

# CARBONE LORRAINE

BUSINESS REVIEW 2005

*Dedicated Innovation, Dedicated Partner*



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## No 1 world leader

- Graphite anticorrosion equipment
- Brushes and brushholders for electric motors

## No 2 worldwide

- High-temperature applications of isostatic graphite
- Industrial fuses

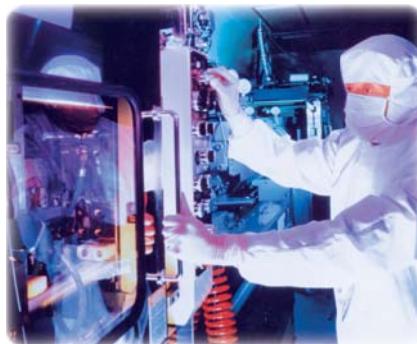
**PROFILE**

# Expertise and innovation

## Striving for industrial excellence

Carbone Lorraine's expertise is founded upon its proficiency in advanced technology materials and its research into pioneering solutions for industry. The Group was already innovating over a century ago, when it developed the industrial applications of carbon and graphite. It now excels in implementing cutting-edge solutions in highly demanding industrial environments and for critical electrical functions.

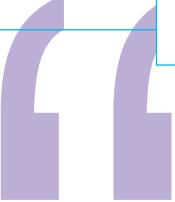
Carbone Lorraine ranks as world leader or number two worldwide in all its core businesses, which are organized into two segments:



- **Advanced Materials and Technologies**, which encompasses applications delivering highly advanced technical solutions based upon graphite and other performance materials for demanding environments to industrial companies;
- **Electrical Components**, which houses brushes and brushholders for electric motors, industrial fuses and other protection for motors and, more generally, electrical and electronic equipment.

## Close customer relationships right around the world

Alongside its technical expertise, Carbone Lorraine supports its customers wherever they are located and endeavors to provide them with the benefit of its knowledge in their businesses and to meet their requirements. Its close customer relationships enable the Group to innovate continuously, to develop new applications and to establish itself in new markets and technologies. Carbone Lorraine's high quality standards are a major factor helping to strengthen its market positions.



## “ CHAIRMAN’S MESSAGE ”

# 2005, a year of change

2005 was a good year in many respects.

We successfully restructured our production facilities, and the savings plan implemented since 2002 was a key factor driving the strong increase in our earnings. Operating income increased by 32% under IFRS excluding business sold or halted. The Electrical Protection division posted further evidence of recovery, with a strong increase in its margin. It now has production facilities that are optimized and attuned to demand in its markets around the world. The Advanced Materials and Technologies division posted a first-class performance.

The disposal of the Magnets division was completed successfully toward the end of the year thanks to the improvement in the unit's performance. For the Group, this deal results in a significant decrease in its exposure to automotive markets.

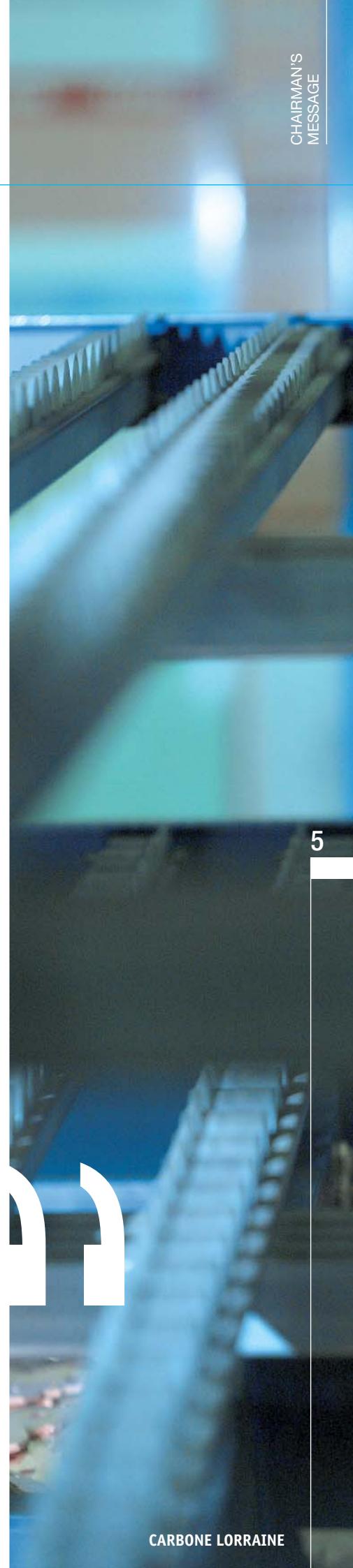
All in all, the Group has continued to make good progress, and the results posted in 2005 underpin our confidence in the future.

