



Energetic  
Materials



Industrial  
Explosives

# GROUPE SNPE

## ANNUAL REPORT 2006



Fine Chemicals



Speciality  
Chemicals

# **GROUPE SNPE**

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## **ANNUAL REPORT 2006**

# CORPORATE GOVERNANCE 2007

## EXECUTIVE COMMITTEE

**Jacques Zyss**

Chairman & CEO

**Michel Nicolas**

Executive Vice President, Strategy,  
Chemicals

**Jacques Cardin**

Executive Vice President, Strategy,  
Energetic Materials

**Edouard Braine**

Senior Vice President, External Relations, Public Affairs

**François Schwartz**

Senior Vice President, Finance & Legal

**Marc Stéphane**

Senior Vice President, Human Resources

**Jean-Marcel Dupont**

Senior Vice President, Industrial Affairs

## FUNCTIONAL DIRECTORS

**Rear Admiral Dominique Fouché**

Defense Advisor

**Serge Moralès**

General Inspection

**Nadia Nuvion**

Communications Vice President

## PRIMARY SUBSIDIARIES

### SNPE MATERIAUX ENERGETIQUES

**Jacques Zyss**

Chairman and CEO

**Hervé Austruy**

Chief Operating Officer

### BERGERAC NC

**Lionel Brunet**

Chairman and CEO

### ISOCHEM

**Thierry Malfroot**

Chairman and CEO

### NOBEL EXPLOSIFS FRANCE

**Daniel Surroca**

Chairman and CEO

## OPERATIONAL DIRECTORS

**Lionel Brunet**

Speciality Chemicals

**Jacques Cardin**

Explosives & Propellants

**Gilles Fonblanc**

Propulsion

**Michel Le Mout**

Redeployment & Services

**Thierry Malfroot**

Fine Chemicals

**David Quancard**

Tactical Propulsion

**Daniel Surroca**

Industrial Explosives

**Pierre Vignando**

Materials & Pyrotecs

## BOARD OF DIRECTORS AT DECEMBER 31, 2006

### **Chairman & CEO**

Jacques Zyss

### **STATE REPRESENTATIVES**

#### **Ministry of Defense**

Christophe Burg  
*Deputy Director of European  
Cooperation and Development*

Pierre Moschetti  
*Ingénieur en Chef de l'Armement*

#### **Ministry of the Economy, Finance and Industry**

François Auvigne  
*Inspector General of Finance,  
Inspectorate General of Finance*

Jean-Yves Leclercq  
*Director of Investments,  
Agence des Participations de l'Etat*

Gérard Mathieu  
*Deputy Director, General Enterprise directorate*

### **OTHER REPRESENTATIVES**

Pierre Béтин

Jean-Claude Buono  
*Executive Vice President, Air Liquide*

Dominique Damon  
*Chairman and CEO, MORGAN*

Alain Delpuech  
*Director of Military Applications, CEA*

Arsène Schun

### **EMPLOYEE REPRESENTATIVES**

Michel Blanchet  
Jany Gardais  
Gilles Glad  
Jerzy Linca  
Marie-Hélène Tallet  
Claude Trinca

#### **Secretary to the Central Works Council**

Christophe Annereau

#### **Secretary to the Board of Directors**

François Schwartz

#### **Government Commissioner**

Yves Jourdan  
*General Controller of the Armed Forces on  
Special Assignment – Ministry of Defense*

#### **State Auditors**

Anne Cazala  
*State Controller*

Jean-Pierre Morelle  
*Head of Oil, Chemicals and Geological  
Research Mission*

#### **Statutory Auditors**

ERNST & YOUNG et AUTRES  
MAZARS

# GROUPE SNPE ORGANIZATION, 2006

The Group is organized in four unified branches by market segment, divided into specialized subsidiaries. Its core business is the design and manufacture of energetic materials. GROUPE SNPE is the only European company to operate a dedicated energetic materials research center. Its business is underpinned by an ongoing focus on both industrial safety and environmental protection.

## ■ Energetic materials

**SNPE Matériaux Énergétiques** manufactures propellant grains and energetic subsystems for the defense, aerospace and automotive industries, as well as explosives and propellants for military applications, and the fuel additive 2-EHN (ethyl hexyl nitrate). Its expertise in energetic materials, unrivaled in Europe, is anchored in its Le Bouchet Research Center, coupled with in-depth knowledge of safety and environmental protection.

SNPE Matériaux Énergétiques has four business units:

- SNPE Propulsion is specialized in solid propellants for strategic missiles and launch vehicles;
- SNPE Materials & Pyrotecs designs, develops and produces gas generators for airbags, intermediates for composite materials and energetic subsystems;
- EURENCO, a joint venture between SNPE Matériaux Énergétiques, Saab and Patria, produces energetic products for missile warheads and pyrotechnic devices for military applications;
- ROXEL, a joint venture between SNPE Matériaux Énergétiques and MBDA, is the leading European manufacturer of tactical missile rocket motors.

## ■ Industrial explosives

**NOBEL EXPLOSIFS France (NEF)** is the leading supplier of industrial explosives (for mines, quarries, construction, urban renewal, etc.) in France and Belgium. NEF deploys leading-edge chemicals expertise to design and manufacture products such as cartridge-loaded explosive emulsions, marketed through a network of 14 distribution warehouses to ensure local support for all quarry and public works customers. NEF takes an active role in urban renewal operations involving the explosive demolition of apartment buildings, industrial buildings and other structures. Its engineers and technicians are involved in developing explosive operations and shot plans, provide technical assistance for companies, and handle quality and shot control in most of these operations in urban environments.

In addition to offering explosives and shot accessories, NEF provides a complete range of services based on drilling-mining, through its specialized branches: FOREMINE in France and CEFOR CETRAMIN in Belgium.

The top priority at NOBEL EXPLOSIFS France is the continuous control of the safety and environmental impact of its activities.

## ■ Fine chemicals

Operating in the fine chemicals market, **ISOCHEM** is a specialist in complex synthesis processes. It offers a large number of organic synthesis reactions and provides proven expertise in reactions at very low temperatures, as well as nitration, phosgenation and hydrogenation.

ISOCHEM offers the exclusive customized manufacture of innovative molecules for customers in all of its markets, under strictly confidential conditions.

In the health market, ISOCHEM is a major player in amino acids chemistry and multi-stage synthesis processes. In addition, its NeoMPS unit offers cGMP-certified production of peptides in liquid or solid phase.

For the plant protection market, ISOCHEM produces various intermediates and active ingredients.

ISOCHEM also offers a range of synthesis intermediates for the cosmetics, photography, electronics and other industries.

In addition, ISOCHEM makes monomethyl hydrazine (MMH) for the space industry.

## ■ Speciality chemicals

**BERGERAC NC** produces industrial nitrocellulose, which is primarily used in the ink, paint and varnish markets, and offers dedicated products for all of these markets. Its production plant is located in Bergerac, southwest France.

BERGERAC NC is a shareholder in the China NitroCellulose Corporation (CNC), which manufactures and markets industrial nitrocellulose in the Asia-Pacific region.

With production units in Europe and Asia, plus a distribution network covering over 50 countries worldwide, BERGERAC NC provides local support to meet each customer's specific requirements.

BERGERAC NC also distributes energetic nitrocellulose made by MANUCO, a subsidiary jointly owned with the Spanish company MAXAM. This nitrocellulose is used in explosives and propellants for both civil and military applications.

Another subsidiary, DURLIN France, specialized in nail polish, builds its expertise on cutting-edge research. DURLIN France offers a wide range of products that meet the specific needs of the cosmetics industry.

# SUBSIDIARIES, 2006

## ENERGETIC MATERIALS

### SNPE MATERIAUX ENERGETIQUES

12, Quai Henri IV  
75004 PARIS - FRANCE  
Tel. + 33 (0) 1 48 04 68 92  
SNPE stake: 100%  
Share capital: €159,000,000  
Activities: Design, development, production and sale of products and services related to energetic materials, safety and the environment.

### EURENCO France

12, Quai Henri IV  
75004 PARIS - FRANCE  
Tel. + 33 (0) 1 49 96 74 00  
SNPE stake: 60.2%  
Share capital: €31,605,000  
Activities: Design, development, production and sale of propellants, explosives and combustible items for civil and military applications.

### PB CLERMONT

176, rue de Clermont  
4480 ENGIS - BELGIUM  
Tel. + 32 42 73 82 82  
SNPE stake: 60.2%  
Share capital: €5,000,000  
Activities: Production and sale of spherical powders and combustible cartridge cases for civil and military applications.

### EURENCO Vihtavuori

FIN - 41330 Vihtavuori  
FINLAND  
Tel. + 358 14 377 9211  
SNPE stake: 60.2%  
Share capital: €2,691,000  
Activities: Production and sale of propellants and ignition powders for munitions, and associated raw materials.

### EURENCO Bofors

SE - 691 86 Karlskoga  
SWEDEN  
Tel. + 46 586 830 50  
SNPE stake: 60.2%  
Share capital: SEK25,000,000  
Activities: Production and sale of propellants, explosives and formulations, as well as new energetic molecules for civil and military applications.

### PYROALLIANCE

139, route de Verneuil  
BP 20 52  
78132 LES MUREAUX cedex - FRANCE  
Tel. + 33 (0) 1 34 92 44 44  
SNPE stake: 85%  
Share capital: €4,779,392  
Activities: Design and production of pyrotechnic devices for military, space, industrial and offshore applications.

### REGULUS

Centre Spatial Guyanais  
BP 73  
97372 KOUROU cedex  
FRENCH GUIANA  
Tel. + 33 (0) 594 33 15 00  
SNPE stake: 40%  
Share capital: €640,000  
Activities: Development and production of Ariane 5 booster segments in French Guiana.

### STRUCTIL

18, rue Lavoisier  
BP 10  
91710 VERT-LE-PETIT - FRANCE  
Tel. + 33 (0) 1 69 90 89 89  
SNPE stake: 80%  
Share capital: €3,106,950  
Activities: Production and sale of composite materials and structural adhesives for aeronautics, sports and industry.

### G2P

Parc Kennedy, Bât. E  
3, avenue Henri Becquerel  
33700 MERIGNAC - FRANCE  
Tel. + 33 (0) 5 57 92 26 60  
SNPE stake: 25%  
Consortium, no share capital  
Activities: Represents Snecma and SNPE Matériaux Energétiques for the supply of large rocket motors.

### ROXEL France

Centre d'Affaires "La Boursidière"  
Immeuble Jura  
92357 LE PLESSIS-ROBINSON  
FRANCE  
Tel. +33 (0) 1 41 07 82 82  
SNPE stake: 50%  
Share capital: €34,837,500  
Activities: Development and sale of propulsion systems for all types of rockets and missiles, including tactical and cruise missiles.

### ROXEL UK

Kidderminster  
DY 11 7RZ - Worcestershire  
SUMMERFIELD  
UNITED KINGDOM  
SNPE stake: 50%  
Share capital: £8,000,000  
Activities: Development and sale of propulsion systems for all types of rockets and missiles, including tactical and cruise missiles.

## INDUSTRIAL EXPLOSIVES

### NOBEL EXPLOSIFS France - NEF

12, Quai Henri IV  
75004 PARIS - FRANCE  
Tel. + 33 (0) 1 49 96 70 00  
SNPE stake: 100%  
Share capital: €5,299,470  
Activities: Production and sale of industrial explosives.

### NOBEL EXPLOSIFS Belgique - NEB

Rue de Namur, 510  
B-6200 CHATELET - BELGIUM  
Tel. + 32 71 24 37 40  
SNPE stake: 100%  
Share capital: €2,479,000  
Activities: Production and sale of industrial explosives.

## FINE CHEMICALS

### ISOHEM

12, quai Henri IV  
75194 PARIS cedex 04 - FRANCE  
Tel. + 33 (0) 1 49 96 72 00  
SNPE stake: 100%  
Share capital: €43,117,740  
Activities: Production and sale of fine chemicals products.

### NeoMPS

7, rue de Boulogne  
67100 STRASBOURG - FRANCE  
Tel. + 33 (0) 3 88 79 08 79  
SNPE stake: 99.3%  
Share capital: €3,000,000  
Activities: Research, development, production and sale of peptides and derivatives.

**NeoMPS, Inc.**

9395 Cabot Drive  
SAN DIEGO  
CA 92126 – 1122 USA  
Tel. + 1 858 408 08 08  
SNPE stake: 99.3%  
Share capital: \$ US 10,000  
Activities: Research, development,  
production and sale of peptides and  
derivatives.

**ISOCHEM, Inc.**

One North Transit Road – LOCKPORT  
NY 14094 – USA  
Tel. + 1 716 433 6764  
SNPE stake: 100%  
Share capital: \$ US 49,800,000  
Activities: Production of phosgene and  
derivatives.

**FRAMOICHEM**

H 3701 KAZINCBARCIKA  
PF 504 – HUNGARY  
Tel. + 36 48 311 991  
SNPE stake: 100%  
Share capital: Forints 546,830,000  
Activities: Production and sale of  
phosgene and derivatives.

**ISOCHEM UK Limited**

Curzon House  
1 st Floor, 024 Hight Street  
Banstead - Surrey SM7 2LJ  
UK  
Tel. + 44 1737 37 36 33  
SNPE stake: 100%  
Share capital: £ 50,000  
Activities: Marketing and sale of  
GROUPE SNPE products.

**ISOCHEM DEUTSCHLAND GmbH**

Frankfurter Strasse 71  
63067 - OFFENBACH  
GERMANY  
Tel. + 49 69 314 09 00  
SNPE stake: 100%  
Share capital: € 51,129.19  
Activities: Marketing and sale of  
GROUPE SNPE products.

**ISOCHEM NORTH AMERICA**

101 College Road East – 3rd floor  
PRINCETON – NJ 08540  
USA  
Tel. + 1 609 987 94 24  
SNPE stake: 100%  
Share capital: \$ US 500,000  
Activities: Marketing and sale of  
GROUPE SNPE products.

**SPECIALITY  
CHEMICALS****BERGERAC NC**

Boulevard Charles-Garaud  
BP 814  
24108 BERGERAC Cedex – FRANCE  
Tel. + 33 (0) 5 53 63 63 63  
SNPE stake: 100%  
Share capital: € 29,983,452  
Activities: Production and sale of  
nitrocellulose.

**SNPE ITALIA**

Via Trebazio, 4  
20145 MILAN – ITALY  
Tel. + 39 0 248 193 670  
SNPE stake: 100%  
Share capital: € 517,000  
Activities: Distribution of chemical  
products and nitrocellulose.

**CNC**

Unit 1206, 12/F  
Clifford Centre  
778-782 Cheung Sha Wan Road  
KOWLOON - HONG KONG  
Tel. + 852 27 11 35 88  
SNPE stake: 50%  
Share capital: \$ US 15,200,000  
Activities: Distribution of  
nitrocellulose and derivatives,  
in particular in Asia.

**DURLIN France**

Boulevard Charles Garaud  
BP 814  
24108 BERGERAC Cedex - FRANCE  
Tel. + 33 (0) 5 53 63 62 21  
SNPE stake: 100%  
Share capital: \$ US 2,000,000  
Activities: Manufacture, sale and distri-  
bution of cosmetics.

**MANUCO**

Boulevard Charles Garaud  
24100 BERGERAC - FRANCE  
Tel. + 33 (0) 5 53 63 63 63  
SNPE stake: 50%  
Share capital: \$ US 1,037,000  
Activities: production of energetic  
nitrocellulose.

**SNPE JAPAN**

Onarimon Yusen Building, 12 F  
3-23-5 Nishi Shinbashi – Minato Ku  
TOKYO 105 0003 – JAPAN  
Tel. + 81 (0) 33 433 28 80  
SNPE stake: 100%  
Share capital: ¥ 140,000,000  
Activities: Marketing and sale of  
GROUPE SNPE products.

# 2006 FINANCIAL REVIEW



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*This report was translated from the French and is for information purposes only.*

# FINANCIAL AND OPERATING HIGHLIGHTS

(millions of euros)	2006	2005
<b>SALES</b>		
- Sales	720.4	778.7
- France	315.6	331.3
- International	404.8	447.4
- Energetic materials	334.9	321.7
- Industrial explosives	56.7	46.4
- Explosive-cladding*	30.8	64.3
- Fine chemicals	192.3	208.6
- Speciality chemicals	102.7	136.2
- Other activities	3.0	1.5
<b>OPERATIONS</b>		
<b>Production</b>	<b>732.0</b>	<b>770.2</b>
Added value	281.3	288.4
Gross operating margin	16.2	10.9
Operating income	5.9	(13.4)
<b>Pretax income on operations</b>	<b>(8.4)</b>	<b>(24.5)</b>
- Energetic materials	(0.5)	(6.8)
- Industrial explosives	7.8	7.6
- Explosive-cladding*	10.5	12.6
- Fine chemicals	(6.8)	(17.9)
- Speciality chemicals	(5.5)	(8.5)
- Other activities	(13.9)	(11.5)
Extraordinary earnings (loss)	116.4	(75.9)
Net income (loss) before taxes	97.0	(97.8)
Net income (loss), Group share	35.6	(96.7)
Cash flow	(55.5)	(5.5)
<b>INVESTMENTS</b>		
Capital expenditures	46.8	48.5
Financial investments	3.3	4.8
Research & development expenditures	80.9	94.6
<b>BALANCE SHEET STRUCTURE</b>		
Shareholders' equity (Group share)	171.4	145.9
Net debt	288	428
<b>EMPLOYEES</b>	<b>4,296</b>	<b>4,719</b>

\* consolidated until May 15, 2006

# 2006 FINANCIAL REVIEW

10 Management Report of the Board of Directors to the Annual General Meeting

# MANAGEMENT REPORT OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

Ladies and Gentlemen,

In accordance with French law and SNPE's bylaws, we have convened the Annual General Meeting of Shareholders to report on the management of your Company and GROUPE SNPE and to submit for your approval the financial statements for the year ended December 31, 2006, as well as the resolutions proposed by the Board of Directors.

