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Fimalac
Shareholders' Newsletter

Chairman's Message

Dear Shareholder,

✦ Although the economic situation in France during 2003 was one of the worst for many years, FIMALAC performed better than expected thanks to a sharp improvement in operating results in the second half. Growth in consolidated operating income accelerated from 0.9% in the first half to 4% for the full year. The same trend was observed at the level of like-for-like **recurring income before tax, which climbed 10% in the first six months and 15.8% over the year.**

This good performance testifies to the Group's resilience in a lackluster economy, and it also reflects the greater-than-expected improvement in FIMALAC's financial position.

✦ All of our operating companies made a positive contribution to free cash flow, paving the way for a €160 million reduction in consolidated debt. The total corresponds mainly to the €115 million decrease at FITCH. However, FACOM also played its part, despite its earnings setback, repaying €44 million worth of debt in line with the target that we had set for the business.

This represents a critical achievement, testifying to our ability to react swiftly to changing circumstances and fulfill our commitments to shareholders.

All told, after taking into account the proceeds from our successful share issue and the various asset disposals carried out by the parent company, **consolidated net debt was cut by €317 million last year, representing a nearly one-third reduction.**

However, these good operating results were overshadowed by the effects of three unfavorable developments:

✦ Higher tax charge: Like-for-like recurring net income contracted 3.9% compared with 2002, due to a 48.4% increase in income tax.

✦ Fall in the dollar: FITCH, the largest contributor to our revenues and earnings, reports its results in dollars and the US currency's steep slide against the euro therefore inevitably impacted our Group's reported results.

✦ Losses at **FACOM**:
The hand tools business experienced an unprecedented drop in production output, especially in France, due to the unfavorable economic environment. The falloff in demand coincided with the entry in the European market of manufacturers from low-cost countries such as China, which is fast becoming the world's workshop. To take into account this new situation, which rapidly gained in magnitude during 2003, we decided to write off the unamortized FACOM TOOLS goodwill, in the amount of €248.7 million. As a result, our Tools Division incurred an historic loss of €306.1 million.
Our garage equipment business – BEISSBARTH – also recorded higher-than-expected asset write-downs following decisions to sell or close loss-making subsidiaries and rationalize product lines. Beissbarth ended the year with a net loss of €45.2 million.

✦ Due to these developments, our Group ended the year with a net loss of €329.7 million.

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✦ At the top of the list of achievements in 2003 is the **outstanding performance of FITCH**, which broke all its records with revenues up 23.1% like-for-like to €402.9 million and operating income up 40% like-for-like to €100 million.

Over the years, FITCH has steadily carved a position as our foremost business, in terms of both revenue growth and earnings contribution.

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✦ In 2003, thanks to **FITCH** and determined action to pay down debt, our NAV rose significantly despite the losses and asset write-downs in our FACOM division.
✦ During the year, we continued to pull out of businesses that do not contribute to free cash flow. We completed our withdrawal from ENGELHARD-CLAL (precious metals processing) and CLAL-MSX (non-precious metals processing), netting disposal proceeds of €60.5 million which were used to pay down debt. We also began looking for buyers for **LBC**'s chemical storage business. One Equity Partners LLC, the Bank One Corporation private equity fund, has made an irrevocable offer for our stake in LBC at a price of €243 million, corresponding to an enterprise value of €247.9 million for 100% of the business. The offer is subject to the usual regulatory approvals and the deal is expected to be closed before June 30 of this year.
✦ Reflecting last year's robust operating performance and the Board's confidence in our Group's outlook, at the Annual Shareholders' Meeting on June 8, **the Board intends to recommend paying a dividend per share of €0.95 (not including the tax credit), unchanged from the 2002 dividend.** Shareholders will be given the choice between receiving the dividend in cash or in stock.

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My fellow shareholders, after discussing, clearly and openly, all of the challenges of the past year, I'd now like to conclude this message with my priorities for 2004.

✦ **Complete the divestment of LBC before June 30, 2004.**
✦ **Improve FACOM's underlying profitability**:
The teams at FACOM are determined to make the company's products more competitive in the current environment. To turn the business around, action will be taken to boost sales momentum and cut costs across the entire organization, by driving down overheads, reviewing the organization of product distribution and manufacturing operations and also by working with suppliers to bring down purchasing costs.
✦ **Continue to expand and develop FITCH's business,** to leverage the outstanding growth potential offered by the rating market.
✦ On the financial front, the aim is to continue creating value for shareholders. **2004 should see a return to growth in like-for-like recurring income after tax.**

The positive fundamentals that were strengthened throughout 2003 have positioned FIMALAC to confidently pursue renewed growth in the future.