### Our strategy of profitable growth is in place

Our new expansion strategy built upon operational excellence and profitable growth is now being rolled out. The projects that will drive acceleration in our sales growth over the coming years were launched in 2005 and are progressing on schedule.

Production of the new CL Clad® material for anticorrosion equipment is due to start in the second half of 2006. Step by step, this project gives way to new applications with great potential. Initial sales of





the new Modulostar® fuseholder were recorded in 2005 under our brand name and those of two major European partners. Automated production is scheduled to commence during mid-2006. Lastly, the Chongqing graphite block plant in China is set to start supplying the local machining workshops from the first quarter of 2007 onwards. These three major projects will make a tangible contribution to sales in 2007 and are backed up by a whole host of growth initiatives across all our businesses.

## Our commitment to the Carbone Lorraine of the future

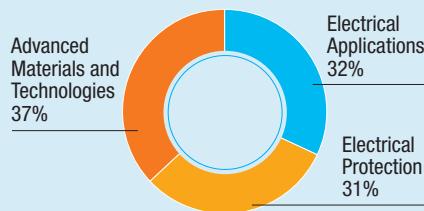
Aside from these specific projects, we are currently laying the foundations to sustain the Group's future growth. Our goal is to turn Carbone Lorraine into a growth company. To fulfill this objective, we need to change the way we go about our daily tasks. More specifically, we need to refine our understanding of our strategic environment, foster the generation of new ideas, stay in closer touch with our customers and understand their needs more rapidly. We are implementing resources to reach these goals, particularly by strengthening our sales and marketing and our research and development teams.

These are exciting prospects for Carbone Lorraine's management and employees and they will also create value for our shareholders.

Claude Cocozza  
Chairman and Chief Executive Officer

## KEY FIGURES

**2005 sales**  
Business segment analysis



**2005 sales**  
Geographical analysis



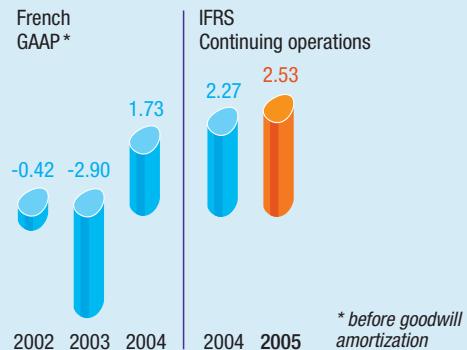
**Sales**



**Operating margin**



**Net income per share (euros)**



In 2005, EPS growth came to 11% even though the number of shares outstanding was significantly higher following the October 2004 capital increase.

**Debt-to-equity ratio**

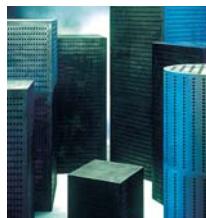


**ROCE**



The inclusion of non-recurring charges and certain financial costs in operating income, as well as the revaluation of certain land holdings in capital employed, accounts for the decline in ROCE under IFRS.

# Fundamentals guaranteeing future growth



*Graphite and electrical components have played a key part in Carbone Lorraine's history. They will also drive its future expansion. Graphite, an exceptional material particularly because it can withstand temperatures of up to 3,000 °C as well as most corrosives agents, will continue to be used in industry just as it has always been. The substantial increase in demand for electricity in emerging markets and in industrial electronics around the world represents the Group's other main avenue of expansion.*

An expert in delivering industrial solutions, Carbone Lorraine has devoted itself to the cutting-edge applications and developments constituting the markets of the future. Its intimate market knowledge and its clear insight into the needs of its customers facilitate further new developments, while its technical expertise and ability to innovate reinforce its technological leadership. All the Group's businesses share the same attentiveness to customer needs, quality and service. These values underpin the success of Carbone Lorraine's expansion efforts.

## Further ahead and faster

Carbone Lorraine's industrial and commercial success and its international dimension are indicative of the Group's vitality. Through cost-cutting and restructuring of its manufacturing facilities, it

has been able to optimize its production and boost its profitability. Its strategy of profitable growth is now backed up by a high-quality worldwide network providing local coverage and efficient production.

Carbone Lorraine is now moving up into a higher gear. The major projects launched in 2005 are injecting fresh growth momentum. The Group, which is always on the look-out for new types of demand from its customers, is working hard to transform these into new opportunities.