You will also hear reports by the Statutory Auditors.

## I 2006 HIGHLIGHTS

The Group posted a significant recovery in operating performance in 2006, returning to an operating profit. Furthermore, structural operations carried out during the year generated high extraordinary income, so that the Group's share of net income was 36 million euros.

SNPE's ratings in the treasury notes market for its 300 million euro program were renewed: Moody's Investors Service gave SNPE a "Prime-1" rating, while Standard & Poor's gave an "A-1" short-term rating.

The structural operations during the year were as follows.

GROUPE SNPE sold all of its majority stake in Dynamic Materials Corporation, Inc. (DMC), through a public placement operation on May 15, 2006. Through its American holding company SNPE Inc., the Group held a majority stake in DMC, a company listed in New York, holding 100% of Nobelclad Europe (France) and NitroMetall (Sweden). This group of companies formed the Group's Explosive-cladding branch, which was consolidated until that date.

The share offering price was set at \$35 per share, representing a sale price of \$207 million for SNPE Inc. The Group had acquired this stake in 2000 for an overall cost of \$8 million. The impact of this divestment on the consolidated financial statements is therefore a capital gain net of taxes of 79.7 million euros.

GROUPE SNPE, also via SNPE Inc., sold Tevco Inc., its American subsidiary specialized in nail polishes, to a group of investors including a financial investor and the local management team. This operation did not have a significant impact on the consolidated financial statements. The subsidiary is consolidated until the end of July 2006.

Five years after the AZF explosion in Toulouse, GROUPE SNPE continues to be impacted by the consequences of this accident, and is continuing to restructure its Fine chemicals business.

In line with the transactional agreement signed by SNPE and the French State in April 2003, concerning the prohibition of exercising activities involving phosgene on the Toulouse site, which provides for a payment of 300 million euros between February 2004 and February 2007, the French State made a 75 million euro payment in 2004, in 2005 and then in March 2006; 5 million euros of the latter payment was used for a partial repayment of the advance payment of 80 million euros to finance the workforce restructuring plan. The cumulated amount received at December 31, 2006 is 300 million euros, including the advance paid in 2003 to finance the workforce restructuring plan.

In 2004, GROUPE SNPE filed suit against the company Grande Paroisse in the Toulouse commercial court to claim compensation for damages not covered by insurance. In 2005, the amount claimed was revised to 460 million euros, to receive compensation for all damages.

Furthermore, on September 28, 2004, Bayer CropScience filed suit against Grande Paroisse, claiming 187.5 million euros in damages due to the halt in SNPE shipments following the explosion on September 21, 2001. Grande Paroisse summoned SNPE as guarantor.

These two suits were combined and tried together on December 5, 2005.

The judgment rendered on April 13, 2006 denied the claims by SNPE and Bayer CropScience. SNPE appealed this decision on May 15, 2006, as did Bayer CropScience.

Furthermore, the final assessment report submitted in May 2006 by the experts concluded that there was a chemical accident in the AZF plant belonging to the company Grande Paroisse, which therefore excludes SNPE from any responsibility for the accident of September 21, 2001.

As of December 31, 2006, the balance to be paid for insurance contracts covering damages and operating losses remained unchanged, at 19 million euros.

ISOCHEM SA presented a reorganization plan in early 2006 to the Central Works Council, concerning its headquarters and its Le Bouchet, Pithiviers and Vert-le-Petit facilities. The aim of this project, involving the elimination of 58 jobs, is to reduce structural costs at headquarters, the Pithiviers plant and R&D operations, to restore the company's margins.

Within the scope of this project, ISOCHEM's pilot research center at Le Bouchet was transferred to Vert-le-Petit and modernized for an investment of 1.9 million euros. The Le Bouchet R&D teams were relocated to different industrial sites in the Paris area, in particular Vert-le-Petit, which is near the Le Bouchet Research Center.

Through this reorganization ISOICHEM SA adapted its production resources and R&D capacity to demand, and to standards in the fine chemicals sector.

An extraordinary expense of 4.8 million euros for this reorganization was recorded in 2006.

In 2006 the Group launched a study designed to explore different strategic opportunities concerning the future of its Fine chemicals business. The study was redirected in early 2007 to reflect a more restricted scope of business.

Following the project by the greater Toulouse area to construct a parking lot on the SNPE Tolochimie site in Toulouse, a design study was submitted to the Regional Industry, Research and Environment Directorate (DRIRE) in the second half of 2006. The company Antéa evaluated the cost of pollution clean-up in early 2007, based on projections for future use of the land. The provision was therefore reduced to 10 million euros after recovery of the non-used sum of 6.8 million euros.

The first firing test in the M51 development program was a success. The missile was launched in November 2006 from the Biscarosse site of the Missile Launch and Test Center (CELM). This successful test launch was a critical program milestone for SNPE Matériaux Energétiques, PyroAlliance and ROXEL, and a clear demonstration of the Group's technical and industrial expertise.

A successful clinical trial has validated the technology used in the needle-free injection device (DISA); Crossject is therefore launching production engineering for this process, which requires new financial aid. The following operations were carried out in August 2006:

- discharging losses by a capital reduction;
- capital increase to provide 6 million euros in new funding, including 1 million euros from GROUPE SNPE;
- issuance of convertible bonds subscribed by Sofigexi, the French holding company of GROUPE SNPE.

GROUPE SNPE therefore retains a 16% stake in Crossject, which would increase to 19% if the bonds are converted.

SNPE signed a Memorandum of Understanding with Crossject to spread out the latter's payments to the Group.

A fire broke out on June 15, 2006 in a dehydration press at BERGERAC NC, and was brought under control using internal and external emergency systems. Nobody was hurt and there was no release of toxic gas. However, production at the plant was disturbed during the following weeks.

A letter of interest was signed in November 2006 with a potential acquirer of the American subsidiary ISOICHEM Inc. The procedures for a possible sale have not yet been finalized, while awaiting the due diligence process.

In 2006, SNPE sold its surplus CO2 quotas on the market for a total of 281,000 euros.

At year-end 2006, the Group had 4,296 employees (on a consolidation percentage basis), compared with 4,719 a year earlier. This decrease was primarily due to the deconsolidation of 244 employees from the Explosive-cladding branch and Tevco, the continued reduction in staffing numbers within the scope of workforce restructuring plans at ISOICHEM, and departures related to the asbestos agreement at Saint-Médard, Pont-de-Claix, Bergerac and Angoulême, as well as retirements. On January 1, 2006, the Group integrated Foremine's 49 employees.

SNPE SA's workforce also decreased, from 152 employees at year-end 2005 to 134 at year-end 2006, due to departures within the scope of the asbestos agreement at Angoulême.

Research & development expenditures amounted to 80.9 million euros in 2006, including 61.1 million euros for contract design studies and 19.8 million euros in self-financed studies, primarily for Energetic materials.

The financial performance of several Group companies remained largely insufficient in 2006. Profitability recovery actions are therefore being implemented to continue to improve results in 2007 and to confirm the turnaround in the Group's loss-making activities.

## II BUSINESS TRENDS

The Group's consolidated sales amounted to 720.4 million euros in 2006, compared with 778.7 million euros in 2005, a 58.3 million euro decrease (-7%), including 33.5 million euros for Explosive-cladding, due to the sale of this business.

Broken down by major market, sales were as follows:

	2005	En %	2006	En %
Agrochemicals	60.7	7.8	52.8	7.3
Land weapons	40.3	5.2	45.0	6.2
Quarries, public works	46.7	6.0	56.5	7.8
Cosmetics	23.5	3.0	18.1	2.5
Other	38.9	5.0	29.1	4.0
Space	34.2	4.4	31.6	4.4
Industry	0.0	0.0	17.5	2.4
Intermediates & chemicals	67.4	8.7	94.8	13.2
Leisure (including hunting)	5.4	0.7	0.0	0.0
Missiles & misc. aerospace	170.8	21.9	153.4	21.3
Paint/varnish/ink	111.5	14.3	80.7	11.2
Pharmaceuticals	81.3	10.4	75.0	10.4
Explosive-cladding	61.3	7.9	29.4	4.1
Automotive safety	36.8	4.7	36.3	5.0
<b>Total</b>	<b>778.7</b>	<b>100.0</b>	<b>720.4</b>	<b>100.0</b>

The five leading markets accounted for 63.9% of total sales, versus 63.2% in 2005.

The Group's export sales share decreased slightly to 56.2%, from 57.5% in 2005.

Sales by geographic region were as follows:

- Europe: 553.6 million euros, or 77% of the total, including domestic sales in France of 315.6 million euros, compared with 331.3 million euros in 2005.
- Americas: 97.1 million euros, or 14% of the total.
- Asia: 53.1 million euros, or 7% of the total.
- Other: 16.6 million euros, or 2% of the total.

## 1 - Energetic materials

(millions of euros)	2006	2005
Sales	335.0	321.7
Operating income (loss)	(0.1)	(6.4)
Cash flow	11.1	11.6
Employees	2,338	2,401

- **Explosives and Propellants** business improved considerably in 2006. It benefited from the transfer of 2-EHN production from the Speciality chemicals branch in the fourth quarter of 2005, generating an increase in Explosives and Propellants sales of 27 million euros for the period.

However, the business posted a significant operating loss in 2006. This loss was concentrated at EURENCO France, which remained in difficulty because of a slowdown in business that did not allow it to cover fixed costs.

- **Propulsion and Materials** business decreased in 2006, primarily due to lower sales of ammonium perchlorate and development contracts, which were not offset by the favorable impact of official approvals and announcements of research program contracts.

However, operating income improved in 2006, thanks to higher margins in several areas due to efforts to reduce costs and decrease amortization following delays in non-priority investments.

- **Tactical Propulsion** sales, handled by ROXEL France and ROXEL UK, decreased in 2006 compared with 2005.

However, this business posted an operating profit in 2006, versus a loss in 2005, mainly due to the elimination of contingencies on several programs, and a recovery of the associated significant provisions.

## 2 - Fine chemicals

(millions of euros)	2006	2005
Sales	192.3	208.6
Operating income (loss)	(0.4)	(13.3)
Cash flow	(8.4)	(15.0)
Employees	911	1,026

Results in 2006 confirmed the difficulties encountered in previous years, primarily related to the situation in the global fine chemicals market and the resulting excess capacity.

However, the Fine chemicals business was close to breaking even for the year. The improvement recorded in 2006 was due to reduced payroll costs following the workforce restructuring plans applied between 2003 and 2006, and to reduced provisions for amortization and depreciation, resulting from depreciation on fixed assets recorded at the end of 2005.

## 3 - Speciality chemicals

(millions of euros)	2006	2005
Sales	102.7	136.2
Operating income (loss)	(3.7)	(6.9)
Cash flow	(4.2)	(2.8)
Employees	574	682

Speciality chemicals business decreased in 2006, due to the negative impact of the transfer of the 2-EHN business, which accounted for sales of 39.4 million euros in 2005, along with very strong competitive pressures in the industrial and energetic nitrocellulose market.

The nail polish business was affected by the sale of Tevco on July 31, 2006, while Durlin France improved in 2006, as it benefited from a favorable price effect.

Speciality chemicals posted an operating loss in 2006, but the loss was lower than in 2005, primarily due to the impact of new French accounting rules on amortization and depreciation.

#### 4 - Industrial explosives

(millions of euros)	2006	2005
Sales	56.7	46.4
Operating income (loss)	8.0	8.6
Cash flow	6.6	6.8
Employees	339	277

The increase in Industrial explosives sales was mainly due to the consolidation of Foremine on January 1, 2006 (adding 8.1 million euros), as well as sustained business in France and a significant recovery in the export market. These factors increased sales volumes, thus offsetting an erosion in sale prices and a negative trend in the product mix.

Operating income generated by Industrial explosives decreased slightly from 2005 to 2006, as the performance improvement actions deployed were unable to absorb the entire impact of the drop in sale prices. At constant size, operating income would have increased slightly over the proforma 2005 figure of 7.8 million euros.

#### 5 - Explosive-cladding

(millions of euros)	2006*	2005
Sales	30.8	64.3
Operating income (loss)	10.4	12.7
Cash flow	7.5	12.0
Employees	0	181

\* From January 1 to May 15.

Since the Group sold its stake in DMC on May 15, 2006, this business branch was deconsolidated as of that date.

However, the Explosive-cladding business posted a significant increase over the same period in 2005; the branch's operating income for the first four and a half months of 2006 was equal to 82% of the operating income for all of 2005. This was due to a strong growth in sales, which could be covered without a marked increase in fixed costs.

#### 6 - Other activities

(millions of euros)	2006	2005
Sales	3.1	1.5
Operating income (loss)	(8.3)	(8.1)
Cash flow	(68.1)	(18.1)
Employees	134	152

Included under this heading at December 31, 2006 are Sofigexi, SNPE Inc. and SNPE SA. Sales from this branch are primarily generated by SNPE SA's Redevelopment & Services unit.

The branch's increase in sales is concentrated at SNPE Angoulême, which benefited from billing for the so-called "supplementary expertise" contract with the DGA.

Operating results for this business were stable from 2005 to 2006.

Since the tax on the consolidated capital gain from the sale of DMC shares is integrated in the calculation of the cash flow, while a capital gain on the sale of shares is not, the sale of DMC shares leads to a strong negative cash flow.

### III Consolidated results

At year-end 2006, production stood at 732.0 million euros, 38.2 million euros less than in 2005, including 35.5 million euros from the Explosive-cladding business, sold on May 15, 2006. Factors in the year-to-year decrease were a decline in sales of 58.3 million euros, and an increase of 20.1 million euros due to changes in inventory and capitalized production. s due to changes in inventory and capitalized production.

At year-end 2006, added value stood at 281.3 million euros, or 38% of production, compared with 37% in 2005. In terms of absolute value, added value decreased by 7.1 million euros (-2%) compared with 2005, given the 11.2 million euro decrease in Explosive-cladding because of the sale of this business during the year.

Payroll expenses amounted to 235.7 million euros in 2006, a decrease of 5.8% over the previous year, a decrease in line with the reduction in employees and the sale of Explosive-cladding and Tevco. Payroll expenses equaled 32.2% of production, compared with 32.5% in 2005.

The Group's consolidated gross operating margin increased significantly, by 5.3 million euros (48.6%) to 16.2 million euros, due to a reduction in payroll expenses which more than offset the decrease in added value.

In 2006, the Group had operating income of 5.9 million euros, compared with an operating loss of 13.4 million euros in 2005, for an increase of 19.3 million euros. In addition to reductions in expenses and savings on purchases and payroll expenses, this improvement was also partly due to lower provisions for amortization and depreciation for the year, related to the impact of the depreciation of fixed assets recorded at the end of 2005.

The consolidated operating income for 2006 was generated primarily by Explosive-cladding (10.4 million euros for four and a half months) and Industrial explosives (8.0 million euros).

At year-end 2006, the Group had a net financial loss of 14.2 million euros, versus a loss of 11.1 million euros a year earlier. This loss mainly includes 17.2 million euros in interest expenses, a net foreign exchange difference of 3.8 million euros and 5.4 million euros in revenues from financial investments.

These factors led to a pretax loss on operations of 8.4 million euros.

The Group posted extraordinary income of 116.4 million euros in 2006, primarily including the consolidated capital gain on the sale, before taxes, of shares in DMC, the consolidated capital loss, before taxes, on the sale of shares in Tevco, Inc. and provisions and expenses on operations concerning employee departures (workforce restructuring plans, asbestos plans, early retirement, retirement insurance) for 10.8 million euros, and depreciation of assets for 16.5 million euros.

Due to the impact of this extraordinary income and the improvement in operating results (19.3 million euros better than in 2005), as well as integrating the share of Tessenderlo's results, a loss of 6.4 million euros, and taxes, the Group's share of net income for 2006 came to 35.6 million euros, compared with a loss of 96.7 million euros in 2005.

Minority interests had a loss of 4.5 million euros for 2006, versus a loss of 3.5 million euros in 2005.

## IV Consolidated financial position

Cash flow for the year was highly negative, at 55.5 million euros. This was because tax on the consolidated capital gain from the sale of DMC shares is integrated in the calculation of the cash flow, whereas the capital gain from the sale of shares is not. The sale of DMC shares therefore made the cash flow highly negative.

At year-end 2005, the Group had a negative cash flow of 5.5 million euros.

The Group made investments of 50.1 million euros in 2005, 3.2 million euros less than in 2005 (-6%).

Tangible and intangible investments, highly limited in 2005 and controlled in 2006, amounted to 46.8 million euros, and primarily involved the following branches:

- Energetic materials, 22.5 million euros;
- Fine chemicals, 10.9 million euros;
- Speciality chemicals, 8.4 million euros.

Most other capital investments involved maintaining and upgrading industrial facilities in order to remain in compliance with safety and environmental regulations.

Financial investments (3.3 million euros) primarily concerned Sofigexi's subscription to the capital increase and convertible bond issue for Crossject.

Working capital requirements improved by 90.1 million euros in 2006, mainly due to the government's payment to SNPE SA of 70 million euros (the payment of 75 million euros as part of the agreement related to the shutdown of phosgene operations in Toulouse, less SNPE's partial repayment to the State of 5 million euros from the 80 million euro advance granted in 2003), and due to a reduction in working capital requirements for Energetic materials and Speciality chemicals.

