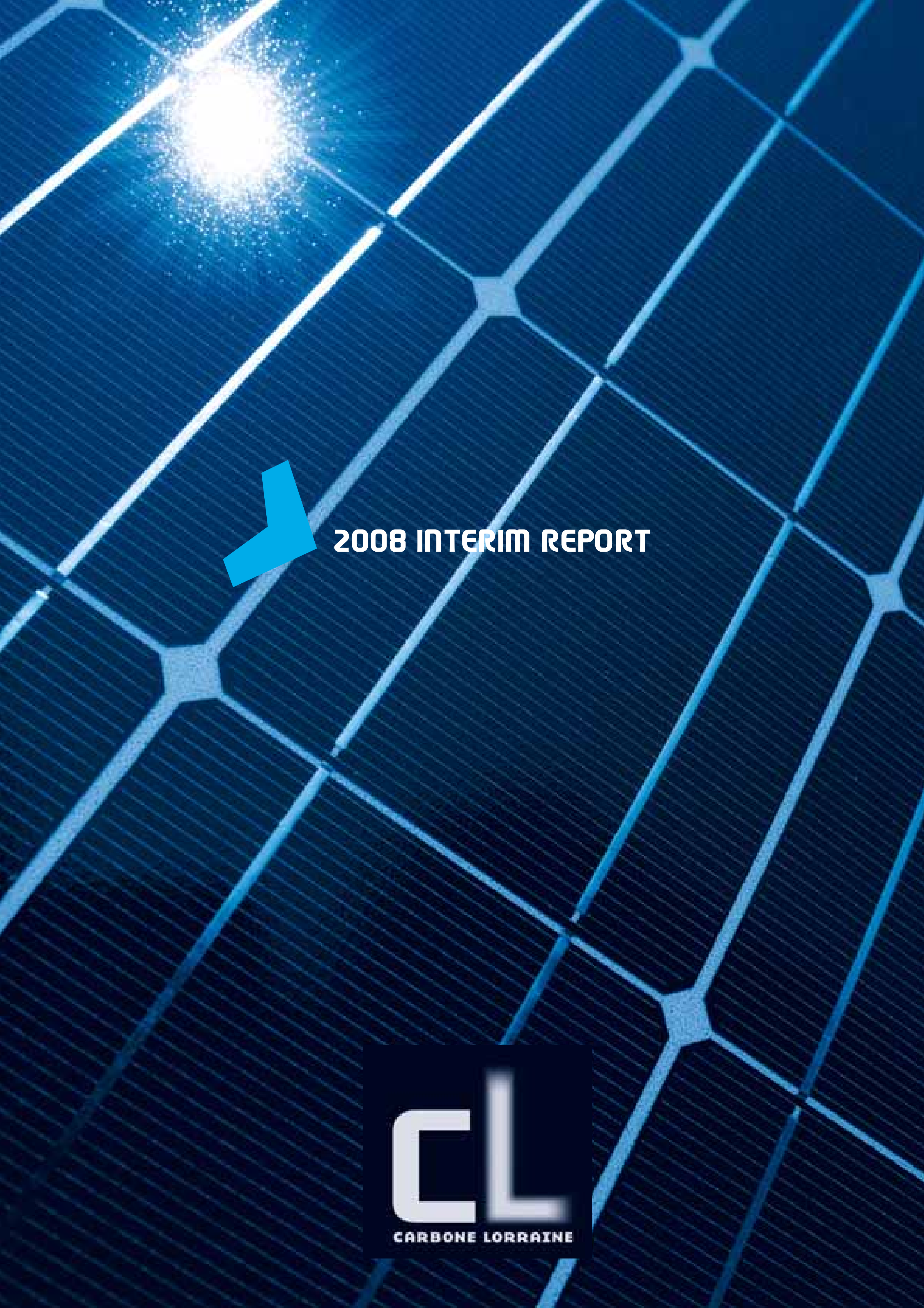


2008 INTERIM REPORT

CARBONE LORRAINE

CARBONE LORRAINE
2008 INTERIM REPORT

1 General overview of the Group

CHAIRMAN'S MESSAGE

To the Shareholders,

The first half of 2008 was a very positive period for Carbone Lorraine in many respects.

Firstly, our financial results were excellent despite highly adverse currency effects. Operating income before non-recurring items was up 11%, or 14% excluding the brakes business, which was sold in the first quarter. Net income rose by 22% excluding capital gains on disposals.

Our second source of satisfaction was our strong like-for-like sales growth. This growth was achieved in spite of the weaker broad economic environment, and shows the profound change that Carbone Lorraine has undergone. This change started several years ago when we launched the major growth projects that are now paying off, such as the Chinese graphite block production plant.

Our ongoing transformation also involves the Group moving into high-growth geographical zones and buoyant business segments.

In the first half of 2008, we benefited once again from rapid growth in our Asian markets. Growth in this region will be stronger still in the second half of 2008, when we will make some large deliveries. As a result of this, we are likely to hit our 2011 target of generating at least 20% of Group revenues in Asia as early as this year.

We are also benefiting from the rise of renewable energies, which accounted for almost half of the Group's growth in the first half of 2008:

- we have extended our leadership in wind turbine equipment;
- more importantly, the photovoltaic industry is now a major market for Carbone Lorraine, and sales to this industry will increase further as more solar projects are launched.

The acceleration in the solar industry's development was our third source of satisfaction in the first half. It provides us with an unprecedented opportunity, and will enable us to further step up our transformation into a growth company. We are doing our utmost to seize this opportunity:

- our Chongqing plant has come into service at the ideal time to supply the solar silicon market, which is suffering from a serious shortage of graphite. To keep up with demand, this plant's build-up phase is taking place faster than initially planned, and we also intend to increase the capacity of our US plant;
- in addition, we are developing our downstream activities in processed products, expanding the capacity of our graphite machining, purification and coating units.

Overall, with faster growth in solar and wind energy, and stronger positions in conventional energies, we are aiming to generate 30% of our sales from energy markets within five years.

Our final source of satisfaction is our ongoing success with our bolt-on acquisition policy. The first half brought the acquisition of Xianda in China, strengthening our already excellent position in anticorrosion equipment in a market that is growing extremely rapidly. The acquisition of Mingrong Zhejiong in early July gives us a leading position in industrial fuses in China, and will lead to large-scale industrial and commercial synergies. Other acquisitions are currently being finalized in the fields of energy efficiency and renewable energies.

As a result, our four main growth drivers Asia, innovation, energy efficiency and acquisitions will ensure that 2008 is an excellent year. Above all, they are underpinning Carbone Lorraine's ongoing transformation into a growth company. This transformation, supported by the enthusiasm and tenacity of our staff, is now set to accelerate further.

Claude Cocozza

OVERVIEW OF THE GROUP'S BUSINESSES

ADVANCED MATERIALS AND TECHNOLOGIES

The **Advanced Materials and Technologies** division posted interim 2008 sales of €131 million, up 12% at constant scope and exchange rates compared with the year-earlier period. Unadjusted sales growth was lower (2.4%) due to the disposal of the rail and motorcycle brakes businesses and adverse currency effects.

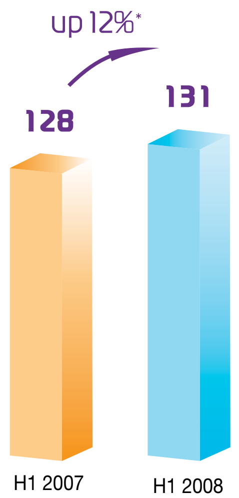
Sales of graphite for high-temperature applications were particularly robust. This was due to extremely strong demand from companies making silicon for photovoltaic applications, which are heavy consumers of graphite equipment.

Sales of anticorrosion equipment for the chemicals and pharmaceuticals industries also grew, due to our positions in the growing acetic acid and fine chemicals markets. Our new plate heat exchanger and CL Clad® technologies, along with the acquisition of Chinese company Xianda, are strengthening our positions, particularly in Asia.

Operating income before non-recurring items in the Advanced Materials and Technologies division came to €22.7 million. Excluding the brakes business that was sold in the first half, the growth rate was 6%, despite higher depreciation charges arising from the new Chinese graphite block production plant.

IFRS operating income was €36.6 million, taking into account a €14 million capital gain on the disposal of the rail and motorcycle brakes business.

SALES (€M)



	H1 2007	H1 2008
OPERATING MARGIN BEFORE NON-RECURRING ITEMS	17.7%	17.4%

* Like-for-like

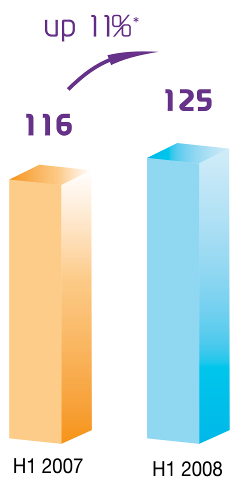
ELECTRICAL PROTECTION

In **Electrical Protection**, interim 2008 sales came to €125 million, up 11% on a like-for-like basis relative to the year-earlier period. Taking into account exchange-rate effects and the sales of the medium-voltage fuse business acquired from General Electric, the unadjusted increase was 7%.

Growth was very firm in both general-purpose fuses and fuses and coolers for semiconductor protection. Carbone Lorraine is continuing to benefit from its positions in high-growth markets such as renewable energies, energy efficiency and transport.

The Electrical Protection division's operating income before non-recurring items stood at €15.7 million, up 35% compared with the first half of 2007. This represented 12.6% of sales versus 9.9% in the year-earlier period. This strong growth illustrates the high operational gearing of this business following streamlining work in the last few years, aimed at achieving operational excellence. IFRS operating income was €15.4 million.

SALES (€M)



OPERATING MARGIN BEFORE NON-RECURRING ITEMS	9.9%	12.6%

ELECTRICAL APPLICATIONS

Sales in **Electrical Applications** totaled €106 million, up 7% at constant scope and exchange rates relative to the first half of 2007, and up 4% unadjusted.

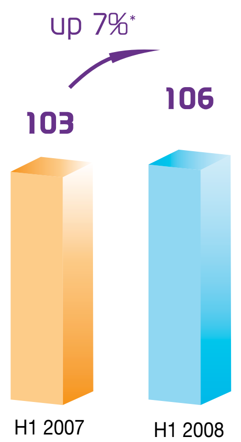
Sales of brushes and equipment for industrial motors and wind turbines grew strongly in all geographical areas, particularly Asia and the USA.

The deterioration in the North American automotive market was offset by strong growth in sales of brushes for car auxiliary motors in Asia.

Operating income before non-recurring items in the Electrical Applications division was €10.9 million, down slightly year-on-year due to an increase in commercial resources used in wind energy markets. This figure represented 10.2% of sales.

IFRS operating income in Electrical Applications was €10.4 million.