1 REVIEW OF SUBSIDIARIES

a FITCH RATINGS: an outstanding performance

After two very good years in 2001 and 2002, in both the United States and Europe, FITCH turned in an outstanding performance in 2003 with revenues at a record high.

The company enjoyed strong growth in almost all world markets and all segments of the rating business, led by Structured Finance where FITCH has built a solid position backed by an equally solid reputation.

In the United States, the CDO and CMBS markets expanded very rapidly throughout the year. FITCH also garnered substantial revenues in the public finance market.

In Europe, where the rating market is less mature, FITCH made solid advances in the Structured Finance segment, helped by strong demand for ratings of mortgage-backed securities, collateralized debt obligations and receivables-backed securities.

In 2003, FITCH also actively pursued its diversification into the credit risk management market through Fitch Risk Management (FRM).
FITCH ended the year with revenues of USD 455.5 million (€402.9 million) compared with USD 356.1 million (€378 million) in 2002. On a comparable structure and exchange rate basis, revenues grew by an exceptional 23.1%. Based on reported figures, after taking into account the effects of the weak dollar and British pound, the year-on-year increase was 6.6%.

Operating income rose at an even faster rate, to €100 million from €88.1 million. This represented an advance of 13.5% based on reported figures and 40% like-for-like.

b FACOM Group: a significant deterioration in results in a difficult economic environment

<u>FACOM TOOLS (hand tools)</u>

FACOM's hand tools business was faced with the twin challenges of falling sales and heightened competition, with the entry in the European market of manufacturers from low-cost countries such as China. This change in the competitive landscape significantly affected FACOM's position in the hand tools market, especially in France.

As a result, sales contracted to €412.3 million from €442.3 million, representing a decline of 6.8% on a reported basis and 4.7% like-for-like.

Despite measures to reduce overheads, operating income fell more sharply, to €17.3 million from €32.5 million, due to lower sales volumes.

FACOM TOOLS also incurred exceptional expenses of €40 million, corresponding mainly to write-downs of logistics assets in France.

<u>BEISSBARTH AUTOMOTIVE (garage equipment)</u>

Beissbarth, FACOMS' wholly-owned garage equipment subsidiary, reported sales of €156.6 million, virtually unchanged from the previous year's €157.2 million. On a comparable structure and exchange rate basis, the year-on-year change was an increase of 3.8%.

However, larger-than-expected write-downs were recorded on operating and non-operating assets, in connection with the rationalization of product lines. These charges weighed heavily on both operating income and exceptional expense for the year.

BEISSBARTH ended the year with an operating loss of €9 million, compared with a €5 million loss in 2002, and also incurred net exceptional expense of €31.1 million.

Despite the difficult environment and deteriorating results, FACOM TOOLS and BEISSBARTH both made headway in paying down debt.

At December 31, 2003, FACOM Group debt stood at €165 million versus €209 million one year earlier. The €44 million reduction was attributable to improved working capital management, with tight control over receivables and inventories.

In light OF FACOM TOOLS' disappointing performance, we reviewed the carrying value of our investment in FACOM. This review led to the decision to write off the unamortized balance of FACOM TOOLS goodwill in the amount of €248.7 million.

c CASSINA: a resilient performance in 2003, in a lackluster market

A world leader in high-end designer furniture, CASSINA posted sales of €122.9 million in 2003 compared with €134.8 million the previous year, representing a decline of 8.8% based on reported figures and 7.7% like-for-like.
This modest fall-off, which came on the back of several years of strong growth, took place against a backdrop of depressed activity in businesses associated with the luxury goods sector, testifying to CASSINA's strong resilience in its market, attributable to the brand's excellent reputation.
CASSINA reaped the benefits of its recent successful diversification into the high-end lighting market, while at the same time remaining one of the prestige brands in its core designer furniture business. In France, a new showroom was opened in Paris in October last year which should help to strengthen CASSINA's position in the French market.

Operating income came to €16 million compared with €19.1 million in 2002. The year-on-year decline was limited to 16%, thanks to determined action taken in the first half of the year to contain costs. Operating margin held up well at 13% of sales.

d LBC: lower revenues; planned divestment

As announced in September 2003, negotiations have been initiated for the sale of LBC. This business has been generating satisfactory profits for several years but consumes considerable amounts of cash, due to the investment needed to develop the business and maintain storage facilities. The decision to sell LBC has been made in order to focus resources on businesses that generate larger amounts of free cash flow.
We have received an irrevocable offer for our stake in LBC from One Equity Partners LLC, Bank One Corporation's private equity fund, at a price of €243 million, corresponding to an enterprise value of €247.9 million for 100% of the business. The offer is subject to the usual regulatory approvals.