The Group's net debt position improved by 140 million euros during 2006, from 428 million euros at December 31, 2005, to 288 million euros at year-end 2006. This large decrease was due to income from the sale of DMC shares and the government's payment as compensation for the shutdown in phosgene operations in Toulouse.

## V

## SNPE S.A. non-consolidated results

At December 31, 2006, SNPE SA had sales of 15.9 million euros, an increase of 0.7 million euros (4.6%) over 2005, primarily due to the “supplementary expertise” contract awarded by French defense procurement agency DGA concerning the Angoulême site.

SNPE SA's 2006 sales were primarily generated by the following:

- 13.0 million euros for SNPE Paris (headquarters), mainly generated by services provided to the rest of the Group, in particular management fees;
- 1.5 million euros for Angoulême, from the supplementary expertise contract;
- 1.3 million euros for Toulouse, from rents charged to subsidiaries and rebilling of services.

SNPE SA posted an operating loss of 5.9 million euros, an improvement of 4.2 million euros, due to two main reasons. First, the strong increase in added value due to the reduction of external purchases and services, especially on headquarters fees and services, and secondly the significant decrease in payroll expenses (reduced by 2.3 million euros, or 15% less), related to the reduction in SNPE SA's workforce in 2006.

SNPE SA posted financial income of 2.6 million euros in 2006, an improvement of 76.8 million euros over the financial loss of 74.2 million euros in 2005, due to the payment of dividends by Sofigexi, and lower provisions for depreciation for ISOICHEM's current accounts (-5.1 million euros in 2006, versus -65.6 million euros in 2005).

The pretax loss on operations was 3.3 million euros, an improvement of 81 million euros over 2005, when the pretax loss on operations was 84.3 million euros.

SNPE SA had extraordinary income for 2006 of 2.6 million euros, including recovery of 6.8 million euros in provisions for pollution clean-up at Tolochimie, as well as a charge of 3.6 million euros as part of a transactional agreement with EURENCO France.

Combining the financial and extraordinary results with the decrease in operating loss leads to net income of 2.7 million euros for 2006, compared with a net loss of 94.4 million euros in 2005.

## VI

## Developments at SNPE SA's subsidiaries (non-consolidated financial statements)

### 1 - SOFIGEXI

At December 31, 2006, Sofigexi owned 100% of SNPE Inc., the holding company that holds virtually all of the Group's equity interests in the United States, as well as 52.05% of NOBEL EXPLOSIFS France. SNPE Inc., which held a controlling interest in the Explosive-cladding branch, sold its DMC shares, or 50.3% of the capital in this company, through a public offering on May 15, 2006. The net revenue from this sale was used to reduce the Group's net debt.

In order to start production of its needle-free injective device, the company Crossject carried out a capital increase in 2006, to which Sofigexi contributed 1 million euros, and issued convertible bonds for 2.2 million euros, wholly subscribed by Sofigexi.

Sofigexi, holding 11.25% of Isochem, recorded a provision for risk of 10.7 million euros, corresponding to the integration of its share of the negative net financial position of ISOICHEM.

Sofigexi therefore posted a net loss of 8.0 million euros in 2006, compared with net income of 32.1 million euros in 2005, which was primarily due to a recovery of the provision of 30.2 million euros on shares in SNPE Inc. to reflect the valuation of SNPE Inc.'s securities portfolio.

### 2 - SNPE MATÉRIAUX ENERGÉTIQUES SA

SNPE Matériaux Energétiques posted sales of 135.4 million euros in 2006, a 4% decrease over the 2005 total of 141.1 million euros. Work on strategic programs was sustained, and culminated in the successful first qualification test firing of the M51 missile in November 2006. The decrease in sales is mainly due to the expected slowdown in M51 development, as well as a slight drop in Automotive safety business because of the delayed service entry of the TGS investment for tablet pressed propellants.

However SNPE Matériaux Energétiques posted an operating profit of 10.9 million euros for 2006, an increase of 5.6 million euros over the previous year. The increase was primarily due to savings on operating costs and depreciation.

The company had a financial loss of 10.3 million euros, compared with a loss of 0.2 million euros in 2005. The decline was primarily due to the recording of depreciation provisions for EURENCO and PyroAlliance shares in 2006. The improved cash position, which allowed better remuneration of the current account, could not offset the increase in depreciation expenses.

Given the impact of the financial result, and despite the increase in operating income, SNPE Matériaux Energétiques posted net income of 0.5 million euros in 2006, compared with 3.0 million euros in 2005.

### 3 - ISOICHEM

ISOICHEM posted sales of 127.5 million euros in 2006, a decrease of 5.2 million euros, or 4% over 2005.

Results in 2006 confirmed the difficulties encountered in previous years, primarily related to the situation in the global fine chemicals market and the resulting excess capacity.

The company continued to post an operating loss, amounting to 4.6 million euros, although this was an improvement over the loss of 16.9 million euros in 2005. This positive trend is enhanced by lower provisions for amortization, due to the depreciation of assets recorded at the end of 2005.

The company posted a high extraordinary loss of 7.0 million euros, although this was much less than the 2005 loss of 29.2 million euros, due to reduced provisions and expenses related to company restructuring. The extraordinary loss in 2006 was mainly due to provisions for depreciation of assets following the valuation tests of capital assets, and to restructuring costs.

The company had a net loss of 15.9 million euros in 2006, compared with a net loss of 54.0 million euros in 2005.

### 4 - BERGERAC NC

BERGERAC NC posted sales of 62.2 million euros in 2006, compared with 110.0 million euros in 2005, a decrease of 48.8 million euros. Of this decrease, 39.4 million euros was due to the transfer of the 2-EHN business to EURENCO France during the fourth quarter of 2005, and the balance to increased competition in the industrial nitrocellulose market.

The fire in June and increases in raw materials costs, coupled with higher energy costs and labor unrest, had an impact on profitability. BERGERAC NC posted an operating loss of 5.8 million euros in 2006, versus a loss of 7.1 million euros in 2005; this improvement was primarily due to the decrease in provisions for amortization, following the depreciation of assets recorded at the end of 2005.

BERGERAC NC had an extraordinary loss of 6.8 million euros in 2006, versus a loss of 8.3 million euros the previous year. In particular, this loss includes an additional provision for depreciation of all of the company's industrial nitrocellulose production assets.

The company therefore posted a net loss of 12.9 million euros in 2006, compared with a loss of 15.6 million euros the previous year.

### 5 - NOBEL EXPLOSIFS FRANCE (NEF)

NEF posted sales of 42.8 million euros in 2006, an increase of 2.4 million euros, or 5.9%, over 2005. Highlights in 2006 included a buoyant market for public works and quarry business, resulting in higher sales volumes that offset the erosion of prices due to greater competitive pressure and a lower-value product mix.

NEF continued to reorganize its distribution network and the Vonges production plant.

Operating income dropped slightly, from 7.6 million euros in 2005 to 7.3 million euros in 2006, as enhanced productivity could not completely offset the impact of lower prices. Performance improvement measures were applied throughout the year to reduce consumption, outside purchases and services, and payroll expenses.

Extraordinary income increased slightly, from 1.1 million euros in 2005 (sale of Alsetex shares) to 1.5 million euros in 2006 (sale of unused land).

The company posted a strong net profit of 6.0 million euros, an improvement of 0.4 million euros over 2005.

## VII

### Changes in accounting method and presentation

Consolidated financial statements for the period from January 1 to December 31, 2006 were established in compliance with the legal and regulatory provisions applicable in France, according to methods approved by the Comité de Réglementation Comptable on April 29, 1999 and certified by the decree of June 22, 1999.

No changes in method or presentation occurred during the past year.

## VIII Safety-Environment policy

Operating in a difficult economic environment, the Group is committed to maintaining a high level of safety and environmental protection.

### 1 - HEALTH-SAFETY-ENVIRONMENT MANAGEMENT

GROUPE SNPE's Safety and Environment policy is based on four main principles:

- Identifying possible failures, from laboratory to production system, right from the design stage, and neutralizing the effects of these possible failures before service entry.
- Providing the information, training and resources needed to comply with safety recommendations to all persons involved in the operation of processes that entail risks.
- Production system safety is the responsibility of management, and cannot be transferred to a separate safety function.
- Everybody, and especially management staff, must be committed to safety and the environment; this is a major criterion in evaluating business and results.

Safety and environmental management systems continued to be improved, by applying these principles through the following actions:

- Performance measurement, based on audits by the General Inspectorate at sites throughout the Group. In 2006 these audits covered 36 facilities (31 safety audits and 18 environment audits). They complement the internal audits performed by each entity, and the certification audits requested of certified bodies, which enable identifying weaknesses and shortcomings, determine improvement goals and share feedback. Measurement is also carried out through internal audits of the safety management systems at Seveso high-threshold sites, by a panel of internal auditors.
- Certification of these systems to international standards. Seven Group plants are certified to ISO 14001 as of 2006, and one site is certified to OHSAS 18001. Most sites are currently in the process of setting up environmental management systems in compliance with the standard ISO 14001.
- Maintaining a high level of employee training. The safety and environment training budget continues to account for a large share of the annual employee training plan. The Group also continued to provide training for employees of outside contractors working on Seveso classified sites.

### 2 - INDUSTRIAL RISK MANAGEMENT

GROUPE SNPE has 37 Seveso classified sites, including 36 considered "high threshold". It has therefore long developed a risk management policy, applied on Seveso sites as a major accident prevention policy, based on the following actions.

**Hazards inventory:** the Group bases its hazard studies on the recognized skills of its own research unit, SME Environnement. This makes it one of the few manufacturers to deploy its own team officially recognized by the French Ministry of Ecology and Sustainable Development for critical analyses, as well as third-party expertise in this type of study. As such, it is part of the "club of experts" set up by the ministry.

The Group continued to update hazard studies, especially within the scope of setting up technological risk prevention plans for the sites concerned, as well as internal organization plans. Its participation in the definition of technological risk prevention plans reflected the priorities defined by the Ministry of Ecology and Sustainable Development. NOBEL EXPLOSIFS France submitted the information concerning its two pilot sites (explosive warehouses), and participated in the first public meetings.

**Reducing risk at the source** is the first step in the prevention of major accidents, within the scope of the Group's ongoing strategy. This approach is reflected in the continuing reduction of the quantity of dangerous materials stored, especially at warehouses for pyrotechnic products, and by replacing the most toxic raw materials in order to reduce operators' exposure to chemical risks.

**Experience feedback management** is anchored in a database (ACACIA) covering environmental incidents and accidents within the Group. This database, created in 1974, contains nearly 40,000 datasets and is regularly updated.

Specific measures were immediately undertaken following repetitive incidents of the same type. For example, following two fires breaking out in early 2006, it was decided to start a general review of electrostatic risks at all Group units. Carried out by specialized teams from the facilities, or with the help of specialists at SME Environnement, or by outside expert firms, this review helped reduce this risk by making certain changes.

**A new indicator has been introduced** to measure the effectiveness of our safety management systems. It integrates criteria concerning safety studies and management of safety barriers. Defined at a Fine chemicals facility, it is now being deployed at all sites and should be fully operational by the end of 2007.

No major accidents were recorded at GROUPE SNPE in 2006.

### 3. INDUSTRIAL SAFETY

Continued safety actions helped keep the accident frequency and seriousness rates to low levels (4.2 and 0.26 respectively in 2006), a slight increase from the previous year, but still well under the overall results of the Chemicals/Rubber/Oil sector, which recorded rates of 12.4 and 0.64, respectively (2004, the latest data available).

No serious accident occurred in the Group in 2006.

Because of the risk of a flu pandemic, a Group prevention plan was set up, designed to protect all personnel and also ensure operational continuity.

### 4 - REDUCING ENVIRONMENTAL IMPACT

The reduction of environmental impact, the pivotal aspect of any environmental policy, is a constant focus at all business branches in the Group.

It is based on in-depth knowledge of this impact, through environmental analyses carried out within the scope of environmental management systems. At most Group sites, it also involves regulatory impact studies, most notably within the scope of the European directive IPPC, or Integrated Pollution Prevention and Control. Ten-year operational reviews, used to update these studies, continued in France in line with the government's timetables.

The Group pursued its policy of reducing water and energy consumption.

There were no incidents having a significant environmental impact at any Group facility in 2006.

#### *Significant actions to reduce environmental impact*

##### • Atmospheric emissions

- **Volatile organic compounds (VOC):** replacement of trichloroethylene at Saint-Médard (SNPE Matériaux Energétiques and ROXEL) and continued replacement actions in Kourou, French Guiana (REGULUS). Optimization of fine chemicals finishing phases to decrease emissions of solvents.
- **Greenhouse effect gases:** a Group-wide data management system has been set up for CO<sub>2</sub> emissions at the sites concerned by the national quota allocation plan. No significant comment concerning monitoring plans. The stated amounts were validated by accredited bodies.

- **Oxides of nitrogen (NO<sub>x</sub>):** a unit at BERGERAC NC in Bergerac will treat NO<sub>x</sub> emissions; this involved a 1.7 million euro investment, and the unit should be operational in early 2007. The treatment for guncotton sludge in the Chognot trench at Angoulême, including treatment of atmospheric emissions, was developed in 2005, and the facility started operation in 2006.

##### • Releases into water

- Startup of the biological treatment unit for effluents from ammonium perchlorate, at the REGULUS plant in French Guiana.
- Continued reduction of ammonium perchlorate releases at the Toulouse and Saint-Médard plants by measures targeting the source (process improvement, leaktightness of floors in workshops, etc.).
- Participation in the national plan to identify and reduce releases of hazardous substance.

##### • Prevention of soil and groundwater pollution

- Continued installation or renovation of retention basins, including installing basins for firefighting water and refurbishment of wastewater networks.
- Extension of groundwater quality control resources (installation of piezometers) at a number of facilities.
- At Sorgues, continued work on containing the water table by hydraulic barriers.

##### • Waste management

- Actions continued to recycle waste (extension of selective sorting, for instance), while also decreasing quantities of dangerous wastes.
- Action to reduce waste costs launched by the Fine chemicals branch.

#### *Remediation of polluted sites*

The Group is committed to a policy of managing polluted sites and soils, and has carried out risk assessments on most sites. It has largely undertaken remediation of sites that have ceased operations – Angoulême, SNPE Tolochimie in Toulouse and part of the SNPE site in Toulouse – under the responsibility of its Redeployment & Services unit, which has built up solid expertise that it could apply to other sites. This work is conducted in conjunction with and under the control of the Regional Industry, Research and Environment Directorates (DRIRE), and is presented in local information committees.

At SNPE Matériaux Energétiques' Saint-Médard site, investigations continued into pollution of groundwater by trichloroethylene: 18 new piezometers were installed.

### **Main environmental objectives for 2007**

The environmental and safety objectives are set by the business branches within the scope of the Group's overall policy.

- VOC: continued actions to reduce emissions and set up emission management plans (SNPE Matériaux Energétiques).
- Continued environmental diagnoses of all facilities concerned by pollution.
- Study of a reduction in CO<sub>2</sub> emissions to meet quota allocation requirements for the 2008-12 plan at all facilities concerned.
- Studies on the use of renewable energy at certain sites (wind, solar and biomass).
- Participation in drawing up technological risk prevention plans through supplementary hazards studies and participation in local information and consultation committees.
- Deployment of an industrial safety indicator (effectiveness of the safety management system at Seveso sites), for the facilities concerned.
- Preparations for pre-registration and registration of chemical substances within the scope of the REACH regulation. Deployment of an internal training course on developing new safety data forms.
- Continuation of a flu pandemic prevention plan.

## **5 - PRODUCT MANAGEMENT**

The Group continued preliminary work prior to the advent of the regulation REACH (Registration, Evaluation and Authorization of Chemical Products). In particular, the General Inspectorate led a working group that set up an organization that will be able to meet the requirements of this new regulation, which takes effect in June 2007.

All business branches drew up a complete inventory of the products concerned, and set up action plans.

## **6 - INVESTMENTS**

SNPE is maintaining a high level of investments dedicated to upgrading its facilities in terms of Safety and the Environment: 35% of all investments in 2006, or 13.2 million euros, with 32%, or 11.5 million euros, planned in 2007.

## **7 - INTEGRATING RISKS FROM THE DESIGN STAGE**

Since being founded, SNPE has developed its core businesses of energetic materials and fine chemicals by calling on leading-edge technologies that, by definition, require tight risk management from design to commercialization.

Safety and environmental factors are designed-in from the outset, in compliance with the Group's overall policy, anchored in its ISO 9001 quality system certification.

Risk management and limiting environmental impact are a constant goal in the development of all new processes, as well as improvements to existing processes.

Safety and environmental factors are systematically integrated in the design of new processes and facilities. Certain investment plans are first submitted to the General Inspectorate for a certification audit.

## **8 - PUBLIC INFORMATION - COMMUNICATIONS**

SNPE continued to apply a communications policy as part of the integration of its operations in the local community. For instance, it develops contacts with its neighbors and local authorities, especially local information and consultation committees as specified in the risk prevention law of July 30, 2003, when these committees exist.

In case an accident should occur, emergency procedures will be triggered at the local level and at Group level. These procedures, which are regularly tested at the local level within the scope of the internal organization plan, were tested at the Group level in 2006 (crisis team, crisis communications).

## **9 - SUSTAINABLE DEVELOPMENT**

SNPE is involved in the chemicals industry "Responsible Care" initiative, reflecting its commitment to sustainable development. The Group participates in periodic surveys for self-evaluation of Health-Safety-Environment performance.

