PRODUITS VINYLIQUES - CHIMIE INDUSTRIELLE - PRODUITS DE PERFORMANCE

Reference document

2006

ARKEMA

Reference Document **2006**

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

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In accordance with its General Regulation, notably article 212-13, the French language version of this document was registered with the Autorité des Marchés Financiers on 21 May, 2007 with visa number R.07-073. This document may only be used in connection with a financial operation if it is completed by a prospectus which has received the visa of the Autorité des Marchés Financiers. This document has been prepared by the issuer under the responsibility of its signatories. The registration, after examination of the relevant and internal consistency of the information regarding the company's situation, does not imply any validation of the accounting and financial information presented.

CONTENTS

General comments

In this reference document:

- "Arkema S.A." or "Company" means the company named Arkema, formerly named DAJA 34, the shares of which have been listed on Eurolist by Euronext™ since 18 May 2006. By a resolution of its general meeting on 6 March 2006 and effective as of 18 April 2006, DAJA 34 was renamed Arkema ;
- "Arkema France" means the company formerly named Arkema (and before that Atofina). Arkema was renamed Arkema France by a resolution of its extraordinary general meeting on 20 February 2006, effective as of 18 April 2006;
- "Group" or "ARKEMA" means the group composed of Arkema S.A., Arkema France and all the subsidiaries and shareholdings which are directly or indirectly held by Arkema S.A. and Arkema France after the completion of the transactions described in section 5.1.5 of this reference document.

This reference document contains forward-looking statements about the Group's targets and forecasts, in particular in chapters 12 and 13. Such statements may in certain cases be identified by the use of the future or conditional tense, or by forward-looking words including but not limited to "believes", "targets", "expects", "intends", "should", "aims", "estimates", "considers", "wishes", "may", etc. These statements are based on data, assumptions and estimates that the Group considers to be reasonable. They may change or be amended due to uncertainties linked to the economic, financial, competitive, regulatory and climatic environment. In addition, the Group's business activities and its ability to meet its targets may be affected if certain of the risk factors described in chapter 6 of this reference document were to materialize. Furthermore, achievement of the targets and forecasts implies the success of the strategy presented in section 4.4 of this reference document.

The Group does not undertake to meet and does not give any guarantee that it will meet the targets described in this reference document.

Forward-looking statements and targets described in this reference document may be affected by risks, either known or unknown, uncertainties and other factors that may lead to the Group's future results, performance and achievements differing significantly from the stated or implied targets. These factors may include changes in economic or trading conditions and regulations, as well as the factors set out in chapter 6 of this reference document.

Investors are urged to pay careful attention to the risk factors described in chapter 6 of this reference document. One or more of these risks could have an adverse effect on the Group's activities, condition, and financial results or on its targets. Furthermore, other risks not yet identified or considered as insignificant by the Group could have the same adverse effects.

This reference document also contains details of the markets in which the Group operates. This information is derived in particular from research produced by external organizations. Given the very rapid pace of change in the chemicals sector in France and the rest of the world, this information may prove to be erroneous or out of date. Accordingly, trends in the Group's business activities may differ from those set out in this reference document and the statements or data shown in this reference document may prove to be erroneous, without the Group being obliged in any way whatsoever to update them.

As part of the listing of Arkema S.A.'s shares on Eurolist by Euronext™, the Company prepared for the 2003, 2004 and 2005 financial years combined and pro forma accounts. These financial statements and the basis on which they were prepared were included in the prospectus granted visa number 06-106 by the AMF on 5 April 2006.

For the 2006 financial year, the Company has prepared consolidated financial statements for the period from 1 January to 31 December. These consolidated financial statements form chapter 20 of this reference document and refer to the combined financial statements for 2005. The announcement on 14 November 2006 of a project to sell its Cerexagri subsidiaries (that is to say nearly all assets from its Agrochemicals business unit) led Arkema S.A. to apply IFRS 5 to this business (details of its application are given in chapter 20).

Pro forma financial statements were prepared on the basis of combined financial statements restated to take into account the additional costs that ARKEMA would have borne if the Group had operated as a stand-alone and listed group since 1 January 2003.

Chapter 9 of this reference document provides a comparative analysis of financial statements for 2006 and pro forma financial statements for 2004 and 2005, including, where appropriate, restatements for the application of IFRS 5.

A glossary defining the technical terms used in this reference document can be found on pages 228 to 231.

1 Persons responsible for the reference document and for financial information

1.1 - Person responsible for the reference document

Thierry Le Hénaff, Chairman and Chief Executive Officer, Arkema S.A.

1.2 - Declaration of the person responsible for the reference document

"Having taken all reasonable care to ensure that such is the case, I certify that the information contained in this reference document accurately reflects, to the best of my knowledge, the facts and contains no omission that would be likely to affect its meaning.

I have obtained a letter from the statutory auditors confirming that they have completed their work and indicating that they have verified the financial situation and the financial statements included in this reference document and that they have reviewed the document as a whole.

This reference document incorporates, for reference purposes, financial information relating to the financial years to 31 December 2004 and 31 December 2005 and the reports for these years.

The combined financial statements for the Group for the years ended 31 December 2004 and 2005 presented in Appendices B.1 and C.1 of the prospectus that was granted visa by the AMF on 5 April 2006 (visa n°06-106) ("the Prospectus") were subject to audit reports by KPMG Audit, statutory auditors, which are included in Appendices B.2 and C.2 of the Prospectus.

The pro forma financial statements for the years ended 31 December 2004 and 2005 included in Appendix D.1 of the Prospectus were subject to audit reports by KPMG Audit, statutory auditors, that were included in Appendix D.2 of the Prospectus; pro forma financial information relating to the 2005 financial year included in the pro forma financial statements for 2004 and 2005, were subject to an audit report by Ernst & Young, contractual auditor, on these financial statements that was included in Appendix D.3 of the Prospectus.

The consolidated financial statements for the financial year ended 31 December 2006, included in chapter 20 of this reference document, are subject to an audit report from KPMG Audit and Ernst & Young, statutory auditors, which is included in chapter 20 of this reference document and whose observations are included in page 138 and 139 of this reference document."

Thierry Le Hénaff
Chairman and Chief Executive Officer

1.3 - Person responsible for financial information

For any question concerning ARKEMA and its business activities:

Frédéric Gauvard
Vice-President Investor Relations

Arkema S.A.
4-8, cours Michelet
92800 Puteaux
Phone: +33(0)1.49.00.74.63

2 Persons responsible for auditing the financial statements of Arkema S.A.

Statutory Auditors

KPMG Audit
Department of KPMG S.A.

Represented by Bertrand Desbarrières
and Jacques-François Lethu

1, cours Valmy
92923 Paris la Défense Cedex

First appointed at the annual general meeting of 23 June 2005. Current term ends at the conclusion of the annual general meeting to be held in order to approve the financial statements for the year ending 31 December 2007.

Statutory Auditors

Ernst & Young Audit

Represented by François Carrega
and Yvon Salaün

Tour Ernst & Young
Faubourg de l'Arche
11, allée de l'Arche
92037 Paris-La Défense Cedex

First appointed at the annual general meeting of 10 May 2006. Current term ends at the conclusion of the annual general meeting to be held in order to approve the financial statements for the year ending 31 December 2011.

Alternate Auditor

Jean-Marc Decléty

1, cours Valmy
92923 Paris la Défense Cedex

First appointed at the annual general meeting of 23 June 2005. Current term ends at the conclusion of the annual general meeting to be held in order to approve the financial statements for the year ending 31 December 2007.

Alternate Auditor

AUDITEX

Faubourg de l'Arche
11 allée de l'Arche
92037 Paris la Défense Cedex

First appointed at the annual general meeting of 10 May 2006. current term ends at the conclusion of the annual general meeting to be held in order to approve the financial statements for the year ending 31 December 2011.

3 Selected financial information

The table below sets out key financial information for ARKEMA for the 2004, 2005 and 2006 financial years, extracted from the reconciliation tables for 2004 and 2005 provided in section 9.2.1 of this reference document and from the 2006 financial statements included in chapter 20 of this reference document. Figures for 2004 and 2005 provided in this section have been prepared on a pro forma basis excluding, in the case of the income statement, financial information for Cerexagri in accordance with the application of IFRS 5. These figures should be considered in connection with the financial statements and the information contained in chapter 9 of this reference document.

(In millions of euros)	2004	2005	2006
Group			
Sales	5,137	5,515	**5,664**
Recurring EBITDA*	295	347	**411**
As % of sales	*5.7%*	*6.3%*	***7.3%***
Recurring operating income*	11	125	**200**
Other income and expenses*	(596)	(496)	**(92)**
Operating income*	(585)	(371)	**108**
Net income, group share	(618)	(427)	**45**
Capital employed*	2,929	3,106	**3,025****
Capital expenditure (gross)***	300	333	**336**
Depreciation and amortization	(284)	(222)	**(211)**

(*) These indicators are defined in chapters 9 and 20 of this reference document.
(**) Excluding Cerexagri.
(***) Gross capital expenditure figures include Cerexagri for all three periods.

4

General presentation

All the quantified information contained in this chapter is provided on a pro forma basis for 2004 and 2005 excluding, for income statement and information by business segment, data relating to Cerexagri, in application of IFRS 5, and on a consolidated basis for 2006, excluding financial information relating to Cerexagri for the income statement and information by business segment (see chapters 9 and 20 of this reference document).

4.1 - Presentation of the Group's industry sector

The Group is an important player in the global chemical industry.

The industry sector to which the Group belongs, commonly called an "industry for industries", manufactures a wide range of products for other major industries: construction, packaging, chemicals, automobiles, electronics, food manufacturing, pharmaceuticals, etc.

The chemical industry is a processing industry that is based on the transformation in one or several stages of raw materials (oil derivatives, gas, minerals, natural products, etc.) into more or less complex chemical products, or into plastics obtained by polymerization.

At the two extremes of this wide spectrum, there are, on the one hand, commodities (characterized by few transformation stages, large volumes, and cyclical unit prices and margins), such as olefins and polyolefins, ammonia, methanol and caustic soda, and, on the other hand, sophisticated products like pharmaceuticals and agrochemical derivatives. Between these two extremes are a large number of chemical intermediates, polymers and fine-chemical products.

The chemical industry also includes specialty products such as adhesives, paints, inks, varnishes, cosmetics and detergents, developed in response to the need for application products.

With estimated worldwide sales of almost €1,500 billion in 2005, the world chemical industry ranks third among industrial sectors, behind manufactured goods (equipment goods, transport, machinery, etc.) and food production. The chemical sector is a worldwide industry located in three main geographic regions, namely Europe (about 34.5% of world production), North America (about 25% of world production) and Asia (about 35% of world production)[1]. Trade in chemicals between these three main production regions is growing, though is still limited at present.

The chemical industry is a very fragmented sector, both in terms of products (several tens of thousands), final markets (most industrial sectors are consumers) and industry players (the share of the world market of the top ten companies does not exceed 20%).

4.2 - Group profile

The Group operates in this industrial context with a coherent business portfolio focused on three segments: Vinyl Products, Industrial Chemicals and Performance Products. With sales of €5.7 billion in 2006, the Group is one of the world's leading players in chemicals.

SALES BY BUSINESS SEGMENT

(In billions of euros)	2004		2005		2006	
Vinyl Products	1.37	27%	1.39	25%	1.38	24%
Industrial Chemicals	2.15	42%	2.41	44%	2.49	44%
Performance Products	1.62	31%	1.71	31%	1.79	32%
TOTAL	**5.14**	**100%**	**5.51**	**100%**	**5.66**	**100%**

The Group, which is present in 40 countries, conducts its businesses on a global scale, using production sites in Europe, North America and Asia (80 production sites excluding those held for closure or sale), as well as having marketing subsidiaries in a large number of countries.

In the majority of its product lines, the Group ranks among the leading world producers (PMMA, fluorochemicals, hydrogen peroxide, etc), or is a regional leader as in chlorochemicals in Europe, for example.

SALES BY GEOGRAPHIC REGION(*)

(In billions of euros)	2004		2005		2006	
Europe	3.08	60%	3.18	58%	3.26	58%
NAFTA(**)	1.19	23%	1.39	25%	1.41	25%
Asia	0.64	12%	0.70	13%	0.72	13%
Rest of the World	0.23	5%	0.24	4%	0.27	4%
TOTAL	**5.14**	**100%**	**5.51**	**100%**	**5.66**	**100%**

(*) Based on the geographic location of customers.
(**) USA, Canada, Mexico.

CAPITAL EMPLOYED BY GEOGRAPHIC REGION

(In billions of euro)	2004		2005		2006	
Europe	1.99	68%	2.04	66%	2.01	66%
NAFTA(*)	0.77	26%	0.86	28%	0.82	27%
Asia	0.15	5%	0.17	5%	0.16	6%
Rest of the World	0.02	1%	0.04	1%	0.04	1%
TOTAL	**2.93**	**100%**	**3.11**	**100%**	**3.03**	**100%**

(*) USA, Canada, Mexico.

The Group has six Research and Development (*R&D*) centers, of which four are in France, one in the United States and one in Japan. Almost 1,350 researchers work within the Group. The Group's spending on R&D amounted to almost 3% of sales in 2006.

At 31 December 2006, the Group had 17,044 employees (including Cerexagri).

The breakdown of employees by geographic region over the last three years is given in section 17.1.1 of this reference document.

SUMMARY OF THE GROUP'S MAIN PRODUCTS AND THEIR AREAS OF APPLICATION

Vinyl Products	
Chlorine / Caustic soda	Chemicals, aluminum, pulp and paper, detergents and soaps, solvents and raw materials for fluorinated products
PVC	Construction, pipes, profiles, packaging, cabling, automobiles
Vinyl Compounds	Cables, bottles, automobiles, medical
Pipes and Profiles (Alphacan)	Pipes and profiles
Industrial Chemicals	
Acrylics	Resins, emulsions for adhesives, paints and coatings, super-absorbents
PMMA (Altuglas International)	Acrylic glass used in construction, the automobile industry, for advertising boards, in decoration and the manufacture of sanitary ware
Thiochemicals	Chemical intermediates for animal feeds, agrochemicals and pharmaceuticals, natural gas odorizers, petrochemicals, polymerization agents
Fluorochemicals	Refrigeration, air conditioning, foams, solvents, intermediates, polymers
Hydrogen Peroxide	Hydrogen peroxide (pulp and paper bleaching, textiles, electronics and water treatment), sodium chlorate, hydrazine hydrate and derivatives
Performance Products	
Technical Polymers	Technical polymers, including polyamides used in the automobile industry, the aerospace and aeronautic industry, the electronics industry, and in the manufacture of hot-melts, fluorinated polymers (PVDF) used in construction, chemical engineering, and the manufacture of paints and anti-corrosive coatings, functional polyolefins used in adhesives, the electrical and electronic industries, and packaging
Specialty Chemicals (CECA)	Separation of gases and liquids, adsorption/filtration, specialty surfactants
Functional Additives	Stabilizers and impact modifiers used in the transformation of polymers, polymerization catalysts for polyethylene, PVC, polystyrene, cross-linking agents, tin-based intermediates
Urea Formaldehyde Resins(*)	Glues, resins and related precursors such as formaldehyde

(*) This business no longer forms a business unit. See paragraph 4.3 of this reference document.

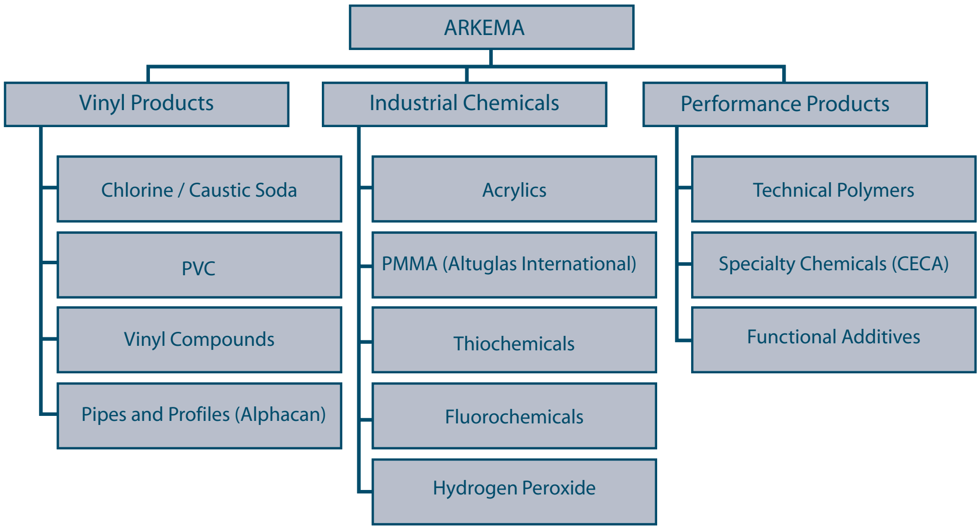
The agrochemicals (Cerexagri) business was sold on 1 February 2007, see paragraph 4.5.3 of this reference document.

4.3 - General presentation of the Group

The Group is organized into three business segments (Vinyl Products, Industrial Chemicals and Performance Products) that further break down into twelve profit centers or business units (*BUs*). This follows the merger of the Additives and Organic Peroxides BUs into a single BU, Functional Additives, and the separation of the Chlorine/Caustic Soda and PVC BUs, with both changes effective since January 2007. The Agrochemicals BU (Cerexagri) was sold on 1 February 2007, and the Urea-Formaldehyde Resins activity no longer constitutes a BU following the closure of the Villers-Saint-Paul site in France and announcement of plans to sell the Leuna site in Germany.

Business segments are organized according to the business clusters: the Vinyl Products segment groups together the businesses connected with chlorine chemistry, the Industrial Chemicals segment covers the major chemical intermediates, while the Performance Products segment encompasses the businesses focusing on applications products.

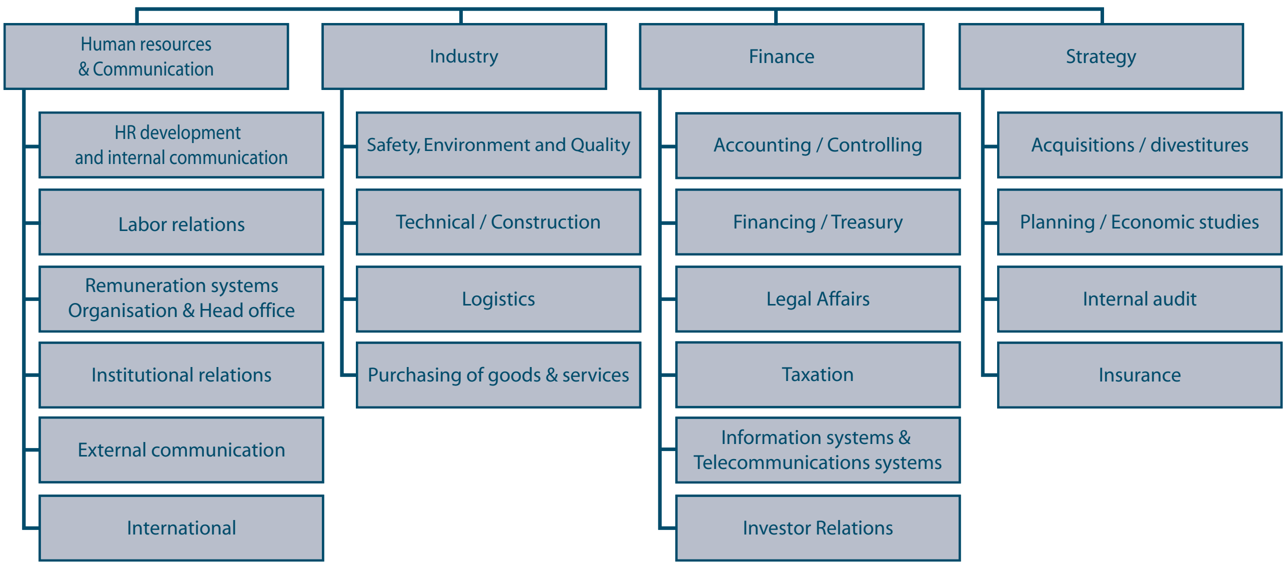
The BUs are in charge of production management, research, sales, marketing and customer relations. They are fully responsible for their results. The simplified organization chart below shows the BUs that operate within each of the business segments as at the date of this reference document.



The BUs rely on functional divisions that provide them with continuous support, mainly in the fields of accounting, taxation, legal services, information systems, human resources and communication.

These functional divisions are generally responsible, under the authority of the Executive Committee (see section 14.2 of this reference document), for the coherence and control of the Group and, in particular, the co-ordination of purchasing and logistics, as well as the maintenance of expertise in important areas such as safety, environment, R&D and manufacturing processes. Some of these functional divisions, notably the Investor Relations, Consolidation/ Reporting, Internal Audit and External Communication divisions, operate for the entire Group.

The simplified organization chart below, effective from 1 June 2007, describes the Group's functional divisions following the planned restructuring of the Company's headquarters as described in section 17.2.2 of this reference document.



Exceptions to the general organizational principles of the functional divisions are the Raw Material Purchasing division and the Energy Purchasing division that report to the head of the Industrial Chemicals segment, as well as the R&D division that reports to the head of the Performance Products segment.

Geographic subsidiaries and sales offices are located in different regions of the world. Besides supporting the BUs, these subsidiaries and sales offices provide local links to the functional divisions and help the Group by their knowledge of local conditions.

4.4 - Strategy and competitive advantages

4.4.1 COMPETITIVE ADVANTAGES

The business environment in which the Group operates is characterized, at the date of this reference document, by high energy prices, the rise of Asian economies, the strength of the euro, particularly against the US dollar, increasing regulations notably in Europe (for instance REACH regulations) and continuing efforts by the Group's main competitors to improve productivity.

Faced with such an environment, the Group has solid advantages that should ensure its success:

- first class commercial and manufacturing positions: the Group is one of the world's leading players in most of its businesses. This is particularly true of PMMA, fluorochemicals, hydrogen peroxide, thiochemicals, specialty polyamides (polyamides 11 & 12), PVDF, hydrazine hydrate, tin-based PVC stabilizers, impact modifiers and PVC processing aids, tin additives for glass coatings and organic peroxides. In the chlorochemicals and PVC sectors, the Group is one of the leading European players;
- high quality manufacturing assets and strong expertise in manufacturing processes: the Group relies on its strong manufacturing positions in Europe, North America and Asia to respond to demand from its customers as effectively as possible. Its technical knowledge of products and manufacturing processes enables the Group to get the best out of its current production facilities and gives it a key advantage in the conquest of new markets. In addition, this expertise enables it to complete investment projects on time and very efficiently. The Group also has important R&D skills on which it can rely to launch new innovative products on the markets, provide its customers with the technical support they need, or further improve the performance of its manufacturing processes;
- a solid balance sheet: at 31 December 2006, the Group's net debt (excluding Cerexagri) was €324 million, compared to shareholders' equity of €1,938 million;
- high quality teams who have proved their ability to manage complex industrial projects and successfully carry out restructurings needed by the lack of competitiveness in some product lines. The Group can count on teams whose loyalty, professionalism and experience are widely recognized.

4.4.2 STRATEGY

When it implemented its new organization in October 2004, the Group conducted an analysis of its strengths and weaknesses, as at the time its financial performance was considered inadequate in relation to its capacities and assets. This led to the definition of a strategy focused on improving results: improvement of competitiveness and targeted development of its strengths.

To improve its competitiveness, ARKEMA has introduced several restructuring plans. The plans now on track or announced during 2006 and beginning 2007 are summarized below:

- chlorochemicals consolidation plan which resulted in the closure of underperforming facilities and the debottlenecking of some production units (Chlorine / Caustic Soda and VCM at Fos and Lavéra, PVC at Berre and Balan, copolymers at Saint-Auban) (France);
- closure of the formaldehyde and urea-formaldehyde resins production units at Villers-Saint-Paul (France);
- closure of the phosphorus specialties production unit at Pierrefitte-Nestalas (France);
- rationalization of the fine powders production units at Serquigny (France);
- consolidation of the tin derivatives production on the Carrollton plant (United States);
- closure of the Loison plant (organic peroxides) (France);
- project for the future of the Company's head office (France);
- merger of the Additives and Organic Peroxides BUs;
- project for the future of the Chantonnay Pipes and Profiles plant (France);
- project to improve competitiveness at the Lacq-Mourenx site (France);

- project to shut down Dorlyl businesses (Vinyl Compounds) in France and Italy;
- project to improve the competitiveness of the Carling-Saint-Avold (France) site in the Acrylics BU.

In the future the Group intends to pursue when needed its efforts to improve productivity in order to maintain its competitiveness.

In order to develop its strengths, ARKEMA has announced several targeted growth projects, the purpose of which is to ensure the selective growth of its best facilities in Europe and North America and also the expansion of its presence in Asia. In this area, ARKEMA's 2006 highlights were:

- the extension of the acrylic acid production unit at Carling (France);
- the debottlenecking at the hydrogen peroxide production unit at Bécancour (Canada);
- capacity increases at the Grafted Orevac® production unit at Mont (France);
- the construction of a new cast sheet production line at Saint Avold (France);
- the launch of Rilsan® production at Changshu (China);
- continued work on the new fluorochemicals production unit (HFC and HFC blends) at Calvert City (United States);
- capacity increases at the Orgasol® plant at Mont (France);
- new molecular sieves production lines at Honfleur (France) and Inowroclaw (Poland).

During 2006, ARKEMA also announced new development projects, in particular relating to VF2/PVDF production in the United States and polyamides and hydrogen peroxide in China.

At the beginning of 2007, ARKEMA also announced the signature of a memorandum of understanding concerning a possible joint venture in India with the Essar group for the production and marketing of acrylic acid and its esters. In March 2007 the Group announced plans to increase hydrogen peroxide production capacity at its Jarrie site in France by 10%.

As for the management of its business portfolio, the Group intends to keep a coherent and integrated portfolio of businesses with leading market positions. The Group also intends to maintain a solid financial structure.

The Group has announced that asset divestitures could reach €300 million to €400 million (in terms of annual sales) over a three-year period and that it plans to make targeted acquisitions of businesses with annual sales of between €500 million and €800 million to compensate for the reduction in sales resulting from such disposals, increase the consistency and integration of its portfolio and reduce its cyclicality. Thus, ARKEMA announced:

- the sale of its Cerexagri entities, covering nearly all assets of the Agrochemicals BU in the Performance Products business segment, to the Indian group United Phosphorus Limited, completed on 1 February 2007;
- the sale on 1 May 2007 to Taminco of its specialty amines business produced at its American site of Riverview. This activity has US$72 million sales;
- its intention to sell its Urea-Formaldehyde Resins facility at Leuna in Germany.

The application of these strategic guidelines is discussed below by business segment.

4.5 - The Group's business segments

4.5.1 VINYL PRODUCTS SEGMENT

Key figures

(In millions of euros)	2004	2005	2006
Sales	1,367	1,387	1,379
Recurring EBITDA	44	20	38
Recurring operating income	(16)	8	21
Capital expenditure (gross value)	59	61	76

General description of the segment's business

The Vinyl Products segment is made up of different businesses that are all part of an integrated chemical product chain, that goes from the electrolysis of salt to the transformation of PVC.

It covers in particular the manufacture of chlorine and caustic soda, VCM (vinyl chloride monomer), chloromethanes, chlorinated derivatives and PVC, Vinyl Compounds, and the Pipes and Profiles business (Alphacan).

As part of the simplification of its decision-making processes and its structures, the Group has separated the Chlorochemicals and PVC BU into two distinct BUs: Chlorine/Caustic Soda BU, covering the production of chlorine, caustic soda, VCM and chlorine derivatives on one hand and PVC BU on the other hand. This separation involved the transfer of teams from each of the new BUs to locations close to their main production sites, that is Fos and Lavéra for the new Chlorine/Caustic Soda BU and Saint-Fons for the new PVC BU.

Following this reorganization, which came into effect on 1 January 2007, the Vinyl Products business segment consists of four BUs: Chlorine/Caustic Soda, PVC, Vinyl Compounds, Pipes and Profiles (Alphacan).

This sector is faced with volatile market conditions and intense competition.

The chlorochemicals sector also faces a number of specific constraints:

- energy costs, as chlorine and caustic soda are produced by electrolysis that requires approximately 3 MWh of electricity per tonne produced;
- the balance between chlorine and caustic soda that are necessarily produced in equal quantities, but for which demand varies independently;
- very weak growth in demand in Europe that one can estimate will be between 0-2% a year over the coming years, whereas in this geographic region supply exceeds demand (2).

For all its Vinyl Products businesses, however, the Group intends to remain one of the leading players in Europe. To meet this goal, the Group introduced a consolidation plan in 2005 to improve competitiveness in its chlorochemicals and PVC businesses. This plan, which is due to be fully operational by the end of 2007, includes the closure of poorly performing production facilities and the debottlenecking of certain production units.

In particular, this plan provides that: (i) the site at Saint-Auban (France) will specialize and focus on its strong points (emulsion PVC and co-polymers, T111) and will shut down its loss-making activities (VCM and general purpose PVC); (ii) the plant at Saint Fons (France) will refocus on PVC production; (iii) production capacities at the plants at Fos, Lavéra and Berre (France) will be increased and (iv) the PVC production units at Balan (France) will continue to be modernized.

This plan, which is currently being implemented, will result in a 523 jobs reduction and will require capital expenditure of nearly €100 million.

Details of the procedures relating to the reduction in employee numbers at the Vinyl Products segment are given in section 17.2.2 of this reference document.

The Chlorine/Caustic Soda BU (Chlorine/Caustic Soda BU and PVC BU: 15% of total Group sales in 2006)

The Chlorine/Caustic Soda BU covers chlorine-caustic soda electrolysis (membrane, diaphragm and mercury processes) and production of downstream products (VCM, chloromethanes and chlorinated derivatives).

The majority of the chlorine and VCM produced is used internally within the Group and sales to outside customers represent relatively low volumes.

The chloromethanes and chlorinated solvents are largely used as raw materials by the Fluorochemicals BU, the remainder being sold to outside customers.

Lastly, virtually all the caustic soda produced is sold on the market.

Based on production capacities, the Group ranks fifth in Europe for chlorine production (3), its main competitors being Dow Chemicals, Solvay, Akzo, Bayer and Ineos. The markets in which the Chlorine/Caustic Soda BU operates are mature.

The BU's production units are located in Europe.

The main raw materials and energy sources used by the Chlorine/Caustic Soda BU are:

- ethylene: the bulk of ethylene supplies are covered by a long-term contract with Total Petrochemicals France (a subsidiary of Total S.A.). Details of this contract are given in section 22.1.2 of this reference document. Ethylene is an essential raw material for this BU and security of supply is a critical factor for the Group;
- salt: the sites at Fos and Lavéra (France) are supplied with brine by a pipeline connecting them to the brine wells operated by the Group at Vauvert (France). In other cases, salt is bought from outside suppliers;
- electricity: electricity supply to the chlorine-producing sites in France (Lavéra, Fos-sur-Mer, Jarrie and Saint-Auban) is under contract through 2010 (a description of the contracts with EDF is given in section 22.1.1 of this reference document). In view of the scale of electricity consumption of the chlorine-caustic soda electrolysis processes, the economic conditions in connection with the access to this energy resource are critical.

The Group wants to improve the competitiveness of its Chlorine/Caustic Soda production facilities and has therefore launched a consolidation plan in 2005. This plan has resulted in:

- the definitive cessation, at the end of December 2005, of sales of VCM and MCAA;

(2) Source: ARKEMA internal estimate.

(3) Source: SRI CEH Chlorine/Sodium Hydroxide August 2005.

- the definitive closure, at the end of March 2006, of the units producing chlorine, VCM and certain chlorine derivatives at Saint-Auban (France);
- increase in VCM production capacity at Lavéra (France). This debottlenecking was completed during the major turnaround in April 2006.

In 2007, the plan will result in the debottlenecking of VCM production capacity at Fos (France).

Furthermore, having a stake in a jointly owned chlorochemical company in Qatar (QVC), the Group will review potential development opportunities that may arise in the Middle East.

The PVC BU (Chlorine/Caustic Soda BU and PVC BU: 15% of total Group sales in 2006)

The PVC BU covers production of general purpose and specialty PVC.

A proportion of PVC volumes is used internally by Alphacan and the Vinyl Compounds BU, with remaining volumes sold on the market.

Based on the Group's production capacities, all of which are located in Europe, the Group ranks number three for PVC production in Europe[4], where its main competitors are Ineos, Solvin, Vinnolit, Norsk Hydro and Shin Etsu.

The markets in Europe in which the PVC BU operates are mature. Consequently, the growth rate in the coming years for the PVC business can be estimated at an average of 0-2% annually[5].

The Group wants to improve the competitiveness of its PVC production facilities and has therefore launched a consolidation plan in 2005. This plan has resulted in:

- the definitive closure in 2006 of the general purpose PVC production units at Saint-Auban (France);
- an increase in specialty PVC production capacities at Saint-Auban (France) during the second quarter of 2006;
- the closure of an old PVC production unit at Balan (France), which has been more than offset by increased production capacity at the two other PVC production units on the same site. All of these changes were completed in the second quarter of 2006;
- the increase in PVC production capacity at Berre (France) in April 2006.

The Vinyl Compounds BU (4% of total Group sales in 2006)

The Vinyl Compounds BU manufactures and markets a wide range of products ready for use that are obtained by mixing PVC and additives (notably plasticizers, stabilizers and colorants).

This BU uses a large number of raw materials, some of which partly come from the Group's manufacturing units (PVC, plasticizers, stabilizers, and modifiers).

The Group considers that it is one of the leading players in the European compounds market, which represents 25% of PVC volumes. Its main competitors are Ineos, Solvay, Norsk Hydro and LVM. These four companies, together with ARKEMA, account for almost 60% of European production capacity[6] (estimated capacity of 1.5 million tonnes).

This BU's main production sites are located in Europe (France, Germany, Belgium, Spain and Italy). It also has one production site in Vietnam.

In order to maintain competitiveness in this sector, the Group is seeking to concentrate on its best performing sites. As a result, restructuring of the BU's French activities (Dorlyl and the Saint-Fons site) was undertaken in 2004. This resulted in particular in the transfer of the compounds production unit from Saint-Fons to the Resinoplast unit at Reims in January 2006, and the announcement in February 2007 of plans to close Dorlyl businesses in France and Italy, resulting in the reduction of 76 positions.

The Vinyl Compounds BU is also seeking to move into higher value-added application fields (specialty PVCs and in particular PVC slush for automobile applications such as dashboards) and the most profitable markets.

The Pipes and Profiles BU (Alphacan) (5% of total Group sales in 2006)

The Pipes and Profiles BU consists of the Alphacan group of subsidiaries.

Alphacan carries out its businesses downstream from the production of PVC. It manufactures two main types of products, pipes and profiles, which are principally obtained by the extrusion of PVC compounds, which Alphacan manufactures itself.

The main raw materials that Alphacan uses are PVC and different additives such as mineral fillers, stabilizers and colorants. Alphacan gets most of its supply of PVC from the Group's production units, but also buys some PVC from other producers.

Alphacan has production sites in five European countries. Alphacan's main end markets are construction and public works, where its products are used for drinking water adduction, waste water evacuation, sewage, irrigation, heating systems, windows, etc. The growth of these markets is therefore closely linked to that of these economic sectors.

Alphacan operates in two markets with different trends: pipes and profiles.

Pipes, which are marketed in France, Germany, Benelux and Spain, represent a mature market and a highly competitive industry with very high levels of standardization. Alphacan ranks itself fourth in the European market for PVC pipes. Its main competitors are Wavin, Pipelife, Uponor and Uralita.

In profiles, Alphacan sells its products mainly in Southern Europe. These markets have attractive growth prospects (average estimated

(5) Source: ARKEMA internal estimate.

annual growth in Europe of 3-4% over the next few years)[7] thanks to the potential for PVC profiles to replace other materials. The main players in this market are Profine, Deceuninck, Veka, Rehau and Aluplast.

In pipes, Alphacan's strategy is based on protecting its positions and its competitiveness whilst at the same time developing stronger pipes. As a result of this strategy new wastewater evacuation pipes have been launched in France.

In profiles, Alphacan is continuing to expand with a particular focus on higher value-added products.

The reorganization of the Chantonnay (France) site owned by the Soveplast subsidiary, announced in January 2007, fits fully with this strategy. This project, aimed at restoring the competitiveness of this site, will result in the cessation of production of low margins products while reinforcing high value-added activities through growth investments and the implementation of a more targeted marketing policy. This project will result in a reduction of 28 positions.

Similarly, the launch by Alphacan of a marketing subsidiary in Spain will contribute to the expansion of the profiles business.

4.5.2 INDUSTRIAL CHEMICALS SEGMENT

Key figures

(In millions of euros)	2004	2005	2006
Sales	2,143	2,406	2,494
Recurring EBITDA	220	316	267
Recurring operating income	106	204	160
Capital expenditure (gross value)	135	145	172

General description of the segment's business

The five BUs of the Industrial Chemicals segment cover several chemical intermediate chains: Acrylics, PMMA (Altuglas International), Thiochemicals, Fluorochemicals and Hydrogen Peroxide.

These businesses have a certain number of common characteristics, among which are the use of complex manufacturing processes and the existence of world markets that offer the prospects of strong growth, particularly in the Asian region.

In the different product chains of the Industrial Chemicals segment, the Group ranks among the world's leading companies and has production units in Europe and North America for most of its main products (acrylic acid, methyl methacrylate (MMA), PMMA, fluorochemicals, hydrogen peroxide and thiochemicals, etc.). The Group is also present in Asia and already has its own industrial base there for the production of fluorochemicals, hydrogen peroxide and PMMA.

This segment benefits from a certain degree of integration with the Group's other businesses. For example, chlorinated solvents and chloromethanes are used as raw materials for fluorochemicals (some of which are used in the manufacture of technical polymers), hydrogen peroxide is partly used in the production of organic peroxides and certain acrylic and thiochemical derivatives are used in the manufacture of plastic additives.

The Industrial Chemicals segment plans to continue to expand its business, and strengthen its global positions by building on new facilities in Asia, targeted debottleneckings in Europe and North America and creating cooperation projects with its major partners.

Lastly, in 2006 the Group decided that from 1 January 2007 it would merge into the PMMA BU its MMA production business which was previously part of the Acrylics BU.

The Acrylics BU (13% of total Group sales in 2006)

The Acrylics BU's main products are acrylic acid and its derivatives (notably acrylic esters, super-absorbents, etc.), oxo-alcohols, phthalic anhydride and dioctylphthalate.

The main downstream markets for the Acrylics BU are coatings (paints, UV curing, etc.), super-absorbents, plastic additives, water treatment, paper and adhesives.

The Group is ranked number fifth worldwide for acrylic acid[8]. Its main competitors for this product are BASF, Dow Chemicals, Nippon Shokubai, and Rohm and Haas. The world growth in market for acrylic acid over the coming years is estimated at between 4% and 5% a year (between 2% and 3% in Europe, between 3% and 4% in North America and between 8% and 10% in China[9]). Since 2005 demand has outstripped supply in the acrylic acid market. However, since the autumn of 2005, the start up of new production units in Asia led to pressure on acrylics margins.

(7) Source: ARKEMA internal estimate.
(8) Source: SRI-CEH Acrylic acid & esters, August 2004.
(9) Source: ARKEMA internal estimate.

The raw materials used by the Acrylics BU are propylene and orthoxylene supply of which is covered by medium-term and long-term contracts. The Group's main supplier in France is Total Petrochemicals France, under terms set out in section 22.1.2 of this reference document. Propylene is an essential raw material for the Acrylics BU. Its security of supply is a critical factor for the Group.

The Acrylics BU plans to build on its strong marketing positions and technical expertise to strengthen and expand its businesses globally, in particular in Asia, where growth is strongest. In 2006 the Acrylics BU decided to reinforce its European acrylic acid production capacity by increasing by 15% its capacity at its Carling plant in France. This debottlenecking was carried out during major maintenance shutdown in the fourth quarter of 2006.

In addition, in January 2007, ARKEMA and Indian group Essar announced the signature of a memorandum of understanding to study the formation of a 50-50 joint venture in India to produce and market acrylic acid and its esters. The planned production facility, to be on a world-class scale, would start production in 2010 and would be located in Vadinar in Gujarat, on India's North West coast, downstream of the Essar refinery, which would supply propylene. Its geographic location will allow it to supply markets in India and elsewhere in Asia, that are seeing strong growth. As such, this project fits perfectly with the Acrylics BU's strategy.

The Acrylics BU has initiated a performance plan at its Carling-Saint-Avold (France) site, aiming to improve its competitiveness through a reduction in structural costs (reduction in maintenance costs and rationalization of procurement of goods and services) and through a reorganization of the production of acrylic and methacrylic derivatives and specialty products. This program will result in the reduction of 58 positions.

The PMMA BU (Altuglas International) (10.5% of total Group sales in 2006)

The PMMA BU operates globally. Its main brand names, Plexiglas® in America only and Altuglas® in the rest of the world, enjoy a strong reputation.

This BU is an integrated production chain, from methyl methacrylate to the production of PMMA, since MMA production was transferred to the PMMA BU with effect from 1 January 2007. This integration of the monomer business is likely to produce further sources of improvement over the next few years.

This BU operates in three continents with plants in the United States, Mexico, Europe and Korea.

The main products include different grades of PMMA resins as well as cast or extruded sheets. Altuglas International sells its products into a wide range of markets, of which the most important are construction, automobiles, sanitary ware, commercial display signs, electronics and household goods.

The Group is the leading producer of PMMA in the world [10]. Its main competitors are Degussa, Mitsubishi Rayon Corp., Sumitomo and Lucite.

Over the next few years, growth in the PMMA market in Europe and North America is expected to be between 2% and 2.5% per year. In Asia growth is expected to be at around 6% [11].

In order to restore margins, the PMMA BU has adopted a plan to consolidate all its European sheet production on two sites in France at Bernouville and Saint-Avold. Implementation of this plan resulted in the start-up of a new extruded sheets line at Bernouville in May 2005 (intended to offset the effect of the closure of production facilities at Rho in Italy) and then the start-up of a cast sheet line at Saint-Avold in late 2006 (offsetting the closure end of December 2006 of the Leeuwarden site in the Netherlands).

In addition, new developments in the use of PMMA have taken place in the United States and Europe. Altuglas has also expanded into resins for LCD screens in Asia, thanks to its R&D efforts in this area. Altuglas International's doubling of its Korean production capacity in May 2004 was entirely in line with its strategy to benefit from the strong growth of Asian markets, and particularly in high value-added applications.

The Thiochemicals BU (9% of total Group sales in 2006)

The Thiochemicals BU contains mainly sulfur-chemistry activities. The BU's other product lines are amines, oxygenated solvents and rubber additives, the latter being produced by the French subsidiary MLPC International.

The main markets are animal feed industry, polymers, pharmaceuticals, cosmetics, natural gas odorizers, solvents and petrochemicals.

Today, the Group is the world number one in this sector [12]. Its main competitor is Chevron Phillips Chemical. The Group also faces competition from certain local players on some products, and from upstream producers of integrated methionine (Degussa, Adisseo, etc.).

The Thiochemicals BU has production facilities in Europe and the United States, where it has reinforced its position by starting, in May 2005, the Sulfox project at Beaumont in partnership with its customer, Novus. This plant produces MMP 3-methyl thio propionaldehyde, a methionine precursor. Since its start-up production levels and yields have steadily risen. The contract with Novus is described in section 22.1.3 of this reference document.

The Thiochemicals BU has also carried out significant restructuring to adapt to changes in its markets, and in particular to competition from Asia.

The main restructuring has taken place at the Riverview site in the United States and at MLPC International in France. The reorganization of French sites resulted in a reduction in positions by 74 during the

(10) Source: Parpinelli Tecnon ATEC 2007.
(11) Source: ARKEMA internal estimate.
(12) Source: ARKEMA internal estimate.

first half of 2006. In the United States, alkylamine and sulfonyl production facilities were closed at the end of June 2006, with a loss of 60 jobs by the end of 2006.

The Thiochemicals BU has launched an action plan to improve competitiveness at its Lacq-Mourenx production platform in France, both through research into new high value-added applications and through on-going efforts to simplify structures and reduce fixed costs. The project at the Lacq-Mourenx site, announced in early 2007, will result in a reduction of 48 positions and a capacity increase of the dimethyl disulfide (DMDS) production capacity. This debottlenecking, adding 30% production capacity, will enable the BU to supply world refining and petrochemicals markets. The Thiochemical BU will also relocate a number of its operational teams at its production sites at La Chambre and Lacq-Mourenx plants in France. In the long term, the Thiochemicals BU needs to address the consequences of the decline and forthcoming depletion of the Lacq natural gas field that currently provides sulfur to its thiochemical production units in France. These consequences are described in section 6.3 of this reference document.

The Fluorochemicals BU (7.5% of total Group sales in 2006)

The Fluorochemicals BU manufactures and markets a range of HCFCs (hydrochlorofluorocarbons) and HFCs (hydrofluorocarbons) under the brand name Forane®.

These products are mainly used for two markets: refrigeration (notably in construction, automobiles and retailing) and foams (expansion agents for polyurethane foams, for example). Some are used as monomers in fluorinated polymers (notably, PTFE polytetrafluoroethylene and PVDF polyvinylidene fluoride).

In Fluorochemicals, the Group ranks second in the world [13]. Its main competitors are Dupont, Ineos, Solvay and Honeywell.

For the Group, Fluorochemicals are a worldwide business with production sites in Europe (France and Spain), the United States and China.

Changes in regulations concerning HCFCs in developed countries will lead to a reduction in their use in emissive applications (the expansion of foams, for example) as well as their replacement in the refrigeration market by blends containing HFC.

To take these regulations into account, the Fluorochemicals BU develops new HFC blends (32, 134a, 143a, etc.) and new substitute products for foams. Regulatory changes are also likely to lead the Group to consider projects to adapt its manufacturing facilities over time.

Against this background, the Fluorochemicals BU announced in 2006 a significant investment to convert one of its two 140 production lines at Calvert City, United States, to production of HFC-32. It is expected that this investment, for a total of some US$45 million, will start up during 2007. It should help the BU meet the rapid growth in demand in this area. At the end of 2006, the 140 production line that is due to be converted was shut down.

The Fluorochemicals BU is also seeking to take advantage of the growth potential in emerging economies, particularly those in Asia. The Group has thus announced a 50% increase in Forane®22 production capacity at its Changshu site in China. This increase was made during the annual maintenance turnaround at the end of 2006.

Finally, a project for the future of the Pierre-Benite plant (France) has been presented to the work council (see section 17.2.2 of this reference document).

The Hydrogen Peroxide BU (4% of Group sales in 2006)

The Hydrogen Peroxide BU has three product lines: hydrogen peroxide, sodium chlorate and sodium perchlorate, hydrazine hydrate and its derivatives.

Hydrogen peroxide is a worldwide business for the Group, based on production units in Europe (France and Germany), North America (Canada and the United States) and Asia (China).

Its main application markets are paper pulp, chemical products (organic peroxides in the case of the Group), textiles and electronics. Its intrinsic qualities, in particular its neutrality vis-à-vis the environment, give this product interesting growth prospects (average worldwide growth estimated at 4% a year, with higher growth in China and South America)[14]. Energy is an important component of the production costs of this business.

The Group ranks third in the world for production of hydrogen peroxide[15], its main competitors being Degussa, Solvay, FMC and EKA.

Sodium chlorate, used mainly in pulp and paper industry, is produced at only one site. The Group is a regional player in the market for this product.

Hydrazine hydrate and its derivatives are manufactured at Lannemezan (France) and marketed worldwide.

To take advantage of growth in the regions showing the strongest potential, the Group increased, during the fourth quarter of 2006, production capacity at its Canadian Bécancour plant by 20,000 tonnes, for an investment of around US$10 million, and announced in March 2006 that it will double production capacity in Shanghai, China, taking it to nearly 80,000 tonnes per year. Completion of this extension is expected in early 2008. It will be carried out within the framework of the Arkema Shanghai Hydrogen Peroxide joint venture, in which Arkema S.A. holds an indirect 66.6% stake and Shanghai Coking the remaining 33.3%. Lastly, in March 2007, ARKEMA announced total investment of around €7 million to improve the reliability of its Jarrie (France) plant and increase its hydrogen peroxide production capacity there by 10%, taking it to 115,000 tonnes of commercial grades per year. The implementation of these three projects will take the Group's total production capacity to nearly 400,000 tonnes per year by mid-2008.

(13) Source: SRI CEH Fluorocarbons, April 2004.
(14) Source: ARKEMA internal estimate.
(15) Source: SRI CEH Hydrogen Peroxide, January 2006.

4.5.3 PERFORMANCE PRODUCTS SEGMENT

Key figures

(In millions of euros)	2004	2005	2006
Sales	1,619	1,713	1,784
Recurring EBITDA	93	102	156
Recurring operating income	(4)	15	71
Capital expenditure including Cerexagri (gross value)	100	117	87

General description of the segment's business

Over the course of 2006, the Group deeply reshaped its Performance Products business segment, announcing the following changes:

- merger of the Additives and Organic Peroxides BUs;
- disposal of the Cerexagri agrochemicals business;
- closure of the Villers-Saint-Paul (France) site;
- launch of a sale process for the urea formaldehyde resins plant at Leuna (Germany).

Following these changes, the Performance Products segment contains three BUs: Technical Polymers, Specialty Chemicals (CECA) and Functional Additives.

These BUs share the same objective, which is to provide, in the various markets concerned, technical solutions adapted to the needs expressed by their customers. They constitute a downstream integration to the Industrial Chemicals segment.

The Group has very strong positions in the various market niches covered by these BUs. This is particularly true of polyamides 11 and 12, molecular sieves, PVC additives (tin-based heat stabilizers, acrylic impact modifiers and processing aids) and organic peroxides. A significant portion of the Group's products in these areas is sold under well-known brand names.

Benefiting from its manufacturing facilities in three continents, the Group operates in these markets on a global basis.

Most of the Performance Products segment's BUs have a certain degree of integration with the Group's other business activities. For example, the precursor of PVDF is produced by the Fluorochemicals BU, hydrogen peroxide is a raw material for organic peroxides and certain acrylic and thiochemical derivatives are used in the production of additives for PVC.

The key success factors for the Performance Products segment lie in the quality of its relations with its customers, its ability to provide innovative solutions resulting from its R&D efforts, to develop new, high value-added products and its capacity to take advantage of the potential of growing regional markets, in particular Asian markets. Accordingly, certain targeted investments are being considered for Asia (notably in China).

The priority for this segment in 2006 was to restore its profitability that was affected by the recent rise in raw material and energy costs, as well as by the weakness of the US dollar against the euro. Its efforts were focused on both restoring its margins and improving competitiveness. Restructuring measures have been taken in all of this segment's BUs.

The Technical Polymers BU (14% of total Group sales in 2006)

The Technical Polymers BU includes three main product lines (notably specialty polyamides, PVDF and functional polyolefins) that are sold under well-known brand names such as Rilsan®, Orgasol®, Pebax®, Kynar®, Lotryl®, Lotader® and Orevac®.

The specialty polyamide market includes polyamides 11 and 12 which are used mainly in the transport, textile and oil and gas industries.

Other products include Orgasol® ultra-fine powders, used in cosmetics and paints, Pebax® (polyether-blockamide), which is used in sports equipment, and co-polyamides, used in the textile industry.

The Group is the world leader in production of specialty polyamides (polyamides 11 and 12)[16], where its main competitors are Degussa and EMS.

PVDF is used in the areas of architecture, chemical processes, electricity and electronics. The Group is the world leader in this product[17], with Solvay as its main competitor.

The functional polyolefins range of products is used primarily in adhesives, the electrical and electronics industries, packaging and automobiles.

To improve its competitiveness, the Technical Polymers BU announced, in July 2006, a restructuring of its Rilsan® fine polyamide powder production units at Serquigny (France). This project will consolidate all the powder production on a single unit, whose capacity will be increased. This project will result in a reduction of 37 positions.

(16) Source: ARKEMA internal estimate.
(17) Source: SRI CEH Fluoropolymers, October 2005.

The Group has also announced or carried out a number of targeted projects on higher value-added product lines. These projects fit perfectly with the BU's growth strategy which consists in bringing innovative products to the market, expanding the product range and making targeted increase of capacity, thus building on the excellent marketing positions that these products currently enjoy. Thus the Group has:

- started an EVA production unit at Balan in France in May 2005. This production capacity was then increased by 15% and came on stream at the end of 2006;
- extended production capacity of Orevac® functional polyolefins by 10,000 tonnes at its Mont site in France in December 2005.

During 2006, the Group announced:

- a US$12 million investment in its Calvert City (United States) plant, that will enable it to increase its Kynar® PDVF production capacity by more than 2,000 tonnes per year. The additional capacity is due to come on-stream at the beginning of 2008;
- a 40% increase in its Orgasol® ultra-fine polyamide powders production capacity at its Mont site in France. The additional capacity, which has been operational since February 2007, reflects ARKEMA's desire to continue to expand production facilities at Mont for specialty products with strong potential (Orevac® and Orgasol®);
- a doubling of the high-performance polyamides production capacity at the Changshu site in China, to come on-stream from September 2007.

The Specialty Chemicals BU (CECA) (5% of total Group sales in 2006)

The Specialty Chemicals BU takes the form of the CECA subsidiary and covers two main areas: surfactants and interface agents, on the one hand, and adsorption and filtration, on the other.

The first area of business consists mainly of a number of specialty chemicals produced downstream from fatty acids. The wide variety of products are used as additives in very diversified areas such as oil and gas production, bitumens, fertilizers, corrosion inhibitors, anti-statics and emulsifiers

The second area of business encompasses a number of mineral products: molecular sieves, diatomites, activated carbons and perlite. They are mainly used as adsorption and filtration aids in the following sectors: food industry, chemicals, construction, industrial gases separation, pharmaceuticals and environmental protection.

CECA has leading positions in some of its businesses. For example, CECA ranks second worldwide[18] in molecular sieves.

CECA's strategy consists of developing higher value-added product lines by drawing on its R&D efforts and its strong knowledge of customer needs.

In order to take advantage of prospective market growth and strengthen its global position, CECA has decided to increase its molecular sieve granulation capacity by 30% at its Inowroclaw plant in Poland. The new line will be operational in 2007.

In order to continue to boost its competitiveness, CECA also announced that it would close its Pierrefitte-Nestalas site in France at the end of April 2007, resulting in a reduction of 23 positions. From April 2007, new sodium hypophosphite production capacity will be started in the Shanghai region of China. This presence will take the form of an industrial partnership.

The Functional Additives BU (11% of total Group sales in 2006)

In September 2006, the Group announced the merger of its Additives and Organic Peroxides BUs, which are active in similar markets, into a single BU, Functional Additives. This consolidation, effective since 1 January 2007, will generate R&D synergy (particularly in nanotechnologies) and help reduce structural costs, generating savings totaling around €5 million.

This BU brings together a number of product lines (organic peroxides, PVC additives, additives for coatings and catalysts).

Organic peroxides are initiators that are used in several areas: commodity polymers (initiators of the reaction for low-density polyethylene, PVC, and polystyrene), acrylic polymers, unsaturated polyesters or the cross-linking of rubber. The Group estimates that it ranks second worldwide in this sector. Its main competitors are Akzo and Degussa.

PVC additives include impact modifiers, processing aids and heat stabilizers. In the coatings sector, the Group sells products used in flat glass and glass bottles. The group is one of the world's leading companies in each of its main applications. For example the Group ranks second worldwide in production of tin-based heat stabilizers for PVC[19] and is the leading US manufacturer of impact modifiers[20]. In tin-based stabilizers, its main competitors are Rohm & Haas and Chemtura.

Additives are produced in Europe, North America and Asia.

(18) Source: ARKEMA internal estimate.

In order to restore competitiveness in some of its business lines, the Functional Additives BU has announced:

- in July 2006, the consolidation of all tin-based derivative activities in the United States at the Carrollon site. This program will result in the closure of production units at Mobile (United States), and a reduction of 31 positions;
- in October 2006, closure of organic peroxides production at the Loison-sous-Lens site in France. This project will result in a reduction of 57 positions.

In 2006, the Group also announced the signature of a partnership agreement with Chinese glassmaker Qinhuangdao Yaohua to produce flat glass, treated using a new process developed jointly by ARKEMA and Stewart Engineers. This partnership fits well with the BU's strategy of developing innovative products and providing customers with innovative technical solutions.

The Urea-Formaldehyde Resins (2% of total Group sales in 2006)

The Urea-Formaldehyde Resins activity manufactures and markets resins based on urea, formaldehyde and melamine that are used in the wood industry (notably particle boards, plywood and floorings).

At the end of June 2006, the Group definitively shut down its urea-formaldehyde resins production unit at Villers-Saint-Paul (France) and contracted the supply of services and utilities at this platform (previously provided by Arkema France) to external suppliers.

This restructuring resulted in a reduction of positions by 132 (see section 17.2.2 of this reference document).

Following this restructuring, the Group now owns only one urea-formaldehyde resin plant, at Leuna in Germany. As part of its policy of selective management of its business portfolio, the Group announced, in September 2006, its intention to sell this factory, which offers only very limited synergy with the rest of Arkema's businesses. The disposal process is on track.

Agrochemicals (Cerexagri)

In November 2006, the Group announced its plan to sell its agrochemicals business to United Phosphorus Limited (UPL) as part of its policy of selective management of its business portfolio announced in September 2006, as the businesses operated by Cerexagri offer only very limited synergy with the rest of the Group. The assets sold represent nearly all assets in the Agrochemicals BU.

This sale was completed on 1 February 2007.

The assets sold consisted of a number of operationally autonomous subsidiaries. Their business activities were concentrated in several niche sectors in the agrochemicals market, notably fungicides, insecticides and post-harvest protection products for the fruit and vegetable market. Sales from the businesses sold totaled €202 million in 2006.

5 Information about the issuer

5.1 - Informations about the Company

5.1.1 COMPANY NAME

The Company's name is Arkema. By a resolution of its general meeting on 6 March 2006 and effective as of 18 April 2006, the former company name (DAJA 34) was renamed Arkema.

5.1.2 REGISTRATION PLACE AND NUMBER

The Company is registered at the Nanterre Trade and Companies Registry (*Registre du Commerce et des Sociétés de Nanterre*) under registration number 445 074 685.

The Company's SIRET number is 445 074 685 00022. Its NAF code is 241L.

5.1.3 DATE OF INCORPORATION AND TERM

The Company was incorporated on 31 January 2003 for a fixed period of 99 years from its date of registration at the Trade and Companies Registry, until 31 January 2102, unless the term is extended or the Company is wound up earlier.

5.1.4 REGISTERED OFFICE, LEGAL FORM, AND APPLICABLE LEGAL REGIME

Registered office:	4-8 Cours Michelet, 92800 Puteaux, France
Telephone:	+ 33 1 49 00 80 80

Following a decision dated 13 March 2007, the Board of Directors decided to transfer the Company's registered office to 420 rue d'Estienne d'Orves, 92700 Colombes from 15 June 2007. This decision will be submit to the approval of the annual shareholders' general meeting convened to approve the financial statements to 31 December 2006.

The Company is a French *Société Anonyme* with a Board of Directors subject, in particular, to the provisions of Volume II of the *Code de commerce* and of decree no. 67-236 of 23 March 1967 governing commercial companies.

5.1.5 REORGANIZATION OF TOTAL'S CHEMICALS BUSINESS

The listing of Arkema S.A.'s shares formed part of the reorganization of the chemicals businesses of the Total group, the world's fourth largest oil and gas group and a major chemicals producer. The goal pursued between 2004 and 2006 was the rationalization of Total's business portfolio into three main segments:

- base chemicals (petrochemicals and fertilizers);
- specialty chemicals (industrial rubber, resins, adhesives and electroplating); and
- ARKEMA , an entity created to gather three business segments: Vinyl Products, Industrial Chemicals and Performance Products (Arkema's Businesses).