SALES (€M)



OPERATING MARGIN BEFORE NON-RECURRING ITEMS	10.8%	10.2%

* *Like-for-like*

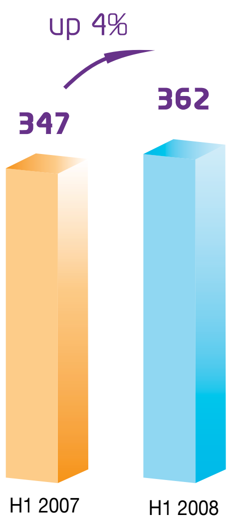
FINANCIAL RESULTS

CONSOLIDATED SALES

The Group's sales totaled €362 million in the first half of 2008, an increase of 4%. Stripping out an adverse currency effect of around 6%, the like-for-like increase was 10%. The effects of changes in scope were minimal, with additional sales from acquisitions and newly consolidated companies offsetting the disposal of the brakes business.

First-half sales were particularly strong in Asia and North America, where growth was 11% and 14% respectively at constant scope and exchange rates. All divisions saw strong growth. Growth is being driven by the buoyant markets in which Carbone Lorraine is working to build its positions, i.e. renewable energies, fine chemicals and electronics. In addition, the major growth projects implemented by the Group in the last few years, particularly efforts to increase capacity and develop new products, are now paying off.

SALES (€M)



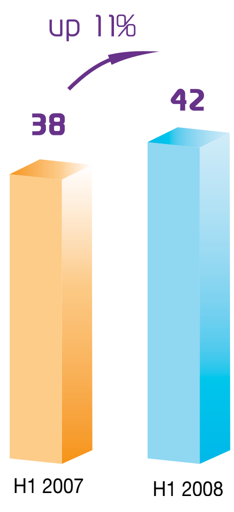
OPERATING INCOME

The 4% rise in sales translated into an 11% increase in operating income before non-recurring items, which totaled €41.7 million.

This represented 11.5% of sales versus 10.8% in the year-earlier period. The improvement resulted from higher sales volumes and higher selling prices, which compensated for higher raw materials and energy costs. It was also driven by cost reductions.

Non-recurrent items were positive at €12.3 million, and mainly consisted of a €14 million gain on the disposal of the brakes business. As a result, IFRS operating income was €54.0 million versus €33.5 million in the first half of 2007.

OPERATING INCOME BEFORE NON-RECURRING ITEMS (€M)

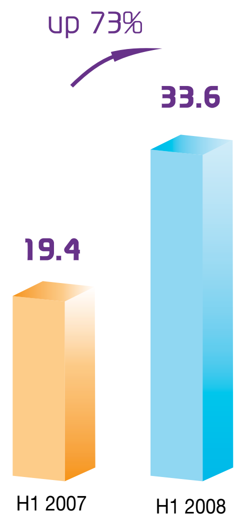


NET INCOME

The net financial expense rose to €6.0 million due to higher interest rates and average net debt levels during the period. The tax rate was 30%.

Net income was €33.6 million, up 73% compared with the year-earlier period. Excluding the gain on the sale of the brakes business, net income was up 22%.

NET INCOME (€M)



DEBT

Cash generated by operating activities during the first six months of 2008 before the change in the working capital requirement and tax came to €54 million, compared with €47 million in the equivalent period of 2007.

The increase in the working capital requirement reflects the general increase in the business volumes, along with work in progress on substantial anticorrosion equipment orders, due to be delivered in the second half of the year.

Capital expenditure totaled €23.2 million, up from €19.6 million in the first half of 2007. As in 2007, capex included spending on some major growth projects.

The brakes business was sold, resulting in net proceeds of €25.8 million.

At June 30, 2008, debt stood at €214.8 million, up from €191.8 million at year-end 2007 and €182.6 million at the end of the first half of 2007. The net debt-to-equity ratio moved up to 68% from 62% at year-end 2007. The net debt/EBITDA ratio was 1.87x versus 2.07x at end-2007.

OUTLOOK

The first half of 2008 brought firm business growth, particularly in renewable energies equipment markets and in Asia. The major projects undertaken by the Group in the last three years are now paying off, and are contributing to Carbone Lorraine's profitable growth.

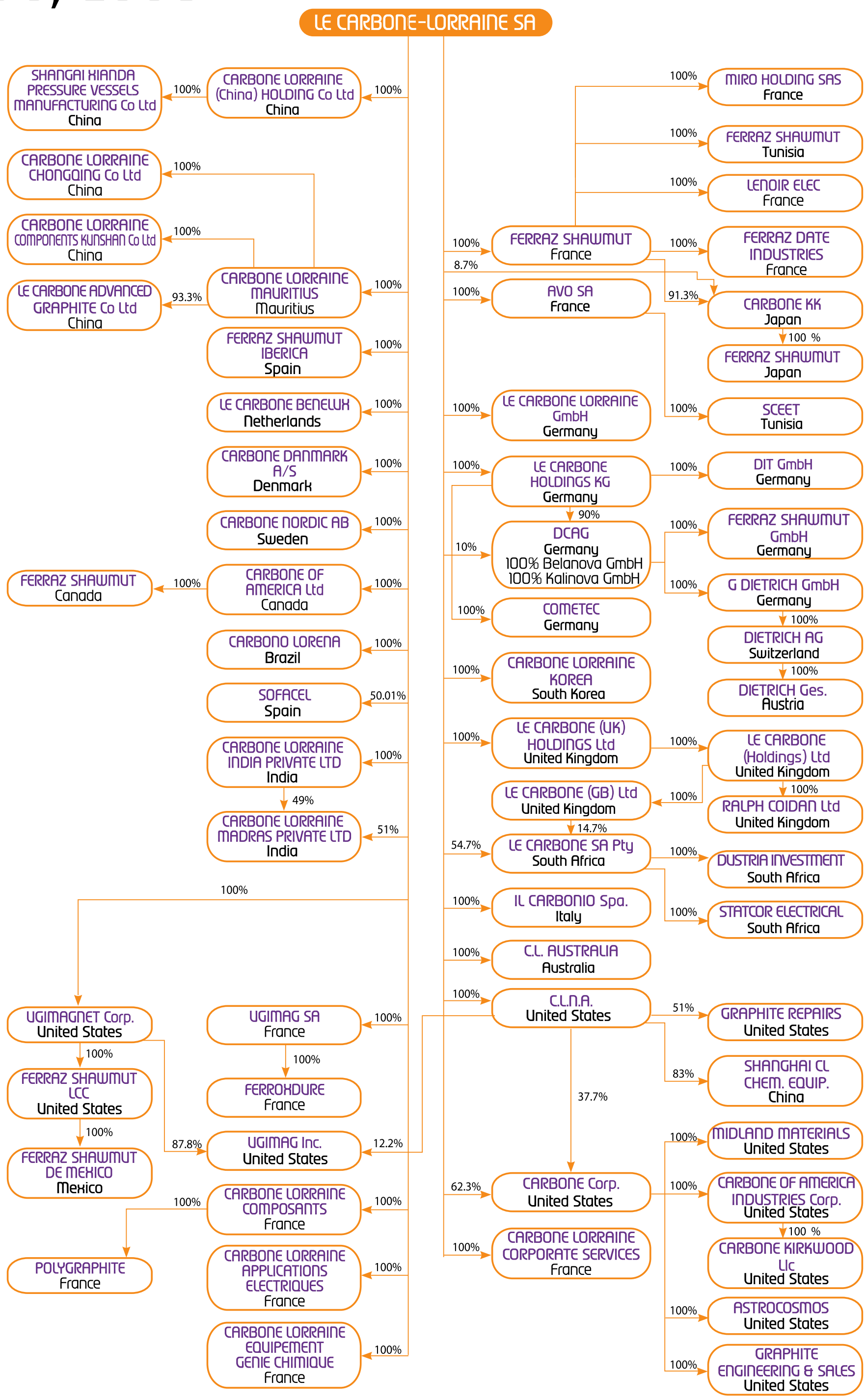
The Group's new positions in structurally growing businesses make it more resilient to cyclical swings.

As part of its efforts to hit its 2011 sales target of €1 billion, the Group plans to make value-enhancing bolt-on acquisitions. The integration of Xianda in the first half will contribute to the Group's 2008 sales and earnings growth.

Barring a sharp and rapid deterioration in economic conditions, sales growth is likely to remain firm in the second half, and the full-year 2008 growth figure could exceed 8% at constant scope and exchange rates.

2 Consolidated financial statements

SCOPE OF CONSOLIDATION
at June 30, 2008



LIST OF CONSOLIDATED COMPANIES

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

	Method of consolidation FC: Full consolidation	% of voting rights held by the Group	% of the share capital owned by the Group
27. **Ugimagnet Corp.** (US)	FC	100	100
- Ferraz Shawmut LLC (US)	FC	100	100
- Ferraz Shawmut de Mexico (Mexico)	FC	100	100
- Ugimag Inc. (US)	FC	100	100
28. **Le Carbone Lorraine Australia**	FC	100	100
29. **Le Carbone KK** (Japan)	FC	100	100
30. **Ferraz Shawmut Japan**	FC	100	100
31. **Carbone Lorraine India Private Limited**	FC	100	100
32. **Carbone Lorraine Madras Private Limited** (India)	FC	100	100
33. **Shanghai Carbone Lorraine Chemical Equipment Cy Ltd** (China)	FC	95	95
34. **Le Carbone** (South Africa) **PTY Ltd** (RSA)	FC	69	69
- Statcor Electrical	FC	69	69
- Dustria Investment	FC	69	69
35. **Carbono Lorena** (Brazil)	FC	100	100
36. **Carbone Lorraine Korea**	FC	100	100
37. **Carbone Lorraine Mauritius** (Mauritius)	FC	100	100
- Carbone Lorraine Chongqing Co Ltd (China)	FC	100	100
- Carbone Lorraine Components Kunshan Co Ltd (China)	FC	100	100
- Le Carbone Advanced Graphite (Kunshan) Co Ltd	FC	93	93
38. **Carbone Lorraine** (China) **Holding Co. Ltd** (China)	FC	100	100
- Shanghai Xianda Pressure Vessels Manufacturing Co. Ltd (China)	FC	100	100
39. **MIRO Holding SAS** (France)	FC	100	100
40. **Ferraz Shawmut Tunisie** (Tunisia)	FC	100	100

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

CHANGES IN THE SCOPE OF CONSOLIDATION OVER THE PAST THREE YEARS

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

- during fiscal 2006:
  - the Group acquired US company Graphite Engineering & Sales on February 1, 2006, French company Kapp in early September 2006 and sold the assets of Astro Service Center during the second half of 2006,
  - the disposal of the Magnets division was presented in the consolidated financial statements for fiscal 2005 in accordance with IFRS 5. The divestment was completed on February 27, 2006. The balance sheet, income statement and cash flow statement at December 31, 2005 and December 31, 2006 show the assets and liabilities held for sale and discontinued operations on a separate line;
- during fiscal 2007:
  - Ferraz Shawmut France acquired a majority shareholding in Lenoir Élec in January 2007,
  - CL India and CL Madras joined the scope of consolidation with effect from January 1, 2007,
  - Chinese companies CL Chongqing, Le Carbone Advanced Graphite and CL Components Kunshan, as well as the holding company that owns these companies, CL Mauritius, joined the scope of consolidation during the second half of 2007 with retrospective effect from January 1, 2007,
  - Ferraz Shawmut LLC acquired General Electric's medium-voltage fuse business in December 2007;
- first half 2008:
  - German company DIT GmbH, acquired by Le Carbone Holding KG in 2007, entered the scope of consolidation on January 1, 2008,
  - Chinese company Shanghai Xianda Pressure Vessels Manufacturing Co Ltd and the holding company that owns it, i.e. CL (China) Holding Co. Ltd, entered the scope of consolidation on April 1, 2008,
  - Ferraz Shawmut Tunisie entered the scope of consolidation on January 1, 2008,
  - the "rail and motorcycle brakes" business (part of the AMT division) left the scope of consolidation on April 1, 2008 following its sale to Faiveley.