## IX QUALITY POLICY

SNPE applies its quality policy in all Group companies. Virtually all entities have received ISO 9001:2000 and GMP quality system certification. The cost of non-quality is monitored, and represented about 1.6% of sales in 2006.

## X GROUP PURCHASING POLICY IN 2006

A purchasing application accessible to all buyers in the Group since early 2005 has generally met expectations for higher performance and productivity. A new version of this applications, reducing response times for users, is now being tested for deployment in 2007.

An operation dubbed "beat the budget" was launched in May 2005, setting objectives and providing quarterly reporting on results. This initiative, renewed in 2006, generated savings of 4.3 million euros on Group purchases.

## XI Seeking public funds

SNPE set up a team in 2005 to seek public funding. Its role, within the scope of capital and R&D expenditures, is to solicit financial support in the form of investment grants from European, regional and community funds, and from centers of competitiveness. In 2006 this initiative generated 0.7 million euros in subsidies covered by agreements, and 4.8 million euros in repayable advances.

## XII SNPE SA financial statements and draft resolutions

As stipulated in article L.225-100 of the French Code of Commerce, we hereby inform you that at December 31, 2006, there were no valid delegations accorded by the Annual General Meeting of Shareholders to the Board of Directors concerning increases in capital.

SNPE SA's 2006 financial statements were closed in compliance with the stipulations of the "Plan Comptable Général", according to the same accounting principles as applied the previous year.

### Allocation of results

We propose to the Annual Meeting of Shareholders to allocate the entire result for the fiscal year, a profit of 2,650,370.09 euros, to retained earnings.

SNPE's shareholding structure has not changed. The French State holds virtually all shares; the other shareholders are Société Générale and Natexis Banques Populaires.

In compliance with the law, it is stated that the financial statements for the year have been sent to the Central Works Council for their opinion.

In compliance with article 243bis of the General Tax Code, we hereby state that the dividends paid per share in the last three fiscal years were as follows:

Year	Dividend paid	
2003	0	0 tax credit
2004	0	50% reduction
2005	0	40% reduction

No dividend will be paid for 2006.

Furthermore, the Annual General Meeting is requested to note the following changes in the makeup of the Board of Directors:

- The appointment by decree of April 3, 2006, of Pierre Moschetti, director representing the State, to replace Gérard Kauffmann.
- The appointment by decree of December 22, 2006, of Jean-Yves Leclercq, director representing the State, to replace Bernard Maître.

The Annual General Meeting was also requested to note:

- the change in the name of the Statutory Auditors, Barbier-Frinault et Autres, to Ernst & Young et Autres, as from July 1, 2006.
- the transfer of the headquarters of Mazars, Statutory Auditors, to the following address: Exaltis, 61 rue Henri Regnault, 92075 La Défense Cedex - France.

In addition, an appendix lists the terms and functions exercised by corporate officers in other companies during the past year.

In application of the employee savings plan covered by article L225-102 of the Code of Commerce, we must report to you on a yearly basis the collective participation status of the company's employees in the share capital.

We ask you to vote on a draft resolution concerning a capital increase undertaken according to the terms of article L. 443-5 of the French Labor Code, i.e., a capital increase reserved to employees who are members of a company savings plan, which would be set up assuming the resolution is approved.

As long as the shares held collectively by those belonging to these plans do not exceed 3% of the capital, the question of this employee shareholding and a possible capital increase must be submitted to the shareholders. This mandatory consultation is based on the provisions of the article L. 225-129-VI of the Code of Commerce applicable to our company.

We hereby inform you that on the last day of the fiscal year ended December 31, 2006, employees held no share in the capital, neither directly nor via a company savings plan.

To comply with the aforementioned requirements, we therefore propose a resolution for a capital increase enabling the development of employee shareholding.

This resolution tends to authorize a capital increase, with the elimination of the preferential subscription right of shareholders, to a limit of 3% of the capital.

If this resolution is approved, your Board could proceed, if it deems it useful for a period of 30 months, with the capital increase in one or several stages. In compliance with applicable legal provisions, the subscription price for the shares issued as part of this operation will be determined by the Board, in compliance with the provisions of article L. 443-5 of the Labor Code, under the control of the Statutory Auditors.

To do this, your Board therefore presents a resolution aimed at the express renouncement of the preferential subscription right for shareholders to the new shares to be issued for the benefit of employees belonging to the company's savings plan (to be created).

The company's current situation and its foreseeable development do not seem very compatible with a policy of an offering of shares, even with the goal of developing employee shareholding. Your Board therefore asks that you reject the resolution submitted concerning a capital increase.

After having read the Auditors' reports, we will be available to answer your questions.

We will then ask that you approve the proposed resolutions submitted for your vote, except for the resolution concerning the capital increase.

The Board of Directors



# 2006 FINANCIAL REVIEW

## 2006 CONSOLIDATED FINANCIAL STATEMENTS

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# CONSOLIDATED BALANCE SHEET AT DEC. 31, 2006

('000 euros)	Note	Dec. 31, 2006	Dec. 31, 2005
<b>ASSETS</b>			
Goodwill	5-1 Note 1	33,154	36,744
Intangible assets	5-1 Note 2	6,658	10,982
Tangible assets	5-1 Note 3	234,179	259,053
Financial assets	5-1 Note 4	16,469	12,817
Securities accounted for by the equity method	5-1 Note 5	173,877	191,881
<b>Fixed assets</b>		<b>464,337</b>	<b>511,477</b>
Inventories and work-in-process	5-1 Note 6	170,003	175,322
Trade accounts and notes receivable	5-1 Note 7	207,937	254,725
Other accounts receivable and adjustment accounts	5-1 Note 7	296,916	375,091
Marketable securities	5-1 Note 9	142,979	11,394
Cash and cash equivalents		18,777	24,179
<b>Current assets</b>		<b>836,612</b>	<b>840,711</b>
<b>TOTAL ASSETS</b>		<b>1,300,949</b>	<b>1,352,188</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Capital stock		263,675	263,675
Paid-in capital		38,049	38,049
Reserves		(165,972)	(59,106)
Income (loss)		35,601	(96,688)
<b>Consolidated shareholders' equity</b>	Page 27	<b>171,353</b>	<b>145,930</b>
Minority interests	Page 27	11,321	33,974
<b>Total shareholders' equity</b>		<b>182,674</b>	<b>179,904</b>
<b>Provisions</b>	5-1 Note 10	<b>122,969</b>	<b>148,524</b>
Borrowings and financial debts	5-1 Note 11	464,332	469,662
Accounts payable and accrued expenses	5-1 Note 12	113,390	129,968
Other debts and adjustment accounts	5-1 Note 12	417,584	424,130
<b>Liabilities</b>		<b>995,306</b>	<b>1,023,760</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,300,949</b>	<b>1,352,188</b>

# CONSOLIDATED STATEMENT OF EARNINGS

('000 euros)	Note	2006*	2005*
Sales	5-2 Note 13	720,431	778,704
Other operating earnings	5-2 Note 14	33,098	29,452
Consumption of supplies and services	5-2 Note 15	(440,577)	(492,225)
Payroll expenses	5-2 Note 16	(237,899)	(252,115)
Other operating expenses		(9,718)	(3,315)
Taxes		(28,243)	(26,284)
Amortization and depreciation	5-2 Note 17	(31,211)	(47,596)
<b>Operating income (loss)</b>		<b>5,881</b>	<b>(13,379)</b>
Financial earnings and expenses	5-2 Note 18	(14,251)	(11,099)
<b>Pretax income (loss) on operations from consolidated companies</b>		<b>(8,370)</b>	<b>(24,478)</b>
Extraordinary expenses and earnings	5-2 Note 19	116,446	(75,939)
<b>Net income (loss) before taxes</b>		<b>108,076</b>	<b>(100,417)</b>
Income taxes	5-2 Note 20	(65,892)	(2,493)
<b>Net income (loss) of consolidated companies</b>		<b>42,184</b>	<b>(102,910)</b>
Share of earnings by affiliated companies consolidated using the equity method		(6,369)	5,679
Amortization and depreciation of goodwill	5-1 Note 1	(4,710)	(3,018)
<b>Net consolidated income (loss)</b>		<b>31,105</b>	<b>(100,249)</b>
Minority interests		(4,496)	(3,561)
<b>Net income (loss), Group share</b>		<b>35,601</b>	<b>(96,688)</b>
Net income (loss) per share (in euros)	5-3 Note 22	4.05	(13)
Diluted income (loss) per share (in euros)		4.05	(13)

\* After restatement of expense transfers under "Other operating earnings" for 17,435,000 euros in 2006 and for 17,328,000 euros in 2005.

# CONSOLIDATED STATEMENT OF CASH FLOWS

('000 euros)	2006	2005
<b>CASH FLOWS RELATED TO OPERATIONS</b>		
<b>Net income (loss) of consolidated companies</b>	31,105	(100,249)
Income from companies consolidated using the equity method (less dividends received)	14,994	2,945
Less income and expenses with no impact on cash position or not related to business:		
Depreciation and amortization	28,369	91,709
Change in deferred taxes	7,237	(30)
Capital gains or losses, less taxes	(137,254)	175
Cash flow from operations of consolidated companies	(55,549)	(5,450)
Change in working capital requirements due to operations:		
Change in net inventories	(9,987)	7,981
Change in net operating receivables	107,880	75,073
Change in net operating payables	(7,808)	(4,544)
<b>Net cash flow generated by operations</b>	<b>34,536</b>	<b>73,060</b>
<b>CASH FLOW DUE TO INVESTMENT OPERATIONS</b>		
Acquisitions of assets	(50,056)	(53,321)
Sale of assets, and grants received	169,282	14,550
Effect of changes in scope of consolidation	(12,966)	2,031
<b>Net cash flow due to investment operations</b>	<b>106,260</b>	<b>(36,740)</b>
<b>CASH FLOW DUE TO FINANCING OPERATIONS</b>		
Dividends paid to shareholders in parent company		
Dividends paid to minority shareholders in consolidated companies	(731)	(463)
Capital increase and increase in shareholders' equity	68	1,250
Issue of loans and repayment of borrowings	46,291	117,311
Repayment of borrowings and new loans	(66,934)	(137,770)
<b>Net cash flow due to financing operations</b>	<b>(21,306)</b>	<b>(19,672)</b>
<b>CHANGE IN CASH POSITION</b>		
Cash position at opening	(257,923)	(270,428)
Cash position at closing	(141,057)	(257,923)
Impact of fluctuations in exchange rates	(2,624)	(4,143)

## CHANGE IN CONSOLIDATED SHAREHOLDERS' EQUITY

('000 euros)	Capital stock	Paid-in surplus	Consolidated reserves	Total
At January 1, 2005	55,261	38,049	(65,205)	28,105
Capital increase*	208,414			208,414
Difference from currency conversions			6,463	6,463
Grant movements less taxes			(417)	(417)
Other			66	66
Changes in methods			(13)	(13)
2005 net income, Group share			(96,688)	(96,688)
At December 31, 2005	263,675	38,049	(155,794)	145,930
Capital increase				0
Difference from currency conversions			(10,301)	(10,301)
Grant movements less taxes			274	274
Other			(151)	(151)
Changes in methods				0
2006 net income, Group share			35,601	35,601
At December 31, 2006	263,675	38,049	(130,371)	171,353

\* Capital increase of 6,947,132 shares in 2005, following contribution of 26.41% of the company Tessenderlo Chemie.

Number of shares	8,789,171
Par value	30 Euros

## MINORITY INTERESTS

('000 euros)	2006	2005
Minority interests	11,321	33,974

The decrease in minority interests is primarily due to the deconsolidation of the Explosive-cladding branch.



# 2006 FINANCIAL REVIEW

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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 - HIGHLIGHTS

### 1-1 • 2006 HIGHLIGHTS

#### • Sale of the Explosive-cladding branch

Through its American holding company SNPE Inc., the Group held a majority stake in Dynamic Materials Corporation (DMC), a company listed in New York. Along with Nobelclad Europe and NitroMetall, wholly-owned by DMC, this group of companies formed the Group's Explosive-cladding branch. All of this branch was sold through a public placement operation on May 15, 2006. It was consolidated until this date.

The impact of this divestment on the consolidated financial statements is therefore a capital gain net of taxes of 79.7 million euros.

#### • Sale of Tevco Inc.

GROUPE SNPE, also via American holding company SNPE Inc., sold American subsidiary Tevco Inc., in August 2006. This operation did not have a material impact on the consolidated financial statements.

#### • Reorganization of ISOCHEM

ISOICHEM SA submitted a reorganization plan on January 10, 2006 concerning its headquarters and its Le Bouchet, Pithiviers and Vert-le-Petit facilities. The aim of this project, involving about 60 jobs, is to reduce structural costs and restore the company's margins, while adapting its production resources and R&D capacity to demand.

A net charge of 4.8 million euros was booked in 2006 to cover this plan.

#### • Follow-up to the accident in Toulouse on September 21, 2001

In line with the transactional agreement signed by SNPE and the French State on April 3, 2003, which provides for a payment of 300 million euros between February 2004 and February 2007, the French State made a 75 million euro payment in 2004, in 2005 and then in the first half of 2006; 5 million euros of the latter payment was used for a partial repayment of the advance payment of 80 million euros to finance the workforce restructuring plan. The cumulated amount received at December 31, 2006 is 225 million euros, for a net balance of 75 million euros, as well as the balance of the 75 million euro advance at year-end 2006.

The two following procedures are continuing:

- In May 2004, GROUPE SNPE filed suit against the company Grande Paroisse in the Toulouse commercial court to claim compensation for damages not covered by insurance. In 2005, the amount claimed was revised to 460 million euros, to receive compensation for all damages.

- Furthermore, in September 2004, Bayer CropScience filed suit against Grande Paroisse, claiming 187.5 million euros in damages due to the halt in SNPE shipments following the explosion on September 21, 2001. On February 10, 2005 Grande Paroisse summoned SNPE as guarantor.

These two suits were combined and tried together on December 5, 2005.

The judgment rendered on April 13, 2006 denied the claims by SNPE and Bayer CropScience. SNPE appealed this decision on May 15, 2006, as did Bayer CropScience.

Furthermore, the final assessment report submitted in May 2006 by the experts concluded that there was a chemical accident in the AZF plant belonging to the company Grande Paroisse, which therefore excludes SNPE from any responsibility for the accident of September 21, 2001.

#### • GROUPE SNPE tax audits

The financial statements of SNPE SA include 3.1 million euros in late interest payments, following the tax deficiency assessments accepted in 2005. A request has been filed to cancel this late interest charge, recorded under assets.

The tax deficiency assessments primarily concern the deductibility of provisions for restructuring plans, which was refused the year of its establishment, and partly carried over to the following years. These provisions cover deductible expenses.

#### • Recovery of the provision for pollution clean-up at SNPE Tolochimie

Following the project to construct a parking lot on the SNPE Tolochimie site in Toulouse, a design study was submitted to the Regional Industry, Research and Environment Directorate (DRIRE) in the second half of 2006. The company Antéa evaluated the cost of pollution clean-up in early 2007. The provision was therefore reduced to 10 million euros after recovery of the non-used sum of 6.8 million euros.

### 1-2 • POST-CLOSING EVENTS

None.

## 2 - ACCOUNTING PRINCIPLES AND METHODS

### 2-1 – Accounting principles

GROUPE SNPE's consolidated financial statements for January 1 to December 31, 2006 were established according to the rules and regulations applied in France, based on the methodology approved by the Accounting Rules Committee on April 29, 1999 and certified by the directive of June 22, 1999.

### 2-2 • Information concerning changes in methods and presentation

#### 2.2.1 • Changes in accounting methods during the year

None.

#### 2.2.2 • Changes in presentation

None.

### 2-3 • Consolidation methods

#### 2.3.1 • Principles of consolidation

Companies in which SNPE holds, directly or indirectly, more than 50% of the voting rights, or exercises de facto control, are wholly consolidated.

Companies controlled jointly with another group are proportionally consolidated.

Companies in which SNPE exercises notable influence are consolidated using the equity method.

Companies which are not significant for the consolidated Group are not considered.

#### 2.3.2 • Foreign currency translation

The financial statements of foreign companies are translated according to the following method: items in the balance sheet are converted at closing rates, and the items in the earnings and cash flow statements are converted at the average rates for the year. The conversion differences are recorded directly in shareholders' equity.

#### 2.3.3 • Account closing dates

Financial statements for consolidated companies are closed as of December 31, except for companies in the Explosive-cladding branch, whose financial statements were closed on May 15, 2006, and the company TEVCO, whose financial statements were closed on July 31, 2006.

### 2.3.4 • Acquisition differences – goodwill/badwill

This represents the difference between the purchase cost and the market value of assets and liabilities in the acquired company.

The residual amount not recorded under assets or liabilities is presented as follows:

- Goodwill: recorded under "acquisition differences" and amortized for a period not to exceed 20 years.
- Badwill: recorded under "provisions for risks and expenses". Badwill is recovered in the results according to a recovery schedule and duration that reflects the assumptions made and the objectives set during the acquisition, especially to offset an expected and recorded weakness in the acquired company, in order to cover expenses or capital losses not allocated and identified during the acquisition and, for the balance, according to a recovery schedule.

### 2.3.5 • Intra-Group transactions

Significant transactions and accounts between companies that are wholly or proportionately consolidated are eliminated.

### 2-4 • Valuation rules and methods

#### 2.4.1 • Application of preferential methods

GROUPE SNPE applies preferential methods except for presentation of the unrealized foreign currency gains and losses denominated in currencies, which are not systematically recorded in the statement of earnings. The application of this preferential method, in terms of the latter point, would have increased the Group's shareholders' equity by 3.4 million euros at December 31, 2006.