The spin-off of Arkema S.A. thus reflected an industrial approach that aimed to create a new and substantial player in the world chemicals industry, that was independent of the Total group and gathered the Arkema's Businesses previously conducted by Arkema France, Arkema Delaware Inc. and other entities from the Total group.

The creation of this major new company resulted from two partial spin-offs and a merger which took effect concurrently on the first day of trading of Arkema S.A. shares on Compartment A of Eurolist by Euronext™, that is to say 18 May 2006:

- Elf Aquitaine transferred its shareholdings in entities carrying out Arkema's Businesses to *Société de Développement Arkema* (S.D.A.), a holding company. Elf Aquitaine then allocated to its shareholders (other than itself) the S.D.A. shares issued to it as consideration for this contribution, on the basis of one S.D.A. share for each Elf Aquitaine share;
- Total S.A. also transferred its shareholdings in entities carrying out Arkema's Businesses to a holding company, Arkema S.A., Total S.A. then allocated to its shareholders (other than itself) the shares in Arkema S.A. issued to it as consideration for this contribution, on the basis of one Arkema S.A. share for every 10 Total S.A. shares;
- finally, S.D.A. was merged into Arkema S.A., with S.D.A. shareholders immediately becoming shareholders in Arkema S.A.

On completion of these transactions, Arkema S.A. became the holding company of the Group, owning, directly or indirectly, all the operating entities carrying out Arkema's Businesses.

For a more detailed description of the spin-off of Arkema's Businesses please refer to the prospectus granted AMF visa n° 06-106 dated 5 April 2006.

5.2 - Capital expenditure

5.2.1 DESCRIPTION OF THE MAIN CAPITAL EXPENDITURE MADE BY THE GROUP OVER THE PAST THREE YEARS

The Group's capital expenditure (in intangible and tangible assets) including Cerexagri amounted to €300 million in 2004, €333 million in 2005 and €336 million in 2006. On average, the Group's invested around €323 million a year. Over this period, capital expenditure has been focused on (i) the maintenance of industrial facilities, safety and environmental protection, accounting for 54% of the total, and (ii) development projects, either in the form of major projects or productivity improvements in existing facilities, accounting for 46%.

On average, 21% of investments were spent on the Vinyl Products segment, 47% on the Industrial Chemicals segment and 32% on the Performance Products segment. On average, 75% of these investments were made in Europe, 22% in North America and 3% in Asia.

The main development investments carried out by the Group over the past three years were:

Year	BU	Description
2004	PMMA	Increase of PMMA capacity to 40,000 tonnes a year on the Jinhae site (South Korea)
	Hydrogen Peroxide	Debottlenecking of the Shanghai unit (China).
2005	PMMA	Start-up of a new extruded sheet line at Bernouville (France) as part of the reorganization of the acrylic sheets business.
	Thiochemicals	Start-up of new acrolein and MMP (Methylthiopropionaldehyde) units at Beaumont (United States)
	Technical Polymers	Start-up of the new EVA unit at Balan (France) following the transfer of production from the unit at Mont (France).
	Organic Peroxides	Start-up of the new 3,000 tonnes a year unit at Changshu (China).
2006	Acrylics	Debottlenecking of an acrylic acid unit at Carling (France)
	Hydrogen Peroxide	Doubling of capacity for a hydrazine derivative at Lannemezan (France) Increase in Hydrogen Peroxide capacity at Bécancour (Canada)
		Debottlenecking of a production unit at Memphis (United States)
	PMMA	Construction of a new cast sheet line at Saint-Avold (France) following the closure of the site at Leeuwarden (Netherlands)
	Technical Polymers	Capacity increase at the Grafted Orevac® unit at Mont in France and oh the grinding unit at Nanhui (China)

5.2.2 DESCRIPTION OF MAIN CURRENT INVESTMENT PROJECTS

The Group's main current investment projects are the following:

Chlorine / Caustic soda	Investment relating to the redeployment of production facilities following the consolidation plan
Hydrogen Peroxide	Doubling of the hydrogen peroxide capacity at the Shanghai plant in China
Fluorochemicals	New production unit for HFC and HFC blends at Calvert City (United States)
Technical Polymers	Capacity increases at the Orgasol® unit at Mont in France Capacity increases for PVDF Kynar® at Calvert City (United States)
	Increased capacity at the copolyamides unit at Changshu (China)
Specialty Chemicals	New production lines for specialty molecular sieves at Honfleur (France) and Inowroclaw (Poland)

5.2.3 FUTURE INVESTMENTS

The level of investment expected in 2007 is likely to be of the same order as in 2006 (around €350 million). As in the preceding year, a significant share of the expenditure will relate to the implementation of the consolidation plan in the Vinyl Products business segment, as described in section 17.2.2 of this reference document. In subsequent years, ARKEMA considers that investment is likely to be reduced to an average of around €300 million per year from 2008, of which half will be for development and productivity investments.

6 Risk factors

The Group carries out its business activities in a rapidly changing environment, which creates risks for the Group, many of which are beyond its control. The risks and uncertainties described below are not the only ones which the Group faces or will face in the future. Other risks and uncertainties of which the Group is currently unaware or that it deems not to be significant as of the date of this reference document could also adversely affect its business activities, financial condition, results or future prospects.

Risk assessment and management is described in sections 15.7.1.3 and 15.7.1.5 B of this reference document.

6.1 - Regulations

In many countries, the chemicals industry is subject and will remain subject to specific regulations that generate risks for the Group, in particular in the areas of safety, health and environment.

For information on some of these regulations and an analysis of risks relating thereto, please refer to section 8.2 of this reference document.

6.2 - Dependence factors

6.2.1 DEPENDENCE ON SUPPLIERS

In general, the Group does not depend on a single supplier for the majority of its raw material supplies. However, for certain raw materials that are essential to its business, the Group is dependent on a limited number of suppliers for a significant part of such supplies; failure to perform by any such supplier or a significant increase in prices charged by any one such supplier could have a material adverse effect on the Group's business, financial condition, results or future prospects.

In addition, some of the Group's operational units in France (in the chlorochemicals, acrylic acid, oxo-alcohols and functional polyolefins sectors) were built downstream of steam crackers belonging to Total Petrochemicals France (TPF), a subsidiary of Total S.A. The level of physical integration of these units with TPF's production capacities is high and the raw materials delivered by Total S.A. are essential for the operation of the Group's factories in France. The spin-off of ARKEMA from the Total group resulted in the conclusion of long-term supply agreements between certain entities of Total S.A. and of ARKEMA so as to secure these sources of supply. TPF's announcement in September 2006 concerning the closure of one of its steamcraker at the Carling (France) site does not change the Group's supply contracts. The main contracts are described in section 22.1 of this reference document.

Furthermore, the Group has entered into long-term agreements containing minimum supply commitments with a number of its raw materials suppliers. In the event of failure to fulfill these contractual commitments or if the Group should terminate these agreements before the end of their term, the relevant suppliers could file claims for compensation or for payment of penalties, which could adversely affect the Group's results and financial condition.

Lastly, if one of the contracts described in chapter 22 of this reference document was not renewed on expiry, or was renewed on less favorable terms than those initially agreed, this could have a significant unfavorable effect on the Group's business, results and future prospects.

6.2.2 DEPENDENCE ON CERTAIN CUSTOMERS

The Group has entered into agreements with certain customers that represent significant financial income. The Group also supplies significant quantities of acrylic derivatives to various companies in the Total S.A. group, with the Acrylics BU deriving substantial sales from these customers. However, such sales represented less than 2% of total Group sales in 2006. The Group's business, financial condition, results and future prospects would be adversely affected in a material way if these agreements were to be terminated, were not renewed at the end of their term, or were renewed under less favorable conditions than the conditions initially agreed upon, or if the supply of acrylic products to the relevant Total S.A. group companies were interrupted.

In addition, some of the Group's customers could be acquired by competitors with upstream integration in the chemicals sector. In such circumstances, it can not be ruled out that these customers would cancel their contracts with the Group, not renew such contracts at the end of their term or renew contracts at less favorable terms than initially agreed, which could have an unfavorable effect on the Group.

6.2.3 DEPENDENCE ON CERTAIN TECHNOLOGIES

In its business activities the Group uses a number of technologies under license from third parties. If, for any reason, the Group were no longer able to use these technologies, this could produce an adverse effect on its business, financial condition, results and future prospects.

6.3 - Main risks

6.3.1 RISKS RELATING TO THE GROUP'S BUSINESS ACTIVITIES

The prices of certain raw materials and energy resources used by the Group are very volatile and fluctuations in such prices lead to significant fluctuations in the costs of the Group's products

The Group uses large quantities of raw materials and energy resources in the manufacturing processes of its products.

A significant part of raw materials costs, energy costs and transport costs is directly or indirectly related to the price of crude oil. Consequently, the Group's exposure to oil price volatility is high.

Moreover, the Group's businesses use large quantities of gas and liquid fuels, making it highly exposed to volatility in prices for these energy sources.

Crude oil and gas prices have risen significantly over the past several years. If the Group were unable to pass on the additional costs of these energy sources to its customers by increasing the price of its products, this could have a material adverse effect on the Group's financial condition and results.

The Group is also exposed to fluctuations in the prices of other raw materials not related to oil such as tin, aluminum, soybean oil and castor oil.

The Group attempts to secure its sources of supply for these raw materials and its energy sources and to reduce the cost thereof by diversifying its sources of supply.

To limit the impact of volatility in the prices of its main raw materials and energy sources, the Group may also use derivatives, such as futures, forwards, swaps and options, on both organized and over-the-counter markets. Such instruments are strictly related to existing contracts and are analyzed as hedges (see note 22.5 of the notes to the financial statements presented in chapter 20 of this reference document).

The Group has entered into agreements for the supply of certain raw materials and energy resources; if such agreements were not renewed or were renewed under less favorable terms, this could adversely affect the Group's financial condition

The supply of electricity to the chlorine-producing plants is covered by an agreement with EDF, which will expire at the end of 2010. Given the importance of electricity supplies to these sites (large amounts of electricity are used in chlorine/caustic soda electrolysis and in the production of chlorate and perchlorate), any deterioration in the Group's electricity purchasing terms when the agreement is renewed could have a material adverse effect on the Group's business, financial condition, results of operation and future prospects. Likewise, the supply of electricity to non-chlorine producing sites is covered by a long-term agreement with EDF. As the price of electricity used by the Group in France accounts for a significant portion of the production cost of certain products and is negotiated with EDF based on market prices, an increase in the price of electricity or the impossibility of obtaining the minimum quantities provided for under the agreement could adversely affect the Group's business, financial condition, results and future prospects. A detailed description of the two agreements with EDF for the Group's chlorine-producing and non chlorine-producing plants is provided in section 22.1.1 of this reference document.

Section 22.1.1 also gives details of progress in negotiations between EDF and the Exeltium consortium, of which Arkema France is a member, which will determine the basis on which ARKEMA could purchase part of its electricity requirements after 2011. If, for whatever reason, the parties are unable to conclude these negotiations, the possibility can not be excluded that the alternative solutions available to ARKEMA on expiry of its current contracts will result in an increase in electricity prices, which could have an adverse effect on the business, financial condition, results and future prospects of the Group.

Historically, the thiochemical businesses were developed at the Lacq site in France to take advantage of the abundant supply of hydrogen sulfide available on site. Hydrogen sulfide is a key raw material in thiochemicals and is present in large proportions in the gas produced at Lacq. Due to the upcoming decline in and depletion of the Lacq gas field, these conditions will disappear by 2013 (as projected today). While, as of the date of this reference document, no detailed study has been conducted to identify solutions that would enable the Group to continue to conduct its thiochemicals businesses under reasonable conditions, the Group cannot exclude the possibility that any potential remedial solutions adopted would not enable it to continue these operations in the future under conditions equivalent to those prevailing today, which could have a material adverse effect on the Group's results and future prospects.

The Group's pension and similar obligations may exceed its related provisions or, in certain cases, could result in asset shortfalls

Although Total retained some pension obligations, the Group has obligations to its employees for pension benefits and other post-employment benefits due upon termination of employment in most countries where it operates (see section 17.3 of this reference document). Projections of the Group's obligations are based on actuarial assumptions and, more particularly, on estimated salaries at retirement age, mortality tables, discount rates, anticipated long-term yields on the invested funds and rates of increase in compensation levels. If these actuarial assumptions failed to materialize, if new regulations were enacted or if existing regulations were amended or applied in a more restrictive manner, the Group's pension, retirement and related obligations (i) would have to be adjusted and its cash position would be favorably or unfavorably affected by the financing of assets allocated to cover such obligations and (ii) could exceed its related reserves as described in the financial statements included in chapter 20 of this reference document.

In some countries where the Group operates, particularly the United States, obligations arising from employment agreements, retirement schemes and plans or other benefits to which Group employees are entitled are coupled with an obligation to allocate assets to finance such benefits.

While as of 31 December 2006 the obligations relating to such benefits are adequately reserved for, the possibility that the Group may be required to allocate additional assets to cover these benefits cannot be excluded and this could have a material adverse effect on its results and financial condition.

Some of the technologies that the Group currently uses are at risk from changes in legislation and regulations

As an example, the use of the mercury process for the production of chlorine and caustic soda may be curtailed. While as of the date of this reference document there are no French or European regulations setting a timetable for discontinuing such electrolysis in Europe, the Group will most likely be required to begin to shut down these facilities and replace them with units that use a membrane process over the next several years, as some of its competitors have already done. At the date of this prospectus, the Group has not set a specific timetable to undertake this process, but it plans to abide by the commitment made by Eurochlor (association of European manufacturers), which has set 2020 as the deadline for discontinuing mercury electrolysis in Europe.

ARKEMA is an international group that is exposed to the economic environment as well as to political and regulatory risks and conditions in the countries in which it operates

The Group operates in the world market and has production facilities in Europe, North America and Asia. Many of its main customers and suppliers also have international operations.

Consequently, the Group's business and financial results are likely to be directly or indirectly affected by any negative change in the world economic, political and regulatory environment in which the Group operates.

The direct and indirect consequences of conflicts, terrorism, political instability or the emergence of health risks in countries where the Group is active or markets its products could affect the Group's financial condition and future prospects, in particular by causing delays or losses in the delivery or supply of raw materials and products and increasing costs related to safety, insurance premiums or other expenses needed to ensure the future business of relevant operations.

The Group's international business activity exposes it to a multitude of local business risks, and its global success depends on its ability to adapt to economic, social and political changes in each of the countries where it operates. The Group could fail to develop and implement effective policies and strategies in each of its foreign bases.

Furthermore, changes in legislation or the unexpected adoption of more stringent regulatory requirements (particularly with respect to taxes, customs duties, intellectual property and import/export licenses or health, safety or environmental regulations) could significantly increase the costs incurred by the Group in the different countries in which it operates.

If any of the risks described above were to materialize, this could adversely affect the Group's business, financial condition, results and future prospects.

In some countries where the Group operates, the production, sale, importing or exporting of certain products is subject to prior authorizations and permits

In certain countries where the Group operates, the production, sale, importing or exporting of certain products is subject to the award, maintenance or renewal of authorizations and permits, particularly operating permits. If the Group were unable to secure or renew such licenses or permits, or if they were renewed on less favorable terms than the initially agreed-upon terms, this could adversely affect the Group's business, results or financial condition.

A number of the Group's facilities are located on land that it does not own and that it leases

While the Group owns most of the land on which its facilities are built, some facilities, particularly in France and in Asia, are located on land that belongs to third parties and that the Group occupies under the terms of leases or similar agreements. If these agreements were to be terminated or not renewed or if they were renewed on less favorable terms than the initially agreed terms, this could adversely affect the Group's business, results or financial condition.

The cyclical nature of the different industries in which the Group is active could have a material adverse effect on its results and financial condition

The Group's results could be directly or indirectly affected by the cyclical nature of the different industries in which it operates.

In this respect, external factors over which the Group has no control, such as general economic conditions, competitors' activities, international conditions and events or changes in regulations could foster volatility in raw material prices and in demand, leading to fluctuations in the prices and volumes of products sold by the Group and in these products' profit margins.

The Group faces intense competition

The Group faces intense competition in each of its business lines.

In Vinyl Products and Industrial Chemicals, the commodity nature of the products puts the emphasis on price competition. Some of the Group's competitors are larger than the Group and are more vertically integrated, which could enable them to benefit from lower production costs for certain products that are also manufactured by the Group.

In Performance Products, differentiation and innovation and the quality of the products and related services play an important role. Despite the efforts that the Group has made in this area, based on these criteria, the Group cannot assert that its product range is more attractive than that of its main competitors.

Any of the Group's products may face intense competition, particularly due to excess production capacity or low prices set by certain manufacturers that operate with highly competitive production cost structures.

The introduction on the market of new products or of new technologies developed by the Group's competitors, most notably in Asia, or the emergence of new competitors could also affect the Group's competitive position, which could adversely affect its business, results and financial condition.

The Group is dependent on the development of new products or processes

The business activities and future prospects of the Group are heavily reliant on its ability to produce new products and new applications and to develop new production processes. The Group cannot guarantee that it will develop such new products and new applications successfully, or that it will be able to launch them on the market at the right time.

To remain competitive in the highly competitive chemical industry, the Group must dedicate substantial funds to R&D each year for the development of new products and processes. Even if its R&D efforts are successful, the Group's competitors could develop more effective products or successfully introduce a larger number of products on the market. In 2006, the Group spent €168 million on R&D, which represented approximately 3% of its revenues. Ongoing expenditure dedicated to launching new products or to research and development of future products could lead to higher than expected costs without producing a proportional increase in the Group's revenues.

If any of these events were to occur it could adversely affect the business, results and financial condition of the Group.

Some Group companies are exposed to risks relating to operations conducted through joint ventures in which they hold a non-controlling interest

The Group is exposed to risks relating to joint ventures in which it does not hold a controlling interest. Some of these joint ventures are also important customers or suppliers of the Group. The joint ventures included in the Group's scope of consolidation are described in the notes to the financial statements presented in chapter 20 of this reference document.

In accordance with the contracts and agreements governing the operation, control and financing of these joint ventures, certain strategic decisions can be made only with the agreement of all partners. There are risks of disagreement or deadlocks among the partners in these joint ventures. In certain cases that are beyond ARKEMA 's control, these joint ventures could also take decisions that run against the Group's interests.

Lastly, the Group's investments in these joint ventures, in general or pursuant to specific agreements with the partners in these companies, may require that it make further investments in them or purchase or sell certain companies.

Any of the situations mentioned above could adversely affect the Group's business, financial condition, results and future prospects.

Some of the Group's production facilities are exposed to climatic or seismic risks due to their geographical location

Due to their geographical location, some of the Group's production facilities, in particular in the United States (seven sites near the Gulf of Mexico, four sites near the Ohio and Mississippi Rivers) are exposed to risks of physical deterioration or even production interruption owing to major climatic events such as storms or hurricanes or to seismic activity (i.e. earthquakes). If such events occur, this could have material adverse effects on the Group's business, financial condition, results and future prospects.

The Group owns a number of pipelines; if these were to be damaged or destroyed by an accident, this could adversely affect the Group's business and financial condition

The Group owns or uses a limited number of pipelines, some of which belong to third parties, for carrying supplies of raw materials. Despite the security measures that the Group has adopted for the operation of these pipelines (see section 8.2.1.1 of this reference document), the possibility of an accident can never be excluded. In addition to the environmental impact, such an accident would negatively affect the Group's raw materials supplies and could consequently produce a material adverse effect on its business, financial condition, results and future prospects.

6.3.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

6.3.2.1 Risks relating to environmental regulations

The Group's business activities are subject to constantly changing local, national and international regulations on the environment, health, hygiene and safety, which impose increasingly complex, costly and restrictive requirements

The Group must comply with a variety of environmental, health, hygiene and safety regulations, pertaining, among other things, to industrial safety, emissions or releases into the air, water or soil of toxic or hazardous substances (including waste), to the use, production, labeling, traceability, handling, transport, storage, elimination of, or exposure to such substances, and to the remediation of industrial sites and environmental clean-up.

Should the courts or the competent authorities adopt a stricter stance in interpreting and applying these regulations, the Group could be compelled to incur higher financial costs than its current costs. In addition to these existing regulations, which could be amended to be more restrictive for the Group, other regulations are in the process of being enacted or could be enacted in the future.

Examples include European Regulation 1907/2006 of the Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation and Authorization of Chemicals (or REACH), which will come into force on 1 June 2007 (see section 8.2.2.3 of this reference document).

If existing regulations were to be amended to become more restrictive for the Group or if new regulations were adopted, this could (i) compel the Group to significantly scale back on production and marketing of certain products, or, possibly, discontinue production and marketing altogether, or shut down, temporarily or permanently, certain production units; (ii) restrict the Group's ability to alter or expand its facilities, to modify certain production processes or to continue production and (iii) possibly compel it to abandon certain markets, to incur significant expenditure to produce substitute substances, to institute costly emissions control or reduction systems, or, more generally, to incur significant new expenditures, in particular for remediation of existing sites. The resulting consequences and costs for the Group cannot be accurately estimated due to existing uncertainties over the content of such regulations, their implementation dates or the allocation of costs among the different industry players.

Failure to comply with these regulations could lead to administrative, civil, financial or criminal sanctions, which could adversely affect the Group's business, results and financial condition.

6.3.2.2 Environmental and industrial safety risks

The business areas in which the Group operates entail significant environmental liability risks

The Group operates many industrial facilities, in particular "Seveso" facilities as defined by European Directive 96/82/EC of 9 December 1996 known as the "Seveso II Directive" or similarly identified facilities outside Europe, where hazardous substances that are liable to present significant risks to the health or safety of neighboring populations and to the environment are used, produced or stored. In this respect, the Group has in the past and may in the future incur liability (a) for having caused injury or damages (i) to persons (mainly due to exposure to the hazardous substances that are used, produced or destroyed by the Group or that are present on these sites); or (ii) to property, or (b) for having caused damages to natural resources.

While the Group has adopted safety procedures for its R&D projects and for its plants and production processes, due to the very nature of their operations, the dangerousness, toxicity or flammability of certain raw materials, finished products or production or supply processes, the Group's plants may be the source of risks and, in particular, risks of accidents, fire or explosion and pollution.

While the Group has secured insurance policies to cover civil liability and environmental risks from leading insurance companies (see section 6.4 of this reference document), should claims arise involving the Group's businesses or products, the possibility that it may be held liable for amounts exceeding the coverage ceilings or for uninsured events cannot be excluded. Furthermore, any accident, whether it occurs at a production site or during the transport or use of products made by the Group, may result in production delays or claims for compensation, particularly contractual claims, or product liability claims.

The amounts covered by provisions or included in the Group's investment plans may prove to be insufficient if the Group's liability is engaged for environmental claims, due to the intrinsic uncertainties involved in projecting expenditures and liabilities relating to health, safety and the environment. As regards provisions, the Group applies IFRS. These standards allow provisions to be recorded only when the Group has a legal, regulatory or contractual obligation to a third party resulting from past events. This obligation can also arise from public commitments or practices of the Group that have created a legitimate expectation from the relevant third parties that the Group will assume certain liability, where it is likely or certain that this obligation will give rise to an outflow of resources to such third party, and the amount can be reliably estimated and corresponds to the best possible estimate of the commitment. It is likely that the assumptions used to determine these provisions and investments will need to be adjusted, mainly due to changes in regulations, changes in the interpretation or application of regulations by the relevant authorities, or, with respect to issues related to restoration of the environment, changes in technical, hydrological or geological restrictions, or the discovery of pollution that is not yet known.

Consequently, should the Group's liability due to environmental and industrial risks be engaged, this could have a material adverse effect on its business, financial condition and results.

Achieving compliance for sites that are still in operation or for sites where operations have ceased entails a risk that could generate substantial financial costs for the Group

The competent authorities have made, are making or may in the future make specific requests that the Group rehabilitates or controls emissions at certain sites that it is currently operating, or that it operated or disposed of in the past, at neighboring sites or at sites where the Group stored or disposed of waste. The Group may be required to incur significant costs to fulfill these obligations.

Sites currently in operation

In the light of (i) the uncertainties over the technical means to be implemented, (ii) potential issues that are unknown as of the date of this reference document, (iii) uncertainties over the actual time required for remediation compared with the estimated time (e.g. for example in the area of "pump and treat"), and (iv) potential changes in regulations, the possibility that the expenses that the Group will incur will be higher than the amounts covered by provisions cannot be excluded. These potential excess expenses relate mainly to the sites in Calvert City (United States), Carling (France), Günzburg (Germany), Jarrie (France), Loison (France), Pierre-Bénite (France), Riverview (United States), Saint-Auban (France) and Rotterdam (the Netherlands) and could adversely affect the Group's business, results and financial condition

Sites where operations have ceased

Under the conditions described in section 22.2 of this reference document, certain Total S.A. companies, through service and indemnity agreements with the Group, cover certain liabilities associated with certain sites in France, Belgium and the United States, for most of which the operations have ceased.

However, certain sites for which the Group is liable (the number of which has been substantially reduced through the indemnities and obligations granted by Total S.A. described in section 22.2 of this reference document) and certain specific risks, in particular health risks, are not covered by such service and indemnity agreements, so that the Group remains liable for any associated expenses for which, in the light of the Group's current knowledge, provisions do not need to be booked and this could adversely affect its business, financial condition and results.

6.3.2.3 Risks relating to exposure to chemicals or toxic substances

Employees and former employees of the Group and service providers or customers of the Group may have been exposed and, to a certain extent, may still be exposed, to toxic or hazardous substances

In manufacturing its products, the Group uses and has in the past used toxic or hazardous substances. In spite of safety and monitoring procedures implemented by the Group and each production site, Group employees and in some cases the employees of other companies and service providers may have been exposed to such substances and developed specific pathologies from such exposure, which could induce them to file claims against the Group in future years.

Certain employees of the Group or of other companies and service providers that work with the Group, in particular in maintenance, may have been exposed to materials or equipment containing asbestos. The Group is involved in legal actions and occupational illness claims due to past exposure to asbestos, mostly for the period before 1977 with respect to the use of asbestos in the form of fireproofing materials and for the interim period until 1997, at which time the use of asbestos was banned in France. Owing to the latency periods for various asbestos-related pathologies, the possibility that an increasing number of legal actions or occupational illness claims will be filed in the years ahead cannot be excluded and this could adversely affect the Group's business, financial condition or results.

Third party actions relating to asbestos are described in section 6.5.2.4 of this reference document.

Employees of the Group or its service providers or customers or persons living near the Group's manufacturing facilities are exposed or have in the past been exposed to certain substances that are currently considered not to be hazardous. However, chronic toxicity, even in very low concentrations or exposure doses, could be discovered in the future. This could lead to claims against the Group and could adversely affect its business, results and financial condition.

R&D activity involving carbon nanotubes includes research into the toxicity of these particles (this activity is described in section 11.1 of this reference document). Depending on the advancement of knowledge, and if it can be demonstrated that the precautionary measures taken by the Group to avoid any exposure have been insufficient, the Group could be liable for the consequences and this could adversely affect the Group's business, financial condition or results.

6.3.2.4 Risks relating to transport

The Group arranges for the transport of various hazardous, toxic or flammable materials by road, rail, ship and air, particularly for shipments to customers in the different countries where it operates. These modes of transport generate risks of accidents and any such accidents could give rise to claims against the Group, in particular in its role as the shipper. Furthermore, due to the strengthening of regulations on hazardous materials transport and to the temporary or permanent lack of availability of transport for certain toxic or hazardous products to certain destinations, the Group could (i) face delays in delivery or even refusals by its carriers to collect shipments, (ii) experience increased difficulties in meeting certain kinds of demand from its customers, or (iii) face an increase in certain shipping costs or a need to reduce certain shipments unless it sets up geographical transportation ties with other manufacturers. If this were to occur, it could adversely affect the Group's business, results and financial condition.

6.3.2.5 Risks relating to storage

The Group uses many storage areas and warehouses located on its manufacturing sites and elsewhere. Such storage facilities may present risks to the environment or to public health and safety. Accidents for which the Group may be held liable could arise in the storage and warehousing centers used by the Group.

Some of the storage providers that the Group uses derive substantial revenues from the Group in certain regions. Should one of these providers fail to perform, the Group could be compelled to renegotiate storage contracts under less favorable conditions, or to store its products in other locations. If this were to occur, it could adversely affect the Group's business, results and financial condition.

As a result of economic decisions or changes in regulations, storage providers may wish to close certain unprofitable warehouses or may be unable to continue their storage/packaging operations. In this case, the Group would have to store these products in other regions, possibly at more distant storage facilities. This would result in additional transport costs for the Group, which could adversely affect its business, results and financial condition.

6.3.3 TAX RISKS

The Group is an international group that operates in a large number of countries through its affiliates. Any change in the tax or customs duty laws or regulations in one of these countries could adversely affect the Group's financial condition and results.

Furthermore, the Group enjoys special tax treatment in some countries, such as reduced tax rates or tax holidays under certain conditions and for limited periods of time. If such special tax treatment were to be withdrawn, amended or not renewed, this could adversely affect the Group's financial condition and results.

6.3.4 MARKET RISKS

Treasury, interest rate instrument and currency instrument risks are managed under rules defined by the Group's Executive Management. The management of liquidity, hedging positions and financial instruments is centralized by the Treasury and Financing Department whenever possible.

The information provided below is based on certain assumptions and expectations which, by nature, may prove not to be accurate, particularly with respect to changes in interest rates, exchange rates and the Group's exposure to the associated risks.

6.3.4.1 Liquidity risk

The net debt of the Group at 31 December 2006 amounted to €324 million which represents less than one third of drawings which can be made in connection with the credit line. This net debt corresponds to 0.8 times the consolidated recurring EBITDA for the period ending on 31 December 2006. The Group credit line allows a ratio of consolidated net debt to consolidated recurring EBITDA of less than 3.

The Group has a variable-rate facility for a maximum of €1.1 billion, the terms of which, and particularly the early repayment clauses, are described in section 10.2 of this reference document. If the banks were to accelerate the amounts due under the terms of this facility, this would result in a material adverse effect on the Group's financial condition and would also make it extremely difficult to obtain new financing on equivalent terms. Moreover, the possibility cannot be excluded that the refinancing of this facility will be difficult, or that when the Group comes to refinance this facility the conditions of new financing available to the Group will not be as favorable as those available to it under the existing facility.

Given the multiple risks previously described and the liabilities that are covered by reserves or described in chapter 20 of this reference document, the Group's indebtedness could increase significantly. Any such increase in the Group's indebtedness would:

- increase the Group's sensitivity to a rise in interest rates;
- compel the Group to dedicate a larger portion of its operating cash flow to paying interest, thereby reducing its capacity to finance working capital requirement, capital expenditure, cost-cutting programs or potential acquisitions;
- limit the Group's capacity to distribute dividends;
- limit the Group's capacity to plan for or respond to changes affecting its business or the markets in which it operates;
- weaken the Group's competitive position vis-à-vis competitors that are proportionally less indebted or competitors whose debt carries interest at a rate that was fixed previously on more advantageous terms than those secured by the Group;
- limit the Group's capacity to incur more debt in the future, given the undertakings contained in the loan agreements that Group companies have entered into.

The Group seeks to optimize the use of cash generated by some of its subsidiaries. When a Group company has surplus cash, the corresponding funds are first invested with Arkema France or other Group companies that need cash. The Group uses all options available to it to invest and manage available cash surpluses.

6.3.4.2 Currency risk

A significant part of the Group's assets, liabilities, revenues and expenses is denominated in currencies other than the euro, primarily the US dollar and, to a lesser extent, other currencies including the Japanese yen, the pound sterling, the Chinese yuan and the Canadian dollar, while its consolidated accounts are in euro. Fluctuations in these currencies, particularly the US dollar, against the euro have in the past and may in the future materially affect the Group's financial condition and its results.

The percentage of operating expenses incurred by the Group in the euro zone is higher than the percentage of revenues it generates in the euro zone. In the past, a fall in the value of the US dollar against the euro has had an adverse effect on the Group's financial results. Any future weakening of the US dollar against the euro (or the corresponding increase in the euro) could again adversely affect the Group's operating income. Such weakening could also affect the Group's competitive position, as its rivals could take advantage of lower production costs in weaker-currency countries to offer their products at more competitive prices.

In addition to the effect on competitive position, currency fluctuations also have a direct accounting effect on the Group's results.

At 31 December 2006, the Group's balance sheet exposure to trading currencies other than euro was the following :

Group exposure to currency risk	*USD*	*JPY*	*Other currencies*
		(In billions of euros)	
Trade accounts receivable	0,28	0,04	0,08
Trade accounts payable	(0,17)	0,00	(0,03)
Bank balances and loans/ borrowings	0,04	0,00	(0,02)
Off-balance sheet commitments (currency hedging contracts)	0,07	(0,04)	(0,01)
Net exposure(*)	**0,22**	**0,00**	**0,02**

* Net exposure includes foreign-currency amounts outstanding for Group companies that use one of the above-mentioned currencies as their reference currency as well as amounts outstanding for Group companies that use euro as their reference currency.

The Group strives to minimize each entity's currency risk relative to its reference currency. Consequently, the indebtedness of Group companies is denominated in their reference currency except when a foreign-currency loan is backed by a commercial risk in the same currency.

With respect to currency risk generated by business activities, revenues and costs in foreign currencies are covered mainly by spot foreign exchange transactions and sometimes by forward transactions. The Group only rarely covers projected movements and uses only comparatively simple derivatives.

6.3.4.3 Interest rate risk

At 31 December 2006 the Group's net debt, excluding Cerexagri, was €324 million which included drawing of €330 million against the variable rate €1.1 billion credit line available to the Group, details of which are given in section 10.2 of this reference document.

Based on the above, a 1% increase in interest rates would lead to an annual increase of €2.9 million in the cost of net debt, before taxes.

The Group's general policy with respect to indebtedness is presently to give priority to variable-rate indebtedness over fixed-rate indebtedness. Interest rate risk exposure is managed by the Group's treasury department and simple derivatives are used as hedging instruments.

The breakdown between indebtedness at variable rates (from DD to 1 year) and fixed rates (more than 1 year) was as follows :

	DD- 1 year	*1-5 years*	*› 5 years*
		(In millions of euros)	
Financial liabilities	(465)	(14)	(16)
Financial assets	171	-	-
Net position before hedging	(294)	(14)	(16)
Off balance sheet	-	-	-
Net position after hedging	**(294)**	**(14)**	**(16)**

6.3.4.3 Listed shares risk

The Company does not own treasury shares or any shares in other listed companies at the date of this reference document and as such is not exposed to market risk coming from listed shares.

6.3.5 LEGAL RISKS

In the normal course of its business activities, the Group is a party or may become a party to judicial and administrative proceedings. The most significant current and potential legal proceedings are detailed in section 6.5 of this reference document. In some of these proceedings, claims for substantial monetary damages have been or may be filed against one of the Group's entities. The provisions that the Group has booked for these cases may prove to be insufficient and this could have material adverse effects on its business, financial condition, results or future prospects.

As part of the Spin-Off of Arkema's Businesses, some Total S.A. companies have entered into contractual commitments and indemnities to cover certain environmental and tax risks as well as certain risks relating to antitrust law (see section 22.2 of this reference document). However, these commitments and indemnities do not cover all the risks or liabilities that the Group may incur and the Group will continue to assume part of such risks. This could produce material adverse effects on its business, financial condition, results and future prospects.

Furthermore, certain contractual commitments and indemnities, in particular the antitrust indemnities, terminate upon the occurrence of certain events, such as (i) a change of control of Arkema S.A. or (ii) a breach by the Group of its contractual obligations. Should these events occur, it could produce material adverse effects on the Group's results, financial condition and future prospects.

In addition, the sums owed by the Group under the credit facility described in section 10.2 of this reference document could be subject to early redemption in the event of a change in control over Arkema S.A.

More generally, there can be no guarantee that new legal proceedings, whether related or unrelated to pending proceedings, would not be instituted against one of the Group's entities in the future. An unfavorable outcome to such proceedings could adversely affect the Group's business, financial condition or results.

Lastly, in the past, the Group has granted certain indemnities to third parties in connection with the sale of various businesses. The possibility that, if some of these indemnities are called, the amounts of compensation claimed would be higher than the reserves set aside by the Group to cover such claims cannot be excluded and this could adversely affect the Group's results and financial condition.

6.3.6 RISKS RELATING TO THE "ARKEMA" TRADEMARK

In using the name "Arkema" as a corporate name and in filing that name as trademark on a worldwide basis, the Group may encounter difficulties in Spain. Indeed two administrative opposition proceedings have been filed by a Spanish company against certain trademarks; the possibility that the Group may in the future encounter difficulties in registering and using the name "Arkema" in Spain cannot be excluded. This could adversely affect the Group's business, financial condition and results.

6.3.7 RISKS RELATING TO INSURANCE POLICIES

The Group believes that its insurance policies are adequate as compared to the insurance programme currently available on the insurance market for groups of a similar size and engaged in similar business activities.

However, the possibility that, in some cases, the Group could be required to pay substantial compensation for claims that are not covered by the existing insurance program or that it will incur very large expenses that will not be reimbursed or only partially reimbursed under its insurance policies cannot be excluded. Indeed while the insurance market makes property insurance levels available that enables the Group to secure policies that cover the probable maximum claims, this is not necessarily the case with respect to casualty insurance, where the potential maximum claims are higher than what the insurance market can offer on terms acceptable for the Group.

Furthermore, changes in the insurance market could lead to unfavorable changes for the Group's insurance policies (in particular, to an increase in deductibles) and to an increase in premiums for such policies. This could adversely affect the Group's business, financial condition or results.

6.4 - Insurance

The Group's policy is to insure risks relating to the production and marketing of its products. In order to optimize its policy of covering all the companies in the Group, the Group uses international insurance brokers. In general terms, the Group's insurance policies contain limits of cover which are applicable either per claim, or per claim and per year. These limits vary according to the risks covered, such as civil liability, property damage (including business interruption) or carriage of goods. In most cases, coverage is limited both by a certain number of exclusions usual for these kinds of contracts and by deductibles of a reasonable amount taking into account the size of the Group.

The Group believes that the limits of cover take into account the type of risks incurred by the Group and are adequate as compared to existing limits of cover available on the market for companies of similar size and engaged in similar business activities.

In the 2006 financial year, the total amount of insurance premiums paid by the Group was less than 1% of its sales.

The Group will retain a certain level of risks either through deductibles on its insurance policies or centrally through a captive reinsurance company. This captive reinsurance company is active only in property insurance and has a maximum retention of €7.5 million per claim and €10 million per year in total. The purpose of this captive company is to optimize the cost of external insurance. During 2006, the captive company was required to cover only a single claim.

A general description of the insurance policies taken out by the Group can be found below. Details have not been provided, to comply with confidentiality requirements and to protect the Group's competitiveness.

6.4.1 LIABILITY

The Group has contracted Liability insurance policies with leading insurance companies. The Liability insurance policies (subject to applicable exclusions) cover the Group throughout the world against the financial consequences of liability claims in the context of its business activities and in respect of physical, material or pure economic damages or losses caused to third parties. This program provides cover of up to €700 million. Deductibles vary, particularly as a function of the location of subsidiaries.

6.4.2 PROPERTY DAMAGE

The various sites of the Group are insured by leading insurance companies against material damage and business interruption which could result there from. This cover is intended to avoid any significant financial impairment and to ensure the recommencement of operations in the event of losses. However, certain property and certain types of damage, which vary according to the country in which the loss occurs, could be excluded from the scope of this insurance policy.

The cover includes a "direct damage" element and a "business interruption operating losses" element (including sub-limits for machine breakdowns, natural disasters or terrorism) with the period of indemnification for the latter extending to a minimum of 24 months. Deductibles accepted vary according to the size of the subsidiary concerned.

The limit of cover for direct damage and business interruption can amount to €780 million, as a result of the combination of several policies.

6.4.3 CARGO

The Group is insured against the risk of damage to its assets, equipment, finished or semi-finished products and raw materials during transportation or storage by third parties up to a limit of €10 million per shipment. This limit is higher than the value of the largest shipments made or received by the Group. The policy includes a deductible and several exclusions usual for this kind of agreement.

6.4.4 ENVIRONMENTAL RISKS

In the case of sites located in the United States, the Group has taken out an environmental insurance policy with a leading insurance company. Under certain conditions, this policy covers the environmental risks associated with the Group's production sites located in the United States. It covers all future accidents affecting the environment, whether inside or outside the facilities, but it does not cover cases of pollution which are already known and which are caused by past operations.

For Europe and the rest of the world, the Group has taken out an insurance policy covering its liabilities for pollution outside its sites. Cases of pollution which are already known and which relate to past operations are not covered.

6.5 - Legal risks

Legal risks are subject to a quarterly review by the Group.

On the first day of the last month of each quarter, each BU, functional division or subsidiary has to inform in writing the Accounting/Controlling division and the Legal Affairs division of the Group of any legal risk or legal proceedings affecting or likely to affect the Group's operations. Representatives of the Accounting/Controlling division and of the Legal Affairs meet to analyze such risks and legal proceedings and to determine, in accordance with the BUs, the functional divisions and the subsidiaries, the amount of the provisions relating to such risks and legal proceedings based on the rules described in the chapter "accounting principles and methods" of the financial statements.

The Group is a party or may become a party to legal proceedings, as a result of which it may be found liable on various grounds, in particular, for violating competition laws relating to cartel behavior, full or partial non performance of contractual obligations, breaking off established commercial relationships, pollution or product compliance failures.

6.5.1 CLAIMS RELATING TO ANTITRUST LAWS

The Group is involved in a number of proceedings in the United States, Canada and Europe alleging violations of antitrust laws relating to cartel behavior.

To cover the risks associated with proceedings in the United States and in Europe, which arose prior to completion of the spin-off of Arkema's Businesses, Total S.A. and one of its subsidiaries have granted indemnities for the benefit of Arkema S.A. and Arkema Finance France, the main terms of which are described in section 22.2 of this reference document.

The financial risk associated with all proceedings described below is not easily quantifiable.

Based on its analysis of the cases, and taking into account the indemnities granted by Total S.A. and described in section 22.2 of this reference document, the Group has booked provisions in respect of these proceedings of €31 million (at 31 December 2006), of which €18.3 million related to the appeals by Arkema France filed with the European Court of First Instance.

Proceedings carried out by the European Commission

Arkema France is currently a party to several proceedings being carried out by the European Commission alleging violations of the rules of EU competition law restricting anticompetitive agreements.

These cases are at different stages.

On 19 January 2005, in the case relating to monochloroacetic acid, the European Commission fined Arkema France €13.5 million and imposed jointly and severally a fine of €45 million on Arkema France and Elf Aquitaine.

Arkema France and Elf Aquitaine filed an appeal of the ruling with the European Court of First Instance. The case is still pending.

On 3 May 2006, in the case relating to hydrogen peroxide, the European Commission imposed on Arkema France a fine of €78.7 million, of which part was imposed jointly and severally on Total S.A. and Elf Aquitaine.

Arkema France, Total S.A. and Elf Aquitaine filed an appeal of the ruling with the European Court of First Instance.

On 31 May 2006, in the case relating to methacrylates, the European Commission imposed on Arkema France a fine of €219.1 million, of which part was imposed jointly and severally on Total S.A. and Elf Aquitaine.

Arkema France, Total S.A. and Elf Aquitaine filed an appeal of the ruling with the European Court of First Instance.

During the second half of 2006, Arkema France replaced the bank guarantees it had put in place by a payment to the European Commission of the entirety of the fine relating to MCAA (monochloroacetic acid) imposed in January 2005, or €58.5 million plus interest, for a total of €61 million.

Similarly, Arkema France paid the European Commission the entirety of the fine relating to hydrogen peroxide, for a total of €78.7 million, and the entirety of the fine relating to methacrylates, or €219.1 million, resulting in the group exceeding the maximum liability of €176.5 million that it retained after the spin-off. The indemnity payment due from Total S.A. under the guarantees granted, totaling €164 million (being 90% of the amount exceeding the deductible), was paid to Arkema France at the same time as this final payment was made.

Four of the five other cases (relating to heat stabilizers, plasticizers and alcohols, sodium chlorate and solvents) are, on the other hand, at very preliminary stages. They resulted in investigations by the European Commission in 2003, 2004 and 2006 (visits and requests for information). The European Commission did not inform the relevant companies, including Arkema France, of any statement of objections, it being specified, however, that the investigations on solvents do not apply to Arkema France, which does not produce or sell the solvents targeted by these investigations. As Arkema France has actively cooperated with the European Commission, it should benefit from a reduction in any fines that may be assessed against it.

In the fifth case, relating to impact modifiers, the European Commission has recently made known its decision not to pursue the investigation it launched in 2003.

Based on an empirical analysis of similar decisions adopted by the European Commission, the Group believes that the combined amount of fines that may be assessed against it is very high. The Group believes that the provisions it has booked against such eventualities are sufficient, but it cannot rule out the possibility that total fines might exceed the level of provision made.

In addition to the proceedings carried out by the European Commission, it cannot be ruled out that civil suits for damages are filed by third parties claiming to be victims of the violations in relation to which fines have been imposed by the European Commission.

On this point, Basell Polyolefins, which had also issued a claim for damages against Arkema S.A., has recently started proceedings against this company together with Arkema GmbH, claiming damages in the provisional sum of €0.6 million. Total S.A. has been notified of this claim under the indemnity agreement between Total and ARKEMA.

Proceedings in the United States and Canada

Arkema Inc. is currently under criminal investigation by the United States Department of Justice for alleged violations of United States antitrust laws in two sectors: hydrogen peroxide and polymethyl methacrylate (PMMA). Preliminary contact with Canadian competition authorities in the area of monochloroacetic acid in 2001 do not appear to have resulted in a formal investigation.

Arkema France and Arkema Inc. are also named in civil suits, similarly as a result of alleged violations of United States antitrust laws, in four sectors: plastic additives, hydrogen peroxide, methyl methacrylate and polymethyl methacrylate. Civil suits are also under way in Canada in the areas of hydrogen peroxide, methyl methacrylate and polymethyl methacrylate.

(a) Criminal investigations

Arkema Inc. has received grand jury subpoenas from the United States Department of Justice, relating to the hydrogen peroxide and polymethyl methacrylate sectors. As of the date of this reference document, Arkema Inc. has not been indicted or charged in connection with these investigations.

The criminal investigations by both United States and Canadian antitrust authorities relating to the plastic additives sector were terminated by these authorities in the course of 2006.

(b) Civil actions

Several direct or indirect purchasers of products allegedly marketed by Arkema France or Arkema Inc. have brought individual or class actions against Arkema France and Arkema Inc., seeking damages on the basis of alleged violations of competition law in the plastic additives, hydrogen peroxide, methyl methacrylate and polymethyl methacrylate sectors.

- A class action has been brought against Arkema France and Arkema Inc. by purchasers of monochloroacetic acid. These claimants have since abandoned this claim in the United States.
- Some direct and indirect purchasers of plastic additives allegedly sold by Arkema Inc. have brought a certain number of individual and class actions against that company. As at the date of this reference document, no class has been certified by the courts.
- Some direct and indirect purchasers of hydrogen peroxide allegedly sold by Arkema France or Arkema Inc. have brought a certain number of individual and class actions against these two companies alleging breach of a US federal or state anti-trust law. As at the date of this reference document, a class action has been certified by the competent courts.
- Similarly, alleged purchasers of methyl methacrylate (MMA) and polymethyl methacrylate (PMMA) have brought a certain number of individual and class actions against Arkema France and Arkema Inc. seeking damages against them. As at the date of this prospectus, no class has been certified by the courts.

- In Canada, a number of civil actions relating to hydrogen peroxide were brought in Quebec, Ontario and British Columbia in 2005 and 2006. As at the date of this prospectus, no class has been certified by the courts.
- Similarly, a number of civil actions relating to methyl methacrylate (MMA) and polymethyl methacrylate (PMMA) were brought in Quebec and Ontario in 2006. As at the date of this prospectus, no class has been certified by the courts.

As indicated in paragraph 6.5.1 of this reference document, Arkema France is currently involved in various investigations being carried out by the European Commission concerning several other products. At the present time, the Group is not aware of any criminal investigation, nor is it the subject of any civil claim in the United States in relation to products other than plastic additives, hydrogen peroxide, methyl methacrylate and polymethyl methacrylate. It is, however, possible that certain matters addressed in a statement of objections on the part of the European Commission could also be the subject of proceedings in the United States in the future.

As has been indicated above, Arkema France and Arkema Inc. are not currently the subject of any formal charges in the context of the ongoing criminal investigations in the United States. In addition, the civil actions currently pending (including those in Canada) are all in their very early stages. Consequently, it is difficult to assess with certainty the quantum of the risk to which the Group could be exposed as a result of these proceedings. In the light of an empirical analysis of prior settlements of civil and criminal matters involving alleged cartels in the United States (whether or not they are similar to the cases in which ARKEMA is involved), Arkema considers the potential risk as a result of proceedings pending in the United States and Canada to be very significant.

6.5.2 OTHER LITIGATION

6.5.2.1 Arkema France

- In 1995, the company Gasco brought a claim for damages against Elf Atochem (the former name of Arkema France) before the court in Ghent (Belgium) in respect of an alleged breach of contract and breach of an exclusivity agreement. At first instance, Gasco obtained a judgment against Atofina for payment of €248,000 by way of damages for breach of contract (payment of that sum has been made) but its claim for breach of the exclusivity agreement was dismissed. Appeal proceedings are pending before the Ghent Court of Appeal. Gasco is asking for the judgment to be reversed insofar as it dismissed the claim for breach of the exclusivity agreement. As a result, it has put forward a claim for €24 million which the Group considers to be without foundation and which it is challenging both in principle and in its amount. Having regard to the weak basis of the allegations made against it and the defenses available to the Group, the Group's view as at the date of this reference document and as the matter currently stands, is that the amount of the provision made for this matter in the accounts is sufficient.
- Arkema France supplies various products for the coating of items used in a number of European countries in the manufacture of sanitary treatment facilities. These products are subject to inspection on the part of approved laboratories which must certify their conformity with the applicable sanitary regulations. Arkema France has a dispute with a French laboratory as to the interpretation of the regulations applicable in France as regards regulatory clearance in France of a product even though it is approved in other European Union countries. The Group takes the view that this problem is essentially administrative in nature. However, the possibility that users might seek to attach liability to Arkema France as the supplier cannot be excluded. In the event that such claims were successful, the costs of replacement of the products and the damages that could be claimed could prove to be extremely high.
- In 2005 and 2006, 279 employees and 60 former employees of two Arkema France facilities (Pierre-Bénite and La Chambre — France) brought a claim for damages before the Lyon and Albertville industrial tribunals (*Conseils de prud' hommes*) for alleged breach of the provisions of the collective chemical industry agreement. The provisions of that agreement give workers, technicians and supervisors working continuous or semi-continuous shifts of more than six hours, a thirty-minute break during which they need not do any work. The claimants' view is that the management of those two establishments organized and arranged the break in such a way that employees were not completely free of any work so as to be able to deal with personal matters. They claim that they suffered loss-justifying compensation as a result. The amount of the claims is €6.35 million. Arkema France is contesting the claims. The Albertville Industrial Tribunal rejected the claim from employees at La Chambre in a ruling handed down on 8 November 2006. No employee has appealed this decision. Provision has been made for this dispute in an amount that the Group considers sufficient.
- Claims relating to asbestos are discussed in detail in section 6.3.2.3 of this reference document.

6.5.2.2 CECA

In 1999, the company Intradis commissioned the company Antéa to carry out a survey on a site situated in France which had been used for industrial purposes and in particular by CECA (manufacture of sulfuric acid) and the company Hydro Agri (a fertilizer factory which does not belong to the Group). The survey noted pollution of the soil and water on the site, as well as the existence of pyrites in the open air, and classified the site as category 1 (a site requiring in-depth investigations and a detailed risk assessment). The company Intradis then made an application to have an expert urgently appointed to determine the nature and extent of the pollution affecting the site and to establish the liability of CECA and Hydro Agri, the owners and operators of the site before its acquisition by the company Intradis. Intradis' claim was rejected in the first instance by the Administrative Court of Amiens *(Tribunal administratif d'Amiens)* on 6 July 2006. Intradis has appealed this decision before the Administrative Court of Appeal of Douai *(Cour Administrative d'Appel de Douai)*. In the absence of a quantified claim, no provision has been made for this dispute in the accounts of the Group as at the date of this reference document.

The past environmental engineering activities of CECA have given rise to various claims by third parties. These claims have been transmitted to the Group's insurers. The Group has made provisions in this matter that it considers sufficient. The possibility cannot be excluded that this activity, which has now ceased, may give rise to further claims in the future.

6.5.2.3 Alphacan

On 26 June 2000, Alphacan sold an industrial site at Roncq (France) to the company Novoplastic Nord. A classified installation is built on this site. Companies in the Christian Blanc group (Financière Christian Blanc, Novoplastic S.A. and Novoplastic Nord), all of which are the subject of bankruptcy proceedings (reorganization or compulsory liquidation), have commenced proceedings against Alphacan on the grounds that, at the time of the sale of the site at Roncq, it failed to disclose the existence of an order made by the Prefect requiring the erection of a fence around the site and the construction of a water retention reservoir to retain runoff for use in the event of fire.

Those companies made the following claims for the relief/damages in the Versailles commercial Court *(Tribunal de commerce de Versailles)*:

- reduction of the purchase price of the site at Roncq by an amount to be determined in an expert's report;
- payment of the cost of construction of the retention reservoir;
- payment of the liabilities of the company Novoplastic Nord, in compulsory liquidation;
- payment for the loss of value of the shareholding of Financière Christian Blanc in the company Novoplastic: in this respect an application is made for a provisional payment of €500,000 and the appointment of an expert; and
- payment of Novoplastic S.A.'s loss of claim against the company Novoplastic Nord and miscellaneous damage (commercial — moral). In this respect an application is made for a provisional payment of €500,000 and the appointment of an expert.

Overall, these claims, which are contested by Alphacan, amount to €5.8 million. An order has been made by the Versailles commercial court (Tribunal de commerce de Versailles) for the preparation of an expert's report, and this is currently under way. On the basis of all this information, the Group considers that at the current, preliminary stage of this matter, the amount of the provision provided in the accounts as at the date of this reference document is sufficient.

6.5.2.4 Arkema Inc.

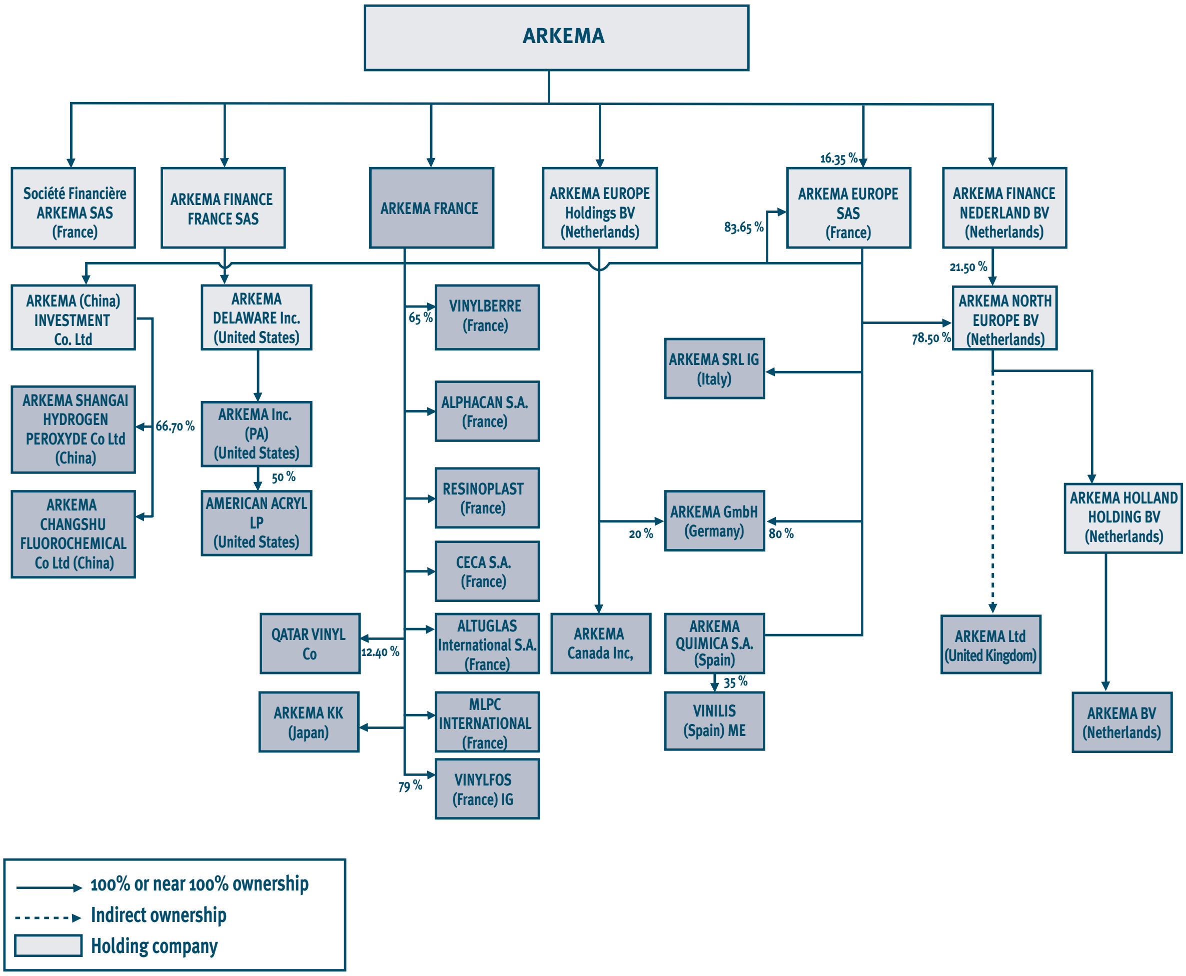
- Norit Americas, Inc. (Norit) acquired an active carbon production unit from Arkema Inc., located in Pryor (Oklahoma, United States). Initially, Norit made a claim against Arkema Inc. for an indemnity, alleging breach by Arkema Inc. of the provisions of the Clean Air Act on that site. Norit has in fact been served with a violation notice by the Oklahoma Department of Environmental Quality, relating to emissions of particles of sulfur dioxide and nitrogen oxide. While contesting that the offenses have been committed, Norit has nevertheless called on Arkema Inc. for an injunctive relief against any fines which might arise in these proceedings. The parties have entered into a standstill agreement, extended to 1 April 2007, upon the expiry of which they will continue to proceed with their respective claims: Arkema Inc.'s claim is the payment of the balance of the price of the production unit yet to be paid by Norit, and Norit's claims are for indemnities in respect of environmental matters. Provisions have been made in the Group's accounts for this litigation, in amounts which the Group considers to be sufficient.
- Arkema Inc. has been served with a Corrective Action Order issued by the US Environmental Protection Agency in relation to the site of the factory at Riverview, the site at West Brine Field and the site at Wyandotte (United States). The order requires a Remedial Facility Investigation, a survey of corrective measures and the implementation of those measures on the said sites. Analysis of the remediation options has been ongoing for several years. Recently, Arkema Inc. has received an additional order which relates more specifically to an analysis of sediments in the Trenton canal of the Detroit River alongside Riverview and the Wyandotte sites. The costs involved in certain contaminations of the Wyandotte site will be divided between Arkema Inc. and other local industries which might potentially be implicated in any pollution of the sediments. If the analyses indicate that the sediments are polluted and that Arkema Inc. alone was responsible for such pollution, it could be responsible for the cost of decontamination. As matters stand, it is difficult to determine what will be required from Arkema Inc. in relation to contaminated sediments in the Trenton canal and to estimate the associated costs. The costs associated with the closed site at Wyandotte and the impact on the Detroit River coming from the Wyandotte site have been assumed by the company Legacy Sites Services LLC, a subsidiary of Total S.A., under the environmental indemnity agreement described in section 22.2 of this reference document. The costs associated with the Riverview site, including any related impacts on the Detroit River, which are the subject of a provision in the Group's accounts, remain payable by ARKEMA.

