2009, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

Breakdown of borrowings, including the current portion at December 31, 2009

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

(In millions of euros)	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	73.3	34.2	36.3	2.8
Borrowings in EUR	63.3	0.3	63.3	-
Borrowings in GBP	55.4	4.2	48.8	2.4
Borrowings in RMB	45.0	9.4	35.6	-
TOTAL	**237.0**	**48.1**	**183.7**	**5.2**
Amortization of issuance costs at the EIR*	(1.4)			
Fair value of interest-rate derivatives	1.9			
TOTAL	**237.5**			

** Effective interest rate.*

Of the €183.7 million in debt due to mature in between one and five years' time, €116.0 million had a maturity of over three years at December 31, 2009.

Analysis of total net debt at December 31, 2009

(By currency)	%
EUR	24.0
USD	31.0
GBP	26.0
RMB	17.0
Other	2.0

(By interest rate)	%
Fixed	58.6
Floating	41.4

(In millions of euros)	Total	o/w maturity < 5 years	o/w maturity > 5 years
Total gross debt*	255.0	249.8	5.2
Financial assets	(40.1)	(40.1)	-
Net position before hedging	**214.9**	**209.7**	**5.2**
Fixed-rate debt and hedge	126.0	120.8	5.2
Net position after hedging	**88.9**	**88.9**	**0.0**

** Before amortization at the effective interest rate (EIR).*

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their December 31, 2009 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's annual interest costs by around €0.9 million.

NOTE 16 Fair value

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

Dec. 31, 2009		Accounting categories						
Balance sheet accounts and instrument categories	Note	Assets held at fair value through P&L	Held-to-maturity assets	Available-for-sale assets	Loans and receivables	Liabilities stated at amortized cost	Total net carrying amount of the category on the balance sheet	Fair value of the category
Unlisted investments	9			21.8			21.8	21.8
Other non-current financial assets and derivatives held as assets	15				9.4		9.4	9.4
Non-current financial assets		0.0	0.0	21.8	9.4	0.0	31.2	31.2
Trade receivables	11				92.0		92.0	92.0
Current financial assets	15				6.0		6.0	6.0
Other assets					1.7		1.7	1.7
Financial assets	15			1.2			1.2	1.2
Current financial assets		0.0	0.0	1.2	7.7	0.0	8.9	8.9
Cash and cash equivalents	15	32.9					32.9	32.9
Bank borrowings	15					(192.7)	(192.7)	(192.7)
Current advances	15					(1.9)	(1.9)	(1.9)
Bank overdrafts	15					(31.0)	(31.0)	(31.0)
Current financial liabilities	15					(29.4)	(29.4)	(29.4)
Borrowings	15	0.0	0.0	0.0	0.0	(255.0)	(255.0)	(255.0)
Trade payables						(53.7)	(53.7)	(53.7)
Carrying amount per category		32.9	0.0	23.0	109.1	(308.7)	(143.7)	(143.7)

Fair value hierarchy

	Fair value of the asset class at Dec. 31, 2009	Listed price Level 1	Internal model with observable inputs Level 2	Internal model with non-observable inputs Level 3
Investments (see Note 2, J1)	21.8			21.8
Derivatives held as assets	0.5		0.5	
Financial assets	1.2	1.2		
Cash	32.9	32.9		
Derivatives held as liabilities	-1.3		-1.3	

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

NOTE 17 Other non-recurring income and expense

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

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Disposal of sintered brakes business		13.7
Transfers/Restructuring	(4.4)	(1.7)
EU fine and US civil lawsuits		(1.4)
Other	(0.1)	(0.3)
TOTAL	(4.5)	10.3

In fiscal 2009, non-recurring income and expense amounted to a net loss of €4.5 million. This primarily reflected the cost of transferring non-current assets and other costs following the reorganization of certain sites amounting to €4.4 million.

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

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

NOTE 18 Segment reporting

Operating income

(In millions of euros)	Advanced Materials and Technologies (AMT)		Electrical Components and Technologies (ECS)		Total for continuing operations	
Sales	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Sales to third parties	256	278.1	331.3	383.8	587.3	661.9
Breakdown of sales	43.6%	42.0%	56.4%	58.0%	100.0%	100.0%
Segment operating income before non-recurring items	28.5	45.7	35.7	53.4	64.2	99.1
Segment operating margin before non-recurring items*	11.1%	16.4%	10.8%	13.9%		
Segment non-recurring income and expense	(2.9)	13.3	(0.6)	(2.9)	(3.5)	10.4
Goodwill impairment loss	(0.8)				(0.8)	0.0
Segment operating income	24.8	59.0	35.1	50.5	59.9	109.5
Segment operating margin*	9.7%	21.2%	10.6%	13.1%		
EBITDA margin [1]	19.4%	21.7%	13.8%	16.3%		
Unallocated costs					(14.3)	(16.2)
Operating income from continuing operations					**45.6**	**93.3**
Operating margin from continuing operations					7.8%	14.1%
Finance costs, net					(10.4)	(12.1)
Current and deferred income tax					(9.5)	(24.2)
Net income from continuing operations					**25.7**	**57.0**

** Segment operating margin = Operating income/Segment sales to third parties.*
(1) The Group's EBITDA represents segment operating income before non-recurring items plus segment depreciation and amortization.

Breakdown of sales and sales trends by geographical area

(In millions of euros)	2009	%	2008	%
France	62.2	10.6%	79.9	12.1%
Rest of Europe	167.0	28.4%	192.3	29.0%
Americas	213.0	36.3%	243.3	36.7%
Asia	129.2	22.0%	127.5	19.3%
Rest of the world	15.9	2.7%	18.9	2.9%
TOTAL	**587.3**	**100.0%**	**661.9**	**100.0%**

No single customer accounts for over 10% of the Group's sales.

Breakdown of depreciation and amortization recognized by segment

(In millions of euros)	2009				2008			
	AMT	ECS	Unallocated	Total	AMT	ECS	Unallocated	Total
TOTAL	(21.3)	(9.9)	(0.2)	(31.4)	(15.5)	(9.2)	(0.3)	(25.0)

Segment assets

(In millions of euros)	AMT	ECS	TOTAL	Intra-Group transactions eliminated	Total at Dec. 31, 2009
Non-current assets, net (excluding investments)	361.1	174.3	535.4		535.4
Inventories, net	77.6	60.9	138.5		138.5
Trade receivables	59.4	63.1	122.5	(30.5)	92.0
Other receivables	13.4	8.0	21.4	(5.6)	15.8
TOTAL SEGMENT ASSETS	511.5	306.3	817.8	(36.1)	781.7
TOTAL UNALLOCATED ASSETS					93.1
TOTAL					874.8

Segment liabilities

(In millions of euros)	AMT	ECS	TOTAL	Intra-Group transactions eliminated	Total at Dec. 31, 2009
Trade payables	41.8	42.4	84.2	(30.5)	53.7
Other payables and other liabilities	40.4	50.2	90.6	(5.6)	85.0
Non-current and current provisions	0.7	0.3	1.0		1.0
Employee benefits	10.9	23.3	34.2		34.2
TOTAL SEGMENT LIABILITIES	93.8	116.2	210.0	(36.1)	173.9
TOTAL UNALLOCATED LIABILITIES					276.0
TOTAL					449.9

NOTE 19 Staff costs and headcount

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €195.2 million in fiscal 2009 compared with €211.6 million in fiscal 2008.

On a like-for-like basis, staff costs decreased by 11%.

Breakdown of consolidated headcount by employee category (at end-December)

Categories	2009	%	2008 excluding EMC	%
Engineers and managers	768	14%	700	12%
Technicians and supervisors	742	13%	731	12%
Employees	726	13%	760	13%
Blue-collar workers	3,381	60%	3,654	63%
TOTAL	5,617	100%	5,848	100%

Breakdown of the consolidated headcount by geographical area (at end-December)

Geographical area	2009	%	2008 excluding EMC	%
France	1,399	25%	1,440	25%
Rest of Europe (+Tunisia)	1,052	19%	940	16%
North America (+Mexico)	1,682	30%	2,043	35%
Asia	1,251	22%	1,151	20%
Rest of the world	233	4%	274	4%
TOTAL	5,617	100%	5,848	100%

At comparable scope, the average headcount decreased by 292 employees.

NOTE 20 Operating income

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

(In millions of euros)	2009	2008
Product sales	567.7	637.5
Trading sales	19.6	24.4
TOTAL SALES	587.3	661.9
Other operating revenues	6.3	4.9
Cost of trading sales	(13.7)	(17.1)
Raw material costs	(153.4)	(174.1)
Costs on other operating revenues	(1.1)	(1.4)
Manufacturing costs	(98.4)	(99.5)
Salary costs	(192.8)	(205.6)
Employee incentives and profit-sharing	(2.4)	(6.0)
Other expenses	(52.4)	(42.5)
Financial components of operating income	(2.4)	(1.8)
Depreciation and amortization	(31.4)	(25.0)
Additions to provisions		(0.4)
Gains/(losses) on non-current asset disposals		(0.1)
OPERATING INCOME	45.6	93.3

NOTE 21 Financial income and costs

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Amortization of bond issuance expenses	(0.4)	(0.5)
Interest paid on debt	(9.9)	(11.0)
Debt-related fees	(0.3)	(1.0)
Ineffective portion of interest-rate hedges	0	0
Interest income from bank deposits	0.2	0.4
Finance costs, net	**(10.4)**	**(12.1)**

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Change in fair value of currency hedges	0.0	1.0
Change in fair value of interest-rate hedges	(0.6)	(0.3)
Change in fair value of commodity hedges	2.0	(1.3)
Impact on changes recognized in equity	(0.6)	0.4
Net finance costs recognized directly in equity, net of tax	**0.8**	**(0.2)**

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

NOTE 22 Income tax

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Current income tax	(8.6)	(8.3)
Deferred income tax	(0.7)	(15.7)
Withholding tax	(0.2)	(0.2)
TOTAL TAX EXPENSE	**(9.5)**	**(24.2)**

The Group has:

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

The Group's effective tax rate on continuing operations came to 27% in fiscal 2009 compared with 30% in fiscal 2008.

The 2010 finance act scrapped French business license tax from 2010 and replaced it with two new levies:

- the CFE *(Cotisation Foncière des Entreprises)* based on the rateable value for business license tax purposes;
- the CVAE *(Cotisation sur la Valeur Ajoutée des Entreprises)* based on value-added as per the corporate financial statements.

Pursuant to the provisions of IAS 12, since the Group has classified the CVAE levy as an income tax, the temporary differences at December 31, 2009 were recognized under deferred tax on the "income tax" line.

In addition, with effect from fiscal 2010, the total amount of the current and deferred CVAE expense will be recognized under income tax.

Analysis of income tax expense

(In millions of euros)	Dec. 31, 2009
NET INCOME FROM CONTINUING OPERATIONS	25.7
Income tax expense/(benefit) on continuing operations	(9.5)
Total income tax expense/(benefit)	(9.5)
TAXABLE INCOME	35.2
Current tax rate in France	34.4%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(12.1)
Difference between income tax rate in France and other jurisdictions	(1.1)
Permanent timing differences	3.0
Impact of limiting deferred tax assets	1.2
Other	(0.5)
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	(9.5)

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

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Deferred tax assets	20.0	10.3
Deferred tax liabilities	(15.6)	(6.1)
Net position	4.4	4.2

Deferred tax movements during fiscal 2009 were as follows:

*(In millions of euros)**	2008	Net income for the year	Other	Cumulate translation adjustment	Dec. 31, 2009
Employee benefit obligations	7.3	0.2	0.0	(0.1)	7.4
Depreciation of non-current assets	(16.2)	(1.3)	0.5		(17.0)
Tax-regulated provisions	(3.3)	0.1	(0.1)		(3.3)
Impact of tax losses	11.6	7.7	4.0		23.3
Valuation allowances	0.7	(0.4)	(0.5)		(0.2)
Other	4.1	(7.0)	(2.8)	(0.1)	(5.8)
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	4.2	(0.7)	1.1	(0.2)	4.4

** (- liability/+ asset).*

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

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

NOTE 23 Earnings per share

Basic and diluted earnings per share are presented below:

Continuing operations and assets held for sale	Dec. 31, 2009	Dec. 31, 2008
Numerator: Net income used to compute basic earnings per share (net income for the period).	14.6	29.1
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	16,456,243	14,237,692
Adjustment for dilutive potential ordinary shares: - unexercised options	790,032	404,667
Weighted average number of ordinary shares used to compute diluted earnings per share	17,246,275	14,642,359
Basic earnings per share *(€)*	0.89	2.05
Diluted earnings per share *(€)*	0.85	1.99

Continuing operations	Dec. 31, 2009	Dec. 31, 2008
Numerator: Net income used to compute basic earnings per share (net income for the period).	25.4	56.3
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	16,456,243	14,237,692
Adjustment for dilutive potential ordinary shares: - unexercised options	790,032	404,667
Weighted average number of ordinary shares used to compute diluted earnings per share	17,246,275	14,642,359
Basic earnings per share *(€)*	1.55	3.95
Diluted earnings per share *(€)*	1.48	3.84

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

NOTE 24 Dividends

A dividend of €0.62 per share was paid in respect of fiscal 2008, with a payout of €2.4 million in cash and €6.5 million through the distribution of shares.

The dividend proposed in respect of fiscal 2009 stands at €0.50 per share, representing an aggregate amount of €9.8 million.

NOTE 25 Leases

1 - Finance leases

Carrying amount by asset category

None.

2 - The Group is the lessee (operating lease)

Schedule of minimum payments

(In millions of euros)	Total at Dec. 31, 2009	< 1 year	> 1 year	o/w 5 years or more
Minimum payments	20.7	4.3	13.7	2 0.7

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

NOTE 26 Related party disclosures

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

Le Carbone Lorraine SA belongs to the Carbone Lorraine group, which encompasses 97 consolidated and unconsolidated companies in 35 countries.

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

1 - Relations with unconsolidated subsidiaries and associates

Group sales to unconsolidated subsidiaries amounted to €9.9 million in fiscal 2009, compared with €11.7 million in fiscal 2008.

In fiscal 2009, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.2 million, stable compared with the €0.3 million in fiscal 2008.

The amounts receivable by the Group from its unconsolidated subsidiaries came to €1.9 million at December 31, 2009, while amounts payable came to €0.2 million.

Advances made to unconsolidated subsidiaries by Le Carbone Lorraine SA amounted to €1.5 million (vs. €4.0 million in fiscal 2008) at December 31, 2009.

2 - Compensation and benefits paid to senior executives (Executive Committee including the Chairman of the Management Board)

(In millions of euros)	2009	2008
Salaries, bonuses, benefits in kind and attendance fees	2.4	2.4
Top-up pension plan payments [1]	0.8	1.8
Other long-term employee benefits	0.0	0.0
TOTAL	3.2	4.2

(1) *The Executive Committee members benefit from a top-up pension plan. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows: Provided that the relevant person is still employed by the Group upon retirement, this regime guarantees top-up pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.*
Actuarial obligations were measured at €2.0 million at December 31, 2009, compared with €5.4 million at December 31, 2008.
In addition, an additional charge was incurred in 2008 owing to the retirement of a member of the Executive Committee at an earlier date than initially anticipated.

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

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

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

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

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

	2009 plan Tranche 1
Date of Board of Directors' meeting	January 22, 2009
Total number of shares allotted	123,000
Subscription price	18.90
Start of exercise period	February 2013
Expiration date	February 2019

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

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

No bonus shares were granted to Executive Committee members in the 2008 plan.

NOTE 27 Commitments and contingencies

A - Financial commitments and liabilities

(In millions of euros)	Dec. 31, 2009	Dec. 31, 2008
Commitments received		
Guarantees and endorsements	0.2	0.1
Other commitments received	0.6	0.9
TOTAL	0.8	1.0
Commitments given		
Collateralized debts and commitments	0.3	0.3
Market guarantees and endorsements	20.5	16.5
Payment guarantees on acquisitions	-	-
Other guarantees	50.1	48.6
Other commitments given	8.1	7.5
TOTAL	79.0	72.9

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

Nature

The largest item totaling €50.1 million relates to other guarantees, which include a €24.5 million guarantee (initially €43 million) given to the European Commission as a result of the fine handed down during 2003 by the European Commission in respect of which the Group lodged a new appeal with the European Court of Justice on December 18, 2008. This guarantee will remain in place until the fine is paid during 2010 following the dismissal of the appeal. This line item also includes a guarantee of €16 million covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €26.2 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees the duration of which does not exceed three years. The €24.5 million guarantee given to the European Commission expires in December 2010.

Internal control

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

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

B - Title retention clause

None.

C - Individual Right to Training

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

NOTE 28 Subsequent events

None

NOTE 29 Approval of the financial statements

The Group's consolidated financial statements for the fiscal year ended December 31, 2009, were approved by the Management Board at its meeting on March 22, 2010 and will be submitted for the approval of the Annual General Meeting.

Statutory Auditors' report on the consolidated financial statements
- Fiscal year ended December 31, 2009

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2009, on:

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

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

→ Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2009, and of the results of its operations for the year then ended, in accordance with IFRSs as adopted for use in the European Union.

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

→ Justification of our assessments

The accounting estimates used to draw up the financial statements at December 31, 2009 were prepared against the backdrop, described in Note 2-V to the financial statements ("Use of estimates" section), characterized by some degree of difficulty in assessing the future outlook, which was already present at the end of the financial year to December 31, 2008. Pursuant to the provisions of Article L. 823-9 of the French Commercial Code, we carried out our own assessments, which we wish to bring to your attention below.

Operations, assets and liabilities held for sale

Note 2.B.4 of the notes to the financial statements presents the accounting principles and methods adopted for assets and liabilities held for sale and discontinued operations. In the context of our assessment of the accounting rules and principles adopted by your Company, we verified the appropriateness of the accounting methods stated above and the disclosures in the notes to the consolidated financial statements, and we ensured that they were applied correctly.

Impairment

As disclosed in Notes 2.F.1 and 2.I to the consolidated financial statements, the Group performs goodwill impairment tests systematically at each balance sheet date and also assesses whether there is evidence of impairment in property, plant and equipment, and in intangible assets. We have examined the methods used to implement the test as well as the estimated cash flows and the assumptions made. We have also verified that Notes 6 and 7 to the consolidated financial statements provide appropriate disclosures.

Employee benefits:

Note 2.O describes the accounting policy used to evaluate pension and other related obligations. These obligations were evaluated by external actuaries. Our procedures consisted of examining the data used and the assumptions made, and verifying that Note 14 to the consolidated financial statements provides appropriate disclosures.

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

→ Specific verification

In accordance with professional standards applicable in France, we have also conducted the specific verifications provided for in law of the information disclosed in the Group's management report.

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

The Statutory Auditors

Paris La Défense, March 22, 2010
KPMG Audit
Department of KPMG S.A.

Catherine Porta
Partner

Neuilly-sur-Seine, March 22, 2010
Deloitte & Associés

Joël Assayah
Partner

Parent company financial statements

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5

Income statement

(€ 000s)	2009	2008
OPERATING REVENUES (1)		
Revenues from recurring activities		
Revenues from ancillary activities	1,538	1,976
TOTAL SALES	**1,538**	**1,976**
Reversals of operating provisions	329	3
Transfers of operating costs	1,602	1,921
Other revenues	825	714
TOTAL (1)	**4,294**	**4,614**
OPERATING EXPENSES (2)		
Other purchases	16	15
External charges	4,176	5,679
Taxes other than on income	751	701
Wages and salaries	2,967	2,145
Social security contributions	700	565
Depreciation, amortization and charges to provisions:		
- against fixed assets: depreciation and amortization	34	37
- for risks and charges: charges to provisions	36	27
Other expenses	285	163
TOTAL (2)	**8,965**	**9,332**
OPERATING INCOME (TOTAL 1 - 2)	**(4,671)**	**(4,718)**

(€ 000s)	2009	2008
FINANCIAL INCOME (3)		
Participating interests	23,015	20,829
Other income from fixed assets	228	877
Other interest and related income	5,314	8,020
Reversals of depreciation, amortization and charges to provisions	407	949
Foreign exchange gains	10,167	16,243
TOTAL (3)	**39,131**	**46,918**
FINANCIAL EXPENSE (4)		
Depreciation, amortization and charges to provisions	8,923	13,079
Interest and related expenses	9,785	17,043
Foreign exchange losses	3,462	8,720
TOTAL (4)	**22,170**	**38,842**
NET FINANCIAL INCOME (3 - 4)	**16,961**	**8,076**
INCOME BEFORE TAX AND NON-RECURRING ITEMS	**12,290**	**3,358**
EXCEPTIONAL INCOME		
Management transactions	74	732
Capital transactions	3,404	139,775
Reversals of provisions and transferred costs	32,122	6
TOTAL (5)	**35,600**	**140,513**
EXCEPTIONAL CHARGES		
Management transactions	1,602	836
Capital transactions	35,285	137,640
Depreciation, amortization and charges to provisions	3	1
TOTAL (6)	**36,890**	**138,477**
NET EXCEPTIONAL INCOME (TOTAL 5 - 6)	**(1,290)**	**2,036**
INCOME TAX	**(641)**	**(7,376)**
NET INCOME FOR THE YEAR	**11,641**	**12,770**
TOTAL INCOME	**79,025**	**192,045**
TOTAL EXPENSES	**67,384**	**179,275**

Balance sheet

ASSETS

(€ 000s)	Dec. 31, 2009 Gross	Amortization	Net	Dec. 31, 2008 Net
FIXED ASSETS				
Intangible fixed assets				
Concessions, patents, licenses, brands	8,778	8,744	34	48
SUB-TOTAL	**8,778**	**8,744**	**34**	**48**
Property, plant and equipment				
Other	372	274	98	69
SUB-TOTAL	**372**	**274**	**98**	**69**
Financial fixed assets[1]				
Participating interests	467,480	106,896	360,584	341,818
Loans and advances to participating interests	121,924	0	121,924	125,726
Other fixed assets	5		5	5
Other	6,349	3	6,346	5,882
SUB-TOTAL	**595,758**	**106,899**	**488,859**	**473,431**
TOTAL A	**604,908**	**115,917**	**488,991**	**473,548**
CURRENT ASSETS				
Trade receivables and related accounts[2]	1,069		1,069	1,018
Other [2]	61,328		61,328	63,911
Cash and cash equivalents	7,609		7,609	22,746
ACCRUALS				
Prepaid expenses [2]	355		355	378
TOTAL B	**70,361**	**0**	**70,361**	**88,053**
Deferred costs **D**	990		990	1,439
Foreign currency translation losses **E**	2,167		2,167	1,210
TOTAL (A+B+C+D+E)	**678,426**	**115,917**	**562,509**	**564,250**

(1) Due in less than one year: 3,970.
(2) Due in more than one year: 1,045.