#### 2.4.2 • Research and development expenses

Research and development costs are maintained in expenses for the year.

#### 2.4.3 • Intangible assets

Intangible assets (excluding goodwill) mainly comprise fees, rights and patents, as well as the business assets amortized over their estimated useful life up to 20 years.

Other intangible assets primarily concern software which is amortized over a lifespan not exceeding 5 years.

#### 2.4.4 • Tangible assets

Tangible assets are valued at their acquisition or production cost, excluding financial fees.

When, at the close of the fiscal year, there is an index for loss in value of a tangible asset, a depreciation test is performed. The net book value of the asset is compared to its actual value.

For this test, assets are grouped in cash-generating units. Depending on the business branch, these cash-generating units correspond to one or more workshops or product lines.

The current value of these cash-generating units is in principle their estimated utility value, especially on the basis of estimated multiples of results or cash flows, discounted, calculated in light of the conditions of use planned by the Group.

When the actual value of a cash-generating unit is less than its net book value, a depreciation of the unit's assets is recorded in the statement of earnings.

Assets of French companies acquired prior to December 31, 1976 underwent a statutory revaluation, as did the foreign company NOBEL EXPLOSIFS Belgique in 1976 (buildings only). These revaluations are not restated.

The amortizations recorded under different asset headings are economically justified amortizations.

The following useful lives are used:

	Estimated useful life, in years
• Land and landscaping	10
• Buildings	10 to 50
• Installations, machinery and equipment	3.33 to 12
• Other tangible assets	5 to 10

Leasing contracts are restated to record tangible assets under assets, loans under liabilities, and amortization and depreciation, along with interest expenses, in the statement of earnings.

#### 2.4.5 • Financial investments

Non-consolidated equity investments are valued at the lower of the following costs:

- Historical cost, or revalued value, depending on the legal revaluation;

- Inventory value, corresponding to the usage value for the Group. It is determined according to the re-estimated net asset value of the subsidiary, along with its profitability and prospects.

#### 2.4.6 • Inventories and work-in-process

Inventories of raw materials, merchandise and other supplies are valued using the weighted average unit cost method.

Manufactured products and design studies in process are valued at their production cost. Interest expenses, as well as research and development expenses, are excluded from the valuation of inventories.

The required provisions are appropriated to cover the risks of obsolescence or a contractual cost overrun.

#### 2.4.7 • Sales

For the sale of goods, sales are recorded in the fiscal year during which the goods are delivered.

For services, sales are recorded in the fiscal year when the service is finished; i.e., when the service is delivered.

For long-term contracts, sales are recorded on a percentage of completion basis, according to the work completed at the end of each year.

#### 2.4.8 • Extraordinary results

Extraordinary results mainly include the impact of:

- expenses related to Group restructuring plans;
- provisions for environmental risks;
- asset depreciation;
- capital operations.

#### 2.4.9 • Deferred taxes

Deferred taxes are calculated using the variable carry-over method, by applying the tax rate for the following fiscal year.

Deferred taxes are calculated for each company or fiscal group based on the temporary differences between the book value of an asset or liability, and its fiscal value.

A deferred tax asset is recorded if the company (or fiscal group) has to generate sufficient profits in a reasonable time.

Deferred taxes are not discounted according to a timetable.

#### 2.4.10 • Investment grants

Investment grants are recorded under shareholders' equity. A deferred tax liability is recorded under "provisions for risks and expenses". These grants are recorded in the earnings statement at the same rate as the amortization of the assets they are used to finance.

#### 2.4.11 • Retirement and similar commitments

For defined payment schemes, the expenses correspond to the amounts paid. For defined service schemes, the prospective method is used, based on end-of-career salaries.

For French companies, the effect of changes in actuarial assumptions is spread over the average length of residual activity of employees for 15 years.

The amount of the non-provisioned commitments, which correspond to the application of the corridor rule, is recorded under off-balance sheet commitments.

Foreign companies, which generally use the defined service scheme, make payments in pension funds; if applicable, the only provision set aside is for the share of the commitment that exceeds the value of the assets held by these funds.

#### 2.4.12 • Provisions

These provisions cover the obligations to third parties, without an expected equivalent counterparty from these third parties, that events that have occurred or are occurring make probable, clearly specified in terms of their objective, but with an uncertain completion date, timetable or amount. Provisions include deferred tax liabilities.

#### 2.4.13 • Receivables and debts in foreign currency

Transactions denominated in foreign currencies are converted at the rate in effect on the date of the operation, except for companies which have a hedging coverage by the parent company. For these receivables, the guaranteed rate is used for currency translation.

At the end of the year, the assets and liabilities denominated in foreign currencies are converted at the rate in effect on the date of accounts closure. The resulting exchange rate differences are maintained in the balance sheet.

#### 2.4.14 • Financial instruments: exchange and interest rate hedging

##### • General principles

Financing for the Group's main subsidiaries is handled by the Treasury Department, which plays the role of banker.

Furthermore, this department applies an overall exchange and interest rate hedging management policy.

As part of this management approach, derivatives are used to reduce risk exposure. These products are also used to optimize management, whenever possible, without ever calling into question the main goal of reducing risks.

##### • Counterparty risk management

All transactions on derivatives are handled with top-tier banks, without counterparty risk.

#### 2.4.15 • Use of estimates

These consolidated financial statements imply that the company uses a certain number of estimates and assumptions, as part of the accounting principles applied, which affect the assets, liabilities, the notes to the assets and liabilities on the date of accounts, and the income and expenses recorded during the year. The company regularly reviews its estimates. Events and changes in circumstances may lead to different estimates, and the actual results may differ from these estimates.

#### 2.4.16 • Cash position

Cash position includes cash and cash equivalents, marketable securities, payable securities, current net financing accounts outside the Group, less treasury notes and current bank borrowings.

#### 2.4.17 • Earnings per share

The earnings per share is calculated on the basis of the weighted average number of shares per quarter.

#### 2.4.18 • Environmental risks

GROUPE SNPE's operations are subject to a set of environmental and industrial safety regulations.

The Group establishes provisions for pollution clean-up at its sites and dismantling of installations for which identification of responsibility for costs is defined according to an agreement (as in the case of SNPE Toulouse, the former Tolochimie and SNPE Sorgues), or through notification by the authorities based on applicable regulations.

Management estimates provisions according to the best available information, based on internal and/or external studies depending on plans and assumptions which vary from one site to another and which may change. They are updated according to expenditures, and in the case of new events occurring as of the date the financial statements are established.

Some other sites operated by GROUPE SNPE may offer pollution risks. This possible liability cannot be evaluated for now, given the uncertainties related to this possible pollution.

### 3 • INFORMATION CONCERNING SCOPE OF CONSOLIDATION

#### 3.1 • Changes in the scope of consolidation for 2006

- Companies in the Explosive-cladding branch were deconsolidated on May 15, 2006, the effective date of their sale. The companies involved are Dynamic Materials Corporation, Nobelclad Europe and NitroMetall. The consolidated statement of earnings for 2006 includes the impact of their operations until May 15, 2006, for total net income of 6.6 million euros. The statement of cash flows shows the effect of their deconsolidation on May 15, 2006.
- The company Shanghai SNPE Chemicals was no longer consolidated in 2006. The impact of its deconsolidation had been recorded in 2005.
- The company Foremine is consolidated as of January 1, 2006. This generated provisional goodwill of 845,000 euros, amortized over five years.
- The company Tevco Inc. was deconsolidated on July 31, 2006. The consolidated statement of earnings for 2006 includes the impact of its operations until this date, for a total net loss of 800,000 euros. The statement of cash flows shows the effect of its deconsolidation on July 31, 2006.

### 3.2 • Consolidated subsidiaries

Company	Siren No (France) or country	2006			2005		
		% interest	% control	Consolidation method	% interest	% control	Consolidation method
SNPE SA (parent company)	712 013 432	100	100	W	100	100	W
Sofigexi (SA)	317 921 914	100	100	W	100	100	W
Groupe Tessenderlo Chemie	Belgium	26.21	26.21	E	26.35	26.35	E
SNPE Matériaux Energétiques (SA)	440 513 059	100	100	W	100	100	W
STRUCTIL (SA)	331 620 385	80.05	80.05	W	80.05	80.05	W
ROXEL France (SA)	384 125 050	50	50	P	50	50	P
ROXEL (SAS)	384 122 222	50	50	P	50	50	P
ROXEL UK	UK	50	50	P	50	50	P
PYROALLIANCE (SA)	579 504 119	85	85	W	85	85	W
EURENCO (SA)	449 207 414	60.20	60.20	W	60.20	60.20	W
EURENCO France (SA)	444 599 716	60.20	60.20	W	60.20	60.20	W
Nexplo Industries	Sweden	60.20	60.20	W	60.20	60.20	W
EURENCO Bofors	Sweden	60.20	60.20	W	60.20	60.20	W
EURENCO Vihtavuori	Finland	60.20	60.20	W	60.20	60.20	W
PB CLERMONT	Belgium	60.20	60.20	W	60.20	60.20	W
REGULUS (SA)	350 490 678	40	40	P	40	40	P
Dynamic Materials Corporation Inc.	USA	50.30	50.30	W*	50.4	50.40	W
NitroMetall	Sweden	50.30	50.30	W*	50.4	50.40	W
NOBELCLAD Europe (SA)	431 679 497	50.30	50.30	W*	50.4	50.40	W
NOBEL EXPLOSIFS France (SA)	552 096 125	100	100	W	100	100	W
NOBEL EXPLOSIFS Belgique	Belgium	100	100	W	100	100	W
FOREMINE	404 203 234	100	100	W	NC	NC	NC
ISOCHEM (SA)	304 828 502	100	100	W	100	100	W
NeoMPS France (SA)	414 477 695	99.25	99.25	W	99.25	99.25	W
NeoMPS Inc.	USA	99.25	99.25	W	99.25	99.25	W
SISSA (SA)	399 878 701	100	100	W	100	100	P
FRAMOCHEM	Hungary	100	100	W	100	100	W
Shanghai SNPE Chemicals	China	NC	NC	W	60	60	W
ISOCHEM UK LIMITED	UK	100	100	W	100	100	W
ISOCHEM Deutschland GMBH	Germany	100	100	W	100	100	W
SNPE Inc.	USA	100	100	W	100	100	W
Tevco Inc.	USA	100	100	W**	100	100	W
ISOCHEM North America LLC	USA	100	100	W	100	100	W
ISOCHEM Inc.	USA	100	100	W	100	100	W
BERGERAC NC (SA)	682 038 492	100	100	W	100	100	W
SNPE Italia SPA	Italy	100	100	W	100	100	W
China Nitrocellulose CY Ltd	Hong Kong	50	50	P	50	50	P
MANUCO (SAS)	450 575 469	50	50	P	50	50	P
DURLIN France (SA)	444 599 658	100	100	W	100	100	W
SNPE Japan KK	Japan	100	100	W	100	100	W
Shanghai T.N.C. Chemical Co, Ltd	China	25	25	P	25	25	P
Nanjing CNC Chemical, Ltd	China	50	50	P	50	50	P
Xinxiang T.N.C. Chemical Co, Ltd	China	37.5	37.5	P	37.50	37.50	P
Korea CNC Ltd	South Korea	50	50	P	50	50	P

W - Wholly consolidated – P - Proportionally consolidated – E - Equity method – NC - non-consolidated

\* Divested on May 15, 2006 (see Section 3-1, information on scope of consolidation)

\*\* Divested on July 31, 2006 (see Section 3-1, information on scope of consolidation)

## 4 • INFORMATION BY BUSINESS SECTOR

### 4.1 • Sales

Sales by business sector are as follows:

	2006		2005	
	'000 euros	%	'000 euros	%
Energetic materials	334,958	46.5	321,653	41.3
Industrial explosives	56,655	7.9	46,425	6.0
Explosive-cladding*	30,753	4.3	64,320	8.3
Fine chemicals	192,346	26.7	208,582	26.8
Speciality chemicals	102,664	14.2	136,195	17.5
Other activities	3,055	0.4	1,529	0.2
<b>TOTAL</b>	<b>720,431</b>	<b>100</b>	<b>778,704</b>	<b>100</b>

\* Consolidated until May 15, 2006.

Sales by geographic region (nationality of first customer) are as follows:

	2006		2005	
	'000 euros	%	'000 euros	%
France	315,593	43.8	331,329	42.5
Euro Zone	155,709	21.6	172,732	22.2
Other European countries	82,260	11.4	76,303	9.8
NAFTA Zone	90,131	12.5	105,926	13.6
Other American countries	7,009	1.0	6,282	0.8
Asia	53,144	7.4	69,229	8.9
Other	16,585	2.3	16,903	2.2
<b>TOTAL</b>	<b>720,431</b>	<b>100</b>	<b>778,704</b>	<b>100</b>

### 4.2 • Fixed assets

Breakdown of fixed assets by business sector is as follows:

	2006		2005	
	'000 euros	%	'000 euros	%
Energetic materials	134,168	28.89	137,960	26.97
Industrial explosives	17,795	3.83	18,965	3.71
Explosive-cladding			12,122	2.37
Fine chemicals	75,390	16.24	84,493	16.52
Speciality chemicals	21,363	4.60	29,454	5.76
Other activities	215,621	46.44	228,483	44.67
<b>TOTAL</b>	<b>464,337</b>	<b>100</b>	<b>511,477</b>	<b>100</b>

Breakdown of fixed assets by geographic region where operation is based is as follows:

	2006		2005	
	'000 euros	%	'000 euros	%
France	188,864	40.67	199,705	39.04
Euro Zone	216,701	46.67	217,998	42.62
Other European countries	31,823	6.86	51,606	10.09
NAFTA Zone	18,625	4.01	33,667	6.58
Asia	8,324	1.79	8,501	1.66
<b>TOTAL</b>	<b>464,337</b>	<b>100</b>	<b>511,477</b>	<b>100</b>

### 4.3 • Operating income and cash flow

The breakdown of operating income and cash flow by business sector is as follows:

	2006	2005
	'000 euros	'000 euro
<b>Operating income</b>		
Energetic materials	(118)	(6,400)
Industrial explosives	7,962	8,554
Explosive-cladding*	10,422	12,744
Fine chemicals	(426)	(13,255)
Speciality chemicals	(3,676)	(6,894)
Other activities	(8,283)	(8,128)
<b>TOTAL</b>	<b>5,881</b>	<b>(13,379)</b>

\* Consolidated until May 15, 2006

	2006	2005
	'000 euros	'000 euros
<b>Cash flow</b>		
Energetic materials	11,071	11,597
Industrial explosives	6,628	6,849
Explosive-cladding*	7,515	12,037
Fine chemicals	(8,441)	(14,988)
Speciality chemicals	(4,244)	(2,818)
Other activities**	(68,078)	(18,127)
<b>TOTAL</b>	<b>(55,549)</b>	<b>(5,450)</b>

\* Consolidated until May 15, 2006

\*\* Amount primarily due to the sale of the Explosive-cladding branch

## 5 • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in '000 euros unless otherwise stated)

### 5-1 • Balance sheet headings

#### Note 1: Goodwill

Breakdown of goodwill is as follows:

	Dec. 31, 2006			Dec. 31, 2005
	Gross	Amort. & Deprec.	Net	Net
Energetic materials	22,010	(7,502)	14,508	16,658
Industrial explosives	9,395	(7,013)	2,382	2,134
Explosive-cladding	6,719	(6,719)	0	720
Fine chemicals	4,258	(4,258)	0	74
Autres Activités	17,874	(1,610)	16,264	17,158
<b>Total goodwill</b>	<b>60,256</b>	<b>(27,102)</b>	<b>33,154</b>	<b>36,744</b>

Changes in the net value of goodwill are as follows:

	Dec. 31, 2006	Dec. 31, 2005
Net balance beginning of period	36,744	21,473
Additional acquisitions*	845	17,874
Changes in exchange rates	275	415
Amortization and depreciation for the period	(4,710)	(3,018)
<b>Net balance at end of period</b>	<b>33,154</b>	<b>36,744</b>

\* Tessenderlo Chemie group consolidated via the equity method in 2005, and FOREMINE wholly consolidated in 2006.

#### Note 2: Intangible assets

	Dec. 31, 2006			Dec. 31, 2005
	Gross	Amort. & Deprec.	Net	Net
Fees, patents, licenses	11,404	(9,529)	1,875	2,242
Business assets	18,657	(14,444)	4,213	7,839
Other intangible assets	17,624	(17,054)	570	901
<b>TOTAL</b>	<b>47,685</b>	<b>(41,027)</b>	<b>6,658</b>	<b>10,982</b>

Changes in the value of intangible assets are as follows:

	Gross	Amort. & Deprec.	Net
<b>At December 31, 2005</b>	<b>55,573</b>	<b>(44,591)</b>	<b>10,982</b>
Acquisitions*	2,207		2,207
Divestments	(6,969)	5,970	(999)
Changes in scope**	(2,048)	1,552	(496)
Changes in exchange rates	(1,487)	882	(605)
Other changes	409	(66)	343
Amortization and depreciation		(4,424)	(4,424)
Provisions		(350)	(350)
<b>At December 31, 2006</b>	<b>47,685</b>	<b>(41,027)</b>	<b>6,658</b>

\* Including 1,913,000 euros for the 2006 allocation of greenhouse gas emission quotas, less those used in 2005.

\*\* Primarily due to the deconsolidation of the Explosive-cladding branch on May 15, 2006.