CONSOLIDATED INCOME STATEMENT

In millions of euros	Notes	June 30, 2008	December 31, 2007	June 30, 2007
CONTINUING OPERATIONS				
Consolidated sales	**16**	**362.0**	**693.7**	**346.7**
Cost of sales		(247.3)	(487.8)	(240.8)
Gross income		**114.7**	**205.9**	**105.9**
Selling and marketing costs		(34.3)	(65.8)	(34.1)
Administrative and research costs		(36.1)	(66.8)	(33.4)
Other costs and additions to provisions		(2.6)	(2.6)	(1.0)
Operating income before non-recurring items		**41.7**	**70.7**	**37.4**
Non-recurring income and expenses	15	12.3	(7.8)	(3.9)
Goodwill impairment *loss*	5		(20.2)	
Operating income	**16/18**	**54.0**	**42.7**	**33.5**
Finance costs		(6.0)	(11.3)	(5.1)
Finance costs, net	**19**	**(6.0)**	**(11.3)**	**(5.1)**
Income before tax		**48.0**	**31.4**	**28.4**
Current and deferred income tax	20	(14.4)	(15.1)	(9.0)
Net income from continuing operations		**33.6**	**16.3**	**19.4**
Attributable to:				
- Carbone Lorraine's shareholders		33.1	15.4	18.9
- Minority interests		0.5	0.9	0.5
Earnings per share	**21**			
Basic earnings per share *(€)*		2.33	1.08	1.34
Diluted earnings per share *(€)*		2.26	1.05	1.31

CONSOLIDATED BALANCE SHEET

ASSETS

In millions of euros	Notes	June 30, 2008	December 31, 2007	June 30, 2007
NON-CURRENT ASSETS				
Intangible assets and goodwill				
- Goodwill	5	169.0	164.9	184.9
- Other intangible assets		2.9	4.6	4.0
Property, plant and equipment				
- Land		31.2	31.8	31.9
- Buildings		31.6	34.0	26.3
- Plant, equipment and other assets	7	116.0	119.4	77.3
- Assets in progress		30.9	22.0	21.6
Non-current financial assets				
- Investments	8	7.6	8.1	20.3
- Non-current derivatives			0.0	0.6
- Other financial assets		6.0	27.7	28.9
Non-current tax assets				
- Deferred tax assets	20	16.8	21.6	24.0
- Non-current income tax assets		1.4	1.3	0.6
TOTAL NON-CURRENT ASSETS		**413.4**	**435.4**	**420.4**
CURRENT ASSETS				
- Inventories	9	165.8	150.5	152.2
- Trade receivables	10	145.0	128.7	142.2
- Other receivables		25.8	21.2	33.0
- Other current financial assets	12	21.5		
- Current income tax assets		4.3	3.9	1.1
- Current financial assets	14	0.9	3.0	4.6
- Current derivatives		1.4	2.1	3.6
- Trading financial assets	14	2.8	2.8	2.3
- Cash and cash equivalents	14	42.2	23.6	11.8
TOTAL CURRENT ASSETS		**409.7**	**335.8**	**350.8**
TOTAL ASSETS		**823.1**	**771.2**	**771.2**

LIABILITIES AND EQUITY

In millions of euros	Notes	June 30, 2008	December 31, 2007	June 30, 2007
EQUITY				
- Share capital	11	28.6	28.6	28.3
- Premiums and retained earnings		314.3	309.3	306.1
- Net income for the period		33.1	15.4	18.9
- Cumulative translation adjustments		(65.4)	(50.4)	(34.3)
EQUITY ATTRIBUTABLE TO CARBONE LORRAINE'S SHAREHOLDERS		**310.6**	**302.9**	**319.0**
- Minority interests		3.8	4.1	4.0
EQUITY		**314.4**	**307.0**	**323.0**
Non-current liabilities				
- Non-current provisions	12	0.8	45.7	46.3
- Employee benefits	13	39.7	40.7	43.2
- Deferred tax liabilities	20	4.7	3.1	2.1
- Borrowings	14	185.0	176.4	147.7
- Non-current derivatives		0.6	0.8	3.1
TOTAL NON-CURRENT LIABILITIES		**230.8**	**266.7**	**242.4**
CURRENT LIABILITIES				
- Trade payables		77.6	71.7	71.1
- Other payables		53.2	56.5	62.6
- Current provisions	12	45.3	1.5	3.4
- Current income tax liabilities		5.5	4.3	6.5
- Other liabilities		19.7	15.7	6.7
- Other current financial liabilities	14	42.4	21.7	3.4
- Current derivatives		0.9	3.0	1.9
- Current advances	14	1.8	1.9	1.8
- Bank overdrafts	14	31.5	21.2	48.4
TOTAL CURRENT LIABILITIES		**277.9**	**197.5**	**205.8**
TOTAL LIABILITIES AND EQUITY		**823.1**	**771.2**	**771.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of euros	Attributable to Carbone Lorraine's shareholders						
	Share capital	Premiums and retained earnings	Net income for the period	Cumulative translation adjustment	Total	Minority interests	Equity
EQUITY AT DECEMBER 31, 2006	**27.9**	**274.9**	**35.3**	**(34.5)**	**303.6**	**4.4**	**308.0**
Prior period net income		35.3	(35.3)		0.0		0.0
Dividends paid		(11.8)			(11.8)	(0.5)	(12.3)
Issue of new shares	0.4	6.2			6.6		6.6
Treasury shares		0.5			0.5		0.5
Change in fair value of hedging derivatives		0.5			0.5		0.5
Translation adjustments and other		0.5		0.2	0.7	(0.4)	0.3
Net income for the period			18.9		18.9	0.5	19.4
EQUITY AT JUNE 30, 2007	**28.3**	**306.1**	**18.9**	**(34.3)**	**319.0**	**4.0**	**323.0**
Dividends paid		(0.1)			(0.1)	(0.2)	(0.3)
Issue of new shares	0.3	5.3			5.6		5.6
Treasury shares		(0.6)			(0.6)		(0.6)
Change in fair value of hedging derivatives		(2.4)			(2.4)		(2.4)
Translation adjustments and other		1.0		(16.1)	(15.1)	(0.1)	(15.2)
Net income for the period			(3.5)		(3.5)	0.4	(3.1)
EQUITY AT DECEMBER 31, 2007	**28.6**	**309.3**	**15.4**	**(50.4)**	**302.9**	**4.1**	**307.0**
Prior period net income		15.4	(15.4)		0.0		0.0
Dividends paid		(12.1)			(12.1)	(0.7)	(12.8)
Issue of new shares					0.0		0.0
Treasury shares		0.5			0.5		0.5
Change in fair value of hedging derivatives		0.8			0.8		0.8
Translation adjustments and other		0.4		(15.0)	(14.6)	(0.1)	(14.7)
Net income for the period			33.1		33.1	0.5	33.6
EQUITY AT JUNE 30, 2008	**28.6**	**314.3**	**33.1**	**(65.4)**	**310.6**	**3.8**	**314.4**

In 2007, the principal movements were as follows:

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

In 2008, the principal movements were as follows:

- reduction in the number of treasury shares (7,296 shares, €0.5 million);
- an increase of €0.8 million in the fair value of derivatives at the balance sheet date.

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
OPERATING ACTIVITIES			
Income before tax	48.0	31.4	28.4
Depreciation and amortization	13.6	24.8	12.0
Impairment		20.2	
Additions to/(write-backs from) provisions	(1.3)	(4.5)	3.1
Finance costs, net	6.0	11.3	5.1
Capital gains/(losses) on asset disposals	0.2	(0.6)	(0.5)
Other	(12.8)	2.9	(1.3)
Cash generated by operating activities before change in the WCR	**53.7**	**85.5**	**46.8**
Change in the working capital requirement	(39.3)	(11.8)	(29.7)
Income tax paid	(7.8)	(12.4)	(5.3)
Net cash generated by operating activities	**6.6**	**61.3**	**11.8**
Investing activities			
Increase in intangible assets	(0.2)	(0.6)	(0.4)
Increase in property, plant and equipment	(23.0)	(66.8)	(19.2)
Increase in financial assets		(2.9)	(2.5)
Acquisition/sale of a subsidiary with deduction of the cash acquired	25.8	(15.3)	(2.3)
Other changes in cash generated/(used) by investing activities	(3.1)	11.1	(0.1)
Cash generated/(used) by investing activities	**(0.5)**	**(74.5)**	**(24.5)**
Net cash generated/(used) by operating and investing activities	**6.1**	**(13.2)**	**(12.7)**
Financing activities			
Proceeds from issue of new shares	0.3	11.8	7.2
Net dividends paid to shareholders and minority interests	(12.8)	(12.6)	(12.2)
Interest payments	(6.4)	(11.2)	(5.2)
Change in debt (Note 14)	33.7	30.0	7.5
Cash generated by financing activities	**14.8**	**18.0**	**(2.7)**
Change in cash	**20.9**	**4.8**	**(15.4)**
Cash at beginning of period (Note 14)	26.4	21.2	(15.6)
Cash at end of period (Note 14)	45.0	26.4	(34.3)
Changes in the scope of consolidation	0.3	(0.4)	3.3
Impact of currency fluctuations	2.0	0.0	0.0
CHANGE IN CASH	**20.9**	**4.8**	**(15.4)**

3 Notes

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, 2008 did not have any impact on the interim consolidated financial statements.

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

The interim consolidated financial statements for the six months ended June 30, 2008 have been prepared in accordance with IAS 34 (Interim financial reporting). They do not include all the information required for complete annual financial statements and should be read together with the Group's financial statements for the fiscal year ended on December 31, 2007, which may be downloaded from www.carbonelorraine.com.

The summary consolidated interim financial statements at June 30, 2008 have been prepared using the recognition and measurement principles stated in the IFRSs adopted in the European Union at the same date. They have also been prepared in line with the presentation and financial reporting rules applicable to annual financial statements, as defined in the General Regulation of the Autorité des Marchés Financiers (AMF, the French market regulator).