LIABILITIES AND EQUITY

(€ 000s)	Dec. 31, 2009	Dec. 31, 2008
EQUITY		
Share capital	39,291	28,595
Issue premium	199,672	119,995
Merger premium	8,252	8,252
Revaluation reserves	3,252	3,252
Unavailable reserves	2,262	2,262
Statutory reserves	2,860	2,856
Other reserves	32,837	28,902
Retained earnings	35	33
Net income for the year	11,641	12,770
Tax-regulated provisions	7	4
TOTAL A	**300,109**	**206,921**
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for liabilities	11,502	19,834
Provisions for charges	48	342
TOTAL B	**11,550**	**20,176**
BORROWINGS (1)		
Bond issues	43,237	40,152
Borrowings from credit institutions (2)	28,459	2,292
Other borrowings	113,626	226,963
Trade payables and related accounts	874	1,256
Tax and social security liabilities	1,824	3,213
Other liabilities	46,618	45,086
ACCRUALS		
TOTAL C	**236,558**	**318,962**
Foreign exchange translation gains D	14,292	18,191
TOTAL (A+B+C+D)	**562,509**	**564,250**

(1) Due in more than one year: 158,305 due in less than one year: 78,253.
(2) including current bank loans and overdrafts: 551.

Notes to the balance sheet and income statement

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NOTE 1 Accounting principles and methods

The financial statements of Le Carbone Lorraine for fiscal 2009 have been prepared in accordance with the provisions of French law, notably including CRC Regulation no. 99-03 of June 22, 1999 and subsequent amendments.

The principal accounting methods used are as follows:

A - Share issuance costs

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

B - Intangible fixed assets and property, plant and equipment

Fixed assets are stated at acquisition or production cost.

They are depreciated or amortized over their estimated useful life.

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

Generally speaking, the following useful lives are adopted:

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

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

C - Participating interests, other fixed assets

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

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

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

D- Current assets - receivables

Doubtful receivables are written down to reflect the probable loss.

E - Foreign currency transactions

At the balance sheet date, foreign currency assets and liabilities are stated at the official exchange rate at December 31. A corresponding adjustment is recorded under foreign currency translation gains or losses.

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

F - Provisions for liabilities and charges

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

Accordingly, provisions were set aside to cover all significant risks that the situation or events known at December 31, 2009 rendered likely to occur.

G - Costs deferred over several periods

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

H - Pension obligations and retirement indemnities

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

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

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

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

partially funded through payments to an external organization under a collective life insurance policy, the assets of which are stated at fair value.

The principal assumptions used in this calculation are as follows:

- future salary costs are calculated based on current salaries including an annual rate of salary increases of 2% and additional age-related increases;
- changes in the actuarial assumptions are taken into account only outside the corridor;
- discounting to present value at a rate of 4.75%;
- an average cost ratio of 40% to 45%;
- staff turnover calculated by age bracket;
- return on plan assets: 4.0%;
- mortality table used: non-generational INSEE 98.

I - Stock repurchases

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

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

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

J - Exceptional items

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

K - Stock subscription options and bonus share allotments

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

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

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

The Company is not currently engaged in repurchasing shares in the market for allotment to beneficiaries under stock option and bonus share plans. In this case, the transaction would be recognized in accordance with *Conseil National de la Comptabilité*'s notice no. 2008-17 concerning the treatment of stock subscription and purchase plans and bonus share allotment plans for employees.

NOTE 2 Analysis and commentary

Income statement

Sales

Revenues (€1,538,000) primarily derive from services billed in France and abroad.

Operating income

The Company's operating loss came to €4,670,000, reflecting the impact of the holding company's operating costs.

Net financial income

The €16,961,000 in net financial income represented a significant increase on the €8,077,000 recorded in the previous fiscal year owing to foreign exchange gains on the repayment of borrowings and the lower level of impairment losses recorded on participating interests than in fiscal 2008. These impairment losses were recognized in connection with the disposal of the Automobile and household electrical appliance brush and brushholder division.

Exceptional items

The €1,290,000 in net exceptional expense derived primarily from the capital loss recorded on the sale of participating interests linked to the Automobile and household electrical appliance brush and brushholder division.

Income tax

The Company recorded a 2009 income tax benefit of €641,000 resulting from the consolidation of Le Carbone Lorraine and its French subsidiaries for tax purposes.

Balance sheet

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

Financial fixed assets

The €15,428,000 increase in the net value of financial fixed assets was attributable to the further development of financial investments in China, offset to some extent by the disposal of the subsidiaries involved in the Automobile and household electrical appliance brush and brushholder division at the beginning of 2009.

Debt

The Company's total net debt declined by €66,013,000 in the fiscal year to December 31, 2009.

(€ 000s)	Dec. 31, 2009	Dec. 31, 2008
Bank overdrafts	27,881	551
Bond issue	43,220	40,000
Other borrowings	113,406	226,695
Other financial liabilities (1)	37,626	39,743
Total debt	**222,133**	**306,989**
Cash and cash equivalents	(7,372)	(22,746)
Other receivables (2)	(58,667)	(58,984)
Marketable securities, cash and cash equivalents	**(66,039)**	**(81,730)**
Loans to subsidiaries	**(121,726)**	**(125,543)**
Other financial assets	**(5,784)**	**(5,119)**
Net debt	28,584	94,597
o/w: - due in over one year	32,859	138,969
- due in less than one year	(4,275)	(44,372)

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

NOTE 3 Fixed assets

(€ 000s)	NON-CURRENT ASSETS				DEPRECIATION, AMORTIZATION & CHARGES TO PROVISIONS			
Accounts	Gross value at beginning of period	Increases	Decreases	Gross value at end of period	Total at beginning of period	Increases	Decreases	Total at end of period
Intangible fixed assets								
Start-up costs	0	0	0	0	0	0	0	0
Concessions, patents, licenses, brands, processes, rights	8,797	0	19	8,778	8,749	14	19	8,744
Fixed assets in progress	0	0	0	0	0	0	0	0
TOTAL 1	**8,797**	**0**	**19**	**8,778**	**8,749**	**14**	**19**	**8,744**
Property, plant and equipment								
Buildings and technical installations	0	0	0	0	0	0	0	0
Other property, plant and equipment	416	49	93	372	347	20	93	274
Fixed assets in progress	0	0	0	0	0	0	0	0
Advances and downpayments	0	0	0	0	0	0	0	0
TOTAL 2	**416**	**49**	**93**	**372**	**347**	**20**	**93**	**274**
Financial fixed assets								
Participating interests	464,041	57,728	54,289	467,480	122,222	7,148	22,474	106,896
Loans and advances to participating interests	125,726	28,800	32,602	121,924	0	0	0	0
Other fixed assets	5	0	0	5	0	0	0	0
Other financial assets	6,280	9,575	9,506	6,349	398	3	398	3
TOTAL 3	**596,052,070**	**96,103**	**96,397**	**595,758**	**122,620,344**	**7,151**	**22,872**	**106,899**
TOTAL	**605,265**	**96,152**	**96,509**	**604,908**	**131,716**	**7,185**	**22,984**	**115,917**

NOTE 4 Provisions

(€ 000s) Accounts	Amount at beginning of period	Charges	Reversals of provisions used	Reversals of provisions not used	Amount at end of period
Tax-regulated provisions					
Accelerated tax depreciation	4	4	1	0	7
TOTAL 1	4	4	1	0	7
Provisions for liabilities and charges					
Foreign currency losses	9	740	9	0	740
Provision for European Commission fine	2,249	0	2,249	0	0
Retirement indemnities	332	35	327	0	40
Long-service awards	10	1	0	3	8
Risk related to Ugimag	10,179	583	0	0	10,762
TOTAL 2	12,779	1,359	2,585	3	11,550
Provisions for impairment					
in participating interests	122,222	7,148	22,474	0	106,896
in shares held in treasury	398	3	398	0	3
TOTAL 3	122,620	7,151	22,872	0	106,899
TOTAL	135,403	8,514	25,458	3	118,456

NOTE 5 Maturity schedule of assets and liabilities

(€ 000s) Amounts due to the Group	Gross amount on the balance sheet	Due in one year or less	Due in over one year
Loans and advances to participating interests	121,914	198	121,726
Other financial assets	6,349	3,772	2,577
Trade receivables	1,069	1,069	0
Other receivables	61,328	61,328	0
Prepaid expenses	355	355	0
TOTAL	191,025	66,722	124,303

(€ 000s) Borrowings	Gross amount on the balance sheet	Due in one year or less	Due in over one year	Over five years ahead
Bond issue	43,237	17	40,000	3,220
Borrowings from credit institutions	28,459	28,459	0	0
Other borrowings	113,626	486	113,140	0
Trade payables and related accounts	874	874	0	0
Tax and social security liabilities	1,823	1,006	460	357
Other liabilities	46,618	46,618	0	0
Prepaid income	1,920	792	1,128	0
TOTAL	236,557	78,252	154,728	3,577

NOTE 6 Information about related parties

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

(€ 000s) Balance sheet or income statement item	Amount for related parties at least 50%-owned	Amount for participating interests (less than 50%-owned)
Loans and advances to participating interests	121,924	0
Trade receivables	1,067	0
Other receivables	58,858	37
Borrowings from credit institutions	237	0
Other borrowings	266	0
Trade payables	7	0
Other liabilities	37,874	0
Financial expense	8,540	0
Financial income	25,939	0

NOTE 7 Revaluation reserve

(€ 000s)	
1. Revaluation reserves	
At beginning of period	3,252
Reversed during period	0
At end of period	3,252

NOTE 8 Accrued income and expenses

(€ 000s)		
1. Amount of accrued income included in the balance sheet items below		
Loans and advances to participating interests		198
Other financial assets		563
Other receivables		228
Cash and cash equivalents		236
TOTAL		1,225
2. Amount of accrued expenses included in the balance sheet items below		
Bond issues		17
Borrowings from credit institutions		578
Other borrowings		220
Trade payables and related accounts		60
Tax and social security liabilities		1,499
Other liabilities		5,873
TOTAL		8,247
3. Amount of prepaid income and expenses	Expenses	Income
Operating items	353	0
Financial items	2	1,920
TOTAL	355	1,920
4. Costs deferred over several periods		
Bond issuance expenses	990	
TOTAL	990	

NOTE 9 Share capital

Share capital

The share capital is made up of 19,645,409 fully paid-up shares each with a par value of €2. In 2009, 355,484 new shares were issued as a result of the dividend payable in shares, while 3,730,044 new shares derived from an issue of shares through a public offering and 62,668 from an issue of shares reserved for employees.

In November 2007, the Company completed the issue of a €40 million bond comprising 1,000 bonds convertible into new and/or exchangeable for existing shares through the attached warrants ("OBSAAR" bonds) with a nominal unit value of €40,000. Each bond carries 114 BSAAR warrants, representing a total of 114,000 warrants sold to the Group's senior managers, which could ultimately lead to the issuance of a maximum of 123,120 shares (change in the exchange ratio linked to the capital increase completed in 2009), i.e. around 0.63% of the Company's share capital and voting rights. The sale of warrants to the Group's senior executives made for a significant reduction in the interest rates on the bond.

During 2008, the Company also issued 2,500,000 share issuance rights subscribed by Société Générale at a price of €0.01, which may be exercised at Le Carbone Lorraine's request for a period of two years in tranches of no more than 400,000 shares each. For each tranche, the issue price would be set based on the price when the rights are exercised less a discount not exceeding 10%. This discount would enable Société Générale to subscribe then resell the shares in spite of the strong volatility in the capital markets, since Société Générale merely acts as a financial intermediary in this transaction. The total number of shares that may be issued after two years may not exceed 2.5 million or 17.5% of the share capital prior to any issues.

In connection with this program, three PACEO tranches were drawn down during 2009, leading to the issuance of 1,200,000 new shares.

Stock subscription options and bonus share allotments

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

Three stock option plans were awarded, namely on May 14, 2003, July 25, 2007 and February 11, 2009. The employee categories benefiting from these options are to be determined by the Board of Directors each time that it makes use of the authorization.

Four bonus share allotment plans were set up on June 30, 2005, June 28, 2006, February 26, 2008 and February 11, 2009.

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

Characteristics/Assumptions	2003 plan Stock options	2005 plan Bonus share allotments	2006 plan Bonus share allotments	2007 plan Stock options	2008 plan Bonus share allotments	2009 plan Stock options	2009 plan Bonus share allotments
Allotment date	May 14, 2003	June 30, 2005	June 28, 2006	July 25, 2007	Feb. 26, 2008	Feb. 11, 2009	Feb. 11, 2009
Availability date	May 14, 2007	July 1, 2007	July 1, 2008	July 25, 2011	March 1, 2011	Feb. 11, 2013	Feb. 11, 2013
Expiration date	May 13, 2013	July 1, 2007	July 1, 2011	July 25, 2017	March 1, 2013	Feb. 11, 2019	Feb. 11, 2014
Adjusted exercise price *(€)*	19.68	0.00	0.00	53.10	0.00	17.53	0.00
Adjusted share price at allotment date *(€)*	20.48	39.25	40.07	52.35	27.48	17.95	17.95
Estimated life *(number of years)*	5.5	2	2	5.5	3	8	4
Volatility	40.6%	39.9%	37.0%	30.9%	n/a	38.1%	n/a
Dividend per share (as a % of share price)	2.4	1.3	1.6	1.9	2.3	2.5	2.5
Risk-free interest rate	3.43%	2.68%	3.86%	4.44%	n/a	3.26%	n/a
Exercise period *(number of years)*	4	2	2	4	3	4	4
Lock-up period *(number of years)*	0	2	3	0	2	0	0
Number of options/adjusted share allotments	140,294	42,700	17,975	177,877	21,567	336,581	53,900
Estimated annual cancellation rate at year-end 2004	1.7%						
Estimated annual cancellation rate at year-end 2005	1.7%	1.7%					
Estimated annual cancellation rate at year-end 2006	1.5%	0.8%	1.5%				
Estimated annual cancellation rate at year-end 2007	End of the plan	End of the plan	1.5%	1.5%			
Estimated annual cancellation rate at year-end 2008	End of the plan	End of the plan	1.5%	1.5%	1.5%		
Estimated annual cancellation rate at year-end 2009	End of the plan	End of the plan	1.5%	1.5%	1.5%	7.0%	2.5%
% of shares/options acquired following satisfaction of the performance condition	66.7	75	100	100	100	100	100
Estimate of the number of options/shares ultimately exercised in 2005	81,023	30,945					
Estimate of the number of options/shares ultimately exercised in 2006	81,685	31,515	17,440				
Estimate of the number of options/shares ultimately exercised in 2007	82,089	30,900	17,440	155,321			
Estimate of the number of options/shares ultimately exercised in 2008	82,089	30,900	17,440	155,321	20,919		
Estimate of the number of options/shares ultimately exercised in 2009	88,481	30,900	16,478	167,442	20,919	274,222	48,708
Valuation of options/shares *(€)*	7.24	37.30	38.80	15.58	25.67	6.11	16.24
Valuation as a % of the share price at grant	35.5%	94.9%	96.9%	29.8%	93.4%	34.1%	90.5%

Statement of changes in equity

(€ 000s)	
Opening equity at January 1, 2009	**206,921**
Net income for the year	11,641
Change in tax-regulated provisions	3
Capital increases	94,104
Expenses related to capital increases	(3,730)
Dividend payment	(8,830)
Closing equity at December 31, 2009	**300,109**

NOTE 10 Commitments

Commitments and contingencies

(€ 000s)	
Commitments given	
Guarantee for euro cash pooling agreement	16,000
Guarantee covering pension obligations at the Deutsche Carbone Germany subsidiary	600
Security deposit for appeal of EU fine	24,524
Guarantee for the syndicated loan to the holding company in China	50,839
Counter-guarantee given to CLNA on guarantees	4,000
Guarantee given to Calcarb related to the Scottish industry ministry	2,815
Other guarantees and deposits	3,770
TOTAL	**102,548**
Commitments received	**0**
TOTAL	**102,548**

Other reciprocal commitments

(€ 000s)	
Reciprocal commitments given	
Currency hedges	16,946
TOTAL	**16,946**
Reciprocal commitments received	
Currency hedges	17,024
TOTAL	**17,024**

Other employee commitments

(€ 000s)	
Top-up pension plan covering senior managers belonging to the Executive Committee	
Present value of plan obligations at December 31, 2009	907
Fair value of assets held by AXA Assurances	(359)
TOTAL	**548**

Other commitments related to financial instruments

(€ 000s)	
Fair value of financial instruments at December 31, 2009	
Interest rate swaps	(617)
Currency hedges	0
TOTAL	**(617)**

NOTE 11 Leases

The Company did not hold any finance leases in progress at December 31, 2009.

NOTE 12 Employees

Total payroll costs for tax purposes amounted to €2,144,000 in 2009.

The compensation and benefits paid to officers and members of the Supervisory Board in respect of fiscal 2009 amounted to €1,923,000.

NOTE 13 Average headcount

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

NOTE 14 Analysis of tax expense

(€ 000s)	Income before tax and non-recurring items	Tax payable
Current	12,290	0
Exceptional	(1,290)	0
Tax benefit received from subsidiaries consolidated for tax purposes		641

Increase and decrease in future tax liability

(€ 000s)	Beginning of period	Change during period	End of period
Accelerated tax depreciation	(3)	2	(1)
Provisions for GPC pension obligations	629	(26)	603
Top-up pension provision	362	(33)	329
Income from future hedges	56	(59)	(3)
Accrued expense, social solidarity contribution	18	(4)	14
Paid vacation	75	(59)	16
Retirement indemnities	332	(292)	40
Tax base or future tax credit (significant items)	1,469	(471)	998
Tax losses	17,160	28,666	45,826
Total	18,629	28,195	46,824
Future tax rate adopted	34.43%		34.43%
Amount of future tax receivable	6,414		16,122

NOTE 15 Tax consolidation

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

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

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

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

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

NOTE 16 Translation adjustments

(€ 000s)	Amounts	o/w set off by hedges or global currency position	o/w deferred foreign exchange gains and losses	Other
Foreign currency translation losses (unrealized)				
On financial fixed assets	778	778		
On miscellaneous borrowings	650	650		
On borrowings from credit institutions	739			739
TOTAL	**2,167**	**1,428**		**739**
Foreign currency translation gains (unrealized)				
On financial fixed assets	5,068	1,428		3,640
On miscellaneous borrowings	9,223		6,385	2,838
TOTAL	**14,291**	**1,428**	**6,385**	**6,478**

A provision for liabilities for currency losses of €739,000 was set aside at December 31, 2009.

NOTE 17 Treasury shares

Pursuant to the liquidity agreement entered into with Exane-BNP Paribas, the Company held 42,187 treasury shares at December 31, 2009.

NOTE 18 Information about exceptional items

Exceptional income

(€ 000s)	
Management transactions	
Restructuring, professionals fees and expenses	74
SUB-TOTAL	74
Capital transactions	3,404
SUB-TOTAL	3,404
Reversals of depreciation, amortization and charges to provisions	32,122
SUB-TOTAL	32,122
TOTAL	35,600

Exceptional charges

(€ 000s)	
Management transactions	
Professional fees and expenses on the disposal of EMC	1,281
Professional fees and expenses related to EU fine	112
Pension plans and payroll charges on retirement indemnities	209
SUB-TOTAL	1,602
Capital transactions	
Net book value of investments	32,527
EU fine	2,249
Losses on the sale of treasury shares	509
SUB-TOTAL	35,285
Allowance for accelerated tax depreciation	3
SUB-TOTAL	3
TOTAL	36,890

NOTE 19 Information about risk factors

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

Liquidity risk

The Company has signed three major borrowing agreements.

A €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through the attached warrants ("OBSAAR" bonds) arranged in November 2007 (please see Note 9 for a detailed description).

A USD85 million private placement negotiated in May 2003 with US investors, comprising one USD65 million tranche with a final maturity of 10 years and one USD20 million with a final maturity of 12 years. The average duration of the private placement was initially around eight years because it is repayable in installments. The interest paid to investors carries a fixed rate.

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

Interest-rate risk

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

Since the Company considered that interest rates are at low levels by historic standards, it decided to fix part of its cost of debt.