- The past production activities on the site at Calvert City (Kentucky, United States) have caused pollution of the soil and groundwater and of the Tennessee River. Analyses and decontamination work on the site have been ongoing for a certain number of years and will continue in the future. Arkema Inc. hopes to be able to negotiate reasonable decontamination obligations. A provision has been booked that the Group considers to be sufficient in the light of the information available to it.
- In the United States, the Group is currently involved in a substantial number of proceedings (about 565) in various courts. These proceedings concern claims by third parties relating to (i) alleged exposure to asbestos on the Group's sites, or (ii) exposure to products containing asbestos and sold by former subsidiaries of the Group in the United States. When they are not covered by insurance policies these claims have given rise to booking of provisions for amounts that the Group believes to be sufficient. However, due to the continuing uncertainties as to the outcome of these proceedings, and having regard to the information available, the Group is not in a position as at the date of this reference document, to estimate the total amount of the claims that might finally be upheld against it by the various competent courts after the exhaustion of any avenues of appeal.
- An investigation by the United States tax authorities is currently under way regarding certain practices. The investigation concerns the non-issue of W-2 forms for certain foreign "immigrant" employees and the non-declaration of certain remuneration relating to stock option or stock purchase plans. Arkema Inc. is cooperating fully with the investigation. At the present time no estimate can reasonably be made of any liability arising from this investigation that would allow provision to be made.
- Arkema Inc. was subject to a claim from the family of an employee of a transport company, who died during the delivery of an odorizing product in May 2004. The claim was dropped voluntarily but has recently been reissued in the jurisdiction of Texas. A discovery procedure is under way. In the absence of sufficient information no provision has been made.

To the best of the Company's knowledge and with the exception of the issues mentioned in this reference document there is no governmental, legal or arbitration proceeding of which the Company and/or the Group is aware that is pending or with which it is threatened, that is likely to have or has had in the course of the last twelve months a material effect on the financial condition or results of the Company and/or the Group.

7 Simplified legal organization chart

The main directly or indirectly owned subsidiaries of Arkema S.A. are described below.



8 Property, plant and equipment

8.1 - Property, plant and equipment

8.1.1 SUBSTANTIAL EXISTING OR PLANNED TANGIBLE ASSETS, INCLUDING LEASED REAL PROPERTIES

The Group's policy is to own the industrial facilities that it uses. By way of exception, it sometimes rents offices and warehouses. The leases are signed with third party lessors.

The net book value of the Group's tangible fixed assets (excluding Cerexagri) at 31 December 2006 was €1.376 billion. It includes transportation equipment and pipelines owned by the Group.

8.1.2 DESCRIPTION OF ENVIRONMENTAL ISSUES WHICH COULD AFFECT THE USE MADE BY THE GROUP OF ITS TANGIBLE ASSETS

Environmental information is given primarily in sections 8.2 and 6.4.4 of this reference document. For a description of environmental issues which could affect the use made by the Group of its tangible assets, reference should be made to the sections referred to above.

8.2 - Environment and industrial safety

The Group's business activities are subject to a body of regulations and international and local laws that are constantly changing in the areas of environmental protection and health and safety. These regulations impose increasingly strict obligations, particularly concerning industrial safety, emissions and discharges of toxic or hazardous substances (including waste) into the air, water, or ground, utilization, labeling, traceability, handling, transport, storage, and the elimination of toxic or hazardous substances, exposure to the latter, as well as the restoration of industrial sites and the remediation of soil and groundwater.

For more than twenty years, the Health, Safety and Environment policy (HSE) of the Group's companies has been continuously strengthened in order to incorporate the applicable regulations as well as the Group's own requirements. The Group has formally expressed its fundamental requirements in its Health, Safety, Environmental Protection and Quality Charter and in a global reference source, the HSE manual, which form the basis for HSE management in all Group entities.

The Group's HSE policy is also an integral part of its approach to sustainable development, which is based on the firm belief that its long-term growth partly depends on the way it assumes its responsibilities in the areas of social relations, safety and the environment.

Accordingly, the Group is a subscriber to the Responsible Care® initiative, a voluntary commitment by the world's chemical industries to improve safety and to improve protection of health and of environment, which is defined by the International Council of Chemical Associations (ICCA) at the world level, by the European Chemical Industry Council (CEFIC) at the European level, and taken up by the majority of national federations, in particular by the Union des Industries Chimiques (UIC) in France. Recently the ICCA launched the Responsible Care® Global Charter, to enhance the provisions of Responsible Care®, by putting fresh emphasis on sustainable development, responsible management of products and third party checking of procedures. On 16 November 2006 the Company signed a declaration of support for the Responsible Care® Global Charter.

8.2.1 INDUSTRIAL SAFETY

The Group's industrial safety policies are grouped together under the title "Safety in Action" and aim to foster a culture of safety. This policy is implemented worldwide and for many years now has produced a significant improvement in industrial safety performance.

8.2.1.1 Controlling industrial risks

The assessment of risks on the Group's industrial sites is carried out through systematic studies of (i) the manufacturing processes, (ii) operating conditions of the existing sites, (iii) transport operations (particularly those involving hazardous products), (iv) the design and construction of new installations, (v) changes to existing installations and (vi) health and safety at work.

The identification of these risks, their ranking through a qualitative and quantitative approach based on simulation models and a network of experts, preventive measures designed to reduce the effects of these risks and the likelihood of them occurring, are all covered by the technical and organizational resources put in place for the Group's industrial sites, as well as for the transport of hazardous substances.

The Group pays great attention to the analysis of risks connected with its business activities, particularly in the case of Seveso-category sites (or their equivalents) for which the Group demands that the level of safety requirements increases in line with the identification of potential risks.

At the time of the design of a new production unit or when a significant extension to an existing production unit is made, the best options for improving industrial safety are sought. In addition, the Group regularly makes improvements to its existing production units.

Production sites

In Europe, at the date of this reference documents, 37 of the Group's production sites are monitored with extra vigilance and are subject to Directive 96/82/CE, dated 9 December 1996, that deals with the control of major accidents hazards involving hazardous substances, and called the "Seveso II Directive". This directive requires, in particular, the introduction of safety management systems and the regular updating of risk assessment surveys, whose conclusions can lead to additional risk-prevention requirements for the companies operating the sites.

Recently, Law 2003-699 of 30 July 2003 and its implementing decrees have strengthened the obligations imposed in France on companies operating Seveso sites, by laying down the principle that the government draws up and implements "plans for the prevention of technological risks" (PPTRs), the aim of which is to control urban development around risky sites and limit the effects of accidents that could occur there. About 20 sites operated by the Group in France should be the subject of PPTRs before 31 July 2008. The Group will be obliged to contribute to the funding of any measures connected with these PPTRs.

In the United States, control of the risks of industrial accidents is regulated, in particular, within the framework of the Clean Water Act and the Emergency Planning and Community-Right-to-Know Act. The latter, in particular, requires companies to inform the government authorities when hazardous products, above a certain quantity, are being handled or stored and requires companies storing such products to have emergency plans and procedures in place. Other regulations at the federal, state or local levels govern certain specific aspects of the storage of chemical products, the safety of workers when handling stored products and the storage of very hazardous products.

Storage sites and warehouses

The Group uses many storage areas and warehouses located on its manufacturing sites and elsewhere. Most of the external storage and warehousing centers are located near its customers' facilities or in ports, in order to facilitate maritime exports or imports, or for purposes of special packaging or processing operations.

Risks relating to these storage sites and warehouses are described in paragraph 6.3.2.5 of this reference document.

The transport of hazardous products

Because of the localization of its production sites and the location of its customers, the Group conducts, or contracts out to third parties, a major business of transporting products or goods that are classified as hazardous. This activity is governed by international agreements and European regulations, as well as local legislative or regulatory requirements.

The risks relating to the transport of hazardous products are described in paragraph 6.3.2.4 of this reference document.

Pipelines

The Group owns and operates a limited number of pipelines in France (six in all) for which specific potential problem areas (called "vigilance points") have been defined, notably the supervision of work on them, the management of nearby works, and emergency plans and rehearsals with the emergency services. Updates of these vigilance points and analyses of the risks are regularly carried out.

8.2.1.2 Safety management processes

All the Group's installations and activities are the subject of safety studies and a safety management process adapted to the potential or proven risks they are likely to produce, including major risks and those connected with health and safety in the workplace. These safety studies cover the aspects concerning compliance with the regulations, as well as those that stem from the Group's internal requirements, and are revised every three to five years.

The so-called "high threshold" Seveso sites (European Directive 96/82/CE of 9 December 1996) or their equivalent outside Europe are subject to greater safety requirements.

The Group attaches great importance to the feedback of experience about incidents and accidents and about good practice, both at Group level and at the level of the contractors operating on the sites, and even from outside companies.

In the case of storage centers and warehouses, the Group, when choosing its outside service suppliers, takes into account their performance on safety.

In transport, the Group, when choosing its carriers, takes into account their performance on safety. The Group's companies, notably in France and the United States, have put in place prior assessment and selection procedures for their road hauliers, which are also used for rail freight companies.

A monthly report describing important events and commenting on the trends in the safety indicators such as the number of work accidents is distributed worldwide across a network of the Group's correspondents.

Several years ago, the Group inaugurated a round the clock response program, as well as a crisis center that can move into action in the event of a major accident.

Lastly, crisis rehearsals are regularly carried out on different topics (products, transport, etc) in order to maintain regular training for the teams.

8.2.1.3 Preparation for and management of emergency situations

Identifying emergency situations that can reasonably be envisaged has enabled the Group to put in place a risk management organization. The main aim of this is to identify and minimize the consequences of an accident and to supply appropriate information to deal with situations that the employees of the Group entity concerned, the emergency services and the neighboring population may face.

Emergency plans based on risk analysis are drawn up at different levels of the Group's organization (industrial sites, transport and countries). They define the role of each entity within the Group, depending on the level of crisis that may be encountered and the co-ordination required to ensure that the crisis is successfully managed.

They are updated periodically and are the subject of regular educational and training sessions.

These emergency plans and rehearsals to simulate emergency situations also include measures to manage the risks of transporting hazardous materials and substances.

In addition, most of the Group's industrial sites subscribe to a system of mutual assistance (Transaid in France, ICE in Europe and Chemtrec in the United States) that has been voluntarily set up by companies in the chemical industry.

Furthermore, internal audits are regularly carried out to verify that equipment (loading and unloading sites, etc.) complies with international or national regulations and with the Group's own internal requirements.

8.2.2 ENVIRONMENTAL PROTECTION

The Group has voluntarily launched a number of programs to reduce its atmospheric emissions, production of waste, discharges of wastewater and its energy consumption. To meet its regulatory obligations and environmental responsibilities, the Group has implemented an environmental management system and participates in the Responsible Care® program.

8.2.2.1 Reducing environmental impact

For the Group's manufacturing sites, the reduction of environmental impact consists in particular in minimizing use of raw materials, energy and natural resources such as water: discharges into the natural environment and other waste production are thus also reduced. From the moment of their design, new manufacturing units incorporate environmental protection in the choice of processes and equipment. The Group also carries out regular improvements to its production facilities, such as the modification of processes to reduce waste volumes or the installation of waste treatment units.

A certain number of regulations place strict limits on emissions from the Group's manufacturing facilities, notably in the area of atmospheric emissions and water extraction and wastewater emissions.

For example, under Directive 96/61/EC of 24 September 1996, called the IPPC Directive (Integrated Pollution Prevention and Control), the industrial sites to which it applies are subject to operating authorizations that provide for limited amounts of emissions, established on the basis of the best available techniques (BATs). Similarly the United States Clean Air Act (CAA) sets federal standards relating air pollution from fixed or mobile sources and establishes national emission standards for 200 hazardous substances, based in particular on Maximum Achievable Control Technology (MACT).

European Directive 2003/87/EC established a greenhouse gas trading system within the European Union. The group was allocated annual allowances under this scheme of 930kt for 2005 to 2007 and 779kt for 2008 to 2012. Despite this reduction, the Group does not expect that it will need to make significant purchases of additional CO2 allowances in this second period.

For several years now, one of the Group's priorities has been to reduce emissions of greenhouse gases (GHGs). As a significant user of energy, the Group is directly concerned by the carbon dioxide emissions and monitors the permanent improvement of the energy efficiency of its plants. The Group has also undertaken to reduce its emissions of fluorocarbon compounds, a family of GHGs mainly used in refrigeration and insulating foams.

The Group is one of those in France that, as a member of AERES (*Association des Entreprises pour la Réduction de l' Effet de Serre* or Association of Companies for the Reduction of Greenhouse Gases), committed itself in 2003 to quantified targets for reducing GHGs over the 2003-2007 period.

Environmental indicators

The tables hereafter show the levels of emissions and volumes of hazardous and non-hazardous discharges produced by the Group's businesses in 2004, 2005 and 2006.

GROUP ENVIRONMENTAL INDICATORS

Emissions in the air	2004	2005	2006
Volatile organic compounds (VOCs) (tonnes)	8,901	8,710	6,890
All substances leading to acidification (t eq SO_2)	7,327	7,342	8,330
Greenhouse gases (ktonnes eq CO_2)	6,810	8,305	9,580
Dust (tonnes)	307	337	474
Carbon monoxide (CO) (tonnes)	9,213	9,425	9,230

Emissions in water	2004	2005	2006
Chemical Oxygen Demand (COD) (tonnes of O2)	4,256	4,079	4,030
Materials in suspension (MIS) (tonnes)	4,660	5,954	6,675

Tonnes of waste per year	2004	2005	2006
Hazardous waste	199,468	160,558	200,710
Non-hazardous waste	81,638	87,459	91,686
Total waste produced	**281,106**	**248,019**	**292,396**

Source of 2004 data: Sustainable Development Report 2004. This report contains a statement from the Salustro bureau (KPMG) confirming the correct application of the consolidation procedures for the environmental data for 2004.

Source of 2005 data: after analyzing the 2005 data concerning the environmental indicators VOC, GHG and COD, KPMG issued a notice stating a limited assurance level.

Source of 2006 data: 2006 data for the VOC, GHG and COD environmental indicators have been subject to an audit by Bureau Veritas Certification.

8.2.2.2 Controlling soil and groundwater pollution

Some of the Group's industrial sites, particularly among those whose manufacturing activity goes back a long time, have been, or are, responsible for environmental pollution, notably of soil or groundwater. Under these circumstances, a certain number of sites currently being operated by the Group, or that were operated by the Group in the past and then sold, as well as adjoining sites or sites where the Group stored waste or had waste eliminated have been, are still, or could be in the future subject to specific demands from the relevant authorities to restore them.

When there is a problem of soil or groundwater contamination on a site, investigations are launched to establish the extent of the area concerned and establish whether the pollution is likely to spread. The Group co-operates with the authorities to define the measures to be taken when there is a risk of an impact on the environment or a danger to health is identified.

Restoring sites

The regulations in force in the different countries in which the Group operates allow the relevant authorities to impose measures to investigate, restore and monitor when the environmental state of a site justifies such measures. In France, these measures are based on the legislation concerning installations classified for the protection of the environment, as codified in articles L.511-1ff of the Environmental Code (*Code de l'Environnement*). In the United States, the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA) allow the relevant authorities to require investigation and remedial measures and also to impose compensation payments to certain government agencies, associations for the protection of the natural environment or Native American reserves for natural resource damages.

The Group has a large number of sites, some of which may be polluted given the length of time they have been operated and the diversity of the activities carried out there or that have been carried out in the past. The Group has therefore been developing a scheme to identify and evaluate the environmental situations of its active industrial sites for several years. The final closure of a site generally entails an obligation on the operator to restore the site beforehand to a state that no longer presents any danger or harm to the environment. In France, in addition to this obligation and apart from the need to notify the authorities that operations are ending, there is a requirement to take into account the future use of the site when defining and carrying out the restoration work. Unless an agreement is met with the interested parties (in particular the local municipality concerned), the operating company may face higher restoration costs if the site is earmarked for a so-called "sensitive" use (redevelopment with a view to building offices or housing, for example).

Within the framework of service contracts and guarantees, some of Total S.A.'s subsidiaries assume certain responsibilities on a number of sites in France, Belgium and the United States, most of which have ceased operations. The conditions under which these responsibilities will be assumed are described in section 22.2 of this reference document. Please also refer to section 6.3.2.2 of this reference document and note 27 of the notes to the financial statements.

8.2.2.3 Managing products responsibly

The Group pays attention to market products that do not, over their life cycle, harm human health or safety, or the environment.

Groups of experts (toxicologists and ecotoxicologists) work on improving knowledge of the danger characteristics of the substances produced by the Group.

In accordance with applicable regulations, a safety data sheet is regularly updated for each of the Group's products and sent to customers. In addition, groups of regulatory experts employed by the Group are in permanent contact with their toxicologist and ecotoxicologist colleagues, as well as with a worldwide network of correspondents on the industrial sites and in the BUs.

In Europe, regulations governing chemical products have been significantly reworked through the introduction of European regulation 1907/2006 of the Parliament and the Council on 18 December 2006, concerning the Registration, Evaluation and Authorization of Chemicals (REACH). This regulation will come into force on 1 June 2007. The Group estimates that compliance with the new regulation will cost it around €60 million over 12 years.

This new regulation will oblige all manufacturers and importers of chemicals in Europe to file a complex registration file for each substance of which more than a tonne is produced per year. Each file will then be subjected to evaluation by the relevant authorities. An authorization procedure will be required for substances of very high concern, namely those in the following categories: CMR (carcinogenic, mutagenic and reprotoxic), PBT (persistent, bioaccumulative and toxic) and vPvB (very persistent and very bioaccumulative) The group expects to register 430 substances (of which 35 to 40 are potentially subject to authorization) and has been preparing for the introduction of the new rules for several years, for instance through the collection and verification of data.

Leaving aside the REACH regulation, it cannot be ruled out that the competent environmental authorities, within the framework of the existing regulations in the countries where the Group operates, will take decisions that could oblige it to reduce sharply, or even stop, the manufacture and marketing of certain products and shut down, either temporarily or permanently, manufacturing on certain production sites.

For example the Group uses a fluoro-surfactant in the production of high-performance polymers at two of its manufacturing facilities. In the United States, a preliminary risk assessment on perfluoro-octanoic acid (PFOA), a substance not used by the Group but that has chemical similarities with the fluoro-surfactant it uses, was published by the American environmental authorities (the Environmental Protection Agency — EPA) in April 2003 and then revised in January 2005. This risk assessment indicates potential exposure of the United States' general population to PFOA at very low levels but states that there is a great scientific uncertainty about the health risks associated with PFOA. The EPA, however, continues its evaluation aimed at identifying the types of voluntary or regulatory measures, or other actions, that should, if necessary, be adopted and implemented. At the moment, it is hard to foresee the conclusions that will be drawn from this study and whether they will be extended to the fluoro-surfactant used by the Group.

On 25 January 2006, the EPA wrote to certain manufacturers using PFOA and similar substances to ask them to commit to a program of gradual elimination of PFOA and similar substances from emissions and from products by 2015 (with a target 95% reduction by 2010). ARKEMA has undertaken to respect this program, and can draw on the considerable resources it has devoted to finding a substitute product since 2002 and the results this research has already produced. In Europe, the European Parliament on 25 October 2006 passed the first reading of a directive enabling the Commission to bring forward measures to reduce the risks associated with PFOA as considered necessary under the on-going risk analysis.

Over and above regulatory constraints, the Group contributes to several international programs to evaluate the dangers of chemical products, such as the High Production Volume Chemicals (HPV) program that comes under the aegis of the International Council of Chemical Associations (*ICCA)*.

8.2.2.4 Management and prevention of environmental risks

The Group has set up environmental management systems at its industrial sites, most of which have obtained an external environmental certificate stating that they comply with the ISO 14001 standard. Depending on the local context, some sites have adopted other benchmarks such as the Responsible Care® Management System (RCMS) in the United States.

The environmental management system requires each of the Group's industrial sites to identify its impact on the environment (water, air including greenhouse gases, waste, noise, odors and soil) and set out the priorities which constitute their action plan. The periodical environmental analysis of sites allows measurement of the accomplished progress and definition of new improvement objectives. Each site rigorously monitors its discharges, emissions (including CO_2 emissions and greenhouse gases) and waste. All this environmental data is collected and consolidated at the Group's head office and is published annually as part of the report on sustainable development.

In addition to internal audits, carried out by the Group's Internal Audit team, the Group's sites are subject to two other types of audit: certifications by outside bodies and audits carried out by experts from the Group's Health and Safety and Environmental Protection division.

Lastly, fully aware as it is of the concerns of the public about the chemical industry, whether the risk of accidents, the effect of products on health or their impact on the environment, since 2002 the Group has organized meetings to exchange views with the communities located near its industrial sites as part of an initiative called Common Ground®. The purpose of this is to develop a dialogue and contacts with those who are concerned by these matters, to build confidence and thus move forward with them in the fields of safety and the environment.

8.2.3 HEALTH AND SAFETY

8.2.3.1 Promotion of health and safety is a constant concern

Safety and the protection of health and the environment are central to the Group's objectives in conducting its operations, with an ongoing concern for improving performance in these areas.

The Group carefully assesses the impact of its operations on the health and safety of its employees, service providers, customers and the public, as well as on the environment, not just for preventive purposes but also to mitigate any impact (a description of the Group's policy in the areas of environmental health and industrial safety is provided in section 8.2 of this reference document).

The Group also conducts training in these areas and develops procedures aiming to ensure safety at its sites.

The priorities of the Group's industrial safety policy are the following:

- prevention of major risks;
- workplace safety and health; and
- disseminating a safety-oriented culture.

8.2.3.2 Occupational illness

In manufacturing its products, the Group uses and has in the past used toxic or hazardous substances. Despite the safety and monitoring procedures that have been instituted at Group level and for each production site, Group employees may have been exposed to such substances and may develop specific pathologies as a result of such exposure.

In this respect, like most industrial companies, in the past, the Group has used a variety of insulating or heat-proofing materials containing asbestos in its production facilities. Consequently, certain employees may have been exposed to such materials before they were gradually eliminated and replaced with substitute products.

At its French sites, the Group anticipated the regulatory provisions applicable to asbestos (Decrees n° 96-97 and 96-98 of 7 February 1996 and Decree n° 96-1133 of 24 December 1996). The Group made an inventory of asbestos-containing building materials within its premises, notified employees of the results of these investigations and took the collective and individual protective measures required by the applicable laws. Outside France, the Group has also taken measures to ensure it complies with applicable legislation.

However, claims for occupational illness related to past asbestos exposure have been filed against the Group, mostly for periods before 1980.

The risks relating to occupational illness are described in paragraph 6.3.2.3.

8.2.3.3 Facilities that produced asbestos-containing materials likely to entitle employees to voluntary early retirement

Four of the Group's sites in France have been classified by ministerial order as facilities likely to entitle asbestos workers to a system of voluntary early retirement. The Group cannot rule out the possibility that other sites will be added to this list in the future.

In this area, on 30 June 2003, the Group entered into an agreement with all the trade unions aiming to improve the conditions under which its employees can leave the Group under the terms of this system, and to adjust the departure date of the relevant employees so as to facilitate the transmission of expertise and know-how within the Group.

9 Analysis of the Group's financial condition

9.1 - Financial information on the accounts relating to the group's assets and liabilities, financial condition and results

9.1.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2006 AND NOTES TO THE FINANCIAL STATEMENTS

The Group's consolidated financial statements for 2006, presented in chapter 20 of this reference document, were prepared in accordance with the methods and principles described at the head of the notes to these financial statements.

9.1.2 AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS FOR 2006

The report from KPMG Audit and Ernst & Young Audit, statutory auditors, on the consolidated financial statements for 2006 is included in chapter 20 of this reference document.

9.1.3 COMBINED FINANCIAL STATEMENTS FOR 2004 AND 2005 AND NOTES TO THE FINANCIAL STATEMENTS

For the 2004 and 2005 financial years, the combined financial statements for the Group and their notes are included in the prospectus that received AMF visa N°06-106 dated 5 April 2006 in Appendices B.1 and C.1.

These are incorporated by reference in this reference document.

9.1.4 AUDITORS' REPORT ON COMBINED FINANCIAL STATEMENTS FOR 2004 AND 2005

The reports from KPMG Audit, statutory auditors, on the combined financial statements for 2004 and 2005 are presented as Appendices B.2 and C.2 of the prospectus that received AMF visa N°06-106 dated 5 April 2006.

These are incorporated by reference in this reference document.

9.1.5 PRO FORMA FINANCIAL STATEMENTS FOR 2004 AND 2005 AND NOTES TO THE FINANCIAL STATEMENTS

The pro forma financial statements for 2004 and 2005 and their notes are provided in Appendix D.1 of the prospectus that received AMF visa N°06-106 dated 5 April 2006.

These are incorporated by reference in this reference document.

9.1.6 REPORT FROM KPMG AUDIT, STATUTORY AUDITOR, ON THE PRO FORMA FINANCIAL STATEMENTS FOR 2004 AND 2005 AND REPORT FROM ERNST & YOUNG, CONTRACTUAL AUDITOR, ON THE PRO FORMA FINANCIAL STATEMENTS FOR 2005

The reports from KPMG Audit, statutory auditor, on the pro forma financial statements for 2004 and 2005 are presented in Appendix D.2 of the prospectus that received AMF visa N°06-106 dated 5 April 2006.

The report from the contractual auditor on the pro forma financial statements for 2005 is presented in Appendix D.3 of the prospectus that received AMF visa N°06-106 dated 5 April 2006.

These are incorporated by reference in this reference document.

9.2 - Comments and analysis on financial statements for 2004, 2005 and 2006

All comments and analysis in this section refer to:

- pro forma financial information for 2004 and 2005, restated for the effects of the disposal of Cerexagri's entities under the provisions of IFRS 5 solely as regards the income statement and information by business segment;
- consolidated financial information for 2006 prepared in accordance with IFRS 5. These do not include figures relating to Cerexagri on the balance sheet, income statement and information by business segment.

9.2.1 BASIS OF PREPARATION OF THE ANALYZED FINANCIAL STATEMENTS

ARKEMA has prepared combined financial statements in respect of 2004 and 2005. These combined financial statements were established as part of the listing of Arkema S.A.'s shares in order to give an economical overview of ARKEMA's business, which did not, prior to the reorganization in preparation for the spin-off, constitute an autonomous group of assets within the Total Group. They were prepared on the basis of financial statements for companies that historically had been consolidated in Total S.A.'s financial statements.

On the basis of these combined financial statements. ARKEMA prepared pro forma financial statements for 2004 and 2005. These pro forma financial statements aim to show the effects that the spin-off from Total could have had on the balance sheet, income statement and cash flow statement of ARKEMA, if this operation had taken effect on 1 January 2003 and if ARKEMA had operated as a separate, stand-alone, listed group as from that date.

Pro forma financial statements were drawn up on the basis of the Company's best estimates in order to facilitate comparisons between financial years. They cannot be considered as being representative of the results, financial condition, cash position or performances that would have been recorded if the spin-off had indeed taken place before its actual date. Neither do such pro forma financial statements predict the financial position or performance that ARKEMA will achieve in future years.

For the year ended 31 December 2006, ARKEMA has prepared consolidated financial statements on the basis of individual financial statements for consolidated companies for the period from 1 January 2006 to 31 December 2006, restated where necessary to bring them into line with the Group's accounting principles.

These consolidated financial statements for 2006, and the pro forma financial statements for 2004 and 2005 analyzed in this section, have been prepared in accordance with IFRS as adopted by the European Union.

With this in mind, and as part of its strategy of selective management of its business portfolio, ARKEMA announced in November 2006 its intention to sell its Cerexagri entities, covering almost all the assets of the Agrochemicals Business Unit of the Performance Products segment, to the Indian company United Phosphorus Limited. This sale was completed on 1 February 2007. As a result of this announcement the Group applied IFRS 5 to this business, which was therefore considered as discontinued businesses.

Therefore, financial data relating to the income statement and information by business segment for 2004, 2005 and 2006 does not include data relating to the discontinued businesses. For the balance sheets, only the balance sheet at 31 December 2006 is restated for the effects of IFRS 5. Cash flow statements for 2005 and 2006 include cash flows relating to discontinued businesses.

Reconciliation tables between the combined financial statements for 2004 and 2005 and the pro forma financial statements for 2004 and 2005 restated under IFRS 5 are given below.

2005 INCOME STATEMENT

(In millions of euros)	Combined	Pro forma adjustments (Stand alone costs)	Pro forma (unaudited)
Sales	**5,515**	-	**5,515**
Operating expenses	(4,768)	(15)	(4,783)
Research and Development expenses	(176)	-	(176)
Selling and administrative expenses	(406)	(25)	(431)
Recurring operating income	**165**	**(40)**	**125**
Other income and expenses	(496)	-	(496)
Operating income	**(331)**	**(40)**	**(371)**
Equity in income of affiliates	7	-	7
Cost of debt	(7)	-	(7)
Income taxes	(42)	3	(39)
Net income of continuing operations	**(373)**	**(37)**	**(410)**
Net income of discontinued operations	**(18)**	-	**(18)**
Net income	**(391)**	**(37)**	**(428)**
Minority interests	(1)	-	(1)
Net income, group share	**(390)**	**(37)**	**(427)**
Depreciation and amortization	(222)	-	(222)
Recurring EBITDA	**387**	**(40)**	**347**

2004 INCOME STATEMENT

(In millions of euros)	Combined	Pro forma adjustments (Stand alone costs)	Restatements related to Cerexagri	Pro forma (unaudited)
Sales	**5,318**	-	**(181)**	**5,137**
Operating expenses	(4,655)	(15)	137	(4,533)
Research and Development expenses	(183)	-	13	(170)
Selling and administrative expenses	(420)	(34)	31	(423)
Recurring operating income	**60**	**(49)**	**-**	**11**
Other income and expenses	(605)	-	9	(596)
Operating income	**(545)**	**(49)**	**9**	**(585)**
Equity in income of affiliates	7	-	(1)	6
Cost of debt	(3)	-	1	(2)
Income taxes	(40)	4	6	(30)
Net income of continuing operations	**(581)**	**(45)**	**15**	**(611)**
Net income of discontinued operations	**-**	-	**(15)**	**(15)**
Net income	**(581)**	**(45)**	**-**	**(626)**
Minority interests	(8)	-	-	(8)
Net income, group share	**(573)**	**(45)**	**-**	**(618)**
Depreciation and amortization	(290)	-	6	(284)
Recurring EBITDA	**350**	**(49)**	**(6)**	**295**

INFORMATION BY BUSINESS SEGMENT - 2005

Vinyl Products *(In millions of euros)*	**Combined**	**Pro forma adjustments (Stand alone costs)**	**Pro forma (unaudited)**
Non-Group sales	1,387	-	1,387
Inter segment sales	82	-	82
Total sales	**1,469**	-	**1,469**
Recurring operating income	**16**	**(8)**	**8**
Other income and expenses	**(218)**	-	**(218)**
Operating income	**(202)**	**(8)**	**(210)**
Recurring EBITDA	**28**	**(8)**	**20**

Industrial Chemicals *(In millions of euros)*	**Combined**	**Pro forma adjustments (Stand alone costs)**	**Pro forma (unaudited)**
Non-Group sales	2,406	-	2,406
Inter segment sales	178	-	178
Total sales	**2,584**	-	**2,584**
Recurring operating income	**218**	**(14)**	**204**
Other income and expenses	**(152)**	-	**(152)**
Operating income	**66**	**(14)**	**52**
Recurring EBITDA	**330**	**(14)**	**316**

Performance Products *(In millions of euros)*	**Combined**	**Pro forma adjustments (Stand alone costs)**	**Pro forma (unaudited)**
Non-Group sales	1,713	-	1,713
Inter segment sales	16	-	16
Total sales	**1,729**	-	**1,729**
Recurring operating income	**23**	**(8)**	**15**
Other income and expenses	**(37)**	-	**(37)**
Operating income	**(14)**	**(8)**	**(22)**
Recurring EBITDA	**110**	**(8)**	**102**

INFORMATION BY BUSINESS SEGMENT - 2004

Vinyl Products *(In millions of euros)*	Combined	Pro forma adjustments (Stand alone costs)	Restatements related to Cerexagri	Pro forma (unaudited)
Non-Group sales	1,367	-	-	1,367
Inter segment sales	74	-	-	74
Total sales	**1,441**	-	-	**1,441**
Recurring operating income	**(7)**	**(9)**	-	**(16)**
Other income and expenses	**(299)**	-	-	**(299)**
Operating income	**(306)**	**(9)**	-	**(315)**
Recurring EBITDA	**52**	**(8)**	-	**44**

Industrial Chemicals *(In millions of euros)*	Combined	Pro forma adjustments (Stand alone costs)	Restatements related to Cerexagri	Pro forma (unaudited)
Non-Group sales	2,143	-	-	2,143
Inter segment sales	151	1	-	152
Total sales	**2,294**	**1**	-	**2,295**
Recurring operating income	**123**	**(17)**	-	**106**
Other income and expenses	**(47)**	-	-	**(47)**
Operating income	**76**	**(17)**	-	**59**
Recurring EBITDA	**238**	**(18)**	-	**220**

Performance Products *(In millions of euros)*	Combined	Pro forma adjustments (Stand alone costs)	Restatements related to Cerexagri	Pro forma (unaudited)
Non-Group sales	1,800	-	(181)	1,619
Inter segment sales	19	-	-	19
Total sales	**1,819**	-	**(181)**	**1,638**
Recurring operating income	**7**	**(11)**	-	**(4)**
Other income and expenses	**(102)**	-	**9**	**(93)**
Operating income	**(95)**	**(11)**	**9**	**(97)**
Recurring EBITDA	**110**	**(11)**	**(6)**	**93**

9.2.2 ACCOUNTING POLICIES

The pro forma financial statements for 2004 and 2005 are prepared on the basis of the combined financial statements for 2004 and 2005, which were prepared in accordance with the international financial reporting standards (IFRS) issued by the IASB (International Accounting Standards Board) as approved by the European Union at 31 December 2005. Consolidated financial statements at 31 December 2006 are prepared on the basis of international financial reporting standards (IFRS) issued by the IASB (International Accounting Standards Board) as approved by the European Union at 31 December 2006.

Preparation of financial statements in accordance with the IFRS conceptual framework required the Company to make estimates and retain assumptions that can have an impact on the amounts recognized in assets and liabilities at the balance sheet date, and have a corresponding impact on the income statement. The Company made its estimates and determined its assumptions on the basis of past experience and taking into account different factors considered to be reasonable for the valuation of assets and liabilities. Use of different assumptions could have a material effect on these valuations.

Moreover, if the applicable standards or interpretations do not specifically address a particular transaction, Group management uses its judgment to define and apply accounting policies which provide relevant and reliable financial reporting and will ensure that the treatment adopted is comprehensive, prudent, gives a fair view of the operational and financial impacts and reflects the economic substance of the transaction.

The main accounting rules and methods used by the Group are presented in the financial statements contained in chapter 20 of this reference document.

9.2.3 INDICATORS USED IN MANAGEMENT ANALYSIS

The analysis set out below includes a year-on-year comparison of the performance of ARKEMA and its business segments in accordance with principles which are identical to those defined in the Group's reporting for the purposes of managing and assessing the Group's performance. Apart from sales, the main performance indicators used by ARKEMA are as follows:

Operating income: this includes all income and expenses other than the cost of debt, equity in income of affiliates and income taxes;

Other income and expenses: these correspond to a limited number of well-identified non-recurring items of income and expense of a particularly material nature that the Group presents separately in its income statement in order to facilitate understanding of its recurring operational performance. These items of income and expense are:

- charges for impairment of intangible and tangible assets,
- gains or losses on sale of assets,
- certain large restructuring and environmental expenses which would hamper the interpretation of recurring operating income,
- certain expenses related to litigation and claims whose nature is not directly related to ordinary operations, and
- costs related to the Spin-Off of Arkema's Businesses;

Recurring operating income: this is calculated as the difference between operating income and other income and expenses as previously defined;

Recurring EBITDA: this corresponds to recurring operating income increased by depreciation and amortization;

Working capital: this corresponds to the difference between inventories, accounts receivables, prepaid expenses and other current assets and tax receivables on the one hand and accounts payable, other creditors and accrued liabilities and income tax liabilities on the other hand;

Capital employed: this is calculated by aggregating the net carrying amounts of intangible assets, property, plant and equipment, equity affiliate investments and loans, other investments, other non-current assets (excluding deferred tax assets) and working capital;

Net debt: this is the difference between current and non-current debt and cash and cash equivalents.

In analyzing changes in its results, particularly changes in sales, ARKEMA identifies the influence of the following effects (such analysis is unaudited):

- **effect of changes in scope of business:** Effects of changes in scope of business arise on acquisition or disposal of an entire business or on (first-time) consolidation or deconsolidation of an entity. An increase or reduction in capacity is not analyzed as creating a change in the scope of business;
- **effect of foreign currency movements:** The effect of foreign currency movements is the mechanical impact of consolidation of accounts denominated in currencies other than the euro at different exchange rates. The effect of foreign currency movements is calculated by applying the foreign exchange rates of the prior period to the figures of the current period;

- **effect of changes in prices:** The impact of changes in average sales prices is estimated by comparing the average weighted unit net sales price of a range of related products in the current period with their average weighted unit net sales price in the prior period, multiplied, in both cases, by the volumes sold in the current period;
- **effect of changes in volumes:** The impact of changes in volumes is estimated by comparing quantities delivered in the reference period with the quantities delivered in the preceding period multiplied, in both cases, by the average weighted unit net sales prices of the relevant preceding period.

9.2.4 DESCRIPTION OF THE MAIN FACTORS WHICH AFFECTED SALES AND RESULTS IN THE PERIOD

A number of main factors affected operating income over the years 2004, 2005 and 2006. These factors affected the performances achieved by the Group's three business segments to differing degrees:

- changes in the value of the euro relative to other currencies, and in particular the US dollar, can have either a positive or negative effect on the income statement and the balance sheet. During the period under review, from 2004 to 2006, average exchange rates, year on year, remained more or less constant, and the rise in the euro against other currencies had only a limited negative effect on sales and operating income;
- raw materials prices, in particular those of petrochemicals products and energy, remained at high levels throughout the period under review. In addition, the price of tin increased substantially over 2006. The company has sought to pass on these additional costs through a policy of continuous increases in prices. These increases, which were more substantial in 2005 than in 2004, continued throughout 2006;
- over the period, changes in the balance of supply and demand had an impact on results. The balance of supply and demand in acrylics was very favorable end 2004 and throughout 2005, but unfavorable in 2006. This change had a significant negative impact on ARKEMA's results in 2006. In addition, market conditions in Fluorochemicals were less favorable during the second half of 2006. The additives business was affected by a slowdown in the United States construction industry in the second half of the year;
- ARKEMA has introduced (i) six major restructuring plans, announced prior to the spin-off of Arkema S.A. and concerning mainly chlorochemicals, the acrylic sheet business, thiochemicals in France and the United States and the reorganization of the Villers-Saint-Paul site in France, and (ii) six new plans, announced during the second half of 2006, which concern in particular the Performance Products segment and the Company's headquarters. These plans resulted in a reduction in sales due to loss of volumes resulting from the closure of loss-making production units. They also generated restructuring costs which had a significant negative effect on operating income and cash flows. Once implemented, these plans will generate additional recurring EBITDA that the Group estimates at €110 million compared to the 2005 level;
- asset impairment recorded in 2004 and 2005 related to Vinyl Products for €349 million. Industrial Chemicals for €158 million. Performance Products for €128 million and Corporate (as defined in chapter 20 of this reference document) for €43 million. These charges had a significant negative impact on operating income in 2004 and 2005. No new impairment, nor any reversal of such charges, was recorded in 2006.

9.2.5 ANALYSIS OF ARKEMA'S INCOME STATEMENT

9.2.5.1 Comparison of 2006 with 2005

The pro forma figures for 2005 presented in this paragraph have been restated to eliminate financial data relating to Cerexagri.

(In millions of euros)	2005	2006	Change %	Change In millions of euros
Sales	**5,515**	**5,664**	**+2.7%**	**+149**
Operating expenses	(4,783)	(4,879)	+2.0%	(96)
Research and Development expenses	(176)	(168)	(4.5)%	+8
Selling and administrative expenses	(431)	(417)	(3.2)%	+14
Recurring operating income	**125**	**200**	**+60.0%**	**+75**
Other income and expenses	(496)	(92)		+404
Operating income	**(371)**	**108**	**n.m.**	**+479**
Equity in income of affiliates	7	1		(6)
Cost of debt	(7)	(10)		(3)
Income taxes	(39)	(59)		(20)
Net income from continuing activities	**(410)**	**40**	**n.m.**	**+450**
Net income from discontinued operations	**(18)**	**7**		**+25**
Net income	**(428)**	**47**	**n.m.**	**+475**
Of which minority interests	(1)	2		+3
Net income, group share	**(427)**	**45**	**n.m.**	**+472**
Recurring EBITDA	**347**	**411**	**+18.4%**	**+64**

Sales

In 2006 ARKEMA's sales rose 2.7% to €5,664 million, from €5,515 million in 2005. The increase was driven by strong growth in selling prices in all three segments (+3.8%) and organic growth in volumes (+0.8%), offset by the loss of volumes resulting from restructuring programs in Chlorochemicals and Urea Formaldehyde Resins (-1.5%). Foreign currency movements (-0.2%) and changes in the basis of consolidation (-0.2%) had a very limited impact.

Sales of the Industrial Chemicals and Performance Products business segments grew strongly, rising by 3.7% and 4.1% respectively. The relative contribution to sales from the segments thus changed slightly over 2006. The share of sales generated by Vinyl Products fell from 25% to 24%, whilst the contribution from Industrial Chemicals was stable at 44% and that from Performance Products rose from 31% to 32%.

Recurring operating income

Operating expenses increased by 2% from €4,783 million in 2005 to €4,879 million in 2006. This increase was due primarily to raw materials and energy costs that were significantly higher in 2006 than in 2005. The overall increase was, however, limited by reductions in fixed costs resulting from the implementation of the six major restructuring plans announced prior to ARKEMA's spin-off from the Total Group and to the on-going productivity measures taken across all BUs which, in 2006, more than offset the effects of inflation on fixed costs.

Research and Development costs came to €168 million, 4.5% lower than in 2005. Internal progress in the field of R&D enabled the Group to continue its research efforts and new products and applications, particularly in Performance Products, whilst at the same time reducing the budget allocated to research.

Selling and administrative costs were 3.2% lower at €417 million, from €431 million in 2005. This drop was mainly the result of productivity measures aimed at simplifying organizations and processes. These internal improvements also helped offsetting the effects of inflation. The restructuring announced by the Company of its headquarters and support functions should generate further reductions in these costs in 2007.

Recurring operating income grew strongly, rising from €125 million in 2005 to €200 million in 2006 thanks to (i) a continuous priority given to margin recovery through targeted increases in selling prices to offset higher raw material and energy prices, (ii) the development of higher value-added product lines (particularly polyamides, PVDF, molecular sieves, oil additives and PMMA), (iii) a significant reduction in fixed costs by nearly €120 million, thanks to the productivity measures taken and particularly the implementation of the six major restructuring plans announced prior to the spin-off of Arkema S.A. and (iv) a reduction in the recurring depreciation charge of €11 million due mainly to the exceptional charge for impairment recorded in 2005. These measures offset (i) the loss of volumes resulting from the consolidation plan in chlorochemicals and the closure of the French urea formaldehyde resins production units at Villers-Saint-Paul, (ii) the impact of a sharp reduction in margins in acrylics, (iii) tougher competition in the fluorochemicals market and (iv) the effects of inflation on fixed costs.

The increase in recurring EBITDA included a net gain from the six major restructuring plans of €28 million.

Operating income

Operating income improved by €479 million, from a loss of €371 million in 2005 to a profit of €108 million in 2006. This very substantial increase was the result of a €75 million rise in recurring operating income and a €404 million reduction in other income and expenses.

Other income and expenses in 2005 mainly included impairment losses in respect of goodwill and other non-current assets for an amount of €188 million relating to all three business segments, expenses related to the consolidation of the chlorochemicals business in France (€128 million), expenses related to a partial restructuring of the thiochemicals business in the United States (€18 million) and expenses related to environmental liabilities, mainly in France (€63 million, of which €36 million relate to the Saint-Auban site and €20 million relate to organic peroxides).

In 2006 the main items of other income and expenses were restructuring costs of €40 million in the Performance Products business segment and €29 million for headquarters, and costs relating to the consolidation of the chlorochemicals business in France, for which provision could not be booked at the end of 2005, for €8 million. However, no asset impairment was recorded for 2006.

Equity in income of affiliates

Equity in the income of affiliates came to €1 million, from €7 million in 2005.

Cost of debt

The cost of debt amounted to €10 million in 2006 compared to €7 million in 2005.

Income taxes

Income taxes amounted €59 million in 2006, compared to €39 million in 2005. This increase was in line with the improvement in recurring operating income.

In addition, the Group adopted a policy of implementing tax consolidation of companies in all countries where legislation allows it. In 2006, France was an exception to this policy due to the ownership of companies forming part of ARKEMA by the Total Group up to 18 May 2006. Since 1 January 2007, the Group has adopted a system of tax consolidation *(intégration fiscale)* in France.

Income from discontinued operations

Following the announcement in November 2006 of plans to sell its agrochemicals business (Cerexagri), ARKEMA considered this business as discontinued operations in 2006. Results for Cerexagri in 2005 and 2006 are presented below:

(In millions of euros)	2005	2006
Sales	195	202
Recurring operating income	3	11
Other income and expenses	(18)	(1)
Operating income	(15)	10
Net income	(18)	7
Of which minority interests	-	-
Net income, group share	(18)	7
Recurring EBITDA	8	14

In 2005, other income and expense related to asset impairment.

Net income, group share

In 2006, ARKEMA generated positive net income of €45 million, compared to a loss of €427 million in 2005. The €472 million improvement in net income came mainly from a very substantial improvement in operating income.

9.2.5.2 Comparison of 2005 with 2004

The pro forma figures presented in this paragraph have been restated to eliminate financial data relating to Cerexagri.

			Change	
(In millions of euros)	2004	2005	%	In millions of euros
Sales	**5,137**	**5,515**	**+7.4%**	**+378**
Operating expenses	(4,533)	(4,783)	+5.5%	(250)
Research and Development expenses	(170)	(176)	+3.5%	(6)
Selling and administrative expenses	(423)	(431)	+1.9%	(8)
Recurring operating income	**11**	**125**	**x 11.4**	**+114**
Other income and expenses	(596)	(496)		+100
Operating income	**(585)**	**(371)**	**+36.6%**	**+214**
Equity in income of affiliates	6	7		+1
Cost of debt	(2)	(7)		(5)
Income taxes	(30)	(39)		(9)
Net income from continuing activities	**(611)**	**(410)**	**+32.9%**	**+201**
Net income from discontinued operations	**(15)**	**(18)**	**(20.0)%**	**(3)**
Net income	**(626)**	**(428)**	**+31.6%**	**+198**
Of which minority interests	(8)	(1)		+7
Net income, group share	**(618)**	**(427)**	**+30.9%**	**+191**
Recurring EBITDA	**295**	**347**	**+17.6%**	**+52**

Sales

ARKEMA's sales increased by 7.4% in 2005, up from €5,137 million in 2004 to €5,515 million in 2005. Sales growth was due to a significant increase in prices (+9.1%) which was partly offset by a decrease in volumes (-1.8%). The effect of changes in the scope of consolidation (-0.2%) was more or less compensated by the effect of foreign currency movements (+0.3%).

The decrease in volumes was primarily in the Vinyl Products segment because of lower demand in the PVC market in 2005 and difficulties encountered at the production sites. Volumes remained broadly stable on average in the two other segments.

Price increases were made in all three segments. Favorable developments in terms of supply and demand on certain product lines in the Industrial Chemicals segment, particularly in acrylics, enabled significant price increases to be made.

The increase in sales was higher in the Industrial Chemicals (+12.3%) and Performance Products (+5.8%) segments, whereas sales only rose by a small extent in the Vinyl Products segment (+1.5%). The respective contribution of the different segments thus changed slightly in 2005: The Vinyl Products' share of total sales decreased from 27% to 25%, the Industrial Chemicals' share increased from 42% to 44%, whilst Performance Products' share was stable at 31%.

Recurring operating income

Operating expenses increased by 5.5% from €4,533 million in 2004 to €4,783 million in 2005. This increase mainly related to higher prices of raw materials and energy, to one-off expenses related to the start-up of production units and to allowances to provisions.

Research and development expenses, which amounted to €176 million, increased by 3.5% in the year, partly because of developments in respect of research pilots in Mont (France).

Selling and administrative expenses increased by 1.9% to €431 million, notably as a result of study expenses related to new projects. However, productivity improvements in the year allowed the effect of inflation on costs to be neutralized.

Recurring operating income increased by €114 million, from €11 million in 2004 to €125 million in 2005, as a result of (i) an increase in sales prices which more than compensated for the increase in raw materials and energy prices, (ii) a reduction in depreciation and amortization of €62 million, mainly as a result of asset impairment recognized in 2004 and (iii) the first benefits of productivity plans put in place.

Operating income

Operating income improved by €214 million, from a loss of €585 million in 2004 to a loss of €371 million in 2005. This improvement results from an increase in recurring operating income of €114 million and a decrease of €100 million in net expenses included in "Other income and expenses".

For 2004, other income and expenses mainly included impairment losses in respect of goodwill and other non-current assets for an amount of €463 million, primarily on businesses in the Vinyl Products segment. They also included expenses related to pre-retirement programs in France (€63 million), restructuring of the acrylic sheets business (€14 million) and environmental liabilities mainly arising in France (€16 million).

Other income and expenses in 2005 mainly included impairment losses in respect of goodwill and other non-current assets for an amount of €188 million relating to all three business segments, expenses related to the consolidation of the chlorochemicals business in France (€128 million), expenses related to a partial restructuring of the thiochemicals business in the United States (€18 million) and expenses related to environmental liabilities, mainly in France (€63 million).

Equity in income of affiliates

Equity in the income of affiliates was €7 million in 2005, from €6 million in 2004.

Cost of debt

The cost of debt increased by €5 million between 2004 and 2005.

Income taxes

Income taxes amounted to €39 million in 2005 compared to €30 million in 2004.

Income from discontinued operations

In November 2006, ARKEMA announced its intention to sell its Cerexagri agrochemicals business. This announcement led to the reclassification of this business as a discontinued operation in 2006.

Income from discontinued operations in 2004 and 2005 is shown below:

(In millions of euros)	2004	2005
Sales	**181**	**195**
Recurring operating income	**0**	**3**
Other income and expenses	(9)	(18)
Operating income	**(9)**	**(15)**
Net income	**(15)**	**(18)**
Of which minority interests	0	0
Net income, group share	**(15)**	**(18)**
Recurring EBITDA	**6**	**8**

Other income and expenses recorded in 2004 and 2005 correspond to asset impairment.

Net income, group share

In 2005, ARKEMA incurred losses of €427 million. These losses are €191 million lower than those incurred in the previous year. This mainly results from the improvement in the level of operating income.

9.2.6 ANALYSIS OF RESULTS BY SEGMENT

9.2.6.1 Vinyl Products segment

Comparison of 2006 with 2005

(In millions of euros)	2005	2006	Change
Sales	**1,387**	**1,379**	**(8)**
Recurring operating income	**8**	**21**	**+13**
Other income and expenses	(218)	(8)	+210
Operating income	**(210)**	**13**	**+223**
Recurring EBITDA	**20**	**38**	**+18**

Sales of the Vinyl Products segment decreased by 0.6% to €1,379 million in 2006. Strong demand for PVC in Europe and higher prices offset, to a large extent, the impact, from the second quarter, of the reduction in production from the Saint-Auban site in France as part of the chlorochemicals restructuring plan. Thus the closure at the end of March 2006 of the loss-making chlorine, VCM and general purpose PVC facilities at Saint-Auban (France) resulted in a loss of volume that was only partly replaced by the debottlenecking of facilities at Lavéra (France) and Berre (France) and by modernization of Balan (France). Volumes were also negatively affected by planned maintenance turnarounds during the second quarter at Balan (France) and Lavéra (France), the impact on ethylene supplies of the fourth quarter maintenance turnaround of the steam cracker at Lavéra (France), and by technical incidents that interrupted the functioning of the production facilities.

Recurring EBITDA increased by €18 million to €38 million in 2006. This growth was due to (i) increases in selling prices for PVC which offset, to a large extent, the effect of higher energy and ethylene costs and (ii) the implementation of the chlorochemicals consolidation plan which generated a net increase in EBITDA of €5 million in 2006 from the restructuring of Saint-Auban (France) on the one hand and from continued efforts to improve productivity on the other hand, which allowed the effects of inflation to be offset in full.

As a result, EBITDA margin rose from 1.4% in 2005 to 2.8% in 2006.

Recurring operating income rose from €8 million in 2005 to €21 million in 2006, despite a €5 million increase in the recurring depreciation charge.

Operating income amounted to €13 million in 2006 compared to a loss of €210 million in 2005. In 2005, other income and expenses resulted in a net expense of €218 million, which included a €128 million provision relating to the restructuring program for chlorochemicals in France, a €36 million provision for environmental liabilities at the Saint-Auban site and asset impairment of €49 million. In 2006, other income and expenses resulted in a net expense of only €8 million, representing only the additional expenses of the consolidation plan for French chlorochemicals business which, by their nature could not be provisioned.

Comparison of 2005 with 2004

(In millions of euros)	2004	2005	Change
Sales	**1,367**	**1,387**	**+20**
Recurring operating income	**(16)**	**8**	**+24**
Other income and expenses	(299)	(218)	+81
Operating income	**(315)**	**(210)**	**+105**
Recurring EBITDA	**44**	**20**	**(24)**

Segment sales slightly increased from €1,367 million in 2004 to €1,387 million in 2005, the price increase having been offset by a decrease in volumes.

The decrease in volumes mainly results from two factors:

- firstly, the weakness of the PVC market in Western Europe. After very strong demand in the second half of 2004, demand for PVC experienced a downturn in the first half of 2005, with an average decrease of about 3% for 2005 as a whole;
- secondly, interruptions and other problems in production plants. These production problems were caused by both external (Marseille harbor, ethylene supplies) and internal (technical incidents and work stoppages by employees following the consolidation plan announced in January) factors.

The Profiles activity, on the other hand, increased its sales volumes due to its continuing development in Southern Europe.

Increases in energy and raw materials costs contributed to supporting the level of sales prices. The most significant increase compared to 2004 was on caustic soda, whose prices throughout 2005 remained well above the average level in the preceding year. After regular increases in 2004, PVC prices decreased steadily in the first half of 2005 before increasing as a result of increases in energy and ethylene costs. By the end of the year they had returned to a level close to that at the start of the year.

Recurring operating income improved from €(16) million in 2004 to €8 million in 2005. This was mainly due to the reduced level of depreciation which resulted from asset impairment recognized in 2004, as the increases in sales prices were not sufficient in themselves to offset the effect of the increase in energy and raw materials prices and the decrease in volumes.

Operating income amounted to €(210) million in 2005 compared to €(315) million in 2004. Asset impairment of €49 million was recognized in 2005 in addition to the €300 million already recognized in 2004. Other income and expenses also include a provision of €128 million related to the restructuring of the chlorochemicals business in France, and a provision of €36 million related to environmental liabilities in respect of the Saint-Auban site.

9.2.6.2 Industrial Chemicals segment

Comparison of 2006 with 2005

(In millions of euros)	2005	2006	Change
Sales	**2,406**	**2,494**	**+88**
Recurring operating income	**204**	**160**	**(44)**
Other income and expenses	(152)	2	+154
Operating income	**52**	**162**	**+110**
Recurring EBITDA	**316**	**267**	**(49)**

Sales of this segment rose by 3.7%, to €2,494 million in 2006, from €2,406 million in 2005. This increase came mainly from higher sales in the PMMA and Thiochemicals BUs, driven by new developments (notably the effect of the new MMP unit at Beaumont (United States) which was started mid-2005), and strong volumes in Acrylics, which fully offset the lower sales prices in acrylics in 2006 and the effects of more challenging market conditions in fluorochemicals in the second half of 2006. The PMMA business benefited from good overall levels of demand in Europe and Asia. In Hydrogen Peroxide, there was particularly strong demand in Asia throughout the year, which helped offset the effects of modest growth in Europe and the United States in the first half.

Recurring EBITDA was €267 million en 2006 from €316 million in 2005. This decrease was due to the sharp narrowing of margins in acrylics from their very strong levels over the first nine months of 2005, and to tougher competition in fluorochemicals, which hit prices for certain products such as 134a. However, this decrease was offset in part by gains in the Thiochemicals and PMMA BUs relating to (i) the implementation of three of the six major restructuring plans announced prior to the listing of Arkema S.A. (restructuring of thiochemicals at Riverview (United States) and in France, and restructuring of PMMA sheet production in Europe), (ii) very tight control of fixed costs, (iii) new developments such as the MMP production unit at Beaumont (United States) and (iv) a policy of price increases aimed at offsetting higher raw material costs, particularly in Thiochemicals and Hydrogen Peroxide.

This segment's performance resulted in a recurring EBITDA margin of almost 11% in 2006, confirming its ability to resist fluctuations in its markets.

Given the €49 million reduction in EBITDA, recurring operating income was down from €204 million in 2005 to €160 million in 2006, with recurring depreciation charges €5 million lower due to the exceptional asset impairment recorded in 2005.

In contrast, operating income rose strongly, by €110 million in 2005 to €162 million in 2006. In 2005, other income and expenses came to €(152) million, including impairment of non-current assets and goodwill (€134 million) and the restructuring of American Thiochemicals activities at Riverview (€18 million).

Comparison of 2005 with 2004

(In millions of euros)	2004	2005	Change
Sales	**2,143**	**2,406**	**+263**
Recurring operating income	**106**	**204**	**+98**
Other income and expenses	(47)	(152)	(105)
Operating income	**59**	**52**	**(7)**
Recurring EBITDA	**220**	**316**	**+96**

Segment sales grew strongly, by 12.3%, from €2,143 million in 2004 to €2,406 million in 2005, mainly as a result of price increases made in the year.

Overall volumes remained stable compared to 2004; but the pattern varied among the different businesses. As regards PMMA, sales decreased in volume terms except in Asian markets where ARKEMA continued to grow. This decrease was the result of a commercial strategy whose objective was to favor restoring margin levels after a strong level of sales had been achieved in 2004. In the fluorochemicals business, the overall decrease in volumes is the consequence of regulations reducing the use of HCFCs. Substitute products, for their part, continued to grow even though such growth was not as strong as it had been in 2004. These various decreases were substantially offset by increases in other product lines, notably in (i) thiochemicals – following the start-up of a new MMP unit in Beaumont (United States), (ii) hydrogen peroxide, for which demand progressed well, and (iii) acrylics. The September 2005 hurricanes in the United States had a negative impact, mainly on the thiochemicals activity whose site at Beaumont had to be closed for about a month.

Price increases were made in all businesses in the segment, driven by marked increases in costs of raw materials and energy. In the fluorochemicals and acrylics businesses, favorable market conditions enabled sales prices to be increased at considerably higher rates.

Recurring operating income increased from €106 million in 2004 to €204 million in 2005. This improvement primarily resulted from sales price increases which were higher than increases in costs of raw materials and energy.