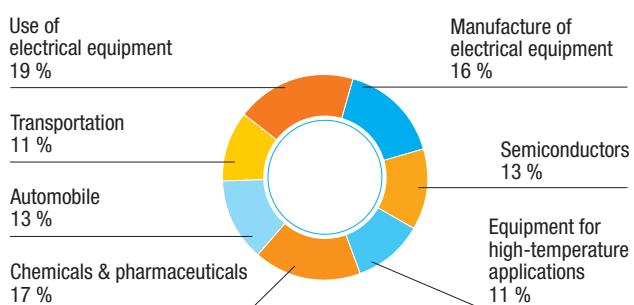
## Electrical Protection scoops a plethora of awards in the US

*Carbone Lorraine subsidiary Ferraz Shawmut, number two worldwide in industrial fuses, has further enhanced the quality of service it provides to its customers by raising its standards to the level required by the Oliver Wight checklist for operational excellence. In the US, it secured Class A certification during late 2005.*

*In addition, IMARK, one of the largest associations of US electrical distributors, awarded it several prizes in 2004 and 2005, which helped to raise its profile and boost its sales. Lastly, in February 2005, its SmartSpot™ fuse was voted «Product of the Year» in the Protection Devices category by the Electrical Construction & Maintenance magazine for its contribution to efficiency improvements and cost-cutting.*

### Solutions for diversified industries

#### 2005 sales by industrial application



*Original equipment accounts for 40% of sales and replacement demand for the remaining 60%.*

## Stepping up expansion

The Group's strategy reflects its more ambitious outlook. Geographical expansion, particularly in Asia, and its positioning in new technologies have established the Group in fast-expanding markets. Its emphasis on innovation and customer service are helping it to win additional market share.

# A fresh momentum during 2005

In 2005, Carbone Lorraine embarked upon its transformation into a growth company. This new dynamism flows from the new ventures set in motion and the Group's commercial success.

## Dedicated innovation, dedicated partner

Innovation has always been a driving force for Carbone Lorraine. It has enabled it to play an active role in the emergence of new markets requiring advanced technology and to bolster its positions against the competition in its more traditional major markets. It also allows Carbone Lorraine to contribute to the protection of the environment and, in particular, to make better use of energy.

### New technologies have the wind in their sails

The surge in oil prices has accelerated gains by renewable energies. And Carbone Lorraine is reaping the benefits thanks to the properties of graphite and synergies between its different businesses. The Group has developed key components for wind turbines and supplies purified graphite to make the silicon required for solar cells, a market set to grow at an average rate of 15% to 20% p.a. over the coming years.

8

### Fresh opportunities in Electrical Protection

*The leading electrical equipment manufacturers are focusing on their core business and outsourcing certain types of production.*

*The Electrical Protection division is using this as an opportunity to boost its sales and offer a new service to its international customers. By producing the new Modulostar® fuseholder both for itself and on their behalf, Carbone Lorraine provides them with the benefit of its state-of-the-art research and development capabilities and the low costs of its very large production runs. These additional production volumes help to increase further the Group's profitability.*

In electronics, ultra-pure graphite is essential for the manufacture of silicon chips. The Group is also joint world leader in fuses for semiconductors on very high-power equipment and has built an extensive range of coolers geared to the same power semiconductors.



### CL Clad®, a new material for new applications

*Tantalum for pharmaceutical reactors, zirconium for the nuclear power industry: as it develops, new expansion prospects are opening up for steel cladded with noble metals.*

*Commenting on the outlook, Ernest Totino, Group Vice President, Anticorrosion Equipment, stated: «Our approach to innovation is to focus entirely on market requirements.*

*CL Clad® is helping us to offer innovative solutions in new segments.*

*Our materials expertise, our in-depth knowledge of our markets and the commitment shown by our teams will ensure this plan is successful.»*



### Carbone Lorraine, a pioneer of new materials

To meet the technical requirements of chemicals and pharmaceuticals companies, Carbone Lorraine has designed and patented CL Clad®, a new material superseding glass-lined steel in reactors and substantially lowering customers' maintenance costs.

For the thermal insulation of high-temperature kilns, Carbone Lorraine has patented a new material based on flexible graphite offering a useful life four to five times longer than the carbon felt usually employed.

### Bringing together innovation and customer service

The Electrical Protection division's facilities now enable it to manufacture its products at extremely competitive cost prices both for itself and on behalf of major international partners. The launch of the new Modulostar® fuseholder illustrates this twin innovation capacity on the technical and customer service fronts.

# Asia, an avenue of expansion

Carbone Lorraine has had a presence in Asia for some time now and already derives 14% of its sales there. Its goal is to double its sales in the region by 2010. During 2005, the Group made encouraging progress towards this target, posting an increase of 28% excluding the Magnets division. To win new positions in the region, especially in China, the Group is strengthening its industrial and commercial presence there. Seven new workshops were added to its industrial base in the region during 2005. The green light given to the construction of a new graphite plant in Chongqing made 2005 something of a «Year of China» for Carbone Lorraine. The new facility will eventually have a capacity similar to that of the St Mary's plant in the US.

## Tremendous potential

New emerging markets in Asia: Carbone Lorraine is primed for action!