In May 2003, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swaps was May 28, 2003, and the swaps have the same duration as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At December 31, 2008, the swaps had a total nominal amount of USD66.4 million. These swaps were sold again in April 2009, bringing the debt back to a fixed rate.

In June 2009, the Company purchased an interest-rate swap with an aggregate nominal amount of €39 million to convert the interest due on the OBSAAR borrowings into a fixed rate. Under this swap, the Company receives the interest due to the lenders and pays a fixed rate of 2.815% with a repayment profile and term equivalent to the OBSAAR borrowings.

At December 31, 2009, the Company arranged two interest rate swaps with nominal amounts of USD30 million and GBP20 million in order to convert the interest on part of its medium-term debt into a fixed rate. Under these swaps, the Company receives the interest due to the lender and pays a fixed rate of 1.175% for the US dollar swap and 1.58% for the sterling swap.

Commodity risk

Certain Group companies purchase raw materials or components comprising commodities, such as non-ferrous metals like copper, silver and zinc. Copper and silver are the two metals accounting for a significant volume of purchases (around €10 million).

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

Currency risk

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

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

The Company does not specifically hedge its net foreign assets.

NOTE 20 Consolidation

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

List of subsidiaries and shareholdings

(€ 000s) Detailed information (gross book value exceeding 1% of the share capital)	Share capital	Share-holders' equity excluding the share capital	% of share capital owned	Book value in Le Carbone Lorraine SA's financial statements		Dividends received by the Company	Loans and advances, net	Guarantees and sureties given
				Gross	Net			
Ferraz Shawmut SA (France)	40,936	(376)	100	49,589	49,589			
Ugimag SA (France)	3,208	(13,970)	100	73,483	0			
Carbone Lorraine Applications Électriques (France)	22,477	(3,353)	100	25,402	25,402			
Carbone Lorraine Composants (France)	19,896	2,516	100	19,896	19,896	11,695		
Carbone Lorraine Corporate Services (France)	3,574	697	100	3,646	3,646	309		
Carbone Lorraine Équipements Génie Chimique (France)	17,321	6,082	100	17,321	17,321	1,750		
Cellier Chaudronnerie (2C) (France)	461	(119)	100	1,681	1,681			
Deutsche Carbone AG (Germany)	10,021	15,983	10	1,635	1,635			600
CL KG (Germany)	28,700	(15,890)	100	28,700	10,251		414	
Carbone Lorraine Argentina SA (Argentina)	224	436	97.99	962	807			
Carbone Lorraine Australia PTY Ltd (Australia)	687	2,994	100	702	702	1,195		
Carbono Lorena SA (Brazil)	14,138	(10,064)	100	23,847	16,800			
Carbone of America Ltd (Canada)	1,276	9,962	100	1,322	1,322	2,763		
Carbone Lorraine China Holding (China)	62,113	838	100	65,465	65,465			15,252
Carbone Lorraine Korea Co. Ltd (South Korea)	2,927	2,548	100	12,060	11,540	501		
Carbone Danmark A/S (Denmark)	67	(14)	100	528	528			
Sofacel (Spain)	2,404	2,544	66.68	680	680			
Ferraz Shawmut Iberica (Spain)	2,043	990	100	2,396	2,396		1,355	
Carbone Lorraine North America (US)	33,471	21,324	100	68,926	68,926		73,152	4,000
Le Carbone UK (Holdings) Ltd (UK)	7,013	(3,237)	100	903	903		6,193	
Calgraphite Holding (United Kingdom)	45,046	(3)	100	42,000	42,000		40,536	
Carbone Lorraine Grèce SA (Greece)	383	(309)	100	638	90			
Carbone Lorraine Mauritius (Mauritius)	0	(811)	100	1,681	392			
Carbone Lorraine India (India)	1,506	4,681	100	7,239	7,021			
Il Carbonio SpA (Italy)	2,500	1,278	99.99	4,590	4,590	95		
Le Carbone KK (Japan)	376	1,858	8.70	2,977	917	28		
Carbone Lorraine Products (Mexico)	743	153	100	731	731			278
Le Carbone (SA) PTY Ltd (RSA)	98	2,566	54.77	813	813	161		
Carbone Lorraine Singapore Holding PTE Ltd	808	(648)	100	1,065	57			
Carbone Nordic AB (Sweden)	195	369	100	551	551	792		
Carbone Lorraine Sanayi Urünleri AS (Turkey)	951	1,037	100	5,016	2,907	190		
Total figures (concerning the other subsidiaries and shareholdings)								
Subsidiaries (at least 50%-owned)								
In France				88	78			
Outside France				730	730	618	76	506
Shareholdings (10% to 50%-owned)								
Outside France				217	217	9		1,126
Other shareholdings (less than 10%-owned)				**0**	**0**			
TOTAL				**467,480**	**360,584**	**20,106**	**121,726**	**21,762**

Five-year financial summary

	2009	2008	2007	2006	2005
1. Share capital at year-end					
Capital *(€ 000s)*	39,291	28,595	28,562	27,931	27,683
Number of shares outstanding	19,645,409	14,297,213	14,280,735	13,965,475	13,841,352
Par value of shares *(€)*	2	2	2	2	2
2. Overall result of operations *(€ 000s)*					
Income before tax, depreciation, amortization, provisions and employee profit-sharing	(12,862)	17,580	10,259	21,054	9,679
Income tax	(641)	(7,376)	(3,379)	(4,312)	(5,537)
Employee profit-sharing	0	0	0	0	0
Net income after tax, depreciation, amortization and charges to provisions	11,641	12,770	8,310	9,445	4,398
Total earnings paid out	9,822	8,864	12,138	11,871	9,689
3. Overall result of operations per share *(€)*					
Net income after tax and employee profit-sharing, but before depreciation, amortization and provisions	(0.62)	1.75	0.95	1.82	1.10
Net income after tax, depreciation, amortization and provisions	0.59	0.89	0.58	0.68	0.32
Dividend paid on each share	0.50	0.62	0.85	0.85	0.70
4. Employees					
Average headcount	6	6	6	6	6
Total payroll costs *(€ 000s)*	2,967	2,145	1,693	2,375	1,832
Amount paid for welfare benefits *(€ 000s)*	700	565	329	584	368

Statutory Auditors' report on the parent company financial statements
- Fiscal year ended December 31, 2009

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended on December 31, 2009, on:

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

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

→ Opinion on the financial statements

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

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of December 31, 2009, and of the results of operations for the year then ended in accordance with the accounting principles generally accepted in France.

→ Justification of our assessments

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

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

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

→ Specific verifications and disclosures

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

We have no matters to report concerning the fair presentation and conformity with the financial statements of the information disclosed in the Management Board's management report and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

With regard to the disclosures provided in accordance with the provisions of Article L. 225-102-1 of the French Commercial Code on the compensation and benefits paid to officers and directors and on the commitments given to them, we verified their consistency with the financial statements and with the figures used to prepare these financial statements and, where appropriate, with the data gathered by the Company from companies controlling the Company or controlled by it. Based on these procedures, we certify the accuracy and fair presentation of this information.

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

The Statutory Auditors

Paris La Défense, March 22, 2010
KPMG Audit
Department of KPMG S.A.

Catherine Porta
Partner

Neuilly-sur-Seine,, March 22, 2010
Deloitte & Associés

Joël Assayah
Partner

Legal and financial information

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Risk management

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

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

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

The mapping of operational, financial, strategic and information-related risks was carried out in 2001 and updated in 2005. During 2008, the Group conducted its third risk mapping survey. It covered all its risks, naturally including industrial risks, but also those related to its strategy, finances and information management. The risks were classified by priority and ranked. This new mapping survey did not reveal any major risks that were not sufficiently controlled. It helped to update the action plans required for proper control of all the Group's risks.

Industrial risks and environment-related risks

The Risk department continued to implement measures to reduce the risks identified in the mapping survey conducted in 2008. Some of these action plans were completed, while others are still underway. These initiatives focused primarily on:

- tightening up the security of the sensitive equipment and the emergency plans for our strategic units, notably by verifying:
  - the safety measures implemented for the units possessing kiln and pressing equipment,
  - the solutions adopted in the event of a breakdown in this equipment and the feasibility of the solutions adopted,
  - whether there is a formal emergency plan covering the strategically important equipment,
  - measures to secure installations that use explosive or toxic gases;
- verification of the compliance of certain production installations by comparison with the various regulations and notably the European regulations concerning the Best Technologies Available.

As in previous years, inspections were arranged in conjunction with the Group's insurance experts to assess the level of fire prevention and protection at the Group's principal manufacturing facilities in and outside France. These inspections led to the drafting of recommendations to reinforce fire prevention and protection systems wherever necessary.

During November 2008, the Group carried out the requisite pre-registrations in accordance with the REACH regulations. During 2009, the Group continued to prepare its registration files, without overlooking the end user dimension of the regulations, since it checks that its strategic suppliers comply with the REACH regulations. This initiative was implemented to secure the Group's strategic purchases as far as possible.

The Group continues its program of implementing carbon footprint reviews at its significant facilities. These carbon footprints are used to draft action plans to improve the environmental impact of our activities. This work will also help the Group to reach conclusions at other facilities and thus to benefit from a leverage effect. Carbone Lorraine also actively continued its efforts to eliminate the use of potential pollutants or to curb their use very strictly indeed. The Group continues to invest in improving working conditions and, more specifically, certain processes in order to reduce as far as possible the risks linked to CMR (cancerogenic, mutagenic and toxic to reproduction) substances. Soil monitoring is conducted to verify the conformity of soil samples with the regulations in force on a regular basis. To date, these controls have not revealed any worrying results.

The Group is also working on developing the eco-design of its products. Several initiatives and projects are currently in progress (see Chapter 3 on sustainable development)

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

Risks related to information systems

The information system security function continued to implement a series of measures aimed at safeguarding the integrity, availability and confidentiality of the Group's information systems.

In particular, it:

- tightened up the security of access to internal systems, but also reviewed the regulations governing access to external networks and notably the internet;

- developed central control systems helping to verify remotely that the Group's rules are applied properly;
- conducted network audits;
- tested intrusion prevention solutions.

A drive to update the Group's rules was initiated. A self-assessment tool will be made available during early 2010 enabling units to evaluate themselves using this frame of reference and to contribute to the improvement in information systems security.

→ Raw materials risks

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

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

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

What's more, to protect against price increases, exposure to certain raw materials was hedged using either derivative products or supplier-provided protection (see the section on financial market and financing risks below).

→ Commercial risks

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its portfolio. The Group's top ten customers accounted for just 15% of the Group's consolidated sales.

PROPORTION OF SALES DERIVING FROM THE GROUP'S PRINCIPAL CUSTOMERS

	2009		2008	
(€ 000s)	Volume of sales	Percentage of sales	Volume of sales	Percentage of sales
With the Group's leading customer	14,001	2.4%	18,806	2.8%
With the Group's top 5 customers	57,136	9.7%	65,008	9.8%
With the Group's top 10 customers	88,434	15.1%	94,651	14.3%

→ Country risks

The Group has manufacturing facilities in countries considered to be at high risk (based on the Coface's classification), i.e. in Argentina, Colombia and Turkey. These unconsolidated subsidiaries potentially represent a risk, albeit a very modest one given their size, since their sales totaled less than €7 million in 2009.

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

→ Insurance

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

The Group's civil liability (operations, before and after delivery) and environmental insurance programs notably cover bodily injury, physical and consequential damage, site clearance and rebuilding costs, withdrawal costs, damage to property entrusted with the Group and pollution abatement costs, subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy in France and local policies in certain countries. The total premiums paid by the Carbone Lorraine group during fiscal 2009 in respect of its civil liability, environmental and civil aviation insurance program came to €719,612.

The Group's property/business interruption insurance program notably covers bodily injury and physical damage, as well as losses caused by the interruption of business at the Group's main plants as a result of any sudden and accidental events (such as fire, storm, explosion, electrical damage, theft, etc.), subject to the usual deductibles, exclusions and restrictions. The program comprises a master policy and local policies in certain countries. It provides a contractual restriction per event (property/business interruption combined) of €100 million with sub-restrictions for certain events, such as storms, natural disasters or certain specific guarantees, such as machine failures and IT and electrical

risks. The total premiums paid by the Carbone Lorraine group during fiscal 2009 in respect of this insurance program came to €834,764.

Under the Group's transport insurance program, Carbone Lorraine and its subsidiaries are protected by a worldwide policy that provides a guarantee of up to €5 million per shipment for all the Group's goods shipments, irrespective of the means of transportation used. The total premiums paid by the Carbone Lorraine group during fiscal 2009 in respect of this insurance program came to €48,600.

The Group's insurance policy is determined by executive management. To protect the Group's future, the levels of coverage are set based on an assessment of the risks incurred by each Group subsidiary. Amid the apparent onset of a contraction in the insurance market, the levels of coverage arranged in 2010 were unchanged on the previous year.

→ Labor risks

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

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

The Amiens manufacturing facility is an example of this policy. In the past, the plan had two main activities:

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

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

This plan continues to be implemented by Midmark, which purchased the Automobile and household electrical appliance brush division.

In parallel to this industrial plan, a training, reskilling and retraining plan was launched. Its goal is to restrict the social impact of the restructuring plan on the employees working for the first unit by enabling them to retrain in the second unit's business under an ambitious professional training and retraining plan. The Amiens plant is aiming to protect a total of 134 jobs in this manner. To date, 22 months after the project began, 70% of the affected employees have already been retrained.

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

In France, an agreement covering the forward planning of jobs and skills was signed by all the union organizations during 2007. This agreement covers arrangements for informing and consulting the employee representation bodies about corporate strategy and its implications for jobs and salaries, the program to identify changes in jobs and competencies required, professional training tools, the formal recognition of professional experience, internal mobility and end-of-career professional development. These steps have since been implemented at the French plants. The December 2009 agreement on the management of seniors strengthened the competency development and career support process for senior employees (i.e. those aged 50 or over).

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

The "Seniors and Group culture management" work group drafted an action plan that will be implemented progressively around the world (with adjustments to take into account the labor rules applicable in the various countries in which the Group is present). The aim of the action plan is to replace and pass on the knowledge gained by seniors, increase the size of the workforce and the managers' competencies to help drive the Group's growth, and develop communication about its values and corporate culture. It includes implementation of a process identifying key competencies at global level and organizing their dissemination. The process of defining core competencies was rolled out at the Group's major manufacturing facilities from March 2009 onwards. For each employee whose skills are considered to be critical, a succession plan is drawn up, which should be updated on an annual basis. The transfer of skills is recorded formally through an experience interview held by managers with each of their employees when they turn 58 (this age may vary from country to country depending on the legislation and local practices).

Tax risks

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

Financial market and financing risks

Currency risks

Currency risks are addressed in the "Currency risks" section of Note 3 to the consolidated financial statements (p. 60).

Interest-rate risk

Interest-rate risks are addressed in the "Interest-rate risks" section of Note 3 to the consolidated financial statements (p. 59).

Commodity risks

Commodity risks are addressed in the "Commodity risks" section of Note 3 to the consolidated financial statements (p. 59).

Counterparty risks

All hedging transactions are entered into with prime financial institutions. The Group has no material investment securities and is not exposed to counterparty risks on such securities. In terms of credit risk, the Group set up an insurance program with commercial credit insurer Coface covering its principal companies in the US, France, Germany, the UK and China (domestic customers) against the risk of non-payment for financial or political reasons. Coverage varies between 0 and 90% of invoiced amounts from customer to customer.

Liquidity risks

Liquidity risks are addressed in the "Liquidity risks" section of Note 3 to the consolidated financial statements (p. 58).

Equity risks

At December 31, 2009, the Group held 42,187 shares in treasury worth €1.0 million. At the same date, the Group had not subscribed any shares in listed companies.

Legal risks

Dependence of the Company

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

The Group's principal customer contributes 2.4% of sales.

Litigation

Appeal procedure in Europe

The appeal procedure launched by Carbone Lorraine during February 2004 in the EU Court of First Instance against the fine imposed by the European Commission in December 2003 for anti-trust practices in brushes for electric motors and products for mechanical applications came to a definitive end on November 12, 2009, when the European Court of Justice dismissed the appeal lodged by Carbone Lorraine in December 2008 and confirmed the €43.05 million fine meted out by the European Commission in 2003. A partial payment of €20 million had been made by Carbone Lorraine in 2005 to reduce the expenses incurred over the protracted proceedings. The remaining balance of the fine and associated interest will be paid in two installments during 2010.

Civil lawsuits in North America (US - Canada)

The separate proceedings brought in 2005 by certain (opt-out) customers against Carbone Lorraine and its US subsidiary Carbone of America Industries Corp. (COAIC) before the US federal courts concerning brushes for electric motors were ended definitively on September 1, 2009, when Carbone Lorraine reached a full and final settlement of USD8 million with all the opt-out customers through a mediation process. This agreement was reached without any admission of liability and also means that no more costs related to such proceedings will be incurred. To recap, this separate procedure initiated in 2005 came after the civil action launched in 2002 by certain customers in the United States against COAIC, Carbone Lorraine's subsidiary producing brushes for electric motors. These civil proceedings of 2002 ended with a settlement during 2006 in an amount of USD3.7 million.

The lawsuit initiated during 2004 in Canada by certain customers against the main Canadian manufacturers of graphite brushes, including Carbone of America Ltd, a Canadian subsidiary of Carbone Lorraine, is still in progress and there have been no new

developments since 2007. To recap, this lawsuit was instigated following the fine of CAD1 million paid by Morgan Crucible Ltd in July 2004 for anti-trust practices for the 1995-98 period in the field of graphite brushes for traction applications. No new developments occurred in 2009. To recap, the Canadian judge ruled in February 2007 that only Canadian urban transportation companies could join the proceedings in progress. The amount at risk for Carbone of America Ltd (Canada) remains non-material.

Civil action in the United Kingdom

There have been no developments in the proceedings before the Competition Appeal Tribunal (CAT) since April 2008 when the CAT handed down a ruling rejecting claims for compensation against the Carbone Lorraine. The CAT decided that no claim for compensation could be made against the Company while the appeal procedure launched by the Company before the European Court of First Instance or European Court of Justice was still underway.

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

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

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

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

General information about the share capital

→ Conditions

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

→ Amount and structure of the share capital (Article 6 of the Articles of Association)

At December 31, 2009, the share capital amounted to €39,290,818 divided into 19,645,409 shares, each with a par value of €2 and belonging to the same category.

→ Authorizations to carry out a capital increase

Combined General Meeting of December 12, 2008

Issue of share issuance rights (BEAs)

Shareholders at the Combined General Meeting authorized the issue of share issuance rights (BEAs), on one or more occasions during a period of 18 months, to Société Générale, which will then be bound to subscribe the new ordinary shares in the Company at the latter's request, it being specified that the issue of shares may take place at any time during the two-year (2) period following the issue of BEAs. The nominal amount of new shares that may be carried out by exercising the BEAs may not exceed €5 million, it being stipulated that this nominal amount may be increased,

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

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

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

Grant of stock subscription or purchase options

Shareholders at the Combined General Meeting of December 12, 2008 also authorized the Board of Directors to grant officers and employees of the Company and its subsidiaries options entitling them to subscribe new shares in the Company. The maximum number of new shares that may be issued through the exercise of options granted is capped at 340,000 shares, each with a par value of €2. Claude Cocozza, the Chairman and Chief Executive Officer, the beneficiaries of bonus share allotments referred to in the Fifth Resolution of this General Meeting, as well as officers and employees of the Company and of affiliated companies holding over 10% of the Company's share capital, are excluded from receiving the options referred to in this authorization. The subscription or purchase price of the shares covered by the options will be determined by the Board of Directors, with no discount, in accordance with the legislation in force on the day of grant of the options subject to the restrictions provided for in Articles L. 225-177 and L. 225-179 of the French Commercial Code. This authorization is valid for a period of 36 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

During its meeting on January 22, 2009, the Board decided pursuant to this authorization to award 38 of the Group's senior managers, including two directors in the persons of Ernest Totino and Luc Themelin, options entitling the grantee to subscribe 340,000 of the Company's shares. The Board set the terms and conditions for the issue of these stock options. It notably set the subscription price at €18.90, as well as the terms and performance criteria to be satisfied before the options can be exercised. These options may be exercised only subject to attainment of growth targets for earnings per share (which may be altered by the Board in exceptional circumstances) over the 2008 to 2011 fiscal years. The percentage of options that may be exercised will be determined by applying two criteria, with the most favorable criterion of i) growth in the Company's EPS of between 1 or 2 times the value of 2007 EPS, or ii) growth in the Company's EPS by comparison with the average of EPS of a sample of listed companies in the SBF 120, being used.

Bonus share allotments

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

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

Capital increase reserved for employees participating in the Group Investment Plan

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

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

Combined General Meeting of May 19, 2009

Increase in the capital with preferential subscription rights for shareholders

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

At its meeting on September 15, 2009, the Management Board decided to carry out an issue of new shares with preferential subscription rights for shareholders for a maximum nominal amount of €7.6 million. On October 19, 2009, the Management Board formally noted that 3,730,044 shares each with a par value of €2, had been issued at the end of the subscription period.

Capital increase reserved for employees participating in the Group Investment Plan

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

It replaces and supersedes the previous authorization granted by the Combined General Meeting of December 12, 2008.

At its meeting on September 24, 2009, the Management Board decided to offer employees of its European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €17.67. On December 15, 2009, the Management Board formally noted that 62,668 shares each with a par value of €2, had been issued at the end of the subscription period.