Operating income decreased slightly to €52 million, after taking account of a €105 million increase in net expenses recorded in "Other income and expenses". In 2004, other income and expenses related to impairment of non-current assets and goodwill for an amount of €24 million, the second part of the European restructuring of the acrylic sheets business (€14 million) and a claim related to the closing of a fluorinated derivatives production unit (€8 million). In 2005, other income and expenses related to impairment of non-current assets and goodwill (€134 million) and the restructuring of American thiochemicals activities at Riverview (€18 million).

9.2.6.3 Performance Products segment

Comparison of 2006 with 2005

The pro forma figures presented in this paragraph have been restated to exclude financial data relating to Cerexagri.

(In millions of euros)	2005	2006	Change
Sales	**1,713**	**1,784**	**+71**
Recurring operating income	**15**	**71**	**+56**
Other income and expenses	(37)	(41)	(4)
Operating income	**(22)**	**30**	**+52**
Recurring EBITDA	**102**	**156**	**+54**

Segment sales increased by 4.1% from €1,713 million in 2005 to €1,784 million in 2006. This improvement came primarily from a policy of increasing prices across all of the BUs in the segment which helped offset the impact of higher raw materials prices. Volumes also grew, driven by the benefits of R&D efforts in Technical Polymers and Specialty Chemicals and despite the impact of the closure of the urea formaldehyde resin facility at Villers-Saint-Paul (France) at the end of June 2006 and of the slowdown in the United States construction market in the second half, which affected the additives business.

The increase in sales was particularly noticeable in Technical Polymers and Specialty Chemicals, where it was above 10%.

Against this background, recurring EBITDA was up 53% from €102 million in 2005 to €156 million in 2006. This substantial improvement came from the efforts made to restore margins, particularly in Specialty Chemicals and Technical Polymers and the specific emphasis on reducing fixed costs, as reflected by the implementation of the plan to close the urea formaldehyde resins facility at Villers-Saint-Paul (France), one of the six major restructuring plans announced prior to the listing of Arkema S.A.'s shares, and by the launch of restructuring plans such as the closure of loss-making organic peroxide production units at Loison in France and the merger of the Additives and Organic Peroxides BUs.

Recurring EBITDA margin rose from 6% in 2005 to 8.7% in 2006.

Recurring operating income also grew very strongly, rising from €15 million in 2005 to €71 million in 2006.

Operating income became positive at €30 million, compared to the €22 million operating loss in 2005, despite other income and expenses which came to a net expense of €41 million in 2006. These mainly included a €40 million expense for various restructuring measures in the segment, notably the closure of the Villers-Saint-Paul and Loison sites in France. In 2005, other income and expenses amounted to €(37) million and included provisions for environmental liabilities related to organic peroxides sites for €20 million, impairment for €5 million and restructuring of services at the Villers-Saint-Paul (France) site for €12 million.

Comparison of 2005 with 2004

The pro forma figures presented in this paragraph have been restated to exclude financial data relating to Cerexagri.

(In millions of euros)	2004	2005	Change
Sales	**1,619**	**1,713**	**+94**
Recurring operating income	**(4)**	**15**	**+19**
Other income and expenses	(93)	(37)	+56
Operating income	**(97)**	**(22)**	**+75**
Recurring EBITDA	**93**	**102**	**+9**

Segment sales increased by 5.8% from €1,619 million in 2004 to €1,713 million in 2005. Price increases accounted for the major part of this growth, whereas the slightly positive effects of volume increases and foreign currency movements were partly offset by a 0.7% (€12 million) adverse effect of changes in the scope of business.

In general, growth in the markets of the segment's various businesses slowed down in 2005. This was particularly true for polyamides, notably in brake systems applications which grew strongly in 2004, additives and peroxides for which the PVC and automobile markets were less favorable and specialty chemicals which declined in several areas, particularly in surfactants. Strong growth was however recorded in technical polymers in sports shoe applications and in Asia in the entire additives business.

Price increases were supported by strong increases in raw materials and energy costs. They were particularly significant in the PVC additives business and in technical polymers (polyamides and functional polyolefins). Prices increases were harder to achieve in specialty chemicals. In the case of organic peroxides, the increases did not suffice to bring prices back to 2003 levels because of very severe competition.

Recurring operating income increased from €(4) million in 2004 to €15 million in 2005 as a result of price increases being higher than increases in raw materials and energy costs.

Operating income after other income and expenses amounted to -€22 million in 2005 compared to €(97) million in 2004. In 2004, other income and expenses mainly included impairment of non-current assets and goodwill for an amount of €96 million. In 2005, other income and expenses amounted to €(37) million and included provisions for environmental liabilities related to organic peroxides sites for €20 million, impairment for €5 million and restructuring of services at the Villers-Saint-Paul (France) site for €12 million.

9.2.7 BALANCE SHEET ANALYSIS: COMPARISON OF 2006 WITH 2005

To facilitate comprehension and information comparison, financial data for Cerexagri has been shown separately in 2005.

(In millions of euros)	31/12/2005	31/12/2005 of which Cerexagri	31/12/2005 excl. Cerexagri	31/12/2006	Change excl. Cerexagri %	Change excl. Cerexagri In millions of euros
Non-current assets*	1,815	22	1,793	1,858	+3.6%	+65
Working capital	1,291	67	1,224	1,167	(4.7)%	(57)
Capital employed	**3,106**	**89**	**3,017**	**3,025**	**+0.2%**	**+8**
Provisions	1,086	7	1,079	821	(23.8)%	(258)

* *Excluding deferred taxes.*

Non-current assets increased by €65 million in 2006. This was due primarily to a level of investment excluding Cerexagri (at €329 million) that was greater than the recurring depreciation and amortization charge of €211 million, as a result of the exceptional asset impairment recorded in 2005. The increase in non-current assets was, however, partly offset by a currency effect of €70 million.

Working capital was reduced by €57 million. This reduction was primarily due to currency movements, which accounted for €43 million.

As a result, capital employed by ARKEMA was more or less stable, at €3,025 million in 2006, from €3,017 million in 2005. However, the breakdown of capital employed by segment (excluding Corporate) changed slightly relative to 2005. The Vinyl Products segment accounted for 17% of total capital employed. Industrial Chemicals saw its share rise from 45% to 47% whilst the Performance Products segment's share decreased from 38% to 36%.

The level of provisions decreased by €258 million due primarily to reversals that were significantly higher than new provisions (€349 million and €127 million respectively) and to a lesser extent to currency movements, which accounted for €22 million of the reduction.

The main reversals related to:

- provisions for litigations for €185 million. These provisions were primarily constituted to cover liabilities arising under action by the European Commission relating to antitrust legislation, as described in paragraph 6.5.1 of this reference document. In 2006, the European Commission imposed two fines, jointly and severally on Arkema France, Total S.A. and Elf Aquitaine for past anti-competitive practices in the hydrogen peroxide and methacrylate markets. In the third quarter of 2006, Arkema France paid these two fines together with the MCAA fine, plus interest for late payment. However as the sums to be paid exceeded the deductible of €176.5 million established in the indemnity guarantee agreement with Total S.A. and described in paragraph 22.2 of this reference document, the mechanism under which the Total Group indemnifies the Group for 90% of any liability came into force. As a result, the total payment due from Arkema France was €194.8 million. Following this payment, there was a reversal of existing provisions up to the €176.5 million deductible whilst the balance of €18.3 million was recorded as other non-current assets. End-2006, there was €31 million of provisions for the remaining European proceedings, which corresponds to a net provision of €13 million;
- restructuring and early retirement scheme provisions, relating primarily to the six major restructuring plans announced prior to the listing of Arkema S.A.'s shares. However, these reversals were largely counterbalanced by new provisions against the new restructuring programs announced during 2006 in the Performance Products segment (€40 million) and at the Group's headquarters (€29 million);
- environmental provisions, and particularly the provision recorded in relation to the former industrial sites covered by Total's guarantee described in paragraph 22.2 of this reference document. At the end of 2006, provisions against liabilities relating to these former industrial sites totaled €69 million. They are balanced by other non-current assets and deferred tax assets.

At 31 December 2006, the analysis of provisions by type was as follows (2005 figures in brackets): retirement and similar liabilities €260 million (€302 million), claims and legal action €52 million (€235 million), environmental protection €213 million (€241 million), restructuring €127 million (€130 million) and other €169 million (€178 million). A total of €102 million of these provisions have balancing entries on the asset side of the balance sheet (€69 million for former industrial sites in the United States, €18.3 million for antitrust actions in Europe and €15 million for retirement assets).

A total of €156 million of these provisions represent the balance of provisions which were considered as equivalent to debt at the time of the listing of Arkema S.A. which amounted to €435 million on 31 December 2005. At 31 December 2006, the analysis of such provisions by type was as follows (2005 figures in brackets): retirement and similar liabilities €24 million (€62 million), claims and legal actions €31 million (€212 million), environmental protection €23 million (€31 million), restructuring €79 million (€130 million).

9.2.8 CASH FLOW ANALYSIS: COMPARISON OF 2006 WITH 2005

Cash flow figures include Cerexagri in both 2005 and 2006.

(In millions of euros)	2005	2006
Operating cash flow before cost of debt and income taxes	177	84
Income taxes	(67)	(24)
Cost of debt	(7)	(10)
Change in working capital	(147)	16
Other	(2)	2
Cash flow from operating activities	**(46)**	**68**
Of which:		
Cash flow from operating activities excluding non-recurring pre spin-off items	*(46)*	*378*
Non-recurring pre spin-off items	-	*(310)*
Cash flow from investing activities	**(323)**	**(348)**
Of which:		
Cash flow from investing activities excluding non-recurring pre spin-off items	*(323)*	*(299)*
Investments considered as non-recurring pre spin-off items	-	*(49)*
Net cash flow	**(369)**	**(280)**
Of which:		
Cash flow excluding non-recurring pre spin-off items	*(369)*	*79*
Non-recurring pre spin-off items	-	*(359)*
Cash flow from financing activities	**349**	**395**
Change in cash and cash equivalents	(21)	115

Cash flow excluding non-recurring pre spin-off items

Prior to its listing in May 2006, ARKEMA benefited from a capital increase of €532 million subscribed by companies belonging to the Total Group and designed to finance a certain number of exceptional items considered as debt and called non-recurring pre spin-off items. These items included provisions considered to be equivalent to debt, totaling €435 million at 31 December 2005 (as detailed in paragraph 9.2.7 above), investments relating to the chlorochemicals restructuring plan for a total of €100 million, and additional expenses that could not be recognized at 31 December 2005 for a total of €45 million. Thus at the time of the listing, these items totaled €580 million.

During 2006, some of these items, for a total of €359 million, were expensed, thus having a negative effect on cash flow.

If one excludes these non-recurring pre spin-off items, cash flow would have been positive at €79 million.

At end-December 2006, outstanding non-recurring pre spin-off items amounted to €212 million, analyzed as follows: €156 million in provisions considered as equivalent to debt, €69 million in investment relating to the chlorochemicals restructuring plan and €5 million of additional expenses that could not be recognized end 2005, to which a non-current asset of €18 million relating to European antitrust claims should be deducted.

Cash flow from operating activities

In 2006, net resources generated by operations were positive at €68 million due mainly to the marked improvement in ARKEMA's income and a €16 million reduction in working capital.

These cash flows include cash payments on non-recurring pre spin-off items of €310 million.

Cash flow from investing activities

There was a net cash outflow on investing activities of €348 million. This relates to investment in tangible and intangible assets related to operations of €336 millions of which €31 million related to the consolidation plan of the chlorochemicals business and €7 million related to Cerexagri, a business sold in 2007.

Cash flow from financing activities

There was net positive cash flow from financing activities of €395 million. It included primarily the capital increase subscribed by companies belonging to the Total Group of €532 million, designed to finance a number of non-recurring items prior to the listing of Arkema S.A. It also included the reduction in short-term debt over the course of 2006 and the corresponding increase in long-term debt, as prior to its listing ARKEMA financed its activities via Total S.A. in the form of short-term debt facilities.

9.2.9 IMPACT OF SEASONALITY

ARKEMA's standard pattern of business shows seasonality effects. Various characteristics contribute to these effects:

- demand for products manufactured by ARKEMA is generally weaker in the summer months (July-August) and in December, notably as a result of the slowdown in industrial activity during these months, particularly in France and in Southern Europe;
- in some of Arkema's Businesses, particularly those serving refrigeration markets, the level of sales is generally higher in the first half of the year than in the second half; and
- the major maintenance shutdowns of ARKEMA production plants occur more often in the second half of the year than in the first half.

These seasonal effects are not necessarily representative of future trends but could have a material effect on the changes in results and working capital from one quarter of a year to the other.

9.3 - Fees paid to statutory auditors

(In millions of euros)	KPMG Amount 2005	KPMG Amount 2006	Ernst & Young Amount 2005	Ernst & Young Amount 2006
Audit fees				
Auditing, certification, review of parent company and consolidated financial statements	5.5 (1)	2.3 (1)	-	1.3 (1)
Audit-related services	0.1	-	-	0.1
Subtotal	**5.6**	**2.3**	**-**	**1.4**
Other services	**0.1**	**0.1**	**-**	**-**
TOTAL	**5.7**	**2.4**	**-**	**1.4**

(1) Including due diligence work carried out for the Spin-Off of Arkema's Businesses.

10 Cash and shareholders' equity

10.1 - Description of Group cash flow

For an analytical description of the Group's various cash flows please see chapter 9 of this reference document.

10.2 - Borrowing terms and conditions and financing structure of the Group

On 31 March 2006, Arkema S.A. and Arkema France (the Borrowers) and a syndicate of banks signed a revolving multi-currency credit facility in the maximum amount of €1,100,000,000 (the Facility).

The purpose of the Facility is to finance, in the form of drawings and bank guarantees, the Group's general corporate purposes for a period of five years with an option for an additional period of one or two years.

Other Group companies have the possibility to become borrowers under the Facility, in the same capacity as Arkema S.A. and Arkema France.

The Facility provides for prepayment in certain cases, including a change of control over Arkema S.A. (defined as any person, acting alone or in concert, holding, directly or indirectly, more than one-third of the voting rights of Arkema S.A.). Should this clause be triggered by a lender, it could lead to prepayment and cancellation of the commitments of such lender.

The Facility contains representations to be made by each Borrower relating, among other things, to the accounts, litigation, or the absence of events of default. Some such representations have to be reiterated at the time of each utilization request, in particular, the representation pertaining to the continued validity and enforceability against the guarantors of the guarantees granted by Total S.A. and certain entities of Total as described in section 22.2 of this reference document.

The Facility also contains the standard undertakings for this type of agreement, including:

- (i) information undertakings (mainly accounting and financial information);
- (ii) undertakings relating, among other things, to certain restrictions in connection with (but not limited to) the granting of securities *(sûretés réelles)*, the completion of merger or restructuring transactions, the sale or purchase of assets and the Group's indebtedness. Depending on the case, such restrictions will not apply to ordinary operations or to transactions involving amounts below certain thresholds;
- (iii) a financial undertaking: Arkema S.A. undertakes to maintain a ratio of consolidated net debt to consolidated recurring EBITDA (tested twice a year) of less than 3.

The Facility also stipulates the standard events of default for this type of transaction, which could lead to an acceleration of the Facility, including (but not limited to) the following: failure to provide one of the representations or misrepresentation (initial representations or reiterated representations during the life of the Facility); payment default; failure to meet any of the aforesaid undertakings; cross-default and the advent of insolvency proceedings. In some cases, the acceleration of the Facility may be subordinated to exceeding certain authorized thresholds, to materiality testing (such as the material adverse effect on the legal, business, financial or other situation of the Group taken as a whole), or the expiration of grace periods.

Lastly, Arkema S.A. guarantees on a joint and several basis to the Banks the obligations of the other Borrowers under the terms of the Facility. The Facility is not subject to any other personal guarantee or security.

10.3 - Off-balance sheet commitments

The presentation made in this reference document does not omit the existence of a significant off-balance sheet commitment according to the accounting norms in force.

10.4 - Information on restrictions on the use of capital that has significantly influenced or may significantly influence, directly or indirectly, the Group's Business

Subject to the stipulations of the syndicated facility described above, there are no restrictions on the use of capital that may significantly influence, either directly or indirectly, ARKEMA's business.

10.5 - Anticipated sources of financing for future investments

Given the Group's current cash position and the syndicated facility agreement described in section 10.2 above, the Group believes that it is in a position to finance its future investments, in particular those described in sections 5.2 and 8.1.1 of this reference document.

10.6 - Dividend policy

Future dividend policy will be determined based on the improvement in the Group's results.

It should be noted that the Board of Directors plans to place before the Annual General Meeting of shareholders a resolution under which it will propose that no dividend be paid against 2006 net income.

11

Research and development

11.1 - Research and Development (R&D)

R&D is an essential factor on which the Group relies to meet its strategy of innovation and improving its products and manufacturing processes.

During 2006 R&D expenditure was €168 million, or nearly 3% of the Group's total sales. The Group intends to keep up this research effort in the coming years in order to develop ever more innovative products, optimize the performance of its manufacturing units and develop new processes. The Group's R&D department has about 1,350 researchers, mainly split between six research centers located in France, the United States and Japan.

The R&D Management, which reports to the General Management, co-ordinates all the Group's research programs on a worldwide scale. It is responsible for ensuring that the strategic projects funded and controlled by the Business Units are scientifically and technologically relevant and that they are consistent with the Group's overall strategy. R&D policy and the corresponding level of expenditure are adapted to each of the three Group's segments: Vinyl Products, Industrial Chemicals and Performance Products.

R&D expenses were split as follows:

- Vinyl Products segment: 12%;
- Industrial Chemicals segment: 30%;
- Performance Products segment: 47%;
- "Corporate" R&D program, to prepare for the innovations of the future, defined each year by R&D Management and submitted to the Executive Committee for approval: 11%.

By way of examples, in recent years the Group successively introduced:

- in 2004, a new family of block copolymers, Nanostrengths®, that combine in the same molecule a polystyrene block, a polybutadiene block and a polymethyl methacrylate block. These original tri-blocks are used, for example, to increase the impact resistance of technical polymers or thermosetting resins;
- in 2005, Blocbuilder®, a molecule that allows the controlled polymerization of numerous families of styrenic, acrylic and methacrylic monomers;
- in 2006, new grades of molecular sieves used in the production of medical oxygen.

Amongst the other noteworthy research subjects of the Group's R&D, it is worth highlighting:

- the construction of a pilot production facility for carbon nanotubes (capacity of 10 tonnes per year); this facility will help provide a better understanding of the physical, chemical and toxicological aspects of these products with a view to possible industrial production;
- the development of new polymer membranes for fuel cells. In this latter field, where research is carried out in the United States, the Group has received the support of the US Department of Energy and has been awarded a grant of US$4.5 million over three years.

Numerous collaborations have been entered into with the European Commission (under the 5th and 6th Framework Programs for Research and Technological Development - *FPRTD*) and with several French organizations such as *Agence Nationale de la Recherche* (*ANR*, National Research Agency) and *Agence de l' Environnement et de la Maîtrise de l' Énergie* (*ADEME* Environment and Energy Agency), enabling the Group's R&D efforts to enjoy joint public financing. The research projects carried out by the Group over many years with a network of university partners (more than 100 projects) also prove the quality and innovation of its R&D.

11.1.1 VINYL PRODUCTS SEGMENT

Vinyl products, some of which are known under the Lacovyl®, Nakan® and Lucobay® brand names, have numerous applications in medicine, sports and leisure, automobiles, construction and public works, housing, hygiene and healthcare, household electrical equipment and water treatment.

The objectives of the segment's R&D are to improve the quality of existing products and to improve the productivity and reliability of the plants by optimizing the processes used.

Thus, the R&D has developed new diaphragm electrolysis technologies that have led to considerable progress in industrial health and a reduction in electricity consumption.

11.1.2 INDUSTRIAL CHEMICALS SEGMENT

The objectives of the Industrial Chemicals segment's R&D are to keep the processes competitive and find new applications, as well as new outlets for the Group's products. One of the major aims is therefore the constant improvement of the main processes (acrylics, methacrylics, fluorochemicals and sulfur products) in order to make them safer, more reliable and productive, and therefore more competitive. To this end, the R&D is using new raw materials and carries out tests on new catalysts or new types of reaction agents. In addition, formulation teams work on the development of new applications for products coming out of R&D.

11.1.3 PERFORMANCE PRODUCTS SEGMENT

The Performance Products segment's R&D is primarily focused on tomorrow's materials.

In the field of sports equipment, for example, the Kyoto Technical Center, the Group's R&D center in Asia, made a major contribution in 2004 to the success of high performance thermoplastic elastomers for top-of-the-range sports shoes, combining transparency and remarkable dynamic properties. This technology is better known under the brand name Pebax®.

Similarly, at the end of 2004, the Group marketed a new thermoplastic product, Kynar Adx®. This product combines the remarkable chemical stability of fluorinated polymers with a very innovative adhesion performance on numerous materials such as metals and plastics. This unique combination of properties opens the way to numerous applications, notably in the construction, automobile and energy sectors.

In 2006, the Group also launched a new polyamide: Rilsan® Clear, which combines excellent chemical resistance properties with very high transparency. Thanks to this combination of properties the Rilsan® Clear can meet specific needs and demand, for example, in the spectacle frame market, particularly in Asia.

The Performance Products segment ensures its growth by widening its range of products and by adapting its products' performances and functions to new demands from the market.

The strong reputations of brand names such as Rilsan®, Pebax® and Luperox® are a testimony to the technical excellence of the Performance Products segment.

A substantial part of the R&D budget allocated to the Performance Products segment has been and will continue to be allocated to supplying technical support to Group customers.

11.2 - Industrial property rights

The Group attaches great importance to industrial property rights, both in respect of its brand names and patents, in order to protect the innovations coming out of R&D and make its products known to its customers.

All the Group's patents and brand names represent an asset that is essential for conducting its business. Nonetheless, the isolated loss of a particular patent or brand name for a product or process would not significantly affect the Group's results, its financial situation or treasury position.

11.2.1 PATENTS

For the Group, patent protection of its technologies, products and processes is essential to manage its businesses in the best possible way.

Consequently, the Group registers patents in its main markets to protect new chemical compounds, new high technical performance materials, new synthesis processes for its main industrial products and new applications for its products.

The number of patents granted and the number of applications filed for patents are good indicators of investments in and quality of R&D. At 31 December 2006, the Group owned 5,522 patents. At the same date, it had 3,003 patents pending (all applications for patents made according to a centralized procedure – like that of the World Intellectual Property Organization (WIPO) – are accounted for as one application, even though the application may lead to the granting of several patents, depending on the number of countries covered by the application). During 2006, the Group submitted 163 applications for priority patents.

In those countries where the Group seeks patent protection, the duration of that protection is usually twenty years, calculated from the time the patent application was filed. The protection provided can vary from one country to another, depending on the type of patent and the extent of what it covers. The Group uses patent protection in many countries, mainly in Europe, China, Japan, Korea, North America and latterly in India.

The Group actively protects its markets. To this end, it keeps itself informed about its competitors and defends its patents against any infringement by a third party.

The expiry of a basic patent for a product or process can lead to increased competition as other companies start marketing new products on the market. Nonetheless, after the expiry of a basic patent, the Group can, in certain cases, continue to benefit from it commercially thanks to its know-how of a product or process, or because of new patents for applications or for improvements to the basic patent.

The Group also has a policy of acquiring or granting patent licenses to meet its operational needs. Lastly, in respect of inventions made by employees, the Group implemented in 1989 a system ensuring additional remuneration for inventors among its employees if patents for their inventions are commercially exploited.

11.2.2 TRADEMARKS

Protection of brand names varies according to each country. In some countries, this protection stems essentially from usage, whereas in others it can only come from registration of the brand name. Brand name protection rights are obtained either by registering them nationally or through international registrations, or by the registration of Community trademarks. Registrations are usually granted for a period of ten years and are indefinitely renewable.

The Group is developing a centralized and dynamic policy for applying for trademark registrations, using a worldwide network of trademarks attorneys.

In particular, the Group owns as trademarks the names of its leading products. Among its flagship brand names are, for example, Pebax®, Rilsan®, Forane®, Altuglas® (a brand name used across the world, apart from on the American continent) and Plexiglas® (a brand name used only on the American continent).

Aware of the importance of its portfolio of trademarks, the Group monitors the brand names registered by companies operating in business sectors that are identical, or similar, to its own and has a policy of defending its brand names.

Risks regarding disputes relating to the “ARKEMA” brand are described in section 6.3.6 of this reference document.

12 Information on Group's trends

12.1 - Main trends

As of the date of this reference document, the Group is operating in an environment where the key attributes are high-energy prices, the build-up of the Asian economies, a strong euro (especially against the US dollar), increasingly stringent regulations (especially with respect to environmental protection) and continued productivity enhancement efforts by the Group's main competitors.

In the light of the most recent developments known as of the date of this reference document, there is no reason to expect these factors to reverse in the short term.

Likewise, the Group has no knowledge of any factor that would be likely to affect the trends in the Group's main markets or the growth rates of those markets as described in chapter 4 of this reference document.

The quaterly financial statements published by ARKEMA in a press release dated 15 May 2007 show that during the first quarter 2007, business overall was steady with sound demand in Europe and Asia. In this globally favorable environment despite the slowdown of the American economy and the effect of the euro/US dollar exchange rate, ARKEMA's first quarter results continued to improve. Sales were stable at €1,488 millions in the first quarter 2007 compared to €1,487 million for the first quarter 2006. EBITDA totalled €134 million up 20% compared to €112 million for the same period in 2006. Finally, the EBITDA margin amounted to 9% of sales over the first quarter 2007 (7.5% in the first quarter 2006).

Conversely, owing to the many uncertainties over the economy in general, as well as the markets in which the Group is active, raw materials prices, energy prices and exchange rates, there is no guarantee that these trends will persist in the years ahead.

12.2 - Factors likely to affect the Group's prospects

Some of the statements regarding the Group's prospects contained in this reference document are based on the current opinions and assumptions of the Group's management. This information is subject to certain risks, both known and unknown, and to uncertainties. Consequently, actual results, performance or events may differ substantially from such prospects. Some factors that may influence future results are:

- changes in the competitive and regulatory environment in which the Group operates;
- fluctuations in raw materials and energy prices, especially the price of oil and oil derivatives;
- the Group's sensitivity to fluctuations in interest rates and in currencies other than the euro, particularly the US dollar and currencies influenced by the US dollar;
- the Group's capacity to introduce new products and to continue to develop its production processes;
- concentration of customers and of the market;
- risks and uncertainties relating to conducting business in many countries that may in the future be exposed or have recently been exposed to economic or political instability;
- changes in economic and technological trends;
- potential complaints, costs, commitments or other obligations relating to the environment; and
- general market- and competition-related factors that could affect operations on a global, national or regional scale.

13 Prospects

Since its operational creation in October 2004, the Group has implemented a strategy focused on improving its results. This is based on various plans to improve competitiveness and several growth projects. These efforts enabled the Group to report recurring EBITDA growth of 18% (excluding Cerexagri) in 2006 compared to 2005 and recurring operating income growth of 60% (excluding Cerexagri) relative to 2005.

The Group plans to pursue this strategy over the coming years. It also intends to optimize its portfolio of businesses through the disposal of non-strategic assets and targeted acquisitions in its core business areas, with the objective of strengthening its best product lines, increasing integration and reducing the cyclical nature of its business.

The Group has indicated that disposals over the next three years could represent businesses generating between €300 million and €400 million in sales (including the disposal of Cerexagri on 1 February 2007). This reduction in sales will be offset by acquisitions representing between €500 million and €800 million in sales, whilst at the same time ensuring that the Group's gearing (net debt to shareholders' equity) remains below 40%.

The Group believes that this strategy will enable it to improve its operating margin (recurring EBITDA as a percentage of sales) to a target of 12% in 2010.

The Group has stressed, however, that the uncertainty inherent in the evolution of the cost of debt and in charges for amortization and depreciation means that no forecast or estimate of net income can be derived from this projection. The level of debt and value of amortizable and depreciable assets in 2010 will depend on the evolution of a number of factors which it is not possible to forecast with any certainty at present. Most notably these include the terms and conditions of any acquisitions and disposals that may occur.

The Group has also stressed that reaching this target for recurring EBITDA relative to sales within four years is based on the assumption that overall market conditions will remain similar to those seen in 2006 (in particular conditions for raw materials and energy prices and the balance of supply and demand for products sold by ARKEMA, the prices of these products and exchange rates). This target does not take into account the materialization of any of the risks described in chapter 6 of this reference document.

It is also based on assumptions that as of the date of this reference document the Group considers to be reasonable within this time frame. However, these assumptions could be affected by unknown factors relating to the economic, financial, competitive or regulatory environment in which the Group operates, and the Group makes no undertaking that it will attain this target.

14 Administrative, management and supervisory bodies and general management of the company

14.1 - Board of Directors

A summary of the main provisions of the Articles of Association applying to the Board of Directors, its operation and its powers is provided in section 15.1 of this reference document.

The table below shows the composition of the Board of Directors at 31 December 2006.

THIERRY LE HÉNAFF **Main office held within the Company** Chairman and Chief Executive Officer **Date of first appointment** 6 March 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** • Chairman of the Board of Directors, Arkema France (as from 18 April 2006) **International** • None **Held in the past five years but now expired:** **Expired in 2006** • Chairman and Chief Executive Officer **Expired 2002 to 2005** • Chief Executive Officer, Grande Paroisse • Director, Cray Valley • Director, Bostik Findley S.A. • Director, Cerexagri Inc. • Director, Bostik Findley Belux S.A. N.V. • Director, Bostik Findley Inc. • Chairman of the Board of Bostik Findley AB
FRANÇOIS ENAUD **Main office held within the Company** Director **Date of first appointment** 10 May 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** • Manager, Groupe Steria SCA • Chairman and Chief Executive Officer, Steria S.A. • Director, Steria S.A. **International** • Chairman and Director, Steria Iberica • Director, Steria UK Limited • Director, Steria Holding Limited • Director, Steria Limited • Member of the Board of Directors, Steria Mummert Consulting GmbH **Held in the past five years but now expired:** **Expired in 2006** • Director, Harrison & Wolf S.A. **Expired 2002 to 2005** • Chairman and Director, Steria Solinsa • Co-manager, Steria GmbH Langen • Chairman, CEO and Director, Infogérance S.A. • Director, S.A. Diamis • Permanent representative of Steria on the Board of Steria Infogérance • Permanent representative of Steria on the Board of Steria Imelios • Permanent representative of Steria on the Board of Steria Iota • Member of Management Committee, S.A.S. Soderi
BERNARD KASRIEL **Main office held within the Company** Director **Date of first appointment** 10 May 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** • Partner and member of the Management Board, LBO France (since September 2006) • Director, Lafarge (since May 2006) • Director, L'Oréal **International** • Director, Nucor (USA) • Director, Sonoco Products Company (USA) **Held in the past five years but now expired:** **Expired in 2006** • Vice-chairman of the Board of directors, Lafarge **Expired 2002 to 2005** • Chief Executive Officer, Lafarge • Vice-chairman and Chief Executive Officer, Lafarge

LAURENT MIGNON	
Main office held within the Company Director **Date of first appointment** 10 May 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** • Chairman and Chief Executive Officer, AGF Vie (since 5 January 2006), director since 26 November 1998, Chief Executive Officer since 18 September 2003 • Deputy Chief Executive Officer, AGF (since 1 January 2006) • Chairman of the Board of Directors, AGF IART (since 2 January 2006) • Chairman of the Supervisory Board, AGF Informatique (since 1 January 2006, member of Supervisory Board since 31 May 2001) • Vice-chairman of the Board of directors, Sequana Capital • Member of the Supervisory Board, Euler Hermès • Director, AGF Holding • Deputy Chief Executive Officer, AGF Holding • Director, AGF International • Director, AGF Asset Management (since 2 May 2006) • Director, W Finance (2 January 2006) • Member of the Supervisory Board, Oddo and Cie SCA **International** None **Held in the past five years but now expired:** **Expired in 2006** • Chairman and Chief Executive Officer, Banque AGF • Chairman of the Board of Directors, AGF Private Banking • Chairman of the Board of Directors, AVIP • Chairman of the Board of Directors, Génération Vie • Chairman of the Board of Directors, Coparc • Chairman of the Supervisory Board, AGF Asset Management • Chairman of the Supervisory Board, W Finance • Vice-Chairman of the Supervisory Board, Euler Hermès • Director GIE Placements d'Assurance • Permanent representative of AGF International at the Board of AGF IART • Permanent representative of AGF Holding at the Board of Bolloré Investissement • Permanent representative of AGF Vie at the Board of Bolloré **Expired 2002 to 2005** • Permanent representative of AGF Holding at the Board of AGF Private Equity • Director, Gécina • Chairman of the Supervisory Board, AVIP • Chairman of the Board of Directors, AGF Assurances Financières • Chairman of the Board of Directors, Assurances Fédérales IARD • Chairman of the Board of Directors, GIE Placement d'assurance • Chairman of the Supervisory Board, W Finance • Director, Enténial • Director, Meteo Transformer (Guernsey) • Permanent representative of AGF Holding at the Board of Génération Vie • Permanent representative of AGF Holding at the Board of Métropole S.A. • Permanent representative of AGF at the Board of Worms & Cie • Director, Caisse de Retraite des AGF • Vice-chairman Supervisory Board, AGF Private Equity • Director, Sophia • Permanent representative of AGF at the Board of Banque AGF • Chairman of the Board of Directors, ACAR • Director, Allianz Marine & Aviation France • Director, Slivarente • Permanent representative of AGF Holding at the Board of Calypso • Director, Allianz MAT (Germany) • Chairman of the Supervisory Board, AGF Assurances Financières

THIERRY MORIN **Main office held within the Company** Director **Date of first appointment** 10 May 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** • Chairman and Chief Executive Officer, Valeo • Chairman, Société de Participations Valeo • Chairman, Valeo Bayen • Chairman, Valeo Finance • Chairman, Valeo Service • Chairman, Valeo Thermique Habitacle • Manager, Valeo Management Services • Director, Valeo Électronique et Systèmes de Liaison • Director, CEDEP **International** • Chairman, Valeo Espana S.A. • Chairman, Valeo SpA • Chairman, Valeo Japan Co, Ltd • Chairman, Valeo (UK) Limited • Manager, Valeo Auto-Electric Beteiligungs GmbH • Manager, Valeo Germany Holding GmbH • Manager, Valeo Grundvermögen Verwaltung GmbH • Manager, Valeo Holding Deutschland GmbH • Director, Valeo Service Espana S.A. • Director, Valeo Iluminacion S.A. • Director, Valeo Termico S.A. **Held in the past five years but now expired:** **Expired in 2006** • Chairman, Valeo International Holding BV • Chairman, Valeo Holding Netherlands BV • Director, Valeo Climatisation • Director, Valeo Services Ltd **Expired 2002 to 2005** • Chairman of the Management Board, Valeo
JEAN-PIERRE SEEUWS **Main office held within the Company** Director **Date of first appointment** 10 May 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** None **Held in the past five years but now expired:** **Expired in 2006** • Director, Cook Composites & Polymers **Expired 2002 to 2005** • Chairman, Hutchinson Industrias del Caucho • Chairman, Hutchinson S.A. • Chairman, Hutchinson Corp • Director, Atofina Delaware Inc • Director, Atofina Chemicals Inc • Director, Total Petrochemicals USA Inc • Director, Total Composites Inc • Director, Bostik Findley Inc • Director, Kalon Group plc • Director, Petrofina • Director, Total Chimie

TIDJANE THIAM **Main office held within the Company** Director **Date of first appointment** 12 September 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** None. **International** • Chairman, Aviva Hayat ve Emeklilik AS • Chairman, Aviva Sigorta AS • Director, Ark Life Assurance Company Limited • Director, Aviva Group Holdings Limited • Director, Aviva Grupo Corporative SL • Director, Aviva International Holdings Limited • Director, Aviva USA Corporation • Director, Aviva Vida y Pensiones • Director, General Accident plc • Director, Hibernian Group plc • Director, Hibernian Life & Pensions Limited • Director, Hibernian Life Holdings Limited • Member of the Supervisory Board, Delta Lloyd NV • Member of the Supervisory Board, Commercial Union Investment Management • Member of the Supervisory Board, Commercial Union Polska **Held in the past five years but now expired:** None
PHILIPPE VASSOR **Main office held within the Company** Director **Date of first appointment** 10 May 2006 **Date appointment expires** AGM held to approve accounts for 2008 financial year	**Current** **France** • Chairman, Baignas S.A.S. • Independent Director, Groupama S.A. • Director, Infovista **International** None **Expired 2002 to 2005** None

* *At its meeting of 12 September 2006, the Board of Directors co-opted Tidjane Thiam as Director to replace Bernard Boyer, who had resigned. It will be proposed to the Annual General Meeting called to approve the accounts for the year ended 31 December 2006 to approve this appointment.*

Thierry Le Hénaff

Thierry Le Hénaff, born in 1963, holds degrees from *École Polytechnique* and *École Nationale des Ponts et Chaussées* and a Master's degree in Industrial Management from Stanford University in the United States.

After starting his career with Peat Marwick Consultants, in 1992 he joined Bostik, Total S.A.'s Adhesives Division, where he held a number of operational positions in France and worldwide.

In July 2001, he was appointed Chairman and Chief Executive Officer of Bostik Findley, the new entity resulting from the merger of Total S.A.'s and Elf Atochem's Adhesives divisions.

On 1 January 2003, Mr. Le Hénaff joined Atofina's Executive Committee, where he was in charge of three BUs (Agrochemicals, Fertilizers and Thiochemicals) and three functional divisions.

On 6 March 2006, he was appointed Chairman and Chief Executive Officer of Arkema S.A. and on 18 April 2006 became Chairman of the Board of Directors of Arkema France, where he had been Chairman and Chief Executive Officer since 30 September 2004.

François Enaud

François Enaud, born in 1959, holds degrees from the *École Polytechnique* and from the *École Nationale des Ponts et Chaussées*, where he graduated as a civil engineer. He has been Chairman and Chief Executive Officer of Steria since 1998.

He is also Chairman and Director of Steria Iberica (Spain), Director of Steria UK Limited (United Kingdom), Director of Steria Holdings Limited (United Kingdom), Director of Steria Limited (United Kingdom), and member of the Board of Steria Mummert Consulting GmbH (Germany).

After spending two years with Colas as works engineer (1981-1982), François Enaud joined Steria in 1983, where he held various management positions (Technical and Quality division, Chief Executive Officer of a subsidiary, Transport division and Telecom division), before becoming Chief Executive Officer in 1997.

Bernard Kasriel

Bernard Kasriel, born in 1946, holds a degree from the *École Polytechnique*, a Master of business administration from Harvard Business School and from INSEAD. He has been a partner of LBO France since September 2006.

He joined Lafarge in 1977 as Executive Vice-President (and then Chief Executive Officer) of the health division. He was appointed Executive Vice-President of the Lafarge group and member of its executive committee in 1981. After spending two years in the United States as Chairman and Chief Operating Officer of National Gypsum, in 1989 he became Director and Chief Executive Officer, then Vice-Chairman and Chief Executive Officer of Lafarge in 1995. He was Chief Executive Officer of Lafarge from 2003 to end 2005.

Before joining Lafarge, Bernard Kasriel had begun his career at the Institut de Développement Industriel (1970), before becoming Chief Executive Officer in regional companies (1972), and then joining the Société Phocéenne de Métallurgie as Executive Vice-President (1975).

Laurent Mignon

Laurent Mignon, born in 1964, is a graduate of HEC and the Stanford Executive Program. Since 1 January 2006 he has been Chief Executive Officer of the AGF group and Chairman of the Executive Committee.

He joined AGF in 1997 as Chief Financial Officer and was appointed member of the executive committee in 1998. In 2002 he was appointed to head the investment activities of Banque AGF, of AGF Asset Management and of AGF Immobilier; in 2003, of the Life and Financial Services sector (asset management, banking activities, real estate) and of Credit Insurance (Euler Hermes group).

In addition to his functions as Chairman of the executive committee, he is Vice-Chairman of the Board of Directors of Sequana Capital, member of the Supervisory Board of Oddo & Cie, and Director of Euler Hermes and Bolloré.

Before joining the AGF group, for more than 10 years he held various positions in the banking business, ranging from trading to investment banking. In particular, he was a trader, then head of currency options trading at Indosuez Bank (1986-1990). Deputy Director of Financière Indosuez (1990-1995) and head of mergers and acquisitions of financial institutions in France for Schroders Bank (London, 1996).

Thierry Morin

Thierry Morin, born in 1952, is a graduate of Paris IX - Dauphine University. He is also a *Chevalier de la Légion d' Honneur* and a *Chevalier des Arts et des Lettres*. He has been Chairman of the Management Board of Valeo since 2001 and Chairman and Chief Executive Officer of Valeo since March 2003.

Thierry Morin joined the Valeo group in 1989, where he held various positions (business segment financial director, group financial director and director for purchases and strategy) before becoming Executive Vice-President in 1997, then Chief Executive Officer in 2000. Prior to that, he had been in charge of various functions at Burroughs, Schlumberger and Thomson Consumer Electronics.

Jean-Pierre Seeuws

Jean-Pierre Seeuws, born in 1945, holds degrees from the *École Polytechnique*.

In 1967 he joined Rhône-Poulenc, where he was responsible for the production and chemical engineering sectors. In 1981, he became Chief Executive Officer of the Base Mineral Chemicals, Films and then Fine Minerals businesses. In 1989 he joined Orkem as divisional Chief Executive Officer and became Deputy Chief Executive Officer of Total's Chemicals business (and member of the Management Committee) in 1990. He has been Chief Executive Officer of Total's Chemicals business since 1995 and Chairman of Hutchinson since 1996. He was a member of Total S.A.'s Executive Committee between 1996 and 2000.

Between 2000 and 2005, Jean-Pierre Seeuws was Total's general delegate for Chemicals in the United States and Chief Executive Officer of Atofina Chemicals Inc. and Total Petrochemicals Inc.

Tidjane Thiam

Tidjane Thiam, born in 1962, is a graduate of the *École Polytechnique*, has a civil engineering degree from the *École Nationale Supérieure des Mines de Paris* and an MBA from Insead. He has been Chief Executive Officer of Aviva Europe since 2006.

From 1986 to 1994, he was a strategic consultant with McKinsey & Company in France and the United States. From 1994 to 1998, he was Director General of the Bureau National d'Études Techniques and de Développement (BNETD), reporting to the office of the President of the Republic of Côte d'Ivoire. He was Minister for Planning and Development in Côte d'Ivoire from 1998 to 1999, and was named a member of the Dream Cabinet by the World Economic Forum in Davos. He was then a partner at McKinsey in Paris from 2000 to 2002. He joined the Aviva Group in 2002 as Head of Strategy and Development in London until September 2005, when he became Chief Executive Officer of Aviva International until August 2006.

Philippe Vassor

Philippe Vassor, born in 1953, holds a degree from the *École Supérieure de Commerce* in Paris and is also a chartered accountant and auditor.

He has been the president of Baignas S.A.S. since June 2005.

Philippe Vassor spent the core of his professional career (1975 to 2005) at Deloitte & Touche where he became Chairman and Chief Executive Officer for France and member of the worldwide Executive Group, responsible for human resources (from 2000 to 2004).

14.2 - General Management

Thierry Le Hénaff, Chairman of the Board of Directors, also serves as Chief Executive Officer, under the conditions specified in section 14.1 of this reference document.

The Chairman has set up an Executive Committee to assist him in the management of the Group.

The following people sit on the Executive Committee: Thierry Le Hénaff, Bernard Boyer, Michel Delaborde, Alain Devic, Philippe Goebel, Thierry Lemonnier, Marc Schuller and Otto Takken.

Thierry Le Hénaff

See section 14.1 above.

Bernard Boyer

Bernard Boyer, born in 1960, holds degrees from *École Polytechnique* and *École Nationale Supérieure des Pétroles et Moteurs*.

He has spent his career working in the chemicals industry in operational positions, starting out in a factory then moving to Elf Atochem's head office (Finance & Strategy), from 1992 until 1998. In 1998, he joined Elf Atochem's Adhesives affiliate as executive vice-president. He was appointed Atofina's Director of Acquisitions and Divestitures in 2000, then Director of Economy, Planning and Strategy, Acquisitions and Divestitures at the end of 2003.

As of the date of this reference document, Bernard Boyer is the Executive Vice-President with responsibility for Strategy, responsible for strategic planning, economic research, acquisitions and disposals, internal auditing, insurance and risk management.

Michel Delaborde

Michel Delaborde, born in 1956, holds a degree in economics from *Université de Paris, Sorbonne*.

In 1980 he joined Total where he was in charge of Human Resources in both the head office and refineries, After two years as head of the Human Resources Department Trading & Middle-East head office, he was in charge of communication for Total S.A. in 1996, serving as director of Communications first for TotalFina, then for TotalFinaElf after the merger in 1999. In 2002 he joined Atofina as director of human resources and communication and was appointed to Atofina's Executive Committee.

As of the date of this reference document, Michel Delaborde is Executive Vice-President with responsibility for Human Resources and Communication.

Alain Devic

Born in 1947, Alain Devic is a graduate of the *École Centrale*. For over 30 years, he has held a variety of positions in production facilities and in corporate offices in the French chemical industry.

After holding various positions as engineer with Éthylène Plastiques and CdF Chimie. Alain Devic was assigned to Qatar in 1980 as operations manager running the steam cracker of Qapco. Between 1982 and 1993, Mr. Devic held a variety of managerial positions in production, planning/strategy and as plant manager with Copenor and later Norsolor and Grande Paroisse. In 1993, he became managing director of Elf Atochem's petrochemicals complex in Gonfreville.

In 2000, he was appointed director – Industrial Coordination and Human Resources at the head office of the newly created Atofina, before becoming Vice-Executive Officer in June 2002. Mr. Devic was also elected Chairman of Union des Industries Chimiques in March 2004 and re-elected on 15 March 2007.

As of the date of this reference document, Mr. Devic is Executive Vice-President with responsibility for Industry. In this capacity, he oversees Industrial Safety, Environment and Sustainable Development, Technology, Logistics, Quality, and Goods and Services Procurement.

Philippe Goebel

Philippe Goebel, born in 1953, is a graduate of *École Supérieure de Physique et de Chimie Industrielles (ESPCI)* in Paris and of *Sciences-Po* in Paris.

In 1980 he joined Atochem's Economy and Corporate Planning Segment. Between 1985 and 1990, he served as production engineer at the Pierre-Bénite facility (France) before assuming responsibilities for polyethylene at Elf Atochem's head office. In 1991 he became director of Corporate Planning, Strategy, and Economy, before being appointed director of the Organic Synthesis Intermediates segment in 1995.

In 2001, following the merger of Total S.A.'s and Elf's chemicals businesses, he was appointed a member of the Chemicals executive committee in charge of acrylics, PMMA, chlorochemicals and fluorochemicals-oxygenated products.

As of the date of this reference document, Mr. Philippe Goebel is Executive Vice-President in charge of Performance Products and oversees the Group's American affiliates as well as Research & Development for the Group.

Thierry Lemonnier

Thierry Lemonnier was born in 1953. He is a graduate of the *École Nationale Supérieure de Géologie* in Nancy and holds a master's degree from Stanford University in the United States.

He joined Total S.A. in 1979 as an economist engineer at the Exploration/Production segment. In 1983, he joined Total S.A.'s Finance/Treasury department. In 1987, he was appointed head of Downstream Affiliates Operations and in 1993 became Chief Financial Officer for Refining/Marketing. In 2000 he was appointed director of Chemical Affiliates Operations. He then joined Total's Chemical branch in 2001 and was appointed to the Executive Committee, in charge of finance, controlling and accounting.

As of the date of this reference document, Mr. Lemonnier is Executive Vice President with responsibility for Finance and is thus responsible for accounting, management control, cash management, legal issues, tax issues, investor relations and IT systems.

Marc Schuller

Marc Schuller, born in 1960, is a graduate of the *École Supérieure des Sciences Économiques et Commerciales*. He joined Orkem in 1985 as acrylics product manager.

In 1990 he joined the Strategy Segment of Total Chimie and in 1992 he became deputy managing director of the Structural Resins department at Cray Valley. In 1995, he was appointed commercial director – Petrochemicals/Special Fluids at Total, and later director. Base Petrochemicals at TotalFina.

In 2000, Mr. Schuller was appointed director of Atofina's Butadiene/Aromatics BU, and special project manager for the Chairman. In 2003, he became director of the Thiochemicals and Fine Chemicals BU.

As of the date of this reference document, Mr. Marc Schuller is Executive Vice-President in charge of Industrial Chemicals. He also oversees Raw Material and Energy Procurement.

Otto Takken

Otto Takken, born in 1951, is a chartered accountant and Master of Business Administration.

After a number of years as sales manager for a Netherlands-based group, Otto Takken joined the Elf Aquitaine group in 1981, first as Deputy Finance Director in the Exploration-Production division in the Netherlands, then as Head of Project Financing in the Finance division in Paris and then as Group Finance Director for Refining and Marketing in Germany. In 1999 he moved to the United States to become both Executive Vice-President of Total Holding U.S.A., a holding company for the Total Group 's assets in the United States, and Finance Director at Atofina Chemicals Inc.

Otto Takken was appointed in 2004 as Chief Executive Officer of Alphacan, the leading company in the plastics processing market.

As of the date of this reference document, Otto Takken is Executive Vice-President, Vinyl Products.

14.3 - Declarations regarding administrative bodies

As of the date of this reference document there are no family ties between members of the Board of Directors and members of the Executive Committee.

As of the date of this reference document, no member of the Board of Directors or of the Executive Committee has been:

- convicted of fraud during the past five years;
- implicated in a bankruptcy, receivership or liquidation during the past five years;
- charged with any offence or any official public sanction taken against them by statutory or regulatory authorities during the past five years.

To the best of the Company's knowledge, no corporate officer or director has been barred by a court from acting as a member of an administrative, management or supervisory body of an issuer or from participating in the management or conducting the business of a listed company over the past five years.

14.4 - Conflicts of interest within administrative bodies and executive management

There are no potential conflicts of interest between the duties to the Company of the members of the Board of Directors and executive management and their private interests.

The Company has set up measures to prevent potential conflicts of interest between the directors and the Company, as described in section 15.3.2 of this reference document.

14.5 - Information regarding service contracts

None.

15

Functioning of administrative and management bodies

In accordance with the requirements of article L. 225-37 of the *Code of Commerce*, the Chairman of the Board of Directors has prepared a report dated 13 March 2007 detailing:

- conditions for the preparation and organization of the work of the Board of Directors;
- the rules and principles approved by the Board of Directors to determine the remuneration and benefits in kind allocated to Directors;
- the internal control procedures adopted by the Company; and
- any limits imposed on the powers of the Chief Executive Officer.

This report has been drawn up by a working party in the Finance Division, consisting of representatives from the Legal department and the Head of the Internal Management Control project. It was submitted to the Audit and Accounts Committee on 7 March 2007 and the Board of Directors on 13 March 2007.

Section 15.3 below describes the conditions for the preparation and organization of the work of the Board of Directors. Please refer to sections 15.4, 15.5 and 15.7 of this reference document for a review of the other subjects discussed in this report.

15.1 - Functioning and powers of the Board of Directors

15.1.1 POWERS OF THE BOARD OF DIRECTORS (ARTICLE 13 OF THE ARTICLES OF ASSOCIATION)

The Board of Directors determines the guidelines governing the Company's activity and oversees their application. Subject to those powers expressly conferred on the shareholders meetings and within the limits of the Company's corporate purpose, the Board of Directors considers any issue involving the proper operation of the Company and settles matters falling within its competence through its decisions.

The Board of Directors performs such auditing and verification it considers appropriate. Each Director shall receive from the Chairman of the Board of Directors or the Chief Executive Officer the information necessary for the performance of his duties.

15.1.2 COMPOSITION OF THE BOARD OF DIRECTORS

Directors appointed by the general meeting (article 10 of the Articles of Association)

The Company is administered by a Board of Directors, the minimum and maximum number of members of which are defined by the applicable laws. Directors are appointed, revoked and replaced under the terms and conditions set forth in the applicable laws and regulations.

Each Director must hold at least 300 of the Company's shares throughout their term of office.

Subject to the laws applicable to provisional appointments made by the Board of Directors, the Directors shall serve for a term of office of three years. The Directors' term of office expires at the end of the ordinary general meeting called to vote on the accounts for the previous fiscal year and to be held during the year in which the term expires. The age limit for directors is 67. When a director has reached this age during his term of office, such term shall automatically come to an end.

Directors may receive, as attendance fees, a fixed sum per year, the amount of which is determined by the general meeting and remains in force until adoption of a new resolution. The Board freely distributes attendance fees among its members. In particular, it may allocate to directors who are also members of the committees provided by the Articles of Association a higher portion than that allotted to the other directors. The Board may allocate exceptional remuneration to the directors for their performance of missions or mandates assigned thereby.

Costs incurred by the directors in the performance of their duties shall be reimbursed by the Company upon presentation of relevant proof thereof.

Director representing employees and appointed by the general meeting (article 10.2 of the Articles of Association)

When the report presented by the Board of Directors at the general meeting pursuant to article L.225-102 of the *Code de Commerce* states that the number of shares held by employees of the Company and affiliated companies within the meaning of article L.225-180 of said Code amounts to over 3% of the share capital, a director representing the employee shareholders is appointed by the ordinary general meeting in accordance with the procedures set forth by laws and regulations in force and by the Articles of Association, insofar as the Board of Directors does not already include among its members a director representing employee shareholders or an elected employee.

15.1.3 MEETINGS OF THE BOARD OF DIRECTORS (ARTICLE 12 OF THE ARTICLES OF ASSOCIATION)

Board of Directors meetings are called as often as required to serve the Company's interest, at the registered office or at any other location indicated in the convening notice.

The convening notice may be delivered without a notice period and by any means, even verbally in urgent cases. The Board of Directors may take valid decisions, even if not convened by a notice, if all of its members are present or represented. Prior to the meeting, Directors shall receive the agenda for the meeting and, wherever circumstances allow, a dossier containing the agenda, minutes of the previous meeting of the Board of Directors and documentation relating to each agenda item.

Board of Directors meetings are chaired by the Chairman of the Board or, in his absence, by the oldest director in attendance.

15.1.4 QUORUM AND MAJORITY (ARTICLE 12 OF THE ARTICLES OF ASSOCIATION)

The validity of the Board of Directors' decisions requires at least half of directors to be present, or, when allowed by law, deemed to be present, under the conditions defined by article 2.3 of the Internal Regulations drawn up by the Board of Directors, through videoconferencing or telecommunications means that comply with the technical attributes specified by the laws and regulations in force.

Decisions are taken by a majority of votes of the directors present, deemed to be present or represented. In the event of a tie vote, the Chairman of the meeting holds a casting vote.

15.2 - Chairman of the Board of Directors and Chief Executive Officer

15.2.1 APPOINTMENT OF THE CHAIRMAN (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)

The Board appoints a Chairman, who must be a natural person, from among its members. The term of office of the Chairman automatically ends upon the Chairman's sixty-seventh birthday, at the latest. However, the Chairman shall remain in office until the Board of Directors meeting called to appoint his successor.

15.2.2 DUTIES AND RESPONSIBILITIES OF THE CHAIRMAN (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)

The Chairman represents the Board of Directors. He organizes and directs the Board's work and reports thereon to the general meeting. He ensures that the Company's bodies are operating properly and, more particularly, that the directors are able to carry out their duties. The Board may revoke the Chairman's appointment at any time.

15.2.3 MAXIMUM AGE OF THE CHIEF EXECUTIVE OFFICER (ARTICLE 14.2 OF THE ARTICLES OF ASSOCIATION)

During his term of office, the Chief Executive Officer must be less than 67 years old. Once he has reached this age during his term of office, his term shall expire automatically and the Board of Directors shall appoint a new Chief Executive Officer. However, the Chief Executive Officer shall remain in office until the date of the Board of Directors' meeting called to appoint his successor. Subject to the aforesaid age limit, the Chief Executive Officer may be re-elected for an unlimited number of terms.

15.2.4 REVOCATION AND IMPEDIMENT (ARTICLE 14.3 OF THE ARTICLES OF ASSOCIATION)

The Chief Executive Officer's appointment may be revoked at any time by the Board of Directors, pursuant to the applicable laws and regulations.

In the event that the Chief Executive Officer becomes temporarily unable to fulfill his duties, the Board of Directors may delegate the functions of Chief Executive Officer to a director.

15.3 - Conditions for the preparation and organization of the work of the Board of Directors

The composition and functioning of the Company's Board of Directors are determined by laws and regulations, by the Company's Articles of Association and by its Internal Regulations, the main clauses of which are summarized or reproduced below.

Note that Arkema S.A. adopted the legal form of *société anonyme à conseil d' administration* (limited liability company with a Board of Directors) on 6 March 2006, and that the Board of Directors meeting on that date voted not to separate the roles of Chairman of the Board and Chief Executive Officer and appointed Thierry Le Hénaff as Chairman of the Board and Chief Executive Officer for the period of his term of office.

The Board of Directors consists of eight Directors, including six independent directors in the sense of the criteria set by the internal regulations for the Board of Directors.

Duties and responsibilities of the Board of Directors

The Board of Directors determines the guidelines governing the Company's activity and oversees their application. Subject to those powers expressly conferred on the shareholders and within the limits of the Company's corporate purpose, the Board of Directors considers any issue involving the proper operation of the Company.

To this end, it must review strategic developments at the Group, monitor their implementation and management, take decisions regarding major transactions and monitor the quality of information supplied to shareholders and the markets and ensure the quality of the Group's operations.

The Board of Directors meets at least four times each year and as often as the interests of the Company demand.

Prior to the meeting, directors shall receive the agenda for the meeting and, wherever circumstances allow, a dossier containing the agenda, minutes of the previous meeting of the board of directors and documentation relating to each agenda item.

In accordance with the internal regulations of the Board of Directors and of its committees, some subjects are submitted for prior review by the appropriate committee before being presented to the Board of Directors for a decision. Such subjects include for the Audit and Accounts Committee the review of financial statements, examination of internal control procedures, the activities of the statutory auditors and financial transactions and for the Appointment and Compensation Committee. remuneration policy and the systems of employee share ownership. The Committees exercise their proceedings under the responsibility of the Board of Directors.

15.3.1 ACTIVITY OF THE BOARD OF DIRECTORS

After 6 March 2006, the date the Company became a *société anonyme*, the Board of Directors met nine times in 2006. The attendance rate for all directors at these meetings was 93.8%.

The agenda for these meetings included:

- the implementation of measures for corporate governance (adoption of internal regulations for the Board of Directors and its committees, creation of two standing committees, etc.);
- reports on the work of the Audit and Accounts Committee and the Nominating and Compensation Committee;
- consideration of quarterly and half-yearly results and review of the associated press releases;
- the co-opting of Mr. Tidjane Thiam as a Director to replace Mr. Bernard Boyer. following the latter's resignation;
- setting of remuneration for Chairman and Chief Executive Officer and determination of the powers of the Chief Executive Officer;
- setting the powers of the Chief Executive Officer in the granting of deposits, advance payments and guarantees;
- consideration of stock option and free share allocation programs;
- review of remuneration for the Executive Committee;
- Group insurance and safety policies;
- proposed reorganization of the Group (disposal of the Agrochemicals Business Unit, etc.).

Between the beginning of 2007 and the meeting called to review the accounts for the 2006 financial year, held on 13 March 2007, the Board of Directors met three times, with an attendance rate of 95.8%. These meetings discussed review of the accounts for the year to 31 December 2006, assessment of the independence of directors, annual reports from specialist committees and the allocation of attendance fees for 2006.