At Kunshan in China, production in the graphite block workshop for high-temperature applications started up during 2005.

In Shanghai, the graphite anticorrosion equipment workshop has already won a substantial share of the Chinese market and the noble metal workshop is ready to serve the burgeoning needs of the booming Chinese chemicals and pharmaceuticals industry. In Japan, the deal signed with Nippon Carbon in July 2005 will enable Nippon Carbon Lorraine to market an extensive range of graphite anticorrosion equipment, backed up by customer service now covering design to on-site maintenance.

## Local service

Carbone Lorraine's strength lies in offering throughout the world the best solutions to meet its customers' needs. Quality of service goes hand-in-hand with high-quality products. The QuickService® rapid

### A successful Franco-Chinese team in anticorrosion equipment

*The team responsible for marketing and producing anticorrosion equipment in China has been strengthened considerably over the past three years, with the strong increase in graphite equipment sales and the entry into service of the new workshop for noble metals equipment. Its mission statement is to build close customer relationships and to understand and embrace the local culture. Carbone Lorraine would not have been so clearly successful had it opted to sell into the Chinese market from abroad. Its European standard facilities help to enhance its image as a manufacturer focused on quality, methods and organization. When they visit Carbone Lorraine's offices and workshops, customers immediately notice the difference!*



repair and maintenance workshops for anticorrosion equipment in China and South Korea are a prime example of this approach.

In Electrical Protection, the Group's manufacturing facilities in India and China are perfectly suited to the technical characteristics of each region and help to meet the needs of equipment manufacturers and satisfy replacement demand from end users.

### Noteworthy positions in Asia



*An exclusive supplier of brakes for the South Korean high-speed train, Carbone Lorraine is also the market leader in high-temperature applications in South Korea, in anticorrosion equipment in China and Japan, in industrial fuses in Japan and in brushes for electric motors in India.*

*During 2005, seven new processing and finishing workshops were set up in Asia, comprising a graphite product machining workshop and a workshop for noble metal anticorrosion equipment in Shanghai, an anticorrosion equipment assembly workshop in India, two QuickService® workshops in China and South Korea, and two fuse workshops in China and India. All of them are now operational.*

# Advanced Materials and Technologies

*Carbone Lorraine is the world's second largest producer of isostatic graphite and boasts the most cost-effective manufacturing facilities. Business expansion during 2005 was linked to graphite production. Investment in increasing the capacity of the St Mary's plant (Pennsylvania) helped to keep pace with the growth in the US economy and to supply the machining workshops that opened up during 2005. From 2007 onwards, the ramp-up in the new Chongqing plant (China) will ultimately double the Group's graphite block manufacturing capacity and step up the pace of its growth even further.*

The Group is recognized for its excellence in the industrial applications of graphite. It is the world leader in graphite anticorrosion equipment and number two worldwide in high-temperature applications of isostatic graphite. These positions are built upon its close attention to customer needs. To meet them as effectively as it can, the Group innovates and is broadening its expertise to other materials, enabling it to move into new applications.

## Serving expanding industries

By shortening the design cycle, extending the useful life of its products, enhancing the quality of its services and cutting its customers' maintenance costs, Carbone Lorraine is successfully building up its positions.

In high-temperature applications of graphite, the development of renewable energies is providing the Group with a new avenue of expansion. In 2005, Carbone Lorraine supplied with graphite the first kilns in Europe for the production of silicon for solar cells.

The Group has also won market share in carbon-carbon composite kiln equipment. New applications of graphite, notably in the manufacture of body and military vehicle armor, contributed to the very strong sales growth recorded in the US. Glass manufacturing (bottles, fiberglass, optical fiber) is another key avenue of expansion for the division. Carbone Lorraine holds prominent positions in Europe and is actively contributing to the expansion of these industries in China.

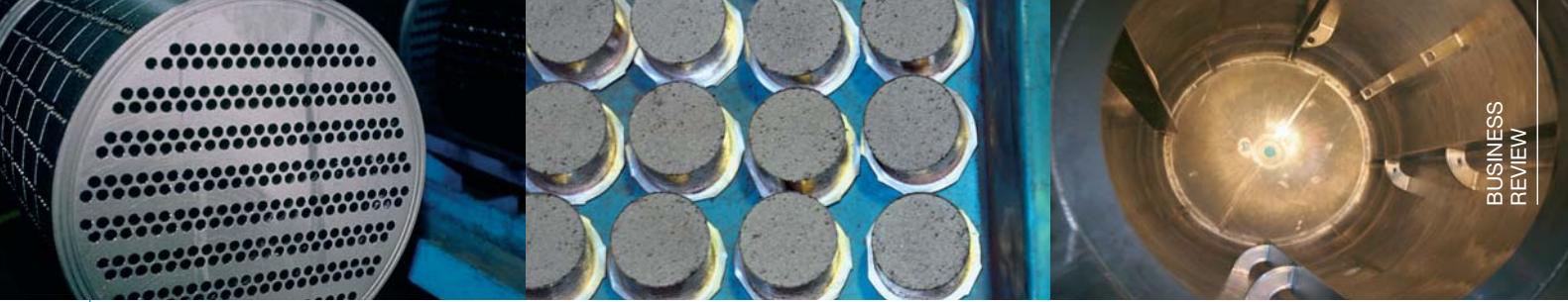
In braking, Carbone Lorraine has established strong positions in the high-speed train market thanks to its technological lead and its reputation for quality. It was another very good year for the rail braking segment. Two major locomotive equipment contracts were signed in Turkey, and brisk orders were recorded for the South Korean high-speed train project.