#### Note 3: Tangible assets

	Dec. 31, 2006			Dec. 31, 2005
	Gross	Amort. & Deprec.	Net	Net
Land	23,826	(7,609)	16,217	19,708
Buildings	283,341	(209,527)	73,814	83,722
Installations, machinery and equipment	660,935	(548,721)	112,214	131,464
Other tangible assets	45,961	(35,415)	10,546	5,122
Assets in process	26,291	(5,558)	20,733	18,733
Advances and payments on account	655		655	304
<b>TOTAL</b>	<b>1,041,009</b>	<b>(806,830)</b>	<b>234,179</b>	<b>259,053</b>

including the following financed by leasing contracts:

	Dec. 31, 2006			Dec. 31, 2005
	Gross	Amort. & Deprec.	Net	Net
Buildings	3,147	(2,714)	433	664
Installations, machinery and equipment	17,309	(12,551)	4,758	5,321
Other tangible assets	3,451	(2,859)	592	
<b>TOTAL</b>	<b>23,907</b>	<b>(18,124)</b>	<b>5,783</b>	<b>5,985</b>

Changes in the net book value of tangible assets were as follows:

	Gross	Amort. & Deprec.	Net
<b>At December 31, 2005</b>	<b>1,062,309</b>	<b>(803,255)</b>	<b>259,054</b>
Acquisitions	44,547		44,547
Divestments-scrapped	(28,576)	21,518	(7,058)
Changes in scope**	(34,288)	19,988	(14,300)
Changes in exchange rates	(2,526)	243	(2,283)
Change in method			0
Other changes	(457)	114	(343)
Amortization and depreciation		(35,397)	(35,397)
Provisions*		(18,632)	(18,632)
Recovery of provisions*		8,591	8,591
<b>At December 31, 2006</b>	<b>1,041,009</b>	<b>(806,830)</b>	<b>234,179</b>

\* including 3.6 million euros for the tangible assets of ISOCEM, 4.9 million euros for those of EURENCO France, 10 million euros for those of BERGERAC NC (and a recovery of 2 million euros), and 4.3 million euros recovery of the tangible assets of SNPE Toulouse concerning the scrapping of the gaseous effluent treatment plant.

These net provisions were calculated by assuming multiples of standard gross operating margins for each of these businesses, or using the future cash flows method.

\*\* Primarily due to the deconsolidation of the Explosive-cladding branch on May 15, 2006.

#### Note 4: Financial assets

	Dec. 31, 2006			Dec. 31, 2005
	Gross	Amort. & Deprec.	Net	Net
Equity stakes	9,967	(3,841)	6,126	7,624
Receivables from equity stakes	91		91	91
Other capitalized securities	3,899		3,899	1,740
Loans and other financial assets	6,588	(235)	6,353	3,362
<b>TOTAL</b>	<b>20,545</b>	<b>(4,076)</b>	<b>16,469</b>	<b>12,817</b>

Changes in financial assets are as follows:

	Gross	Provisions	Net
<b>At December 31, 2005</b>	<b>15,239</b>	<b>(2,422)</b>	<b>12,817</b>
Acquisitions or subscriptions*	1,141		1,141
Changes in scope**	3,548	(1,982)	1,566
Changes in exchange rates	(4,218)	20	(4,198)
Divestments and other changes***	4,835		4,835
Provisions		(159)	(159)
Recovery of provisions		467	467
<b>At December 31, 2006</b>	<b>20,545</b>	<b>(4,076)</b>	<b>16,469</b>

\* Including 1,000,000 euros for subscription to the capital increase in Crossject.

\*\* Deconsolidation of SNPE Shanghai Chemicals on December 31, 2005, and of the Explosive-cladding branch and Tenvco, plus consolidation of Foremine in 2006.

\*\*\* Including 2,162,000 euros for convertible bonds issued by Crossject.

#### Note 5: Securities accounted for by the equity method

	Gross	Provisions	Net
Value of companies accounted for by equity method*			180,246
Share of restated net position	180,246		180,246
Share of 2006 earnings	(6,369)		(6,369)
<b>At December 31, 2006</b>	<b>173,877</b>	<b>0</b>	<b>173,877</b>

\* Consolidation via equity method of 26.21% of Belgian group Tessenderlo Chemie, a stake contributed by the French State in 2006.

The drop in this value at year-end 2006 in relation to the amount at year-end 2005 is primarily due to the distribution of dividends for 2006 earnings, and to foreign exchange differences.

#### Note 6: Inventories and work-in-process

	Dec. 31, 2006			Dec. 31, 2005
	Gross	Provisions	Net	Net
Raw materials, supplies and merchandise	73,647	(10,102)	63,545	72,030
Semi-finished, finished and in-process products	126,580	(20,122)	106,458	103,292
<b>TOTAL</b>	<b>200,227</b>	<b>(30,224)</b>	<b>170,003</b>	<b>175,322</b>

**Note 7: Trade accounts and notes receivable -  
Other receivables and adjustment accounts**

Details of the receivables headings are as follows:

	Dec. 31, 2005			Dec. 31, 2004
	Gross	Provisions	Net	Net
Trade accounts and notes receivable	211,293	(3,356)	207,937	254,725
Other receivables and adjustment accounts	296,916		296,916	375,091
Advances and progress payments on orders	7,655		7,655	5,720
Suppliers' debit balances	1,427		1,427	1,285
Personnel and social benefits	546		546	1,003
Government and public organizations French State	60,630		60,630	67,299
compensation	75,000		75,000	149,714
Current accounts assets	8,861		8,861	3,127
Other receivables*	138,310		138,310	138,272
Prepaid expenses	4,427		4,427	4,707
Expenses to be distributed			0	0
Unrealized losses	60		60	3,964

\* Including 122.5 million euros at December 31, 2006 and December 31, 2005 for income to be received from insurance for the accident in Toulouse on September 21, 2001, covered by advances received in the amount of 103.5 million euros (see Note 12, page 42).

By due date, the receivables held as of December 31, 2006 were as follows:

	Total	Up to one year	More than one and less than five years	Over five years
Trade accounts and notes receivable	211,293	198,442	12,751	100
Other receivables and adjustment accounts	296,916	276,282	19,720	914
<b>TOTAL</b>	<b>508,209</b>	<b>474,724</b>	<b>32,471</b>	<b>1,014</b>

**Note 8: Income taxes: deferred and current (balance sheet)**

	Dec. 31, 2006	Dec. 31, 2005
<b>Detail of assets</b>		
Current taxes	21,690	19,927
Deferred tax assets	3,013	11,854
<b>Receivables from income taxes</b> (under "Government and public organizations" in note 7)	<b>24,703</b>	<b>31,781</b>
<b>Detail of liabilities</b>		
Income tax debts (current taxes)	4,965	6,810
Deferred tax liabilities (under "provisions for risks and expenses" note 10)	1,956	904
<b>Total liabilities</b>	<b>6,921</b>	<b>7,714</b>

The breakdown of deferred tax assets prior to offset is as follows:

	Dec. 31, 2006	Dec. 31, 2005
Retirement commitments	4,606	6,858
Other temporary differences	4,881	5,781
Losses carried forward – Amortization considered deferred	174	10,165
<b>TOTAL</b>	<b>9,661</b>	<b>22,804</b>
Net offset of deferred taxes by fiscal entity	(6,648)	(10,950)
<b>NET</b>	<b>3,013</b>	<b>11,854</b>

The breakdown of deferred tax liabilities is as follows (before offset):

	Dec. 31, 2006	Dec. 31, 2005
Statutory provisions	6,049	9,617
Other temporary differences	2,555	2,237
<b>TOTAL</b>	<b>8,604</b>	<b>11,854</b>

Furthermore, deferred tax assets not integrated in the balance sheet as of December 31, 2006 concern the fiscal deficits of loss-making companies for an amount of 78.4 million euros.

*Note 9: Marketable securities*

	Dec. 31, 2006	Dec. 31, 2005
Negotiable debt instruments		
Bonds		
Mutual funds – Euros	61,448	9,740
Mutual funds – US dollar	81,531	
Other		1,654
<b>TOTAL</b>	<b>142,979</b>	<b>11,394</b>

The marketable securities are primarily monetary funds remunerated on the basis of variable rates indexed to EONIA for the euro, and to Fed Funds for the part in US dollars. There is no significant difference between the market value and the book value of the marketable securities.

*Note 10: Provisions for risks and expenses and possible liabilities*

The breakdown of and changes in provisions for risks and expenses are as follows:

	Dec. 31, 2005	Provisions	Recoveries used	Recoveries not used	Conversion difference and change in scope	Dec. 31, 2006
Other provisions for risks	8,773	6,978	(6,220)	(677)	1	8,855
Provisions for retirement indemnities*	22,560	4,518	(3,322)	(332)	(91)	23,333
Other provisions for expenses***	116,287	12,434	(27,713)	(11,804)	(379)	88,825
Provisions for deferred tax liabilities**	904	2,452			(1,400)	1,956
<b>TOTAL</b>	<b>148,524</b>	<b>26,382</b>	<b>(37,255)</b>	<b>(12,813)</b>	<b>(1,869)</b>	<b>122,969</b>

\* The actuarial assumptions selected for valuation of retirement commitments at wholly-owned French companies are as follows:

1 - Inflation rate	1.5 %
2 - Discount rate	4.0 %
3 - Management payroll growth rate	3.0 %
Non-management payroll growth rate	2.0 %
4 - Mortality tables TF 00-02	
5 - Retirement age: 63 years for management and 61 years for non-management staff	
6 - Departure types: 70% voluntary	
30% at company initiative	

The impact of changes in actuarial conditions at January 1, 2003 and the change in discount rate at January 1, 2006 are amortized over an average residual period of 15 years.

The balance of the non-recorded commitment is recorded under off-balance sheet commitments, and corresponds to the application of the corridor rule.

The French social security financing bill for 2007 changed the procedures for retirement. It was not possible to reliably estimate the effects of this bill on retirement commitments because it was passed at a late date. The assumptions used at year-end 2006 therefore remain unchanged.

\*\* Compensation by fiscal entity.

\*\*\* Other provisions for expenses are as follows:

Pollution clean-up	26,572
Dismantling and remediation of sites	16,034
Employee departures (early retirement, workforce restructuring and asbestos plans)	37,077
Other provisions for expenses	9,142
	<b>88,825</b>

Main changes during the period were as follows:

Main provisions:

- 1.8 million euros for 2005 ISOICHEM workforce restructuring plan
- 7.1 million euros for other restructuring and retirement plans
- 2.4 million euros for losses on futures market.

The main recoveries used were as follows:

- 1.2 million euros for expenses of the Sorgues early retirement plan,
- 15.3 million euros for expenses due to restructuring plans,
- 7.2 million euros for actual costs of pollution clean-up and dismantling,
- 2.1 million euros for losses on futures market,
- 5.5 million euros for balance to be paid on studies following change in presentation of these costs at Roxel France. They are now shown as “non-received invoices”.

The non-used recoveries include a recovery of the provision for pollution clean-up at SNPE Tolochimie for 6.8 million euros.

The provisions at the end of the period for dismantling of installations and remediation of the Toulouse and Sorgues sites were broken down as follows:

SNPE and Tolochimie sites in Toulouse:

- 15.8 million euros concerning pollution clean-up costs at SNPE and Tolochimie sites, estimated on the basis of simplified and detailed risk analyses carried out on-site in 2004, 2005 and 2006 by a specialized consulting firm, based on conversion for a future industrial use.

The Toulouse detailed risk study culminated in the announcement of a prefectural decree addressed to SNPE on July 28, 2005 for termination of operations. Partial pollution clean-up of the areas being remediated was started in 2006 for a cost of 0,5 million euros. Complementary studies as well as a pollution clean-up report were submitted to the DRIRE in December 2006. An additional termination order should be issued in mid-2007. The amount of the provision remains unchanged.

The SNPE Tolochimie detailed risk study was submitted to the DRIRE in December 2005, and discussions with the DRIRE, on the remediation strategy, and with the CAGT (Communauté d'Agglomération du Grand Toulouse), or greater Toulouse area, for the purchase of the land were to take place during the first half of 2007.

Given the usage under consideration (parking lot), the company Antéa estimated the cost of the pollution clean-up work in early 2007. The provision was therefore reduced to 10 million euros, after recovery of a non-used amount of 6.8 million euros.

- 10.1 million euros concerning costs for dismantling the SNPE Toulouse and Tolochimie sites, estimated on the basis of price quotes by outside service providers, and the company's proposals for redeployment of infrastructures.

SNPE Sorgues site:

- 8.7 million euros concerning estimated costs of pollution clean-up, including part (6.9 million euros) calculated by discounting annual costs at 4% over 20 years, taking into account the future industrial usage of the site. No pollution clean-up costs were committed for the period.
- 1.9 million euros concerning dismantling costs estimated on the basis of a study carried out by the Company due to the shutdown of a certain number of workshops in 2003.

#### Note 11: Borrowings and financial debts

The breakdown of financial debts is as follows:

	Dec. 31, 2006	Dec. 31, 2005
Bonds		
Interest on bonds		
<b>Bonds</b>	<b>0</b>	<b>0</b>
Loans from banks	124,375	143,263
Bank borrowings for treasury needs	13,483	12,716
Interest	898	754
<b>Loans from banks</b>	<b>138,756</b>	<b>156,733</b>
Treasury notes	295,250	282,110
Conditional subsidies	10,976	10,023
Current financing accounts	2,940	1,758
Other financial debt	9,117	10,449
Interest	48	50
Leasing restatements	7,245	8,539
<b>Borrowings and other financial debts</b>	<b>325,576</b>	<b>312,929</b>
<b>Total of borrowings and financial debts</b>	<b>464,332</b>	<b>469,662</b>

The breakdown of financial debts by maturity is as follows:

	Dec. 31, 2006	Dec. 31, 2005
Less than 1 year	392,486	323,908
Over 1 and less than 5 years	63,187	135,786
Over 5 years	8,659	9,968
<b>Total borrowings and financial debts</b>	<b>464,332</b>	<b>469,662</b>

Clause concerning change in control

Most loan and credit line contracts provide for a cancellation clause if the French State loses control of the company.

The breakdown of financial debts by currency is as follows:

	Dec. 31, 2006	Dec. 31, 2005
Euros	447,201	415,227
US dollars (converted)	6,998	39,553
Other currencies (converted)	10,133	14,882
<b>TOTAL</b>	<b>464,332</b>	<b>469,662</b>

The breakdown of financial debt by type of interest rate is as follows:

	Dec. 31, 2006	Dec. 31, 2005
Variable rates	445,950	448,575
Fixed rates	18,382	21,087
<b>Gross financial debt</b>	<b>464,332</b>	<b>469,662</b>
Active treasury at variable rates*	(176,345)	(41,286)
<b>Net debt by type of rate and interest</b>		
Variable rates	269,605	407,289
Fixed rates	18,382	21,087
<b>Net financial debt</b>	<b>287,987</b>	<b>428,376</b>

\* Interest incurred, net loans, investment securities, cash and cash equivalents, values at deposit of payment, and active current accounts.

*Note 12: Operating debts*

Operating debts are broken down as follows:

	Dec. 31, 2006	Dec. 31, 2005
<b>Suppliers and related accounts</b>	<b>113,390</b>	<b>129,968</b>
<b>Other debts and adjustment accounts</b>	<b>417,584</b>	<b>424,130</b>
Advances and payments on account	107,727	109,891
Customer operating payables	2,403	2,108
Personnel and social benefits	47,484	45,698
Government and public organizations	32,091	38,914
Debts on assets	7,596	5,298
French State dividend in current account	2,804	2,804
Miscellaneous creditors*	204,790	205,146
Prepaid income	9,180	9,897
Unrealized gains	3,509	4,374

\* Including 103.5 million euros at December 31, 2006 and 2005 for advance on insurance for the Toulouse accident of September 21, 2001, and 75 million euros in payments received from the French State as advance payment for the Toulouse accident.

**5-2 • Statement of earnings**

*Note 13: Consolidated sales*

Domestic and export sales were as follows:

	2006	2005
France	315,593	331,329
Export	404,838	447,375
	<b>720,431</b>	<b>778,704</b>

*Notes 14: Other operating earnings*

	2006	2005
Capitalized production	1,453	1,924
Operating grants	1,078	856
Other income	13,132	9,344
Expense transfers*	17,435	17,328
<b>Other operating earnings</b>	<b>33,098</b>	<b>29,452</b>

\* 10.6 million euros at December 31, 2006 for the 2001 accident and the 2003, 2005 and 2006 workforce restructuring plans at ISOICHEM, deducted from "other purchases and external expenses" and "payroll charges".

*Note 15: Consumption of supplies and services*

	2006	2005
Production taken into inventory	10,130	(10,472)
Purchases of raw materials and other supplies	(206,880)	(221,335)
Purchases of merchandise	(43,136)	(54,745)
Changes in inventories of raw materials, supplies and merchandise	704	3,382
Other purchases and external expenses	(201,395)	(209,055)
<b>Consumption of supplies and services</b>	<b>(440,577)</b>	<b>(492,225)</b>

*Notes 16: Payroll expenses*

	2006	2005
Salaries and wages	(169,296)	(180,861)
Social charges	(66,406)	(69,402)
Employee profit-sharing and incentives	(2,197)	(1,852)
<b>Payroll expenses</b>	<b>(237,899)</b>	<b>(252,115)</b>

As of December 31, GROUPE SNPE had the following number of employees:

	2006	2005
Wholly-consolidated companies	3,665	4,062
Proportionally-consolidated companies*	631	657
<b>Total workforce</b>	<b>4,296</b>	<b>4,719</b>

\* Prorated by percentage of consolidation.