Payment of the dividend in shares

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

SUMMARY OF CHANGES IN THE SHARE CAPITAL

Dates	Description of the transaction	Share capital following the transaction	Share premiums	Total number of shares after the transaction
Dec. 31, 2001	Issue of 18,729 new shares each with a par value of €2 through the exercise of subscription options	22,256,924	292,041	11,128,462
Dec. 31, 2002	Issue of 10,688 new shares each with a par value of €2 through the exercise of subscription options	22,278,300	180,704	11,139,150
Nov. 27, 2003	Issue of 3,750 new shares each with a par value of €2 through the exercise of subscription options	22,285,800	63,512	11,142,900
Dec. 23, 2003	Issue of 54,990 new shares each with a par value of €2 as a result of the capital increase reserved for employees	22,395,780	1,110,798	11,197,890
April 15, 2004	Issue of 2,000 new shares each with a par value of €2 through the exercise of subscription options	22,399,780	30,520	11,199,890
Aug. 20, 2004	Issue of 2,500 new shares each with a par value of €2 through the exercise of subscription options	22,404,780	38,150	11,202,390
Oct. 19, 2004	Issue of 2,489,420 new shares each with a par value of €2 through a capital increase in cash with preferential subscription rights for shareholders	27,383,620	58,003,486	13,691,810
Dec. 16, 2004	Issue of 46,328 new shares each with a par value of €2 as a result of the capital increase reserved for employees	27,476,276	1,176,731	13,738,138
Dec. 31, 2004	Issue of 17,439 new shares each with a par value of €2 through the exercise of subscription options	27,511,154	254,261	13,755,577
Dec. 31, 2005	Issue of 85,775 new shares each with a par value of €2 through the exercise of subscription options	27,682,704	1,829,333	13,841,352
June 28, 2006	Issue of 44,494 new shares each with a par value of €2 as a result of the capital increase reserved for employees	27,771,692	1,388,213	13,885,846
Dec. 31, 2006	Issue of 79,629 new shares each with a par value of €2 through the exercise of subscription options	27,930,950	2,219,832	13,965,475
July 25, 2007	Issue of 30,900 shares each with a par value of €2 through the grant of bonus shares	27,992,750	1,721,748* *unavailable reserve	13,996,375
Sept. 11, 2007	Issue of 200,191 new shares each with a par value of €2 through the exercise of subscription options	28,393,132	6,627,591	14,196,566
Dec. 17, 2007	Issue of 44,094 new shares each with a par value of €2 as a result of the capital increase reserved for employees	28,481,320	1,931,317	14,240,660
Jan. 24, 2008	Issue of 40,075 new shares each with a par value of €2 through the exercise of subscription options	28,561,470	1,254,681	14,280,735
July 24, 2008	Issue of 16,478 shares each with a par value of €2 through the grant of bonus shares	28,594,426	540,478* *unavailable reserve	14,297,213
May 26, 2009	Issue of 400,000 shares, each with a par value of €2, resulting from the exercise of 400,000 share issuance rights	29,394,426	7,340,000	14,697,213
June 11, 2009	Issue of 400,000 shares, each with a par value of €2, resulting from the exercise of 400,000 share issuance rights	30,194,426	7,064,000	15,097,213
June 25, 2009	Issue of 400,000 shares, each with a par value of €2, resulting from the exercise of 400,000 share issuance rights	30,994,426	6,248,000	15,497,213
July 7, 2009	Issue of 355,484 shares, each with a par value of €2, resulting from the payment of the dividend in shares	31,705,394	5,822,827.92	15,852,697
Oct. 19, 2009	Issue of 3,730,044 new shares each with a par value of €2 through a capital increase in cash with preferential subscription rights for shareholders	39,165,482	55,950,660	19,582,741
Dec. 15, 2009	Issue of 62,668 new shares each with a par value of €2 as a result of the capital increase reserved for employees	39,290,818	982,007.56	19,645,409

Voting right certificates

None.

Investment certificates

None.

Shares pledged

None.

Shareholders' agreement

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

Securities conferring rights to the share capital

The stock options still to be exercised at December 31, 2009, after taking into account cancellations, entitle their holders to acquire a total of 715,213 shares, each with a par value of €2.

The BSAAR warrants that may be exercised at December 31, 2009 entitle their holders to acquire a total of 123,240 new shares, each with a par value of €2 (after the adjustment resulting from the October 2009 capital increase).

The total number of bonus shares likely to be granted definitively stands at 91,297 new shares, each with a par value of €2, representing 0.46% of the current share capital.

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

Based on the number of stock subscription options, BSAAR warrants that may be exercised by BSAAR grantees and the shares that may be definitively granted, the maximum dilution would be 4.70%.

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

Ownership of the share capital

The Company's share capital at December 31, 2009 amounted to €39,290,818, comprising 19,645,409 shares each with a par value of €2 and all belonging to the same category.

The number of voting rights stands at 19,645,409.

At December 31, 2009, 42,187 shares representing 0.21% of the share capital were held by the Company pursuant to the liquidity agreement entered into with Exane-BNP Paribas. The Company did not buy or sell its own shares during fiscal 2009. The Company did not hold any other of its own shares at this date.

No shares carry double voting rights.

The number of stock subscription options granted to company officers and still outstanding stood at 172,585 taking into account the canceled options.

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

Following the investment by AXA Private Equity in the Company's share capital in July 2008, an agreement was entered into with the Company. Under the terms of the agreement, ACF I Investment (Group AXA Private Equity) undertook not to sell a block of shares representing 5% of more of Carbone Lorraine's share capital to an identified investor, except in connection with a public offer. Any sale by ACF I Investment of its shares on the market is to be performed in an orderly manner, wherever possible, with a view to restricting the effects of such a disposal on the Company's share price.

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

Share ownership thresholds crossed

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

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

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

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

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

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

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

September 18, 2009: Credit Suisse Group crossed above the 1% threshold, holding 213,715 shares or 1.3481% of the share capital and voting rights.

September 25, 2009: Credit Suisse Group crossed above the 2% threshold, holding 411,117 shares or 2.09% of the share capital and voting rights.

September 28, 2009: Credit Suisse Group crossed below the 2% threshold, holding 258,415 shares or 1.32% of the share capital and voting rights.

September 29, 2009: *Fonds Stratégique d'Investissement* ("FSI") and *Caisse des Dépôts et Consignations* ("CDC") crossed above the 5% mark, holding 799,665 shares (including 103,735 via FSI) or 5.04% of the share capital and voting rights (including 0.65% for FSI). FSI and CDC held a total of 1,211,920 preferential subscription rights (including 515,990 for FSI), entitling them to subscribe 285,157 shares (121,409 for FSI).

October 16, 2009: FSI and CDC crossed above the 6% threshold holding 1,309,628 shares (including 449,950 for FSI) or 6.68% of the share capital and voting rights (including 2.29% for FSI).

October 1, 2009: Credit Suisse Group crossed below the 1% threshold, holding 181,972 shares or 0.9292% of the share capital and voting rights.

October 16, 2009: Highclere International Investors crossed below the 1% threshold, holding 188,809 shares.

October 19, 2009: BNP Paribas Asset Management crossed below the 1% threshold, holding 161,969 shares or 0.8271% of the share capital and voting rights.

October 21, 2009: FSI and CDC crossed above the 7% threshold holding 1,422,256 shares (including 562,578 for FSI) or 7.26% of the share capital and voting rights (including 2.87% for FSI).

November 2, 2009: FSI and CDC crossed above the 8% threshold holding 1,567,476 shares (including 707,798 for FSI) or 8% of the share capital and voting rights (including 3.61% for FSI).

December 2, 2009: FSI and CDC crossed above the 9% threshold holding 1,769,671 shares (including 909,993 for FSI) or 9.03% of the share capital and voting rights (including 4.64% for FSI).

CHANGES IN OWNERSHIP OF THE SHARE CAPITAL

	Dec. 31, 2009			Dec. 31, 2008			Dec. 31, 2007		
Shareholders	Number of shares	% of the share capital	% of voting rights	Number of shares	% of the share capital	% of voting rights	Number of shares	% of the share capital	% of voting rights
Free float, o/w	19,603,222			14,237,692			14,239,519		
- French institutional investors	7,569,248	38.5%	38.5%	5,096,348	35.7%	35.7%	3,598,597	25.2%	25.2%
- individual shareholders	4,148,926	21.1%	21.1%	4,010,561	28%	28%	3,855,835	27%	27%
- employee shareholders	273,095	1.4%	1.4%	202,559	1.4%	1.4%	214,248	1.5%	1.5%
- international institutional investors	7,611,953	38.8%	38.8%	4,928,224	34.5%	34.5%	6,569,176	46%	46%
Treasury shares	42,187	0.2%	0.2%	59,521	0.4%	0.4%	41,216	0.3%	0.3%
TOTAL	19,645,409	100%	100%	14,297,213	100%	100%	14,280,735	100%	100%

To the best of the Company's knowledge, no shareholders other than AXA Private Equity, FSI/CDC, Columbia Wanger Asset Management, Sofina and Mondrian hold more than 5% of the Company's share capital and voting rights.

Corporate officers and Supervisory board members hold 16,775 registered shares, as well 15,283 shares via the Carbone Lorraine FCPE (corporate mutual fund), representing a total of 0.16% of the share capital. The Company held a total of 42,187 of its own shares at December 31, 2008 under a liquidity agreement complying with the AFEI's charter.

Market in the Company's shares

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

A total of 19,645,409 shares are listed on the market.

Carbone Lorraine shares	Number of shares traded *(In units)*	Capital traded *(In millions of euros)* (1)(3)	High/low (2)(3) High *(€)*	Low *(€)*
2008				
January	2,730,598	101.76	48.76	31.50
February	3,293,607	100.45	35.00	26.78
March	2,823,499	85.86	39.50	26.60
April	2,813,238	102.71	38.31	34.00
May	1,633,173	59.89	39.70	33.58
June	1,812,288	69.30	41.55	34.20
July	2,585,286	94.54	40.00	29.10
August	932,709	34.57	39.00	35.46
September	1,739,520	62.95	39.80	32.70
October	3,054,393	77.92	33.50	20.10
November	1,135,004	28.07	27.30	22.71
December	1,603,749	31.37	25.39	16.46
2009				
January	1,526,857	26.71	19.84	16.61
February	607,237	10.31	19.62	15.62
March	866,994	18.77	18.20	14.23
April	843,780	15.45	20.06	15.55
May	574,256	11.65	21.46	18.66
June	543,619	10.47	20.83	17.42
July	720,906	12.92	19.15	17.45
August	864,397	16.99	20.86	18.44
September	2,127,665	49.19	24.60	19.39
October	1,919,231	48.81	28.20	22.50
November	1,024,463	24.76	25.30	22.80
December	866,933	21.46	25.95	23.30
2010				
January	654 711	17.03	27.80	24.17
February	552 088	13.42	25.60	23.35

Source: Euronext.
(1) Based on the monthly average share price.
(2) Based on monthly intra-day highs and lows.
(3) Data adjusted following the capital increase.

	Nbr of shares at year-end	Earnings per share *(€)*	Share price *(€)*			Overall yield based on year-end share price
		Dividend	High	Low	Last	
2005	13,841,352	0.70	43.75	31.20	38.60	1.81%
2006	13,965,475	0.85	51.00	36.55	42.65	2.0%
2007	14,280,735	0.85	61.77	41.60	47.20	1.8%
2008	14,297,213	0.62	47.58	17.06	17.81	3.5%
2009	19,645,409	0.50	28.07	14.46	25.40	2.0%

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

With respect to fiscal 2009, the 3rd Resolution of the Combined General Meeting of May 20, 2010 provides for payment of a dividend of €0.50 per share, subject to shareholders' approval. The option of receiving this dividend in shares will be put to shareholders.

Description of the stock repurchase program submitted for shareholders' approval at the Combined General Meeting of May 20, 2010

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

SUMMARY OF THE PRINCIPAL CHARACTERISTICS OF THE PROGRAM

Issuer: Le Carbone Lorraine

Shares concerned: Carbone Lorraine's ordinary shares, admitted for trading in Compartment B of Eurolist by Euronext Paris (ISIN code: FR0000039620)

Maximum percentage of the capital authorized for repurchase by shareholders at the General Meeting: 10%

Maximum acquisition price per share: €50

Aims of the program in order of priority:

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

Duration of the program: 18 months from Combined General Meeting of May 20, 2010 until the date of the General Meeting convened to approve the financial statements for fiscal 2010.

I - Outcome of the previous program

With the exception of the repurchases made under the liquidity agreement, the Company did not make any use of the authorization granted by shareholders at the Combined General Meeting of May 19, 2009 in connection with the previous stock repurchase program to stabilize the share price. At December 31, 2009, 42,187 shares were held under this liquidity agreement.

The Company did not use any derivatives.

SUMMARY STATEMENT

ISSUER'S DECLARATION OF TRANSACTIONS IN ITS OWN SHARES BETWEEN MAY 19, 2009 AND DECEMBER 31, 2009

Percentage of the share capital held directly and indirectly	0.21%
Number of shares canceled over the previous 24 months	None
Number of shares held in the portfolio	None
Carrying amount of the portfolio	None
Market value of the portfolio	None

	Total gross cash flows		Open interest on the filing date of the information memorandum					
			Open interest, buy side			Open interest, sell side		
	Purchases	Sales/ Transfers	Calls purchased	Puts sold	Futures bought	Calls sold	Puts purchased	Futures sold
Number of instruments	None							
Average maximum life			None	None	None	None	None	None
Average transaction price	None							
Average exercise price			None	None	None	None	None	None
Amounts	None		None	None	None	None	None	None

Since February 25, 2005, the Company has entrusted Exane-BNP Paribas (investment services provider) with implementing a liquidity agreement in accordance with the AFEI's charter approved by the *Autorité des Marchés Financiers* for an automatically renewable period of one year. The funds and shares made available pursuant to this agreement and credited to the liquidity account on February 25, 2005 comprised €2,200,000 and no shares.

II - Objectives of the stock repurchase program

Carbone Lorraine wants to be able to implement a program to repurchase its own shares pursuant to the authorization submitted for approval by shareholders at the Combined General Meeting on May 20, 2010.

Share purchases may be carried out, in decreasing order of priority, to:

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

III - Legal framework

This program conforms to the provisions of Articles L. 225-209 et seq. of the French Commercial Code, as well as EC Regulation no. 2273/2003 of December 22, 2003, implementing the Market Abuse Directive 2003/6/EC of January 28, 2003, which entered force on October 13, 2004. It will be submitted for shareholders' approval at the Combined General Meeting of May 20, 2010, deliberating in accordance with the quorum and majority voting requirements for Ordinary General Meetings. The corresponding resolution to be proposed by the Management Board is worded as follows:

Purchase of Carbone Lorraine shares

After hearing the Management Board's report and having familiarized itself with the description of the stock repurchase program, the General Meeting authorizes the Management Board under the conditions stipulated in Article L. 225-209 et seq. of the French Commercial Code to acquire, on one or more occasions and by any means, a number of shares representing up to 10% of the shares comprising the Company's share capital, or 1,964,540 shares.

The General Meeting resolves that purchases of the Company's shares may be made to:

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

The maximum purchase price is set at €50 per share. This price is set subject to adjustments related to any transactions affecting the Company's share capital. In view of the maximum purchase price set, the aggregate amount of share purchases may not exceed €98,227,000.

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2010. In no case whatsoever will this authorization remain valid for more than 18 months. It replaces and supersedes the previous authorization granted by the Combined General Meeting of May 19, 2009.

The General Meeting grants full powers to the Management Board, with the option of delegating them to the Chairman of the Management Board, to place all stock market orders, enter any into agreements, carry out all formalities and, generally speaking, do whatever is required to apply this authorization.

IV – Terms and conditions

1) Maximum percentage of the share capital to be acquired and maximum amount payable by Carbone Lorraine

Carbone Lorraine will have the option of acquiring up to 10% of the share capital at the date of the General Meeting, i.e. 1,964,540 shares. The Company reserves the right to make full use of the authorized program. Accordingly, the maximum amount that Carbone Lorraine may pay assuming that it acquires shares at the maximum price set by the General Meeting, i.e. €50 per share, would be €98,227,000.

The Company's discretionary reserves, as stated under liabilities in the most recent annual financial statements prepared and certified at December 31, 2009, amounted to €240,762,000. Pursuant to law, the size of the stock repurchase program may not exceed this figure ahead of the December 31, 2010 close.

Carbone Lorraine undertakes to stay below the direct and indirect ownership threshold of 10% of the share capital at all times.

2) Conditions governing repurchases

Stock repurchases, sales and transfers may take place at any time within the restrictions laid down in the stock market regulations and by any means, through trading on the market, through the use of options instruments or through block share purchases, provided that the General Meeting does not place any special restrictions on acquisitions of blocks of shares.

The Company will be careful not to increase the volatility of its shares when using options instruments.

3) Schedule for the program

These stock repurchases may take place only after the approval of the corresponding Resolution to be presented to the Combined General Meeting of May 20, 2010 and until the date of the General Meeting convened to approve the financial statements for 2010. In no case whatsoever will this authorization remain valid for more than 18 months.

4) Financing for the stock repurchase program

Stock repurchases will be financed using the Company's cash funds or using debt finance. The Company will adjust its credit lines to cover these stock repurchases.

As a guide, net cash from operating activities before capital expenditures came to €95.3 million at December 31, 2009. Equity attributable to the Group's shareholders stood at €420.6 million, and net debt at €214.9 million.

V - Presentation of the likely impact of the stock repurchase program on Carbone Lorraine's financial situation

Calculations of the impact of the program on the Group's financial statements were made assuming the repurchase of 10% of the share capital based on Carbone Lorraine's share capital at December 31, 2009.

The other assumptions were as follows:

- interest expense estimated at the gross annual rate of 3.5%;
- a unit repurchase price of €25,076, the average closing price for sessions between January 19 and February 15, 2010;
- theoretical tax rate: 33%.

On this basis, the impact of the stock repurchase program on the Group's consolidated financial statements would be as follows:

(In millions of euros)	Consolidated financial statements at Dec. 31, 2009	Impact of the repurchase of 10% of the share capital	Pro forma after the repurchase of 10% of the share capital	Impact of the repurchase *(As a %)*
Equity attributable to Group shareholders	420.6	(50.1)	370.5	(11.9%)
Total equity	424.9	(50.1)	374.8	(11.8%)
Net debt	214.9	48.9	263.8	22.8%
Total number of shares outstanding at Dec. 31	19,645,409	1,964,541	17,680,868	(10%)
Weighted average number of shares used to compute Earnings per share	19,456,243	1,964,541	14,491,702	(11.9)
Net income attributable to Carbone Lorraine's shareholders	14.6	(1.0)	13.6	(6.7%)
Earnings per share	0.89		0.94	5.9%

VI – Tax treatment of stock repurchases

1) For Carbone Lorraine

The repurchase by Carbone Lorraine of its own shares as part of the present program without cancellation of the shares would have an impact on its taxable income if the shares were sold or transferred at a price other than their repurchase price. Taxable income would then be affected by the capital gain or loss arising.

2) For shareholders selling their shares

Capital gains tax applies to the present repurchase program (Article 112-6 of the French General Tax Code). Gains realized

by legal entities subject to French corporate income tax incur business capital gains tax, in line with Article 39 *duodecies* of the French General Tax Code. Gains realized by individuals in France are subject to the disposal gains on securities or corporate rights regime provided for in Article 150-0-A of the French General Tax Code. Under this regime, capital gains are taxable in France only if the aggregate annual amount of assets sold by the shareholder whose shares are repurchased exceeds €25,000. The tax rate stands at 18% or 29% including social security contributions. Gains are not liable to this tax in France when realized by individuals not domiciled in France for tax purposes or by entities having a head office located outside France (and with no permanent establishment in France holding the shares on its balance sheet), without the former at any time having owned directly or indirectly, alone or with family members, a shareholding of over 25% in rights to the Company's corporate profits at any time whatsoever during the five years preceding the sale (Article 244 bis C of the French General Tax Code).

VII - Intervention by the person(s) controlling the issuer alone or in concert

No individual or legal entity controls Carbone Lorraine either alone or in concert.

VIII - Breakdown of ownership of Carbone Lorraine's share capital at December 31, 2009

Carbone Lorraine's share capital is divided into 19,645,409 shares, each with a par value of €2, ownership of which at December 31, 2009 was as follows based on the information received by Carbone Lorraine:

OWNERSHIP OF THE SHARE CAPITAL AT DECEMBER 31, 2009

Shareholders	Number of shares	% of the share capital	% of voting rights
Free float, comprising:	19,603,222	99.79%	99.79%
- employee shareholders	273,095	1.39%	1.39%
- individual shareholders	4,148,926	21.11%	21.11%
- French institutional investors	7,569,248	38.53%	38.53%
- international institutional investors	7,611,953	38.75%	38.75%
Treasury shares (liquidity agreement)	42,187	0.22%	0.22%
TOTAL	19,645,409	100	100

To best of the Company's knowledge, the following shareholders own over 5% of the Company's share capital and voting rights:

Shareholder	Number of shares	Percentage
ACF Investment	3,215,662	16.3%
Fonds Stratégique d'Investissment/Caisse des Dépôts et Consignations	1,966,279	10.0%
Columbia Wanger Asset Management	1,482,772	7.5%
Sofina	1,419,646	7.2%
Mondrian Investment Partners	1,348,576	6.9%

To best of the Company's knowledge, no other shareholders hold over 5% of the Company's share capital and voting rights.

No shareholders' agreement is in place.

