



Report on the May 12, 2005 AGM

Paris, May 16, 2005

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Carbone Lorraine held its Annual General Meeting on May 12 in the presence of the Board of Directors.

During his review of the Group's 2004 results and its outlook, the Chairman emphasized the following points:

■ **Strong earnings growth and balance sheet strengthened in 2004**

During 2004, the 4% increase in Carbone Lorraine's sales on a like-for-like basis and the successful execution of the savings plan drove a 34% increase in operating income to €53 million.

In view of its positive net income of €15 million, the Group is paying out a dividend of €0.55 per share on May 26. The total dividend payment to shareholders works out at 50% of net income.

With a debt-to-equity ratio of 50% at year-end 2004, Carbone Lorraine can now afford to pursue its plans for organic and acquisition-led growth.

■ **Further improvement and launch of expansion plans during 2005**

Sales growth over the full year is likely to be on a par with 2004 (i.e. 3-4% excluding the Magnets division and at constant exchange rates). Operating income is set to post another strong increase of around 25%, barring a downturn in economic conditions.

The expansion plans, which prompted management to launch last October's capital increase, are currently being set in motion on schedule. They are expected to generate €150 million in additional sales over the next five years.

The customer-focused strategy of profitable growth is predicated on two priorities, i.e. geographical expansion, with Asia the key focus, and technological innovation.

The Chairmen of the Board of Directors' three specialized committees presented to shareholders the work they performed during 2004.

The Chairman then answered questions put by shareholders.

■ **Why have you launched the construction of a graphite production facility at Chongqing in central China?**

The entry into service of a graphite block manufacturing facility in late 2006 will ultimately double our production capacity. The graphite blocks will be tooled in a local workshop to be inaugurated shortly, enabling us to cut our already highly competitive production costs by a further 30-40%.

We selected Chongqing after weighing up on a competitive basis around ten Chinese cities based on establishment and operating costs, as well as the reliability of the power supply.

■ **Do you intend to focus your sales on international companies established in China or on Chinese companies?**

One fifth to one quarter of sales will be realized in China, with the remainder deriving primarily from exports to Japan, South Korea and India. In China, our customers will include both the types of companies you referred to. We are already very familiar with Chinese customers because we have been present in the Chinese market for 15 years.

■ **How are second-quarter business trends shaping up?**

During the first quarter, sales grew by 2% on a like-for-like basis and by 3% excluding the Magnets division. At the beginning of the second quarter, business remains healthy in Advanced Materials and Technologies, Electrical Protection and brushes for industrial motors. It is weaker in brushes for small electric motors in North America owing to the difficulties currently affecting US carmakers. This business contraction will hold back our sales performance slightly and our margins to an even lesser extent.

■ **What stage has the sale of the Magnets division reached?**

We have retained an investment bank and are currently preparing all the requisite documents. Next we have to contact potential buyers and give them time to carry out all the customary investigations for this type of transaction. It is a lengthy process, which should be completed by the end of the year.

■ **I was surprised by BNP-Paribas' sudden withdrawal. Couldn't the sale of its interest have been carried out more gradually?**

BNP-Paribas' exit was not a complete surprise since CEO Michel Pébereau announced his intention of selling all Paribas' industrial shareholdings by 2005 following the successful takeover bid. Granted, the sale depressed the Group's share price during April, but it would have done so for months had BNP-Paribas withdrawn gradually. Furthermore, nothing has changed with regard to the Group's fundamentals. I am very confident about that our earnings will post strong growth in 2005 and am very enthusiastic about our expansion plans. These various factors will eventually be reflected in our share price.

All the resolutions proposed to shareholders at the AGM were adopted, except for the resolution concerning issues of new shares without preferential subscription rights for shareholders.

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Carbone Lorraine is a worldwide specialist in advanced materials for extreme environments and in mission-critical electrical components for industry. The Group holds leadership positions in its core businesses:

- Advanced Materials and Technologies:
 - World #1 in graphite anti-corrosion equipment
 - World #2 in high-temperature applications of graphite
- Electrical Components:
 - World #1 in brushes for electric motors
 - World #2 in industrial fuses

The Group is listed on the Premier Marché of the Paris Stock Exchange and is a constituent of the CAC Mid100 and Next 150 indices.

For further information, please visit our web site at www.carbonelorraine.com.

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