The early 2005 acquisition of the Astrad distribution unit in the biking segment (motorcycles and mountain bikes) helped to strengthen Carbone Lorraine's sales and marketing operations and will contribute to its future expansion. The outlook is specially bright in France and the US.



### Brakes on the winner's podium

*Following its participation in the 2002 French rally championship and a partnership with Peugeot Sport as part of the 2004 World Rally Championship, Carbone Lorraine has also supported the victorious Citroen team since the beginning of 2005. Sébastien Loeb, WRC champion in 2004 and 2005, drives using Carbone Lorraine equipment for dirt and asphalt racetracks. Carbone Lorraine has also started supplying other teams for the first 2006 WRC events.*



## Technological support and guidance

The main priority in anticorrosion equipment is to provide customers with support as they embrace new technologies and expand into new international markets. To complement the division's presence in Europe and North America, the division set up new units in Asia during 2005.

In addition, the new CL Clad® material will enable the Group to accelerate its sales in the pharmaceuticals market through the development of new products, such as reactors.

On the service front, an innovative offering of pre-assembled equipment facilitates rapid on-site assembly and connection. It rounds out the range of graphite equipment products in graphite, fluorinated polymers or noble metals, which has already earned itself a high reputation around the world. All these factors will pave the way for brisk expansion in the anticorrosion equipment business over the coming years.

### ISOLOR®, customer-driven innovation

To meet the thermal insulation needs of crystal growing furnaces in the electronics industry, Carbone Lorraine has patented a new flexible graphite-based material that is enabling it to establish positions in a new market segment. ISOLOR® is a particularly effective thermal insulator at 1,600 °C in non-oxidizing atmospheres.



Right across the Advanced Materials and Technologies division, the Group is endowing itself with the resources to seize fresh growth opportunities. Its strategy relies on a strong manufacturing base serving its three geographical regions –Europe, the Americas and Asia– and a focus on innovation.

### Chongqing, a production facility at the heart of the expansion in China

Situated at the confluence of the Jialing and Yang-Tse rivers, this metropolis of 30 million inhabitants was selected to host the Group's new isostatic graphite block manufacturing facility. It represents a cornerstone of Carbone Lorraine's expansion strategy.





# Electrical Components

Graphite was also initially responsible for Carbone Lorraine's positioning in electrical components. Its conductivity lay behind the development of applications for direct current electric motors (over a century ago!). Carbone Lorraine is now the world leader in brushes and brushholders for electric motors. This expertise in electricity naturally led the Group to move into other electrical components required by its major equipment manufacturing customers. Its fuses protect electric motors, as well as other electrical and electronic equipment in the industrial sector. They contribute both to general protection and to the safety of installations and thus to continuity of operations, a major concern for manufacturers. Success in electrical protection has driven the business forward, and it now ranks as number two worldwide in industrial fuses.

## Continuous improvement in Electrical Applications

In Electrical Applications of graphite, Carbone Lorraine's competitive advantage derives primarily from the service it provides to its customers. Its network of local workshops keeps it in close touch with its customers in all the world's main markets.

During 2005, business trends were affected by production cutbacks in the North American automotive industry. This said, margins were protected by firm performance in other industrial markets and a strategy of continuous improvement, which has led to steady gains in cost-effectiveness.

### Endurance records

While NASA's two Mars Rovers fitted with Carbone Lorraine brushes continue to explore the Red planet, back on Earth Carbone Lorraine's brushes are used in the electric motors of thousands of vacuum cleaners and have also set new records. In 300 hours of operation, they «travel» over 22,000km (half the circumference of our planet) along the collector.

On the innovation front, rings made from sintered materials have established Carbone Lorraine in a new technological niche where it can deliver products lasting two or three times as long as conventional products. Likewise, slip-ring assemblies for wind turbines are enabling the Group to benefit from the expansion in renewable energies, particularly in the US, while helping to lower customers' maintenance costs.