The summary interim consolidated financial statements at June 30, 2008 include for comparative purposes figures for the periods ended June 30, 2007 and December 31, 2007 restated using the same rules.

The accounting principles described in Note 2 et seq have been applied to prepare comparative information and the summary interim consolidated financial statements at June 30, 2008.

Note 2 ACCOUNTING POLICIES AND PRINCIPLES OF CONSOLIDATION

A - BASIS OF CONSOLIDATION

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

Jointly controlled companies are consolidated proportionately.

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

All associate undertakings over which the Group exerts significant influence, which is presumed to exist when the latter holds at least 20% of voting rights, are accounted for under the equity method. If necessary, subsidiaries' financial statements are adjusted to bring their accounting policies into line with those of the other companies in the scope of consolidation.

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

The consolidated financial statements have been prepared in euros.

B - PRESENTATION OF THE FINANCIAL STATEMENTS

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

B1 Income statement

Given customary practice and the nature of its business activities, the Group has opted to present its income statement using the functional expense format, in which costs are classified according to their function under cost of sales, selling, administrative, research and development costs.

B2 Balance sheet

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

B3 Consolidated statement of cash flows

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

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

B4 Operations, assets and liabilities held for sale

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

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

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

C - FOREIGN CURRENCY TRANSLATION

The accounts of the Group's foreign subsidiaries are stated in their functional currencies.

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

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

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

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

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

D - FOREIGN CURRENCY ASSETS AND LIABILITIES

Foreign currency transactions are recognized and measured in accordance with IAS 21 (Effects of changes in foreign exchange rates).

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

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

E - HEDGING

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

E1 Currency and commodity hedges

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

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

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

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

E2 Interest rate hedging

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

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

F - INTANGIBLE ASSETS

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

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

The Group's intangible assets comprise primarily goodwill.

F1 Goodwill

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

Goodwill is allocated individually to the Group's cash generating units (CGUs). The Group has the following four CGUs:

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

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

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

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

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

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

Goodwill impairment losses are irreversible.

F2 Patents and licenses

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

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

F3 Development costs

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

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

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

G - PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

The periods used are as follows:

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

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

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

H - LEASES

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

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

Non-current assets used under a finance lease give rise to the recognition on the balance sheet of both an item of property, plant and equipment and an obligation to make future lease payments. At the inception of the lease, the asset and the liability for the future lease payments are recognized in the balance sheet at the same amounts.

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

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

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

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

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

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

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

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

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

J - FINANCIAL ASSETS AND LIABILITIES

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

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

Loans and receivables are recognized at amortized cost.

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

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

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

J1 *Investments*

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

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

These impairment losses are irreversible and are not written back.

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

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

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

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

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

J2 Other non-current financial assets

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

K - SHARE CAPITAL

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

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

L - PROVISIONS

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

This obligation may be legal, regulatory or contractual. It may also result from Group practice or from public commitments that have created a legitimate expectation among the third parties concerned that the Group 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 corresponds to acquisition or production cost.

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

N - CONSOLIDATED SALES

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

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

Sales are measured at the fair value of the consideration received or receivable amounts. 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 expenses of the same type (selling, general, administrative or research).

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. The present value of this final obligation is then calculated.

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 that which 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 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 income statement

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

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

O2 Recognition of unrecognized past service cost

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

P - NON-RECURRING INCOME AND EXPENSES

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

Non-recurring income and expenses include the following items:

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

Q - OPERATING INCOME

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

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

R - DEFERRED TAXES

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

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

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

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

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

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

S - SEGMENT REPORTING

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

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

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

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

T - EARNINGS PER SHARE

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

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

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

U - EQUITY-LINKED BENEFITS GRANTED TO EMPLOYEES

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

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

V - USE OF ESTIMATES

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

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

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

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

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

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

- Notes 2-F1, 2-I and 6 concern the testing of goodwill and other non-current assets for impairment. The Group's management carried out this testing based on the most reliable expectations of future business trends at the relevant units taking discount rates into account.
- Notes 12 and 13 concerning provisions and employee benefits describe the provisions set aside by Carbone Lorraine. To determine these provisions, Carbone Lorraine used the most reliable estimate of these obligations.
- Note 20 concerning tax expense reflects the Group's tax position, which is based for France, Germany and the US on the Group's best estimate of trends in its future taxable income.

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

W – NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

New standards and amendments to standards and interpretations are not yet in force for the period ended June 30, 2008 and were not applied in the preparation of the consolidated financial statements:

- IFRS 8 (Operating Segments) introduces the management approach. IFRS 8, which will become mandatory for the Group's 2009 financial statements, requires segment reporting to be based on the internal reporting analyzed on a regular basis by the Group's operational management to evaluate performance and allocate resources. Since the Group presents its segment reporting based on its business and geographical segments, the application of IFRS 8 is unlikely to have an impact on the Group's financial statements.
- The revised IAS 23 removes the option of immediately recognizing as an expense borrowing costs and requires the capitalization of borrowing costs relating to assets that take a substantial period of time to get ready for use or sale. These costs are treated as part of the acquisition cost of the asset. The revised IAS 23 will be apply to the Group's 2009 financial statements, and is unlikely to have an impact on the Group's financial statements.

Note 3 FINANCIAL RISK MANAGEMENT

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

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

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

LIQUIDITY RISK

Carbone Lorraine has four major financing agreements:

- at June 30, 2008, the Group had a USD220 million loan arranged in December 2004 with a maturity of five years. This loan was repaid in late July 2008 and replaced with a USD350 million loan with a maturity of five years, syndicated to an international pool of banks. The interest rates on the syndicated loan are the interbank rate for the relevant currency when drawings are made plus a fixed credit margin;
- a €40 million bond issue comprising bonds convertible into new and/or exchangeable for existing shares through attached warrants ("OBSAAR" bonds) finalized in November 2007 and repayable in one-third installments between 2012 and 2014, giving it an average initial time to maturity of six years. The interest rate paid is 3-month Euribor plus a fixed margin. This margin is negative owing to the sale of the warrants;

- a USD85 million private bond 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 initial time to maturity of the private placement was around eight years because it is repayable in installments. Interest is paid at a fixed rate to investors, but the interest-rate swaps negotiated at the outset mean that Carbone Lorraine pays a floating US dollar rate plus a credit margin;
- a bilateral confirmed credit facility intended to finance Carbone Lorraine's business activities in China.

In millions of euros	Amount	Drawn down at June 30, 2008	% drawn down at June 30, 2008	Time to maturity: Less than one year	Between one and five years	More than five years
Syndicated loan	139.6	81.5	58%	0.0	139.6	
OBSAAR bond issue	38.8	38.8	100%	0.0	12.9	25.9
US private placements, Tranche A	29.5	29.5	100%	5.9	23.6	0.0
US private placements, Tranche B	12.7	12.7	100%	0.0	7.6	5.1
Confirmed credit facility, China	10.9	10.9	100%	0.0	10.9	
Other	12.7	12.7	100%	6.3	6.3	
TOTAL	**244.2**	**186.1**	**76%**		**Average time to maturity (years) =**	**2.5**

In millions of euros DRAW-DOWNS	Drawn down at June 30, 2008	Expected cash flows	Time to maturity: 1-6 months	6-12 months	Over 1 year
Syndicated loan	81.5	81.8	81.8		
OBSAAR bond issue	38.8	48.9	0.9	1.0	47.0
US private placements, Tranche A	29.5	34.4	0.8	6.7	26.9
US private placements, Tranche B	12.7	16.7	0.4	0.4	15.9
Confirmed credit facility, China	10.9	11.0	11.0		
Other	12.7	12.7	1.0	6.3	5.4
TOTAL	**186.1**	**205.5**	**95.9**	**14.4**	**95.2**

INTEREST-RATE RISK

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

In May 2003, the Group purchased several interest-rate swaps covering an aggregate nominal amount of USD85 million to turn the interest payable on the US private placements into a floating rate. Under the terms of these swaps, the Company receives the interest payable to lenders and pays 3-month USD Libor plus a credit margin. The starting date of the swaps was May 28, 2003, and the swaps have the same maturity as the US private placements. The amortization profile of these swaps mirrors that of the US private placements. At June 30, 2008, the swaps had a total nominal amount of USD66.4 million.

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

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

In millions of euros	Amount in €	Interest rate received	Interest rate paid	Time to maturity: Less than one year	Between one and five years	More than five years
Swap	29.5	5.63%	Libor + margin	5.9	23.6	
Swap	12.7	6.35%	Libor + margin		7.6	5.1
Swap	31.7	3-month USD Libor	4.6325%	31.7		
TOTAL	**73.9**			**37.6**	**31.2**	**5.1**

In millions of euros	
SWAP	**MTM***
Assets	0.0
Liabilities	(0.6)

* *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.

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

Impact of commodity hedging

In millions of euros	Balance sheet impact at end-June 2008	Income statement impact First-half 2008
Copper	0.0	0.1
Silver	0.3	0.3

EXCHANGE-RATE RISK

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

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

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

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

For consolidation purposes, the income statement and cash flow statements of foreign subsidiaries are translated into euros at the average exchange rate for the relevant period, while balance sheet items are translated at the closing rate. The impact of this currency translation may be material. The principal effect derives from the impact of fluctuations in the US dollar exchange rate on the Group's equity and debt. All other factors remaining equal, the depreciation in the US dollar against the euro in 2008 led to a reduction in the Group's equity and debt.

The Group does not specifically hedge its net foreign assets.

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

Recognition at end-June 2008 of currency transactions

MTM* *(in millions of euros)*		June 30, 2008
Mark to market of currency hedges	Shareholders' equity	(0.1)
	Other financial components of operating income	0.3

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

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

CURRENCY TRANSACTIONS *(in millions of euros)*	MTM	Expected cash flows
Assets	1.2	1.4
Liabilities	(1.0)	(1.2)

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

CREDIT RISK

The risk arising from the failure of the Group's principal customers is modest as a result of the diversification of its customer portfolio.

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

CAPITAL MANAGEMENT

At June 30, 2008, Carbone Lorraine's share capital was 29%-owned by around 30,000 individual shareholders, 25%-owned by French institutional shareholders and 46%-owned by institutional shareholders based in other countries. At June 30, 2008, 0.2% of the share capital was held under a liquidity agreement approved by the Autorité des Marchés Financiers and entrusted to investment services provider Exane. Since this liquidity agreement was set up in 2005, Carbone Lorraine has not purchased or sold any of its own shares.

In July 2008, an agreement was entered into with AXA Private Equity following its purchase of a stake of more than 10% in Carbone Lorraine through two funds (AXA Capital Fund L.P. and Matignon Développement 3). This agreement includes undertakings concerning the long-term and friendly nature of the investment in Carbone Lorraine. As part of the agreement, a representative of AXA Private Equity will be appointed to the company's Board of Directors before the end of the year, and the company will support the appointment of a second director if AXA Private Equity's stake rises above 15%. The agreement, which will expire on June 30, 2012, authorizes AXA Private Equity to increase its stake to 22.5% and limits the proportion of voting rights exercisable by AXA Private Equity in Carbone Lorraine shareholders' meetings to 35%.