The breakdown by job category is as follows:

	2006	2005
Management and engineers	795	855
Supervisory staff	1,412	1,397
Office staff	257	397
Line workers	1,832	2,070
<b>Total</b>	<b>4,296</b>	<b>4,719</b>

*Note 17: Amortization and depreciation*

	2006	2005
Net amortization	(38,469)	(44,658)
Net provisions:		
– on assets	0	0
– on current assets	(18,189)	(19,088)
– for risks and expenses	(8,711)	(16,834)
– for operating expenses to be distributed	0	0
Provision recovery:		
– on fixed assets	0	0
– on current assets	19,015	18,867
– for risks and expenses	15,143	14,117
<b>Total</b>	<b>(31,211)</b>	<b>(47,596)</b>

*Note 18: Financial income and expenses*

	2006	2005
Interest on financial debt	(17,183)	(14,895)
Net provisions	(515)	(1,804)
Provision recoveries	599	1,144
Expense transfers		
Foreign exchange income (loss)	(3,773)	881
Financial income from equity stakes	5,636	1,089
Other financial income*	985	2,486
<b>Financial income (expense)</b>	<b>(14,251)</b>	<b>(11,099)</b>

\* Including 300,000 euros in December 2006 and 2 million euros in December 2005 for recovery of the discount on the French State receivable.

*Note 19: Extraordinary income and expenses*

The main extraordinary items are as follows:

	2006	2005
<b>Extraordinary income (loss) on operations</b>	<b>(29,157)</b>	<b>(35,072)</b>
Extraordinary expenses	(34,238)	(36,655)
Extraordinary income	5,081	1,583
<b>Results on capital transactions</b>	<b>137,362</b>	<b>625</b>
– on intangible assets	0	318
– on tangible assets*	(3,821)	(850)
– on financial assets**	141,075	358
Share of grants written back in results	108	799
<b>Extraordinary expense transfers</b>	<b>0</b>	<b>0</b>
<b>Net amortization and depreciation</b>	<b>8,241</b>	<b>(41,492)</b>
– on tangible and intangible assets		
Provisions	(20,336)	(44,212)
Recoveries	8,591	7,071
– on current assets		
Dotations	(152)	(228)
Recoveries	206	220
– for risks and expenses		
Provisions	(14,862)	(31,850)
Recoveries	34,794	27,507
<b>Extraordinary income (loss)</b>	<b>116,446</b>	<b>(75,939)</b>

\* In 2006, the main change was the scrapping of the effluent treatment unit at SNPE's Toulouse site, for which a provision covering the residual value was recorded at the end of 2005.

\*\* In 2006, sale of SNPE Inc.'s stake in Dynamic Materials Corporation, Inc.

Main extraordinary movements in 2006:

	2006 expenses	2006 income
Operations related to employee departures (restructuring plans, asbestos, early retirement plans)	(29,482)	18,682
Operations related to pollution clean-up	(582)	7,341
Depreciation of tangible and intangible assets	(19,643)	3,105
Dismantling, demolitions	(7,472)	6,627
Operations related to divestments	(16,385)	157,069
Operations related to sale of tangible and intangible assets	(2,870)	4,050
Other	(17,304)	13,310
<b>Total</b>	<b>(93,738)</b>	<b>210,184</b>

*Note 20: Income taxes*

Income tax expenses are broken down as follows:

	2006	2005
Tax loss carry-backs		(2,523)
Current tax charge*	(58,655)	30
Deferred taxes	(7,237)	
<b>Tax charge</b>	<b>(65,892)</b>	<b>(2,493)</b>

\* Including 2.7 million euros for the research tax credit.

The justification for taxes based on the basic French tax rate is as follows:

	2006	2005
Income (loss) before taxes	96,997	(97,756)
Theoretical tax (at 34.43%)	(33,396)	34,146
Impact of different tax rates tax rates for foreign subsidiaries subsidiaries	(12,134)	1,791
Impact of non-deductible expenses	(1,774)	(952)
Impact of tax-free recordings	(2,435)	1,855
Impact of the non-activation of deferred taxes on losses for the year, mainly in France	(23,789)	(52,827)
Activation of US tax deficit		8,845
Research tax credit and over tax credits	2,786	
Other	4,850	4,649
<b>Tax expense</b>	<b>(65,892)</b>	<b>(2,493)</b>

### 5-3 • Additional notes

#### Note 21: Environmental information

GROUPE SNPE's environmental expenses for 2006 fall into three main categories:

- 2.4 million euros in capitalized environmental expenses;
- 0.8 million euros in operating expenses;
- 37.8 million euros in environmental liabilities.

These liabilities primarily concern three SNPE production sites that have been wholly or partially shut down. Major actions are under way at these sites to:

- analyze the different types and degrees of pollution of soil and groundwater, based on in-depth diagnostics by specialized firms;
- assess the best techniques to be used to remediate these sites in compliance with current legislation;
- provide the different DRIRE departments with detailed risk studies of the areas concerned, and follow their recommendations;
- if applicable, dismantle the installations concerned to remediate the sites.

The four sites concerned fall into two categories:

1. The two sites at Toulouse (SNPE and SNPE TOLOCHIMIE) and Sorgues (SNPE part).

SNPE Toulouse and SNPE Sorgues must undergo pollution clean-up for subsequent industrial use.

The Toulouse detailed risk study was discussed with the DRIRE and resulted in the announcement of a prefectural decree addressed to SNPE on July 28, 2005 for a termination of operations. An additional decree for termination of operations was expected in mid-2007.

For the SNPE TOLOCHIMIE site, discussions with the DRIRE on the remediation strategy and with the CAGT (Communauté d'Agglomération du Grand Toulouse), for purchase of the land, should take place during the first half of 2007.

Given the usage under consideration (parking lot), after estimation of the cost of the pollution clean-up work by an outside company, the provision was reduced to 10 million euros, after recovery of a non-used amount of 6.8 million euros.

2. The SNPE Angoulême site, for which SNPE is only obliged to clean and decontaminate equipment and buildings and monitor the site.

#### Note 22: Earnings per share

The total number of shares considered is: 8,789,171 at December 31, 2006, and 7,399,744 at December 31, 2005.

This is the weighted average number of shares per quarter.

#### Note 23: Off-balance sheet commitments

The group's off-balance sheet commitments to third parties are as follows:

	Dec. 31, 2006	Dec. 31, 2005
<b>Commitments received</b>		
Guarantees received	1,739	3,041
Leasing	1,930	2,224
Other commitments received*	673	4,395
Confirmed, not used credit lines	279,900	312,393
Reciprocal commitments:		
– asset orders in process	3,321	3,183
– foreign currency hedging	0	1,695
<b>Total</b>	<b>287,563</b>	<b>326,931</b>

\* valuation at December 31, 2006 of greenhouse gas quotas received for the period 2007.

	Dec. 31, 2006	Dec. 31, 2005
<b>Commitments given</b>		
Guarantees given	11,751	10,766
Leasing	1,930	2,224
Other commitments given*	2,259	1,093
Retirement commitments (actuarial differences)	5,271	3,810
Reciprocal commitments:		
– asset orders in process	3,321	3,183
– foreign currency hedging	0	1,695
<b>Total</b>	<b>24,532</b>	<b>22,771</b>

\* \* Including 240,000 euros for commitments made by SNPE Inc. in terms of pollution clean-up on former lands held by Tevco, following the sale of this company in 2006.

Other Group commitments at year-end 2006:

Current and retired employees of ROXEL UK are members of BAe Systems pension plans, the group to which ROXEL UK belonged before its acquisition. These pension plans are multi-employer, defined service plans. ROXEL UK is associated with these plans, along with a certain number of other BAe subsidiaries and joint ventures.

ROXEL UK employees participate in several different retirement schemes, the deficits of which have been identified by BAe Systems on the basis of the situation at December 31, 2005. BAe Systems, which has applied IFRS standards since January 1, 2005, has published the impact of the transition from UK GAAP to IFRS. The application of the IAS 19 standard has led BAe to give an estimated overall deficit for these retirement funds.

Upon the acquisition of the operations exercised by BAe, ROXEL UK benefited from the following, because of the agreement that created the Roxel group:

- an opt-out clause for these pension plans, which can be exercised until 2015;
- a ceiling clause for employer contributions until 2013 in certain pension plans.

ROXEL is actively studying the specific options offered by these clauses.

At this point, the Group does not have sufficient information to value the possible commitments of ROXEL UK in regard to these clauses. As a result, the pension plans in which ROXEL UK participates are being treated in the 2006 financial statements like defined contribution schemes, in accounting terms.

#### Note 24: Financial instruments

The Group uses derivative instruments, including off-balance sheet commitments, to manage its exposure to exchange and interest rate risks. These financial instruments are designed to cover the risks on firm commitments and future transactions. The Group does not use derivative instruments to speculate.

#### 1 • Interest rate hedging

(millions of euros)

	Dec. 31, 2006 Total	Residual maturity			
		2007	2008	2009	Over 3 years
Fixed/variable interest rate swap	60.0	60.0			
– paid fixed rate (at Dec. 31, 2006)	4.82 %				
– received variable rate (at Dec. 31, 2006)	3.78 %				
Variable/Variable interest rate swap	0.0				
– paid fixed rate (at Dec. 31, 2006)					
– received variable rate (at Dec. 31, 2006)					

The indicative amounts in other currencies are expressed in euros at the exchange rate at the end of the fiscal year.

#### 2 • Hedging

The Group manages its exchange rate risk for commercial operations in main currencies (USD, JPY, GBP) on a centralized basis.

Financial instruments are limited to forward contracts and exchange options.

These commitments were nil at December 31, 2006 and 1.7 million euros at December 31, 2005.

At December 31, 2006, the financial instruments held and revalued in euros were as follows:

(millions of euros)

	USD	GBP	JPY
Forward sales	0	0	0
Option purchases	0	0	0
Option sales	0	0	0

# STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

To the Shareholders,

In accordance with the terms of our appointment by your Annual General Meeting, we have audited the consolidated financial statements of SNPE SA for the fiscal year ended December 31, 2006, as they are presented in this report.

These consolidated financial statements were prepared by your Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

## I Opinion on the consolidated financial statements

We have conducted our audit in accordance with generally accepted professional standards in France. These standards require that we conduct the audit so as to obtain a reasonable assurance that the consolidated financial statements do not contain material misstatements. An audit consists in examining, on a test basis, material evidence supporting the figures reported in the financial statements. An audit also involves an assessment of the accounting principles used and the significant estimates made in the preparation of the financial statements as well as an evaluation of the overall adequacy of the presentation of the information. We believe that our audit provides a reasonable basis for the opinion expressed below.

We hereby certify that the consolidated financial statements are true and sincere, established in accordance with generally accepted accounting methods in France, and are a fair representation of the assets, financial situation and results of the group made up of companies included in the consolidation.

Without calling into question the aforementioned opinion, we call your attention to the following point, as discussed in the note 2.4.1 "Application of preferential methods", indicating that GROUPE SNPE applies preferential methods except for presentation of the unrealized foreign currency gains and losses denominated in currencies, which are not systematically recorded in the statement of earnings.

## II Justification of assessments

In application of the provisions of article L.823-9 of the Code of Commerce concerning the justification of our assessments, we call your attention to the following aspects.

### • Goodwill and intangible assets

Goodwill and intangible assets are evaluated according to the methods shown in notes 2.3.4 and 2.4.3, respectively, to the financial statements. Our job is to assess the data and assumptions used for the estimates selected to evaluate the utility value of this goodwill and intangible assets used as the basis for a possible depreciation, and to review the calculations made by the company.

### • Tangible assets

Tangible assets are evaluated according to the methods presented in note 2.4.4 to the financial statements. Our job is to assess the data and assumptions used for the estimates selected to evaluate the utility value of these tangible assets used as the basis for a possible depreciation, and to review the calculations made by the company.

### • Retirement and associated services

Provisions for retirement commitments and bonuses are estimated on statistical and actuarial bases, using methods described in notes 2.4.11 and 5.1.10 to the financial statements.

It is our job to evaluate the data and the assumptions made, especially in regard to the Group's regulatory and economic environment, and to review the calculations made by the company.

### • Risks and litigation

Your company establishes provisions to cover the risks and litigation as described in notes 2.4.12 and 2.4.18 to the financial statements.

We have ensured that the procedures applied by the company list, evaluate and account for risks and litigation under satisfactory conditions. We have also ensured that any possible uncertainties identified during the application of these procedures were described appropriately in the notes to the financial statements.

In the specific case of provisions for pollution clean-up and dismantling, we ensured that simplified or detailed risk analyses existed. We have noted the progress of studies under way, the proposed schemes for remediation of polluted industrial sites, and methods for estimating these provisions.

Regarding forecasts that are by nature uncertain, the actuality may sometimes be significantly different.

- **Long-term contracts**

As described in note 2.4.7 to the financial statements, your company records revenues and margins on certain projects according to the percentage of completion method. This method depends on Management's use of estimates, in particular to determine the predicted result of each project. Our job is to examine the processes applied by the company and to assess the data and assumptions used for these estimates. We have ensured that the information provided in the notes to the consolidated financial statements is appropriate.

Within the scope of our assessments, we ensured that these estimates are reasonable.

The aforementioned assessments fall within the scope of our audit of the consolidated financial statements, taken as a whole, and thus contributed to forming our unreserved opinion, as expressed in the first part of this report.

### III Specific verification

In addition, in application of generally accepted professional standards in France, we have examined the information on the Group provided in the management report. We have no comment to make regarding their fairness and concordance with the consolidated financial statements.

Courbevoie and Neuilly-sur-Seine

April 27, 2007

Statutory Auditors

MAZARS & GUERARD

Thierry Colin    Raymond Pétroni

ERNST & YOUNG ET AUTRES

Pierre-Antoine Duffaud

# 2006 FINANCIAL REVIEW

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## BALANCE SHEET AT DECEMBER 31, 2006

('000 euros)	2006	2005
<b>ASSETS</b>		
Intangible assets	109	47
Tangible assets	13,350	16,096
Financial assets	428,965	437,714
<b>Fixed assets</b>	<b>442,424</b>	<b>453,857</b>
Inventories and work-in-process	7,123	4,019
Trade accounts and notes receivable	4,594	6,063
Other accounts receivable and adjustment accounts	400,901	451,891
Marketable securities	142,979	9,740
Cash and cash equivalents	71	203
<b>Current assets</b>	<b>555,668</b>	<b>471,916</b>
<b>TOTAL ASSETS</b>	<b>998,092</b>	<b>925,773</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Capital stock	263,675	263,675
Paid-in capital	38,049	38,049
Revaluation surplus	991	991
Legal reserve	7,055	7,055
Statutory reserve	3,997	3,997
Retained earnings (loss)	(191,696)	(97,314)
Other reserves	66,116	66,116
<b>Income (loss)</b>	<b>2,650</b>	<b>(94,382)</b>
Investment grants	0	0
Statutory provisions	609	3,198
<b>Shareholders' equity</b>	<b>191,446</b>	<b>191,385</b>
<b>Provisions</b>	<b>51,031</b>	<b>66,990</b>
Borrowings and financial debts	549,800	459,349
Accounts payable and accrued expenses	7,263	6,913
Other debts and adjustment accounts	198,552	201,136
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>998,092</b>	<b>925,773</b>

# STATEMENT OF EARNINGS

('000 euros)	2006*	2005*
Sales	15,902	15,180
Other operating earnings	9,449	17,909
<b>Total operating income</b>	<b>25,351</b>	<b>33,089</b>
Consumption of supplies and services	(14,864)	(24,708)
Payroll expenses	(12,981)	(15,333)
Other operating expenses	(143)	(67)
Taxes	(2,266)	(2,387)
Amortization and depreciation	(1,009)	(731)
<b>Total operating expenses</b>	<b>(31,263)</b>	<b>(43,226)</b>
<i>Operating income (loss)</i>	<i>(5,912)</i>	<i>(10,137)</i>
Financial earnings and expenses	2,628	(74,204)
<i>Pretax income (loss) on operations</i>	<i>(3,284)</i>	<i>(84,341)</i>
Extraordinary expenses and earnings	2,585	(14,928)
Employee profit-sharing and incentives	0	0
<i>Net income (loss) before taxes</i>	<i>(699)</i>	<i>(99,269)</i>
Income tax	3,349	4,887
<b>Net income</b>	<b>2,650</b>	<b>(94,382)</b>

\* After restatement of the expense transfers under "other operating earnings", equal to 5,719,000 euros in 2006 and 13,853,000 euros in 2005, mainly related to events in Angoulême (asbestos plan and dismantling) and Toulouse (cogeneration and pollution clean-up).