Since this business operates in longstanding markets, the dedication of its teams and the quality of customer service represent the key growth drivers. At a time when customers are scaling back their teams in the design and maintenance of electric motors, Carbone Lorraine is helping to meet their changing needs by bolstering the technical expertise of its sales force.

The Group's new manufacturing facilities in Asia will also enable it to benefit from expansion in the markets for small household appliances and handheld power tools. The ramp-up to full speed in the Kunshan workshop thus represents a genuine source of future expansion.

## Strategic alliance in mining equipment

*The agreement signed with P&H MinePro during 2005 to supply brushes and brushholders and the technical development of mining applications reflect the quality of Carbone Lorraine's customer service and its ability to innovate. The quality of the Group's products and technical support, its research and development capabilities and its presence worldwide were the key factors that won over the world leader in huge excavation equipment, including 130 tons buckets.*





## Local service in Electrical Protection

Following the completion of restructuring in North America and then Europe, the Group now has manufacturing facilities well suited to the needs of its international customers. Its footprint is perfectly balanced, enabling the Group to keep pace with its customers and serve their needs in each of their markets.

The restructuring plan completed in fuses during 2005 led to substantial efficiency gains, which, together with the increase in volumes, drove a significant improvement in the operating margin.

In North America, introductions of new products have ensured to Carbone Lorraine's sales and marketing activities a progress at a faster rate than the economy.

In Asia, investment posted a strong recovery in Japan, and the expansion in the Chinese and Indian economies showed further momentum.

Growth in Europe was driven primarily by further penetration of our markets, particularly through additions to sales teams, continuous improvement in the quality of service and strong product positioning.

The Electrical Protection division's growth dynamics are underpinned by the development of new types of fuses for semiconductors or high voltage systems, new fuseholders and also related products, i.e. coolers for electronic components, high-power isolating switches and current collectors for the rail industry.

Right across the Electrical Components segment, the Group has expanded its sales and development teams to continue boosting its ability to innovate.

### A new market opening up in Internet connections via the electricity grid

*Powerline communications technology, which makes it possible to transmit data across an electricity grid, will be used to deliver Internet access in isolated regions. This new technology harbors huge potential for the electrical protection business and for fuses in particular, because*

*the input current needs to be secured to protect both people and computers.*



### Modulostar®, a product range designed with consideration for environment

*Ferraz Shawmut implemented an ecodesign process to develop the new Modulostar® fuseholder. It takes into account all the environmental effects throughout the product's entire life cycle using EIME software, the benchmark in the industry. The result is an improvement in the product's environmental profile thanks to judicious component selection. The Electrical Protection division's first ecofriendly product is the result of new expertise and sophisticated knowledge that will enable it to meet this increasingly strong requirement from major customers.*



# Management focused on growth

*For several years, Carbone Lorraine's management teams have been working hard to complete the restructuring of the manufacturing base and to cut costs. Today, whilst maintaining a highly rigorous approach to the management of the manufacturing sites, the energies of all the Group's employees are now focused on expansion. The Group's strong international culture, together with the empowerment of each and every employee, provides an ideal environment for pursuing profitable growth. The Group's values –customer satisfaction, a human dimension, continuous skills development, entrepreneurial spirit, good business ethics, respect for the local culture, continuous improvement and innovation– are also used as a guide when assessing individual performance. The Group's Executive Committee, which initiated this change, is carefully overseeing developments.*

## Keys to success

Profitable growth must be underpinned by operational excellence geared to achieving customer satisfaction: serving each customer when they require it and to the requisite quality standards is one of the Group's permanent targets. To this end, all plants target a high service level. The Executive Committee assists plants and systematically controls service levels and progress made.

Expanding also means constantly enhancing the effectiveness of sales and marketing activities. A work group has been set up to define the most effective means of managing sales and marketing activities at Group level.

Likewise, another work group has been created to consider the development of new products and time-to-market. It has been charged with defining a specific project management method. These efficiency boosting measures will be implemented during 2006.

### "Growth Plus", a growth-oriented management program

*To progress more rapidly and effectively, specific management seminars are organized to select expansion ideas and to ensure that the projects adopted have sufficient human resources and financing to reach their targets on schedule.*

## Supporting development

Managers are responsible for driving their teams forward along a path to growth and for getting all employees to play their part in the Group's progress. Each division has set aside additional resources to strengthen the development and the sales and marketing teams. Specific training programs have been implemented to train senior managers in project management, industrial marketing and strategic marketing. Meetings to foster new expansion-oriented ideas have been introduced at all the Group's plants.

Lastly, a large proportion of bonus payments have been linked to the contribution made to growth since 2005.

All these initiatives will help Carbone Lorraine to focus its investment clout and its energies on high-potential markets.