As a result of the stock options granted under the 1999 to 2009 plans still outstanding at December 31, 2009, 715,213 new shares (following the adjustment after the capital increase carried out in October 2009) may potentially be issued. The information concerning Carbone Lorraine's stock subscription options is shown on pages 141 and 142 of this reference document.

The BSAAR warrants that may be exercised at December 31, 2009 entitle their holders to acquire a total of 123,240 new shares, each with a par value of €2 after the adjustment resulting from the October 2009 capital increase.

The total number of bonus shares that may be granted definitively at December 31, 2009 was 91,297 new shares each with a par value of €2 after the adjustment resulting from the October 2009 capital increase.

IX - Persons responsible for the information memorandum

To the best of the Company's knowledge, the information provided in this information memorandum is true and accurate. It provides all the information required for investors to make an informed judgment of Carbone Lorraine's stock repurchase program.

There are no omissions liable to impair its significance.

Corporate governance

BOARD OF DIRECTORS (FROM JANUARY 1 TO MAY 19, 2009)

SUPERVISORY BOARD FROM MAY 19, 2009 *(DATE OF CHANGE IN GOVERNANCE STRUCTURE)* UNTIL MARCH 18, 2010

Name	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAAR stock warrants conferring rights to Carbone Lorraine's share capital*	Other positions held
Claude COCOZZA DoB: June 1, 1947 Chairman and Chief Executive Officer (until May 19, 2009)	June 8, 1993	May 24, 2007	May 19, 2009	8,306(1) 16,500(2)	Director and Chairman of(1): Carbone Lorraine North America, Ugimag SA Chairman(1) of the Management Board of: Compagnie Financière Thivent (CFT) Director(1) of: Sofacel *(1) at May 19, 2009.*
Yann CHARETON DoB: January 8, 1978 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee	Jan. 1, 2009	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2012	120(1) 0(2)	Supervisory Committee of: Alvest (formerly TLD Int. Holding), Kerisper Manager of: ACF Investment 1 Manager of: ACF Investment 2 Director of: ALF Participations SA
Hervé COUFFIN DoB: October 26, 1951 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee, the Appointments and Remuneration Committee and the Strategy Committee	May 22, 1995	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2012	8,195(1) 13,000(2)	Chairman and Chief Executive Officer of: Callisto Managing Partner of: HC Conseil Director of: Antargaz, Ipsen and Compagnie Franco-Tunisienne des Pétroles (Tunisia) Former Director of: Gerflor, CEVA, Coparex, Neuf-Cegetel

Name	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAAR stock warrants conferring rights to Carbone Lorraine's share capital*	Other positions held
Dominique GAILLARD DoB: February 17, 1960 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Appointments and Remuneration Committee and the Strategy Committee	Jan. 1, 2009	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2012	124(1) 0(2)	**Director of:** several subsidiaries of the AXA Private Equity group, Moteurs Baudouin and Vieux-Port Equity, Kuvera Développement, Kebexa Participations **Chief Executive Officer of:** AXA Private Equity Participations GmbH **Director of:** ACF Investment 1 **Manager of:** ACF Investment II
Jean-Paul JACAMON DoB: August 5, 1947 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Chairman of the Appointments and Remuneration Committee Member of the Strategy Committee	Jan. 22, 2003	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2010	189(1) 8,000(2)	**Director of:** Tokheim **Former Director of:** Alcan, AMEC
Jean-Claude KARPELES DoB: June 15, 1940 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee and Strategy Committee	April 6, 1999	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2010	3,200(1) 5,000(2)	**Honorary General Delegate:** Gimelec **Manager and Chief Executive Officer of:** ELEC Promotion SARL, Gimelec Promotion SARL **Director of:** CPI Media, Paris region development and urban planning institute, Streamcore **Chairman of:** ELEN (Électricité Environnement) Elected member of the Paris Chamber of Commerce and Industry - Hauts de Seine department
Agnès LEMARCHAND DoB: December 29, 1954 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Appointments and Remuneration Committee and the Strategy Committee	May 24, 2007	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2012	252(1) 4,000(2)	**Chairman and Director of:** Steetley Dolomite Ltd **Director of:** Plüss-Staufer AG **Manager of:** Steetley Development Consulting

Name	Date of first appointment	Most recent renewal date	End of term in office	Number of shares or BSAAR stock warrants conferring rights to Carbone Lorraine's share capital*	Other positions held
Henri-Dominique PETIT DoB: July 3, 1948 Director (until May 19, 2009) Member and Vice-Chairman of the Supervisory Board (since May 19, 2009) Chairman of the Audit and Accounts Committee Member of the Appointments and Remuneration Committee	May 24, 2007	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2010	120(1) 2,000(2)	**Chairman and Chief Executive Officer of:** Sperian Protection (formerly Bacou Dalloz) **Director of:** Canal Corp. (US)
Walter PIZZAFERRI DoB: August 20, 1957 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Chairman of the Strategy Committee	April 6, 1999	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2012	240(1)	**Chairman and Chief Executive Officer of:** Akeance Industries **Manager of:** Tercara, Les Verrières de Montagnac, L'Observatoire de l'Innovation dans l'Energie
Philippe ROLLIER DoB: February 19, 1943 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009) Member of the Audit and Accounts Committee and Strategy Committee	May 24, 2007	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2010	552(1) 5,000(2)	**Director of:** Moria SA, Sperian Protection (formerly-Bacou Dalloz), Sonoco Products (US), Committee Charter. **Member of the Supervisory Committee of:** Groupe Grégoire **Manager of: Cybèle**
Marc SPEECKAERT May 23, 1951 Director (until May 19, 2009) Member of the Supervisory Board (since May 19, 2009)	Jan. 1, 2009	May 19, 2009	Annual General Meeting called to vote on the financial statements of 2010	600(1) 0(2)	**Chief Executive Officer of:** Sofina **Director of:** SES (Luxembourg), Rapala (Finland), Landis Gyr (Switzerland), Petit-Forestier (France)

** In accordance with Article 20 of the Articles of Association, each Supervisory Board member must hold at least 120 shares for the entire duration of his or her term in office. These shares must be held in registered form.*
(1) Number of shares held.
(2) Number of BSAAR stock warrants held.

→ Summary biographies of the Supervisory Board members

Yann Chareton

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

Hervé Couffin

A graduate of the Ecole Polytechnique and a qualified Corps des Mines engineer, Hervé Couffin started his career working for the French industry ministry. He joined the Paribas group in 1983 as director responsible for principal investments. He became a member of Paribas Principal Investments' executive committee in 1993, before being named senior partner and member of PAI Partners' executive committee until 2004. In 2005, he founded Callisto, a company providing financial advice to senior management teams in relation to LBO transactions, and is its chairman and chief executive officer. In addition, he is an independent director of several companies.

Dominique Gaillard

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

Jean-Paul Jacamon

A graduate of the prestigious Ecole Polytechnique and Ecole des Mines, Jean-Paul Jacamon joined Schneider Electric in 1981, having begun his career with the French industry ministry and Datar. He became chairman and chief executive officer of Spie-Trindel and Spie Enertrans, before being named senior executive vice president of Spie Batignolles in 1993. In 1995, he was appointed CEO of the European division, then CEO in 1996. From 1999 to 2002, he was vice-chairman and chief operating officer of Schneider Electric. He has since been a company director.

Jean-Claude Karpeles

A graduate of the Ecole Supérieure d'Ingénieur in electrical and electronic engineering, with an MBA from EDHEC and a postgraduate degree in economics, Jean-Claude Karpeles began his career as an administrator with the European Commission in 1963. He was then responsible for international affairs for the electrical and electronics industries and, in this role, he created and managed several export consortiums. In 1981, he was appointed as the general delegate, then honorary general delegate from 2008 at Gimelec. From 1991 until 2007, he was general delegate of the French electrical and electronics industry. At the same time, he was named by the French finance ministry as chairman of Actim in 1986 then of CFME Actim and UbiFrance, organizations promoting French foreign trade, until 2004. He is also chairman of ELEN (electricity and the environment) and director of the CPI Media press group, Streamcore, and manager and CEO of Elec Promotion.

Agnès Lemarchand

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

Henri-Dominique Petit

Currently Chairman of Sperian Protection (formerly Bacou-Dalloz), a company listed in Paris, Henri-Dominique Petit has spent his entire career in industry. After high-level scientific training (Ecole Supérieure de Physique et de Chimie in Paris, followed by a postgraduate degree in nuclear physics and a PhD in particle electronics at Orsay university) and three years of research, Henri-Dominique Petit joined Kodak in Paris, a group with which he has spent the bulk of his career. He has held a wide variety of positions in France (purchasing, production, marketing and sales) and in the rest of the world (divisional manager in London, then president of the cinema and television division in Los Angeles, European president of Eastman Kodak, based in London, COO of the Consumer Imaging division based in the US and, lastly, president of Eastman Kodak Asia-Pacific based in Shanghai). He took over at the helm of Bacou-Dalloz in 2004 and has consolidated on the group's merger and international development. He was Chief Executive Officer of the group until 2009.

Walter Pizzaferri

Walter Pizzaferri is the founder and manager of Tercara, a company that invests in advisory firms and innovative SMEs. He is also a founder and chairman of Akeance Industries, a consulting firm specialized in growth and innovation strategies for the automobile, transportation and energy sectors. After spending over 25 years working in strategy and organization consulting for the leading firms (Orga Consultants, KPMG Peat Marwick, Bain & Co.) and as the founder and chief executive officer of the European arms of US and UK-based firms (PRTM, JSA), Walter Pizzaferri was a partner for seven years at Stratorg, where he was responsible for the automobile sector and international development. A lecturer at HEC Entrepreneurs, he also set up and directed the Observatoire de l'Innovation Automobile and the Observatoire de l'Innovation dans l'Energie, observatories monitoring innovation in the automobile and energy sectors, with the support of leaders in these two industries.

Philippe Rollier

A graduate of the Paris-Grignon Institut National Agronomique and of Sciences-Po in Paris, Philippe Rollier has spent his entire career with the Lafarge group, including 15 years abroad.

From 1980 to 1995, he directed two of Lafarge's diversification subsidiaries, namely Allia (sanitary ceramics) and Orsan (biotechnologies). He then became executive vice president for Central and Eastern Europe. In 1999, he was appointed as chief operating officer of the Lafarge group. From 2001 to 2006, he served as chairman and CEO of Lafarge North America, which is based in Washington.

He is a director of Sonoco Products (US), Sperian Protection and Moria SA and of the Charter Committee. He is also a member of the Grégoire group's supervisory board.

Marc Speeckaert

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

→ Summary biographies of the Management Board members

Ernest Totino

Ernest Totino, who holds a PhD in chemistry, has spent the bulk of his career with the Carbone Lorraine group, having started out in Research and development. He then worked in production, before being named plant director and then head of the anticorrosion equipment division. He joined the Group's Executive Committee in 2005, on which he was given responsibility for supervising the anticorrosion equipment and industrial brushes activities, as well as information systems and purchasing. In May 2008, he was appointed as Chief Operating Officer, before taking over as Chairman of the Management Board in May 2009.

Luc Themelin

Luc Themelin, who holds a PhD in materials science, has spent the bulk of his career with the Carbone Lorraine group, having originally been hired as a Research and Development engineer. He was appointed as the Director of the Braking division in 1998 and then of the High temperatures division in 2004. He joined the Executive Committee in 2005, while continuing to manage the Braking division and to oversee the High temperatures division. On July 1, 2008, Luc Themelin was appointed as Supervisor of the Capital goods and EMC divisions. He became a member of the Management Board in May 2009.

→ Board practices

Change in Corporate Governance: Supervisory Board - Management Board

The Combined General Meeting of May 19, 2009 voted to alter the Company's corporate governance structure and to set up a Supervisory Board and Management Board.

Operation of the Supervisory Board

The composition, operation, duties and remit of the Supervisory Board and of its Committees, as well as their tasks, are described in the "Report of the Chairman of the Supervisory Board on the preparation and organization of the Board's work and on internal control procedures" on pages 145 to 154 of this document.

Operation of the Management Board

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

The Management Board is invested with the broadest powers to act in all circumstances in the name of the Company, within the restrictions of the corporate purpose and subject to the powers granted by law to the Supervisory Board and to shareholder meetings.

In dealings with third parties, the Company is bound even by acts of the Management Board not falling within the corporate

purpose, unless it can prove that the third party knew that the act fell outside the scope of the corporate purpose or that it could not fail to know this in view of the circumstances, with mere publication of the Articles of Association not counting as evidence thereof.

The Chairman of the Management Board represents the Company in its dealings with third parties.

The Supervisory Board may grant the same power to represent the Company to one or more other members of the Management Board, who then carry the title of Chief Executive Officer.

Members of the Management Board meet each time that corporate interests so require and at least four times per annum, when convened by the Chairman or half its members, at the location indicated by the person convening the meeting. Meetings may be convened by any means, including verbal arrangement.

The Management Board may deliberate validly only if at least two members, including the Chairman, are present. The Management Board's decisions are made based on a majority vote of the members present. No one within the Management Board may vote by proxy. Where votes are split, the Chairman of the Management Board holds a casting vote. Every deliberation gives rise to the preparation of minutes signed by the Chairman and one of the Management Board members.

The Management Board currently has two members, namely Ernest Totino, its Chairman, and Luc Themelin, who were appointed by the Supervisory Board at its meeting on May 19, 2009 for a term of office expiring on May 19, 2013. During 2009, the Management Board met 16 times with an attendance rate of 100%.

Executive Committee

Composition of the Executive Committee through May 19, 2009

Claude Cocozza
Chairman and Chief Executive Officer

Ernest Totino
Senior Executive Vice President

Bernard Leduc
Director of Human Resources, Quality and Continuous Improvement

Jean-Claude Suquet
Group Vice President, Finance and Administration

Luc Themelin
Group Vice President, High-Temperature applications and Braking

Composition of the Executive Committee from May 19, 2009

Ernest Totino
Chairman of the Management Board

Luc Themelin
Member of the Management Board

Bernard Leduc
Director of Human Resources, Quality and Continuous Improvement

Jean-Claude Suquet
Group Vice President, Finance and Administration

The Executive Committee comprises senior managers whose role is to run and supervise the Group's day-to-day operations. It met once every month. It conducted a detailed analysis of the monthly earnings and cash generation trends at each division and examined the remedial measures implemented where actual performance fell short of budget. It monitored the initiatives implemented to reduce the WCR, notably those launched to manage the WCR via the supply chain. The Executive Committee began all of its meetings with an analysis of trends in employee safety and measures taken on an ongoing basis to make improvements. Each divisional management team gave two detailed presentations to the Executive Committee during the year of its position and how it plans to improve. The Executive Committee also checked on the progress made by expansion projects currently being implemented.

In addition, it:

- studied the strategic options proposed by the divisions;
- drew up the business plan for the Group and its divisions;
- reviewed and adopted the budget for the Group and the divisions;
- defined the investment program and authorized spending on each major investment project;
- implemented and monitored progress with the savings plan;
- studied the various acquisition plans;
- studied the plan to dispose of the Automobile and household electrical appliance brushes division;
- determined the key financial reporting priorities;
- reviewed the major research and development priorities being explored with the divisional heads of Marketing and of Research and Development;
- determined the Group's human capital development policy, which is underpinned by forward human resources planning, with particular attention being paid to diversity, gender balance and how to manage senior employees;
- updated management succession plans for the Group's divisions and main subsidiaries, mapping out desirable career opportunities for its key executives and new skills that they first need to acquire;
- monitored negotiations with the union organizations concerning "senior" employees, as well as top-up pension plans under the PERCO regulations and Article 83;
- evaluated the work of the 2009 internal audit and set the 2010 program;
- monitored initiatives taken by the Risk department.

Conflicts of interest affecting directors and senior management

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

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

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

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

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

The members of the Supervisory Board, Management Board and the Group's principal managers have undertaken to refrain from using or disclosing the privileged information that they hold for the purpose of buying or selling the Company's shares and not to carry out any transaction of this type during the black-out periods. For fiscal 2010, the black-out periods are:

- **January 13 to February 5, 2010:** owing to the announcement of fourth-quarter 2009 sales on January 28, 2010;
- **from March 8 to March 31, 2010:** owing to the announcements concerning full-year 2009 results on March 23, 2010;
- **from April 6 to April 29, 2010:** owing to the announcement of first-quarter 2010 sales on April 21, 2010;
- **from July 6 to July 29, 2010:** owing to the announcement of second-quarter 2010 sales on July 21, 2010;
- **from August 16 to September 8, 2010:** owing to the announcement of interim results on August 31, 2010;
- **from October 5 to October 28, 2010:** owing to the announcement of third-quarter 2010 sales on October 20, 2010.

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

Service agreements providing for the grant of future benefits

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

Compensation and benefits in kind

At its meeting on October 30, 2008, the Board of Directors confirmed that the AFEP-MEDEF recommendations of October 6, 2008 concerning the compensation of officers and directors of listed companies were adopted from October 17, 2008 by the Board as part of the decisions made on that day because they are in line with the Company's approach to corporate governance. The Board stated that in accordance with the law of July 3, 2008 transposing into French law EU directive 2006/46/EC of June 14, 2006, the amended AFEP-MEDEF code is the document to which the Company refers when drafting the report provided for in Article L. 225-37 of the French Commercial Code with effect from the current fiscal year.

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

In a decision made on May 19, 2009, the Supervisory Board appointed Ernest Totino as Chairman of the Management Board and Luc Themelin as a member of the Management Board. At the time of this appointment, the Supervisory Board made the following arrangements concerning compensation and benefits. In accordance with the AFEP-MEDEF recommendations, Luc Themelin's employment agreement was left in place.

The aggregate amount of the total compensation and benefits of any kind paid during 2009 to Supervisory and Management Board members of Le Carbone Lorraine, namely the eight members of the Supervisory Board, plus the Chairman, Vice-Chairman and two members of the Management Board, came to €1,922,812, breaking down into:

- compensation paid to each Director/Supervisory and Management board member detailed in the tables hereafter;
- compensation paid to Supervisory Board members: €220,000 in attendance fees, which were split between Supervisory Board members in proportion to their attendance at Board meetings and at the various meetings of the Committees held under the Board's responsibility. These attendance fees for fiscal 2009 are paid at the beginning of 2010. They were allocated between the ten Supervisory Board members as follows:

(€)	2009	2008
Yann Chareton	17,770	-
Hervé Couffin	32,670	29,771
Dominique Gaillard	16,883	-
Jean-Paul Jacamon	26,542	22,447
Jean-Claude Karpeles	24,112	23,486
Agnès Lemarchand	21,650	20,194
Henri-Dominique Petit	29,049	15,169
Walter Pizzaferri	16,712	17,948
Philippe Rollier	23,465	20,986
Marc Speeckaert	11,147	-
TOTAL	220,000	150,000

- At its meeting on May 19, 2009, the Company's Supervisory Board decided to allocate to its Chairman Hervé Couffin and its Vice-Chairman Henri-Dominique Petit fixed annual compensation of respectively €80,000 for Hervé Couffin and €20,000 for Henri-Dominique Petit, i.e. respectively €49,753 and €12,438 euros in respect of 2009.

SUMMARY OF THE COMPENSATION AND BENEFITS, OPTIONS AND SHARES GRANTED TO EACH DIRECTOR/SUPERVISORY AND MANAGEMENT BOARD MEMBER

Claude Cocozza, Chairman and Chief Executive Officer (until May 19, 2009)

(€)	2009	2008
Compensation and benefits payable in respect of the fiscal year* (broken down below)	347,365	898,323
Valuation of options granted during the fiscal year	-	-
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	347,365	898,323

**Period from January 1, to May 19, 2009.*

Ernest Totino, Chief Operating Officer (May 19, 2009) – Chairman of the Management Board (from May 19, 2009)

(€)	2009	2008
Compensation and benefits payable in respect of the fiscal year (broken down below)	548,004	437,186
Valuation of options granted during the fiscal year	245,588	-
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	793,592	437,186

Luc Themelin, Management Board member (from May 19, 2009)

(€)	2009	2008
Compensation and benefits payable in respect of the fiscal year (broken down below)	352,311	399,155
Valuation of options granted during the fiscal year	147,353	-
Valuation of bonus share allotments during the fiscal year	-	-
TOTAL	499,664	399,155

Stock subscription or purchase options granted in 2009 to each Director/Management Board member

Name of the director/ Management Board member	No. and date of plan	Type of options	Valuation of options based on the method used for the consolidated financial statements	Number of options granted during the fiscal year	Exercise price*	Exercise period*
Ernest Totino	Tranche no. 12 Feb. 11, 2009	Subscription	€245,588	50,000	17.53	February 12, 2013 to February 11, 2019
Luc Themelin	Tranche no. 12 Feb. 11, 2009	Subscription	€147,353	30,000	17.53	February 12, 2013 to February 11, 2019

** Exercise price modified to reflect adjustments following the capital increase on October 16, 2009.*

Performance conditions

The percentage of options granted to each beneficiary will be determined by reference to the following criteria, with the more favorable of the two being applied. Given the very strong economic uncertainties that have emerged since the Expansion 2011 plan was launched, if 100% of the shares granted cannot be exercised given the application of the criteria to the 2011 results, another measurement will be made based on the 2012 results, albeit with the resulting percentage being scaled down by a factor of 0.9. The grantees will benefit from the measurement most favorable for them. The calculations for 2007 and 2011 and/or 2012 will be checked by the Statutory Auditors.