The more difficult conditions in the chemicals industry in 2003 led to a 3.3% decline in throughput, affecting substantially all LBC storage facilities in both Europe and the United States. Reported revenues eased back to €122 million from €130 million. However, this was essentially due to the fall in the dollar – at constant exchange rates, revenues were more or less unchanged compared with 2002.

Operating income came to €23.4 million versus €30.8 million, representing a fall of 24% based on reported figures and €14.6% like-for-like. As expected, operating margin was weakened by higher insurance and personnel costs.

At December 31, 2003, net debt stood at €106 million compared with €112 million one year earlier.

2 PARENT COMPANY TRANSACTIONS

Share issue

FIMALAC carried out a €100 million share issue, for cash, between February 6 and 19, 2003. The issue was taken up in full. FIMALAC's principal shareholder, Groupe Marc de Lacharrière (representing the shareholders acting in concert) contributed €75 million and Clymene contributed €7 million. Shares taken up by the public and institutional shareholders amounted to around €18 million, representing over 50% of the actual free float.
Groupe Marc de Lacharrière and Clymene exercised their pre-emptive subscription rights over €100 million worth of shares, helping to limit total share issuance costs to €1.4 million.

Sales of treasury stock

Responding to strong demand among international institutional investors, FIMALAC sold all of the shares held in treasury stock, mainly in October 2003. The net proceeds from sales of treasury stock during the entire year amounted to €48.3 million.

Withdrawal from ENGELHARD-CLAL

In December 2003, FIMALAC completed its withdrawal from the ENGELHARD-CLAL joint-venture specialized in precious metals processing that was 49%-owned by the Group. The cash proceeds from the transaction totaled €50 million.

Divestment of CLAL-MSX

Also in December 2003, FIMALAC sold wholly-owned CLAL-MSX, specialized in non-precious metals processing. In 2003, CLAL-MSX had revenues of €41.5 million and operating income of €2.4 million, compared with €59.8 million and €3.3 million respectively in 2002.

3 IMPROVEMENT IN THE GROUP'S FINANCIAL POSITION IN 2003

One of the highlights of 2003 was the significant €317 million reduction in consolidated net debt to €661 million at December 31, 2003 from €978 million at end-2002.

Changes in net debt by company

In € millions	Dec. 31, 2002	Dec. 31, 2003	Decrease (+)/ Increase (–)
FITCH	-252	-137	+115
FACOM Group	-209	-165	+ 44
LBC	-112	-106	+ 6
CASSINA	- 16	- 21	- 5
Parent Company and other	-389	-232	+157
Net debt	**- 978**	**- 661**	**+ 317 7**

The reduction was achieved thanks to the higher free cash flow generated by the operating subsidiaries, especially FITCH but also FACOM, while FIMALAC used the proceeds from the share issue and the various asset disposals to pay down debt.

This reduction in debt represents one of the positive developments of the past year. The improved gearing gives the Group considerably more headroom, even before taking into account the effects of the LBC disposal currently underway.

4 KEY FIGURES

	€ millions	Year-on-year change Like-for-like	Year-on-year change Reported figures
Revenues	1259.6	+3.4%	-3.3%
Operating income	137.9	+4%	-13.2%
Recurring income before tax	91.1	+15.8%	-10.5%
Recurring net income	39.,7	-3.9%	-32.1%
Net loss	**(329.7)**	**n.m**	**n.m**

The weak dollar had a significant impact on reported results, due to FITCH's growing contribution.
On a like-for-like basis – excluding changes in structure and the currency effect – recurring income before tax increased year-on-year, reflecting the robust performance by FITCH and the positive impact on interest expense of the reduction in debt.
The net loss for the year was attributable to the exceptional charges related to FACOM.

5 DIVIDEND AND SHARE PERFORMANCE

Despite the losses related to FACOM, FIMALAC's NAV rose significantly in 2003, reflecting the Group's robust operating performance, led by FITCH.
The outlook for 2004 is good, giving us grounds for confidence.
At the Annual Shareholders' Meeting on June 8, 2004, the Board of Directors therefore intends to recommend matching the 2002 dividend of €0.95 per share (excluding the tax credit) in 2003.

Our shares performed satisfactorily in 2003. Shareholders who subscribed to the March 2003 share issue at a price of €19 have earned a very high yield. Based on the FIMALAC share price of €31.25 and the stock warrant price of €2.85 on February 27, 2004, taking into account the 2002 dividend of €1.425 including the tax credit, the gain stands at 87%.

6 FINANCIAL CALENDAR

June 8, 2004 — **Annual Shareholders' Meeting**
September 21, 2004 — **Interim results announcement**

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