## Members of the Board of Directors

Claude Coccozza,  
*Chairman and Chief Executive Officer*  
Jean-Pierre Capron\*  
Robert Chauprade\*  
Hervé Couffin

Jean-Paul Jacamon\*  
Jean-Claude Karpelès\*  
Ervin Rosenberg\*  
(replacing Lise Nobre)  
Walter Pizzaferri\*

\* Independent directors in 2005

## Executive Committee

Claude Coccozza,  
*Chairman and Chief Executive Officer*  
Jean-Claude Suquet,  
*Group Vice President,  
Finance and Administration*  
Marc Renart,  
*Group Vice President,  
Electrical Protection*  
Bernard Leduc,  
*Group Vice President,  
Human Resources and Quality and  
Continuous Improvement (QPC)*  
Ernest Totino,  
*Group Vice President,  
Anticorrosion Equipment*  
Luc Themelin,  
*Group Vice President,  
High-temperature Applications  
and Brakings*



## SUSTAINABLE DEVELOPMENT

# A responsible corporate citizen

*Carbone Lorraine's quality-oriented culture is encapsulated in its continuous improvement program that takes into account the needs of both individuals and the environment. It is the result of a determined effort by the Group, and all its employees are involved on a daily basis.*

## An exacting approach to safety and the environment

For Carbone Lorraine, safety standards and environmental protection are intimately related. They form an integral part of the quality and performance-oriented approach. Safety is an absolute priority right across the Group. The occupational accident rate declined for the tenth year in a row to an extremely low level. The Safety Committee is responsible for sharing best practices within the Group to reduce the incidence of occupational accidents further still. This continuous improvement approach involves systematic safety audits of new facilities and at all sites whose safety record is below the Group average. Safety is also taken into account when setting the bonuses of all managers, irrespective of their function, including those paid to the sales force, research engineers and administrative staff.

In this field, the Pagny-sur-Moselle plant is set to receive the European Carbon & Graphite Association's Safety Performance of Excellence Award. This award is given to the industrial plant with the best safety performance, i.e. with zero accidents causing leave to be taken in 2005.

### 10 years of NH fuse recycling

*On June 8, 2005, Ferraz Shawmut celebrated with its partners the 10<sup>th</sup> anniversary of NH/HH-Recycling, an association for the recycling of German fuses.*

## Housing for tsunami victims

*Carbone Lorraine, which has a strong presence in India, demonstrated solidarity with the populations affected by the December 2004 tidal wave by paying for the construction of new housing in Kollam (Kerala State) in southern India. The new houses are designed to withstand earthquakes and tidal waves. Carbone Lorraine India's employees took part in the initiative and offered a day's salary as a contribution to the reconstruction program.*



In most of the countries where the Group operates, plants and facilities are subject to highly demanding official environmental standards. Guidelines and inspections during specialized audits, as well as awareness-raising campaigns in the field, are implemented to manage waste and reduce all types of nuisance as effectively as possible. Emissions are processed at each stage of the production process, and noise reduction is obligatory for all the Group's plants. Ambitious new targets have been set for 2006. The Group's principal facilities have embarked upon the process of achieving ISO 14001 certification of their environmental credentials. Several plants have already been awarded OHSAS 18001 health and safety accreditation.

## A comprehensive view of risk

Risk management is an integral part of Carbone Lorraine's expansion strategy. Risks are identified and classified into the following categories: strategic, operational, financial or information-related. A Risk Committee plans ongoing initiatives to enhance risk control. During 2005, it updated the Group's risk mapping survey with the assistance of a team of specialized consultants. In addition, risk prevention and contingency plans were drawn up to minimize the risks related to the specialization of certain production facilities. Information system security was also given special attention to secure production processes and to protect data confidentiality.

### 5S prizewinners in 2005

*A total of 39 units took part in the 2005 Worldwide 5S Challenge, with 13 teams from Canada, Italy, Brazil, the US and France selected as finalists. The best 5S workshop/office awarded went to the graphite block machining workshop at the Pagny-sur-Moselle plant (France).*



### Concrete initiatives to improve working conditions

*As part of efforts to prevent occupational illness, specific measures were implemented to reduce the risk of repetitive strain injuries (RSI). At the relevant sites, a working group is responsible for analyzing workstations and proposing improvements, such as:*

- *how to avoid high-risk repetitive movements,*
- *increasing all-round skills, with operators moving between workstations requiring different movements,*
- *encouraging the development of employees' skill base, for instance by combining manufacturing and self-inspection.*

## Committed teams

Each year, the Worldwide 5S Challenge rewards initiatives aimed at raising performances. An excellent way of enhancing staff motivation, this exercise enables teams to get to know each other better, to appreciate each other's qualities and to take ownership of their workplace in pursuit of the common goal of customer satisfaction. The 5S method is based on sorting, tidiness, cleanliness, standardisation and maintenance. It slots perfectly into the structure of the Quality and Continuous Improvement (QPC) program implemented at Carbone Lorraine and aims to achieve excellence and permanent progress.