	100%	75% to 100%**	35% to 75%	0%
CRITERION NO. 1	If EPS > or = 2 times its 2007* value	If EPS > or = 1.5 times and < 2 times its 2007* value	If EPS < 1.5 times and > or = 1 time its 2007* value	If EPS < 1 time its 2007* value
	100%	50% to 100%**	0%	
CRITERION NO. 2	If Carbone Lorraine's EPS growth > or = the average EPS growth recorded by the sample of its peers plus at least 20 points	If Carbone Lorraine's EPS growth > or = the average EPS growth recorded by the sample of its peers and < this growth rate plus 20 percentage points	If Carbone Lorraine's EPS growth < the average EPS growth recorded by the SBF 120 companies	

** Adjusted for the impairment of the EMC division. Based on comparable IFRS.*
*** Linearized according to the EPS calculated.*

The applicable definition of EPS[(a)] is that published in the 2007 reference document. Only shares in issue are included in the denominator. The value of earnings per share is adjusted to eliminate any capital gains and losses on business disposals and, with respect to 2007, the impairment of the EMC division.

For the purpose of criterion no. 2, the measurement of Le Carbone Lorraine's EPS growth will be compared (in percentage terms) with that of the sample over the entire period, as will the difference between these growth rates and the 20 percentage point threshold.

The panel of peer companies will be drawn up by executive management and approved by the CNR. It will include around 30 industrial companies belonging to French stock market indices. Only companies in the 2007 sample still present in these indices in 2011 or 2012 will be used for measurement purposes. The EPS figures used for these companies will be verified by an independent expert. The CNR may withdraw from the sample companies that have recorded manifestly wild fluctuations over the period.

(a) EPS (earnings per share): Restated net income of the Company divided by the number of shares in issue or that may be issued. In simple terms, it is net income divided by the number of shares.

SUMMARY OF THE COMPENSATION AND BENEFITS PAYABLE TO EACH DIRECTOR/SUPERVISORY AND MANAGEMENT BOARD MEMBER

Claude Cocozza, Chairman and Chief Executive Officer (until May 19, 2009)

(€)	2009		2008	
	Amounts payable in respect of 2009	Payments in 2009	Amounts payable in respect of 2008	Payments in 2008
Fixed salary*	342,269	342,269	418,000	418,000
Variable salary	0	468,453	468,453	276,070
Exceptional salary	0	0	0	0
Attendance fees	0	0	0	0
Benefits in kind	5,096	5,096	11,869	11,869

** For the period from January 1, to May 19, 2008*
N.B. The bonus, which varies between 0% and 140% of the basic salary, is paid in year n+1.
N.B. Benefits in kind include contributions towards the corporate executives' social guarantee, as well as a company car.

Ernest Totino, Chief Operating Officer (until May 19, 2009) – Chairman of the Management Board (from May 19, 2009)

(€)	2009		2008	
	Amounts payable in respect of 2009	Payments in 2009	Amounts payable in respect of 2008	Payments in 2008
Fixed salary	326,667	326,667	237,750	237,750
Variable salary	210,864	193,172	193,172	112,198
Exceptional salary	0		0	0
Attendance fees	0	0	0	0
Benefits in kind	10,473	10,473	6,264	6,264

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

Luc Themelin, Management Board member (from May 19, 2009)

(€)	2009		2008	
	Amounts payable in respect of 2009	Payments in 2009	Amounts payable in respect of 2008	Payments in 2008
Fixed salary	230,000	230,000	203,600	203,600
Variable salary	119,048	192,340	192,340	107,424
Exceptional salary	0	0	60,000	60,000
Attendance fees	0	0	-	-
Benefits in kind	3,263	3,263	3,215	3,215

N.B. The bonus, which varies between 0% and 80% of the basic salary, is paid in year n+1.
N.B. Benefits in kind include a company car.

Hervé Couffin, Chairman of the Supervisory Board (from May 19, 2009)

(€)	2009	
	Amounts payable in respect of 2009	Payments in 2009
Fixed salary*	49,753	49,753
Variable salary	0	0
Exceptional salary	0	0
Attendance fees	32,670	29,771
Benefits in kind	0	0

**For the period from May 19 to December 31, 2009.*

Henri-Dominique Petit, Vice-Chairman of the Supervisory Board (from May 19, 2009)

(€)	2009	
	Amounts payable in respect of 2009	Payments in 2009
Fixed salary*	12,438	12,438
Variable salary	0	0
Exceptional salary	0	0
Attendance fees	29,049	15,169
Benefits in kind	0	0

For the period from May 19 to December 31, 2009.

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

Bonus performance shares that became available in 2009 for each Director/Management Board member

Bonus performance shares that became available for each director/management board member in 2009	No. and date of plan	Number of shares that became available during the fiscal year	Vesting conditions
Ernest Totino	Plan dated June 30, 2005	1,800	n/a (*)
Luc Themelin	Plan dated June 30, 2005	1,800	n/a (*)

** The bonus shares presented here were granted in June 2005 and are thus not covered by the AFEP-MEDEF recommendations issued in October 2008 concerning performance shares.*

Compensation paid to company officers (Executive Committee members) who are not directors/Management or Supervisory Board members

(Gross amounts in euros)	2009	2008
Basic salaries	354,408	558,008
Performance-related bonuses	371,542	499,639
Benefits in kind	9,538	12,615
TOTAL	735,488	1,070,262

N.B. The bonus, which varies between 0% and 80% or 90% of the basic salary, is paid in year n+1.
N.B. Benefits in kind correspond to a company car.
N.B. In 2008, Ernest Totino who became a director, and an Executive Committee member, who retired, were not taken into account.
N.B. In 2009, Luc Themelin, who became a director, was not taken into account.

Recommendations concerning basic salaries are made to the Board by the Appointments and Remuneration Committee after seeking the opinion of specialized consultants on current market rates.

The bonus system for the Executive Committee, including the Chairman of the Management Board, is based on performance in relation to:

- the Group's Economic Value Added (EVA) targets (operating income after tax less the cost of capital employed);
- the Group's ROCE after tax targets set based on the average posted by a sample of 25 industrial companies;
- certain individual targets.

The members of the Executive Committee, including the Chairman of the Management Board qualify for top-up pension payments. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows: provided that the relevant person is still employed by the Group upon his/her retirement, this regime guarantees top-up pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.

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

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

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

- **Performance measure (P):**

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

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

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

- **Performance conditions:**

If **P** >= 100%, 100% of the payment will be made.

If **P** >= 90% and < 100%, 80% of the payment will be made.

If **P** >= 70% and < 90%, 60% of the payment will be made.

If **P** >= 50% and < 70%, 40% of the payment will be made.

If **P** < 50%, no payment will be made.

The performance targets are set based on several criteria: firstly, the trend in economic value added (EVA or operating income less cost of capital employed), secondly the trend in the Group's return on capital employed by comparison with a sample of SBF 120 companies and, lastly, personal objectives.

Loans and guarantees granted to officers and directors

None.

Employee incentive agreements

Employee incentive agreements related to the Group's earnings are in place at most of its French subsidiaries, as well as in certain subsidiaries in the US, Canada and Australia. The methods used to calculate employee incentives vary from company to company and from country to country. They include both financial (operating income, EBIT and EVA) and, in some cases, technical criteria, such as safety improvements, customer service and scrap rates.

(€ 000s)	2009	2008	2007	2006	2005
Amounts allocated to employees	1,620	3,953	2,492	2,233	3,267
Number of beneficiaries	1,433	1,545	1,600	1,860	2,701

Employee profit-sharing

Profit-sharing agreements are in place at all the Group's subsidiaries in France with more than 50 employees, in accordance with Articles L. 3324-1 and R. 3324-2 of the French Labor Code and at the majority of the North American subsidiaries.

(€ 000s)	2009	2008	2007	2006	2005
Amounts allocated to employees	762	2,265	2,249	2,219	1,082
Number of beneficiaries	1,110	1,496	1,423	1,498	973

Group Investment Plan - options and bonus shares

Since 1995, financial authorizations to develop stock ownership among employees through a Group Investment Plan, stock subscription option plans and bonus share allotment plans have been granted on a regular basis by shareholders at the Extraordinary General Meeting.

Stock subscription options

At the Extraordinary General Meetings since 1995, shareholders have authorized the Company to grant, on one or more occasions, stock subscription options to all or some of the Company's officers or those of affiliated companies. The employee categories benefiting from these options are to be determined by the Board of Directors each time that it makes use of the authorization.

All the stock subscription plans are subject to performance conditions.

In 2009, no options were exercised.

The total number of stock subscription options still outstanding stood at 715,213 after the adjustment resulting from the October 2009 capital increase, which represents 3.64% of the share capital. Members of the Board have no options to purchase or to subscribe shares in subsidiaries of the Group.

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

During January 2009, the Board used the authorization granted at the Annual General Meeting on December 12, 2008 by deciding to grant 38 senior managers, including two Management Board members, namely Ernest Totino and Luc Themelin, stock subscription options entitling them to subscribe 340,000 new shares in the Company. Grantees of the bonus shares are excluded from receiving the options allotted under this authorization.

Group Investment Plan

Capital increases reserved for employees are allocated to employees participating in the Group Investment Plan through a FCPE (corporate mutual fund) for French employees and through direct shareholdings for non-French employees.

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

It replaces and supersedes the previous authorization granted by the Combined General Meeting of December 12, 2008.

At its meeting on September 24, 2009, the Management Board decided to offer employees of its European and North American subsidiaries the option of acquiring 75,000 new shares at a price of €17.67. On December 15, 2009, the Management Board formally noted that 62,668 shares each with a par value of €2, had been issued at the end of the subscription period.

Stock subscription options: Previous grants

	1999 plan Tranche 5	2000 plan Tranche 6	2000 plan Tranche 7	2001 plan Tranche 8	2003 plan Tranche 10	2007 plan Tranche 11	2009 plan Tranche 12	Total
Date of Board of Directors' meeting	March 8, 1999	May 10, 2000	Sept. 15, 2000	Jan. 18, 2001	May 14, 2003	July 25, 2007	Jan. 22, 2009	
Total number of shares available for subscription	190,025	486,126	10,102	5,051	140,293	177,876	366,582	1,374,055
- o/w directors/ Management Board members	*15,617*	*33,666*	*0*	*0*	*10,099*	*26,950*	*86,253*	*172,585*
- o/w top 10 allottees	*70,931*	*161,593*	*10,102*	*5,051*	*48,310*	*77,885*	*140,163*	*514,035*
Subscription price	34.58	41.88	42.68	44.99	19.68	53.10	17.53	
Start of exercise period	March 2004	May 2005	Sept. 2005	Jan. 2006	May 2007	July 2011	Feb. 2013	
Expiration date	March 2009	May 2010	Sept. 2010	Jan. 2011	May 2013	July 2017	Feb. 2019	
Total number of shares subscribed at Dec. 31, 2009	96,021	47,025	0	0	45,436	0	0	188,482
Options canceled by Dec. 31, 2009	94,004	310,939	6,734	3,367	51,812	3,504	0	470,360
- o/w canceled in 2009	*61,466*	*0*	*0*	*0*	*0*	*0*	*0*	*61,466*
OPTIONS THAT MAY STILL BE EXERCISED	0	126,162	3,368	1,684	43,045	174,372	366,582	715,213

With the exception of the 1999 plan, the figures above have been changed to reflect the adjustments required following the October 16, 2009 capital increase.

Stock subscription options: directors/Management Board members

	Number of options granted/subscribed	Prices	Expiration date
Options granted since January 1, 2009 to each Director/Management Board member:			
Chairman and chief executive officer: Claude Cocozza *(until May 19, 2009)*	0	-	-
Chairman of the management board: Ernest Totino	53,908	17.53	February 2019
Member of the management board: Luc Themelin	32,345	17.53	February 2019
Options exercised since January 1, 2009 by each Director/Management Board member:			
Chairman and chief executive officer: Claude Cocozza *(until May 19, 2009)*	0		
Chairman of the management board: Ernest Totino	0		
Member of the management board: Luc Themelin	0		

The figures stated above were changed to reflect the adjustments required following the October 16, 2009 capital increase.

Stock subscription options: Shares allotted to the 10 employees (not directors or Management or Supervisory Board members) who received the largest number

	Number of options granted/ subscribed	Weighted average exercise price	1999 plan Tranche 5	2000 plan Tranche 6	2003 plan Tranche 10
Options granted since January 1, 2009 to the 10 employees who received the largest number	140,163				
Options exercised since January 1, 2009 by the 10 employees who received the largest number	0				

The figures stated above were changed to reflect the adjustments required following the October 16, 2009 capital increase.

Bonus share allotments

Shareholders authorized the Board of Directors on December 12, 2008 to allot new or existing shares in the Company at no cost to the Company's officers or employees or those of affiliated companies, or certain categories thereof. The total number of shares that may be granted pursuant to this authorization may not exceed 50,000, which currently represents around 0.3% of the share capital. The authorization is valid for a period of 38 months. Directors/Supervisory and Management Board members of the Company and beneficiaries of the stock subscription and purchase options, as well as officers and employees of the Company and affiliated companies holding over 10% of the Company's capital or set to hold more than 10% of the Company's capital as a result of the bonus share allotment, are excluded from receiving the bonus share allotments. This authorization replaces and supersedes the previous authorization granted by the Combined General Meeting of May 24, 2007.

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

Previous bonus share allotments

	2005 plan Tranche 1	2006 plan Tranche 2	2008 plan Tranche 3	2009 plan Tranche 4	Total*
Date of Board of Directors' meeting	June 30, 2005	June 28, 2006	February 26, 2008	January 22, 2009	
Total number of shares allotted	42,700	17,975	21,567	53,900	93,442
- o/w directors/Supervisory or Management Board members	*3,300*	*0*	*0*	*0*	*0*
- o/w Executive Committee	*12,000*	*0*	*0*	*0*	*0*
- o/w top 10 allottees	*16,500*	*5,001*	*3,230*	*10,780*	*19,011*
Share price at allotment date	39.25	40.07	29.63	18.65	
Definitive allotment date (end of the vesting period)	July 1, 2007	July 1, 2008	March 1, 2011	Jan. 22, 2013	
End of lock-up period	July 1, 2009	July 1, 2011	March 1, 2013	Jan. 22, 2013	
Allotments canceled at Dec. 31, 2009		1,497	648	0	2,145
- o/w canceled in 2009			*431*		*431*
Number of shares allotted definitively	30,900	16,478			
Outstanding at December 31, 2009	0	0	20,919	53,900	74,819

The figures stated above were changed to reflect the adjustments required following the October 16, 2009 capital increase.
** Represents the total of plans 3 and 4 only; shares allotted under plans 1 and 2 have been allotted definitively.*

Bonus share allotments: directors/Supervisory and Management Board members

	Number of shares allotted/subscribed
Shares granted since January 1, 2009 to each director/Supervisory and Management Board member:	
Chairman and Chief Executive Officer: Claude Cocozza *(until May 19, 2009)*	0
Chairman of the Management Board: Ernest Totino	0
Member of the Management Board: Luc Themelin	0
Options exercised since January 1, 2009 by each director/Supervisory and Management Board member:	
Chairman and Chief Executive Officer: Claude Cocozza *(until May 19, 2009)*	0
Chairman of the Management Board: Ernest Totino	0
Member of the Management Board: Luc Themelin	0

Bonus share allotments: Shares allotted to the 10 employees (not directors/Supervisory or Management Board members) who received the largest number

	Number of shares allotted/subscribed
Shares allotted since January 1, 2009, to the 10 employees who received the largest number of shares	10,780

The figures stated above were changed to reflect the adjustments required following the october 16, 2009 capital increase.

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

	2009				2008			
	Deloitte		KPMG		Deloitte		KPMG	
(€ 000s)	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
- Statutory audit, certification, review of the individual and consolidated financial statements	779	70%	584	72%	747	56%	592	80%
- Other accessory and audit assignments	207	19%	210	26%	325	24%	83	11%
SUB-TOTAL	**986**	**88%**	**794**	**98%**	**1,073**	**80%**	**674**	**91%**
Other services, etc.								
- Legal, tax law, labor law	105	9%	17	2%	240	18%	29	4%
- Other (state where > 10% of audit fees)	26	2%	0	0%	30	2%	34	5%
SUB-TOTAL	**131**	**12%**	**17**	**2%**	**270**	**20%**	**63**	**9%**
TOTAL	**1,117**	**100%**	**812**	**100%**	**1,343**	**100%**	**737**	**100%**

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

The directors/Supervisory and Management Board members and officers directly hold 16,775 shares.

The Company officers hold a total of 15,283 shares through the Carbone Lorraine FCPE (corporate mutual fund).

Company officers, and Supervisory and Management Board members hold 86,832 warrants (BSAARs), entitling them to subscribe an equivalent number of shares at a price of €58.49 per share by November 2012.

In accordance with Article 20 of the Articles of Association, each director must hold at least 120 shares for the entire duration of his or her term in office. These shares must be held in registered form.

Report by the Chairman of the Supervisory Board

on the preparation and organization of the Board's work and on internal control procedures

1. Legislative and regulatory framework

1.1 Legal provisions

In accordance with Article L. 225-68 sub-paragraph 7 of the French Commercial Code, the Chairman of the Supervisory Board reports on the composition, preparation and organization of the work of the Board and on the internal control and risk management procedures implemented by the Company. This report was prepared by the Chairman of the Supervisory Board in accordance with the provisions of Article L. 225-68 sub-paragraph 7 of the French Commercial Code for the fiscal year ended December 31, 2009.

Article L. 225-68 of the French Commercial Code notably states: *"Where a company refers voluntarily to a corporate governance code drafted by trade associations, the report [of the Chairman] should also indicate the provisions that were excluded and the reasons for their exclusion. In addition, the Chairman should also indicate where the code may be consulted. The [Chairman's] report is approved by the Supervisory Board and is published."* [Unofficial translation]

At the request of the Chairman of the Supervisory Board, this report was submitted for the opinion of the Audit and Accounts Committee and for the approval of the Supervisory Board on March 18, 2010, in accordance with the aforementioned arrangements.

1.2 AFEP-MEDEF corporate governance code: the reference code for the Carbone Lorraine group

The AFEP-MEDEF recommendations of October 6, 2008 on the compensation of officers and directors of listed companies were adopted by the Carbone Lorraine group on October 17, 2008, as these recommendations fit perfectly with the Company's approach to corporate governance. More generally, pursuant to the law of July 3, 2008 transposing European directive 2006/46/EC of June 14, 2006 into French law, the Carbone Lorraine group refers to the corporate governance code for listed companies drawn up by the AFEP-MEDEF.

Pursuant to Article L. 225-37 sub-para. 6, the Chairman summarizes and describes below several recommendations of said corporate governance code that are applied partially by the Company, as things currently stand:

Staggered renewal of the terms of office of supervisory board members

The Supervisory Board currently has ten members, who were appointed at the Combined General Meeting on May 19, 2009, which decided on the change in the Company's corporate governance structure. To ensure a smooth renewal process for Supervisory Board members, five members were appointed for a term of office of four years and five members were appointed for a term of office of two years.

Fixed portion of supervisory and management board members' compensation and benefits

The Company intends to retain the possibility of making changes to Management Board's compensation and benefits on an annual basis. This decision is attributable to the fact that this annual review is conducted by comparison with trends in salaries paid to officers and directors of companies of a similar size. It is worth noting that changes to the compensation and benefits package would be made only if significant gaps with the going market rates were observed.

Frequency of stock option and bonus share allotments

From 2000 onwards, the Company sought to introduce an authorization policy for stock subscription options at most every two years with a view to curbing the dilution suffered by shareholders. The same policy has also applied to authorizations for bonus share allotments granted since 2005. The most recent grants were authorized at the Combined General Meeting of May 19, 2009.

→ 2. Procedures conducted in the preparation of this report

This report is prepared based on the information provided by the Management Board and the Company's support functions in connection with the annual review of the internal control procedures and the various meetings of the Supervisory Board and its committees.

In accordance with the law, the purpose of this report is to present the preparations made for and organization of the work performed by the Supervisory Board and any restrictions that the Supervisory Board has placed on the powers of the Chairman of the Management Board, as well as the internal control procedures in place within the Carbone Lorraine group under the authority of the Management Board. Note that the procedures described in this report apply to the parent company and all the companies included in the Group's consolidated financial statements.

→ 3. Preparation and organization of the work performed by the supervisory board

Change in corporate governance structure: Supervisory Board - Management Board: the Combined General Meeting of May 19, 2009 voted to alter the Company's corporate governance structure and to set up a Supervisory Board and Management Board.

3.1 Operation of the Supervisory Board:

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

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

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

Supervisory Board's internal charter: the Supervisory Board adopted its internal charter on July 23, 2009. It represents the governance charter for the Supervisory Board and also governs the relationships between the latter's members and members of Carbone Lorraine's Management Board in a spirit of cooperation notably intended to ensure fluid exchanges between the corporate bodies in the interest of shareholders. It is intended to give the Supervisory Board the means to implement best practices in corporate governance.

It fits with the framework of the recommendations under the AFEP-MEDEF's corporate governance code.

The internal charter has five articles:

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

The Supervisory Board's internal charter is available for download from the Company's web site at www.carbonelorraine.com.

3.2 Composition of the Supervisory Board

According to the Articles of Association, the Supervisory Board comprises at least three members and at most 18 members, who are appointed by the general meeting of the shareholders on the recommendation of the Supervisory Board.

Supervisory Board members are appointed for a renewable term in office of four years. In an exception to this rule, the term of office of half the members of the first Supervisory Board was set at two years.