In accordance with its internal regulations, the Board of Directors carried out its annual review of the 2006 financial year, which was the subject of the Board of Directors' discussions at its meetings on 19 January 2007 and 13 March 2007.

15.3.2 INTERNAL REGULATIONS OF THE BOARD OF DIRECTORS

In order to comply with best corporate governance practices, the Company's Board of Directors has adopted a charter setting out the rights and obligations of the directors.

Independent directors

In accordance with the recommendations of the AFEP/MEDEF report, the Board of Directors decided that it should comprise a majority of independent directors. Decisions regarding the independence of directors are made by the Nominating and Compensation Committee as described below.

An independent director is a director who has no relationship whatsoever with the Company, its group or its management, i.e., in particular, a director who:

- is not an employee or executive of the Company, an employee or director of its parent company, if any, or of a company consolidated within the Company and who has not served in such a capacity during the five previous years;
- is not a corporate officer of a company in which the Company directly or indirectly holds a seat as director, or in which an employee appointed as such or a corporate officer of the Company (who currently holds such a position or has held such a position during the five previous years) holds a seat as director;
- is not a significant customer, supplier, corporate banker, or investment banker of the Company or its group, or for whom the Company accounts for a material part of its business;
- has no close family ties with a corporate officer of the Company;
- has not, during the five previous years, served as statutory auditor of the Company, or of a company that holds at least 10% of the Company's share capital or of the share capital of a company in which the Company held an interest of at least 10% as of the end of the term of service;
- has not been a director of the Company for more than twelve years;
- is not or does not represent a significant shareholder in the Company, i.e. a shareholder holding more than 10% of the Company's share capital or voting rights.

Following this analysis the Board of Directors accepted the Nominating and Compensation Committee's proposal that the following directors be considered as independent: François Enaud, Bernard Kasriel, Thierry Morin, Laurent Mignon, Tidjane Thiam and Philippe Vassor.

Duty of loyalty

A director may not use his title or functions as director to secure any advantage, whether monetary or non-monetary, for himself or any third party. The director undertakes to notify the Board of any agreement between the said director and the Company, entered into directly or via an intermediary, or in which he has an indirect interest, prior to entering into such agreement. The director undertakes not to assume any duties in companies or business activities that are in competition with the Company without previously notifying the Board of Directors and the Chairman of the Nominating and Compensation Committee.

Independence of directors and conflicts of interest

All directors undertake to maintain their independence of analysis, judgment, decision-making and action under all circumstances. Directors undertake not to seek or accept from the Company or any companies directly or indirectly affiliated therewith, any advantages that are liable to be construed as jeopardizing their independence.

Directors shall notify the Board of any conflict of interest, whether direct or indirect, actual or potential, with the Company. In such cases, the relevant director shall abstain from voting on any resolution submitted to the Board and from participating in any discussions preceding such voting. The Chairman may ask such a director not to attend the meeting. An exception shall be made to this provision if all directors were to abstain from voting in application thereof.

Self-assessment of the Board of Directors

Every year, the Board of Directors shall hold a debate on its functioning.

Communication of information to directors

Prior to each Board of Directors meeting, a file shall be sent to each director in sufficient time before the meeting, providing with information on items on the agenda to be discussed that require special analysis and prior consideration, whenever this can be accomplished without violating confidentiality.

However, in the event of an emergency meeting in special circumstances, such information may be sent to the directors within a shorter period of time or provided at the beginning of the meeting.

Directors may require from the Chairman or Chief Executive Officer any additional information they may consider necessary to properly fulfill their duties, particularly in the light of the meeting agenda.

Confidentiality

All documents provided for Board meetings and all information collected during or outside Board meetings (the Information) are confidential, without exception, whether or not the Information collected is presented as being confidential. Directors undertake not to express their individual views on matters brought before the Board of Directors outside the boardroom.

15.3.3 BOARD OF DIRECTORS' COMMITTEES

The Board of Directors meeting on 12 May 2006 created two standing committees, an Audit and Accounts Committee and an Nominating and Compensation Committee. The composition, purpose, organization and activity since their creation of these two committees is reported below.

The Board of Directors has established internal regulations for each of these standing committees, the main provisions of which are summarized below.

15.3.3.1 The Audit and Accounts Committee

The Audit and Accounts Committee consists of Philippe Vassor (Chairman), Jean-Pierre Seeuws and Laurent Mignon, thus two of its three members, including its chairman, are independent. Thierry Lemonnier, Executive Vice-President, Finance, of the Group is the committee's secretary.

Composition (article 2 of the internal regulations)

The Nominating and Compensation Committee is composed of at least three directors appointed by the Board of Directors. In selecting the Committee members, the Board of Directors shall grant special attention to their qualifications in the area of finance and accounting. A majority of the Committee members shall be independent directors. The Chairman of the Audit and Accounts Committee shall be an independent director.

Notwithstanding a reasoned decision to the contrary by the Board of Directors, no Committee member shall hold more than two other offices as a member of the audit and accounts committee of a listed company in France or abroad.

The Board of Directors shall ensure that it does not appoint to the Audit and Accounts Committee a director from a company on whose audit committee one of the Company's directors also holds a seat.

Committee members may receive from the Company only those attendance fees due in consideration for serving as director and Committee member.

The term of office of Committee members shall coincide with their term of office as director. The term of office of a Committee member may be renewed at the same time as his term of office as director. However, the Board of Directors may modify the composition of the Committee at any time.

Duties (article 1 of the internal regulations)

In order to enable the Company's Board of Directors to ensure the quality of internal control and the reliability of information provided to shareholders and to the financial markets, the Committee performs the following roles:

- it submits recommendations on the appointment of the statutory auditors and their remunerations, in compliance with independence requirements;
- it ensures the compliance with all applicable laws and regulations when statutory auditors are commissioned to perform work other than auditing the accounts;
- it reviews the options and assumptions used in preparing financial statements, reviews quarterly consolidated accounts and full year parent company financial statement and forecasts prior to their consideration by the Board of Directors, and assesses the accounting content of press releases prior to their issue;
- it assesses the suitability and consistency from year to year of accounting principles and policies;
- it assesses internal control procedures;
- it reviews the work programs of external and internal auditors;

- it reviews audit work;
- it assesses the organization of delegations of powers of commitments;
- it assesses the suitability of risk monitoring procedures;
- it reviews the conditions for using derivatives;
- it considers major transactions planned by the Arkema Group;
- it remains regularly updated on developments in significant claims and disputes;
- it reviews the main off balance sheet undertakings, particularly the most significant new undertakings;
- it prepares and submits reports as provided by the Internal Regulations and presents to the Board in draft form that portion of the annual report and, more generally, any documents required by the applicable regulations, falling within its scope of assignment.

Organization of work (article 3 of the internal regulations)

The Committee meets several times a year, in particular to review the periodic consolidated accounts. Meetings may be called by the Committee Chairman, by two Committee members or by the Chairman of the Board of Directors. The schedule of meetings is set by the Committee Chairman.

The Committee submits written reports to the Board of Directors on its work and an annual assessment of its operation, based on the requirements set out in the Internal Regulations as well as any suggestion for improvement in its functioning.

Recommendations submitted by the Committee to the Board of Directors are adopted by a majority of members present at the Committee meeting. The Committee Chairman casts the deciding vote if an even number of members is present at the meeting, unless only two members are present.

Activity of the Committee

Following its creation, the Audit and Accounts Committee met four times in 2006 and reported on its work to the Board of Directors.

All committee members attended all meetings.

The statutory auditors were present at each of these meetings and presented their conclusions as part of the review of half-yearly accounts. The Audit and Accounts Committee received these conclusions after the meetings and in the absence of representatives of the Company.

The work of the Audit and Accounts Committee over the year focused mainly on the review of quarterly and half-yearly accounts, internal control procedures, the schedule and progress of internal and external auditing and developments in the main claims and disputes involving the Group.

Between the beginning of 2007 and 13 March 2007, the date on which the Board of Directors approved the accounts for 2006, the Audit and Accounts Committee met once, with all members in attendance. This meeting concentrated on a consideration of the accounts for the year to 31 December 2006 and on the annual self-assessment of the work of the committee.

15.3.3.2 The Nominating and Compensation Committee

The Nominating and Compensation Committee consists of Thierry Morin (Chairman), François Enaud and Bernard Kasriel, all independent directors, Michel Delaborde, Executive Vice-President, Human Resources and Communication, is the committee's secretary.

Composition (article 2 of the internal regulations)

The Appointment and Compensation Committee is composed of at least three directors appointed by the Board of Directors. A majority of the Committee members shall be independent directors.

The Chairman of the Committee shall be an independent director.

Committee members may receive from the Company only those attendance fees due in consideration for serving as director and Committee member.

The term of office of Committee members shall coincide with their term of office as director. The term of office of a Committee member may be renewed at the same time as his term of office as director. However, the Board of Directors may modify the composition of the Committee at any time.

Duties (article 1 of the internal regulations)

The Committee's main roles are the following:

Nomination:

- it submits to the Board of Directors recommendations on the composition of the Board of Directors and its Committees;
- every year, it submits to the Board of Directors a list of directors who can be considered as independent directors of the Company, in accordance with the provisions of article 2.1 of the Internal Regulations of the Company's Board of Directors;
- it assists the Board of Directors in appointing and evaluating the corporate officers, the directors, and the directors serving as Committee members;
- it prepares and submits an annual report on the Committee's operation and work.

Compensation:

- it reviews the main goals proposed by executive management relating to remuneration of the Company's executives, whether or not they are corporate officers;
- it submits to the Board of Directors policy recommendations and proposals in the areas of remuneration, pension schemes and contingency funds, benefits in kind, and allocation of options to subscribe or purchase shares (Stock Options) or receive free shares;
- it reviews remuneration of Executive Committee members, including Stock Options, free shares, pension schemes, contingency funds and benefits in kind;
- it reviews the procedures for dividing attendance fees among Board members and the conditions for reimbursing any costs incurred by the directors;

- it prepares and submits reports as provided by the Internal Regulations and presents to the Board of Directors that part of the annual report in draft form, and, more generally, any documents required by the applicable regulations and falling within its scope of assignment, in particular information on the remuneration of corporate officers, Stock Options and free shares.

Organization of work (article 3 of the internal regulations)

The Committee meets several times a year, including once prior to approval of the agenda for the annual general meeting. Meetings may be called by the Committee Chairman, by two Committee members or by the Chairman of the Board of Directors. The schedule of meetings is set by the Committee Chairman. The Committee reports to the Board of Directors on its work. It submits an annual assessment of its functioning, based on the requirements set out in the Internal Regulations and any suggestion for improvement in its functioning.

Recommendations submitted by the Committee to the Board of Directors are adopted by a majority of members present at the Committee meeting. The Committee Chairman casts the deciding vote if an even number of members is present at the meeting, unless only two members are present.

Activity of the Committee

Following its creation, the Appointment and Compensation Committee met twice in 2006 and reported on its work to the Board of Directors.

All committee members attended all meetings.

The work of the Appointment and Compensation Committee focused on the remuneration of company officers and the executive committee, and the implementation of stock option and free share allocation plans.

Between the beginning of 2007 and 13 March 2007, the date on which the Board of Directors approved the accounts for 2006, the Appointment and Compensation Committee met twice, with all members in attendance on both occasions. These meetings concentrated on the annual review of the committee's work, the independence of directors, allocation of attendance fees for 2006 and assessment of the Board of Directors in 2006.

15.4 - Principles and rules for determining remuneration and all other benefits paid to officers of the company

The principles and rules for determining remuneration and all other benefits paid to officers of the company are decided by the Board of Directors on the basis of recommendations from the Appointment and Compensation Committee, in accordance with the provisions of internal regulations. These principles and rules are described in section 16.1 of this reference document.

15.5 - Limitations on the powers of Chief Executive Officer

The Chief Executive Officer is invested with the most extensive powers to act in the Company's name in all circumstances, within the limits of the Company's corporate purpose and subject to those powers expressly vested by law in the general meetings and the Board of Directors. He represents the Company in its relationships with third parties.

The Board of Directors may set limits on the powers of the Chief Executive Officer, but such limits are not enforceable against third parties.

The Board of Directors has authorized the Chief Executive Officer, with powers of sub-delegation, to issue in the name of the company, deposits, commitments and guarantees up to a limit of €50 million and to continue the deposits, commitments and guarantees previously made. This authorization is granted for a period of twelve months and expires on 19 January 2008.

In addition to any legal requirements noted above, the Chief Executive Officer must inform the Board of Directors of or submit to its approval any transactions involving a greater sum. Therefore the Board of Directors must be consulted in advance:

- for any industrial investment of more than €80 million with an annual investment budget also to be submitted to the Board of Directors for approval,
- for any acquisition or disposal with an enterprise value of more than €130 million,
- if annual liquidations of investment are set to exceed the annual budget by more than 10%;

The Board of Directors must be informed after the event:

- of any industrial investment of more than €30 million,
- of acquisitions or disposals with an enterprise value of more than €50 million.

15.6 - Vice-Executive Officer

On the Chief Executive Officer's recommendation, the Board may appoint from one to five natural persons, who shall have the title of Vice-Executive Officer (*Directeur general délégué*), to assist the Chief Executive Officer and shall determine their term of office and the extent of their powers, it being understood that the Vice-Executive Officers shall hold the same powers as the Chief Executive Officer in representing the Company in its relationship with third parties. Vice-Executive Officers must be less than 67 years old to serve in this office.

The Board of Directors may revoke the appointment of a Vice-Executive Officer at any time, on the recommendation of the Chief Executive Officer, in accordance with the applicable laws and regulations.

15.6.1 IDENTITY OF VICE-EXECUTIVE OFFICERS

None.

15.6.2 BIOGRAPHY OF VICE-EXECUTIVE OFFICERS

None.

15.7 - Internal control procedures

15.7.1 GENERAL ORGANIZATION OF INTERNAL CONTROL

15.7.1.1 Aims and objectives

The aims and objectives of the Group's internal control procedures were drawn up in accordance with COSO[21] guidelines and the principles recommended by the reference framework of the Autorité des Marchés Financiers (AMF -- French financial markets authority).

Internal control is a Group structure defined and implemented by General Management, management and staff that seeks to ensure:

- compliance with laws and regulations;
- application of the instructions and guidance of General Management;

(21) *Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

- the correct operation of internal processes, notably those serving to protect assets;
- the reliability of financial information and, more generally, to control the activities, effectiveness of operations and efficient use of the Group's resources.

An internal control structure can only provide reasonable assurance, and under no circumstances an absolute guarantee, that these goals are met.

15.7.1.2 Scope

The internal control framework is adapted to the Group's organization, which is structured around three components:

- the BUs, which comprise a group of business lines or products that are coherent or complementary from a strategic, business or manufacturing perspective; the BUs are grouped into three business segments;
- the functional divisions, which provide support to the BUs in their area of competence, including accounting, legal affairs and information systems, and ensure that the Group's organization is consistent and optimized; and
- the subsidiaries, through which the BUs exercise their business activities.

The report covers all those companies included in the basis of consolidation of the Group financial statements and reports on the internal control procedures implemented within the Group.

15.7.1.3 Persons involved in internal control procedures

1. Board of Directors and Committees

The Board of Directors, the various committees established and the expertise they bring to bear help contribute to the creation of an internal control culture suited to the needs of the Group.

In particular, it is the responsibility of the Audit and Accounts Committee to review internal control procedures, assess the schedule of internal auditors and the results of their work and evaluate the relevance and adequacy of risk monitoring procedures.

2. Executive Committee

The Chairman and Chief Executive Officer has created an Executive Committee (*Comex*) consisting of the seven operational and functional executives who report directly to him.

Thus Comex consists of:

- the Chairman and Chief Executive Officer, who chairs Comex;
- the Executive Vice-Presidents of each of the three business segments;
- the four Executive Vice-Presidents of the support functions: Human Resources and Communication, Industry, Finance and Strategy.

Comex is a decision-making body that concentrates on strategic matters and performance monitoring and considers major organizational issues and large projects.

More specifically and in relation to the internal control framework, it:

- sets targets for each BU, functional division and subsidiary and provides the resources for these targets to be met;
- defines the internal control framework and the rules for delegation of responsibility;
- carries out an annual review of the major risks to which the Group is exposed;
- supervises the implementation of the control procedures that allow the agreed targets to be met. In so doing, it draws on the work of the Internal Audit Division and the Internal Control Project.

In general, Comex meets twice each month.

Each member of Comex is responsible for ensuring that Group-wide rule and principles are respected in the entities for which he is responsible and for which he acts as the "guardian".

3. Internal Audit Division

Internal Audit is an independent function under the responsibility of the Executive Vice-President with responsibility for Strategy. Its role is to improve control over the Group's management systems and processes and, more broadly, to ensure that operations are in accordance with the internal control framework.

Any management process or system is subject to internal audit. The Internal Audit Division provides the audited entities with a set of recommendations which are discussed and agreed with the entities in question. Implementation of these recommendations is covered by action plans, that the entities commit to implementing.

An internal committee consisting of the Executive Vice-President Finance and the Executive Vice-President Strategy, regularly monitors the effective implementation of these recommendations.

During 2006, the Internal Audit Division carried out 24 audits.

In addition, to help build the culture of internal control within the Group, the Internal Audit Division, working with the Internal Control Project, ran internal control awareness days.

4. Internal Control Project

The Group has created a project structure to strengthen internal financial control systems. This project reports to a Steering Group, consisting of the Executive Vice-President, Industry, the General Counsel, the Internal Audit Director, the IT Director, the Head of Reporting/Consolidation/Internal Control and chaired by the Executive Vice-President Finance.

It is placed under the responsibility of the Head of project attached to the Executive Vice-President, Finance, and consists of representatives of the Management Control and Accounts Division and the IT Division. It is supported, at the subsidiary level, by a network of correspondents (within the finance and IT divisions of subsidiaries) created as the project is deployed.

This structure has resulted in the analysis and formalization of processes having an impact on financial information, for which key controls have been defined.

The methodology consists of:

- the analysis for a process or sub-process of the main risks that could have a significant effect on consolidated accounts;
- the formalization of checking procedures reducing to a low level any risk of error, omission or fraud; and
- periodic verification of the existence and effective operation of these controls;
- definition of corrective measures in the event of shortcomings and controls of their implementation.

Initially this was applied to the Group's two largest subsidiaries for a selection of business processes with a material impact on consolidated results (raw materials purchasing, sales, cash management, account closing procedures, etc.) and to the IT systems that they use.

In 2006, the scope was extended to new processes (such as process for drawing up consolidated accounts, group financing) and to other companies, with a target of covering entities generating 80% of total sales by 2008.

Where necessary the work of the project results in the preparation of specific action plans, the implementation of which is monitored by the Internal Control Project and by the relevant management teams. This forms part of a process of continuous improvement in internal control.

5. Business Units, Functional Divisions and subsidiaries

The Group's businesses are organized into twelve Business Units, themselves organized into three business segments each of which is the responsibility of a "guardian" who reports to the Chairman and Chief Executive Officer and a member of Comex.

Within their respective area of activity they employ the resources allocated to them by Comex to meet the targets set; they are responsible for their own performance and for implementing suitable control procedures and processes, in accordance with the principles and procedures defined within the Group's internal control framework and its Charters and guidelines.

The consistency and optimization of the Group's organization are ensured by the Functional Divisions, most of which are described below.

Each subsidiary is placed under the responsibility of a local Director, who is responsible for ensuring that laws and rules and principles defined by the Group are respected and who undertakes to employ the resources defined with the BU and support functions to meet their targets. Within the strict respect of the powers delegated to the management bodies of legal entities, each subsidiary is supervised by a functional or operational division.

15.7.1.4 Core documents

The Group has drawn up a Code of Conduct and two Charters, the first covering health, safety, the environment and quality and the second IT and electronic communication resources. These have been approved by Comex and set out the values and aims of internal control.

Code of Conduct:

In this document the Group confirms its adherence to the Universal Declaration and European Convention on Human Rights, to the Fundamental Conventions of the International Labor Organization and to the OECD's Guiding Principles for multinational enterprises.

It details the Group's requirements, closely linked to its values, wherever it does business, both with respect to its shareholders or other interested parties and to customers and employees. It also makes available to employees the rules and principles governing individual behavior within the Group.

An ethics mediator, appointed by the Chairman of the Board of Directors, is available to all ARKEMA Employees for any question of ethics that arises within the Group.

Health and Safety, Environment and Quality Charter:

In this document the Group confirms that it places the highest importance on the safety and security of its businesses, the health of individuals and the satisfaction of customers.

The charter describes the main undertakings that translate these priorities into action. Thus:

- the Group is committed to Responsible Care®, a voluntary approach to the responsible management of businesses and products, based on a process of continuous progress, and in November it signed the Responsible Care® Global Charter, which allows for validation of the approach by a third party;
- two programs are deployed worldwide: Safety in Action, to promote and strengthen a safety culture amongst all staff, and Common Ground®, to develop relationships of trust with the communities in which the Group is present.

In addition, in order to build loyalty amongst customers and other partners, the Group's organization and processes emphasize proximity, listening and innovation.

Charter for the use of IT and electronic communication resources

This charter sets out the principles governing the proper use of IT resources within the Group. These principles seek to ensure the correct application of guidelines, compliance with laws and regulations, respect for rules regarding delegation of powers and confidentiality and the protection of the integrity of IT systems and resources.

15.7.1.5 Internal Control framework

The Group's internal control systems are based on three essential principles:

- the clear definition of responsibility and delegation of powers, respecting rules governing the separation of roles (distinction between those who approve actions and those who take those actions) to ensure that any person who engages the Group's responsibility to a third party has the correct means to do so;
- identification, analysis and management of risks; and
- regular review of the correct functioning of internal control.

The Group has defined the guiding principles and structure within the "internal control framework", approved by Comex and available to all employees. This document, based on the Group's Charters and Code of Conduct, is structured in line with COSO guidelines and the AMF reference framework, around five elements:

A. The control environment;

B. Risk assessment;

C. Control activities;

D. Information and communication;

E. Continuous evaluation of internal control systems.

A. The control environment

The foundation of all other elements of internal control, the control environment draws primarily on the organizational principles of the Group, the values set out in the Code of Conduct and the level of awareness amongst employees.

Two of the major goals defined by Comex are risk management and the protection of people and of the environment.

All employees are informed of the importance attached to respecting the rules of good conduct set out in the Code of Conduct and the Health and Safety, Environment and Quality Charter and Charter for the use of IT and electronic communication resources.

These documents include a Compliance Program (the rules of which have been made known to all Group employees concerned, and accepted by them) introduced to ascertain and if necessary to substantiate, that the Group strictly complies with domestic and European competition regulations.

The resources employed to ensure the correct operation of this program are:

- the individual responsibility of all employees, of whatever level, to respect the competition regulations explained to him or her;
- the appointment of a Compliance Officer, whose role is to ensure the correct application of the program;
- the production and continuous updating of a Practical Guide to rules and correct conduct in competition issues;
- specific training; and
- the taking of appropriate measures in the event of any breach of the rules.

In the United States, the Compliance Program has been adapted to take account of specific local features.

In general, the roles and duties of each operational or functional manager are defined in their job description sheet. Goals to be met by the managers are set by their respective hierarchical superiors, to whom they must periodically report on their activities.

Lastly, the Group has set up a dynamic human resources management approach and a policy of ongoing training designed to ensure that staff skills are continuously adapted and to maintain a high level of individual involvement and motivation.

B. Risk assessment

In the course of its business, the Group is exposed to a number of internal and external risks.

As the Group's structure is highly decentralized, risk assessment and management is primarily the responsibility of the Business Units. All functional divisions, each having a duty to reduce risks in their own area, provide assistance in identifying and reducing the risks inherent to their respective area.

A review of the risks that the Group could face is carried out annually by the Legal Divison and the Internal Audit Division, who collate information from the BUs and functional divisions and present this to Comex prior to the definition of the audit plan. These risks are discussed in a separate chapter of this reference document.

C. Control activities

Control activities entail the application of the standards and procedures that help ensure that Group management directives are carried out.

To this end, a body of rules has been formally established within the internal control framework and general principles, applicable to all Group entities, have been defined in order to enable monitoring of the application of the strategy defined by Comex. The delegation of undertakings and management of investments are subject to separate reports. In addition, control of access to IT systems forms a key element of internal control and is subject to formal management procedures involving the client divisions and the IT Division.

- BUs and subsidiaries are responsible for operational processes and are thus the first line of responsibility in internal control.
- Functional divisions are responsible for defining and distributing policy and best practice guidelines relating to their area; they ensure that these are being correctly applied, particularly in the following areas:
  - compliance with laws and regulations,
  - industrial safety and environmental protection,
  - reliability of financial information.

The Internal audit team conducts its task of ensuring ARKEMA's compliance with its internal control framework in accordance with an audit plan approved by Comex and presented, for the first time in 2007, to the Audit and Accounts Committee.

D. Information and communication

IT systems are a key component of the Group's organization.

In this area, the Group has a number of tools for disseminating information.

The Group has a financial reporting system that meets management requirements and complies with the applicable rules and standards.

Each support function develops professional best practice and disseminates details thereof throughout the Group via its intranet.

The requirements regarding the reliability and quality of financial information have resulted in the strengthening of the Investor Relations function.

E. Continuous assessment of internal control systems

The quality of the internal control system is assessed on an ongoing basis. Comex is responsible for the system overall, for its performance and for its oversight. However, each entity remains responsible for improving internal control performance in its area.

In general, any weaknesses in the internal control system must be reported to management and, if necessary, to Comex.

In addition, recommendations made by Internal Audit and the statutory auditors after completing their mission are systematically reviewed and a summary is presented to the Audit and Accounts Committee. When decisions to apply corrective measures are adopted, their implementation is monitored on a formal basis.

In addition, the statutory auditors may, as part of their duties, alert the Company regarding any weaknesses that they have identified. These factors are taken into account by the Company in its efforts to improve internal control.

15.7.1.6 Group policies

Human Resources

The Group is committed to involving all its employees in its growth, to helping all employees in their day-to-day tasks and to empowering them to take individual initiative. The Group's efforts are focused on training, internal communication and leadership of management to pool individual talents and ensure they best serve the common good. The Human Resources policy also aims to increase the international nature of staff teams, and the sharing of expertise and experience worldwide.

The Group's Human Resources Division is organized around three Directorates, being the Human Resource Development and Internal Communication Directorate (HRDIC), the Payroll Systems, Structure and Headquarters Director and the Employee Relations Directorate. The HRDIC plays a central role, supported by career managers, in managing executives from the BUs and support functions and coordinating career management across all Group subsidiaries.

These Human Resources Directorates play a guiding role and have responsibility throughout the Group in the areas of recruitment, management of remuneration systems, social protection and labor relations. At a local level there is a Human Resources service within each establishment which is responsible for recruitment, training and career management for non-executive staff for the site.

More specifically, the Personal Annual Review, between team leaders at all levels of the Group's hierarchy and each of their employees, is an essential aspect of management.

Industrial Health and Safety and Environmental Protection

The Group applies the highest standards in the areas of Health and Safety and Environmental protection.

The Group has formalized its fundamental requirements in a reference manual that is used worldwide, the HSE Manual, which is the foundation of the HSE management systems of all the Group's entities. This framework document is available over the Group's intranet. In addition, the whole of the industrial health and safety strategy is deployed worldwide under the "Safety in Action" title.

The security and safety management at sites presenting significant risks are based on control systems designed according to ISRS guidelines. The Group has developed environmental management systems for its industrial sites, most of which have received ISO14001 certification (or equivalent, such as the Responsible Care Management System® used in the USA).

The qualitative and quantitative targets to be reached in the areas of health and safety and environmental protection are defined by the Industrial Division and approved by Comex, to reflect regulatory changes and the views of the wider population. The Industrial Division regularly identifies, through an audit, divergences from targets and the risks identified in the HSE field, in order to have an accurate picture at the Group level and take appropriate decisions.

The Group's sustainable development policy is based on its belief that its profitability over the long term will depend on the way in which it adopts its responsibilities in the areas of social relationships, health and safety and the environment.

Short-term and Long-term financing

The Cash Management and Financing Division of the Group is responsible for defining the Group's cash management and optimizing its financing. It is organized around two departments, the Financial Operations and Subsidiaries Department (the main point of contact for subsidiaries within this division) and the Cash Management Department (specialist point of contact for issues of financing, hedging of financial risk and cash management).

Treasury, interest rate instrument and currency instrument risks are managed under rules defined by the Group's Executive Management. The management of liquidity, hedging positions and financial instruments is centralized by the Cash Management and Financing Department whenever possible.

Each subsidiary is responsible for its own business, the management of its own cash flows and the preparation of cash flow forecasts. Subsidiaries are responsible for following the Cash Management Rules issued by the Cash Management and Financing Department, both in the area of risk management (interest rates, foreign exchange, counterpart risks, intra-group settlements, etc.) and cash management.

Legal Division

The Group is subject to a complex and constantly changing set of laws and regulations in a large number of fields: company law, commercial law, safety, environmental protection, labor law, tax law, customs, patent protection and so on.

Compliance with laws and regulations is, with some specific exceptions (labor law, tax law, patent law), placed under the overall responsibility of the Legal Division, which has particular responsibility for prevention of criminal liability and risks relating to antitrust legislation (Compliance Program). The Legal Division is closely involved in the monitoring of risks, claims and disputes (quarterly and annual reviews) and the review of major contracts.

Insurance

The Group has a policy of centralized management of its insurance, covering the risks relating to the production and marketing of its products.

The implementation of this policy is the responsibility of the Insurance Division, which reports to the Executive Vice-President Strategy.

Group insurance policies are taken out with leading insurance companies. They are accompanied by inspections of industrial sites with insurers, coordinated with the Industrial Division.

Purchasing

The Group implements a purchasing policy based on the following principles:

- the selection of a supplier must be based on the satisfaction of a need, quality, performance, sustainability, and the best price;
- relations with suppliers must be based on trust and be developed transparently and in accordance with contractual terms;
- the Group's suppliers must respect principles equivalent to those set out in the Group's Code of Conduct.

15.7.2 ACCOUNTING AND FINANCIAL INTERNAL CONTROL PROCEDURES

Control and understanding of financial performance by operational and functional managers of the businesses for which they are responsible represents one of the key factors in the Group's financial control systems.

15.7.2.1 Organization of the finance function

The finance function, which is the responsibility of the Executive Vice-President Finance, includes:

- functions managed directly:
  - the production of consolidated financial and accounting information, which is the responsibility of the Accounts and Management Control Division, which is responsible for the reliability of the elements making up ARKEMA's financial information and for providing management accounts, shared across the entities, thus enhancing the management of businesses,
  - investor relations, which is designed to establish, develop and maintain relationships with shareholders and financial analysts and which publishes financial information once this has been approved, generally by the Board of Directors,
  - the internal control project (see above);
- functions delegated to:
  - the BUs, each of which has its own management control, allowing for monthly monitoring and analysis of BU performance;
  - the subsidiaries, with each subsidiary being responsible for its own monthly accounts and half-year and full-year financial information.

15.7.2.2 Accounting, Reporting and Management Control

The fundamental principles for financial reporting are set out in the financial reporting manual and management framework for the Group. These reference documents are updated annually by the Accounts and Management Control Division, after approval by the Executive Vice-President Finance, or Comex depending on the extent of any changes.

The purpose of financial reporting is primarily to enable the analysis of actual performance relative to forecasts. It is based on the following processes:

- forward looking items:
  - medium-term plan,
  - budget,
  - end-of-year forecast;

- actual performance:
  - monthly reporting,
  - quarterly consolidation of accounts.

Medium-term plan

The Strategy Division draws up a medium-term plan once per year. This plan serves as a basis for the strategic considerations of Comex, and enables it to assess the financial consequences of the major strategic directions and the main turning points identified in long-term forecasts.

Budget

The budget is prepared annually under the responsibility of Accounts and Management Control Division. Each BU and each functional division submits its budget proposals to Comex. The process is completed by the formal approval of the budget by Comex. The budget sets out the financial performance targets to be achieved over the following year; it forms part of the medium-term plan approved by Comex.

The budget is the main point of reference to measure actual performance.

End-of-year forecast

Once approved by Comex, the budget may not be modified. End of period forecasts, for the end of the current quarter and end of the year, are updated by the BUs and functional divisions as required by the Accounts and Management Control Division.

Monthly reporting

Key income statement items and investments are analyzed on a monthly basis.

Working capital and provisions are analyzed on a quarterly basis.

Capital employed is analyzed at the annual closure of accounts.

Each BU reports on its performance at a monthly presentation to the relevant "guardian" for the business in question.

Results are then presented to Comex by the "guardians" and the Accounts and Management Control Division.

Consolidated Accounts

ARKEMA publishes consolidated financial information on a quarterly basis. Figures for the six months to 30 June and the twelve months to 31 December are full financial statements in the sense of IFRS. whilst the information to 31 March and 30 September is in summary form only (balance sheet, income statement, cash flow statement).

Half-year accounts are subject to a limited review by the statutory auditors, whilst full year accounts are fully audited.

As part of the closure of each accounting period, the Accounts and Management Control Division identifies specific closure issues through meetings with the support functions and the BUs; in addition a meeting, held at least once per year, is organized with the main legal entities within the Group.

Moreover, on a quarterly basis the Accounts and Management Control Division receives from each BU, functional division and subsidiary a report regarding risks.

Monitoring of changes in accounting regulations is provided by the Accounts and Management Control Division which issues technical notes on points of specific relevance to ARKEMA.

15.7.2.3 IT systems

The IT Systems and Telecommunications Division is responsible for all the Group's IT systems.

As part of a program to upgrade these systems, ARKEMA has introduced, throughout its French sites, a modern, high-performance system to integrate accounting, management control, project and investment management and purchasing of goods and services. This new integrated IT system is contributing to improving the internal control environment at ARKEMA, particularly through the increase in automated checking and the removal of interfaces.

15.7.2.4 Letters of representation

Each year, the Group issues, under the signature of its Chairman and Chief Executive Officer and its Chief Financial Officer, a letter of representation of the accuracy and reliability of consolidated accounts addressed to the Group's statutory auditors. To underpin this representation, the CEOs and CFOs of each consolidated subsidiary make an annual undertaking to respect the internal control rules and ensure the accuracy of the financial information supplied in the form of a letter of representation to the Group CFO and to the statutory auditors.

15.7.3 INVESTOR RELATIONS

Press releases concerning quarterly consolidated financial information are prepared by the Investor Relations team and reviewed internally by the various departments of the Finance Division concerned, then by the statutory auditors and then finally by the Audit and Accounts Committee. The Board of Directors then approves the final text.

15.8 - Compliance with corporate governance system

In the interests of transparency and public information, the Company has established a set of corporate governance measures, including the creation of the Board Committees described above. Arkema S.A. believes that the system of corporate governance introduced by the Company allows it to meet the standards of corporate governance generally applied in France.

16 Remunerations and benefits

16.1 - Remuneration (including any conditional or deferred remuneration) and benefits in kind granted by the Company and its subsidiaries

Note that the Company adopted the legal form of a *Société Anonyme* (limited liability company) in March 2006 and that since 18 May 2006 it has been the central holding company of the Group. Since this date shares in Arkema S.A. have been listed on the Eurolist by Euronext™ market.

Therefore the information regarding members of the Board of Directors and the Executive Committee can only be given from this date and the information for previous years provided for the purposes of comparison can only be provided from next year.

Remuneration of members of the Executive Committee

The Board of Directors of the Company, on the recommendation of the Nominating and Compensation Committee, approved the overall total gross fixed remuneration to be allocated from 1 June 2006 to members of the Executive Committee other than the Chairman and Chief Executive Officer at €1,450,600. The Board also approved the criteria to be used in determining the variable element of their remuneration for 2006, based on specific qualitative and quantitative targets relating mainly to growth in recurring EBITDA and in the return on capital employed.

At 31 December 2006, the overall total gross remuneration to be paid to the seven members of the Executive Committee by Arkema S.A. or one of its consolidated subsidiaries was €2,318,048.

Members of the Executive Committee did not receive any attendance fees in relation to any directorships held within Group companies.

Directors' remuneration

General policy

In accordance with the provisions of the internal regulations of the Board, the Nominating and Compensation Committee issues recommendations concerning the remuneration of the Company's directors.

Remuneration of the Chairman and Chief Executive Officer

Since 18 May 2006, the remuneration of Thierry Le Hénaff in his role as Chairman and Chief Executive Officer of Arkema S.A. has been set by the Board of Directors on a recommendation from the Nominating and Compensation Committee.

In accordance with these provisions, the principles and amounts of the remuneration of Thierry Le Hénaff in his role as Chairman and Chief Executive Officer of the Company in 2006 was approved by the Board of Directors of the Company at its meetings on 31 May 2006 and 4 July 2006 on a recommendation from the Nominating and Compensation Committee.

This remuneration consisted of:

- fixed gross annual remuneration of €570,000;
- variable remuneration up to a maximum of 100% of fixed annual remuneration, based in 2006 on meeting a number of specific quantitative and qualitative targets. The quantitative targets related to the financial performance of the Company (recurring EBITDA growth, return on capital employed). The qualitative targets related mainly to the implementation of the Group's strategy. The variable element relating to the quantitative financial targets may not exceed 75% of variable remuneration. The provision recorded in the company's accounts at 31 December 2006 for the payment in 2007 of the variable element relating to performance in 2006 was €285,000;
- a company car provided as a benefit in kind;
- contractual indemnity in the event of early termination of contract equivalent to three times gross remuneration for the year in question.

There are no special pension arrangements for the Chairman and Chief Executive Officer. In addition to the general pension schemes operated for employees of the group he benefits from a supplementary scheme, financed by the company and offered to certain executives of the Group receiving annual remuneration of more than eight times the annual social security ceiling provided that the beneficiary is in the employ of the company when they come to retire. The Company's pension liabilities relating to its Chairman corresponded, at 31 December 2006 to an annual retirement pension equal to 7.1% of his current annual remuneration.

During 2006, the gross remuneration paid by the Company to Mr. Le Hénaff as Chairman and Chief Executive Officer of Arkema S.A. was €371,456, consisting of:

a fixed element of	€368,232
a variable element of	none*
benefits in kind of	€3,224

** At its meeting on 13 March 2007, the Board of Directors, on a recommendation from the Nominating and Compensation Committee, set the variable element of his remuneration for 2006 at 81.85% of the fixed element.*

In addition, on 4 July 2006, the Board of Directors approved a stock option plan and a free share allocation plan for the issue of 540,000 stock options and 150,000 free shares, the final allocation to be determined by performance criteria. At this meeting it was decided to allocate 55,000 stock options and 8,000 free shares to Mr. Thierry Le Hénaff.

Attendance fees

The General Meeting of shareholders of 10 May 2006 set the annual amount of attendance fees allocated to the Board of Directors at €300,000 for the year beginning 1 January 2006, and €360,000 for each subsequent years.

Following this decision, the Board of Directors, on a recommendation from the Nominating and Compensation Committee, decided that the division of the annual amount allocated by the general meeting should be determined on the basis of a fixed element and a variable element based on the attendance rate of directors at meetings of the Board of Directors and of its specialized committees.

As the company adopted *Société Anonyme* form only on 6 March 2006, no attendance fees were paid to directors in the course of 2006.

On a recommendation of the Appointment and Compensation Committee, the Board of Directors, meeting on 19 January 2007, decided to allocate the total amount of attendance fees for 2006 as follows:

François Enaud	€31,000
Bernard Kasriel	€34,000
Laurent Mignon	€32,000
Thierry Morin	€37,000
Jean-Pierre Seeuws	€38,000
Tidjane Thiam	€9,000*
Philippe Vassor	€44,000

** Co-opted by the Board of Directors on 12 September 2006.*

Mr. Thierry Le Hénaff receives no attendance fees in his role as Chairman of the Company's Board of Directors.

During the year, no remuneration was paid to directors of the Company by Group companies other than Arkema S.A..

16.2 - Total amounts covered by provisions or recorded elsewhere by the Company and its subsidiaries for purposes of paying pension, retirement or other benefits

Please refer to note 25.2 of the notes to the consolidated financial statements included in chapter 20 and to section 16.1 (Directors' Remuneration) of this reference document.

17 Employees

17.1 - Headcount

17.1.1 EMPLOYEES IN 2004, 2005 AND 2006

At 31 December 2004, 2005 and 2006 the Group had respectively 19,167, 18,377 and 17,044 employees worldwide (including non-permanent staff). These figures correspond to the management scope of the Group.

The table below provides an analysis of the workforce by region and category over the past three years:

			2006				
Geographic region	Headcount at 31/12/2004	Headcount at 31/12/2005	Headcount at 31/12/2006	Managerial	Non-Managerial	Male	Female
France	11,806	11,164	10,179	1,628	8,551	8,161	2,018
Europe (excl. France)	3,008	2,846	2,743	568	2,175	2,202	541
North America	2,852	2,853	2,666	1,240	1,426	2,124	542
Asia	1,293	1,326	1,295	320	975	982	313
Rest of the world	208	188	161	55	106	124	37
TOTAL ARKEMA	**19,167**	**18,377**	**17,044**	**3,811**	**13,233**	**13,593**	**3,451**
of which permanent	*18,249*	*17,735*	*16,521*	*3,759*	*12,762*	*13,245*	*3,276*

In 2006, the Group's employees in France accounted for 60% of total employees.

In 2006, 22% of the Group's total employees were in managerial positions. In the same year, women made up 20% of the Group's total employees.

17.1.2 RECRUITMENT TO 31 DECEMBER 2006

The Group's recruitment policy is designed to secure the highest level of skills to underpin its development.

During 2006, the Group hired 657 employees under permanent employment agreements, 33% of them in managerial capacities. Of these new employees, 26% were women.

These figures apply to the Group's management scope. New employees were hired across all Group business lines in France and worldwide, and over half of the new staff (57%) were hired outside France.

17.2 - Dialogue with social partners and Group's development

17.2.1 AN ONGOING DIALOGUE WITH EMPLOYEE REPRESENTATIVES

As part of its employee relation's policy, the Group is developing an ongoing dialogue with employee representatives, for all Group entities.

In France, the Group has introduced a contractual employment policy that resulted, in the course of 2006, in the signature of four new agreements at Group level, two of which were signed with all union organizations:

- group agreement concerning Arkema Group savings scheme of 15 May 2006;
- agreement regarding the representation of employees of the Arkema Group of 23 May 2006;
- framework agreement on the exercise of union rights in Arkema Group companies of 12 July 2006.

Arkema France reached twelve company agreements over the course of 2006, of which nine were signed by all union organizations. The main agreements were as follows:

- agreement on the prolongation and duration of mandates of members of representative committees and employee representatives of 19 January 2006;
- amendment to the agreement for the harmonization of remuneration structures of 5 April 2006;
- agreement relating to a voluntary early retirement system financed by the company as part of the closure of the Villers-Saint-Paul (France) facility of 26 April 2006;
- agreement on the membership of Arkema France of the Arkema Group savings scheme of 15 May 2006;
- heads of agreement on the composition of the Central Consultative Committee of Arkema France of 6 September 2006;
- master agreement on the provisions for early retirement financed by Arkema France of 5 December 2006;
- amendment to the master agreement on the provisions for early retirement financed by Arkema France relating to the closure of activities at Loison (France) of 5 December 2006;
- amendment n°7 to the heads of agreement of 18 December 1985 changing the provisions for Supplementary Savings of 14 December 2006;
- wage agreement for 2007, dated 22 December 2006.

Depending on the subject, these company-wide agreements can be extended to the facilities or subsidiaries through local agreements that take into account the special attributes of each facility or subsidiary. As an example, the master agreement on profit-sharing for 2005, 2006 and 2007 dated 13 April 2005 was implemented through agreements with each facility of Arkema France in order to define specific procedures for calculating the incentive bonus for reaching certain targets.

Outside France, the employee relation's policy within the Group and its affiliates is carried out based on local practices applicable to staff representation and employee/management relations.

At the European level, the management team and members of the Special Negotiating Team met on 28 November 2006 and 18 January 2007 in order to reach, before the end of the first quarter of 2007, an agreement creating the European Group Consultative Committee for Arkema. The majority of the members of the Special Negotiating Team (13 out of 15) gave on 27 February 2007 a favorable opinion on the draft agreement establishing a European Group Consultative Committee. The agreement submitted to the signing of the European and French trade unions was, as of today, ratified by the FECCIA, CGT, CFE-CGC, CGT-FO unions. It should also be ratified by the EMCEF and CFDT unions.

17.2.2 EMPLOYEE RELATIONS AND GROUP'S DEVELOPMENT

The Group's actions are part of a structured initiative involving joint consultation with and working alongside employee representative organizations to accommodate changes in the Group.

More specifically, the various reorganization plans that the Group has decided to initiate and implement have been accompanied by more in-depth exchanges as part of the employee representative organization information and consultation process at both central and local level.

- The implementation of the consolidation plan in Vinyl Products, resulting in the elimination of 523 positions in France, was completed by 31 December 2006 for all sites involved apart from Saint Auban, where early retirements will continue to 31 December 2007. Ultimately, the employee support measures defined by management with the employee representative organizations made it possible to identify appropriate individual solutions for the relevant employees and avoid the need for any involuntary lay-offs. Under these measures, 318 employees have taken or will take advantage of early retirement schemes, 177 employees have benefited from other measures in the employment protection program and 4 cases are currently being processed.

- On 7 March 2006, Arkema France presented to its Central Consultative Committee its proposals to stop urea formaldehyde resin production and to close the Villers-Saint-Paul (France) site. Implementation of this project will result in the elimination of 93 jobs in Villers-Saint-Paul and of 8 jobs at the Company's head office. The measures to support the employees affected by these changes focus on internal transfers and voluntary early retirement. Under these measures, 41 employees have taken up the early retirement scheme, 43 employees have benefited from other measures in the employment protection program and 9 cases are currently being processed.
- The reorganization of Altuglas International, which will result in a net loss of 165 jobs following the closure of the extruded sheet facility in Rho (Italy), the cast sheet unit in Leeuwarden (The Netherlands) and waste cracking unit in Bernouville (France), will concurrently entail combining extruded sheet production at the Bernouville site with the start-up of a fifth extrusion line and consolidating cast sheet production at the Saint-Avold site in France. This industrial reorganization and the associated support measures were completed by end 2006.
- The reorganization of the Riverview factory in Michigan (United States) was announced on 29 December 2005. It resulted in the closure of the alkylamine and sulfonyl units and the elimination of 60 jobs at the end of 2006.
- Proposals for changes at the units producing Rilsan® polyamide powders at the Serquigny (France) site was presented to members of the Consultative Committee in July 2006. Implementation of this program resulted in the elimination of 37 positions. No compulsory redundancies were planned given the possibilities of internal transfers at the site.
- The Functional Additives BU announced the closure of tin catalyst production at its Mobile (United States) site and the transfer of this business to its Carrollton (United States) site. This resulted in the elimination of 31 positions.
- In July 2006, the Specialty Chemicals BU presented to the Central Consultative Committee of CECA S.A. proposals to make changes to its phosphorus specialty products business. The implementation of these proposals will result in the elimination of 23 positions at the Pierrefitte-Nestalas (France) site. CECA's intention is to offer staff internal transfers within the Group, notably to other sites in the southwest of France. An agreement was also reached on early retirement, potentially affecting 7 employees. Under these measures 10 employees have taken up early retirement or retirement offers, 8 employees have benefited from other measures in the employment protection program and 5 cases are currently being processed.
- The Central Consultative Committee of Arkema France was informed and consulted about a proposal to discontinue operations at Loison (France) in November 2006. This closure affects 57 employees. The introduction of a logistics operation would allow 5 people to continue in employment at the site. The management team is doing everything necessary to help affected staff find new employment within the Group or, where necessary, externally. Employees meeting the scheme criteria have also been offered early retirement. Under these measures, 17 employees have taken up the early retirement scheme, 18 employees have benefited from other measures in the employment protection program and 22 cases are currently being processed.
- In November 2006 an information and consultation process was initiated with the Central Consultative Committee of Arkema France concerning proposals for reorganization of the Group's headquarters, that will result in the elimination of 130 jobs and the transfer of 102 employees to regional offices. The information and consultation process was completed on 15 January 2007 and an amendment to the master agreement on early retirement, specific to headquarters employees, was agreed with all union organizations on 19 January 2007. This reorganization is currently in the implementation phase.
- In January 2007, an information and consultation process was initiated with the Consultative Committee of Soveplast, a wholly-owned subsidiary of Alphacan, part of ARKEMA's Pipes and Profiles BU, regarding proposed changes to its business. This project will result in the elimination of 28 jobs at the Chantonnay site (France). Internal and external re-employment solutions are planned for all staff affected.
- In February 2007, an information and consultation process was initiated with the Consultative Committee of Dorlyl, a wholly-owned subsidiary of Arkema France that forms part of the Vinyl Compounds BU regarding the closure of this company. Implementation of this proposal will result in the elimination of 59 jobs. The management team at Dorlyl has undertaken to devote all necessary efforts to facilitating internal transfers with the Group and, where necessary, external transfers. Employees meeting the scheme criteria have also been offered early retirement.
- In February 2007, an information and consultation process was initiated with members of the Central Consultative Committee of Arkema France regarding reorganization proposals for the Lacq-Mourenx site (France). These proposals would result in the elimination of 48 jobs. Internal and external re-employment solutions have been identified for most of the staff affected.
- In March 2007, an information and consultation process was initiated with members of the Central Consultative Committee of Arkema France concerning proposals to introduce a performance program at the Carling (France) site, aiming to restore competitiveness by reducing structural costs and reorganizing production. This program will result in the elimination of 58 jobs. Active management of employment and skills at this site, taking account of scheduled natural departures, will be implemented to ensure the re-employment of all employees affected by this elimination of posts.
- In March 2007, a project for the proposed future of the Pierre-Benite (France) industrial site has been presented to the Central Works Council. Following this presentation, a memorandum of understanding has been signed with the unions and the Central Works Council in which it has been decided to launch an expertise prior to the continuity of the procedure. This procedure should restart on 25 May 2007.

17.3 - Supplementary pension plans

17.3.1 SUPPLEMENTARY PENSION SCHEMES – ARKEMA S.A.

Some executives benefit from defined benefit supplementary pension schemes for which provisions have been made as detailed in paragraph 16.2 of this reference document.

17.3.2 SUPPLEMENTARY PENSION SCHEMES – ARKEMA FRANCE

In France, some employees benefit from defined benefit supplementary pension schemes of the differential type. These schemes were transferred from Rhône-Poulenc companies and various companies in the Pechiney Group. These schemes were set up during the 1950s and were closed at the latest to employees hired after 1973.

The corresponding liabilities (all rights acquired by retired beneficiaries at the date of transfer and rights acquired up to the date of transfer for those still in employment) were outsourced to CNP Assurance on 31 December 2004.

Rights still to be acquired by scheme members still in employment are covered by provisions in the Group's accounts as they are acquired and give rise to regular payments of an additional premium.

17.3.3 GROUP PENSION PLANS – SIGNIFICANT INTERNATIONAL SUBSIDIARIES

In some countries where basic mandatory pension plans do not guarantee an adequate income, the Group's entities have set up defined-benefit pension plans.

This is the case in the United States, the United Kingdom, Germany and the Netherlands.

In the United States and the Netherlands, the existing plans were subject to modifications during 2006 relating to the Group's undertakings or in order to reflect regulatory changes.

United Kingdom

Liabilities relative to pension rights acquired by beneficiaries who had retired or left the Group prior to 30 September 2004 were retained by Total. This defined-benefit plan has been closed to new employees since 1 January 2002 and the Group has booked a charge for the corresponding obligations to provisions. Employees recruited since this date have benefited from a defined contribution plan.

Germany

The Group also has a defined-benefit plan that has been closed to all new employees since 1 January 2002 and for which it has booked charges to cover the associated obligations. Employees recruited since this date have benefited from a defined contribution plan.

United States

In common with many companies in North America, Arkema Inc. made changes to its defined benefits pension plan during 2006.

The main changes were as follows:

- the defined benefits plan was closed to employees recruited after 1 January 2007;
- rights accumulated by employees aged under 50 at 31 December 2007 will be frozen and definitively acquired.

It should be noted that as part of the Spin-Off of Arkema's Businesses, the Total Group retained pension liabilities relating to retired persons and their beneficiaries who had left the company prior to 1 January 2005.

Netherlands

During 2006, Group companies in the Netherlands entered negotiations with employee representatives with a view to adapting existing pension plans to changes in the legislation.

Contributions to pension plans allowing the financing of 'early retirements' ceased to be tax deductible, for either employee or employer, from 1 January 2007. These measures concerned employees aged less than 55 on 1 January 2006.

As a result, provisions of existing pension plans for Group companies, allowing retirement before the legal retirement age of 65, were removed for employees aged under 55 at 1 January 2006.

The corresponding pension liabilities are covered by an insurance policy in accordance with Dutch law.

17.4 - Employee savings schemes and employee share ownership

17.4.1 INCENTIVES AND PROFIT SHARING

In addition to the profit-sharing scheme required by law in France, Arkema France has set up an incentive scheme giving all employees a share of profits and incentives to meet certain performance objectives, so as to promote the company's growth.

Incentive compensation is made up of two components: a result-based bonus, which is a function of financial results achieved by Arkema France in France, and a performance bonus defined by each facility based on achieving objectives specific to each facility.

The incentive agreement was renewed on 13 April 2005 and signed by the CFDT and CFTC unions. It covers the 2005, 2006 and 2007 financial years. Total incentive compensation that can be paid out for a given year amounts to 3.9% of total payroll.

For 2005 and 2006 the average amount paid to each employee was around €1,000.

The Group's other French entities have entered into specific incentive scheme agreements based on the same principles.

17.4.2 GROUP SAVINGS SCHEMES

In France, negotiations were carried out with employee representatives at the beginning of 2006 with a view to creating a Group Savings Scheme (*Plan d' Épargne Groupe* – PEG) as soon as the Spin-Off of Arkema's Businesses from the Total Group was complete.

This resulted in two agreements being signed on 15 May 2006 by four union organizations, the first covering the "PEG A" scheme designed for reserved capital issues that Arkema S.A. may make in favor of the employees of Group companies in France and elsewhere, and the other the "PEG" scheme for employees and former employees of the French companies in the Group that are at least 50% owned by Arkema S.A.

The rules governing Company Savings Funds (*Fonds Communs de Placement Entreprise* – FCPE) created to hold shares in the Company allocated to Total's FCPE funds on the occasion of the spin-off from Total were approved by the AMF on 3 May 2006.

Three FCPE funds were created at the time of the Spin-Off of Arkema's Businesses:

- Arkema Actionnariat France, units in which are held by employees and former employees of the French companies in the Total and ARKEMA groups;
- ARKEMA Actionnariat International, units in which are held by employees and former employees of companies in the Total and ARKEMA groups outside France;
- Elf Privatization N°1 – Actions ARKEMA, a fund resulting from the privatization of Elf Aquitaine in 1994, and closed to new investment, units in which are held by employees and former employees of the French companies in the Total and ARKEMA groups.

The PEG scheme structure allows employees and former employees of member companies to make voluntary contributions or to allocate their profit-sharing and bonus income.

Employees of member companies enjoy matching funding of up to €800 per year from the employer, covering contributions to the fund that are voluntary or an allocation of bonus income.

The FCPE funds available via the PEG structure consisted of the FCPE Arkema Actionnariat France fund, which is entirely invested in Arkema S.A. shares, and in a range of multi-company FCPE funds offering the choice of investment in different asset classes (equities, bonds, money market) and thus allowing employees to diversify their savings.

During 2006, Arkema S.A., Arkema France, CECA, Alphacan S.A., Alphacan Soveplast, Altuglas International S.A., Altuglas International Services, MLPC International and the Lacq Research Facility signed up to this scheme.

The combined general meeting of shareholders of 10 May 2006 delegated to the Board of Directors the power to approve one or more capital issues reserved for employees of shares with a maximum nominal value of €20 million. As of the date of this reference document, no timetable for any such increase has been approved. However, ARKEMA is keen to pursue an active policy of encouraging employee share ownership and will, from time to time, carry out capital issues reserved for employees in order to involve them closely with the future growth of the Group.

17.4.3 STOCK OPTIONS AND FREE SHARE ALLOCATIONS

The combined general meeting of 10 May 2006 authorized the Board of Directors of Arkema S.A. to grant stock options and to make allocations of free shares to employees of the Group or to directors of the Company in order to involve them more closely with the future growth of the Group and of its stock market valuation.

On recommendation from the Nominating and Compensation Committee, the Board of Directors, meeting on 4 July 2006, approved a stock option plan and a free share allocation plan with a total of some 600 beneficiaries, the details of which are given below:

Stock option plan

Options to subscribe for shares are granted for an eight-year period. The exercise price of the option is the average opening price for the shares during the twenty trading days prior to the allocation of the options, namely €28.36.

Each option gives the right to acquire one share. Options may only be exercised after an initial two-year period, provided the holder is still employed by the Group, and shares acquired by the exercise of options may not be sold for a further two-year period.

STOCK OPTION PLAN FOR ARKEMA S.A. AT 31 DECEMBER 2006

Date of the general meeting of shareholders	10 May 2006
Date of Board Meeting	4 July 2006
Total number of options granted/number of shares that could be acquired	540,000
- to directors(1)	55,000
- to the ten employees receiving the greatest number of options(2)	181,000
Date from which options may be exercised	5 July 2008
Closing date of plan	4 July 2014
Options outstanding at 1st January 2006	-
Options granted in 2006	540,000
Options exercised in 2006	-
Options cancelled in 2006	-
Options outstanding at 31 December 2006	540,000

(1) Mr. Thierry Le Hénaff, Chairman and Chief Executive Officer, received an allocation of 55,000 stock options.

(2) Employees of Arkema S.A. and of any Group company who are not directors of Arkema S.A.

Free share allocation plan

The allocation of free shares is not definitive until the end of a two-year period (the acquisition period) and is dependent on the beneficiary's continued employment by the Group and on condition of improvements in the profitability of the Group set by the Board of Directors on 4 July 2006.

After the acquisition period, shares are definitively acquired by the beneficiaries, providing the above conditions are met, and must then be held for a further two-year period (the holding period) before they can be sold.

FREE SHARE ALLOCATION FOR ARKEMA S.A. AT 31 DECEMBER 2006

Date of the general meeting of shareholders	10 May 2006
Date of Board Meeting	4 July 2006
Total number of shares allocated	150,000
- to directors(1)	8,000
- to the ten employees receiving the greatest number of shares(2)	30,500
Definitive acquisition date	5 July 2008
Closing date of plan	4 July 2014
Number of free shares outstanding at 1st January 2006	-
Free shares allocated in 2006	150,000
Free shares cancelled in 2006	-
Number of free shares outstanding at 31 December 2006	150,000

(1) Mr. Thierry Le Hénaff, Chairman and Chief Executive Officer, received an allocation of 8,000 free shares.
(2) Employees of Arkema S.A. and of any Group company who are not directors of Arkema S.A.

17.4.4 EMPLOYMENT BENEFITS

The Group's various entities in France and abroad have the responsibility to adapt provisions for the protection and benefits of employees within the annual budgets set as a function of local needs and customs.

This is the case in China, for example, where in order to encourage the loyalty and involvement of experienced managers, ARKEMA introduced the "Special Benefit Scheme" in early 2006. This allows for the payment of an education allowance for the children of the employees concerned, as well as a savings scheme with bonus contributions by the company that become available after three years' employment.