## CARBONE LORRAINE AND THE STOCK MARKET

# Share price performance

Continuing the trend that began in 2003, Carbone Lorraine's share price posted a strong rally during the first quarter and recorded its high for the year at €43.95 at the end of March. In early April, the share price began to decline following BNP Paribas' withdrawal. It started to head higher again at the beginning of November following publication of the Group's third-quarter sales, which backed up the prospect of strong earnings growth. The share price regained close to 25% in November and December to end the year at €38.60, i.e. stable compared with its level at the beginning of 2005.

## Technical details

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

### Greater liquidity

BNP Paribas, which had been a shareholder in Carbone Lorraine for ten years, sold its entire interest (21%) at the beginning of April 2005 as part of its strategy of disposing of its portfolio of minority investments. Since that date, the average trading volume increased considerably.

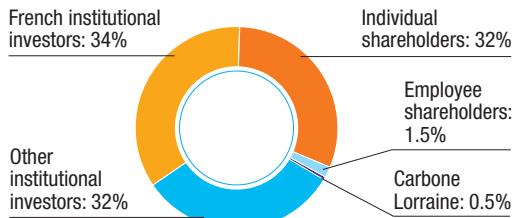
## Share price

At December 31, 2005: €38.60  
2005 high: €43.95  
2005 low: €31.20

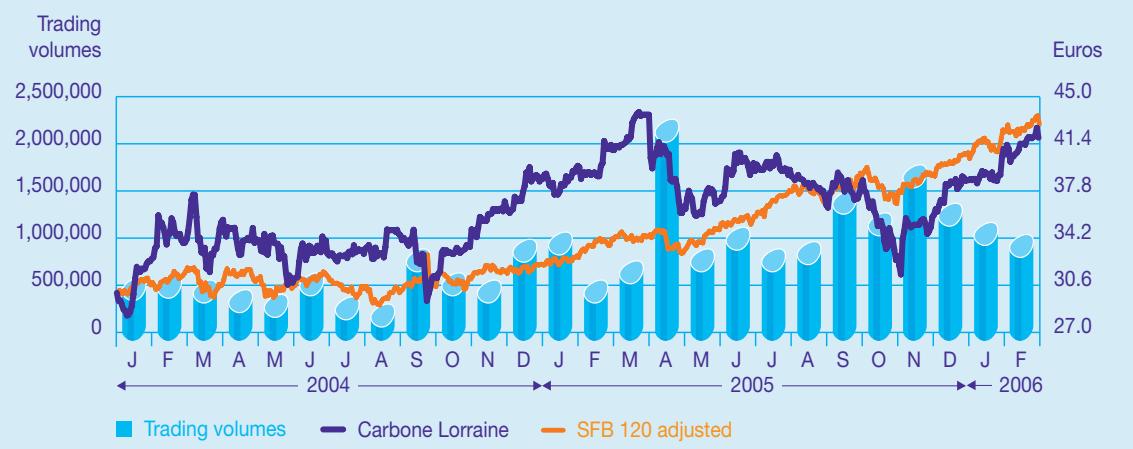
## Trading volumes

2005 average monthly trading volume: 1,105,351  
(2004 average monthly trading volume: 474,390)

### Ownership of the share capital at December 31, 2005



## Share price performance and trading volumes



# Dynamic investor relations

*Carbone Lorraine's management strives to meet the expectations and specific needs of each shareholder profile to give investors a better insight into the Group, its strategy, its business lines and its fundamentals.*

The Group's investor relations strategy relies on a regular program of information meetings and presentations, including:

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

## www.carbonelorraine.com lands the 2005 Boursoscan award

*Carbone Lorraine's web site won the Small and Mid Caps category, a prize awarded following the fifth nationwide survey of French individual investors' opinion of listed companies' web sites. The web site provides a valuable source of in-depth information about the Group's business activities. All the documents published and press releases issued by the Group are also available online. This reward reflected Carbone Lorraine's desire for transparency and the resources devoted by the Group to providing its shareholders and investors in general with high-quality financial information.*



## Key dates in 2006

### Sales reports

2005 full-year sales	February 1
First-quarter sales	May 10
Second-quarter sales	July 26
Third-quarter sales	October 25

### Earnings reports

Full-year 2005 results	March 15
Interim 2006 results	September 13

### Meetings for institutional investors

In Europe and North America	Throughout the year
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### Presentations for individual shareholders

Nancy	May 29
Marseille	June 6
Paris	October 13
Rennes	October 19

### Annual General Meeting

Paris	May 18
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### Technical seminar for investment analysts and journalists

Subject: The Electrical Protection	June 20
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## For further information:

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