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

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

- Chairman of the Supervisory Board: Hervé Couffin.
- Vice-Chairman of the Supervisory Board: Henri-Dominique Petit.
- Members of the Supervisory Board:
  - Yann Chareton;
  - Dominique Gaillard;
  - Jean-Paul Jacamon;
  - Jean-Claude Karpéles;
  - Agnès Lemarchand;
  - Walter Pizzaferri;
  - Philippe Rollier;
  - Marc Speeckaert.

In connection with the investment by *Fonds Stratégique d'Investissement* ("FSI") in the Company's capital, FSI expressed its desire to secure representation on the Supervisory Board. During January 2010, FSI proposed Jocelyne Canetti as a candidate. On the recommendation of the Appointments and Remuneration Committee, the Supervisory Board decided at its meeting on January 29, 2010 that the appointment of Jocelyne Canetti to the Supervisory Board should be proposed at Carbone Lorraine's forthcoming Annual General Meeting. Assuming that the Annual General Meeting approves this appointment, the Supervisory Board would then have 11 members.

3.3 Work of the Board of Directors (until May 19, 2009)

Prior to the change in governance structure decided at the Combined General Meeting on May 19, 2009, the Company's Board of Directors met on four occasions during 2009 with an attendance rate of 86%.

During these meetings, the Board of Directors made decisions concerning the following issues:

- **January 22, 2009:** the Board of Directors approved the offer submitted by MidMark to acquire the brush for automobile applications division (sold on May 1, 2009). The Board also reviewed the 2009 budget, as well as the preliminary estimate of 2008 sales and operating income. On the recommendation of the Appointments and Remuneration Committee concerning the independence of certain directors, seven of the eleven directors making up the Board were independent. The Board of Directors also decided to grant stock subscription options to several of the Group's officers and employees and decided to grant bonus shares to certain Group executives. In addition, the Board decided to carry out a capital increase reserved for employees. It gave its approval to an annual assessment of the Board of Directors. Lastly, the Board renewed the authorization given to the Chairman to grant guarantees and endorsements;
- **February 26, 2009:** the Board of Directors addressed the issue of the size and method of payment of the dividend. It then weighed up the pros and cons of giving guidance for 2009 to the market;
- **March 17, 2009:** the Board of Directors examined and approved the financial statements at December 31, 2008. Owing to the financial and stock market climate, it decided to cancel the capital increase reserved for employees. The Board of Directors examined the plan to change the Company's governance structure. It then decided to propose at the Annual General Meeting increasing the overall amount of attendance fees to reflect the larger size of the Board of Directors. Lastly, the Chief Operating Officer presented to the Board of Directors an update on the Group's business activities to February 28, 2009;
- **April 1, 2009:** the Board examined and approved the Chairman's report and the management report. It also approved the draft resolutions and convened the Combined General Meeting on May 19, 2009. The Chief Operating Officer provided an update on the Group's business activities to end-March 2009 and presented a savings plan to adapt the Group to the economic environment. In addition, the Board familiarized itself with the conclusions of the assessment of the operation of the Board and approved the recommendations of the Appointments and Remuneration Committee notably related to the compensation and benefits of the Chairman and Chief Executive Officer and members of the Executive Committee, except for the Chief Operating Officer.

3.4 Work of the Supervisory Board (from May 19, 2009)

From May 19, 2009 onwards, when the Company's government structure changed, the Supervisory Board met on five occasions during 2009 with an attendance rate of 90%.

During these meetings, the Supervisory Board made decisions concerning the following issues:

- **May 19, 2009:** at its first meeting, the Supervisory Board appointed its Chairman, Vice-Chairman and Secretary. It approved its internal charter. The Board also appointed the members of its three committees. It designated the members of an *ad hoc* PACEO committee. In addition, it set the compensation and benefits to be paid to the Chairman and Vice-Chairman. The Board named the members of the Management Board, as well as the Chairman of the Management Board. It set the compensation and benefits for the Chairman of the Management Board and the second member of the Management Board. It also decided on the concept of a severance payment payable if the Chairman of the Management Board's term of office were to be terminated. Lastly, the Board renewed the authorization given to the Chairman of the Management Board to grant guarantees and endorsements. The Chairman of the Management Board gave a presentation of the Group's business activities to April 30, 2009 and on efforts to minimize the WCR;
- **July 23, 2009:** the Board familiarized itself with and approved the Group's strategy, as it was presented by the Chairman of the Management Board. The Board was also given an update on the Company's business activities to June 30, 2009. In addition, it examined the Group's business plan for the 2009-2013 period. The Board was informed of the work performed by the Audit and Accounts Committee on June 11, 2009 and by the Strategy Committee on June 24, 2009. Lastly, the Board appointed two new members to its Strategy Committee;
- **August 28, 2009:** first of all, the Board reviewed and approved the draft interim financial statements for the six months to June 30, 2009 presented by Management Board. It presented trends in the Group's business to July 31, 2009. The Supervisory Board also reviewed two acquisition plans. Lastly, the Board authorized the Management Board to study implementation of a capital increase pursuant to the authorizations granted at the Combined General Meeting of May 19, 2009;
- **September 15, 2009:** the Board authorized the Management Board to carry out a capital increase, with preferential subscription rights for shareholders, within the limit of the delegation of powers decided at the Combined General Meeting of May 19, 2009. It also authorized the Management Board to carry out a capital increase reserved for the Group's employees pursuant to the delegation of powers granted at the Combined General Meeting of May 19, 2009. The Board decided to approve the recommendations of the Appointments and Remuneration Committee concerning the introduction of new EVA targets for 2009 bonuses. The Board also noted the signature of a settlement agreement between the Company and opt-out customers, bringing an end to the US civil lawsuit in the anti-trust dispute concerning graphite brushes. The Board was informed by the Chairman of the Management Board concerning progress in talks concerning an acquisition plan approved by the Board at its meeting on August 28, 2009;
- **November 19, 2009:** the Supervisory Board was informed of the Group's business trends to October 31, 2009 by the Chairman of the Management Board. Various action plans implemented by the Company were then reviewed in connection with the "inventory management and supply chain" management and cross-functional projects. The Board also approved and reviewed several acquisition and joint venture plans. It stated the methods of operation of the Strategy Committee in relation to acquisitions. Lastly, the Board was informed of FSI's purchase of an interest in the Company's share capital during September 2009 and discussed FSI's request to propose a candidate to join the Supervisory Board.

3.5 Work performed by the Supervisory Board's three committees

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

When performing its duties, each of the committees may:

(i) have the Company communicate any document that it deems useful for the performance of its duties;

(ii) interview all or some members of the Management Board or any person that the committee deems useful to interview;

(iii) have any third parties of its choosing (expert, advisor or statutory auditor) attend committee meetings.

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

Audit and Accounts Committee:

The internal charter of the Supervisory Board states that the Audit and Accounts Committee comprises at least three and at most five members, including a majority of independent members. The internal charter also stipulates that members of the Audit and Accounts Committee are selected on account of their expertise in accounting and financial matters. The Audit and Accounts Committee meets at least three times per year and whenever it deems necessary, and in advance of Supervisory Board meeting for which the agenda includes a review of an issue related to its area of expertise.

Prior to May 19, 2009 (when the Group's corporate governance structure changed), the Committee had three members designated from among the directors, namely Hervé Couffin, Jean-Claude Karpeles and Philippe Rollier. Since May 19, 2009, the Audit and Accounts Committee has had five members designated from among the members of the Supervisory Board, namely Yann Chareton, Hervé Couffin, Jean-Claude Karpeles, Philippe Rollier and Henri-Dominique Petit. Henri-Dominique Petit acts as Chairman of the Committee.

During 2009, the Committee met 6 times with an attendance rate of 97%.

Period from January 1, to May 19, 2009 (prior to the change in governance structure):

- **January 22, 2009:** the Committee familiarized itself with the preliminary full-year results. It also reviewed the financial and accounting aspects of the offer submitted by US fund Midmark concerning the acquisition of the graphite brushes for automobile and household electrical appliance applications division. The Committee familiarized itself with a summary of the conclusions of the 2008 audit program, which included 15 audits of manufacturing facilities, a control audit and a cross-functional audit of the Group's wage policy. It approved the audit program for 2009, which scheduled 14 audits of manufacturing facilities, a control audit and an audit of the Group treasury function. Lastly, the Committee weighed up the pros and cons of introducing a whistle-blowing procedure to the Group;
- **March 11, 2009:** in the presence of the Statutory Auditors, the Committee firstly examined the accounting aspects of the plan to sell the graphite brushes for automobile and household electrical appliance applications division to US fund MidMark. Ernst & Young presented to the Committee a report on the corporate governance of 212 French companies concerning compartments B and C of Euronext Paris and also presented the anticipated changes in governance, as well as whistle-blowing practices. The Committee studied in detail the Group's consolidated financial statements and gave its approval to publication of the annual report.

Period from May 19, to December 31, 2009 (after the change in governance structure):

- **June 11, 2009:** the Group's information systems policy was presented to the Committee. The Committee was informed of the progress made by the action plans that aim to reduce the principal risks identified in the risk mapping. The Committee issued a favorable opinion on the proposal for the Company to appoint an external advisor to conduct an appraisal of the Group's UK and US pension plans. The Committee was informed of the Company's initial thoughts concerning arrangements for the renewal of the appointment of the Statutory Auditors in 2010;
- **August 28, 2009:** the Committee reviewed the draft interim financial statements for the six months to June 30, 2009 in the presence of the Statutory Auditors. In addition, it considered a plan to issue new shares;
- **November 17, 2009:** the Committee met informally to review the details of the plan to cut inventories launched by the Group and to see a presentation by AT Kearney of a report on inventories conducted in June/July 2009;
- **December 10, 2009:** in connection with the renewal of the appointment of the Statutory Auditors, the Committee reviewed and gave its approval to the joint offer submitted by Deloitte and KPMG. The Committee also approved the internal audit program for 2010 and familiarized itself with the results of the Ernst & Young survey on implementation of risk mapping by companies listed in France. Based on this presentation, the Committee approved the concept of setting up an annual review committee for the Company's risk mapping and of a full revision every three years with the assistance of a specialized external firm. The Committee also reviewed the status of the Group's pension plans in the US and the US. The Committee reviewed accounting standards for the allocation of goodwill to specific intangible assets that are partly subject to amortization and more specifically the impact of this accounting change on the acquisition of Calcarb. Lastly, it approved the proposed schedule for the approval and publication of the 2010 interim financial statements.

Appointments and Remuneration Committee:

The internal charter of the Supervisory Board states that the Appointments and Remuneration Committee comprises at least three and at most five members, including a majority of independent members. The Chairman and Vice-Chairman of the Supervisory Board may be members of the Remuneration Committee, but they should not participate in work by the Committee concerning their own compensation and benefits. The Appointments and Remuneration Committee meets at least twice per year and, in any case, in advance of meetings of the Supervisory Board or Management Board, the agenda for which includes the review of an issue related to its area of expertise.

Prior to May 19, 2009 (when the Group's corporate governance structure changed), the Committee had four members designated from among the directors, namely Hervé Couffin, Jean-Paul Jacamon, Agnès Lemarchand and Henri-Dominique Petit. Since May 19, 2009, the Committee has had five members designated from among the members of the Supervisory Board, namely Hervé Couffin, Dominique Gaillard, Jean-Paul Jacamon, Agnès Lemarchand and Henri-Dominique Petit. Jean-Paul Jacamon acts as Chairman of the Committee.

During this period, the Appointments and Remuneration Committee met on four occasions with an attendance rate of 95%.

Period from January 1, to May 19, 2009 (prior to the change in governance structure):

- **January 22, 2009:** the Committee reviewed the independence criteria applied to directors and proposed to the Board of Directors that all the directors should be considered as independent except for Messrs Chareton, Cocozza, Gaillard and Speeckaert. The Committee also reviewed the conditions proposed by executive management for the grant of 340,000 stock subscription options and 50,000 bonus shares;
- **February 26, 2009:** the Committee approved changes to the base salaries and 2008 bonuses paid to members of the Executive Committee and the Chief Operating Officer. A decision was also made to award two members of the Executive Committee an exceptional bonus for 2008. The Committee proposed to the Board of Directors that it should increase the overall allocation of attendance fees to reflect the rise in the number of directors. Lastly, it adopted the list of companies included in the sample of reference companies for the performance criteria used for the purposes of the 2009 stock options plan;
- **March 17, 2009:** the Committee examined and validated the bonus targets for 2009, while stating that it was reserving the option of reviewing the EVA bonus target during the year

according to developments in the general economic situation. A proposal was also made to adopt the candidacy of Hervé Couffin as the future Chairman of the Supervisory Board and Henri-Dominique Petit as the future Vice-Chairman of the Supervisory Board following the change in the governance structure. Lastly, Ernest Totino presented the organization of his management team and discussed the principal managers reporting to him.

Period from May 19, to December 31, 2009 (after the change in governance structure):

- **September 4, 2009:** the Committee issued a favorable opinion on the suitability of the bonus criteria set in March 2009 to take into account trends in the general economic situation. The Committee was also informed by the Chairman of the Management Board of the organization of the Human Resources function at Group level, as well as human capital initiatives initiated by the Company.

Strategy Committee:

The internal charter of the Supervisory Board stipulates that the Strategy Committee should have at least three and no more than seven members, including a majority of independent members. The other members of the Board are also invited to attend Strategy Committee meetings. The Strategy Committee meets at least twice per year and whenever it deems necessary, and in advance of Supervisory Board meetings for which the agenda includes the review of an issue in its area of expertise.

Prior to May 19, 2009 (when the Group's corporate governance structure changed), the Committee had five members designated from among the directors, namely Claude Cocozza, Dominique Gaillard, Jean-Paul Jacamon, Agnès Lemarchand and Walter Pizzaferri. Since May 19, 2009, the Committee has had seven members designated from among the members of the Supervisory Board, namely Hervé Couffin, Dominique Gaillard, Jean-Paul Jacamon, Jean-Claude Karpeles, Agnès Lemarchand, Walter Pizzaferri and Philippe Rollier. Walter Pizzaferri acts as Chairman of the Committee.

During 2009, the Strategy Committee met three times with an attendance rate of 92%.

Period from January 1, to May 19, 2009 (prior to the change in governance structure):

- **April 1, 2009:** the primary role of the Committee was to present the Group's growth priorities and industrial roll-out in relation to the photovoltaic segment, which lies at the cusp between the Group's four growth drivers.

Period from May 19, to December 31, 2009 (after the change in governance structure):

- **June 24, 2009:** the Strategy Committee reviewed the divisions and the Group's strategic plans. The Committee also reviewed several acquisition plans;
- **November 25, 2009:** the role of the Strategy Committee was to present and discuss possible enabling or paradigm-changing mergers and acquisitions for the Group.

→ 4. Accounting principles and rules defined for the compensation and benefits granted to Supervisory and Management Board members

The attendance fees paid to members of the Supervisory Board are allocated in proportion to their participation in meetings of the Supervisory Board and its various Committees.

At its first meeting on May 19, 2009, the Supervisory Board meeting decided to allocate a fixed annual compensation package to the Chairman and Vice-Chairman of the Supervisory Board.

The compensation and benefits paid to the Chairman of the Management Board and members of the Management Board are approved by the Supervisory Board on the recommendation of the Appointments and Remuneration Committee after consulting with external consultants concerning market practices. When considering the compensation and benefits paid to the Chairman and members of the Management Board, the Appointments and Remuneration Committee meets without them being in attendance. The bonus system for the Chairman and members of the Management Board is based on achievements in relation to:

- the Group's Recurring Economic Value Added (EVA) targets (operating income before non-recurring items after tax less the cost of capital employed);
- the Group's ROCE targets set based on the average posted by a sample of industrial companies;
- certain individual targets.

Members of the Executive Committee, including the Management Board members, qualify for a top-up pension pan. Provided that the relevant person is still employed by the Group upon his/her retirement, this regime guarantees top-up pension income of 10-20%, depending on length of service, of the basic reference salary during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.

During 2009, 38 senior managers, including both members of the Management Board, were allotted options enabling them to subscribe 340,000 new shares in the Company.

The Appointments and Remuneration Committee reviewed all the aspects of an agreement between the Group and the two members of the Management Board, namely Ernest Totino and Luc Themelin, in connection with the AFEP-MEDEF recommendations. This includes the termination of the employment contract of Ernest Totino, Chairman of the Management Board, and no change to the employment contract of Luc Themelin, as well as the determination of their compensation and benefits and pension. At its meeting on May 19, 2009, the Supervisory Board decided to grant Ernest Totino a severance payment should he be dismissed as Chairman of the Management Board. This decision was made following the appointment of Ernest Totino as Chairman of the

Management Board. This fixed payment would be no more than 0.5x the total gross compensation and benefits that he is paid during the thirty-six months prior to the termination, provided that he satisfied the performance criteria.

In addition, the Committee proposed that the Board should allot 50,000 bonus shares to 50 managers, whose loyalty the Group wishes to retain and/or reward. The Group's policy is to concentrate the award of stock options on 30 or 40 principal managers and to keep the allotments of bonus shares as a means of retaining up-and-coming managers. Consequently, the sole condition for beneficiaries to fulfill in order to gain possession of the bonus shares is their continued presence on the Group's payroll four or five years after the grant date, depending on the circumstances.

Additional information concerning the compensation and benefits paid to directors is disclosed in the "Compensation and benefits" section of the reference document.

→ 5. Principal internal control procedures implemented by the Carbone Lorraine group

5.1 Definition of internal control

Internal control is defined for Carbone Lorraine as a process implemented by all the employees under the leadership of the Management Board and executive team to run the Group rigorously and effectively.

Carbone Lorraine's internal control aims to achieve the following objectives:

- complying with the policies defined by the Group, as well as with the legislation and regulations in force;
- implementing the internal processes properly and notably those helping to protect its assets;
- preventing fraud and errors;
- producing accurate and complete financial information.

Carbone Lorraine's definition of internal control is comparable to the international standard laid down by the COSO (Committee of Sponsoring Organizations of the Treadway Commission), whose findings were published in 1992 in the United States and are available from the www.coso.org web site. Like all control systems, it does not provide absolute assurance that risks have been completely eliminated. In addition, the Group took into account the items contained in the reference framework circulated by the AMF in January 2007 concerning the general principles of internal control and continued during 2009 to pursue its efforts in accounting and financial internal control.

5.2 General principles of internal control

Since it has a manufacturing base spanning around 40 countries on five continents, the Carbone Lorraine group monitors the effectiveness of its internal control framework by means of the following:

5.2.1 Internal control organization

From a corporate governance perspective, Carbone Lorraine opted for an organization guaranteeing separation and balance between powers. The executive and management powers exercised by the Management Board are kept clearly separate from the control powers exercised by the Supervisory Board.

The Management Board of Carbone Lorraine and its Executive Committee design and supervise internal control arrangements. The composition, operation, powers and duties of the Management Board and the Executive Committee are described in the Corporate governance section on page 129 to 135 of this document.

At the Group's subsidiaries, each business unit manager is responsible for implementing the internal control policy defined by the Management Board and Executive Committee.

Carbone Lorraine's Risk and Internal Audit department follows up on initiatives related to internal control and risk management. It reports to the finance department and informs the Supervisory Board's Audit and Accounts Committee of its work.

As part of its control duties, Carbone Lorraine's Supervisory Board has set up an Audit and Accounts Committee, the composition, number of meetings and main duties of which are described in the Corporate Governance section. It supervises the internal control since it is notably responsible for:

- reviewing and assessing all issues relating to the production, verification and publication of financial documents by the Company in connection with its annual financial statements;
- validating the annual internal audit program and ensuring that the efficacy of internal control systems is monitored and that the recommendations made by the Statutory Auditors and internal audit teams are implemented;
- keeping itself informed of and monitoring risk management;
- ensuring the efficacy of the internal control and risk management systems.

5.2.2 Risk management

The Group has set up a three-year update schedule for its risk mapping, with the most recent update dating back to 2008.

Risks were classified into the following four categories:

- strategic risks;
- operational risks;
- information-related risks;
- financial risks.

Within each category, the potential risk factors were ranked depending on their potential impact and likelihood of occurrence. No major risk factors came to light that are not under satisfactory control. Following this analysis, action plans were implemented. The aim of these plans is to reduce the impact and/or frequency of each risk. As with the previous mapping carried out in 2005, a progress report on the action plans is given on a regular basis and at least once a year to the Group's Audit and Accounts Committee and Executive Committee. The risk management

policy is described in the Risk management section of the reference document.

5.2.3 Control activities

Carbone Lorraine has formally defined and circulated an Internal Control Handbook to all its subsidiaries. This handbook encompasses all the basic internal control procedures applicable at every Group unit. To provide optimum access for all the Group's business units, this document was made available online on Carbone Lorraine's intranet. It covers the following points:

- an initial section describes the background, objectives and resources used for internal control:
  - a second section includes a description of the internal control organization and refers to the internal control framework adopted by the Group (COSO);
- a section on risks addresses the definition of risk, measurement of a risk weighting as described in the risk mapping tool;
- the final section lists all the fundamental internal controls to be implemented to ensure efficient operation of the main business processes:
  - sales/customers,
  - purchases/suppliers,
  - logistics,
  - human relationship management,
  - investments/fixed assets,
  - information system;
- all the fundamental internal controls to be implemented to ensure the reliability of the accounting and reporting systems and financial statements with regard to the following objectives:
  - safeguarding assets,
  - compiling an exhaustive record of accounting transactions,
  - making sure transactions correspond to reality,
  - complying with the dates on which transactions are recorded,
  - correctly valuing assets and liabilities,
  - confidentiality.