The Group's employees own 205,806 shares, representing 1.4% of the share capital, plus stock options that, if exercised in full, would represent 2.7% of the current share capital. The stock option plans set up by the Group are based on a strike price determined without any discount, since exercise of the options is subject to conditions linked to the Group's future performance. Using this method, the Group ensures that the interests of its managers are aligned with those of its shareholders.

The Group has also implemented a policy of allotting bonus shares to secure the loyalty of high-potential managers. Take-up of these shares is therefore contingent upon their presence within the Group at the end of the vesting period. At June 30, 2008, a total of 67,378 bonus shares, representing 0.5% of the current share capital, had been allotted.

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

The Group did not alter its capital management policy in the first half of 2008.

Neither the Company nor its subsidiaries are subject to specific capital requirements arising from external rules.

Note 4 BUSINESS COMBINATIONS

BUSINESS COMBINATIONS RELATING TO THE FIRST HALF OF 2008

In early April 2008, Carbone Lorraine completed its first acquisition in China, buying 100% of the shares in Xianda, a Chinese company specializing in manufacturing high-tech equipment made from steel and stainless steel for the chemicals and pharmaceuticals markets.

The purchase price and the goodwill arising from the deal are supported by the synergies that the acquisition will generate, and by:

- the stronger manufacturing base the deal will give Carbone Lorraine in China, adding to its anticorrosion operations and significantly increasing its production capacity;
- the good fit between Carbone Lorraine and Xianda's skills bases. This acquisition will bolster Carbone Lorraine's product range. While Carbone Lorraine has a strong reputation in equipment made from noble metals, Xianda has acknowledged expertise in very large equipment made from steel and stainless steel;
- a stronger presence for Carbone Lorraine in the fast-growing acetic acid market and greater penetration in the petrochemicals market, supporting Carbone Lorraine's existing leading positions;
- the improvement in Carbone Lorraine's competitiveness. All of its entities will benefit from more keenly priced steel and stainless steel supplies, since China has become the world's largest producer of these materials.

This acquisition fits perfectly with Carbone Lorraine's profitable growth strategy, which is based on strengthening positions in Asia and gaining leadership in all its markets.

The fair value of the assets and liabilities arising from this acquisition is currently being measured. The initial allocation of goodwill could not be completed by the financial statements preparation date, but will be worked out by April 2009.

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

In millions of euros	Net assets at acquisition date	Fair-value adjustments	Fair value of net assets
Non-current assets	2.2	0.0	2.2
Other assets	4.9	0.0	4.9
Non-current liabilities	0.0	0.0	0.0
Current liabilities	(6.9)	0.0	(6.9)
NET ASSETS	**0.2**	**0.0**	**0.2**
Goodwill			12.8
TOTAL ACQUISITIONS			**13.0**
including:			
Acquisition price paid in cash			0.0
Debt			13.0

The acquisition of 100% of Xianda cost €19.9 million, comprising €13 million to buy the shares and €6.9 million of debt assumed.

Xianda contributed €0.6 million to Carbone Lorraine's net income during the period. The impact of this acquisition on the Group's net cash position is zero (excluding the purchase price).

Note 5 GOODWILL

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Net value at Jan. 1	164.9	176.7	176.7
Acquisitions	12.9	18.3	6.8
Disposals			
Other movements		3.7	3.6
Translation adjustments	(8.8)	(13.6)	(2.2)
Impairment losses		(20.2)	
Net value at end of period	**169.0**	**164.9**	**184.9**
Gross value at end of period	189.2	185.1	184.9
Total impairment losses at end of period	**(20.2)**	**(20.2)**	**0.0**

At June 30, 2008, goodwill in the process of being allocated related to the following acquisitions:

- General Electric's medium-voltage fuse business, acquired in December 2007 (€11.5 million);
- Xianda Pressure Vessels, acquired in April 2008 (€12.8 million).

Goodwill will be allocated in the 12 months following the acquisition date.

The €20.2 million impairment loss recognized in 2007 relates to the Electrical Applications CGU.

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

	December 31, 2007	Movements during 2008				June 30, 2008
In millions of euros	Net value	Acquisitions	Other movements	Impairment losses	Cumulative translation adjustment	Net value
Anticorrosion equipment	56.5	12.8			(3.1)	66.2
High-temperature applications and high-energy braking	25.7	0.1			(1.5)	24.3
Electrical Applications	12.5				(0.7)	11.8
Electrical Protection	70.2				(3.5)	66.7
TOTAL	**164.9**	**12.9**	**0**	**0**	**(8.8)**	**169.0**

Note 6 ASSET IMPAIRMENT TESTS

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

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

The key assumptions used were as follows:

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

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

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

The interim 2008 earnings reported by the Group do not call into question the assumptions adopted at the end of fiscal 2007 and no evidence of impairment was identified.

Note 7 PROPERTY, PLANT AND EQUIPMENT

In millions of euros	Land	Buildings	Plant, equipment and other	Other	Total
Net value at December 31, 2006	**30.0**	**25.5**	**71.3**	**20.3**	**147.1**
Gross value at December 31, 2006	31.1	69.6	292.0	20.3	413.0
Total depreciation at December 31, 2006	(0.6)	(43.6)	(218.9)		(263.1)
Total impairment losses at December 31, 2006	(0.5)	(0.5)	(1.8)		(2.8)
Net value at January 1, 2007	**30.0**	**25.5**	**71.3**	**20.3**	**147.1**
Acquisitions	0.0	3.5	13.8	7.3	24.6
Retirements and disposals	(0.5)	(1.2)	(1.0)	0.0	(2.7)
Depreciation	0.0	(1.3)	(10.1)	0.0	(11.4)
Translation adjustments	0.2	(0.3)	(0.4)	(0.2)	(0.7)
Changes in the scope of consolidation	2.6	0.1	2.1	0.1	4.9
Other movements	(0.4)	0.0	1.6	(5.9)	(4.7)
Net value at June 30, 2007	**31.9**	**26.3**	**77.3**	**21.6**	**157.1**
Gross value at June 30, 2007	32.8	74.6	306.9	21.6	435.9
Total depreciation at June 30, 2007	(0.9)	(48.3)	(227.8)		(277.0)
Total impairment losses at June 30, 2007	0.0	0.0	(1.8)		(1.8)
Net value at December 31, 2007	**31.8**	**34.0**	**119.4**	**22.0**	**207.2**
Gross value at December 31, 2007	32.7	81.1	342.7	22.0	478.5
Total depreciation at December 31, 2007	(0.9)	(47.1)	(221.5)		(269.5)
Total impairment losses at December 31, 2007	0.0	0.0	(1.8)		(1.8)
Net value at January 1, 2008	**31.8**	**34.0**	**119.4**	**22.0**	**207.2**
Acquisitions	0.1	0.1	3.8	19.1	23.1
Retirements and disposals	0.0	0.0	(0.3)	0.0	(0.3)
Depreciation	0.0	(1.0)	(12.0)	0.0	(13.0)
Translation adjustments	(0.8)	(0.9)	(2.9)	(0.7)	(5.3)
Changes in the scope of consolidation	0.0	(1.6)	(1.4)	0.0	(3.0)
Other movements	0.1	1.0	9.4	(9.5)	1.0
NET VALUE AT JUNE 30, 2008	**31.2**	**31.6**	**116.0**	**30.9**	**209.7**
GROSS VALUE AT JUNE 30, 2008	**32.1**	**78.6**	**336.8**	**30.9**	**478.4**
TOTAL DEPRECIATION AT JUNE 30, 2008	**(0.9)**	**(47.0)**	**(220.8)**		**(268.7)**
TOTAL IMPAIRMENT LOSSES AT JUNE 30, 2008					**0.0**

Note 8 INVESTMENTS

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

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Gross value	18.1	19.3	33.7
Impairment losses	(10.5)	(11.2)	(13.4)
NET VALUE	**7.6**	**8.1**	**20.3**

The impairment losses recognized on investments at June 30, 2008 primarily related to units in Turkey, Argentina, Mexico, Singapore and AVO Kunshan (China).

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

In millions of euros Company name	% held	Gross value	Net value
Carbone Lorraine Sanayi Urünleri A.S (Turkey)	100	5.0	1.0
Carbone Lorraine Argentina SA (Argentina)	100	3.7	0.8
Carbono Lorena de Mexico S.A.	100	2.2	0.6
Fusetech	50	1.3	1.3
Carbone Lorraine Holding (Singapore)	100	1.1	0.1
Carbone Lorraine Shanghai (China)	100	0.8	0.8
Nortroll (Norway)	34	0.8	0.5
AVO Kunshan	100	0.6	0.0
Clisa (Mexico)	49	0.6	0.6
Carbone Lorraine Grèce	100	0.6	0.6
Ferraz Electric Protection Hinode (China)	82	0.5	0.5
Carbone Lorraine Chile (Chile)	100	0.2	0.2
GMI Metaullics (US)	25	0.2	0.2
Ferraz Shawmut Kunshan	80	0.1	0.1
Carbone Lorraine de Colombia S.A.	80	0.1	0.1
Le Carbone Materials KK	49	0.1	0.1
Investments in other companies	-	0.2	0.1
TOTAL		**18.1**	**7.6**

Based on the as-yet-unaudited annual financial statements, the principal investments generated sales of around €24.3 million (€23.0 million in the first half of 2007) and a net loss of €0.9 million (net income of €0.9 million in the first half of 2007).

Their impact on the consolidated financial statements is not material. The consolidated sales of all these companies are estimated at around €7.8 million (€7.2 million in the first half of 2007) or 2.7% (2.1% in the first half of 2007) of total consolidated sales after the elimination of intra-group transactions.

Note 9 INVENTORIES

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Raw materials and other supplies	80.0	72.7	69.4
Work in progress	55.4	46.1	52.4
Finished goods	40.0	41.4	41.2
Carrying amount of inventories	**175.4**	**160.2**	**163.0**
Valuation allowances	(9.6)	(9.7)	(10.8)
NET CARRYING AMOUNT OF INVENTORIES	**165.8**	**150.5**	**152.2**

Inventories increased by €15.3 million in the first half of 2008, with a decrease of €4.8 million attributable to currency effects and an increase of €0.7 million to changes in the scope of consolidation. On a like-for-like basis, inventories grew by 13.3% to €19.4 million.

Note 10 TRADE RECEIVABLES

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Gross trade receivables	149.8	133.5	146.7
Valuation allowances	(4.8)	(4.8)	(4.5)
NET TRADE RECEIVABLES	**145.0**	**128.7**	**142.2**

Net trade receivables increased by €16.3 million in the first half of 2008, with a decrease of €3.9 million attributable to currency effects and a decrease of €1.7 million to changes in the scope of consolidation. On a like-for-like basis, trade receivables grew by 17.5% to €21.9 million.