18 Main shareholders

18.1 - Share ownership and voting rights

To the best of the Company's knowledge, the main shareholders in Arkema S.A. at 31 December 2006 were as follows:

	% of share capital	% of voting rights
1. Shareholders owning at least 5% of share capital and voting rights		
Greenlight Capital*(a)*	10.6	10.6
Dodge & Cox*(b)*	5.0	5.0
JP Morgan AM*(c)*	5.0	5.0
Groupe Bruxelles Lambert*(d)*	3.9	3.9
Compagnie Nationale à Portefeuille*(d)*	1.3	1.3
2. Group employees*(e)*	**0.7**	**0.7**
3. Registered shareholders	**5.1**	**5.1**
4. Other bearer shareholders	**68.4**	**68.4**
of which holders of ADRs(f)	3.7	3.7
TOTAL	**100**	**100**

Holdings of the major shareholders in Arkema S.A. are calculated on the basis of 60,453,823 shares carrying 60,453,823 voting rights at 31 December 2006. A TPI was realized at 31 December 2006.

To the Company's knowledge and based on its register, no share of the Company has been pledged, used as a guarantee or surety.

At 31 December 2005 and 2004 and prior to the transactions representing the Spin-Off of Arkema's Businesses described in the prospectus for the listing of the Company's shares on Eurolist by Euronext, the Company was virtually 100% owned and controlled by Total S.A.

(a) Greenlight Capital LLC, Greenlight Capital Inc and DME Advisors LP reported that on 13 June 2006, they crossed over the 10% threshold of the share capital and voting rights of the Company. These companies made on 20 June 2006 a declaration of intent to the AMF on the occassion of this threshold crossing, in which they declared that «operations have been and will be continued depending on market opportunities»..

(b) Dodge & Cox reported that on 13 July 2006 it crossed over the 5% threshold of the share capital and voting rights of the Company.

(c) JP Morgan Asset Management (UK) reported that on 18 August it crossed over the 5% threshold of the share capital and voting rights of the Company. JP Morgan Asset Management (UK) reported that on 2 March 2007, it crossed downward the 5% threshold of the share capital and voting rights of the Company.

(d) Groupe Bruxelles Lambert is jointly controlled by the Desmarais family and Frère-Bourgeois S.A.; Frère-Bourgeois S.A.'s interest in Groupe Bruxelles Lambert is held mainly via its direct and indirect interests in Compagnie Nationale à Portefeuille.

(e) Based on the definition of employee share ownership within the meaning of article L.225-102 of the *Code de Commerce*.

(f) American Depositary Receipts. The Company has established an ADR program in the United States and to this end entered into a Deposit Agreement with Bank Of New York on 18 May 2006.

To the Company's knowledge, there has been no material change in the share capital ownership between 31 December 2006 and the date of this reference document.

18.2 - Double voting rights and limitations on number of voting rights

Articles 17.3 and 17.4 of the Articles of Association limit the percentage of voting rights held by a given shareholder to 10% of the total number of voting rights attached to the Company's shares, and confer double voting rights at the end of a period of two years after the shares have been registered, such double voting rights being limited to 20% of the total number of voting rights attached to the Company's shares.

The provisions regarding double voting rights and limitations on the number of voting rights, approved by the combined general meeting of shareholders on 10 May 2006, are described in section 21.2.6 of this reference document.

18.3 - Termination of limitations on number of voting rights

The limitations provided in the Articles of Association and described in section 21.2.6 of this reference document shall lapse, without need for the adoption of a new resolution by the extraordinary general meeting, when a natural person or legal entity, acting separately or in concert with one or more natural persons or legal entities, comes to hold at least two-thirds of the total number of shares in Arkema S.A. following a public offering for all Arkema S.A. shares. The Board of Directors then recognizes that the limitations have lapsed and carries out the related formalities to amend the Articles of Association.

18.4 - Control of the Company

As of the date of this reference document, the Company is not controlled directly or indirectly by any shareholder.

As of the date of this reference document and to the best of the Company's knowledge, there is no shareholders' pact which if implemented could result in the acquisition of control over the Company.

19 Related party transactions

The majority of companies not consolidated by the Group as of the date of this reference document are listed in chapter 25 of this reference document. Some of these companies sell products or provide services to companies consolidated by the Group.

In addition, certain consolidated Group companies sell products or provide services to certain non-consolidated companies.

These transactions, taken separately or together, are not material. They were entered into under ordinary conditions comparable to those applicable to similar transactions with third parties.

A description of related-party transactions is provided in note 25 to the financial statements contained in chapter 20 of this reference document.

20 Financial information concerning the assets, financial conditions and results of the issuer

20.1 - Report from Statutory Auditors on Consolidated financial statements

Year ended 31 December 2006

This is a free translation into English of the statutory auditors' report signed and issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting matters. These assessments were considered for the purpose of issuing an opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements .The report also includes information relating to the specific verification of information in the group management report

This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the shareholders

Following our appointment as statutory auditors by your General Meetings, we have audited the accompanying consolidated financial statements of Arkema S.A. for the year ended 31 December 2006.

The consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly in all material respects the financial position and assets and liabilities the Group as of 31 December 2006 and of results of its operations for the year then ended in accordance with IFRS as adopted in the European Union.

Without qualifying our opinion, we draw your attention to the following notes to the consolidated financial statements:

• note B I, which states that the comparative financial statements at 31 December 2005 are combined financial statements;

• note B II 1, which sets outs the facts which lead ARKEMA to prepare consolidated financial statements for the year ended December 31, 2006, as from January 1st 2006, and not as from May 18th 2006, being the date of legal and patrimonial constitution of the Group.

II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Commercial Code (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

➢ Each year, the Group tests its property, plant and equipment and intangible assets for impairment, following the methodology described in note C V to the consolidated financial statements. We reviewed the methodology used for these impairment tests, together with the underlying data and assumptions used, and calculations made by the Group. We also verified that the disclosures made in notes 4, 10 and 11 to the consolidated financial statements provide an appropriate level of information.

- The Group recognizes provisions to cover its employee pension and other post-employment benefit liabilities using the method described in note C IX to the consolidated financial statements. These liabilities were mainly measured by independent actuaries. We reviewed the underlying data and assumptions used and verified that the disclosures made in notes 4 and 19.3 to the consolidated financial statements provide an appropriate level of information.
- The Group recognizes provisions to cover its environmental risks using the method described in note C VIII to the consolidated financial statements. Note 20.1 to the consolidated financial statements also discloses contingent liabilities reported in this respect. On the basis of available information, we analyzed the procedures used by management to identify, classify and measure environmental risks. We also reviewed the data and assumptions underlying the estimates made in order to assess their reasonableness. We also verified that the disclosures made in notes 9, 19.5, 20.1 and 27.2.2 to the consolidated financial statements provide an appropriate level of information.
- The Group recognizes provisions for litigation in respect of competition law using the method described in note C VIII to the consolidated financial statements. Note 20.2.1 to the consolidated financial statements describes the contingent liabilities relating to these lawsuits, for which the financial risk is difficult to quantify. We analyzed the various elements of the estimates provided by the Group to support its provisions, including correspondence with lawyers, in order to assess their reasonableness. We also verified that the disclosures made in notes A III, 9, 19.4, 20.2.1 and 27.2.1 to the consolidated financial statements provide an appropriate level of information.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also verified the information relating to the Group given in the management report. We have no matters to report as to its fair presentation and consistency with the consolidated financial statements.

Paris-La Défense, April 5, 2007

The Statutory Auditors

French original signed by

KPMG Audit
A division of KPMG S.A.

Bertrand Desbarrières
Partner

Jacques-François Lethu
Partner

Ernst & Young Audit

Francois Carrega
Partner

Yvon Salaün
Partner

20.2 - Consolidated financial statements at December 31, 2006

CONSOLIDATED INCOME STATEMENT

(In millions of euros)	Notes	Combined accounts 2005	Consolidated accounts 2006
Sales	(1&2)	**5,515**	**5,664**
Operating expenses		(4,768)	(4,879)
Research and development expenses	(3)	(176)	(168)
Selling and administrative expenses		(406)	(417)
Recurring operating income	(1)	**165**	**200**
Other income and expenses	(4)	(496)	(92)
Operating income	(1)	**(331)**	**108**
Equity in income of affiliates	(12)	7	1
Cost of debt	(5)	(7)	(10)
Income taxes	(6)	(42)	(59)
Net income of continuing operations		**(373)**	**40**
Net income of discontinued operations	(7)	**(18)**	**7**
Net income		**(391)**	**47**
Minority interests		(1)	2
Net income—Group share		**(390)**	**45**
Earnings per share (amount in euros)	(8)	*(6.45)*	*0.75*
Diluted earnings per share (amount in euros)	(8)	*(6.45)*	*0.75*
Depreciation and amortization	(1)	(222)	(211)
Recurring EBITDA	(1)	387	411

By definition, the combined accounts at December 31, 2005 do not include the “stand-alone” costs (see note B—II.2).

CONSOLIDATED BALANCE SHEET

(In millions of euros)	Notes	Combined accounts 12.31.2005	Consolidated accounts 12.31.2006
Assets			
Intangible assets, net	(10)	247	236
Property, plant and equipment, net	(11)	1,322	1,376
Equity affiliates: investments and loans	(12)	112	100
Other investments	(13)	22	21
Deferred income tax assets	(6)	58	32
Other non-current assets	(14)	112	125
TOTAL NON-CURRENT ASSETS		**1,873**	**1,890**
Inventories	(15)	1,124	1,036
Accounts receivable	(16)	1,199	1,051
Prepaid expenses and other current assets	(16)	370	213
Income taxes recoverable		31	36
Cash and cash equivalents	(17)	67	171
Total assets of discontinued operations	(7)	–	144
TOTAL CURRENT ASSETS		**2,791**	**2,651**
TOTAL ASSETS		**4,664**	**4,541**

Liabilities and shareholders' equity			
Share capital		-	605
Paid-in surplus and retained earnings		1,366	1,345
Cumulative translation adjustment		83	(27)
Treasury shares		-	-
SHAREHOLDERS' EQUITY—GROUP SHARE		**1,449**	**1,923**
Minority interests		14	15
TOTAL SHAREHOLDERS' EQUITY	**(18)**	**1,463**	**1,938**
Deferred income tax liabilities	(6)	8	14
Provisions and other non-current liabilities	(19)	1, 126	855
Non-current debt	(21)	59	52
TOTAL NON-CURRENT LIABILITIES		**1,193**	**921**
Accounts payable		861	786
Other creditors and accrued liabilities	(23)	544	369
Income taxes payable		28	14
Current debt	(21)	575	443
Total liabilities of discontinued operations	(7)	–	69
TOTAL CURRENT LIABILITIES		**2,008**	**1,681**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,664**	**4,541**

NB: The amounts shown for the combined accounts at December 31, 2005 include the effect of the reclassifications described in note 9.

CONSOLIDATED CASH FLOW STATEMENT

(In millions of euros)	Combined accounts 2005	Consolidated accounts 2006
Net income	(391)	47
Depreciation, amortization and impairment of assets	437	218
Provisions, valuation allowances and deferred taxes	96	(210)
(Gains)/losses on sales of assets	(1)	(5)
Undistributed affiliate equity earnings	(3)	(1)
Change in working capital	(147)	16
Other changes	-	3
Cash flow from operating activities	**(9)**	**68**
Intangible assets and property, plant, and equipment additions	(333)	(336)
Acquisitions of subsidiaries, net of cash acquired	(3)	(7)
Increase in long-term loans	(22)	(59)
Total expenditures	*(358)*	*(402)*
Proceeds from sale of intangible assets and property, plant, and equipment	6	6
Proceeds from sale of subsidiaries, net of cash sold	-	-
Proceeds from sale of other investments	1	10
Repayment of long-term loans	28	38
Total divestitures	*35*	*54*
Cash flow from investing activities	**(323)**	**(348)**
Issuance (repayment) of shares	-	532
Dividends paid to parent company shareholders	-	-
Dividends paid to minority shareholders	(1)	(1)
Issuance of long-term debt	-	-
Repayment of long-term debt	(4)	(6)
Increase in short-term borrowings and bank overdrafts	317	-
Decrease in short-term borrowings and bank overdrafts	-	(130)
Cash flow from financing activities	**312**	**395**
Net increase/(decrease) in cash and cash equivalents	(21)	115
Effect of exchange rates and changes in scope	11	(18)
Cash and cash equivalents at beginning of period	77	67
Cash and cash equivalents of discontinued operations at end of period	-	(14)
Cash advance granted to discontinued operations	-	20
Cash and cash equivalents at end of period	**67**	**171**

The cash flow statement includes flows related to discontinued operations for 2005 and 2006 (see note 7).

Net income taxes paid in 2006 amounted to €104 million.

Interest received and paid in 2006 amounted respectively to €0.2 million and €8.3 million.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In millions of euros)	Shares issued: Number	Shares issued: Amount	Paid-in surplus	Retained earnings	Cumulative translation adjustment	Treasury shares: Number	Treasury shares: Amount	Shareholders' equity—Group share	Minority interests	Total shareholders' equity
At January 1, 2005[1]	-	-	-	1,757	(55)	-	-	1,702	15	1,717
Cash dividend	-	-	-	-	-	-	-	-	(1)	(1)
Net income	-	-	-	(390)	-	-	-	(390)	(1)	(391)
Issuance of share capital	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Cancellation of purchased treasury shares	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	(1)	-	-	-	(1)	(1)	(2)
Transactions with shareholders	-	-	-	(391)	-	-	-	(391)	(3)	(394)
Changes in items recognized directly through equity	-	-	-	-	-	-	-	-	-	-
Change in translation adjustments	-	-	-	-	138	-	-	138	2	140
Items other than transactions with shareholders	-	-	-	-	138	-	-	138	2	140
At December 31, 2005	**-**	**-**	**-**	**1,366**	**83**	**-**	**-**	**1,449**	**14**	**1,463**
At January 1, 2006	**4,000**	**-**	**-**	**1,366**	**83**	**-**	**-**	**1,449**	**14**	**1,463**
Cash dividend	-	-	-	-	-	-	-	-	(1)	(1)
Net income	-	-	-	45	-	-	-	45	2	47
Issuance of share capital[2]	60,449,823	605	1,006	(1,078)	-	-	-	532	-	532
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Cancellation of purchased treasury shares	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	5	-	-	-	5	-	5
Transactions with shareholders	60,449,823	605	1,006	(1,027)	-	-	-	583	1	584
Changes in items recognized directly through equity	-	-	-	1	-	-	-	1	-	1
Change in translation adjustments[3]	-	-	-	-	(110)	-	-	(110)	-	(110)
Items other than transactions with shareholders	-	-	-	-	(110)	-	-	(110)	-	(110)
At December 31, 2006	**60,453,823**	**605**	**1,006**	**339**	**(27)**	**-**	**-**	**1,923**	**15**	**1,938**

(1) Application of IAS 39 at January 1, 2005 did not have an impact on shareholders' equity at that date.
(2) The completion of the contributions and spin-offs from Total S.A. and Elf Aquitaine and the merger with S.D.A. generated a capital increase of €604,498,230, bringing Arkema S.A.'s share capital from €40,000 to €604,538,230 through the issuance of 60,449,823 shares (see section A—Highlights—paragraph III), and a paid-in surplus of €1,006,005,000.
The change in retained earnings is mainly related to:
- The cancellation of investments contributed by Elf Aquitaine and Total S.A in the context of the contribution and spin-off transactions (€1,671 million);
- Capital increases paid in cash, subscribed by Total, in Mimosa SAS, Arkema Finance France and Arkema France during the first half of 2006 for an amount of €532 million.
(3) The change in translation adjustments arises almost solely from changes in the rate of the US dollar against the euro.

20.3 - Annex to the financial statements

A. HIGHLIGHTS

I. Listing of Arkema S.A.

I.1 Objective of the operation

Arkema S.A.'s stock market listing formed part of the ongoing reorganization of Total's chemical segment. Its underlying business rationale being to establish a new important player in the world chemicals industry, that will be even closer to its markets and more responsive in its decision-making processes.

I.2 Manner in which the operation was carried out

The operation (the Spin-off of Arkema's Businesses) was carried out by means of two partial spin-offs and a merger which took effect concurrently at 00.00 a.m. on the first day of trading of Arkema S.A. shares on Eurolist by Euronext™, being on May 18, 2006.

The Spin-off of Arkema's Businesses was submitted for the approval of the general meetings of shareholders of the companies in question, particularly that of Total S.A. on May 12, 2006 and that of Elf Aquitaine on May 10, 2006. The Spin-Off of Arkema's Businesses comprised the following three transactions:

(i) Elf Aquitaine:

- contributed, under the French legal regime governing demergers, shareholdings in the entities carrying out Arkema's Businesses—including its shareholding in Arkema France—to a holding company called S.D.A., which had no business activity; and
- allocated to its shareholders (other than itself) the S.D.A. shares issued and delivered to it as consideration for such contribution, on the basis of one (1) S.D.A. share for each Elf Aquitaine share.

The value of the net assets contributed by Elf Aquitaine amounted to €400,269,605.99, the contribution and the allocation of S.D.A. shares being made at net book value.

(ii) Total S.A.:

- contributed, under the French legal regime governing demergers, shareholdings in the entities carrying out Arkema's Businesses—including its shareholding in S.D.A. received as a result of the Elf Spin-Off—to a holding company called Arkema S.A., which had no business activity; and
- allocated to its shareholders (other than itself) the Arkema S. A. shares issued and delivered to it as consideration for such contribution, on the basis of one (1) Arkema S.A. share for every ten (10) Total S.A. shares. This exchange ratio was established without taking into account the four-for-one stock split of Total S.A. shares.

The value of the net assets contributed by Total S.A. amounted to €1,544,175,344.82, the contribution and the allocation of Arkema S. A. shares being made at net book value.

(iii) S.D.A.

- S.D.A. was merged with and into Arkema S.A., and, as a result, S.D.A. shareholders immediately became shareholders in Arkema S.A., on the basis of one (1) Arkema S.A. share for every fifteen (15) S.D.A. shares.

  S.D.A.'s net assets contributed to Arkema S.A. totalled €400,309,611.77, the merger being made at net book value.

Since May 18, 2006, Arkema S.A. is the top ARKEMA Group parent company, is independent from Total, and owns either directly or indirectly all operational entities carrying out Arkema's Businesses. Arkema S.A. has been listed for trading on the Eurolist by Euronext™ market since that date.

II. Capital increases

During the first half of 2006, prior to the transactions referred to in section I.2 above, Total subscribed in cash for capital increases of companies included in the contributions and spin-offs to ARKEMA for a total amount of €532 million.

The completion of the contributions and spin-offs from Total S.A. and Elf Aquitaine and the merger with S.D.A. also generated, in May 2006, a capital increase of €604.5 million.

III. Fines for anticompetitive practices

In May 2006, the European Commission ordered ARKEMA to pay two fines, whose origin is prior the Spin-off, of respectively €78.7 million and €219.1 million for past anticompetitive practices in the hydrogen peroxide and methacrylate markets. In the context of these fines, Total S.A. and Elf Aquitaine S.A. were held jointly and severally liable.

These fines did not have any impact on ARKEMA's net income because of provisions already recognized in respect of this matter and the indemnity mechanism agreed with the Total Group.

The companies in question have decided to appeal to the European Court of First Instance:

On July 18, 2006, ARKEMA appealed the European Commission's decision of May 3 last relating to "Hydrogen Peroxide" to the European Court of First Instance;

Similarly, on August 10, 2006, ARKEMA appealed the European Commission's decision of May 31 last relating to "Methacrylates" to the European Court of First Instance.

In agreement with Total and in the context of the indemnity agreement signed on March 15, 2006 between Total and ARKEMA, ARKEMA substituted the bank guarantees in place with a payment to the Commission for the full amount of the MCAA (monochloracetic acid) fine notified in January 2005, being €58.5 million plus interest, representing a total amount of €61.0 million. This payment was made on July 28, 2006. Similarly, on August 8, 2006, ARKEMA made a payment to the Commission for the full amount of the notified "Hydrogen Peroxide" fine, being €78.7 million, and on September 8, 2006 also paid the full amount of the "Methacrylates" fine of €219.1 million. This led to the deductible of €176.5 million remaining at ARKEMA's expense being exceeded. The share covered by Total S.A. under the indemnity granted to ARKEMA, being €164 million, was paid to ARKEMA concurrently with payment of this latter fine.

IV. Main restructuring measures in the year

➤ In the Performance Products segment

In March 2006, ARKEMA announced its project to close the urea formaldehyde resins manufacturing unit at the Villers-Saint-Paul chemicals plant in the Oise department (France). Closure of this unit will result in the closure of ARKEMA's business on the Villers-Saint-Paul site.

In July, ARKEMA announced three projects for the improvement of the competitiveness of its Performance Products segment. They relate to the Technical Polymers, Additives and Specialty Chemicals business units, being respectively:

➤ a change project related to the production units for polyamide powder on the Serquigny production site;

➤ the closure of tin catalysts production at the Mobile (United States / Alabama) site and the concentration of this business on the site at Carrollton (United States / Kentucky);

➤ the cessation of activities at the production site at Pierrefitte-Nestalas (France / Hautes-Pyrénées).

The priority given to restoring the competitiveness of the Performance Products segment was confirmed with the announcement of the merger of two business units, Additives and Organic Peroxides, in September and of a project for the definitive closure of production of organic peroxides at the Loison (France) site in October 2006.

➤ At Group level

Pension plans in the United States were significantly amended in 2006. In accordance with IAS 19, the effects of plan curtailment were taken to income in 2006 and are presented in "other income and expenses". The other amendments will produce effects progressively as from 2007. These are the closure of the defined benefit plan to employees recruited after January 1, 2007 and the freezing of accumulated rights for employees aged under 50 at December 31, 2007; in compensation, contributions to defined contribution plans were increased.

Last November, a change project for the head office was presented to the social partners. This project will lead to the removal of 130 positions, an additional 102 positions being moved to other Group locations in France and the Head Office being moved to Colombes (Paris region, France).

V. Disposal of Cerexagri

In November 2006, ARKEMA announced its project to sell its Cerexagri agrochemicals business to United Phosphorus Limited (UPL). The sale closed on February 1, 2007. This sale, which took place in the context of ARKEMA's strategy to selectively manage its portfolio of businesses, will generate a capital gain of approximately €20 million in the 2007 financial statements.

B. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

In these financial statements:

➤ "***Arkema S.A.***" or "***Company***" means the company formerly named DAJA 34, whose shares were approved for listing on Eurolist by Euronext™. By a resolution of its general meeting on March 6, 2006 and effective as of April 18, 2006, DAJA 34 was renamed Arkema;

➤ "***Arkema France***" means the company formerly named Arkema (and before that Atofina). Arkema was renamed Arkema France by a resolution of its extraordinary general meeting on February 20, 2006, effective as of April 18, 2006;

➤ "***Group***" or "***ARKEMA***" means the Group composed of Arkema S.A., Arkema France and all the subsidiaries and shareholdings which are directly or indirectly held by Arkema S.A. and Arkema France;

➤ "***Total S.A.***" means the company Total S.A. whose shares are admitted to trading on Eurolist by Euronext™;

➤ "***Total***" means the Total Group, that is Total S.A. and all the subsidiaries and shareholdings directly or indirectly held by Total S.A.;

➤ "***Completion Date***" means the day when the spin-off of Arkema's Businesses came into effect, being Thursday, May 18, 2006, at 00:00 a.m.

I. Basis of preparation of the combined financial statements at December 31, 2005

The figures presented for the year ended December 31, 2005 were taken from the combined financial statements.

I.1 Background to the constitution of ARKEMA Group's legal ownership structure

In February 2004, Total decided to reorganize its Chemicals sector, bringing together three of its businesses, Vinyl Products, Industrial Chemicals and Performance Products, in a new structure which, on October 1, 2004, took the name of ARKEMA.

As the businesses which constituted ARKEMA were not contained within a separate legal structure prior to this decision, a number of capital transactions were carried out within Total before the date of listing in order to allow ARKEMA to legally own all of its subsidiaries. Thus:

- companies which carried out Arkema's and non-Arkema's Businesses were split into separate entities by means of asset and liability contributions or transfers as of October 1, 2004, mainly in France, Germany, the United Kingdom, Spain, Italy and Singapore;
- companies which operated in Arkema's businesses but which were not owned by companies belonging to the ARKEMA Group were brought together under a holding company through a number of acquisition or spin-off transactions;
- companies which did not operate in Arkema's businesses but which were owned by companies controlled by ARKEMA were sold to Total.

All of these transactions generated internal changes in the identity of companies which owned investments within ARKEMA however the overall level of ownership by Total was not modified. These transactions were considered to be exchanges of assets between entities under common control and were thus carried out at net book value.

I.2 Scope of combination

Historically, the ARKEMA Businesses were not separately reported in the financial statements as they did not constitute a distinct business segment within Total. Combined financial statements were thus prepared in order to present an economic view of the Arkema's Businesses as from 2003. These combined financial statements were prepared on the basis of the companies' financial statements historically consolidated in Total's accounts, in accordance with the policies and procedures then applicable in that Group.

The scope of combination includes, in addition to companies owned directly or indirectly by Arkema France, companies owned directly by the Total Group which are operationally attached to Arkema's Businesses. Companies owned by entities controlled by ARKEMA but whose activities are not operationally attached to ARKEMA have been excluded from the scope of combination.

In addition, over the period for which the combined financial statements are prepared, certain companies carried out both Arkema's and non-Arkema's Businesses (mainly Petrochemicals businesses and Specialty Chemicals businesses). In order to only combine businesses which are operationally attached to ARKEMA, the non-Arkema's businesses were carved out from the individual financial statements of such companies included in the scope of combination, particularly in France, Germany, Italy, the United Kingdom and Spain. For the periods prior to the asset and liability contributions or transfers completed on October 1, 2004, the non-ARKEMA businesses were excluded in the following manner:

- assets and liabilities which did not belong to ARKEMA were identified on the basis of the assumptions made in the legal transactions completed on October 1, 2004. These assets and liabilities were excluded through a double entry to shareholders' equity or debt, depending on the nature of the transactions in question;
- income and expenses were allocated on the basis of management accounting which presented a breakdown by operational activity either directly attached, or not, to Arkema's businesses. Income and expenses which could not be directly allocated were recorded in a Corporate section. Income and expenses of this section were subjected to detailed analysis and were then allocated in a manner consistent with the assumptions made on allocation of assets and liabilities to each business. In addition certain expenses (mainly general and administrative expenses) which could not be directly allocated to Arkema's Businesses were allocated on the basis of relevant criteria depending on the nature of the costs in question. These costs do not cover the cost of additional head office functions that ARKEMA must bear as an independent listed Group (see note B—II.2);
- cash flows related to Arkema's Businesses were analyzed on the basis of the assumptions made in the allocation of assets and liabilities to each business.

I.3 Specific operations

I.3.1 Former industrial sites

Certain industrial sites of ARKEMA companies on which activities have been discontinued have been excluded from the combined financial statements as from the date of cessation of business because of agreements under which Total accepts to take over such sites and the related environmental risks. The sites in question are located in France and in Belgium.

Active sites in respect of which Total has assumed the environmental risks have been maintained in the financial statements, with the costs related to this transfer of risks being included in expenses under the "restructuring and environmental charges" caption.

In the United States, Total is assuming the financial impact of clean-up obligations (costs of restoration and clean-up of the soil and groundwater, the costs of proceedings, the costs associated with settlement agreements and the costs of compensating damage caused to persons, property and natural resources) of certain closed industrial sites which were operated or owned by ARKEMA in the past and sites owned by third parties but in respect of which the Group is liable as a result of having used them to store waste from the aforementioned sites. Since January 1, 2006, Total reimburses the costs incurred by Arkema Inc. (net of tax impact). ARKEMA maintains the existing provisions in its financial statements and recognizes a receivable on Total corresponding to the share of the provisions (net of tax impact) recognized by Arkema Inc.

I.3.2 Employee benefit obligations

In accordance with the laws and practices of each country, ARKEMA participates in employee benefit plans offering retirement, death and disability, healthcare and special termination benefits. These plans provide benefits based on various factors such as length of service, salaries, and contributions made to the governmental bodies responsible for the payment of benefits.

Employees and retirees benefiting from these plans have been allocated on the basis of the split of operations between Arkema's Businesses and non-Arkema's Businesses at October 1, 2004 (date of legal creation of the ARKEMA companies). This allocation is deemed to be effective as of January 1, 2003 in the combined financial statements.

Pension and other post employment benefits

Valuation assumptions have not been modified compared to those used in the historical financial statements.

The provision at January 1, 2004 corresponded to the net funding obligation, if any, in the context of first time application of IFRS. Unrecognized actuarial gains and losses at this date have been recorded against opening shareholders' equity at January 1, 2003, being the date at which these benefit obligations are deemed to be initially recognized.

In addition, the combined financial statements have the following specific characteristics:

- benefit obligations relating to rights vested in the United States in respect of employees who had retired or left the Group before December 31, 2004, and the corresponding plan assets, have been almost completely excluded from the combined financial statements as a result of agreements under which Total will bear the related expenses and provisions. The same principle is applicable in the United Kingdom for rights acquired in respect of employees who had retired or left the Group before September 30, 2004 and for the corresponding plan assets;
- benefit obligations related to the supplementary pension plans of Arkema France were outsourced to an insurance company in 2004 and 2005. This transaction is deemed to have been carried out on January 1, 2003:
  - for the pensioners, the transaction corresponds to the complete transfer of the obligation to the insurance company, the payments were made in 2004 and 2005,
  - for active employees, the transaction corresponds to external financial covering of benefit obligations which are reflected in the financial statements in accordance with the valuation methodology defined in the outsourcing contract.

Arkema France "CASAIC" pre-retirement plan

In accordance with the terms of the asset and liability contribution agreement signed on October 1, 2004, obligations related to the CASAIC pre-retirement plan have been kept by ARKEMA, including those related to petrochemicals businesses which remained with Total.

ARKEMA will be fully responsible for managing these obligations until the provisions are no longer required.

Other long-term benefits

Valuation of long-service awards was carried out on the basis of the breakdown of the workforce between Arkema's Businesses and non-Arkema's Businesses as of October 1, 2004 (date of the legal creation of the Arkema companies).

These benefit obligations were initially recognized as of January 1, 2003.

I.3.3 Income taxes

Current and deferred tax expense was determined without taking account of the effect of any tax consolidations existing within Total and without taking account of any future tax consolidations as may come to exist within the new ARKEMA legal structure.

Results of French companies whose business is attached to the ARKEMA scope were taken into account in the tax consolidation put in place by Total in application of the provisions of article 223-A of the French General Tax Code. In application of the tax consolidation agreement, any tax losses incurred up until December 31, 2005 were kept by Total.

I.4 Debt and shareholders' equity

The combined financial statements include companies which, at January 1, 2003, did not yet have any ownership relationship between them and, conversely, exclude companies whose businesses are not operationally attached to Arkema's Businesses but which are still owned at January 1, 2003 by ARKEMA companies. These transactions have been dealt with in the following manner in the combined financial statements:

Acquisitions of companies

Acquisitions of companies not owned by ARKEMA companies have all been deemed completed on January 1, 2003 with a double entry being recorded as an increase to financial debt. Any difference between the transaction value and the shareholders' equity of the acquired company has been recognized directly through shareholders' equity as of January 1, 2003.

The transaction price has not been retroactively adjusted for the results of the periods between January 1, 2003 and the transaction date. This difference has been recognized in shareholders' equity as of January 1, 2003.

Exclusion of companies from the scope of combination

Disposals of investments not operationally attached to Arkema's Businesses but owned by ARKEMA companies are deemed to have been completed on January 1, 2003 with a double entry being recorded as a decrease to financial debt.

As for acquisitions, the difference between the historical book value and the sale price has been recognized through shareholders' equity. Results prior to the date of sale and any gains or losses on sale have been excluded from the combined income statement.

Recapitalizations

Recapitalizations which took place between January 1, 2003 and December 31, 2005 in the context of implementation of the transactions related to the constitution of the Group are deemed to have been completed on January 1, 2003.

Recognition of dividends

Certain entities whose business is operationally attached to ARKEMA but which have not historically been owned by ARKEMA companies have paid dividends between January 1, 2003 and the date of acquisition of their shares (by ARKEMA companies). These dividends have been considered as having been received by ARKEMA, with a double entry being recorded as a decrease to financial debt.

Symmetrically, dividends received by ARKEMA companies as from January 1, 2003 from subsidiaries which are not operationally attached to ARKEMA (and which were subsequently sold after payment of these dividends) have been removed from cash flows received by the Group. The level of financial debt at January 1, 2003 has been adjusted in consequence.

Cost of debt

The cost of net debt, whose payment itself constitutes a change in the amount of debt, has been determined on the basis of the historical financial cost of transactions which relate exclusively to Arkema's Businesses, adjusted to reflect the finance expense related to the effect of the aforementioned transactions. The latter finance expense is calculated on the basis of an average annual interest rate.

II. Basis of preparation of the consolidated financial statements at December 31, 2006

II.1 Basis of preparation of the consolidated financial statements at December 31, 2006

The ARKEMA Group was legally constituted on May 18, 2006, being the Completion Date for the "Spin-Off of Arkema's Businesses", by means of two partial spin-offs and the merger submitted to the approval of the general meetings of shareholders of the companies in question, particularly that of Total S.A. on May 12, 2006 and that of Elf Aquitaine on May 10, 2006. The two partial spin-offs and the merger took effect concurrently with the first trading of Arkema S.A. shares on Eurolist by Euronext™ on May 18, 2006 (See section A—Highlights). These different transactions were carried out at net book value as they were considered to be exchanges of assets between entities under common control.

All companies in the ARKEMA scope were consolidated as of January 1, 2006, as:

i) The Arkema Group existed operationally prior to May 18, 2006; and

ii) All businesses were controlled at January 1, 2006 (effective control as a result of the existence of a Group management team).

Consolidated financial statements for the 2006 financial year thus cover the period from January 1, 2006, notwithstanding the date of finalization of the legal transactions. The consolidated financial statements for the year ended December 31, 2006 are prepared on the basis of the individual financial statements of consolidated companies covering the same period, restated if necessary to comply with the accounting policies of the ARKEMA Group.

The treatment applied provides continuity with the combined financial statements published in respect of prior financial years, notably the year ended December 31, 2005, and facilitates comparability of the financial statements.

II.2 Expenses related to operation as a separate, stand-alone, listed entity ("stand-alone costs").

These expenses related to operation as a separate, stand-alone, listed entity ("stand-alone costs") were estimated at €40 million in 2005, and were taken into account in the proforma financial statements included in the prospectus prepared in the context of the admission of Arkema S.A.'s shares to listing on the Eurolist by Euronext™ market. In 2006, ARKEMA incurred the major part of these costs, however only the financial years commencing from 2007 will include the entire amount of the stand alone costs.

These costs relate to a certain number of functions which are henceforth fully performed by ARKEMA teams which were not reflected in ARKEMA's combined financial statements (support services in the areas of insurance, communications, audit, treasury, legal matters, tax and employee savings) and also to the loss of certain economies of scale achieved within Total (mainly insurance premiums and logistics).

C. ACCOUNTING POLICIES

ARKEMA's consolidated financial statements were prepared under the responsibility of the Chairman and CEO of Arkema S. A. and were approved by the Board of Directors of Arkema S.A. on March 13, 2007.

The consolidated financial statements at December 31, 2006 were prepared in accordance with IFRS as approved by the European Union at December 31, 2006.

The accounting policies applied in preparing the consolidated financial statements at December 31, 2006 are identical to those used in the combined financial statements at December 31, 2005, except for IFRS standards, amendments and interpretations that are obligatorily applicable for accounting periods commencing on or after January 1, 2006 (and which had not been applied early by the Group), being: the amendments to IAS 19, IAS 21 and IAS 39; IFRS 6; IFRIC 5, and IFRIC 6. Their application does not have any impact on the Group's consolidated financial statements at December 31, 2006.

Regarding the amendments to IAS 19, ARKEMA elected to continue to apply the corridor method for the recognition of actuarial gains and losses.

Preparation of consolidated financial statements in accordance with IFRS requires Group management to make estimates and retain assumptions that can have an impact on the amounts recognized in assets and liabilities at the balance sheet date, and have a corresponding impact on the income statement. Management made its estimates and determined its assumptions on the basis of past experience and taking into account different factors considered to be reasonable for the valuation of assets and liabilities. Use of different assumptions could have a material effect on these valuations. The main assumptions made by management in preparing the financial statements are those used for the calculation of depreciation, amortization and impairment, of pension benefit obligations, of deferred taxes and for the valuation of assets (property, plant &

equipment, intangibles and investments), provisions and certain financial instruments. The disclosures provided concerning contingent assets and liabilities at the date of preparation of the consolidated financial statements also involve the use of estimates.

The consolidated financial statements are prepared in accordance with the historical cost convention, except for certain financial assets and liabilities which are recognized at fair value.

The principal accounting policies applied by the Group are presented below.

I Combination and consolidation principles

Combination principles at December 31, 2005

The scope of combination includes, in addition to companies owned directly or indirectly by Arkema France, investments owned by companies in the Total Group because of their operational attachment to Arkema's businesses. Investments owned by companies controlled by ARKEMA but whose businesses are not operationally attached to ARKEMA have been excluded from the scope of combination.

The principles applied in preparing the combined financial statements are as follows:

- companies operationally attached to Arkema's Businesses at December 31, 2005 which are directly or indirectly controlled by ARKEMA, or directly or indirectly controlled by Total, have been fully included in the combined financial statements;
- investments in companies under joint control are accounted for by the equity method;
- investments in associates over which significant influence is exercised are accounted for under the equity method. Where the ownership interest is less than 20%, combination under the equity method is only applied in cases where significant influence can be demonstrated;
- shares owned in companies which do not meet the above criteria are included in other investments.

All material transactions between combined companies, and all intercompany profits have been eliminated.

Consolidation principles at December 31, 2006

Companies which are directly or indirectly controlled by ARKEMA have been fully included in the consolidated financial statements.

Investments in companies under joint control are accounted for by the equity method.

Investments in associates over which significant influence is exercised are accounted for under the equity method. Where the ownership interest is less than 20%, the equity method is only applied in cases where significant influence can be demonstrated.

Shares owned in companies which do not meet the above criteria are included in other investments.

All material transactions between consolidated companies, and all intercompany profits have been eliminated.

II Foreign currency translation

II.1 Translation of financial statements of foreign companies

The functional operating currency of foreign companies in the scope of consolidation is their local currency, in which most of their transactions are denominated. Their balance sheets are translated into euros on the basis of exchange rates at the balance sheet date; the statements of income and of cash flows are translated using the average exchange rates during the period. Foreign exchange differences resulting from translation of the financial statements of these subsidiaries are recorded either in "Cumulative translation adjustments" in shareholders' equity in the consolidated financial statements for the Group share or in "Minority interests" for the minority share.

II.2 Transactions in foreign currencies

In application of IAS 21 "The effects of changes in foreign exchange rates", transactions denominated in foreign currencies are translated by the entity carrying out the transaction into its functional currency at the exchange rate applicable on the transaction date. Monetary balance sheet items are restated at the closing exchange rate at the balance sheet date. Gains and losses resulting from translation are recognized in recurring operating income.

III Intangible assets

Intangible assets include goodwill, software, patents, trademarks, leasehold rights, development costs and electricity consumption rights. Intangible assets are recognized in the balance sheet at their acquisition or production cost, less any accumulated amortization and impairment losses recognized.

Intangible assets other than goodwill and trademarks with indefinite useful lives are amortized on a straight-line basis over 3 to 20 years depending on the pattern according to which the entity envisages using the future economic benefits related to the asset.

III.1 Goodwill and trademarks

Goodwill represents the difference between the purchase price, as increased by related costs, of shares of consolidated companies and the Group share of the value of their net assets and contingent liabilities at the acquisition date. Goodwill is not amortized, in accordance with IFRS 3 "Business combinations". It is subject to impairment tests as soon as any indicators of potential impairment are identified. At a minimum, impairment tests are performed annually. The methodology used for the performance of impairment tests is described in paragraph V.

Trademarks with indefinite useful lives are treated in the same way as goodwill. Those with finite useful lives are amortized over their useful lives.

III.2 Research and development costs

Research costs are recognized in expenses in the period in which they are incurred.

Under IAS 38 "Intangible assets", development costs are capitalized as soon as ARKEMA can demonstrate, in particular:

- its intention and its financial and technical ability to complete the development project;
- that it is probable that future economic benefits attributable to the development costs will flow to the enterprise, which implies being certain of obtaining the required authorization to commercialize the product; and
- that the cost of the asset can be measured reliably.

IV Property, plant and equipment

IV.1 Gross value

The gross value of items of property, plant and equipment corresponds to their acquisition or production cost in accordance with IAS 16 "Property, plant & equipment". Gross value is not subject to revaluation.

Equipment subsidies are deducted directly from the cost of the assets which they financed. Routine maintenance and repairs are charged to income in the period in which they are incurred. Costs related to major maintenance shutdowns of large chemical facilities are capitalized at the time they are incurred and depreciated over the period between two such major shutdowns.

Fixed assets which are held under finance lease contracts, as defined in IAS 17 "Leases", which have the effect of transferring substantially all the risks and rewards inherent to ownership of the asset from the lessor to the lessee, are capitalized in assets at their market value or at the discounted value of future lease payments if lower (such assets are depreciated using the methods and useful lives described below). The corresponding lease obligation is recorded as a liability. Leases which do not meet the above definition of finance leases are accounted for as operating leases.

IV.2 Depreciation

Depreciation is calculated on a straight-line basis on the basis of the acquisition or production cost. Assets are depreciated over their estimated useful lives by category of asset. The principal categories and useful lives are as follows:

Machinery and tools	5-10 years
Transportation equipment	5-20 years
Specialized complex installations	10-20 years
Buildings	10-30 years

These useful lives are reviewed annually and modified if expectations change from the previous estimates; such changes in accounting estimate are accounted for on a prospective basis.

V Impairment of long-lived assets

The recoverable amount of property, plant & equipment and intangible assets is tested as soon as any indications of impairment are identified. A review to identify if any such indications exist is performed at each year-end. An impairment test is performed at least once a year in respect of goodwill and trademarks with indefinite useful lives.

An asset's recoverable amount corresponds to the greater of its value in use or its fair value net of costs of disposal.

Tests are performed for each autonomous group of assets, termed Cash Generating Units (CGUs). A CGU is a group of assets whose continued use generates cash flows that are substantially independent of cash flows generated by other groups of assets. They are worldwide business operations, which bring together groups of similar products in strategic, commercial and industrial terms. The value in use of a CGU is determined on the basis of the discounted future cash flows that are expected to be generated by the assets in question, based upon Group management's expectation of future economic and operating conditions or, when the asset is to be sold, by comparison with its market value. Terminal value is calculated on the basis of a growth rate of 1.5%. The rate used to discount future cash flows and the terminal value is 7.5% after tax. Any impairment is calculated as the difference between the recoverable amount and the carrying amount of the CGU. Because of its unusual nature, any such impairment is presented separately in the income statement under the "Other income and expenses" caption. Impairment may be reversed, to the maximum carrying amount that would have been recognized for the asset had the asset not been impaired. Impairment recognized on goodwill cannot be reversed under any circumstances.

VI Financial assets and liabilities

For the Group, financial assets and liabilities are principally comprised of:

- other investments (non-consolidated companies and investment securities);
- other non-current assets (loans and advances);
- accounts receivable;
- debt and other financial liabilities (including accounts payable);
- derivatives.

VI.1 Other investments (in non-consolidated companies and investment securities)

These instruments are accounted for, in accordance with IAS 39, as available-for-sale assets and are thus recognized at their fair value. In exceptional cases where fair value cannot be reliably determined, the securities are recognized at their historical cost. Changes in fair value are recognized directly through shareholders' equity.

If an objective indicator of impairment in the value of a financial asset is identified (particularly a material long-term decrease in its value), an irreversible impairment loss is recognized, in general, through recurring operating income. Release of such provisions only occurs at the date of disposal of the securities.

VI.2 Loans and financial receivables

These instruments are recognized at amortized cost. They are subject to impairment tests involving a comparison of their carrying amount to the present value of estimated recoverable future flows. These tests are carried out as soon as any indicators inferring that the present value of these assets is lower than their carrying amount are identified. As a minimum such tests are performed at each balance sheet date. Any impairment loss is recognized in recurring operating income.

VI.3 Accounts receivable

Accounts receivable and other current assets are initially recognized at their fair value. Subsequent to initial recognition, they are recognized at amortized cost in accordance with the effective interest rate method. If required, a bad debt provision is recognized on the basis of the risk of non-recovery of the receivables.

VI.4 Cash and cash equivalents

Cash and cash equivalents are liquid assets and assets which can be converted into cash within less than 3 months that are subject to a negligible risk of change in value.

VI.5 Non-current and current debt

Non-current and current debt (other than derivatives) is recognized at amortized cost.

VI.6 Derivatives

The Group may use derivatives to manage its exposure to foreign currency risks and risks of changes in the prices of raw materials and energy. Derivatives used by the Group are recognized at their fair value in the balance sheet, in accordance with IAS 39.

Changes in the fair value of derivatives are recognized through the income statement, except for those on instruments which are considered to meet the criteria for cash flow hedge accounting under IAS 39. In this case, the effective portion of the change in fair value is recognized in shareholders' equity under the "Changes in items recognized directly through shareholders' equity" caption until such time as the underlying hedged item is recognized through the income statement. Any ineffective portion is recognized immediately in the income statement.

VII Inventories

Inventories are valued in the consolidated financial statements at the lower of cost and net realizable value, in accordance with IAS 2 "Inventories". Cost of inventories is generally determined using the weighted average cost (WAC) method.

Cost of chemical products inventories includes raw material and direct labour costs and an allocation of production overheads and straight-line depreciation. Start-up costs and general and administrative costs are excluded from the cost of chemical products inventories.

VIII Provisions and other non-current liabilities

A provision is recognized when:

- the Group has a legal, regulatory or contractual obligation to a third party resulting from past events. An obligation can also result from Group practices or public commitments that create a reasonable expectation among the third parties in question that the Group will assume certain responsibilities;
- it is certain or probable that the obligation will lead to an outflow of resources to the benefit of the third party; and
- its amount can be estimated reliably and corresponds to the best possible estimate of the commitment. In exceptional cases where the amount of the obligation cannot be measured with sufficient reliability, disclosure is made in the notes to the financial statements in respect of the obligation (See Note 20—Contingent liabilities).

When it is expected that the Group will obtain partial or total reimbursement of the cost that was provided against, the expected reimbursement is recognized in receivables if, and only if, the Group is virtually certain of the receipt.

Long-term provisions, other than provisions for pension and similar post-employment benefit obligations, are not discounted as the Group considers that the impact of discounting would be not significant.

IX Pension and similar post-employment benefit obligations

In accordance with IAS 19 "Employee benefits":

- payments made in the context of defined contribution plans are recognized in expenses of the period;
- obligations in respect of defined benefit plans are recognized and valued using the actuarial projected unit credit method.

For defined benefit plans, the valuation of obligations under the projected unit credit method principally takes into account:

- an assumption concerning the date of retirement;
- a discount rate which depends on the geographical region and the duration of the obligations;
- an inflation rate;
- assumptions in respect of future increases in salaries, rates of employee turnover and increases in health costs.

Differences which arise between the valuation of obligations and forecasts of such obligations (on the basis of new projections or assumptions) and between forecasts and outcomes of returns on plan assets are termed actuarial gains and losses. In application of the corridor method, the portion of such gains and losses which exceeds 10% of the greater of the amount of the obligations or the fair value of plan assets is amortized over the expected average remaining working life of employees.

On modification or creation of a plan, the portion of obligations which vest immediately as a result of past service is charged immediately to income; the portion of obligations which do not vest immediately is amortized over the remaining vesting period.

The amount of the provision takes account of the value of assets which are allocated to cover pension and other post-employment benefit obligations. The value of these assets is deducted from the provision for such benefit obligations.

Long-term benefits

In respect of long-term benefits, and in accordance with applicable laws and regulations, provisions are recognized using a simplified method. Thus, if an actuarial valuation using the projected unit cost method is required, actuarial gains and losses and all past service costs are recognized immediately in the provision without application of the corridor rule.

The net expense related to pension benefit obligations and other employee benefit obligations is recognized in recurring operating income, with the exception of the effect of curtailments or settlements of plans which are presented under the "Other income and expenses" caption in the case of substantial modifications to such plans.

X CO_2 emissions allowances

In the absence of an IFRS standard or interpretation relating to accounting for CO_2 emissions allowances, the following treatment has been adopted:

- allowances allocated without payment of consideration are recognized for a nil value;
- transactions carried out in the market are recognized at the transaction amount.

At this point, allowances allocated are adequate to cover the operational needs of ARKEMA's European units and a deficit is not currently forecast. ARKEMA does not carry out a trading activity in respect of CO_2 emissions allowances. However, in the normal course of its operations, ARKEMA may carry out cash or forward sales of its surpluses. These sales do not enter into the scope of application of IAS 39 because of the "own use" exception.

XI Recognition of sales

Sales are recognized on transfer to the purchaser of the risks and rewards related to ownership of the goods.

XII Deferred income taxes

The Group uses the liability method whereby deferred income taxes are recognized based upon the temporary differences between the financial statement and tax basis of assets and liabilities, as well as on tax loss carryforwards and other tax credits, in accordance with IAS 12 "Income taxes".

Deferred tax assets and liabilities are valued on the basis of tax rates enacted or virtually enacted at the balance sheet date. The effect of any changes in tax rates is recognized in income for the period.

Deferred tax assets are recognized to the extent that their recovery is probable. In order to assess the likelihood of recovery of such assets, account is notably taken of the profitability outlook determined by the Group.

XIII Information by segment

Information by segment is prepared on the basis of two separate criteria. The primary criterion is based on the Group's business segments; the secondary criterion is based on the main geographical areas in which the Group operates.

The financial information for each business segment is reported on the same basis as that used internally by management in assessing segment performance and in allocation of segment resources.

The Group's activities are conducted through three business segments: Vinyl Products, Industrial Chemicals and Performance Products.

- Vinyl Products include Chlorochemicals and PVC, Vinyl Compounds and downstream converting (Pipes and Profiles). They are used in areas such as water treatment, healthcare, hygiene, electronics, sports and leisure and automobile equipment.
- Industrial Chemicals brings together Acrylics, PMMA, Thiochemicals, Fluorochemicals and Hydrogen Peroxide. These intermediates are used as raw materials in numerous industrial sectors such as refrigeration, insulation, production of paper pulp, textiles, pharmaceuticals, animal feed, ink and paint, electronics and the automobile sector.
- Performance Products brings together Technical Polymers, Specialty Chemicals, Organic Peroxides and Additives which have merged into one business unit: "Functional Additives", and Urea Formaldehyde Resins. Performance Products are used in a variety of sectors from transport to sporting equipment, cosmetics to medical equipment, construction, civil engineering and even electronics.

The agrochemicals business is considered in ARKEMA's financial statements as being a discontinued operation within the meaning ascribed to that term by IFRS 5.

Functional and financial activities which cannot be directly allocated to operational activities (notably certain research costs and central costs) are brought together under a Corporate section.

XIV Main accounting and financial indicators

The main performance indicators used are as follows:

- **Operating income:** this includes all income and expenses other than the cost of debt, equity in income of affiliates and income taxes;
- **Other income and expenses:** these correspond to a limited number of well-identified non-recurring items of income and expense of a particularly material nature that the Group presents separately in its income statement in order to facilitate understanding of its recurring operational performance. These items of income and expense are:

  - impairment losses in respect of property, plant and equipment and intangible assets,
  - gains or losses on sale of assets,
  - certain large restructuring and environmental expenses which would hamper the interpretation of recurring operating income,
  - certain expenses related to litigation and claims whose nature is not directly related to ordinary operations,
  - costs related to the spin-off of the Arkema's Businesses.
- **Recurring operating income:** this is calculated as the difference between operating income and other income and expenses as previously defined;
- **Recurring EBITDA:** this corresponds to recurring operating income increased by depreciation and amortization;
- **Working capital:** this corresponds to the difference between inventories, accounts receivable, prepaid expenses and other current assets and tax receivables on the one hand and accounts payable, other creditors and accrued liabilities and income tax liabilities on the other hand;
- **Capital employed:** this is calculated by aggregating the net carrying amounts of intangible assets, property, plant and equipment, equity affiliate investments and loans, other investments, other non-current assets (excluding deferred tax assets) and working capital;
- **Net debt:** this is the difference between current and non-current debt and cash and cash equivalents.

XV Cash flow statements

Cash flows in foreign currencies are translated into euros using the average exchange rates of each period. Cash flow statements exclude foreign exchange differences arising from the translation into euros of assets and liabilities recognized in balance sheets denominated in foreign currencies at the end of the period (except for cash and cash equivalents). In consequence, cash flows cannot be recalculated on the basis of the amounts shown in the balance sheet.

Changes in short-term borrowings and bank overdrafts are included in cash flows from financing activities.

XVI Share-based payment

In application of IFRS 2 "Share-based payment", the stock options and free shares granted to management and certain Group employees are measured at their fair value at the date of grant.

The fair value of the options is calculated using the Black & Scholes model. It is recognized in personnel expenses on a straight-line basis over the period from the date of grant to the date from which the options can be exercised.

The fair value of rights under free share grants corresponds to the opening market price of the shares on the day of the Board of Directors meeting that decides on the grant. It is recognized in personnel expenses on a straight-line basis over the vesting period of the rights.

XVII Earnings per share

Earnings per share correspond to the division of net income (Group share) by the weighted average number of ordinary shares in circulation since May 18, 2006.

Diluted earnings per share correspond to the division of net income (Group share) by the weighted number of ordinary shares, both of these figures being adjusted to take account of the effects of all dilutive potential ordinary shares.

The effect of dilution is thus calculated taking account of stock options and free share grants.

XVIII Discontinued operations

A discontinued operation is defined, according to IFRS 5, as a component of the Group's activity that either has been disposed of, or is classified as held for sale and which represents a separate major line of business or geographical area of operations that forms part of a single co-ordinated disposal plan.

The income statement, cash flow statement and balance sheet items relating to discontinued operations are presented in a specific note to the financial statements for the current financial year, with comparatives for the previous year.

The Group presents, for the financial year in question, assets and liabilities of continuing operations in the standard manner, to which assets and liabilities of discontinued operations are added. These latter assets and liabilities are not offset but are rather presented respectively in two specific balance sheet captions. The balance sheet of the previous financial year is not modified.

The Group presents, for the financial year in question and the previous financial year, the income statement of continuing operations in the standard manner, to which a single amount representing the income or loss after tax of discontinued operations is added.

The Group presents, for both financial years, the cash flow statement attributable to continuing operations and discontinued operations taken as a whole.

XIX New accounting standards and interpretations which are not yet applicable

The standards and interpretations published, respectively, by the IASB (International Accounting Standards Board) and the IFRIC (International Financial Reporting Interpretations Committee) that are not yet in force and that have not been applied early by the Group at December 31, 2006, such as IFRIC 7, 8, 9, IFRS 7, and the amendment to IAS 1, are currently being analyzed. ARKEMA does not anticipate that application of these standards will have a material impact on its consolidated financial statements for 2007.

20.4 - Notes to the consolidated financial statements

Notes' index

NOTE 1 INFORMATION BY BUSINESS SEGMENT

Information by business segment is presented on the same basis as that used internally in the preparation of management reporting. It represents the internal segment financial information used to manage and assess the Group's performance. The Group's activities are conducted through three business segments: Vinyl Products, Industrial Chemicals and Performance Products.

Operating income and assets are allocated between business segments prior to inter-segment adjustments. Sales prices between segments approximate market prices.

Functional and financial activities which cannot be directly allocated to operational activities (notably certain research costs and central costs) are brought together under a Corporate section.

December 31, 2005 *(In millions of euros)*	Vinyl Products	Industrial Chemicals	Performance Products	Corporate	Group total
Non-Group sales	1,387	2,406	1,713	9	**5,515**
Inter segment sales	82	178	16	-	
Total sales	**1,469**	**2,584**	**1,729**	**9**	
Recurring operating income	**16**	**218**	**23**	**(92)**	**165**
Other income and expenses	(218)	(152)	(37)	(89)	(496)
Operating income	**(202)**	**66**	**(14)**	**(181)**	**(331)**
Equity in income of affiliates	5	1	1	-	7
Details of certain expenses by segment					
Depreciation and amortization	(12)	(112)	(87)	(11)	(222)
Asset impairment	(49)	(134)	(5)	-	(188)
Changes in non-current provisions recognized through income	(114)	(14)	(36)	38	(126)
Recurring EBITDA	**28**	**330**	**110**	(81)	**387**
Employees at year end	**4,889**	**6,035**	**6,794**		**17,718**
Intangible assets and property, plant and equipment, net	153	758	637	21	1,569
Investments in equity affiliates	38	70	4	-	112
Non-current assets (excluding deferred income tax assets)	8	13	18	95	134
Working capital	310	504	547	(70)	1,291
Capital employed	**509**	**1,345**	**1,206**	**46**	**3,106**
Provisions	(245)	(181)	(186)	(474)	(1,086)
Deferred income tax assets	-	-	-	58	58
Deferred income tax liabilities	-	-	-	(8)	(8)
Net debt	-	-	-	567	567
Intangible assets and property, plant, and equipment additions	61	145	117	10	333

The 2005 combined financial statements were restated for discontinued operations only as regards income statement items (see accounting policies paragraph C—XVIII). Furthermore they do not include the expenses related to operation as a separate, stand-alone, listed entity as described in paragraph B—II.2.

December 31, 2006 *(In millions of euros)*	Vinyl Products	Industrial Chemicals	Performance Products	Corporate	Group total
Non-Group sales	1,379	2,494	1,784	7	**5,664**
Inter segment sales	74	179	17	-	
Total sales	**1,453**	**2,673**	**1,801**	**7**	
Recurring operating income	**21**	**160**	**71**	**(52)**	**200**
Other income and expenses	(8)	2	(41)	(45)	(92)
Operating income	**13**	**162**	**30**	**(97)**	**108**
Equity in income of affiliates	1	(1)	1	-	1
Details of certain expenses by segment					
Depreciation and amortization	(17)	(107)	(85)	(2)	(211)
Asset impairment	-	-	-	-	-
Changes in non-current provisions recognized through income	41	18	(21)	208	246
Recurring EBITDA	**38**	**267**	**156**	**(50)**	**411**
Employees at year end	**4,330**	**5,975**	**6,279**		**16,584**
Intangible assets and property, plant and equipment, net	204	798	592	18	1,612
Investments in equity affiliates	37	59	4	-	100
Non-current assets (excluding deferred income tax assets)	6	15	15	110	146
Working capital	236	482	436	13	1,167
Capital employed	**483**	**1,354**	**1,047**	**141**	**3,025**
Provisions	(216)	(168)	(191)	(246)	(821)
Deferred income tax assets	-	-	-	32	32
Deferred income tax liabilities	-	-	-	(14)	(14)
Net debt	-	-	-	324	324
Intangible assets and property, plant, and equipment additions	76	172	87	1	336

The 2006 consolidated financial statements were restated for discontinued operations, except for the number of employees and intangible assets and property, plant, and equipment additions which are taken from the cash flow statement (see accounting policies paragraph C—XVIII).

NOTE 2 INFORMATION BY GEOGRAPHICAL AREA

Non-Group sales are presented on the basis of the geographic location of customers. Capital employed is presented on the basis of the location of the assets in question.

December 31, 2005 *(In millions of euros)*	France	Rest of Europe	NAFTA(1)	Asia	Rest of the world	Total
Non-Group sales(3)	1,021	2,159	1,387	703	245	5,515
Capital employed(2)	1,594	449	857	172	34	3,106
Intangible assets and property, plant, and equipment additions(2)	221	37	68	6	1	333
Employees at year end(2)	10,970	2,723	2,758	1,173	94	17,718

December 31, 2006 *(In millions of euros)*	France	Rest of Europe	NAFTA[1]	Asia	Rest of the world	Total
Non-Group sales[3]	1,033	2,228	1,406	722	275	5,664
Capital employed[3]	1,592	420	817	162	34	3,025
Intangible assets and property, plant, and equipment additions[2]	228	31	68	9	0	336
Employees at year end[2]	10,002	2,634	2,634	1,216	98	16,584

(1) NAFTA: United States, Canada, Mexico.
(2) Including discontinued operations.
(3) Excluding discontinued operations.