# STATEMENT OF INTERMEDIATE BALANCES AT DECEMBER 31, 2006

('000 euros)

Income <sup>(1)</sup>	Amount	Expenses <sup>(2)</sup>	Amount	Intermediate balances <sup>(1-2)</sup>	2006	2005
Production sold (including merchandise)	15,902					
Production stored	3,087	or decrease in inventory				
In-house production	0					
<b>Total</b>	<b>18,989</b>	<b>Total</b>	<b>0</b>	<b>Production for the year</b>	<b>18,989</b>	<b>17,953</b>
Production for the year	18,989	External expenses for non-Group companies	14,864	Added value	4,125	(6,755)
Value added	4,125	Taxes	2,266			
Operating grants	57	Payroll expenses	12,981			
<b>Total</b>	<b>4,182</b>	<b>Total</b>	<b>15,247</b>	<b>Gross operating profit (loss)</b>	<b>(11,065)</b>	<b>(24,436)</b>
Gross operating margin	0	or gross operating shortfall	11,065			
Recovery of depreciation, provisions and expense transfers	6,062	Amortization, depreciation and provisions	1,352			
Other income	586	Other expenses	143			
<b>Total</b>	<b>6,648</b>	<b>Total</b>	<b>12,560</b>	<b>Operating income (loss)</b>	<b>(5,912)</b>	<b>(10,137)</b>
Operating income	0	Operating loss	5,912			
Financial income	48,876	Financial expenses	46,248			
<b>Total</b>	<b>48,876</b>	<b>Total</b>	<b>52,160</b>	<b>Pretax income (loss) on operations</b>	<b>(3,284)</b>	<b>(84,341)</b>
<b>Extraordinary income</b>	<b>27,906</b>	<b>Extraordinary expenses</b>	<b>25,321</b>	<b>Extraordinary income (loss)</b>	<b>2,585</b>	<b>(14,928)</b>
Pretax income on operations	0	Pretax loss on operations	3,284			
Extraordinary income	2,585	Extraordinary loss	0			
Write-back of losses	0	Employee incentives	0			
Research tax credits	0	Profit-sharing	0			
		Income taxes	(3,349)			
<b>Total</b>	<b>2,585</b>	<b>Total</b>	<b>(65)</b>	<b>Income (loss)</b>	<b>2,650</b>	<b>(94,382)</b>
Income from sales of assets	88	Net book value of assets sold	7,118	Capital gain (loss) on sale of assets	(7,030)	(248)

# STATEMENT OF CASH FLOWS

('000 euros)	2006	2005
<b>Net income</b>	<b>2,650</b>	<b>(94,382)</b>
Less income and expenses with no impact on cash position or not related to business:		
Amortization	1,041	1,328
Depreciation and provisions	(13,410)	10,600
Capital gains or losses	7,030	248
Investment grants in relation to earnings and various income	0	(400)
<b>Cash flow</b>	<b>(2,689)</b>	<b>(82,606)</b>
Change in working capital requirements due to operations:		
Change in net inventories	(3,104)	(2,910)
Change in net operating receivables	86,386	150,089
Change in net operating payables	(2,149)	(18,761)
<b>Net cash flow generated by operations</b>	<b>78,444</b>	<b>45,812</b>
<b>CASH FLOW RELATED TO INVESTMENT OPERATIONS</b>		
Acquisitions of fixed assets:		
Intangible	(18)	0
Tangible	(877)	(2,530)
Financial	0	0
Sale of fixed assets	88	6,498
Grants received	0	3
<b>Net cash flow due to investment operations</b>	<b>(807)</b>	<b>3,971</b>
<b>CASH FLOW RELATED TO FINANCING OPERATIONS</b>		
Dividends paid	0	0
Capital increase	0	0
Issue of loans	37,593	98,638
Repayment of borrowings	(50,064)	(117,235)
Repayment of loans and other financial assets	5,100	11,674
New loans and increase in other financial assets	(6,039)	(12,355)
<b>Net cash flow due to financing operations</b>	<b>(13,410)</b>	<b>(19,278)</b>
<b>CHANGE IN CASH POSITION</b>	<b>64,227</b>	<b>30,505</b>
Cash position at opening	(81,545)	(112,050)
Cash position at closing	(17,318)	(81,545)

# SNPE SA FIVE-YEAR FINANCIAL SUMMARY

('000 euros, unless otherwise indicated)	2002	2003	2004	2005	2006
<b>I – Capital at year-end</b>					
Equity capital	55,261	55,261	55,261	263,675	263,675
Number of common shares ('000)	1,842	1,842	1,842	8,789	8,789
Number of shares in preferred dividend stock (non voting)	none	none	none	none	none
Maximum number of shares to be issued	none	none	none	none	none
Conversion of convertible stocks	none	none	none	none	none
Through exercise of stock options	none	none	none	none	none
<b>II – Operations and income</b>					
Sales net of taxes	118,666	55,840	22,890	15,180	15,902
Income before taxes, employee incentives and profit-sharing and appropriation to amortization, depreciation and provisions	61,111	5,119	(104,665)	(21,926)	(1,310)
Income tax	(9,317)	(1,210)	3,323	4,887	3,349
Employee incentives and profit-sharing	203	0	0	0	0
Income after taxes, employee incentives and profit-sharing and appropriations to amortization <sup>(1)</sup> , depreciations and provisions <sup>(2)</sup>	(26,311)	16,789	(97,240)	(94,382)	2,650
Dividends paid	0	0	0	0	0
Dividends to be paid, as proposed at Shareholders' Annual General Meeting	0	0	0	0	0
<b>III – Earnings per share (in euros)</b>					
Income after taxes, employee incentives and profit-sharing, but before appropriations to amortization, depreciation and provisions	38.12	3.44	(55.02)	(1.94)	0.23
Income after taxes, employee incentives and profit-sharing and appropriations to amortization, depreciation and provisions	(14.28)	9.11	(52.79)	(10.74)	0.30
Net dividend per share	0	0	0	0	0
Net dividend per share as proposed at shareholders' Annual General Meeting	0	0	0	0	0
<b>IV – Personnel</b>					
Average annual number of employees including:	874	496	258	169	138
- Management and engineers	172	104	73	62	56
- Supervisory staff	301	168	82	51	45
- Office staff	28	19	12	5	4
- Workers	373	205	91	51	33
Employee compensation (in thousands of euros)	32,575	38,113	21,540	11,290	9,084
Social security taxes and other benefits (in thousands of euros)	12,946	8,937	5,916	4,043	3,897
(1) Including additional amortization after revaluation	0	0	0	0	0
(2) Including regulatory tax provisions	10,305	7,428	1,199	99	2,589

# STATUTORY AUDITORS' REPORT ON SNPE SA FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

To the Shareholders,

In accordance with the terms of our appointment by your Annual General Meeting, we hereby present our report for the fiscal year ended December 31, 2006 concerning:

- the audit of the financial statements of the company SNPE SA as appended to the present report;
- the justification of our assessments;
- the specific checks and information required by law.

These annual financial statements were prepared by the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

I

## Opinion concerning the annual financial statements

We have conducted our audit in accordance with generally accepted professional standards in France. These standards require that we conduct the audit so as to obtain a reasonable assurance that the financial statements do not contain material misstatements. An audit consists in examining, on a test basis, material evidence supporting the figures reported in the financial statements. An audit also involves an assessment of the accounting principles used and the significant estimates made in the preparation of the financial statements as well as an evaluation of the overall adequacy of the presentation of the information. We believe that our audit provides a reasonable basis for the opinion expressed below.

We hereby certify that the financial statements are true and sincere in regard to French accounting standards and principles, and are a fair representation of the operations of the year under review as well as the assets and financial situation of the company at the close of the period.

II

## Justification of assessments

In application of the provisions of article L.823-9 of the French Code of Commerce concerning the justification of our assessments, we bring to your attention the following aspects.

### • Equity stakes

The equity stakes held by your company are valued according to the methods described in note 2.3.4 to the financial statements. Our job is to assess the data and assumptions used for the estimates selected to evaluate the utility of these equity stakes used as the basis for a possible depreciation, and to review the calculations made by the company.

### • Retirement and associated services

Provisions for retirement commitments and bonuses are estimated on statistical and actuarial bases, using methods described in notes 2.3.11 and 3.1.9 to the financial statements.

It is our job to evaluate the data and the assumptions made for these estimates, especially in regard to the Group's regulatory and economic environment, as well as to review the calculations made by the company.

### • Risks and litigation

Your company establishes provisions to cover risks and litigation as described in notes 2.3.8 and 2.3.14 to the financial statements.

We have ensured that the procedures applied by the company list, evaluate and account for risks and litigation under satisfactory conditions. We have also ensured that any possible uncertainties identified during the application of these procedures was described appropriately in the notes to the financial statements.

In the specific case of provisions for pollution clean-up and dismantling, we ensured that simplified detailed risk studies existed. We have noted the progress of studies under way, the proposed schemes for remediation of polluted industrial sites, and methods for estimating these provisions. We have ensured that the information given in the notes to the financial statements is appropriate.

Within the scope of our assessments, we ensured that the different estimates made are reasonable.

The aforementioned assessments fall within the scope of our audit of financial statements, taken as a whole, and thus contributed to forming our unreserved opinion, as expressed in the first part of this report.

III

## Specific checks and information

In accordance with the standards of our profession in France, we have also carried out the specific checks required by law.

We have no comment to make regarding the fairness and concordance with the financial statements of the information contained in the Management Report of the Board of Directors and in the documents sent to the shareholders concerning the financial situation and annual financial statements.

Courbevoie and Neuilly sur Seine

April 27, 2007

Statutory Auditors

MAZARS & GUERARD

ERNST & YOUNG ET AUTRES

Thierry Colin

Raymond Pétroni

Pierre-Antoine Duffaud

# STATUTORY AUDITORS' SPECIAL REPORT

## FOR THE YEAR ENDED DECEMBER 31, 2006

To the Shareholders,

In accordance with our appointment as Statutory Auditors of your company, we hereby present our report on regulatory agreements.

The terms of our engagement do not require us to identify the existence of agreements, but to tell you, based on information provided to us, the basic characteristics and methods of those of which we have been informed, without having to issue an opinion on their utility and validity. It is your responsibility, according to the terms of article R.225-31 of the Code of Commerce to evaluate the interest in concluding these agreements with a view to their approval.

We hereby inform you that we have received no opinion on any agreement signed during the period which is covered by article L.225-38 of the French Code of Commerce.

Furthermore, in application of the Code of Commerce, we were informed that the execution of the following agreement, approved during previous years, continued during the last fiscal year.

### With the French State

#### Nature and purpose

Transactional agreement of April 3, 2003 concerning compensation for not being able to restart phosgene operations at the Toulouse site.

This agreement, authorized by the Board of Directors meeting of March 27, 2003, aims to compensate your Company for the decision not to authorize the restart of phosgene-related operations in Toulouse, and your company's agreement to renounce these operations in the future, for a total, fixed-price amount of 300 million euros, payable in four equal payments from February 2004 to February 2007, on one hand, and to enable your company to redeploy its businesses through a capital increase of 50 million euros, on the other hand.

The agreement also specifies that your company will take charge of dismantling of the installations shut down and the remediation of the corresponding land with a view to "industrial usage".

#### Methods

On March 7, 2006, the French State paid your company 75 million euros, bringing the total received from the first three payments in the transactional agreement to 225 million euros. On March 10, 2006, 5 million euros were used for the partial repayment of the advance of 80 million euros given by the French State on the amounts to be received according to the transactional agreement.

We have carried out our work according to generally accepted professional standards in France. These standards require the application of procedures to check that information provided to us matches that in the basic documents from which this information is drawn.

Courbevoie and Neuilly sur Seine

April 27, 2007

Statutory Auditors

MAZARS & GUERARD

ERNST & YOUNG ET AUTRES

Thierry Colin

Raymond Pétroni

Pierre-Antoine Duffaud

# INFORMATION ON CAPITAL

## Share capital

At December 31, 2006, SNPE had share capital of 263,675,130 euros, divided into 8,789,171 fully paid-in shares with a par value of 30 euros.

## DISTRIBUTION OF CAPITAL AND VOTING RIGHTS

% of capital	Dec. 31, 2006	Dec. 31, 2005
French State	99.972 %	99.972 %
Société Générale	0.022 %	0.022 %
Natexis Banques Populaires	0.006 %	0.006 %
<b>Total</b>	<b>100.000 %</b>	<b>100.000 %</b>

60 List of subsidiaries and affiliates

# SUBSIDIARIES AND AFFILIATES

(Articles L.354 and L.355 of the Decree of November 29, 1983)

Subsidiaries and affiliates at December 31, 2006	Capital	Shareholders' equity other than capital before allocation of results	Share of capital held (%)	Balance sheet value  Gross
<b>A - Detailed information concerning equity stakes whose balance sheet value exceeds 1% of SNPE share capital, or 2,637,000 euros</b>				
<b>1 - Subsidiaries (over 50% of capital held)</b>				
- SNPE Matériaux énergétiques	159,000	(16,508)	100 %	168,397
- SOFIGEXI	35,621	6,994	100 %	36,203
- ISOCHEM	43,118	(138,636)	88.74 %	69,198
- BERGERAC NC	29,983	(41,991)	100 %	34,495
<b>2 - Affiliates (10 to 50% of capital held)</b>				
a) French companies				
- NOBEL EXPLOSIFS France	5,299	22,340	47.95 %	5,887
b) International companies				
- Tessenderlo Chemie S.A.	136,000	304,211	26.21 %	208,414
<b>B - General information concerning other subsidiaries or affiliates</b>				
<b>1 - Subsidiaries (over 50% of capital)</b>				
a) French companies				0
b) International companies				0
<b>2 - Affiliates (10 to 50% of capital held)</b>				
a) French companies				244
b) International companies				0

of shares held Net	Loans and advances agreed and not yet repaid	Deposits and guarantees provided	Sales for 2006	Income (loss) for 2006	Dividends received by SNPE in 2006	Notes
168,397	0	0	135,362	453	0	Equity income
36,203	0	0	0	2,768	22,323	
0	0	0	127,499	(15,869)	0	
0	0	0	62,232	(10,827)		
5,887	0	0	0	0	2,710	
208,414	0	0	595,108	(43,279)	8,624	
0	0	0			0	
0	0	0			0	
244	0	0			0	
0	0	0			0	

# RESOLUTIONS SUBMITTED TO THE MIXED GENERAL AND SPECIAL MEETING OF SHAREHOLDERS, JUNE 28, 2007

## FIRST RESOLUTION

The General Meeting of Shareholders, after having read the report of the Board of Directors on the year ended December 31, 2006, and the report of the Statutory Auditors, approves the financial statements for the fiscal year ended December 31, 2006 as presented, showing a profit for the year of 2,650,370.09 euros.

The Annual General Meeting of Shareholders also approves the operations expressed in these statements or summarized in these reports.

It therefore approves the directors and the Statutory Auditors in the execution of their mandates for the past fiscal year.

## SECOND RESOLUTION

The Annual General Meeting of Shareholders, after having read the auditors' special report concerning operations covered by articles L.225-38 et al of the French Code of Commerce, approves the terms and conclusions of this report.

## THIRD RESOLUTION

The Annual General Meeting of Shareholders, acting on the proposal of the Board of Directors, agrees to allocate the entire profit for the fiscal year of 2,650,370.09 euros, to retained earnings.

As stipulated in article 243bis of the French General Tax Code, it is stated that the dividend paid during the last three fiscal years is as follows:

Year	Dividend paid	Tax credit
2003	0	Tax credit: 0
2004	0	Deduction: 50%
2005	0	Deduction: 40%

No dividend will be distributed for 2006.

## FOURTH RESOLUTION

The Annual General Meeting of Shareholders, after having read the Auditors' report on the consolidated financial statements for 2006, notes that these statements were presented in compliance with the regulatory provisions and approves these statements as presented.

## FIFTH RESOLUTION

The Annual General Meeting notes the following changes in the makeup of the Board of Directors:

- The appointment by decree of April 3, 2006, of Pierre Moschetti, director representing the State, to replace Gérard Kauffmann.
- The appointment by decree of December 22, 2006, of Jean-Yves Leclercq, director representing the State, to replace Bernard Maître.

## SIXTH RESOLUTION

The Annual General Meeting also notes, as required:

- the change in the name of the statutory auditors, Barbier-Frinault et Autres, to Ernst & Young et Autres, as from July 1, 2006.
- the transfer of the headquarters of Mazars, statutory auditors, to the following address: Exaltis, 61 rue Henri Regnault, 92075 La Défense Cedex.

## SEVENTH RESOLUTION

The Annual General Meeting, having read the report of the Board of Directors and in compliance, on one hand, with the Code of Commerce, in particular articles L 225-129-6 and L 225-138, and on the other hand, article L 443-5 of the Labor Code, decides the following, providing that the following resolution concerning the elimination of preferential subscription rights is approved:

- delegate to the Board of Directors the powers needed to carry out an increase in share capital, in a single or several steps, to a limit of 3% of the capital, by issuing shares reserved to members of a company savings plan that is to be set up;
- that the beneficiaries of capital increases, presently authorized, will be the members of a company savings plan that is to be set up;
- set the length of validity of the present delegation to a period of 30 months from the day of the present Annual General Meeting;
- to set the maximum par value of the shares that could be issued at 95 euros;

- that the Board of Directors will have all necessary powers to implement the present delegation, within the limits and under the conditions specified below, in particular to:
- define the conditions to be met by the beneficiaries of the new shares to be issued as part of the capital increases in the present resolution;
- approve the conditions for the issue;
- decide the amounts to be issued, the issue price, the dates and the procedures for each issue;
- set the subscription dates;
- set the dates, even if retroactive, from which the new shares are mature;
- note or have noted the execution of capital increases up to the amount of the shares which will be effectively subscribed;
- take all measures necessary for the execution of the capital increases, carry out the necessary legal procedures and modify the bylaws in consequence of these capital increases.

#### **EIGHTH RESOLUTION**

The Annual General Meeting, having read the report of the Board of Directors and the report of the Statutory Auditors on the elimination of preferential subscription rights, decides to eliminate the preferential right of shareholders, to be replaced by the company's employees, within the scope of the capital increases proposed in the preceding resolution.

#### **NINTH RESOLUTION**

The General Meeting of Shareholders gives full powers to the bearer of a copy or excerpts of the report noting these deliberations to carry out all procedures required for reasons of publicity or legal registrations.

## **GROUPE SNPE**

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