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

Note 11 SHARE CAPITAL

In number of shares (unless stated otherwise)	Ordinary shares
Number of shares at January 1, 2008	14,280,735
Issue of new shares *(in millions of euros)*	0.0
Number of shares at June 30, 2008	14,280,735
Number of shares in issue and fully paid-up	14,280,735
Number of shares in issue and not fully paid-up	0
Par value of shares *(€)*	2
Entity's shares held by itself or by its subsidiaries and associates	33,920

The number of voting rights stood at 14,246,815 after deducting the treasury shares held by the Company at June 30, 2008.

No shares carry double voting rights.

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

Three bonus share allotment plans were set up for Company officers and employees during fiscal 2005, 2006 and 2008. The number of bond share allotment options still to be exercised is 36,478.

Note 12 PROVISIONS AND CONTINGENT LIABILITIES

In millions of euros	June 30, 2008		December 31, 2007		June 30, 2007	
	Non-current	Current	Non-current	Current	Non-current	Current
Provision for restructuring	0.1	0.2	0.1	0.9	0.1	2.7
Provision for litigation	0.0	44.9	45.0	0.3	45.4	0.4
Other provisions	0.7	0.2	0.6	0.3	0.8	0.3
TOTAL	**0.8**	**45.3**	**45.7**	**1.5**	**46.3**	**3.4**

At June 30, 2008, the provision for litigation covered all of the fine imposed on the Group by the European authorities (€43 million, not taking into account possible late payment interest amounting to €4.3 million at June 30, 2008) and class-action lawsuits in the USA (€1.9 million).

As regards the appeal against the European fine, the authorities expect to make a decision in less than one year. As a result, the corresponding provision is classified as a current provision. We reiterate that, to guarantee the appeal to the Court of First Instance of the European Communities, the Group paid €20 million into an escrow account for the European Commission in 2005, which is recognized as other current financial assets.

As regards the class-action lawsuits, the provision amounts to €1.9 million and is intended to cover:

- lawsuits brought at the federal level by certain auto equipment manufacturers, which opted out of the federal class-action lawsuit and lodged a separate claim for damages. The Group believes that there is no legal basis for this separate legal action. This assessment was backed up by a decision made by the US judge on August 9, 2007 dismissing the admissibility of the request related to the worldwide cartel, thereby limiting the scope of the opt-out action to sales realized in the United States. This decision prompted the plaintiffs to initiate proceedings in the United Kingdom. The Group regards the arguments put forward by the opt-out plaintiffs as baseless, and so it decided to keep the provision at the initial level under the August 2004 settlement agreement;
- a class-action lawsuit specific to the state of California.

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

Note 13 EMPLOYEE BENEFITS

The Carbone Lorraine group's principal pension plans are defined benefit plans and are located in the UK (26% of obligations), the US (25% of obligations), France (21% of obligations) and Germany (15% of obligations).

The Group's obligations were measured at December 31, 2007 with the assistance of independent actuaries in accordance with IAS 19. Obligations, coverage assets and the charge recognized at June 30, 2008 were calculated by projecting the valuation at December 31, 2007.

However, stockmarket performance would reduce the fair value of plan assets at June 30, 2008, mainly in the United States and United Kingdom, by around €6 million.

Applying the corridor method, this movement would not have any impact on the balance sheet or income statement at June 30, 2008.

The rates used for the principal countries are summarized below:

2007	Discount rate	Return on plan assets	Average rate of salary increases	Inflation rate
France	5.25%	4.0%/4.25%	2.5%	2.0%
Germany	5.25%	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

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Actuarial obligation	95.7	98.1	104.5
Fair value of plan assets	(57.4)	(58.3)	(59.4)
Unrecognized actuarial gains and losses	2.4	2.4	(2.4)
Unrecognized past service cost (rights not vested)	(1.0)	(1.5)	0.5
NET AMOUNT RECOGNIZED	**39.7**	**40.7**	**43.2**

BREAKDOWN OF THE GROUP'S OBLIGATIONS AT JUNE 30, 2008 BY GEOGRAPHICAL AREA

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total at June 30, 2008
Actuarial obligation	20.4	14.1	24.0	24.6	12.6	95.7
Fair value of plan assets	(5.0)	0.0	(18.0)	(26.3)	(8.1)	(57.4)
Unrecognized actuarial gains and losses	0.2	0.5	(0.3)	3.1	(1.1)	2.4
Unrecognized past service cost (rights not vested)	(1.1)	0.0	0.0	0.0	0.1	(1.0)
NET AMOUNT RECOGNIZED	**14.5**	**14.6**	**5.7**	**1.4**	**3.5**	**39.7**

MOVEMENTS IN THE GROUP'S OBLIGATIONS

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2007	20.3	14.3	23.9	26.0	13.6	98.1
Payments	(0.5)	(0.6)	0.3	(0.3)	(0.3)	(1.4)
Expense charged to income	0.9	0.4	1.5	0.8	0.7	4.3
Translation adjustment			(1.7)	(1.9)	(1.3)	(4.9)
Actuarial gains and losses						0.0
Other movements	(0.3)				(0.1)	(0.4)
JUNE 30, 2008	**20.4**	**14.1**	**24.0**	**24.6**	**12.6**	**95.7**

CHANGES IN PLAN ASSETS

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total
December 31, 2007	5.0	0.0	17.4	27.5	8.4	58.3
Return on plan assets	0.1	0.0	0.6	0.9	0.2	1.8
Employer contribution	0.1	0.4	1.1	0.0	0.4	2.0
Employee contribution	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Payment of benefits	(0.1)	(0.4)	0.0	0.0	0.0	(0.5)
Translation adjustment	0.0	0.0	(1.1)	(2.1)	(0.9)	(4.1)
Other movements	0.0	0.0	0.0	0.0	0.0	0.0
JUNE 30, 2008	**5.0**	**0.0**	**18.0**	**26.3**	**8.1**	**57.4**

The charge recognized at June 30, 2008 in respect of these plans was €3.4 million, compared with €2.8 million at June 30, 2007, and breaks down as follows:

In millions of euros	France	Germany	United States	United Kingdom	Rest of the world	Total June 30, 2008	Total June 30, 2007
Current service cost	0.4	0.1	0.7	0.1	0.4	1.7	2.0
Interest cost	0.5	0.4	0.7	0.7	0.3	2.6	2.5
Expected return on plan assets	(0.1)	0.0	(0.6)	(0.9)	(0.2)	(1.8)	(1.8)
Amortization of actuarial gains and losses	0.5	0.0	0.0	0.0	0.0	0.5	0.1
Other movements	0.3	0.0	0.0	0.0	0.1	0.4	0.0
TOTAL CHARGE FOR THE PERIOD	**1.6**	**0.5**	**0.8**	**(0.1)**	**0.6**	**3.4**	**2.8**

Note 14 NET DEBT

ANALYSIS OF TOTAL NET DEBT AT JUNE 30, 2008

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Borrowings	185.0	176.4	147.7
Current financial liabilities	42.4	21.7	3.4
Current advances	1.8	1.9	1.8
Bank overdrafts	31.5	21.2	48.4
Current financial assets	(0.9)	(3.0)	(4.6)
TOTAL GROSS DEBT	**259.8**	**218.2**	**196.7**
Trading financial assets	(2.8)	(2.8)	(2.3)
Cash and cash equivalents	(42.2)	(23.6)	(11.8)
Cash	**(45.0)**	**(26.4)**	**(14.1)**
TOTAL NET DEBT	**214.8**	**191.8**	**182.6**

Total consolidated net debt amounted to €214.8 million at June 30, 2008, compared with €191.8 million at December 31, 2007 and €182.6 million at June 30, 2007.

NET DEBT/EQUITY

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Total net debt	214.8	191.8	182.6
Net debt/equity	0.68	0.62	0.57

Net debt came to 68% of equity at June 30, 2008 compared with 62% at December 31, 2007 and 57% at June 30, 2007.

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

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Prior year debt	**191.8**	**154.3**	**154.3**
Cash generated/(used) by recurring operating and investing activities after tax	19.4	(5.3)	9.5
Cash used by restructurings	0.3	3.2	0.9
Net cash inflows/(outflows) attributable to changes in the scope of consolidation	(25.8)	15.3	2.3
Cash generated by the operating and investing activities of continuing operations	**(6.1)**	**13.2**	**12.7**
Proceeds from issue of new shares	(0.3)	(11.8)	(7.2)
Dividends paid	12.8	12.6	12.2
Interest payments	6.4	11.2	5.2
Translation adjustments and other	(4.4)	(9.1)	(2.1)
Changes in the scope of consolidation	1.3	16.1	2.1
Other movements	13.3	5.3	5.4
DEBT AT YEAR-END	**214.8**	**191.8**	**182.6**

Total consolidated net debt amounted to €214.8 million at June 30, 2008, compared with €191.8 million at December 31, 2007 and €182.6 million at June 30, 2007. Debt increased by €27.4 million excluding the impact of a €4.4 million cumulative translation adjustment (reduction in debt arising from the depreciation in the US dollar against the euro during 2008). This increase was mainly due to a €12.8 million dividend payment and the recognition of a €13.3 million debt relating to the acquisition of Xianda in China under «Other movements». Operating and investing activities generated €6.1 million of cash, including €25.8 million corresponding to the sale proceeds from the rail and motorcycle braking business, which was sold in the first half.

FINANCIAL COVENANTS AT JUNE 30, 2008

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

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

Financial covenants (consolidated financial statements)*

In millions of euros	Net debt/EBITDA	Net debt/equity	EBITDA/net interest expense
Covenant ratios			
Syndicated loan	-	< 1.3	-
US private placement	< 3.35	< 1.3	> 3
OBSAAR bond issue	-	< 1.35	-
Actual ratios at June 30, 2008			
Syndicated loan	-	0.68	-
US private placement	1.87	0.68	8.98
OBSAAR bond issue		0.68	
Actual ratios at December 31, 2007			
Syndicated loan	-	0.63	-
US private placement	2.07	0.62	8.63
OBSAAR bond issue		0.62	

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

At June 30, 2008, there were no material borrowings or liabilities secured by assets or guaranteed by third parties.

BREAKDOWN OF BORROWINGS, INCLUDING THE CURRENT PORTION AT JUNE 30, 2008

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

In millions of euros	Total	< 1 year	> 1 and < 5 years	> 5 years
Borrowings in USD	76.1	12.2	58.8	5.1
Borrowings in EUR	93.7		67.8	25.9
Borrowings in GBP	6.9		6.9	
Borrowings in RMB	9.4		9.4	
TOTAL	**186.1**	**12.2**	**142.9**	**31.0**
Amortization of issuance costs at the EIR	(1.0)			
Fair value of interest-rate derivatives	(0.1)			
TOTAL	**185.0**			

Of the €142.9 million of debt due to mature in between one and five years' time, €29.8 million had a maturity of over three years at June 30, 2008.