NOTE 3 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses include salaries, purchases, sub-contracting costs, depreciation and amortization.

NOTE 4 OTHER INCOME AND EXPENSES

(In millions of euros)	2005 Expenses	2005 Income	2006 Expenses	2006 Income
Restructuring and environmental charges	(260)	8	(86)	3
Goodwill impairment charges	(48)	-	-	-
Asset impairment charges (other than goodwill)	(140)	-	-	-
Litigation and claims	(31)	-	(5)	-
Gains (losses) on sales of assets	(1)	2	-	-
Other	(26)	-	(16)	12
TOTAL OTHER INCOME AND EXPENSES	**(506)**	**10**	**(107)**	**15**

The figures for 2005 and 2006 do not take into account amounts relating to discontinued operations, presented in note 7.

In 2005

Restructuring and environmental costs mainly include expenses related to the consolidation of the chlorochemicals business in France (€128 million), to a partial restructuring of the thiochemicals business in the United States (€18 million) and to environmental liabilities (mainly in France, for €63 million).

Asset impairment mainly relates to impairment losses recognized on Vinyl Products, Industrial Chemicals and Performance Products assets. The breakdown by segment is provided in note 1 "Information by business segment". Future cash flows, which took account of specific risks related to these assets, were discounted at an after tax rate of 7.5%.

Expenses relating to litigation and claims mainly correspond to provisions recognized in respect of proceedings in progress in Europe and the United States pertaining to antitrust legislation, taking account of the warranties granted by Total.

Other expenses mainly include costs related to the spin-off of the Arkema's Businesses. Other income mainly includes restructuring costs.

In 2006

Restructuring and environmental costs mainly include additional expenses related to the consolidation of the chlorochemicals business in France for €8 million, restructuring costs in the Performance Products segment for €40 million and related to the head office for €29 million.

No impairment loss or reversal of existing provisions for impairment was recognized in 2006.

Expenses relating to litigation and claims correspond to provisions and costs in respect of proceedings in the United States and Canada pertaining to antitrust legislation.

Other income mainly includes the impacts of the amendment of the pension plans in the United States. Other expenses mainly include costs related to the spin-off of the Arkema's Businesses and impairment of the investment in a non-consolidated company.

NOTE 5 COST OF DEBT

The cost of debt amounts to €10 million in 2006 (€7 million in 2005). The average interest rate in the financial year was approximately 3.1% (2.25% in 2005).

NOTE 6 INCOME TAXES

Disclosures for 2005 are provided before reclassification to discontinued operations. Disclosures for 2006 only relate to continuing operations.

6.1 Income tax expense

The income tax expense is broken down as follows:

(In millions of euros)	2005	2006
Current income taxes	(72)	(21)
Deferred income taxes	28	(38)
TOTAL INCOME TAXES	**(44) ***	**(59)**

* *Including an expense of €2 million in respect of Cerexagri.*

6.2 Analysis by source of net deferred tax assets

The analysis by source of the net deferred tax assets is as follows, before offset of assets and liabilities at fiscal entity level:

(In millions of euros)	12.31.2005	12.31.2006
Tax loss and tax credit carryforwards	0	9
Provisions for pensions and similar obligations	99	79
Other temporarily non-deductible provisions	373	297
Gross deferred tax assets	472	385
Valuation allowance on deferred tax assets	(218)	(176)
Excess tax over book depreciation	177	165
Other temporary tax deductions	27	26
Deferred tax liabilities	204	191
Net deferred tax assets	50	18

After offset of assets and liabilities at fiscal entity level, and the reclassifications set out in note 9, deferred taxes are presented as follows in the balance sheet:

(In millions of euros)	12.31.2005	12.31.2006
Deferred tax assets	58	32
Deferred tax liabilities	8	14
Net deferred tax assets	50	18

6.3 Reconciliation between income tax expense and pre-tax income

(In millions of euros)	2005	2006
Net income	(391)	40
Income taxes	(44)	(59)
Pre-tax income	(347)	98
French corporate tax rate	34,93%	34.43%
Theoretical tax income (expense)	121	(34)
Difference between French and foreign income tax rates	(2)	(1)
Tax effect of equity in income of affiliates	2	1
Permanent differences	5	26
Change in valuation allowance against deferred tax assets	(25)	37
Deferred tax assets not recognized (losses) *	(149)	(88)
Research tax credits	4	0
Income taxes per the income statement	(44)	(59)

* *In 2005, these are mainly comprised of losses used in the Total Group tax consolidation.*

The French corporate tax rate includes the standard tax rate (33.33%) and additional taxes applicable in 2005 and 2006, which bring the overall income tax rate to respectively 34.93% and 34.43%.

The Research Tax Credit has been reclassified in 2006 into “operating expenses”.

6.4 Expiry of tax loss carryforwards and tax credits

The Group has tax losses carryforwards and tax credits which can be used up to their year of expiry indicated in the table below:

		12.31.2005		12.31.2006
(In millions of euros)	Base	Tax amount	Base	Tax amount
2006	10	3	0	0
2007	6	2	11	3
2008	3	1	7	2
2009	33	11	1	0
2010	-	-	9	3
2011 and beyond	-	-	24	8
Tax losses that can be carried forward indefinitely	119	41	358	124
TOTAL	**171**	**58**	**410**	**140**
Carry back deductible	-	1	-	1

NB: Tax loss carryforwards and tax credits have not given rise to recognition of deferred tax assets in the balance sheet.

NOTE 7 DISCONTINUED OPERATIONS

In 2006, discontinued operations include the Cerexagri business sold on February 1, 2007.

7.1 Income statement

(In millions of euros)	Combined accounts 2005	Consolidated accounts 2006
Sales	**195**	**202**
Recurring operating income	**3**	**11**
Other income and expenses	(18)	(1)
Operating income	**(15)**	**10**
Net income	**(18)**	**7**
Minority interests	-	-
Net income—Group share	**(18)**	**7**
Depreciation and amortization	(5)	(2)
Recurring EBITDA	**8**	**14**

7.2 Balance sheet items

(In millions of euros)	Combined accounts 12.31.2005	Consolidated accounts 12.31.2006
Non-current assets	23	21
Current assets	125	123
Total assets of discontinued operations	148	144
Non-current liabilities	9	8
Current liabilities	77	61
Total liabilities of discontinued operations	86	69

Working capital amounted to €68.3 million at the end of 2006, as against €66.7 million at the end of 2005.

7.3 Cash flow statement

(In millions of euros)	Combined accounts 2005	Consolidated accounts 2006
Net income	**(18)**	**7**
Depreciation, amortization and impairment of assets	23	2
Provisions, valuation allowances and deferred taxes	1	(2)
Change in working capital	(19)	0
Cash flow from operating activities	**(13)**	**7**
Cash flow from investing activities	**(8)**	**(11)**
Cash flow from financing activities	**2**	**3**
Effect of exchange rates and changes in scope	3	(2)
Cash and cash equivalents at the beginning of the year	**33**	**17**
Cash and cash equivalents at year-end	**17**	**14**

NOTE 8 EARNINGS PER SHARE

The calculation of earnings per share and diluted earnings per share is presented below:

	2005	2006
Weighted average number of ordinary shares*	60,453,823	60,453,823
Dilutive effect of stock options	0	3,326
Dilutive effect of free share grants	0	23,520
Weighted average number of potential ordinary shares	60,453,823	60,480,669

* *The weighted average number of ordinary shares used for the calculation of 2005 and 2006 earnings per share is the number of ordinary shares in circulation since the Spin-Off on May 18, 2006.*

Earnings per share are as follows:

	2005	2006
Net income—Group share	(390)	45
Earnings per share *(€)*	(6.45)	0.75
Diluted earnings per share *(€)*	(6.45)	0.75

	2005	2006
Net income of continuing operations—Group share	(372)	38
Net income of discontinued operations—Group share	(18)	7
Weighted average number of potential ordinary shares	60,453,823	60,480,669
Earnings per share of continuing operations *(€)*	(6.15)	0.63
Diluted earnings per share of continuing operations *(€)*	(6.15)	0.63
Earnings per share of discontinued operations *(€)*	(0.30)	0.12
Diluted earnings per share of discontinued operations *(€)*	(0.30)	0.12

NOTE 9 RECLASSIFICATIONS TO COMBINED FINANCIAL STATEMENTS PUBLISHED AT DECEMBER 31, 2005

Reclassifications were made to the combined financial statements at December 31, 2005 in order to ensure their comparability with the consolidated financial statements for 2006, in accordance with the provisions of IAS 8 relating to accounting policies, changes in accounting estimates and errors.

The reclassifications relate to asset and liability accounts (and, in consequence, affect the corresponding cash flow statement captions) and are as follows:

(In millions of euros)	12.31.05 before reclassifications	Reclassifications	12.31.05 after reclassifications
Intangible assets, net	149	98[d]	247
Property, plant and equipment, net	1,251	71[a]	1,322
Equity affiliates: investments and loans	89	23[b]	112
Other non-current assets	207	(95)[a][b][c][d]	112
Prepaid expenses and other current assets	427	(57)[c]	370
Deferred tax assets	108	(50)[e]	58
Deferred tax liabilities	58	(50)[e]	8
Provisions and other non-current liabilities	1,086	40[a]	1,126

(a) Reclassification related to a change in interpretation of a contract in accordance with IAS 17/IFRIC 4: breakdown of a net receivable of €31 million into an item of property, plant and equipment (€71 million) and other non-current liabilities (€40 million).
(b) Reclassification of a loan from "Other non-current assets" to "Loans to equity affiliates" (€23 million).
(c) Reclassification of a loan from "Prepaid expenses and other current assets" to "Other non-current assets" (€57 million).
(d) Reclassification of rights from "Other non-current assets" to "Intangible assets" (€98 million).
(e) Reclassification between "Deferred tax assets" and "Deferred tax liabilities" (€50 million).

NOTE 10 INTANGIBLE ASSETS

(In millions of euros)	Goodwill	Other intangible assets	Total
Gross value			
At January 1, 2005	**516**	**525**	**1,041**
Acquisitions	-	24	24
Disposals	8	(40)	(32)
Changes in scope	-	-	-
Translation adjustments	68	22	90
Reclassifications	4	34	38
Other	-	-	-
At December 31, 2005	**596**	**565**	**1,161**
Accumulated amortization and impairment			
At January 1, 2005	**(371)**	**(393)**	**(764)**
Amortization	-	(15)	(15)
Impairment through the income statement	(48)	(2)	(50)
Disposals	(8)	40	32
Changes in scope	-	-	-
Translation adjustments	(56)	(19)	(75)
Reclassifications	(2)	(40)	(42)
At December 31, 2005	**(485)**	**(429)**	**(914)**
Net			
At January 1, 2005	**145**	**132**	**277**
At December 31, 2005	**111**	**136**	**247**

This table relating to 2005 includes amounts relating to discontinued operations which are included in the figures in note 7, as well as the reclassifications described in note 9.

(In millions of euros)	Goodwill	Other intangible assets	Total
Gross value			
At January 1, 2006	**596**	**565**	**1,161**
Acquisitions	-	14	14
Disposals	-	(4)	(4)
Changes in scope	-	-	-
Translation adjustments	(53)	(17)	(70)
Reclassifications	-	-	-
Discontinued operations	(5)	(56)	(61)
Other	-	-	-
At December 31, 2006	**538**	**502**	**1,040**
Accumulated amortization and impairment			
At January 1, 2006	**(485)**	**(429)**	**(914)**
Amortization	-	(17)	(17)
Impairment through the income statement	-	-	-
Disposals	-	4	4
Changes in scope	-	-	-
Translation adjustments	46	15	61
Reclassifications	-	4	4
Discontinued operations	5	53	58
At December 31, 2006	**(434)**	**(370)**	**(804)**
Net			
At January 1, 2006	**111**	**136**	**247**
At December 31, 2006	**104**	**132**	**236**

In 2006, the company did not recognize any impairment on its intangible assets.

NOTE 11 PROPERTY, PLANT & EQUIPMENT

(In millions of euros)	Land and buildings	Complex industrial facilities	Other property, plant and equipment	Construction in progress	Total
Gross value					
At January 1, 2005	**1,163**	**2,871**	**1,396**	**233**	**5,663**
Acquisitions	30	102	21	156	309
Disposals	(22)	(52)	(40)	-	(114)
Changes in scope	-	-	-	-	-
Translation adjustments	49	151	11	11	222
Reclassifications	57	43	77	(175)	2
At December 31, 2005	**1,277**	**3,115**	**1,465**	**225**	**6,082**
Accumulated depreciation and impairment					
At January 1, 2005	**(844)**	**(2,482)**	**(1,024)**	**(12)**	**(4,362)**
Depreciation and impairment through the income statement	(109)	(154)	(92)	(17)	(372)
Disposals	20	52	38	-	110
Changes in scope	-	-	-	-	-
Translation adjustments	(25)	(112)	(4)	-	(141)
Reclassifications	39	56	(109)	19	5
At December 31, 2005	**(919)**	**(2,640)**	**(1,191)**	**(10)**	**(4,760)**
Net					
At January 1, 2005	**319**	**389**	**372**	**221**	**1,301**
At December 31, 2005	**358**	**475**	**274**	**215**	**1,322**

At December 31, 2005, other property, plant and equipment is mainly comprised of machinery and tools with a gross value of €1,141 million and accumulated depreciation and provisions for impairment of €939 million. Impairment of property, plant & equipment recognized in 2005 amounted to €156 million.

This table relating to December 31, 2005 includes amounts relating to discontinued operations, which are also detailed in the figures in note 7, as well as the reclassifications described in note 9.

(In millions of euros)	Land and buildings	Complex industrial facilities	Other property, plant and equipment	Construction in progress	Total
Gross value					
At January 1, 2006	**1,277**	**3,115**	**1,465**	**225**	**6,082**
Acquisitions	20	47	16	239	322
Disposals	(18)	(96)	(65)	-	(179)
Changes in scope	(9)	-	(3)	-	(12)
Translation adjustments	(38)	(116)	(8)	(5)	(167)
Reclassifications	36	47	131	(215)	(1)
Discontinued operations	(38)	(64)	(1)	(3)	(106)
At December 31, 2006	**1,230**	**2,933**	**1,535**	**241**	**5,939**
Accumulated depreciation and impairment					
At January 1, 2006	**(919)**	**(2,640)**	**(1,191)**	**(10)**	**(4,760)**
Depreciation and impairment through the income statement	(30)	(118)	(53)	-	(201)
Disposals	16	99	62	-	177
Changes in scope	7	4	3	-	14
Translation adjustments	21	86	4	-	111
Reclassifications	(11)	210	(194)	2	7
Discontinued operations	32	56		1	89
At December 31, 2006	**(884)**	**(2,303)**	**(1,369)**	**(7)**	**(4,563)**
Net					
At January 1, 2006	**358**	**475**	**274**	**215**	**1,322**
At December 31, 2006	**346**	**630**	**166**	**234**	**1,376**

At December 31, 2006, other property, plant and equipment is mainly comprised of machinery and tools with a gross value of €970 million and accumulated depreciation and provisions for impairment of €908 million. In 2006, the Company did not recognize any impairment on its property, plant & equipment.

The figures above include the following amounts in respect of assets held under finance lease arrangements:

			12.31.2005			12.31.2006
(In millions of euros)	Gross value	Depreciation and impairment	Net	Gross value	Depreciation and impairment	Net
Complex industrial facilities	24	20	4	26	21	5

They mainly correspond to leases of transport barges and of a hydrogen production unit located at Lacq.

NOTE 12 EQUITY AFFILIATES: INVESTMENTS AND LOANS

	% ownership		Equity value		Equity in income	
(In millions of euros)	12.31.2005	12.31.2006	12.31.2005	12.31.2006	12.31.2005	12.31.2006
American Acryl NA LLC (DE)	50%	50%	31	28	-	-
Qatar Vinyl Company Limited Q.S.C.	13%	13%	27	27	6	1
Oxochimie	50%	50%	16	15	-	(1)
Vinilis	35%	35%	11	11	-	
Arkema Yoshitomi Ltd.	49%	49%	4	4	1	1
Investments			**89**	**85**	**7**	**1**
Loans*			**23**	**15**		
TOTAL			**112**	**100**	**7**	**1**

** The amount at December 31, 2005 takes into account the reclassification detailed in note 9.*

NOTE 13 OTHER INVESTMENTS

Other investments include the Group's investments in various non-listed companies, notably companies that distribute ARKEMA products.

The main movements in 2005 and 2006 are as follows:

(In millions of euros)	2005	2006
At January 1	**22**	**22**
Acquisitions	7	6
Disposals	(3)	(8)
Valuation allowance	(4)	2
Changes in scope	-	(4)
Translation adjustments	-	-
Other movements	-	3
At December 31	**22**	**21**

NOTE 14 OTHER NON-CURRENT ASSETS

(In millions of euros)	Combined 12.31.2005 Gross value	Combined 12.31.2005 Provision for impairment	Combined 12.31.2005 Net	Consolidated 12.31.2006 Gross value	Consolidated 12.31.2006 Provision for impairment	Consolidated 12.31.2006 Net
Loans and advances	106	(9)	97	121	(8)	113
Security deposits paid	15	-	15	12	-	12
TOTAL*	**121**	**(9)**	**112**	**133**	**(8)**	**125**

(*) The amounts at December 31, 2005 take account of the reclassifications described in note 9.

NOTE 15 INVENTORIES

(In millions of euros)	Combined 12.31.2005	Consolidated 12.31.2006
Inventories (gross value)	**1,209**	**1,110**
Opening valuation allowance	(72)	(82)
Net (allowance) reversal	(5)	1
Change in scope	-	-
Translation adjustments	(1)	1
Reclassifications	(7)	6
Closing valuation allowance	**(85)**	**(74)**
Inventories (net) *of which*	**1,124**	**1,036**
Raw materials and spare parts	384	305
Finished products	740	731

In 2006, inventories do not include items related to discontinued operations which have been reclassified (amount €56 million) into “total assets of discontinued operations”.

NOTE 16 ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

At December 31, 2006, accounts receivable are stated net of a bad debt provision of €37 million (€41 million at December 31, 2005).

At December 31, 2006, accounts receivable do not include receivables related to discontinued operations which have been reclassified (amount €47 million) into “total assets of discontinued operations”.

Prepaid expenses and other current assets are comprised of various tax receivables from governments for an amount of €138 million (€290 million at December 31, 2005). The change between the two years mainly results from the balance in 2006 of a receivable from application of a ceiling to French local taxes (*taxe professionnelle*) of €65 million as well as the reduction of VAT receivables in France of €97 million.

At December 31, 2006, prepaid expenses and other current assets on governments of Cerexagri have been reclassified for €1.3 million into “total assets of discontinued operations”.

NOTE 17 CASH AND CASH EQUIVALENTS

(In millions of euros)	12.31.2005	12.31.2006
Short-term loans*	18	38
Monetary mutual funds	0	0
Available cash	49	133
CASH AND CASH EQUIVALENTS	**67**	**171**

(*) Including a short-term loan of €20 million by ARKEMA to Cerexagri.

NOTE 18 SHAREHOLDERS' EQUITY

At January 1, 2006, share capital was composed of 4,000 shares with a nominal value of 10 euros, being a total amount of 40,000 euros. Following the completion of the transactions referred to in sections A-I and A-II, the share capital amounts to €604.5 million and is composed of 60,453,823 shares with a nominal value of 10 euros.

NOTE 19 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

19.1 Other non-current liabilities

Other non-current liabilities amount to €34 million at December 31, 2006 as against €40 million at December 31, 2005 (after taking account of reclassifications described in note 9).

19.2 Provisions

(In millions of euros)	Pensions and similar post employment benefit obligations	Litigation and claims	Environmental contingencies	Restructuring	Other	Total
At January 1, 2005	**311**	**219**	**155**	**98**	**157**	**940**
Increases in provisions	70	31	110	92	82	385
Reversals of provisions on use	(83)	(13)	(45)	(43)	(58)	(242)
Reversals of unused provisions	(1)	(1)	-	(13)	(4)	(19)
Changes in scope	4	-	-	-	-	4
Translation adjustments	5	3	13	1	7	29
Other	(4)	(4)	8	(5)	(6)	(11)
At December 31, 2005	**302**	**235**	**241**	**130**	**178**	**1,086**
Of which less than 1 year	31*	10	36	30	23	
Of which more than 1 year		225	205	100	155	

(*) This amount only relates to amounts payable under the CASAIC plan.

(In millions of euros)	Pensions and similar post employment benefit obligations	Litigation and claims	Environmental contingencies	Restructuring	Other	Total
At January 1, 2006	**302**	**235**	**241**	**130**	**178**	**1,086**
Increases in provisions	28	3	13	56	27	127
Reversals of provisions on use	(44)	(185)	(26)	(56)	(23)	(334)
Reversals of unused provisions	(1)	-	(2)	(4)	(8)	(15)
Changes in scope	-	-	-	-	-	-
Translation adjustments	(4)	(2)	(11)	(1)	(4)	(22)
Other	(19)	1	(1)	3	0	(16)
Discontinued operations	(2)	-	(1)	(1)	(1)	(5)
At December 31, 2006	**260**	**52**	**213**	**127**	**169**	**821**
Of which less than 1 year	9*	4	34	87	33	
Of which more than 1 year		48	179	40	136	

(*) This amount only relates to amounts payable under the CASAIC plan.

Obligations regarding Cerexagri entities are maintained in the 2005 schedules and excluded from the 2006 schedules.

19.3 Provisions for pensions and similar benefits

At December 1, 2006, provisions for pensions and similar benefits are mainly comprised of a Group pre-retirement plan in an amount of €26 million (€45 million in 2005), of pension benefits for €157 million (€181 million in 2005) and of other benefits for €77 million (€74 million in 2005). Other benefits are mainly comprised of healthcare plans. In addition, pension plan assets amounted to €15 million at December 31, 2006, (€10 million in 2005).

In accordance with the laws and practices of each country, ARKEMA participates in employee benefit plans offering retirement, death and disability, healthcare and special termination benefits. These plans provide benefits based on various factors such as length of service, salaries, and contributions made to the national bodies responsible for the payment of benefits.

These plans are either defined contribution plans or defined benefit plans. In certain cases they can be either partly or totally funded by investments in dedicated plan assets, mutual funds, general funds of insurance companies or other assets.

The Group's benefit obligations are mainly located in France, the United States, the Netherlands and Germany. The principal benefit obligations in respect of which funding has been put in place are pension benefits in France, the United States and the Netherlands. In France, supplementary pension plans closed up to 1973 at the latest, concerning an active working population, were subject to a transfer of pension rights to an insurance company.

19.3.1 Effect on the income statement

Expense in the income statement *(In millions of euros)*	Pension obligations 2005	Pension obligations 2006	Other obligations 2005	Other obligations 2006
Service cost	22	23	2	2
Interest cost	25	23	4	4
Expected return on plan assets	(21)	(20)	-	-
Actuarial gains and losses recognized	-	1	-	1
Past service cost recognized	7	(4)	-	(1)
Curtailments and settlements	-	(1)	-	-
Other	-	-	-	-
(INCOME)/EXPENSE: TOTAL	**33**	**22**	**6**	**6**

The actual return on plan assets amounted to €19 million in 2006 (€30 million in 2005).

19.3.2 Change in provisions over the period

(In millions of euros)	Pension obligations 2005	2006	Other obligations 2005	2006
Net liability/(asset) at beginning of year	**149**	**168**	**69**	**74**
Expense for the year	33	22	6	6
Contributions made to plan assets	(5)	(22)	-	-
Net benefits paid by the employer	(18)	(21)	(3)	(3)
Other	12	(5)	2	-
Net liability/(asset) at end of year	**171**	**142**	**74**	**77**

19.3.3 Valuation of benefit obligations and provisions at December 31

a) *Present value of benefit obligation*

(In millions of euros)	Pension obligations 12.31.2005	12.31.2006	Other obligations 12.31.2005	12.31.2006
Present value of benefit obligation at beginning of year	**442**	**577**	**80**	**98**
Service cost	22	23	2	2
Interest cost	25	23	4	4
Curtailments	-	-	-	-
Settlements	-	(5)	-	-
Specific benefits	-	-	-	-
Plan participant's contributions	1	1	-	-
Benefits paid	(21)	(26)	(3)	(3)
Past service cost	7	(4)	-	(5)
Actuarial loss (gain)	58	(24)	14	(5)
Changes in scope	(2)	(1)	-	1
Translation adjustment and other	61	(29)	2	(1)
Present value of benefit obligation at end of year	**593**	**535**	**99**	**91**

It should be noted as regards France that the effects of the French law of November 30, 2006 in respect of financing of social security, which modified the conditions of departure on retirement, have not been taken into account in the valuation of termination benefits on retirement at December 31, 2006. They will be considered at December 31, 2007. The fact that these effects were not taken into account has no impact on the income statement at December 31, 2006.

b) *Change in fair value of plan assets*

Plan assets are mainly located in the United States, France and the Netherlands. They are mainly comprised of mutual funds, general funds of insurance companies and shares.

(In millions of euros)	Pension obligations 12.31.2005	12.31.2006
Fair value of plan assets at beginning of year	**(297)**	**(364)**
Expected return on plan assets	(21)	(20)
Curtailments	-	-
Settlements	-	4
Plan participants contributions	(1)	(1)
Employer contributions	(5)	(22)
Benefits paid from plan assets	3	6
Actuarial gains and losses	(9)	(8)
Changes in scope	-	-
Translation adjustment and other	(47)	21
Fair value of plan assets at end of year	**(377)**	**(384)**

Contributions payable by the Group in 2007 in respect of funded plans are estimated at €3 million.

c) Provisions in the balance sheet

(In millions of euros)	Pension obligations 12.31.2005	12.31.2006	Other obligations 12.31.05	12.31.06
Actuarial value of unfunded obligations	147	145	99	91
Actuarial value of funded obligations	446	390	-	-
Fair value of plan assets	(377)	(384)	-	-
(Surplus)/Deficit of assets versus benefit obligations	***216***	***151***	***99***	***91***
Unrecognized actuarial gains (losses)	(44)	(8)	(25)	(18)
Unrecognized past service cost	(1)	(1)	-	4
Asset ceiling	-	-	-	-
Net balance sheet provision	**171**	**142**	**74**	**77**
Provision recognized in liabilities	181	157	74	77
Amount recognized in assets	(10)	(15)	-	-

Source of actuarial gains and losses generated in 2006 on benefit obligations	Pension obligations	Other obligations
Experience adjustments	(9)	1
Adjustments related to changes in actuarial assumptions	(15)	(6)

d) *Composition of the investment portfolio*

Composition of the investment portfolio	Shares	Bonds	Monetary funds	Property	Other
Pension obligations at December 31, 2006	39 %	50 %	0 %	6 %	5 %

The rate of return on plan assets was determined for each plan on the basis of the expected individual long-term return on each category of assets comprising the portfolio funding the plan and of the actual allocation at the valuation date.

e) *Actuarial assumptions*

Principal assumptions in %	Eurozone & UK 2005	USA 2005	Eurozone & UK 2006	USA 2006
Discount rate	3.40 – 5.25	5.25	3.00 – 5.00	5.50
Expected return on plan assets	4.00 – 7.06	7.35	4.50 – 6.59	7.60
Rate of increase in salaries	2.00 – 3.75	4.00	2.30 – 3.75	4.00
Rate of increase of healthcare costs	4.00	4.00 – 6.00	4.00	6.00 – 8.00

The assumptions regarding the rate of increase of healthcare costs have a significant impact on the valuation of healthcare obligations. A change of plus or minus 1% in the rate of increase of healthcare costs would have approximately the following effects:

CHANGE OF +/-1% IN THE RATE OF INCREASE OF HEALTHCARE COSTS

(In millions of euros)	Increase of 1%	Decrease of 1%
Actuarial valuation of benefit obligation at 31/12	17	(13)
Expense/(income) for the year	1	(1)

19.4 Provisions for litigation and claims

These are mainly comprised of provisions recognized in respect of proceedings in progress in Europe pertaining to antitrust legislation (€31 million at December 31, 2006 as against €207 million at December 31, 2005)

As indicated in the “Highlights” paragraph for 2006 (paragraph A-III of the annex to the financial statements), ARKEMA was ordered by the European Commission to pay two fines of respectively €78.7 million and €219.1 million for anticompetitive practices in the hydrogen peroxide and methacrylate markets.

ARKEMA in 2006 made a payment of €61 million to the European Commission for the “MCAA (monochloracetic acid)” fine, including applicable interest (in substitution for bank guarantees provided in 2005). It also paid €78.7 million for the “hydrogen peroxide” fine and €219.1 million for the “methacrylates” fine, being a total amount of €358.8 million. In accordance with the indemnity agreement of March 15, 2006, Total S.A. concurrently paid ARKEMA €164 million (being 90% of the amount exceeding the deductible of €176.5 million), which represents a net payment for ARKEMA of €194.8 million.

As indicated in paragraph A-III, the companies in question appealed to the European Court of First Instance.

Taking account of the provisions previously recognized, the reversal of the provisions for the amount of the deductible in 2006 and of the indemnity mechanism agreed with the Total Group, the impact on 2006 net income is nil. A net provision of €13 million remains at December 31, 2006 in respect of European proceedings (provision of €31 million in liabilities less €18 million in “other non-current assets”).

19.5 Provisions for environmental contingencies

Provisions for environmental contingencies are recognized to cover expenses related to soil and water table clean-up, mainly:

- in France for €105 million (€119 million at December 31, 2005);
- in the United States for €90 million (€102 million at December 31, 2005), of which €69 million in respect of former industrial sites covered by the Total indemnity (€78 million at December 31, 2005).

19.6 Restructuring provisions

Restructuring provisions are mainly in respect of restructuring of activities in France for €109 million (€105 million at December 31, 2005) and in the United States for €9 million (€12 million at December 31, 2005).

Increases in such provisions in the year correspond to the restructuring measures described in the "highlights" paragraph (paragraph A-IV of the notes to the financial statements) and in note 4 (other income and expenses).

19.7 Other provisions

Other provisions are mainly comprised of long-service awards of €50 million (€52 million at December 31, 2005), and provisions for removal of asbestos for €16 million (€17 million at December 31, 2005).

NOTE 20 CONTINGENT LIABILITIES

20.1 Environment

The Group's business activities are subject to constantly changing local, national and international regulations on the environment and safety, which entail meeting increasingly complex and restrictive requirements. In this regard, these activities can involve a risk of ARKEMA's liability being called upon, particularly in respect of cleanup of sites and industrial safety

Taking account of the information available, agreements signed with Total, and the provisions for environmental contingencies recognized, ARKEMA's management considers that the environmental liabilities identified at this point are valued and recognized to the best of their knowledge in the financial statements. However if laws, regulations or government policy in respect of environmental matters were to change, ARKEMA's obligations could change, which could lead to additional costs.

Clean-up of sites

The competent authorities have made, are making or may in the future make specific demands that the Group rehabilitate or control emissions at certain sites that it is currently operating, or that it operated or disposed of in the past, at neighboring sites or at sites where the Group stored or disposed of waste.

Sites currently in operation

ARKEMA has many sites of which a certain number are probably polluted in view of their age and the range of activities that are carried out on them, or that were carried out on them in the past. As regards these sites, certain situations have been identified and ARKEMA has already carried out certain clean-up work, or otherwise developed action plans and recognized provisions in order to cover future clean-up work.

In the light of (i) the uncertainties over the technical means to be implemented, (ii) potential issues that are unknown (iii) uncertainties over the actual time required for remediation compared with the estimated time (*e.g.* "pump and treat"), and (iv) potential changes in regulations, the possibility that the expenses that the Group will incur will be higher than the amounts covered by reserves cannot be excluded. These potential excess costs relate mainly to the sites in Calvert City (Kentucky, United States), Carling (Moselle, France), Günzburg (Germany), Jarrie (Isère, France), Loison (Pas-de-Calais, France), Pierre-Bénite (Rhône, France), Riverview (Michigan, United States), Saint-Auban (Alpes-de-Haute-Provence, France) and Rotterdam (The Netherlands) and could adversely affect the Group's business, results and financial condition.

Closed industrial sites (Former industrial sites)

Total has directly or indirectly taken over the closed industrial sites (see paragraph B. "Basis of preparation of the financial statements" section I.3.1).

20.2 Litigation, claims and proceedings in progress

20.2.1 Antitrust litigation

The Group is involved in a number of proceedings in the United States, Canada and Europe alleging violations of antitrust laws relating to cartel behavior.

To cover the risks associated with proceedings in the United States and in Europe, which arose prior to completion of the spin-off of Arkema's Businesses, Total S.A. and one of its subsidiaries have granted indemnities for the benefit of Arkema S.A. and Arkema Finance France, the main terms of which are described in note 27.2 to the financial statements.

The financial risk associated with all proceedings described below is not easily quantifiable.

Based on its analysis of the cases, and taking into account the indemnities granted by Total S.A. and described in note 27.2 to the financial statements, the Group has recorded provisions in respect of these proceedings of €31 million (at 31 December 2006), of which €18.3 million related to the appeals by Arkema France at the European Court of First Instance.

Proceedings carried out by the European Commission

Arkema France is currently a party to several proceedings being carried out by the European Commission alleging violations of the rules of EU competition law restricting anticompetitive agreements.

These cases are at different stages.

On 19 January 2005, in the case relating to monochloroacetic acid, the European Commission fined Arkema France €13.5 million and imposed jointly and severally a fine of €45 million on Arkema France and Elf Aquitaine.

Arkema France and Elf Aquitaine filed an appeal of the ruling with the European Court of First Instance. The case is still pending.

On 3 May 2006, in the case relating to hydrogen peroxide, the European Commission imposed on Arkema France a fine of €78.7 million, of which part was imposed jointly and severally on Total S.A. and Elf Aquitaine.

Arkema France, Total S.A. and Elf Aquitaine filed an appeal of the ruling with the European Court of First Instance.

On 31 May 2006, in the case relating to methacrylates, the European Commission imposed on Arkema France a fine of €219.1 million, of which part was imposed jointly and severally on Total S.A. and Elf Aquitaine.

Arkema France, Total S.A. and Elf Aquitaine filed an appeal of the ruling with the European Court of First Instance.

During the second half of 2006, Arkema France replaced the bank guarantees it had put in place by a payment to the European Commission of the entirety of the fine relating to MCAA (monochloroacetic acid) imposed in January 2005, or €58.5 million plus interest, for a total of €61 million.

Similarly, Arkema France paid the European Commission the entirety of the fine relating to hydrogen peroxide, for a total of €78.7 million, and the entirety of the fine relating to methacrylates, or €219.1 million, resulting in the group exceeding the maximum liability of €176.5 million that it retained after the spin-off. The indemnity payment due from Total S.A. under the guarantees granted, totaling €164 million (equivalent to 90% of the amount of fines above the maximum liability figure), was paid to Arkema France at the same time as this final payment was made.

Four of the five other cases (relating to heat stabilizers, plasticizers and alcohols, sodium chlorate and solvents) are, on the other hand, at very preliminary stages. They resulted in investigations by the European Commission in 2003, 2004 and 2006 (visits and requests for information). The European Commission did not inform the relevant companies, including Arkema France, of any statement of objections, it being specified, however, that the investigations on solvents do not apply to Arkema France, which does not produce or sell the solvents targeted by these investigations). As Arkema France has actively cooperated with the European Commission, it should benefit from a reduction in any fines that may be assessed against it.

In the fifth case, relating to impact modifiers, the European Commission has recently made known its decision not to pursue the investigation it launched in 2003.

Based on an empirical analysis of similar decisions adopted by the European Commission, the Group believes that the combined amount of fines that may be assessed against it is very high. The Group believes that the provisions it has made against such eventualities are sufficient, but it cannot rule out the possibility that total fines might exceed the level of provision made.

In addition to the proceedings carried out by the European Commission, it cannot be ruled out that civil suits for damages are filed by third parties claiming to be victims of the violations in relation to which fines have been imposed by the European Commission.

On this point, Basell Polyolefins, which had also issued a claim for damages against Arkema S.A., has recently started proceedings against this company together with Arkema GmbH, claiming damages in the provisional sum of €0.6 million. Total S.A. has been notified of this claim under the indemnity agreement between Total and Arkema.

Proceedings in the United States and Canada

Arkema Inc. is currently under criminal investigation by the United States Department of Justice for alleged violations of United States antitrust laws in two sectors: hydrogen peroxide and polymethyl methacrylate (PMMA). Preliminary contact with Canadian competition authorities in the area of monochloroacetic acid in 2001 do not appear to have resulted in a formal investigation.

Arkema France and Arkema Inc. are also named in civil suits, similarly as a result of alleged violations of United States antitrust laws, in four sectors: plastic additives, hydrogen peroxide, methyl methacrylate and polymethyl methacrylate. Civil suits are also under way in Canada in the areas of hydrogen peroxide, methyl methacrylate and polymethyl methacrylate.

(a) Criminal investigations:

Arkema Inc. has received grand jury subpoenas from the United States Department of Justice, relating to the hydrogen peroxide and polymethyl methacrylate sectors. As of the date of this reference document, Arkema Inc. has not been indicted or charged in connection with these investigations.

The criminal investigations by both United States and Canadian antitrust authorities relating to the plastic additives sector were terminated by these authorities in the course of 2006.

(b) Civil actions:

Several direct or indirect purchasers of products allegedly marketed by Arkema France or Arkema Inc. have brought individual or class actions against Arkema France and Arkema Inc., seeking damages on the basis of alleged violations of competition law in the plastic additives, hydrogen peroxide, methyl methacrylate and polymethyl methacrylate sectors.

- A class action has been brought against Arkema France and Arkema Inc. by purchasers of monochloroacetic acid. These claimants have since abandoned this claim in the United States.
- Some direct and indirect purchasers of plastic additives allegedly sold by Arkema Inc. have brought a certain number of individual and class actions against that company. As at the date of this reference document, no class has been certified by the courts.
- Some direct and indirect purchasers of hydrogen peroxide allegedly sold by Arkema France or Arkema Inc. have brought a certain number of individual and class actions against these two companies alleging breach of a US federal or state anti-trust law. As at the date of this reference document, a class action has been certified by the competent courts.
- Similarly, alleged purchasers of methyl methacrylate (MMA) and polymethyl methacrylate (PMMA) have brought a certain number of individual and class actions against Arkema France and Arkema Inc. seeking damages against them. As at the date of this prospectus, no class has been certified by the courts.
- In Canada, a number of civil actions relating to hydrogen peroxide were brought in Quebec, Ontario and British Columbia in 2005 and 2006. As at the date of this prospectus, no class has been certified by the courts.
- Similarly, a number of civil actions relating to methyl methacrylate (MMA) and polymethyl methacrylate (PMMA) were brought in Quebec and Ontario in 2006. As at the date of this prospectus, no class has been certified by the courts.

As indicated in paragraph 6.5.1 of this reference document, Arkema France is currently involved in various investigations being carried out by the European Commission concerning several other products. At the present time, the Group is not aware of any criminal investigation, nor is it the subject of any civil claim in the United States in relation to products other than plastic additives, hydrogen peroxide, methyl methacrylate and polymethyl methacrylate. It is, however, possible that certain matters addressed in a statement of objections on the part of the European Commission could also be the subject of proceedings in the United States in the future.

As has been indicated above, Arkema France and Arkema Inc. are not currently the subject of any formal charges in the context of the ongoing criminal investigations in the United States. In addition, the civil actions currently pending (including those in Canada) are all in their very early stages. Consequently, it is difficult to assess with certainty the quantum of the risk to which the Group could be exposed as a result of these proceedings. In the light of an empirical analysis of prior settlements of civil and criminal matters involving alleged cartels in the United States (whether or not they are similar to the cases in which ARKEMA is involved), Arkema considers the potential risk as a result of proceedings pending in the United States and Canada to be very significant.

20.2.2 Occupational illness

In the manufacture of its products, the Group uses and has used toxic or hazardous substances. Despite the safety and monitoring procedures that have been instituted at Group level and for each production site, Group employees may have been exposed to such substances and may develop specific pathologies as a result of such exposure.

In this respect, like most industrial companies, in the past, the Group has used a variety of insulating or heat-proofing materials containing asbestos in its production facilities. Consequently, certain employees may have been exposed to such materials before they were gradually eliminated and replaced with substitute products.

At its French sites, the Group anticipated the regulatory provisions applicable to asbestos (Decrees No. 96-97 and 96-98 of February 7, 1996 and Decree No. 96-1133 of December 24, 1996). The Group made an inventory of asbestos-containing building materials within its premises, notified employees of the results of these investigations and took the collective and individual protective measures required by the applicable laws. However, claims for occupational illness related to past asbestos exposure have been filed against the Group, mostly for periods before 1980. Given the latency period of asbestos-related pathologies, a large number of claims for occupational illness are likely to be filed in the years ahead.

The Group has recognized provisions to cover the risks of employer liability claims related to notified cases of occupational illness.

20.2.3 Other litigation and claims and contingent liabilities

Arkema France

- In 1995, the company Gasco brought a claim for damages against Elf Atochem (the former name of Arkema France) before the court in Ghent (Belgium) in respect of an alleged breach of contract and breach of an exclusivity agreement. At first instance, Gasco obtained a judgment against Atofina for payment of €248,000 by way of damages for breach of contract (payment of that sum has been made) but its claim for breach of the exclusivity agreement was dismissed. Appeal proceedings are pending before the Ghent Court of Appeal. Gasco is asking for the judgment to be reversed insofar as it dismissed the claim for breach of the exclusivity agreement. Under this head it has put forward a claim for €24 million which the Group considers to be without foundation and which it is challenging both in principle and in its amount. Having regard to the weak basis of the allegations made against it and the defenses available to the Group, the Group's view as the matter currently stands, is that the amount of the provision made for this matter in the accounts is sufficient.

- Arkema France supplies various products for the coating of items used in a number of European countries in the manufacture of sanitary treatment facilities. These products are subject to inspection on the part of approved laboratories which must certify their conformity with the applicable sanitary regulations. Arkema France has a dispute with a French laboratory as to the interpretation of the regulations applicable in France as regards regulatory clearance in France of a product even though it is approved in other European Union countries. The Group takes the view that this problem is essentially administrative in nature. However, the possibility that users might seek to attach liability to Arkema France as the supplier cannot be excluded. In the event that such claims were successful, the costs of replacement of the products and the damages that could be claimed could prove to be extremely high.

CECA

- In 1999, the company Intradis commissioned the company Antéa to carry out a survey on a site situated in France which had been used for industrial purposes and in particular by CECA (manufacture of sulphuric acid) and the company Hydro Agri (a fertilizer factory which does not belong to the Group). The survey noted pollution of the soil and water on the site, as well as the existence of pyrites in the open air, and classified the site as in category 1 (a site requiring in-depth investigations and a detailed risk assessment). The company Intradis then made an application to have an expert urgently appointed to determine the nature and extent of the pollution affecting the site and to establish the liability of CECA and Hydro Agri, the owners and operators of the site before its acquisition by the company Intradis. Intradis' application was rejected on July 6, 2006 in first instance by the Administrative Court of Amiens, however it has appealed this decision to the Administrative Appeals Court of Douai. In the absence of a quantified claim, no provision has been made for this dispute in the accounts of the Group.
- The past environmental engineering activities of CECA have given rise to various claims by third parties. These claims have been transmitted to the Group's insurers. At this stage, the Group has recognized provisions that it considers to be adequat. The possibility cannot be excluded that this activity, which has now ceased, may give rise to further claims in the future. To date, the Group has received two claims which are currently being evaluated.

Arkema Inc.

- Norit Americas, Inc. (Norit) acquired an active carbon production unit from Arkema Inc., located in Pryor (Oklahoma, United States). Initially, Norit made a claim against Arkema Inc. for an indemnity, alleging breach by Arkema Inc. of the provisions of the Clean Air Act on that site. Norit has in fact been served with a violation notice by the Oklahoma Department of Environmental Quality, relating to emissions of particles of sulphur dioxide and nitrogen oxide. While contesting that the offences have been committed, Norit has nevertheless called on ARKEMA for an injunctive relief against any fines which might arise in these proceedings. The parties have entered into a standstill agreement upon the expiry of which they will continue to proceed with their respective claims. Arkema Inc.'s claim is the payment of the balance of the price of the production unit yet to be paid by Norit, and Norit's claims are for indemnities in respect of environmental matters. Provisions have been made in the Group's accounts for this litigation, in amounts which the Group considers to be sufficient.
- In the United States, the Group is currently involved in a substantial number of proceedings in various courts. These proceedings concern claims by third parties relating to (i) alleged exposure to asbestos on the Group's sites, or (ii) exposure to products containing asbestos and sold by former subsidiaries of the Group in the United States. Where they are not covered by insurance policies these claims have given rise to the recording of provisions for sums that the Group believes to be sufficient. However, due to the continuing uncertainties as to the outcome of these proceedings, and having regard to the information available to it, the Group is not in a position as at the date of this reference document, to estimate the total amount of the claims that might finally be upheld against it by the various competent courts after the exhaustion of any avenues of appeal.
- An investigation by the United States tax authorities is currently under way regarding certain practices. The investigation concerns the non-issue of W-2 forms for certain foreign «immigrant» employees and the non-declaration of certain remuneration relating to stock option or stock purchase plans. Arkema Inc. is cooperating fully with the investigation. At the present time no estimate can reasonably be made of any liability arising from this investigation that would allow provision to be made.
- Arkema Inc. was subject to a claim from the family of an employee of a transport company, who died during the delivery of an odorizing product in May 2004. The claim was dropped voluntarily but has recently been reissued in the jurisdiction of Texas. A discovery procedure is under way. In the absence of sufficient information no provision has been recognized.

Statutory training entitlement

The French Act of May 4, 2004 relating to professional training created a statutory training entitlement. Each employee has a new entitlement to at least 20 hours' training per year (which can be accumulated over 6 years). Use of the statutory training entitlement is at the employee's initiative, in agreement with the employer. If the employee leaves the company without having used the training entitlement, no compensation is due.

Arkema's investment in training will represent, in 2007, approximately 3.5% of payroll costs. In ARKEMA, 75% of training initiatives will enter into categories eligible to qualify under the statutory training entitlement and, in this respect, will be systematically proposed as a priority to employees with a statutory training entitlement.

In addition, branch agreements in the chemicals industries have enabled priority training initiatives in respect of the statutory training entitlement to be defined and, in this context, most of the external costs (teaching costs and transport/accommodation costs) can be taken as a charge by the employee benefit body responsible for the scheme's administration.

In these conditions, and without any historical data, Arkema considers that it is not in a position to determine if a residual obligation exists at December 31, 2006.

NOTE 21 DEBT

Group net debt amounted to €324 million at the end of December 2006, taking account of cash and cash equivalents of €171 million; it is mainly denominated in euros and bears interest at variable rates.

The Group has a multi-currency syndicated credit facility in a maximum amount of €1,100 million, with a five year duration, maturing on March 31, 2011, with a possible extension for an additional period of one or two years after this date.

The purpose of the credit facility is to finance, in the form of drawings and bank guarantees, the Group's general corporate purposes. The credit facility provides for prepayment in certain cases, including a change of control over ARKEMA; should this clause be triggered by a lender, it could lead to prepayment and cancellation of the commitments of such a lender. It also incorporates:

(i) information undertakings, including a representation pertaining to the continued validity and enforceability against the guarantors of the indemnities granted by Total S.A. and certain entities of Total as described in note 26 on off-balance sheet commitments;

(ii) standard undertakings for this type of agreement, including, undertakings relating, among other things, to certain restrictions in connection with (but not limited to) the granting of securities, the completion of merger or restructuring transactions, the sale or purchase of assets and the Group's debt. Depending on the case, such restrictions will not apply to ordinary operations or to transactions involving amounts below certain thresholds;

(iii) a financial undertaking: ARKEMA undertakes to maintain a ratio of consolidated net debt to consolidated recurring EBITDA (tested every six months) of less than 3.

At the end of December 2006, the average interest rate of the syndicated credit facility is approximately 3.5% and the unused amount under the credit facility is €770 million.

21.1 Analysis of net debt by category

(In millions of euros)	12.31.2005	12.31.2006
Finance lease obligations	19	19
Bank loans	25	20
Other non-current debt	15	13
Non-current debt	**59**	**52**
Finance lease obligations	1	2
Syndicated credit facility	-	330
Other bank loans	81	108
Other current debt	493	3
Current debt	**575**	**443**
Debt	**634**	**495**
Cash and cash equivalents	67	171
Net debt	**567**	**324**

At December 31, 2005, the amounts included in other current debt correspond almost solely to net current account advances granted by Total to ARKEMA.

21.2 Analysis of debt by maturity

The breakdown of debt by maturity is as follows:

(In millions of euros)	12.31.2005	12.31.2006
2006	575	-
2007	7	443
2008	16	16
2009	6	6
2010	5	5
2011	5	5
2012 and beyond	20	20
TOTAL	**634**	**495**

Amounts maturing in 2007 include the current drawings under the syndicated credit facility for an amount of €330 million.

21.3 Analysis of debt by currency

Arkema's debt is mainly denominated in euros.

(In millions of euros)	2005	2006
Euros	580	457
US Dollars	7	2
Chinese Yuan	25	17
Korean Won	12	8
Other	10	10
TOTAL	**634**	**495**

NOTE 22 DERIVATIVES

ARKEMA's businesses expose it to various risks, including changes in exchange rates and interest rates and changes in the prices of raw materials and energy.

22.1 Foreign currency risk

The Group's subsidiaries are exposed to transaction risks related to foreign currencies. Exchange rates can fluctuate between the time when the price is agreed with the customer or supplier and the date at which the transaction is settled. Group policy is to consider that a risk exists, and should thus be taken into account in the foreign currency position to be hedged, as soon as the event generating the risk is certain: this leads the Group to hedge, in almost all cases, its accounting foreign currency positions generated by sales and purchases. Conversely, the Group only rarely hedges forecast transaction flows.

Foreign currency risk is identified at subsidiary level, each of which hedges, in almost all cases, its net foreign currency positions with ARKEMA's central treasury department. ARKEMA's central treasury department manages foreign currency risk at Group level in an overall manner and thus covers a net foreign currency position. As a result, the conditions required under IAS 39 for application of hedge accounting are not met.

Hedging is mainly carried out through spot foreign currency transactions in the transaction currency. In certain subsidiaries ARKEMA uses derivative instruments, mainly forward purchases and sales of foreign currencies (in particular American dollars) with very short maturities with a fair value close to zero.

(In millions of euros)	Notional amount at 12.31.2005 ‹ 6 months	› 6 months and ‹ 12 months	› 12 months	Notional amount at 12.312006 ‹ 6 months	› 6 months and ‹ 12 months	› 12 months
Forward purchases and sales of foreign currencies	27	_	_	208	_	_

The amount of foreign exchange gains and losses (excluding the effect of the fair value of derivatives) recognized in recurring operating income in 2006 is a loss of €1 million (gain of €3 million in 2005).

22.2 Interest rate risk

The Group, in almost all cases, finances its business through the variable rate syndicated credit facility of €1,100 million available to it. ARKEMA has not entered into any interest rate derivatives.

22.3 Liquidity risk

At December 31, 2006, the amount available under the syndicated credit facility is €770 million and the amount of cash and cash equivalents is €171 million.

22.4 Counterpart risk

The Group is potentially exposed to counterpart risk on its accounts receivable and as regards its banking counterparts.

Counterpart risk on accounts receivable is limited because of the large number of its clients and their geographical dispersion. In addition, the Group has put in place procedures for monitoring the financial position of its main customers.

Banking counterpart risk is related to financial investments, derivatives and credit facilities granted by banks. The Group only deals with first class banks.

22.5 Risk related to raw materials and energy

The prices of certain raw materials used by ARKEMA are highly volatile and their fluctuations lead to significant variations in cost of production of the Group's products; in addition, because of the importance of the Group's requirements in terms of energy resources resulting notably from the electrically intensive nature of certain of its manufacturing processes, ARKEMA is also very sensitive to changes in the price of energy. In order to limit the impact of price volatility of the principal raw materials it uses, ARKEMA can decide to use derivatives matched with existing contracts or can negotiate fixed price contracts for limited periods.

The notional amounts and the fair values of these derivatives are presented below.

Swap contracts	Notional amount of contracts at 12.31.2006						Fair value	
	12.31.2005			12.31.2006			12.31.2005	12.31.2006
	‹ 1 year	‹ 5 years and › 1 year	› 5 years	‹ 1 year	‹ 5 years and › 1 year	› 5 years		
Aluminum *(in tons)*	1,175	1,050	-	900	150	-	0.10	Immaterial
Gas *(in MMBTU)*	660,000	-	-	303,000	-	-	-	(0.2)

When the conditions required under IAS 39 for application of hedge accounting are met, the raw materials derivatives used by the Group are designated as cash flow hedges. At December 31, 2006, no hedging reserve has been recognized in shareholders equity in this respect as the amounts at issue are not material. Furthermore, recognition in the balance sheet, at fair value, of derivatives that did not meet the criteria for hedge accounting did not have a material impact on the 2006 financial statements.

NOTE 23 OTHER CREDITORS AND ACCRUED LIABILITIES

Other creditors and accrued liabilities are mainly comprised of amounts owing to governments for €77 million at December 31, 2006 (€149 million at December 31, 2005) and employee-related liabilities for €144 million at December 31, 2006 (€152 million at December 31, 2005). The change between the two years results mainly from the reduction in liabilities related to the application of a ceiling to French local taxes (*taxe professionnelle*) for €60 million and the reduction of €71 million in taxes payable in the United States.

At December 31, 2005, other creditors and accrued liabilities of Cerexagri have been reclassified into the "total liabilities of discontinued operations" caption for €12 million, including amounts owing to governments for €0.2 million and employee-related liabilities for €4 million.

NOTE 24 PERSONNEL EXPENSES

Personnel expenses, including stock-options and free share grants (see note 26) and taking account of Cerexagri operations, amount to €1,008 million in 2006 (€1,029 million in 2005). They are comprised of €738 million of wages and salaries (€745 million in 2005) and €270 million of social charges and similar items (€284 million in 2005).

NOTE 25 RELATED PARTIES

25.1 Transactions with non-consolidated or equity accounted companies

Transactions between companies that are fully consolidated within the Group have been eliminated in the consolidation process. In addition, in the normal course of business, the Group has business relationships with certain non-consolidated companies or with companies which are consolidated under the equity method. These transactions mainly concern purchases of raw materials and interest charges on current accounts. The amounts are presented in the table below. The corresponding transactions were carried out at market prices.

(In millions of euros)	Equity accounted affiliates		Non-combined companies	Non-consolidated companies
Transactions	**12.31.2005**	**12.31.2006**	**12.31.2005**	**12.31.2006**
Sales of goods	21	39	58	2*
Other income	11	-	2	-
Purchases of goods and services	(37)	(90)**	(26)	-
Other expenses (including cost of debt)	-	-	(5)	-
Balance sheet amounts resulting from transactions	**12.31.2005**	**12.31.2006**	**12.31.2005**	**12.31.2006**
Assets				
Accounts receivable	6	6	15	-
Financial receivables and other current assets	23	23	7	-
Liabilities				
Accounts payable	(2)	7	(8)	-
Debt and other creditors	(2)	-	(2)	-

(*) In the combined accounts at December 31, 2005, the companies in the Total Group with which ARKEMA had commercial relations were considered as related parties. For this reason, specific disclosures were provided in the notes to the financial statements. At December 31, 2006, these commercial relations still exist with companies in the Total Group, however following the Spin-off of the Arkema's Businesses, these companies are no longer considered to be related parties.

(**) Arkema Inc's purchases from American Acryl which amounted to €56 Million in 2006 were not taken into account in 2005.

NB: The new companies consolidated in 2006 are listed in "Scope of consolidation".

25.2 Remuneration of key management personnel

Key management personnel of a group, as defined in IAS 24, are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The key management personnel of the ARKEMA Group are thus the 8 members of its executive committee (COMEX).

The remuneration recognized in expenses by ARKEMA in the 2006 financial year is comprised of:

- firstly, for the period from January 1 to May 17, remuneration of key management personnel paid directly by ARKEMA; and
- secondly, for the period from May 18, being the date of admission to listing, to December 31, 2006, remuneration of key management personnel as defined above.

Being in total:

(In millions of euros)	2006
Salaries, social charges and other short-term benefits	3.0
Pensions, other post-employment benefits and contract termination benefits(1)	0.5
Other long-term benefits	-
Share-based payment	0.5

(1) Excluding the effect of spin-off expenses.

NOTE 26 SHARE-BASED PAYMENT

Stock options

In 2006, the Board of Directors granted Arkema stock options to management and certain Group employees.

The main characteristics of the stock option plan are as follows:

	2006
Date of Shareholders' meeting	May 10, 2006
Date of Board of Directors meeting	July 4, 2006
Minimum period until exercise	2 years
Minimum period until sale	4 years
Period of validity	8 years
Exercise price	28.36
Number of options	
In circulation at January 1, 2006	0
Granted	540,000
Cancelled	0
Lapsed	0
In circulation at December 31, 2006	540,000

Free share grant

The Board of Directors granted rights to free shares in Arkema to management and certain Group employees. The grant will only be definitive after a vesting period of 2 years as from the date of the Board of Directors meeting that decided on the grant and subject to meeting a performance criterion. Shares definitively granted will only be able to be sold after a conservation period of 2 years.

	2006
Date Shareholders' meeting	May 10, 2006
Date of Board of Directors meeting	July 4, 2006
Vesting period	2 years
Conservation period	2 years
Number of free share grants	
In circulation at January 1, 2006	0
Granted	150,000
Cancelled	0
Lapsed	0
In circulation at December 31, 2006	150,000

Expense related to share-based payment

The amount of the 2006 expense in respect of share based payment was €2.0 million, broken down as follows:

- €0.9 million in respect of the stock option plan;
- €1.1 million in respect of the free share grant plan.

The fair value of the options granted in 2006 was determined using the Black & Scholes method on the basis of assumptions, of which the main ones are as follows:

	2006
Volatility	22%
Risk-free rate	2.82%
Maturity	4 years
Exercise price (in euros)	28.36
Fair value of stock-options (in euros)	6.29

The volatility assumption was determined on the basis of observation of historical movements in the Arkema share since its admission to listing, restated for certain non-representative days in order to better represent the long-term trend.

The maturity retained for the option corresponds to the period of unavailability for tax purposes.

The fair value of the rights to free shares granted in 2006 corresponds to the opening stock-market price on the day of the Board of Directors meeting that decided on the grant, being 30.65 euros.

NOTE 27 OFF-BALANCE SHEET COMMITMENTS

27.1 Commitments given

27.1.1 Off-balance sheet commitments given in ordinary course of business

The main commitments given are summarized in the table below:

(In millions of euros)	12.31.2005	12.31.2006
Guarantees granted	33	121
Comfort letter	2	2
Share of partnership (EIG) liabilities	6	6
Contractual guarantees	9	10
Customs and excise guarantees	2	7
TOTAL	**52**	**146**

These are mainly:

- bank guarantees granted in favor of local authorities and public bodies (state agencies, water agencies, and environmental agencies) in respect of environmental obligations or concerning classified sites;
- bank guarantees granted to secure the debt of partnership entities. These guarantees, initially issued by Total, were taken over by ARKEMA in 2006 and are counter-guaranteed by the partner to the extent of its interest in the partnership entity;
- guarantees issued by ARKEMA in favor of insurance companies to guarantee payment in case of a claim incident.