5.2.4 Internal control oversight

5.2.4.1 Internal audit department

The Group's internal audit department is responsible for overseeing proper implementation of the internal control handbook and for leading the Group's internal control program. It submits its findings to the Audit and Accounts Committee on a regular basis, as well as to the Statutory Auditors. This department conducted 13 assignments during 2009. The purpose of these assignments was to:

- analyze the effectiveness of internal control and to verify proper application of the action plans implemented following the audits conducted in 2008 at 15 production plants;
- conduct an audit of the treasury and financing function.

The internal audit department calls on the services of a specialized external firm to ensure the quality of the audit program and to facilitate continuous improvement. During 2009, a satisfaction study of the internal audit function was carried out at all the Group's consolidated entities. This study was conducted by an external firm.

Since 2007, the units audited have sent in a self-assessment of their internal control system in advance of the internal audit department's review. These evaluations reviewed by the internal audit function help to correct certain differences in assessments and to enhance the culture of internal control within the units.

5.2.4.2 Information systems security

The Risk and Internal Audit department is responsible for safeguarding the security of information systems and notably:

- securing the IT system and protecting data confidentiality;
- tightening up the security of IT infrastructure and applications to ensure the continuity of operations.

An information systems security committee was set up in 2009. It is chaired by the Risk and Internal Audit department. The role of this committee is to:

- define the Group's information systems security policy, as well as the priorities and an annual audit plan in accordance with the legislative and regulatory changes;
- validate the technical solutions to be implemented;
- ensure the effective implementation of the remedial measures where compliance breaches are detected.

5.2.5 Other factors contributing to the Group's internal control framework

Although there is no direct link with the accounting and financial aspects, the Group's management control and strategic planning, human resources management, sustainable development policy and quality-related procedures also contribute to ensuring compliance with the policies defined by the Group.

5.2.5.1 Management control and strategic planning

A strategic plan setting out the priorities for the next few years, as well as a budgeted business plan, is produced on an annual basis. It is presented to the Strategy Committee and then to the Supervisory Board.

At the start of each year, the Group's Executive Committee decides on the key initiatives that need to be launched by each division to achieve the goals set. It receives a monthly status report on and analysis of these action plans.

The budgeting process is carried out once per year. The budget is submitted for approval by the Group's Executive Committee and then ratified by the Supervisory Board.

Forecasts are made each quarter on a rolling basis for the following four quarters. This process allows adjustments to be made for trend reversals and thus helps to speed up the decision-making process for any remedial measures required.

5.2.5.2 Human resources procedures

From an internal control standpoint, the Group's human resources policy is structured around:

- management reviews providing a regular update on all the Group's managers to enhance their career opportunities and to identify the Group's key men and women;
- annual individual reviews that enable business unit managers to assess the performance of their employees and to set targets for the following year together with them.

Lastly, performance-related bonuses are calculated using clearly defined rules.

5.2.5.3 Sustainable development

Carbone Lorraine has long pursued a responsible approach to environmental, economic and social affairs. Aside from the economic aspects, which remain a constant priority for the development of all companies, the Group also puts particular emphasis on promoting new social and environmental initiatives. This commitment is described in greater detail in the Sustainable development section of the reference document.

5.2.5.4 Quality procedures

The Carbone Lorraine group pursues a Group-wide quality policy through the Quality and Continuous Improvement (QPC) plan launched in 2000. This Group-wide plan is underpinned by ten priorities ranging from technical organization to employee involvement and including customer satisfaction, a quality assurance system, internal communications, production and purchasing. Work in each of these priority areas focuses on proven methods. For instance, the production department employs tools such as 5S, SMED, Kanban, Hoshin, SPC, etc.

The 5S method, which introduces rules concerning the order, tidiness and cleanliness of workstations laid down in the QPC plan, does not apply solely to the Group's workshops, but also to offices. Each year, a World 5S challenge rewards the Group's top-performing workshops and offices.

Several Group-wide quality indicators are monitored by each plant:

- customer satisfaction and service level:
  1. average response time to offers,
  2. customer satisfaction surveys,
  3. non-quality costs;
  4. productivity indicators.

→ 6. Accounting and financial internal control

6.1 General organization

Carbone Lorraine's Finance and Administration department is responsible for accounting and financial internal control. Its role is to produce and ensure the quality of the financial statements and management accounts. To this end, it draws on support from the finance department of each division. In turn, these departments are in contact with each business unit's finance department. This organization allows targets to be set and accounting and financial information to be collected and analyzed at different levels of the organization.

6.2 Preparation of accounting and financial information

The finance and accounting department has documented and distributed a handbook of accounting and consolidation principles to all subsidiaries. This handbook contains the accounting principles applicable to every Group unit, as well as a description of the process of closing the accounts. It also contains the timetable for the various accounting closes, as well as a list of the information to be reported as part of the consolidation procedure. It lays down the rules that need to be followed by the consolidated sub-groups. To provide optimum access for all the Group's business units, this document was made available on Carbone Lorraine's intranet.

The handbook is updated notably based on external changes in accounting standards in close collaboration with the Statutory Auditors, who validate the changes made with the Group's finance department.

Each Group business unit produces monthly accounts and a standardized consolidation package by the deadline set by the Group. When this data is reported using a Group-wide consolidation software, consistency checks are applied at each stage of the data gathering and processing process. The purpose of these checks is to:

- ensure proper application of the Group's standards;
- validate and eliminate intra-Group transactions correctly;
- make consolidation adjustments.

6.3 Treasury and financing

The treasury and financing department manages the Carbone Lorraine group's treasury on a centralized basis. To control risks, Group procedures are in place, notably concerning currency hedge management, cash pooling, netting, the issuance of guarantees, customer risk management and the hedging of raw materials prices.

The Group has pursued a major drive to develop its culture of cash-focused management over the past few years, mainly at manager level. Managers are now involved in overseeing their unit's cash flow on a day-to-day basis. The goal is to raise decision-makers' awareness of the importance of cash, to give them the tools they need to adapt their management to their unit's finances and to make their cash forecasts more reliable.

Efforts in this area were stepped up in 2009 with regard to inventories and the supply chain. Special committees were set up with a view to formulating action plans to scale down inventories and improve the supply chain.

Note that this department was audited by a specialized external firm during 2009 as part of the pre-defined schedule.

7. Program adopted in 2009 and 2010 action plan for internal control

Aside from the action principles and tools described in this report, application of which is intended to be permanent, the Group requests on an annual basis all plant managers to provide a formal undertaking that the principal points of internal control are applied properly at their business unit.

The following specific initiatives were initiated in 2009 to tighten up internal control:

Pursuant to the Eighth European directive, the Risk and Internal Audit department gave a detailed presentation to the Audit and Accounts Committee of the internal control and risk management organization.

A system of cross-audits by geographical area was introduced during 2009 for China and Europe. These audits can help to detect points of improvement for certain aspects of internal control and form part of the continuous improvement program. In particular, they focus on compliance with the basic rules for various processes (purchasing, sales, logistics, human resources, etc.). The aim of this organization is also to promote a culture of internal control within the Group and to facilitate adoption of best practices more easily and rapidly.

In 2009, the internal audit department executed the audits approved by the Audit and Accounts Committee. It oversaw implementation of the action plans needed to remedy any deficiencies that came to light. It reinforced the culture of internal control within the Group by implementing a system of cross-audits by geographical area. It was evaluated by all the Group's consolidated units.

It also kept the Audit and Accounts Committee informed concerning detailed aspects of the internal control and risk management organization in line with the recommendations of the Eighth European directive.

The various audits conducted during 2009 did not reveal any significant internal control failings or deficiencies.

An assessment of the internal audit department by the Group's business units was conducted by an external firm. The findings were presented to the Audit and Accounts Committee and to the Executive Committee.

A comparison of the reference framework used by the Group and the framework proposed by the AMF was launched. This task was completed during 2009. The principal findings issued in this report were presented to the Audit and Accounts Committee and to the Executive Committee. This study did not bring to light any major points of divergence between the two reference frameworks. Possible improvements were identified and will be rolled out during 2010.

Looking ahead to 2010, the following projects are set to be launched by the Risk and Internal Audit department:

- further development of cross-audits in Europe and China and extension of this organization to North America;
- implementation of an annual process of revising the risk mapping;
- transposition of the concept of cross-audits to information systems security in order to strengthen the Group's culture in this area;
- implementation of improvements following the comparison between the AMF reference framework and that adopted by the Group.

The Group will also examine the recommendations due in summer 2010 from the work AMF's work group on audit committees and internal control set up in October 2009 to assess its impact on its current organization.

Statutory Auditors' report,

prepared in accordance with Article L. 225-235
of the French Commercial Code on the report by the Chairman
of the Supervisory Board of Le Carbone Lorraine SA
- Fiscal year ended December 31, 2009

To the Shareholders,

In our capacity as Statutory Auditors of Le Carbone Lorraine SA, and in accordance with Article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-68 of the French Commercial Code for the year ended December 31, 2009.

It is the Chairman's responsibility to prepare and submit for the approval of the Supervisory Board a report on the internal control and risk management procedures implemented within the Company and containing the disclosures required by Article L. 225-68 of the French Commercial Code related to the corporate governance system.

It is our responsibility to:

- report to you our observations on the disclosures contained in the Chairman's report on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information; and
- certify that this report contains other disclosures required by the Article L. 225-68 of the French Commercial Code, it being stipulated that it is not our responsibility to verify the fair presentation of this other information.

We performed our procedures in accordance with the professional standards applicable in France.

Disclosures concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information

The professional standards require that we plan and perform procedures to assess the fair presentation of the information concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information in the Chairman's report. These procedures notably consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of accounting and financial information underpinning the disclosures provided in the Chairman's report and in existing documentation;
- obtaining an understanding of the work performed to prepare the disclosures and existing documentation;
- determining whether the major deficiencies in internal control relating to the preparation and processing of accounting and financial information that we identified as part of our assignment are disclosed appropriately in the Chairman's report.

On the basis of these procedures, we have no matters to report concerning the disclosures provided regarding the Company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report by the Chairman of the Supervisory Board, prepared in accordance with Article L. 225-68 of the French Commercial Code.

Other disclosures

We certify that the Chairman of the Supervisory Board's report includes the other disclosures required by Article L. 225-68 of the French Commercial Code.

The Statutory Auditors

Paris La Défense, March 22, 2010
KPMG Audit
Department of KPMG S.A.

Catherine Porta
Partner

Neuilly-sur-Seine, March 22, 2010
Deloitte & Associés

Joël Assayah
Partner

Statutory Auditors' report on related party agreements and commitments

- Fiscal year ended December 31, 2009

To the Shareholders,

In our capacity as Statutory Auditors of the Company, we hereby report to you on related-party transactions.

Related party transactions authorized during the fiscal year

Pursuant to Article L. 225-88 of the French Commercial Code, we were advised of agreements and commitments that were subject to prior authorization by the Supervisory Board.

We are not required to ascertain whether any other contractual agreements exist but to inform you, on the basis of the information provided to us, of the terms and conditions of agreements indicated to us. It is not our role to comment as to whether they are beneficial or appropriate. It is your responsibility under the terms of Article R. 225-58 of the French Commercial Code, to evaluate the benefits resulting from these agreements prior to their approval.

We implemented the procedures that we deemed necessary with respect to the professional standards of the *Compagnie nationale des commissaires aux comptes* related to this assignment. These procedures consisted in verifying the consistency of the information provided to us with the documents it was taken from.

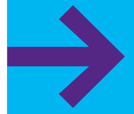
Severance package for a corporate officer

- Person concerned: Ernest Totino, Chairman of the Management Board.
- Type and motive: Should the Carbone Lorraine group terminate in any manner and on any grounds whatsoever (barring gross or willful misconduct, retirement or enforced retirement) the term of office of Ernest Totino as Chairman of the Management Board (notably owing to dismissal, non-renewal of his term of office on any grounds whatsoever or elimination of the position following the transformation or merger of the Company), a fixed severance benefit will be paid to Ernest Totino.
- Specific arrangements: the fixed benefit represents at most 0.5x of the total gross compensation and benefits that Ernest Totino received during the thirty-six months prior to the termination, provided that he satisfies the performance criteria, as defined for achievement of his bonus target.

This agreement, approved by the Supervisory Board on May 19, 2009, confirms the agreement approved in a decision made by the Board of Directors on October 17, 2008.

The Statutory Auditors

Paris La Défense, March 22, 2010	Neuilly-sur-Seine, March 22, 2010
KPMG Audit	Deloitte & Associés
Department of KPMG S.A.	
Catherine Porta	Joël Assayah
Partner	*Partner*



General information about Carbone Lorraine

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General information about Carbone Lorraine

Corporate name and headquarters

Le Carbone Lorraine

Immeuble La Fayette

2 place des Vosges

92400 Courbevoie La Défense 5

Form, nationality and law

The Company is a *société anonyme* incorporated under French law and governed notably by the law of July 24, 1966.

Incorporation and corporate life

The Company was incorporated on January 1, 1937 and shall be dissolved on December 31, 2035 unless its life is extended or it is dissolved early by a vote of an Extraordinary General Meeting.

Corporate purpose (Article 3 of the Articles of Association)

The Company's purpose in France and in all other countries is to carry out all operations concerning the design, manufacture, processing, use and sale of:

- carbon-based products, articles or equipment, whether or not they are combined with other materials;
- metal powders, articles made from these powders, special alloys and articles made from these alloys;
- electro-mechanical and electronic products;
- all industrial products, especially metallurgical, mechanical, plastic and elastomer products;
- all other products, articles or equipment that may be related to the above products:
  - either by using the latter to make the former,
  - or by developing research activities,
  - or through manufacturing processes, industrial applications or distribution networks.

In the area defined above, the Company may carry out all activities related to:

- raw materials, prepared materials, components and elements, spare parts, semi-finished and finished products, equipment, combinations of equipment, assemblies of all kinds and sizes combining equipment;
- all works;
- all techniques.

The Company may also indirectly carry out operations related to technical, industrial and commercial activities. To this end, it may form any companies and groups of companies, acquire holdings in any companies and partnerships, contribute assets to the capital of any company and subscribe to the shares of any company, purchase or sell any shares, partnership shares, or corporate rights.

In general, the Company may carry out any industrial, commercial, financial, securities or real estate operations connected principally or incidentally to these activities.

Furthermore, the Company may acquire any interest, in any form whatsoever, in any French or foreign companies or organizations.

Trade and Companies Register Code

RCS NANTERRE B 572 060 333 - APE CODE: 6420Z (effective January 1, 2008).

Access to the Company's corporate documents

Corporate documents, particularly the Articles of Association, financial statements and reports to General Meetings by the Management Board and Supervisory Board and the Statutory Auditors, may be consulted at the headquarters by contacting:

Jean-Claude Suquet
Group Vice President, Finance and Administration
Carbone Lorraine
Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5 (France)
Tel.: +33 (0) 1 46 91 54 19

Fiscal year

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

Statutory distribution of income (Article 26 of the Articles of Association)

At the end of each fiscal year, the Management Board prepares an inventory and the annual financial statements as set forth in Section II Book 1 of the French Commercial Code.

Net income for the fiscal year, as shown on the income statement, comprises the difference between the income and expense for the year, less depreciation, amortization and provisions.

At least one twentieth of net income for the fiscal year, less any prior losses, if any, is allocated to a reserve account known as the statutory reserve.

When the amount in this reserve account reaches one tenth of the share capital, this deduction ceases to be mandatory but if, for any reason, the reserve account were to fall below one tenth of the share capital, the deduction would resume.

Income available for distribution consists of net income for the fiscal year less any prior losses and the amounts to be allocated to reserve accounts as stipulated by law, plus any retained earnings.

An initial dividend of 5% of the paid-up and unredeemed nominal value of the shares is distributed from income. The shareholders may not demand payment of the dividend out of subsequent years' income, should the income from one year, after the aforementioned deduction, render it impossible to make such a payment. In addition, the general meeting of the shareholders, on the recommendation of the Management Board, has the right to decide to deduct such amounts as it deems suitable, either for retained earnings or for reserves to be used as directed by the Management Board.

The balance is then divided among the shareholders without distinction.

The Ordinary General Meeting called to approve the financial statements for the fiscal year has the option of granting each shareholder the choice between receiving all or part of the dividend or interim dividend in cash or in shares.

The Ordinary General Meeting of the Shareholders may in addition resolve to distribute sums drawn from the reserve accounts at its disposal. In this case, the decision must indicate explicitly the reserve accounts from which the amounts are to be drawn.

However, dividends are drawn in priority from the year's income available for distribution.

General Meetings of Shareholders (Article 25 of the Articles of Association)

Notice of meetings - Admission

General Meetings of shareholders are convened under the conditions laid down in law, and their proceedings are governed by the quorum and majority voting requirements stipulated in law.

The meetings are held at Company headquarters or at any other location specified in the notice convening the meeting.

All shareholders owning at least one fully paid-up share may attend General Meetings.

To be entitled to attend the General Meeting, holders of bearer shares must present a certificate showing that their shares have been placed in a blocked account three days ahead of the scheduled date of the meeting.

The Management Board may always elect to shorten these time limits.

Any shareholder may also, if the Management Board so decides when the general meeting is convened, participate and vote at general meetings by means of videoconferencing and telecommunications technology making it possible to identify them, under the conditions and in line with the terms and conditions provided for in law.

General meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the Vice-Chairman of the Supervisory Board and, failing this, by a member of the Supervisory Board specially designated for this purpose by the Supervisory Board. Otherwise, the general meeting elects its own Chairman.

Minutes of the general meetings are drawn up and the Chairman of the Supervisory Board, the Vice-Chairman of the Supervisory Board, the Secretary of the Supervisory Board or a duly authorized person certifies copies of the minutes.

Disclosure thresholds (Article 11ter of the Articles of Association)

Pursuant to the Company's Articles of Association, shareholders are obliged to disclose any increase to above or decrease to below 1% of the share capital or of voting rights, or any multiple of this percentage.

Trading by the Company in its own shares

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

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

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

These share purchases, grants or sales may be entered into and paid for by any means, including as part of a liquidity agreement entered into by the Company with an investment services provider.

Since May 20, 2009, the Company has not made use of this authorization, except for the acquisitions made under the liquidity agreement. At December 31, 2009, 42,187 shares were held under this liquidity agreement.

In March 2005, the Company signed a liquidity agreement with Exane-BNP Paribas conforming to the AFEI's charter.

This authorization is valid until the General Meeting called to vote on the financial statements for fiscal 2009. Fresh authorization concerning stock repurchases is to be submitted for shareholders' approval at the Combined General Meeting on May 20, 2010.

Double voting rights

No shares carry double voting rights.

Officer responsible for the reference document and Auditors

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Officer responsible for the reference document

Ernest Totino

Chairman of the Management Board

Statement by the officer

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

I certify that, to the best of my knowledge, these financial statements have been prepared in accordance with the relevant accounting standards and give a true and fair value of the assets and liabilities, financial position and the results of operations of the Company and of all the entities included in the consolidation, and that the management report on pages 15 to 24 presents a faithful picture of the business trends, earnings and financial position of the Company and of all the entities included in the consolidation, as well as a description of the principal risks and uncertainties they are facing.

I obtained an end-of-assignment letter from the statutory auditors, Deloitte & Associés and KPMG Audit, stating that they have completed their verification of the information related to the financial position and financial statements provided in the annual report, and their reading of this entire report.

The Statutory Auditors' report on the consolidated financial statements for fiscal 2009 shown on pages 88 and 89 of this document contains an observation related to the changes in presentation following the adoption of IFRS 8 "Operating Segments" and the revised IAS 1 "Presentation of financial statements", as adopted in the European Union and application of which is mandatory from January 1, 2009.

Ernest Totino

Information included by reference

The following information is included by reference in this annual report:

Fiscal 2008

Included in annual report no. D-09-127 submitted to the *Autorité des Marchés Financiers* on March 17, 2008:

- the 2008 consolidated financial statements prepared in accordance with the international accounting standards in force in 2007 on pages 35 to 85;
- an analysis of the 2008 results on pages 18 to 24;
- the Statutory Auditors' report on the consolidated financial statements on page 86.

Fiscal 2007

Included in annual report no. D-08-114 submitted to the *Autorité des Marchés Financiers* on March 17, 2008:

- the 2007 consolidated financial statements prepared in accordance with the international accounting standards in force in 2007 on pages 36 to 80;
- an analysis of the 2007 results on pages 18 to 24;
- the Statutory Auditors' report on the consolidated financial statements on page 81.

Auditors

Alternate Auditors

Deloitte & Associés
183, avenue Charles-de-Gaulle,
92200 Neuilly-sur-Seine

Date of first term: 1986

Date of last renewal: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

KPMG Audit - KPMG SA department
Immeuble KPMG, 1 cours Valmy,
92923 Paris La Défense Cedex

Date of first term: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

Alternate Auditors

BEAS
7-9, villa Houssay,
92524 Neuilly-sur-Seine Cedex

Date of first term: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

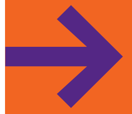
SCP Jean-Claude André & Autres
2 bis, rue de Villiers,
92309 Levallois-Perret Cedex

Date of first term: 2004

Duration: six years (term expiring at the close of the Ordinary General Meeting called to vote on the financial statements for the year ending December 31, 2009)

Officer responsible for information

Jean-Claude Suquet
Le Carbone Lorraine
Immeuble La Fayette
2 place des Vosges
92400 Courbevoie La Défense 5
Tel.: +33 (0) 1 46 91 54 19



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