ANALYSIS OF TOTAL NET DEBT AT JUNE 30, 2008

By currency	%
EUR	48.9%
USD	40.3%
RMB	7.7%
Other	3.1%

By interest rate	%
Fixed	14.8%
Floating	85.2%

In millions of euros	Total	With a maturity < 5 years	With a maturity > 5 years
Floating rate debt*	260.7	229.7	31.0
Financial assets	(45.9)	(45.9)	
Net position before hedging	**214.8**	**183.8**	**31.0**
Fixed-rate hedge	31.7	31.7	
Net position after hedging	**183.1**	**152.1**	**31.0**

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

Assuming Carbone Lorraine's debt and exchange rates remain unchanged at their June 30, 2008 level and taking into account the swaps held in the portfolio, an increase of 100 basis points in floating interest rates would increase the Group's half-year interest costs by around €1.8 million.

Note 15 OTHER NON-RECURRING INCOME AND EXPENSES

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

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Sale of brakes business	14.0		
EU fine and US class-action lawsuits	(0.8)	(0.7)	(0.2)
Restructuring	(0.4)	(3.3)	(2.0)
Prior income, China and India		(3.0)	(2.2)
Impairment of securities	(0.2)	(0.9)	0.0
Other	(0.3)	0.1	0.5
TOTAL	**12.3**	**(7.8)**	**(3.9)**

In the first half of 2008, non-recurring income and expenses resulted in net income of €12.3 million. The principal factors were:

- the €14 million gain realized on the disposal of the brakes business;
- €0.8 million of costs relating to the European Community procedure and settlements relating to class-action lawsuits in the United States;
- €0.4m of costs relating to the transfer of assets and other costs following the reorganization of Electrical Protection sites;
- recognition of a €0.2 million impairment loss on shares in Chinese subsidiary AVO Kunshan, which started operating in 2004.

In fiscal 2007, non-recurring income and expenses resulted in a net charge of €7.8 million. The principal factors were:

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

Note 16 SEGMENT REPORTING

OPERATING INCOME

In millions of euros	Advanced Materials and Technologies (AMT)		Electrical Applications (EA)		Electrical Protection (EP)		Total for continuing operations	
Sales	H1-08	H1-07	H1-08	H1-07	H1-08	H1-07	H1-08	H1-07
Sales to third parties	130.8	127.7	106.4	102.7	124.8	116.3	362.0	346.7
Breakdown of sales	36.1%	36.8%	29.4%	29.6%	34.5%	33.6%	100.0%	100.0%
Segment operating income before non-recurring items	22.7	22.6	10.9	11.1	15.7	11.6	49.3	45.3
Segment operating margin before non-recurring items*	17.4%	17.7%	10.2%	10.8%	12.6%	9.9%	13.6%	10.8%
Segment non-recurring income and expenses	13.9	(3.6)	(0.5)	0.1	(0.3)	(0.8)	13.1	(4.3)
Segment operating income	36.6	19.0	10.4	11.2	15.4	10.8	62.2	41.0
Segment operating margin*	27.9%	14.9%	9.7%	10.9%	12.4%	9.3%	17.2%	10.8%
						Unallocated costs	(8.2)	(7.5)
						Operating income	**54.0**	**33.5**
						Operating margin	14.9%	9.7%
						Finance costs, net	(6.0)	(5.1)
						Current and deferred income tax	(14.4)	(9.0)
						Net income	**33.6**	**19.4**

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

Inter-segment sales realized by the Advanced Materials and Technologies division came to €1.9 million in the first half of 2008 compared with €2.1 million in the same period of 2007.

BREAKDOWN OF SALES AND SALES TRENDS BY GEOGRAPHICAL AREA

In millions of euros	H1-08	%	H1-07	%
France	47.7	13.2%	50.1	14.5%
Rest of Europe	115.9	32.0%	108.0	31.2%
North America	116.8	32.3%	111.7	32.2%
Asia	62.2	17.2%	58.4	16.8%
Rest of the world	19.4	5.3%	18.5	5.3%
TOTAL	**362.0**	**100.0%**	**346.7**	**100.0%**

BREAKDOWN OF DEPRECIATION AND AMORTIZATION RECOGNIZED BY SEGMENT

In millions of euros	H1-08					H1-07				
	AMT	EA	EP	Corporate costs	Total	AMT	EA	EP	Corporate costs	Total
France	(2.3)	(1.2)	(1.5)	(0.2)	(5.2)	(2.1)	(1.2)	(1.7)	(0.2)	(5.2)
Rest of Europe	(0.3)	(1.2)	(0.2)		(1.7)	(0.2)	(1.3)	(0.1)	0.0	(1.6)
Asia-Pacific	(2.3)	(0.2)	(0.1)		(2.6)	(0.3)	(0.2)	(0.1)	0.0	(0.6)
North America	(2.5)	(0.6)	(0.7)		(3.8)	(2.8)	(0.7)	(0.8)	0.0	(4.3)
Rest of the world	(0.1)	(0.2)	(0.0)		(0.3)	(0.1)	(0.2)	0.0	0.0	(0.3)
TOTAL	**(7.5)**	**(3.4)**	**(2.5)**	**(0.2)**	**(13.6)**	**(5.5)**	**(3.6)**	**(2.7)**	**(0.2)**	**(12.0)**

NET CARRYING AMOUNT OF ASSETS AT END OF PERIOD BY SEGMENT

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	Total at June 30, 2008
Non-current assets, net (excluding investments)	232.6	58.9	96.1	387.6		387.6
Inventories, net	74.8	46.4	44.6	165.8		165.8
Trade receivables	65.9	55.3	63.7	184.9	(39.9)	145.0
Other receivables	26.1	10.0	8.2	44.3	(18.5)	25.8
TOTAL SEGMENT ASSETS	**399.4**	**170.6**	**212.6**	**782.6**	**(58.4)**	**724.2**
TOTAL UNALLOCATED ASSETS						**98.9**
TOTAL						**823.1**

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

In millions of euros	June 30, 2008	June 30, 2007
France	390.5	417.4
Rest of Europe	121.9	117.3
North America	166.1	187.1
Asia	133.4*	37.7
Rest of the world	11.2	11.7
TOTAL	**823.1**	**771.2**

* *Increase following the Group's development in Asia.*

NET CARRYING AMOUNT OF LIABILITIES AT END OF PERIOD BY SEGMENT

In millions of euros	AMT	EA	EP	TOTAL	Intra-Group transactions eliminated	Total at June 30, 2008
Trade payables	44.1	32.6	40.8	117.5	(39.9)	77.6
Other payables and other liabilities	44.5	17.1	29.8	91.4	(18.5)	72.9
Non-current and current provisions	4.2	41.9	0.0	46.1		46.1
Employee benefits	14.5	16.1	9.1	39.7		39.7
TOTAL SEGMENT LIABILITIES	**107.3**	**107.7**	**79.7**	**294.7**	**(58.4)**	**236.3**
TOTAL UNALLOCATED LIABILITIES						**272.4**
TOTAL						**508.7**

INVESTMENT FLOWS DURING THE PERIOD BY SEGMENT

Excluding acquisitions or sales of subsidiaries or businesses

In millions of euros		France	Rest of Europe	Asia-Pacific	North America	Rest of the world	Total at June 30, 2008
Property, plant and equipment and intangible assets	AMT	(3.8)	(1.4)	(3.0)	(8.5)		(16.7)
	EA	(0.8)	(1.0)	(0.5)	(0.6)		(2.9)
	EP	(2.6)	(0.1)		(0.9)		(3.6)
TOTAL		**(7.2)**	**(2.5)**	**(3.5)**	**(10.0)**	**0.0**	**(23.2)**
Other changes and divestments	AMT	(0.8)	0.1	(2.1)	(0.2)		(3.0)
	EA		(0.1)	(0.2)	0.2		(0.1)
	EP						0.0
TOTAL		**(0.8)**	**0.0**	**(2.3)**	**0.0**	**0.0**	**(3.1)**
TOTAL INVESTMENT FLOWS		**(8.0)**	**(2.5)**	**(5.8)**	**(10.0)**	**0.0**	**(26.3)**

Note 17 STAFF COSTS AND HEADCOUNT

Group payroll costs (including social security contributions, provisions for pension obligations and retirement indemnities) came to €115.9 million in the first half of 2008 compared with €113.5 million in the first half of 2007.

On a like-for-like basis, staff costs increased by 7.1%.

BREAKDOWN OF THE CONSOLIDATED AVERAGE HEADCOUNT BY GEOGRAPHICAL AREA

Categories	June 30, 2008	%	June 30, 2007	%
France	1,692	23%	1,766	26%
Rest of Europe (+Tunisia)	1,836	25%	1,750	26%
North America (+Mexico)	2,459	34%	2,479	37%
Asia	983	14%	409	6%
Rest of the world	326	4%	364	5%
TOTAL	**7,296**	**100.0%**	**6,768**	**100.0%**

At comparable scope, the average headcount rose by 64 employees.

Note 18 OPERATING INCOME

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

In millions of euros	June 30, 2008	June 30, 2007
Product sales	329.3	314.7
Trading sales	32.7	32.0
TOTAL SALES	**362.0**	**346.7**
Other operating revenues	4.3	4.3
Cost of trading sales	(27.1)	(24.8)
Raw material costs	(77.8)	(75.3)
Costs on other operating revenues	(1.7)	(1.7)
Manufacturing costs	(57.7)	(57.4)
Salary costs	(112.6)	(110.9)
Employee incentives and profit-sharing	(3.3)	(2.6)
Other expenses	(30.0)	(27.5)
Financial components of operating income	(2.2)	(1.2)
Depreciation and amortization	(13.6)	(12.0)
Additions to provisions	(0.2)	(0.7)
Impairment losses	0.0	(3.6)
Capital gain on the disposal of the brakes business	14.0	
Gains/(losses) on non-current asset disposals	(0.1)	0.2
OPERATING INCOME	**54.0**	**33.5**

Note 19 FINANCE INCOME AND COSTS

Recognized on the income statement

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Amortization of bond issuance expenses	(0.1)	(0.3)	(0.1)
Interest paid on debt	(5.1)	(8.9)	(4.7)
Short-term finance expense	(1.4)	(2.2)	(1.1)
Debt-related fees		(0.4)	(0.1)
Ineffective portion of interest-rate hedges		(0.1)	
Interest income from bank deposits	0.6	0.6	0.9
FINANCE COSTS, NET	**(6.0)**	**(11.3)**	**(5.1)**

Recognized directly in equity

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Change in fair value of currency hedges	0.0	(1.1)	0.7
Change in fair value of interest-rate hedges	(0.2)	(0.7)	0.1
Change in fair value of commodity hedges	1.4	(0.6)	0.0
Impact on changes recognized in equity	(0.4)	0.5	(0.3)
NET FINANCE COSTS RECOGNIZED DIRECTLY IN EQUITY, NET OF TAX	**0.8**	**(1.9)**	**0.5**

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

Note 20 INCOME TAX

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Current income tax	(8.4)	(7.8)	(6.2)
Deferred income tax	(5.8)	(7.1)	(2.6)
Withholding tax	(0.2)	(0.2)	(0.2)
TOTAL TAX EXPENSE	**(14.4)**	**(15.1)**	**(9.0)**

In France, Le Carbone Lorraine SA, Carbone Lorraine Applications Électriques, Carbone Lorraine Composants, Carbone Lorraine Équipement Génie Chimique, Carbone Lorraine Corporate Services, Ferraz Shawmut SA, Ferraz Thermal Management, Ugimag, Ferroxdure, Polygraphite and AVO are consolidated for tax purposes.

There are also:

- two consolidated tax groups in the US, i.e. one encompassing Carbone Lorraine North America and its subsidiaries and the other encompassing Ferraz Shawmut LLC and its subsidiaries; from June 30, 2008, following the change in the US operations' company structure, only one tax consolidation group will remain in place;
- two consolidated tax groups in Germany;
- and a consolidated tax group in Japan encompassing Carbone KK and Ferraz Shawmut Japan.

The Group's effective tax rate was 30% in the first half of 2008, as opposed to 32% in the first half of 2007.

ANALYSIS OF INCOME TAX EXPENSE

In millions of euros	June 30, 2008
NET INCOME	**33.6**
Income tax expense/(benefit) on continuing operations	(14.4)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**(14.4)**
TAXABLE INCOME	**48.0**
Current tax rate in France	34.4%
Theoretical tax benefit/(expense) (taxable income x current income tax rate in France)	(16.5)
Difference between income tax rate in France and other jurisdictions	0.6
Transactions qualifying for a reduced rate of taxation	(1.1)
Permanent timing differences	2.6
Impact of limiting deferred tax assets	(1.0)
Other items	1.0
ACTUAL INCOME TAX BENEFIT/(EXPENSE) RECOGNIZED	**(14.4)**

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

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Deferred tax assets	16.8	21.6	24.0
Deferred tax liabilities	(4.7)	(3.1)	(2.1)
NET POSITION	**12.1**	**18.5**	**21.9**

Deferred tax movements during the six months to June 30, 2008 were as follows:

*In millions of euros**	June 30, 2008	Net income for the year	Other items	Translation adjustments	December 31, 2007
Employee benefit obligations	7.7	0.1	0.2	(0.2)	7.6
Provisions for restructuring	0.0	(0.2)			0.2
Depreciation of non-current assets	(14.8)	(0.5)		1.0	(15.3)
Tax-regulated provisions	(3.0)	0.3	(0.1)		(3.2)
Impact of tax losses	9.0	(7.3)		(0.2)	16.5
Impairment losses	0.1	(0.5)			0.6
Other	13.1	2.3	(0.3)	(1.0)	12.1
DEFERRED TAX ON THE BALANCE SHEET – NET POSITION	**12.1**	**(5.8)**	**(0.2)**	**(0.4)**	**18.5**

* *(- liability/+ asset).*

Deferred tax assets have been recognized on the basis of their recoverability. France, Germany and the US were the main tax jurisdictions concerned.

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

Note 21 EARNINGS PER SHARE

Basic and diluted earnings per share are presented below:

	June 30, 2008	December 31, 2007	June 30, 2007
Numerator: Net income used to compute basic earnings per share (net income for the period)	33.1	15.4	18.9
Denominator: Weighted average number of ordinary shares used to compute basic earnings per share	14,246,815	14,239,519	14,124,656
Adjustment for dilutive potential ordinary shares: - unexercised options	424,595	405,094	322,055
Weighted average number of ordinary shares used to compute diluted earnings per share	14,671,410	14,644,613	14,446,711
Basic earnings per share *(€)*	2.33	1.08	1.34
Diluted earnings per share *(€)*	2.26	1.05	1.31

Note 22 DIVIDENDS

A dividend of €0.85 per share was paid to shareholders in May 2007 in respect of fiscal 2006, representing an aggregate amount of €11.8 million.

A dividend of €0.85 per share was paid to shareholders in May 2008 in respect of fiscal 2007, representing an aggregate amount of €12.2 million.

Note 23 LEASES

1 - FINANCE LEASES

Carrying amount by asset category

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Buildings	0	0	0.1

2 - LEASES WHERE THE GROUP IS THE LESSEE (OPERATING LEASES)

Schedule of minimum payments

In millions of euros	Total at June 30, 2008	< one year	> one year	five years or more
Minimum payments	9.9	3.6	6.3	0.5

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 24 RELATIONS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES

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

Le Carbone Lorraine SA belongs to the Carbone Lorraine group, which encompasses 92 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 and associates amounted to €8.1 million in the first half of fiscal 2008, compared with €10.2 million in the first half of fiscal 2007.

In the first half of fiscal 2008, the management and administrative fees charged to unconsolidated subsidiaries by the Group (deducted from administrative costs) amounted to €0.1 million (€0.1 million in the first half of fiscal 2007).

The amounts receivable by the Group from its unconsolidated subsidiaries and associates came to €4.8 million at June 30, 2008, while amounts payable came to €0.3 million.

Shareholders' advances made to unconsolidated subsidiaries and associates by Le Carbone Lorraine SA amounted to €0.1 million at June 30, 2008 (vs. €0.1 million at June 30, 2007).

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

In millions of euros	June 30, 2008	June 30, 2007
Salaries, bonuses, benefits in kind and directors' fees	1.2	1.2
Top-up pension plan payments (1)	0.7	0.2
Other long-term employee benefits	0.0	0.0
TOTAL	**1.9**	**1.4**

(1) The members of the Executive Committee, including the Chairman and Chief Executive Officer qualify for top-up pension payments. At the Board of Directors' meeting on July 25, 2007, this regime was altered as follows:
Provided that the relevant person is still employed by the Group upon retirement, the regime guarantees top-up pension income of 10-20% of the basic reference salary depending on length of service during the final three years prior to retirement plus a flat-rate of 50% of the maximum bonus.
Actuarial obligations were measured at €5.2 million at June 30, 2008, compared with €5.0 million at December 31, 2007. An additional charge was recorded in relation to the retirement of member of the Executive Committee, who retired earlier than initially anticipated.

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

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

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

	2007 plan Tranche 11
Date of Board of Directors' meeting	July 25, 2007
Total number of options granted	75,000
Strike price	57.24
Start of exercise period	July 2011
Expiration date	July 2017

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

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

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

Note 25 COMMITMENTS AND CONTINGENCIES

A - FINANCIAL COMMITMENTS AND LIABILITIES

In millions of euros	June 30, 2008	December 31, 2007	June 30, 2007
Commitments received			
Guarantees and endorsements	0.1	0.3	0.3
Other commitments received	1.9	0.0	0.0
TOTAL	**2.0**	**0.3**	**0.3**
Commitments given			
Collateralized debts and commitments	0.3	0.3	0.3
Market guarantees and endorsements	13.8	10.6	9.9
Payment guarantees on acquisitions			
Other guarantees	43.5	43.7	62.1
Other commitments given	3.8	1.1	0.8
TOTAL	**61.4**	**55.7**	**73.1**

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

Nature

The largest item totaling €43.5 million relates to other guarantees, which include a €24.5 million guarantee (initially €43 million) given to the European Commission as a result of the fine handed down during 2003 by the European Commission in respect of which an appeal before the Court of First Instance of the European Communities is still being heard. This guarantee has enabled the Group to postpone payment of the fine for the duration of the appeal procedure. This line item also includes a guarantee of €16 million covering the maximum daily drawings by subsidiaries under the European cash pooling arrangements.

Maturity

Commitments and contingencies with a maturity of over 1 year amounted to €21.8 million. They include the €16 million linked to the cash pooling system, which remains in force for as long as the cash pooling agreements are in place. Market guarantees generally last for less than one year, except for a few market guarantees, the duration of which does not exceed three years. The €24.5 million guarantee given to the European Commission expires in December 2008. It may be extended with the consent of the guarantor banks depending on the date of the Court's ruling.

Internal control

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

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

B - TITLE RETENTION CLAUSE

None.

C - INDIVIDUAL RIGHT TO TRAINING

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

Note 26 SUBSEQUENT EVENTS

On July 3, 2008, Carbone Lorraine took a majority stake in Chinese company Zhejiang Mingrong Electrical Protection. This purchase took place through the Group's electrical protection subsidiary Ferraz Shawmut, and makes the Group China's leading player in fuses and fuse equipment.

On June 30, 2008, Carbone Lorraine obtained a \$350 million syndicated multi-currency loan with a maturity of 5 years, to replace the previous \$220 million syndicated loan taken out in December 2004 and maturing in December 2009.

Note 27 APPROVAL OF THE FINANCIAL STATEMENTS

The Group's interim consolidated financial statements for the six months ended June 30, 2008 were approved by the Board of Directors at its meeting on August 28, 2008.

4 Statutory auditors' report on financial reporting for the first half of 2008

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and with articles L.232-7 of the Code de Commerce and L.451-1-2 III of the Code Monétaire et Financier, we have:

- carried out a limited review of Le Carbone Lorraine S.A.'s summary consolidated financial statements for the six-month period from January 1, 2008 to June 30, 2008 as enclosed with this report;
- examined information provided in the interim activity report.

The Board of Directors was responsible for the preparation of these summary first-half consolidated financial statements.

Our responsibility is to express our conclusion on them based on our limited review.

1 CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our limited review in accordance with the prevailing standards of the profession in France. A limited review consists mainly of holding discussions with senior managers in charge of accounting and finance, and carrying out analysis work. This work is less extensive than that required by an audit according to the prevailing standards of the profession in France. As a result, a limited review provides a moderate level of assurance, i.e. a lower level of assurance than that provided by an audit, that the financial statements as a whole are free of material misstatement.

On the basis of our limited review, we have not seen any material misstatements that would make the summary interim consolidated financial statements non-compliant with IAS 34 (Interim financial reporting) as adopted by the European Union.

2 SPECIFIC VERIFICATION

We also examined comments contained in the interim activity report on the summary interim consolidated financial statements on which we carried out our limited review. We are satisfied that the information is fairly stated and agrees with the summary first-half consolidated financial statements.

Statutory Auditors

Paris La Défense, August 28, 2008

KPMG Audit
Department of KPMG S.A.

Jean-Paul Vellutini
Partner

Neuilly-sur-Seine, August 28, 2008

Deloitte & Associés

Alain Penanguer
Partner

5 Statement of the Officer

I certify that, to the best of my knowledge, these summary interim 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 attached interim business report presents a faithful picture of the major events that occurred during the six months of the interim period and their impact on the financial statements, the principal transactions between related parties, as well as a description of the principal risks and principal uncertainties concerning the remaining six months of the financial year.

Paris, October 13, 2008

Claude Cocozza

Chairman of the Board of Directors

Cover | SEQUOIA
Internal design and realisation | Labrador 00 33 1 53 06 30 80

Carbone Lorraine • Immeuble La Fayette • 2, place des Vosges
92400 Courbevoie La Défense 5