27.1.2 Contractual commitments

Irrevocable purchase commitments

In the normal course of business, ARKEMA signed multi-year purchase agreements for raw materials and energy for the operational requirements of its factories, in order to guarantee the security and continuity of supply. Signature of such contracts over periods of between 1 to 15 years is a normal practice for companies in ARKEMA's business sector in order to cover their needs.

These purchase commitments were valued taking into account, on a case-by-case basis, ARKEMA's financial commitment to its suppliers, as certain of these contracts include clauses which oblige ARKEMA to take delivery of the minimum volumes as set out in the contract or, otherwise, to pay financial compensation to the supplier. Depending on the case, these commitments are reflected in the purchase agreements in the form of notice periods, indemnification to be paid to the supplier in case of early termination of the contract or "take or pay" clauses.

The total amount of the Group's financial commitments thus valued amounted to €847 million at December 31, 2006 (see maturity schedule below):

(In millions of euros)	12.31.2005	12.31.2006
2006	235	-
2007	113	221
2008	89	144
2009	22	120
2010	17	73
2011 until expiry of contracts	31	289
TOTAL	**507**	**847**

The change at December 31, 2006 is mainly due to the signature of a certain number of long-term raw material supply agreements with Total.

Lease commitments

In the context of its business, ARKEMA has signed lease contracts, of which the majority are operating lease agreements. Lease agreements signed by ARKEMA are mainly in respect of property rental (head offices, land, Fos port concession) and transportation equipment (rail cars, containers, transport barges).

The amounts presented in the table below correspond to the future minimum payments that will need to be made in accordance with these contracts (only the irrevocable portion of future lease payments has been valued).

(In millions of euros)	12.31.2005 Capitalized leases	12.31.2005 Non-capitalized leases	12.31.2006 Capitalized leases	12.31.2006 Non-capitalized leases
2006	2	27	-	-
2007	2	18	2	18
2008	2	15	3	16
2009	2	7	3	13
2010	2	6	3	9
2011 and beyond	16	43	17	64
NOMINAL VALUE OF FUTURE LEASE PAYMENTS	**28**	**116**	**29**	**120**
Finance cost	8	NA	8	NA
PRESENT VALUE	**20**	**NA**	**21**	**NA**

NA: not applicable.

27.1.3 Other commitments given

Warranties in respect of unrecorded liabilities granted

Sales of businesses generally involve the provision of warranties in respect of unrecorded liabilities to the purchaser. In the past, ARKEMA has granted such warranties on the sale of businesses. In most cases these warranties are capped and granted for a limited period of time. They are also limited in terms of their coverage to certain types of litigation and claims. In the majority of cases, they cover risks of occurrence of environmentally related claims.

The cumulative residual amount of capped warranties in respect of unrecorded liabilities granted in the past by ARKEMA amounted to €71 million at December 31, 2005 and €58 million at December 31, 2006. These amounts are stated net of provisions recognized in the balance sheet in respect of such warranties.

27.2 Commitments received

Commitments received from Total in 2006

In connection with the Spin-Off of Arkema's Businesses, Total S. A. and certain Total companies have extended certain indemnities, or have assumed certain obligations, for the benefit of ARKEMA, relating to (i) certain antitrust litigation, (ii) certain actual or potential environmental liabilities of the Group arising from certain sites in France, Belgium and the United States, the operations on which in the majority of cases have ceased, (iii) certain tax matters, and (iv) the Spin-Off of Arkema's Businesses. These indemnities and obligations are described below.

27.2.1 The Indemnities extended by Total in respect of certain antitrust litigation

In order to cover potential risks in connection with antitrust litigation relating to anti-competitive agreements in Europe and the United States and arising from facts prior to the Completion Date (or prior to March 7, 2006, as the case may be), Total S.A. has extended to Arkema S.A. and Elf Aquitaine Inc. has extended to Arkema Finance France, a subsidiary of Total S.A. , the share capital of which was transferred to Arkema S.A. in the Spin-Off of Arkema's Businesses, the indemnities, the principal terms of which can be described as follows.

Subject-matter of the Indemnities

By an agreement dated March 15, 2006 (the *Arkema European Indemnity*), Total S.A. agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to a money judgment imposed by EU antitrust authorities, or by national antitrust authorities of a Member State of the European Union, for violations of antitrust laws relating to anticompetitive agreements, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries).

By an agreement dated March 15, 2006 (the *Arkema U.S. Indemnity*), Total S.A. also agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of a settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries).

In connection with the sale of Arkema Delaware, Inc. shares by Elf Aquitaine Inc. to Arkema Finance France, Elf Aquitaine Inc. agreed, in the agreement dated March 7, 2006 (the *Arkema Delaware Indemnity*), to indemnify Arkema Finance France for 90% of (i) any payment due by Arkema Finance France or any of its subsidiaries pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations occurring prior to March 7, 2006 of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of the settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema Finance France or any of its subsidiaries pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred by Arkema Finance France or any of its subsidiaries in connection with such proceedings.

Arkema Finance France has benefited from an indemnification of US$4 million under the Arkema Delaware Indemnity. At December 31, 2006, the residual amount covered by this indemnity amounts to US$889 million.

Finally, Total S.A. extended to Arkema S.A. a supplemental indemnity dated March 15, 2006 (the *Supplemental Arkema Delaware Indemnity*) covering 90% of sums payable by Arkema Finance France or any of its subsidiaries in respect of litigation relating to anticompetitive agreements in the United States in excess of the maximum amount covered by the Arkema Delaware Indemnity.

The Arkema European Indemnity, the Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are hereinafter referred to together as the *Indemnities* and individually as an *Indemnity*.

Liabilities not covered by the Indemnities

The following liabilities are not covered by the Indemnities:

- liabilities arising from facts occurring after the Completion Date in the case of the Arkema European Indemnity and the Arkema U.S. Indemnity, or after March 7, 2006 in the case of the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity (including, in case of liabilities arising from facts occurring both before and after the relevant date, the portion of the liability relating to the period after the Completion Date or after March 7, 2006, as the case may be);
- liabilities arising from violations of antitrust laws other than those prohibiting anticompetitive agreements; and
- liabilities imposed by authorities outside the European Union (in the case of the Arkema European Indemnity) or the United States (in the case of the other Indemnities).

Participation of Total S.A. in the management of litigation covered by the Indemnities

The Indemnities provide for the participation by Total S.A. or Elf Aquitaine Inc., as the case may be, in the management of litigation covered by the Indemnities, which involves a certain number of obligations on the part of Arkema S.A. and Arkema Finance France, in particular the obligation to notify Total S.A. or Elf Aquitaine Inc., as the case may be, of certain events occurring in the context of proceedings covered by the Indemnities and act in accordance with the advice and instructions of Total S.A. or Elf Aquitaine Inc., as the case may be, relating to such proceedings. Total S.A. and Elf Aquitaine Inc., as the case may be, also have the right to assume sole control of the defence of the Group entity in question. Failure by Arkema S. A. or Arkema Finance France to comply with these obligations can result, in certain circumstances, in the automatic termination of the Indemnity, as described below.

Amount of the indemnification

The Arkema European Indemnity, whose deductible of €176.5 million has been exceeded, gave rise to indemnification of €164 million being received from Total SA. The Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity do not have a deductible.

Cross-indemnities of Arkema S.A. and Arkema Inc.

Arkema S.A. and Arkema Inc. have agreed to indemnify Total S.A. in respect of any liability covered by the Indemnities but which is borne, not by a Group entity but by Total S.A. or one of its subsidiaries due to facts attributable to a Group company, whether the liability of Total S.A. or of its subsidiaries is determined to be direct or derivative, exclusive or joint and several, relative to the liability of the Group entity to which the facts are attributable.

However, this cross-indemnity by Arkema S.A. and Arkema Inc. will be reduced by the indemnity which would have been paid by Total S. A. or Elf Aquitaine Inc., as the case may be, under the relevant Indemnity if the liability had been borne by a Group company. Consequently, if the cross-indemnity of Arkema S.A. and Arkema Inc. is triggered, Arkema S.A. or Arkema Inc., as the case may be, would only be obligated to indemnify Total S.A. for 10% of the liabilities borne by Total S.A. or one of its subsidiaries (in the case of the Arkema European Indemnity, this 10% relates to the amount, if any, that exceed the deductible).

Term of the indemnities

The Arkema European Indemnity and the Arkema U.S. Indemnity are valid for a term of 10 years from the Completion Date. The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are valid for a term of 10 years from March 7, 2006.

The Arkema S.A. cross-indemnity is valid for a term of 10 years from the Completion Date.

The Arkema Inc. cross-indemnity is valid for a term of 10 years from March 7, 2006.

Termination of the Indemnities

Indemnities shall terminate in the event that a natural person or legal entity, acting alone or in concert with others, acquires, directly or indirectly, more than one third of the voting rights of Arkema S.A. (voting rights are subject to a ceiling of 10% — and 20% in the case of double voting rights — unless a purchaser acquires at least two thirds of the total number of Arkema S.A. shares in a public transaction targeting all Arkema S.A. shares) or if the Group transfers, directly or indirectly, in one or several times, to the same third party or to several third parties acting in concert, assets representing more than 50% of the Group's "enterprise value" (as defined in the Indemnities) at the time of the relevant transfer.

The Arkema European Indemnity and the Arkema U.S. Indemnity will terminate if Arkema S.A. loses control of Arkema France.

The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity will terminate if Arkema S.A. loses control of Arkema Finance France, or if Arkema Finance France loses control of Arkema Delaware Inc.

Finally, the Indemnities will terminate in the event of a material breach by the Group of its obligations under the relevant Indemnity if such breach has remained uncured for 30 days after notice by the indemnifying party demanding its cure.

The Indemnities provide that, upon the occurrence of a termination event, the only liabilities of Group companies that will remain covered by the Indemnities are those, if any, which (i) fell due prior to the termination event and (ii) were notified to Total S.A. or to Elf Aquitaine Inc., as the case may be, prior to the termination event.

27.2.2 Obligations and indemnities given in respect of Former Industrial Sites

In order to cover certain risks relating to certain industrial sites situated in France, Belgium and the United States in respect of which the Group is or could be held liable, and where, for the most part, operations have ceased (the *Former Industrial Sites*), Total S.A. companies have entered with Arkema S.A. or its subsidiaries into indemnity and service agreements the principal terms of which can be described as follows:

Agreement relating to Former Industrial Sites located in France

Arkema France has entered into various agreements with Total companies and in particular Retia. Pursuant to these agreements, the Total companies concerned, in consideration of a flat fee already paid by Arkema France, assume all the investigation, restoration and monitoring obligations that could be imposed on Arkema France by the competent administrative authorities in respect of industrial sites located in France the operation of which, for the most part, has ceased. To this end, the agreements provide, in particular, (i) in the majority of cases, for the transfer of ownership of the sites concerned by Arkema France to the Total companies concerned, (ii) for the Total companies concerned to be substituted for Arkema France in the capacity of last operator of those sites whenever that is possible, (iii) for the performance by the Total companies concerned of the restoration obligations of the sites in question in accordance with the applicable rules and (iv) for the indemnity by the Total companies in respect of the financial consequences of claims which could be brought against Arkema France by reason of the impact of those sites on the environment.

In most cases, Arkema France retains responsibility for the consequences concerning employees and former employees of Arkema France as well as third parties, in terms of public health or occupational pathologies, of the industrial activities formerly carried out by Arkema France and its predecessors on the sites which are the subject of the aforementioned agreements.

Agreement relating to the Former Industrial Site at Rieme in Belgium

On December 30, 2005, Arkema France sold all of the shares that it held in the share capital of the Belgian company Resilium Belgium to the company Septentrion Participations, a subsidiary of Total S.A.

The company Resilium Belgium is the owner of a Former Industrial Site located at Rieme in Belgium.

Having regard to the future costs that might arise from the restoration of the Former Industrial at Rieme, Arkema France has paid the company Septentrion Participations financial compensation. In exchange, Septentrion Participations has undertaken to assume all restoration obligations in respect of the site at Rieme and to indemnify Arkema France against all claims, actions and complaints relating to Resilium Belgium, its assets and its liabilities.

Agreement relating to certain Former Industrial Sites located in the United States

In March 2006, Arkema Finance France consummated the acquisition from Elf Aquitaine Inc. and Arkema France of Arkema Delaware Inc., a holding company of most of the Group's operations in the United States. The negotiated terms of the stock purchase agreement among Elf Aquitaine Inc., Legacy Sites Services LLC and Arkema Finance France, dated March 7, 2006 (the Arkema Delaware Main SPA) required Elf Aquitaine Inc. to use US$270 million to capitalize a new subsidiary, Legacy Sites Services LLC that will perform remediation services and indemnify the Group against the cost of environmental contamination liabilities incurred by the Group entities covered by this indemnity, and related personal injury and property damage claims associated with contamination at 35 of the Group's closed and formerly operated facilities and 24 third party sites where the Group's liability arises solely out of wastes shipments from the sites other than currently operated sites. In exchange for this indemnification, Arkema Finance France agreed to grant to Legacy Sites Services LLC control over remediation activities and the defence of claims relating to contamination liabilities at these facilities and sites, subject to certain exceptions and exclusions.

The sites currently operated by the Group are excluded from this indemnity, as are sites that received waste associated with current operations of the Group and certain sites where no significant restoration work is currently underway or anticipated and other sites where the Group could be held liable for environmental pollution. These other sites include, for example, sites where remediation has been conducted in the past or where future remediation costs or liability are believed to be insignificant or non-existent based upon information available at the time when the indemnity was entered into. Arkema Finance France has waived any claims against Legacy Sites Services LLC, Total S.A. or their respective subsidiaries in respect of the sites not covered by the indemnity.

The Legacy Sites Services LLC indemnity covers the costs of restoration and clean-up of the soil and groundwater, the costs of related defence and settlement costs and personal injury, property and natural resource damages. The indemnity does not cover liabilities unrelated to site remediation, in particular liabilities in respect of products manufactured on the said sites, liability arising from certain dangerous and potentially dangerous substances, particularly asbestos exposure and criminal liability.

The indemnity described above is capped at US$270 million. The amount received by ARKEMA under this indemnity amounted to US$12 million. At the same time as the stock purchase agreement and the indemnity described above, Legacy Site Services LLC and Arkema Inc. entered into a supplemental contamination indemnity agreement pursuant to which Legacy Site Services LLC will indemnify the liabilities of the Group in excess of US$270 million, on the same terms, for the same sites and subject to the same exceptions as the indemnity described in the preceding paragraph.

27.2.3 Tax indemnity granted by Total S.A.

In order to cover potential tax risks related to the business activities transferred by the Group to Total or from the reorganization in connection with the Spin-Off of Arkema's Businesses, Total S.A. has granted an indemnity to Arkema S.A., the main terms of which can be described as follows.

Purpose of the tax indemnity

Under the terms of an agreement dated March 15, 2006 (the *Tax Indemnity*), Total S.A. has undertaken to indemnify Arkema S. A. for (i) liabilities arising from any tax, customs or levies not covered by reserves, for which the Group would remain liable, when such liabilities arise from (x) activities in the petrochemicals and specialties sectors that were transferred by the Group to Total and the triggering event of which occurred prior to the date of such transfer; or (y) the reorganization undertaken for the purpose of spinning off Arkema's Businesses from Total S.A.'s Chemicals sector, including, in particular, the Elf Spin-Off, the Total Spin-Off, the Merger and certain prior securities reclassification transactions; (ii) interest, fines, penalties, additional charges or other costs related thereto; and (iii) provided that Total S.A. has given its prior consent, the expenses incurred by Arkema S.A. or the relevant Group company in connection with such liabilities.

The Tax Indemnity, however, does not cover tax reassessments in connection with Arkema's Businesses (with the exception of reassessments that may affect Arkema UK, as indicated below) and is subject to the specific terms described hereafter.

Involvement of Total S.A. in the management of litigation covered by the Tax Indemnity

The Tax Indemnity provides for a procedure pursuant to which Arkema S.A. must involve Total S.A. in the management of the tax audits or litigation relating to the tax liabilities covered by the Tax Indemnity. In particular, this procedure entails the obligation to notify Total S.A. of any event that is likely to give rise to a liability covered by the Tax Indemnity and to comply with the advice and instructions of Total S.A. in defending the interests of the relevant Group company. In the event of unresolved disagreements on the strategy, means, method or type of such defence, the final decision will be taken by Total S.A. Arkema S.A.'s failure to comply with its obligations may result in automatic termination of the Tax Indemnity.

Amount of the indemnity

The Tax Indemnity includes no deductible, trigger threshold or cap.

In the event that a liability cannot be clearly connected to the petrochemicals and specialties sector transferred by the Group to Total in relation to Arkema's Businesses, Arkema S.A. and Total S.A. will each bear 50% of the said liability.

Special provisions applying to Group companies that were included in the Total S.A. French tax group (groupe d'intégration fiscale de Total S.A.)

The tax sharing agreements (*conventions d'intégration fiscale*) between Total S.A. and the Group companies that were included in the Total S.A. French tax group provide that these companies will be required to pay to Total S.A. any additional taxes and penalties that may be due by Total S.A., as the head company of the tax Group, where they relate to the taxable income of such companies during the time they were included in the tax Group.

However, these companies will be exempt from such payments to Total S.A. with respect to tax liabilities relating to their taxable income for fiscal years during which they were included in the Total S.A. tax Group, if such liabilities are covered by the Tax Indemnity. In exchange, these companies waive the indemnity to which they would have been entitled pursuant to the Tax Indemnity.

Furthermore, in the event of a tax reassessment of a Group company relating to Arkema's Businesses (which are not covered by the Tax Indemnity) for a fiscal year during which such company was included in the Total S.A. tax Group, such company shall be liable to pay Total S.A. a contribution calculated on the basis of the net amount of the reassessment after the following allowances:

- if, following this reassessment, the Group Company has realized a profit in respect of the fiscal year to which the reassessment applies, a deductible of €3 million per company and per fiscal year;
- if, following this reassessment, the Group Company has relished a loss in respect of the fiscal year to which the reassessment applies, an allowance equal to the amount of the losses generated by such company with respect to Arkema's Businesses, as determined by Arkema S.A. and Total S.A.

Special provisions applying to certain foreign companies of the Group

No recourse shall be taken against Arkema Deutschland in respect of any tax reassessments applying to the years during which it was included in the German tax Groups formed by Total Mineralöl und Chemie and Total Deutschland.

Tax liabilities arising from the reorganization undertaken for purposes of separating Arkema's Businesses from Total's Chemicals sector in the Netherlands, which may have been incurred by Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group of which Arkema North Europe B.V. is the parent company are excluded from the Tax Indemnity. Any other tax liabilities arising from reassessments that may be applied to Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group will be assumed by these companies, which remain under Total S.A.'s control.

Arkema UK will benefit from a UK corporation tax indemnity covering any tax reassessments against it relating to Arkema's Businesses. This indemnity will be limited to the amount of losses generated by the Arkema Businesses that have been transferred by Arkema UK as result of the Group relief instituted by Total Holdings UK for corporation tax purposes in the United Kingdom.

Payment of the indemnity

The liabilities covered by the Tax Indemnity will give rise to an indemnification payment only if they are definitely determined by an enforceable decision that is not subject to appeal.

Duration of the Tax Indemnity

The Tax Indemnity shall expire at the end of two months following the statute of limitations effectively applicable to the tax liabilities covered by the Tax Indemnity.

Beneficiary of the Tax Indemnity

The Tax Indemnity is only for the benefit of Arkema S.A. or, as the case may be, Arkema France, if Arkema S.A. is merged into Arkema France.

27.2.4 Other indemnities given in the context of the Spin-Off of Arkema's Businesses

As part of the Total Spin-Off Agreement, Total S.A. and Arkema S. A. made certain representations and warranties, some of them in connection with the separation of ARKEMA from Total.

The agreement states that Total S.A. grants no indemnities, other than the indemnities and agreements entered into by the Total entities that are described in this paragraph, particularly with respect to the assets and the business activities of all ARKEMA entities, or the liabilities or obligations associated with such entities or activities, which Arkema S.A. declares that it is aware of and for which Arkema S.A. shall be responsible, including in the case of the appearance of any item that is not known as of the date of the Total Spin-Off Agreement, or of an increase in the amount of the aforesaid liabilities or obligations. Arkema S.A. releases Total S.A. from any such claim, except in the case of New Claims as defined below.

Representations and warranties relating to information exchanged in preparing the Spin-off of ARKEMA's Businesses

Total S.A. and Arkema S.A. have made mutual representations and warranties with respect to the accuracy and completeness of the information exchanged by the two companies in preparing the Spin-Off of Arkema's Businesses.

Representations and warranties relating to potential claims

After conducting all necessary and customary due diligence, Arkema S.A. has declared, recognized and warranted that, to its knowledge and to the knowledge of the ARKEMA entities, as of the date of the Total Spin-Off Agreement, there were no grounds for claims, actions or complaints by any ARKEMA entity or by any one of its *de facto* or *de jure* directors, corporate officers or executives against any Total entity or any one of its *de facto* or *de jure* employees, directors, corporate officers or executives (a *Total Entity*). The claims, actions or complaints mentioned above are hereinafter referred to as the *ARKEMA Claim(s)*.

Consequently, Arkema S.A. has undertook to indemnify Total S.A. and hold it harmless for the consequences of any ARKEMA Claim against any Total Entity.

Arkema S.A. has waived all Arkema Claims other than New Claims, as defined below.

Arkema S.A.'s indemnity and the waiver mentioned in the two preceding paragraphs do not apply to any potential ARKEMA Claim that would be based on (i) events attributable to a Total Entity or (ii) grounds of which no ARKEMA entity has any knowledge as of the date of the Total Spin-Off agreement, after completing the necessary and customary due diligences, but only if and insofar as such events or grounds do not relate solely to the fact that the ARKEMA companies belonged to Total prior to the Completion Date, or relate solely to the exercise of corporate offices or management functions by Total Entities within ARKEMA (the *New Claim(s)*).

At the same time, Total S.A. has declared, recognized and warranted that to its knowledge and to the knowledge of the Total entities, as of the date of the Total Spin-Off agreement, there were no grounds for claims, actions or complaints by any Total entity or by any one of its *de facto* or *de jure* directors, corporate officers or executives against any ARKEMA entity or any one of its *de facto* or *de jure* employees, directors, corporate officers or executives (the *ARKEMA Entity(ies)*), arising from the ownership or operation by ARKEMA entities of the companies or businesses acquired by Total before the Completion Date (the *Total Claim(s)*).

Total S.A. has declared, recognized and warranted that it had no Total Claim(s) arising from the exercise of corporate offices or functions by Arkema Entities within Total, and has waived all Total Claims on its part.

Consequently, Total S.A. has agreed to indemnify and hold harmless Arkema S.A. for the consequences of any Total Claim against any ARKEMA Entity.

Duration of the indemnities

No indemnity given in the Total Spin-Off agreement will survive after 10 years from the Completion Date.

In addition, the Arkema Delaware Main SPA provides that Arkema Finance France, which became a subsidiary of Arkema S.A. on the Completion Date, will indemnify Elf Aquitaine Inc., a subsidiary of Total S.A., for any taxes that may result from a breach of representations or covenants under the Arkema Delaware Main SPA or the *Tax Sharing Agreement* dated January 1, 2001, among Total Holdings USA Inc. and certain of its subsidiaries, by Arkema Finance

France, Arkema Delaware Inc., or certain of the subsidiaries of Arkema Delaware Inc. Elf Aquitaine Inc. will likewise indemnify Arkema Finance France for any taxes resulting from such breaches by Elf Aquitaine Inc. Moreover, the Arkema Delaware Main SPA provides that Elf Aquitaine Inc. and its US subsidiaries, on the one hand, and Arkema Delaware Inc. with certain of its US subsidiaries, on the other hand, will each be responsible for their share of US federal and state income taxes before March 7, 2006, as computed under the Tax Sharing Agreement, because for this period Elf Aquitaine Inc. files a consolidated US federal income tax return that includes Arkema Delaware Inc. and certain of its subsidiaries and pays the taxes due in respect of the consolidated US federal income tax return. Arkema Delaware Inc. and certain of its subsidiaries will be required to pay such amounts to Elf Aquitaine Inc. For periods after March 7, 2006, Arkema Delaware, Inc. and its US subsidiaries will be responsible to file income tax returns separately from Elf Aquitaine Inc. and separately to make all tax payments in respect of these returns.

With the exception of the obligations or indemnities described in this section, Total has not given to ARKEMA other material commitments or indemnities of the kind referred to in the first paragraph of this section “Commitments received from Total in 2006”.

NOTE 28 SUBSEQUENT EVENTS

The sale of the Cerexagri agrochemicals businesses to United Phosphorus Limited (UPL) is effective at February 1, 2007 (see chapter A-V).

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2006

Companies consolidated for the first time in 2006 are marked with an asterisk. Companies that form part of discontinued operations are marked with two asterisks. There was no disposal from the scope of consolidation in the year. Alphacan Omniplast GmbH was merged with Arkema GmbH on January 1, 2006.

The percentage of control indicated below also corresponds to the Group’s ownership interest in each entity.

Akishima Chemical Industries Co. Ltd.	Japan	100.00	FC
Alphacan BV	Netherlands	100.00	FC
Alphacan Espana S.A.	Spain	99.84	FC
Alphacan Omniplast GmbH	Germany	100.00	FC
Alphacan Perfiles SAU*	Spain	99.84	FC
Alphacan SA	France	100.00	FC
Alphacan Soveplast	France	100.00	FC
Alphacan SPA	Italy	100.00	FC
Altuglas International Services SAS	France	100.00	FC
Altuglas International SPA	Italy	100.00	FC
Altuglas International BV	Netherlands	100.00	FC
Altuglas International Mexico Inc.	United States	100.00	FC
Altuglas International S.A.	France	100.00	FC
Altuglas International UK Ltd.	United Kingdom	100.00	FC
Altumax Deutschland GmbH	Germany	100.00	FC
Altumax Europe SAS	France	100.00	FC
American Acryl LP	United States	50.00	EM
American Acryl NA LLC	United States	50.00	EM
Anning Decco Fine Chemical Co. Ltd.**	China	55.00	FC

Arkema	South Korea	100.00	FC
Arkema S.A.	France	100.00	FC
Arkema Beijing Chemicals Co. Ltd.	China	100.00	FC
Arkema BV	Netherlands	100.00	FC
Arkema Canada Inc	Canada	100.00	FC
Arkema Catalyst India Ltd	India	100.00	FC
Arkema Changshu Chemicals Co Ltd.*	China	100.00	FC
Arkema Changshu Fluorochemical Co. Ltd.	China	100.00	FC
Arkema China Investment Co. Ltd.	China	100.00	FC
Arkema Company Ltd.*	Hong-Kong	100.00	FC
Arkema Delaware Inc.	USA	100.00	FC
Arkema Europe Holdings BV	Netherlands	100.00	FC
Arkema Finance France	France	100.00	FC
Arkema Finance Nederland BV	Netherlands	100.00	FC
Arkema France	France	100.00	FC
Arkema GmbH	Germany	100.00	FC
Arkema Guangzhou Chemicals Co. Ltd.	China	100.00	FC
Arkema Holding Ltd.	United Kingdom	100.00	FC
Arkema Holland Holding BV	Netherlands	100.00	FC
Arkema Inc.	United States	100.00	FC
Arkema Iniciadores SA de CV	Mexico	100.00	FC
Arkema KK	Japan	100.00	FC
Arkema Ltd. (UK)	United Kingdom	100.00	FC
Arkema Ltd. (Vietnam)	Vietnam	100.00	FC
Arkema North Europe BV	Netherlands	100.00	FC
Arkema Peroxides India Private Limited	India	100.00	FC
Arkema Pte Ltd.	Singapore	100.00	FC
Arkema Pty Ltd.*	Australia	100.00	FC
Arkema Quimica Ltda	Brazil	100.00	FC
Arkema Quimica S.A.	Spain	99.84	FC
Arkema Hydrogen Peroxide Co. Ltd. Shanghaï	China	66.67	FC
Arkema RE*	Ireland	100.00	FC
Arkema Rotterdam BV	Netherlands	100.00	FC
Arkema Shanghai Distribution*	China	100.00	FC
Arkema sp Z.o.o	Poland	100.00	FC
Arkema SRL	Italy	100.00	FC
Arkema Vlissingen BV	Netherlands	100.00	FC
Arkema Wyoming Holdings. Inc.	United States	100.00	FC
Arkema Yoshitomi Ltd.	Japan	49.00	EM
Ceca Italiana SRL	Italy	100.00	FC
Ceca SA	France	100.00	FC
Cerexagri**	France	100.00	FC
Cerexagri B.V.**	Netherlands	100.00	FC
Cerexagri Delaware Inc.**	USA	100.00	FC

Cerexagri Iberica SA Unipersonal**	Spain	99.84	FC
Cerexagri Inc.**	USA	100.00	FC
Cerexagri Italia SRL**	Italy	100.00	FC
Cerexagri Ziraat VE Kimya Sanayi Ve Ticaret Ltd Sirketi**	Turkey	100.00	FC
Delaware Chemicals Corporation	United States	100.00	FC
Desarollo Quimica Industrial S.A.**	Spain	100.00	FC
Dorlyl SNC	France	100.00	FC
Febex S.A.	Switzerland	96.77	FC
Luperox Iniciadores SA de CV	Mexico	100.00	FC
Maquiladora General de Matamoros sa de CV	Mexico	100.00	FC
Michelet Finance. Inc.	United States	100.00	FC
Mimosa SAS	France	100.00	FC
MLPC International	France	100.00	FC
Oxochimie	France	50.00	EM
Ozark Mahoning Company	United States	100.00	FC
Plasgom	Spain	99.84	FC
Plasticos Altumax S.A.	Spain	100.00	FC
Qatar Vinyl Company Ltd.	Qatar	12.90	EM
Résil Belgium	Belgium	100.00	FC
Resilia SRL	Italy	100.00	FC
Resinoplast	France	100.00	FC
Safepack Products Ltd.**	Israel	100.00	FC
SEKI Arkema	South Korea	51.00	FC
Shanghaï Arkema Gaoyuan Chemicals Co. Ltd.	China	91.07	FC
Sofia*	France	100.00	FC
Stannica LLC	United States	40.00	EM
Sunclear	France	100.00	FC
Turkish Products. Inc.	United States	100.00	FC
Viking chemical company	United States	100.00	FC
Vinilis	Spain	35.00	EM
Vinylberre	France	65.05	FC
Vinylfos	France	79.00	FC
Wyoming Holdings Delaware. Inc.	United States	100.00	FC

NB:FC: Full consolidation
EM: Equity method

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Additional information

21.1 - Issued capital

21.1.1 AMOUNT OF SHARE CAPITAL (ARTICLE 6 OF THE ARTICLES OF ASSOCIATION)

As of the date of this reference document, the Company's share capital is €604,538,230, divided into 60,453,823 fully paid up shares of a single category.

21.1.2 FORM AND TRANSFER OF SHARES (ARTICLE 7 OF THE ARTICLES OF ASSOCIATION)

Shares may be held in registered or bearer form as required by the shareholder and providing that there are no legal or regulatory stipulations to the contrary.

The shares are freely negotiable. They are registered in an account and are transmitted by a transfer from one account to another, under the conditions of the applicable laws and regulations.

21.1.3 SECURITIES NOT GIVING ACCESS TO THE COMPANY'S CAPITAL

As of the date of this reference document, there are no securities other than equity securities.

21.1.4 SHARES HELD BY THE COMPANY

As of the date of this reference document, neither the Company nor its subsidiaries held any of the Company's shares.

The combined general meeting of shareholders on 10 May 2006 authorized the company to buy, for a period of 18 months following the meeting, its own shares up to a limit of 10% of the Company's capital.

Under the terms of the authorization given by the meeting, the Board of Directors was authorized to adjust the purchase price in the event of a transaction involving the Company's own shares, in order to take account of the effect of the transaction on the value of shares.

The maximum sum authorized for any such share purchase program was €200 million.

As of the date of this reference document, the Company has not implemented this repurchase program. The combined general meeting of shareholders on 10 May 2006 also authorized the company, for a period of 18 months, to cancel any shares acquired under the previous authorization in accordance with article L.225-209 of the *Code de Commerce*.

Proposals for a new share repurchase program will be submitted to the general meeting of shareholders held to approve accounts for the year to 31 December 2006. If adopted, this program will replace that whose authorization and other details are described above.

This general meeting will also be asked to authorize the Board of Directors, for a 24-month period, to cancel all shares acquired under the above authorization in accordance with article L.225-209 of the *Code de Commerce*, as the previous authorization to do so will expire on 10 November 2007.

21.1.5 UNISSUED AUTHORIZED CAPITAL, UNDERTAKINGS TO ISSUE CAPITAL

As of 31 December 2006 there were no securities other than the Company's shares giving access to the Company's capital.

A summary table of the outstanding delegations given to the Board of Directors by the combined general meeting of 10 May 2006 to make capital increases, and of the uses made of these delegations during 2006, is given below.

Summary of purpose	Period of authorization	Maximum authorized nominal value	Use made by the Board during 2006
Delegation of authority to the Board of Directors allowing the issue of shares in the Company and other securities giving access to shares in the Company or in one of its subsidiaries, **with maintenance of** the preferential subscription rights of existing shareholders.	26 months	€200 million €500 million (debt securities)	–
Delegation of authority to the Board of Director allowing the issue of shares in the Company and other securities giving access to shares in the Company or in one of its subsidiaries, **with the elimination of the preferential** subscription rights of existing shareholders.	26 months	€200 million €500 million (debt securities)	–
Authorization of the Board of Directors in the event of a capital issue with or without elimination of preferential subscription rights of existing shareholders (see 1 and 2 above) to increase the number of shares to be issued.	26 months	15% of the initial issue for each of the issues made under the delegations described at 1 and 2 above	–
Delegation of authority to the Board of Directors allowing the issue of shares in the Company and other securities giving access to shares in the Company in the event of a public share exchange tender offer made by the Company.	26 months	€200 million	–
Delegation of powers to the Board of Directors allowing the issue of shares in the Company and other securities giving access to shares in the Company, in consideration for transfers to the Company of shares or securities giving access to shares.	26 months	10% of issued capital at 2 June 2006, or €60,453,823	–
Delegation of authority to the Board of Directors allowing the issue of shares in the Company as a result of the issue by a subsidiary of the Company of securities giving access to shares in the Company.	26 months	€200 million	–
Limitation on combined amount under the authorizations listed above	26 months	€200 million	–
Delegation of authority to the Board of Directors allowing an increase in the Company's capital through incorporation of reserves, profits or premiums	26 months	€100 million	–
Delegation of authority to the Board of Directors allowing the issue of shares in the company reserved for employees subscribing to a company savings plan.	26 months	€20 million	–
Authorization given to the Board of Directors to make free allocations of the Company's shares	38 months	3% of issued capital at 2 June 2006, or €18,136,146	Allocation of 150,000 shares following the decision of the Board of Directors of 4 July 2006
Authorization given to the Board of Directors to issue options to subscribe for the Company's shares	38 months	5% of issued capital at 2 June 2006, or €30,226,911	Allocation of 540,000 options giving the right to subscribe for 540,000 shares following the decision of the Board of Directors of 4 July 2006
Authorization for the Board of Directors to reduce the share capital by canceling shares	18 months	10% of the Company's capital	–

At 31 December 2006, the Company's capital, which was €604,538,230, in 60,453,823 shares, was subject to an increase of 540,000 shares resulting from the exercise of 540,000 options, giving potential dilution of 0.89%. There are no other securities giving access to the Company's capital either immediately or in the future.

See section 17.4.3 of this reference document for a description of these options.

21.1.6 CAPITAL COVERED BY AN OPTION

As of the date of this reference document, and other than the stock option plans described in section 17.4.3, to the Company's knowledge, no option structure exists that could affect the Company's share capital.

21.1.7 HISTORY OF THE COMPANY'S CAPITAL OVER THE PAST THREE YEARS

Readers are reminded that the Company's capital, from its creation to its adoption of *Société Anonyme* (limited liability) status, was 100%-owned by Total S.A. and then virtually 100%-owned by Total S.A. from the time of this change of status to the listing of the shares in Arkema S.A. on the Eurolist by Euronext market. The distribution of the Company's shares at 31 December 2006 is given in paragraph 18.1 above.

21.2 - Memorandum and Articles of Association

21.2.1 THE COMPANY'S CORPORATE PURPOSE (ARTICLE 3 OF THE ARTICLES OF ASSOCIATION)

The Company's corporate purpose in any country is:

- to carry out all operations directly or indirectly relating to research, production, processing, distribution and marketing of all chemical and plastic products and their derivatives, by-products thereof and of all parachemical products;
- to acquire, hold and manage all securities, negotiable or otherwise, in French and foreign companies, through newly-created companies, contributions, limited partnerships, or by subscribing for or purchasing securities or corporate rights, or through mergers, combinations, joint venture companies or by obtaining the use of any property or rights under a lease, lease-management agreement or by dation, or otherwise; and
- more generally, to enter into all financial, commercial, industrial, real or personal property transactions that may be directly or indirectly related to any of the objects referred to above or to any other similar or connected objects, and designed to promote the Company's purpose, expansion or development.

21.2.2 MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BODIES

Provisions relating to the Board of Directors and management bodies are described in sections 15.1 to 15.3.3 of this reference document.

21.2.3 RIGHTS AND OBLIGATIONS ATTACHED TO THE SHARES (ARTICLE 9 OF THE ARTICLES OF ASSOCIATION)

In addition to the right to vote, each share gives the holder the right of ownership of a portion of the Company's assets, its profits and winding-up dividends (*boni de liquidation*), determined proportionately to the shareholding it represents.

Ownership of one share entails compliance with the Articles of Association of the Company and with all resolutions approved by the Company's shareholders at general meetings.

21.2.4 ALLOCATION OF PROFITS (ARTICLE 20 OF THE ARTICLES OF ASSOCIATION)

The following sums are allocated from the Company's profits for the year, less any retained losses, in the following order:

1) at least 5% is allocated to the legal reserve fund; once the legal reserve fund amounts to one-tenth of the share capital, this allocation is no longer mandatory;

2) any amounts that the shareholders have resolved to transfer to reserves, for which they will determine the allocation or use, pursuant to a resolution adopted at a general meeting; and

3) any amount that the general meeting shall decide to allocate to retained earnings.

Any remaining balance is paid out to the shareholders as dividends. The Board of Directors may pay interim dividends under the conditions provided by the applicable laws and regulations.

The general meeting called to approve the accounts for the financial year may grant each shareholder the option to receive all or part of the dividends or interim dividends in cash or in shares.

The general meeting may, at any time, on the Board of Directors' recommendation, decide to distribute all or part of the amounts contained in the reserve fund accounts either in cash or in shares in the Company.

21.2.5 AMENDMENTS TO SHAREHOLDERS' RIGHTS

In accordance with applicable laws, all amendments to the Articles of Association are subject to approval by an extraordinary general meeting duly constituted under the quorum and majority requirements provided by the applicable laws and regulations.

21.2.6 GENERAL MEETINGS

Convening Notice (article 16.1 of the Articles of Association)

General meetings are called under the conditions provided by the applicable laws and regulations.

Place of meeting (article 16.2 of the Articles of Association)

Meetings are held at the registered office or at any other place indicated in the notice of meeting.

Admission to general meetings (article 16.3 of the Articles of Association)

All shareholders, regardless of the number of shares they own, have the right to attend or to be represented at general meetings, providing that all payments due with respect to such shares have been made and that the shares are registered in an account under the following conditions:

- owners of bearer shares or shares registered in a securities account not held by the Company who wish to attend or be represented at general meetings must submit a certificate drawn up by the intermediary that holds their account, certifying the non-transferability of their shares until the meeting date. Such certificate shall be filed at the place indicated in the notice of meeting, at least three days before the date set for the meeting;
- owners of shares registered in an account held by the Company who wish to attend or be represented at general meetings must have their shares registered in the Company shareholder register at least three days before the date set for the meeting.

However, the Board of Directors or the Chairman, if so authorized by delegation, has always the power to reduce or cancel such notice periods and to accept filings that do not comply with these limits.

Use of telecommunications means (article 16.6 of the Articles of Association)

The Board of Directors has the power to decide that shareholders who take part in the general meeting by videoconference or other means of telecommunication that enable them to be identified and where the nature and conditions of such means of participation are determined by decree shall be deemed present for the purposes of calculating quorum and majority.

Representation at general meetings (article 16.5 of the Articles of Association)

Shareholders may be represented at general meetings by their spouse or by another shareholder or, if they are not domiciled in France, by an intermediary registered on their behalf, in accordance with the applicable laws and regulations.

Shareholders that are legal entities attend meetings through their legal representatives or any proxy appointed for this purpose.

Any member of the meeting who wishes to be represented by proxy shall send a proxy form to the Company, either on paper, or, if the Board of Directors provides for this option in both the announcement and convening notice, in electronic format, at least three days before the meeting. However, the Board of Directors or Chairman, if so authorized by delegation, has the power to reduce or waive such notice periods and to accept proxy forms that do not fall within this limit.

Proxies in electronic format may be filed or received by the Company until 3:00 p.m., Paris time, on the eve of the general meeting. The Board of Directors or Chairman, if so authorized by delegation, has the power to reduce or waive this period.

Exercise of voting rights (article 16.4 of the Articles of Association)

As from the time the meeting is called, any shareholder may request from the Company in writing a paper absentee ballot, or, if the Board of Directors provides for this option in both the announcement and notice of meeting, an electronic absentee ballot. Such requests must be delivered to or received at the registered office of the Company no more than six days before the date of the meeting. The Board of Directors has the power to reduce or waive this period.

Paper absentee ballots must be delivered to or received by the Company at least three days before the date of the general meeting. Electronic absentee ballots may be delivered to or received by the Company until 3:00 p.m., Paris time, on the eve of the general meeting. The Board of Directors or Chairman, if so authorized by delegation, has the power to reduce or waive this period.

Chair of general meetings (article 17.1 of the Articles of Association)

General meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director who is appointed specifically for this purpose by the Board of Directors. Failing this, the meeting elects its own chairman.

Quorum and majority at general meetings (article 17.2 of the Articles of Association)

General meetings, whether they are ordinary, extraordinary, combined or special, are duly constituted when they meet the quorum and majority conditions provided by applicable laws and regulations governing such meetings and exercise the powers ascribed to them by the law.

Voting rights, double voting rights (article 17.3 of the Articles of Association)

Subject to the provisions set forth below, each member of the meeting is entitled to as many voting rights and votes as the number of shares he owns or represents, providing that all payments due for such shares have been met.

However, double voting rights are conferred on all fully paid up shares in registered form that have been registered in the name of the same shareholder for at least two years, under the conditions applicable by law and by regulations.

Furthermore, in the event of a capital increase by capitalization of reserves, profits or share premiums, double voting rights are conferred, as of their issue, to shares in registered form allocated to shareholders on the basis of existing shares held by such shareholders and conferring such entitlement.

The merger or spin-off of the Company has no effect on double voting rights, which may be exercised within the beneficiary company or companies if the Articles of Association of such company provide for such rights.

Any share converted to a bearer share or of which the ownership is transferred loses the double voting rights gained under the three provisions above. However, transfer resulting from inheritance, the separation of goods between spouses or a living gift to a spouse or close relative does not result in the loss of rights acquired nor interrupt the qualifying period indicated above.

Limitations on voting rights (article 17.4 of the Articles of Association)

In a general meeting, no shareholder may, directly or through a proxy, express more than 10% of the total voting rights attached to the Company's shares, taking into account single voting rights attached to shares that he directly or indirectly holds and to the powers conferred to him. However, if such a shareholder also holds personally or as a proxy double voting rights, the 10% limit may be exceeded, taking into account only the additional voting rights resulting therefrom, and the combined voting rights expressed shall not exceed 20% of the total voting rights attached to the Company's shares.

In application of the foregoing provisions:

- the total number of voting rights attached to the Company's shares that is taken into consideration is calculated as of the date of the general meeting and the shareholders are notified thereof at the beginning of such general meeting;

- the number of voting rights held directly and indirectly means those voting rights attached to shares to which a natural person holds title, either personally or jointly, or through a company, group, association or foundation, and those that are attached to the shares held by a company that is controlled, within the meaning of article L.233-3 of the *Code de Commerce*, by another company or by a natural person, association, group or foundation;
- a shareholder's proxy returned to the Company without stating the name of the proxy is subject to the foregoing limitations. However, such limitations do not apply to the chairman of a general meeting who is voting by virtue of all such proxies combined.

The limitations provided in the foregoing paragraphs have no effect in calculating the total number of voting rights, including double voting rights, attached to the Company's shares and which must be taken into account in applying the legal, regulatory or statutory provisions providing for specific obligations by reference to the number of voting rights existing in the Company or the number of shares having voting rights.

The limitations set forth above shall lapse, without any need for a new resolution by an extraordinary general meeting, whenever a natural person or legal entity, acting separately or in concert with one or more natural persons or legal entities, should come to hold at least two thirds of the total number of shares in the Company following a public offering for all of the Company's shares. The Board of Directors then recognizes that the limitations have lapsed and carries out the related formalities to amend the Articles of Association.

21.2.7 CLAUSES LIABLE TO HAVE AN EFFECT ON CONTROL OF THE COMPANY

Subject to the granting of double voting rights to any shareholder who owns fully-paid shares and for which said shareholder must prove registered ownership for at least two years (article 17.3 of the Articles of Association) and to the limitation on voting rights (article 17.4 of the Articles of Association), no provision of the Articles of Association can delay, defer or prevent a change of control over the Company.

The clauses pertaining to double voting rights and limitations on voting rights that are liable to have an effect on control of the Company are set out in section 21.2.6 of this reference document.

21.2.8 IDENTIFICATION OF THE SHAREHOLDERS (ARTICLE 8.1 OF THE ARTICLES OF ASSOCIATION)

The Company may at any time make use of all applicable laws and regulations to identify the holders of securities that confer immediate or future voting rights in its own general meetings.

For purposes of identifying the holders of shares in bearer form the Company has the right, under the conditions provided by the applicable laws and regulations, to request at any time, at its own expense, that the central depository in charge of its securities issue account provide the name or company name, nationality, year of birth or of incorporation and the address of the holders of securities giving immediate or future access to voting rights at its general meetings as well as the number of securities held by each and any restrictions that may apply to such securities. If such information is not received within the period of time stipulated by the applicable regulations or if the information provided by the custodian account-holder is incomplete or erroneous, the central depository may request that the president of the district court (*Président du tribunal de grande instance*) order such information to be provided in a summary proceeding (*en référé*).

The information obtained by the Company cannot be transferred thereby, even at no charge, subject to the criminal sanctions provided by article 226-13 of the French Penal Code (*Code Pénal*).

Under the conditions specified by the applicable laws and regulations (particularly those concerning time limits), the intermediary registered on behalf of holders of securities in registered form who are not domiciled on the French territory is required to reveal the identity of the holders of such securities and of the number of securities held by each, at the request of the Company or of its representative, which may be submitted at any time.

As long as the Company deems that certain holders of securities in bearer form or in registered form whose identity has been communicated to the Company hold such shares on behalf of third parties, it has the right to request such holders to reveal the identity of the owners of these securities and the number of securities of each such owner under the conditions indicated above. When a person who has received a request in accordance with the foregoing provision fails to provide the information thus requested within the time specified by laws and regulations,+ or has provided incomplete or erroneous information either on his own capacity, or on the owners of the securities, or on the number of securities held by each, the shares or securities giving immediate or future access to the share capital and for which that person was registered shall be disqualified for voting purposes at any general meeting that may be held until the date on which all such information is made accurate, and payment of the corresponding dividend shall be postponed until such date.

Moreover, in the event that a registered person should knowingly fail to comply with the above provisions, the court having jurisdiction in the territory of the Company's registered office may, at the request of the Company or of one or more shareholders holding at least 5% of the share capital, partially or completely disqualify the questionable shares from voting and potentially from receiving the dividend, for a total of no more than five years.

Furthermore, without prejudice to the disclosure requirements set forth in article 8.2 of the Articles of Association, the Company may ask any legal entity that holds shares in the Company for more than one-fortieth of the share capital or voting rights to disclose the identity of persons who directly or indirectly hold more than one-third of the share capital or of the voting rights which are liable to be exercised at general meetings of such legal entity.

21.2.9 CROSSING OF THRESHOLDS (ARTICLE 8.2 OF THE ARTICLES OF ASSOCIATION)

In addition to the legal obligation to notify the Company of their holding of certain percentages of the share capital or voting rights, any natural person or legal entity, acting alone or in concert, that shall come to own, within the meaning of articles L.233-9 and L.233-9 and L.233-10 of the *Code de Commerce*, directly or indirectly, 1% or more of the share capital or voting rights, is required to notify the Company thereof by registered letter with return receipt stating the total number of shares, voting rights and securities giving future access to the capital and of voting rights attached thereto that it holds, alone or in concert, directly or indirectly, within five trading days from the date on which it crosses this threshold.

Above this 1% threshold and up to 33.33%, this disclosure requirement must be fulfilled under the conditions set forth above, each time the shareholder crosses a multiple of 0.5% of the share capital or voting rights.

Failure to disclose these thresholds as set forth in the first two paragraphs above shall result in those shares that should have been disclosed being disqualified for voting purposes at general meetings, if so requested at a meeting by one or more shareholders separately or together holding at least 3% of the Company's share capital or voting rights.

All shareholders, whether natural persons or legal entities, must also notify the Company in the manner and within the time limits indicated in the first two paragraphs above, whenever their direct, indirect or joint holdings fall below any of the thresholds mentioned in the said paragraphs.

22

Significant contracts

22.1 - Significant contracts

22.1.1 CONTRACTS OF FUNDAMENTAL IMPORTANCE FOR THE GROUP OR FOR A BU

At BU, or even Group level, the agreements described below are of fundamental importance, particularly in terms of supplies of raw materials or energy resources, profit margins, transport capacity or the setting up of establishments in attractive markets.

Agreement with EDF relating to the supply of electricity to chlorine-producing plants in France (1995-2010)

In an agreement entered into with EDF on 21 December 1995 and amended in July 2005 (the Agreement), Arkema France negotiated specific terms for the price indexation of electricity delivered to its four chlorine-producing plants (Fos-sur-Mer, Jarrie, Lavera, Saint-Auban) until the end of 2010. The competitiveness of the prices negotiated by Arkema France can be explained, in particular, by the duration of the commitments entered into, the substantial volumes of electricity purchased annually (electricity being the raw material for electrolysis) and a very specific consumption profile of the chlorine-producing sites, that is the constant rate of consumption (24 hours a day, 365 days a year) which provides synergies with electricity produced from nuclear power. Arkema France also agreed to reduce its consumption of electricity for short periods at the request of EDF and has waived its rights to electricity from hydro-electric power in favor of EDF.

In the medium- and long-term, the challenge for the Group is to negotiate the renewal of competitive terms for the supply of electricity beyond 2010 in the context of increasing energy prices.

Implementation of the rectificative Finance Act n° 2005-1720 of 30 December 2005 made it possible to create, on 12 May 2006, a consortium consisting of seven "electricity intensive" industrial companies including Arkema France.

This consortium, called Exeltium, is a *société par actions simplifiée* (simplified joint stock company) the main purpose of which is the purchase and resale of electricity under long-term contracts, including invitations to tender, negotiation and management of contracts throughout their term.

Exeltium launched a tender process, in which electricity producers were invited to participate, on 23 May 2006.

In early January 2007, Exeltium and the EDF Group signed heads of agreement concluding the negotiation process that followed this invitation to tender for the long-term supply of electricity. This agreement defines the terms and conditions of a long-term industrial and commercial partnership, notably covering volumes, prices and the sharing of industrial risk. The two parties undertook to present the contents of this agreement to the relevant European competition authorities as soon as possible. The aim for Exeltium is to finalize this partnership agreement with EDF and all other contracts with associates and banks as early in 2007 as possible, in order to proceed to the effective delivery of electricity under the conditions of the partnership agreement. In any event, ARKEMA does not expect to receive supplies of electricity under the conditions of this partnership agreement until the Agreement expires at the beginning of 2011.

Industrial Agreement with EDF signed on 21 December 1995 and amended in 2005 relating to the supply of electricity to non-chlorine producing sites in France

Elf Atochem (now known as Arkema France) reserved electricity supplies from EDF for its non-chlorine producing sites over a period of 25 years (1996-2020) in consideration for payment to EDF of an advance on its consumption. The quantities of electrical power reserved at the time would cover the electrical consumption of the non-chlorine producing sites of the former Elf Atochem France and its subsidiaries. This agreement was split into two between Total Petrochemicals France and Arkema France by an amendment dated 23 September 2005, which set out the rights and obligations of each party for the 15 years left to run. Since the liberalization of energy markets, prices are negotiated by mutual agreement with EDF based on market prices.

Agreement with Total Exploration Production France regarding the supply of standard hydrogen sulfide

Historically, the thiochemical activities are operated on the site at Lacq due to the local availability of hydrogen sulfide (H_2S) at low cost. Hydrogen sulfide, which is a key raw material in thiochemicals, is present in significant proportion in the gas at Lacq.

On 9 August 2002, Arkema France entered into an agreement for the supply of hydrogen sulfide with Elf Aquitaine Exploration Production France. This agreement took effect on 1 January 2003. Under the terms of this agreement, Total Exploration Production France (TEPF), formerly named Elf Aquitaine Exploration Production France, supplies acid gas rich in hydrogen sulfide via pipelines to the Arkema France units located at Lacq (France) and Mourenx (France). The agreement was entered into for an initial period of three years. It is tacitly renewable for periods of one year.

EDA services contract with Total Petrochemicals France (line 41 at Carling)

Total Petrochemicals France (TPF) owns line 41 on the Carling site, which mainly produces EDA for Arkema France, and can also produce polyethylene for TPF. Under the line 41 EDA toll-processing contract signed on 15 March 2006 with retroactive effect from 1 January 2005, Arkema France is responsible for procurement of the main raw materials, the supply of the EDA production process and the financing of related investment. For its part, TPF provides Arkema France with toll processing services, on line 41, of main raw materials into EDA and the supply of secondary raw materials and associated services. Arkema France pays TPF a remuneration calculated on the basis of a formula including actual costs and a fixed contractual remuneration supplement based on TPF's fixed costs. The agreement was concluded for an initial term of 8 years for Arkema France and 10 years for TPF. It is tacitly renewable for periods of one year.

Joint venture company with Nippon Shokubai (American Acryl)

The company American Acryl LLC was incorporated on 16 June 1997 for a term of 99 years and is owned in equal shares by NA Industries, Inc. (owned by Nippon Shokubai Co., Ltd) and by ARKEMA through its subsidiary Elf Atochem North America, Inc. (now called Arkema Inc.). The company was incorporated for the purpose of building an acrylic acid production unit, to operate such unit and to allocate its production to its members. Pursuant to the joint venture agreement, all important decisions are taken unanimously. For the purposes of production of acrylic acid, American Acryl LLC uses Nippon Shokubai technology under a license agreement. The activity of this joint venture company is essential for the Acrylics business, since it is the Group's sole source of production of acrylic acid in the United States.

Agreement for the production of hydrofluoric acid and Forane® F22 for Daikin on the Changshu site

In 2002, the Group started production of Forane® F22 at its unit in Changshu near Shanghai. The production of Forane® F22 is backed up by the upstream production of hydrofluoric acid (HF). The Group shares this production of Forane® F22 with the Japanese company Daikin pursuant to Heads of Agreement signed on 30 July 1998). This agreement provides for Daikin to have reserve capacity and to have access to the supplies of hydrofluoric acid necessary for its production. The amounts payable by Daikin in consideration of this are calculated on the basis of (i) the variable costs incurred as a function of the quantities produced, (ii) the share of fixed costs corresponding to the capacity reserved for Daikin, and (iii) the depreciation established to cover Daikin's share of the investment in the facilities. Initially, the Group was in fact the only investor in the production facilities. In order to obtain a reserve capacity, Daikin granted the Group various loans.

VCM contract for river transport by barge on the Rhone River

By a long-term contract which commenced on 1 April 2000, Arkema France agreed with Compagnie Fluviale de Transports de gaz (CFT gaz) the terms governing the transport of vinyl chloride monomer (VCM) from Fos-sur-Mer and Lavera to Saint-Fons by means of three motorized barges. This contract stipulates a minimum tonnage for transport. Its economic importance for the Group is fundamental since it enables the transportation of VCM in accordance with high safety standards and on economically favorable terms.

22.1.2 AGREEMENTS ILLUSTRATING SITUATIONS OF INDUSTRIAL DEPENDENCE

In certain cases, the supply of certain products or the geographic locations on a specific market can prove to be particularly dependent on the terms contained in a number of agreements. The agreements mentioned below illustrate such situations of industrial dependence.

Supply of ethylene (C2)

Pursuant to a long-term supply agreement entered into on 15 March 2006 and commencing on 1 May 2006, Total Petrochemicals France (TPF), using Petrofina as its agent, agreed to sell and deliver to Arkema France ethylene produced by its steam crackers at Carling, Feyzin and Lavera, for use at Arkema France's site and facilities at Carling, Balan, Jarrie, Fos and Lavera, respectively. The product is delivered to Arkema France's sites and facilities by pipelines belonging to Total S.A. or to the Shell group. The quantities delivered are invoiced on the basis of a negotiated price or, in the absence of agreement, on the basis of a price which takes into account the quarterly contract price "free delivered North West Europe" published by ICIS).

Supplies of propylene (C3)

Pursuant to a long-term agreement for the supply of propylene entered into on 15 March 2006 and commencing on 1 May 2006, TPF and Petroraf, using Petrofina as their agent, agreed to sell and deliver to Arkema France propylene produced by the steam crackers at Carling and Lavera or from the refinery at La Mède, for use at Arkema France's sites and facilities at Carling (Acrylics) and Lavera (oxo-alcohol production). The product is delivered to Arkema France's sites and facilities by pipelines. The quantities delivered are invoiced on the basis of a negotiated price or, in the absence of agreement, on the basis of a price which takes into account the quarterly contract price "free delivered North West Europe" published by ICIS.

Butanol purchase agreement (Notre-Dame-de-Gravenchon)

Pursuant to a long-term agreement concluded on 15 March 2006, TPF, through Petrofina, undertook to supply the Arkema France plant at La Chambre (Maurienne valley, France) with all the secondary butanol (B2) synthesized by TPF at its Notre-Dame-de-Gravenchon unit (France). In order to synthesize B2, the Notre-Dame-de-Gravenchon unit uses Raffinate 2 (a mixture of butane and butenes) which comes from (i) Raffinate 1 produced by the steam cracker at Gonfreville belonging to TPF, transformed into Raffinate 2 by the company Lubrizol, with which TPF is connected by an agreement for the supply of services, and (ii) in addition, from purchases made from other European petrochemical companies. B2 is the essential raw material for the Arkema France unit at La Chambre and is used in the production of an organic solvent, methyl ethyl ketone (MEK). In the event of termination or non-renewal of the Lubrizol agreement, non-renewal of the butanol purchase agreement with TPF, structural difficulties in obtaining supplies from other suppliers, or in the event of the closure of the site at Notre-Dame-de-Gravenchon, the future of the Arkema France unit at La Chambre would be significantly at risk.

MMA capacity entitlement contract with Rohm and Haas in the United States

The Group signed a contract with Rohm and Haas in October 2000 to reserve methyl methacrylate (MMA) production capacity in the United States, which was supplemented by two further contracts, signed in 2001 and 2003. Pursuant to these contracts, Rohm and Haas supplies the Group with significant quantities of MMA. This contract is essential for the PMMA business of the Group since it represents the only source of supply of MMA in the United States.

22.1.3 AGREEMENT REPRESENTING SIGNIFICANT INCOME

The agreements described below represent a significant source of sales for the Group

Contract between Arkema Inc. and Novus for the supply of 3-methyl thiopropionaldehyde (MMP)

Atofina Chemicals, Inc. (now known as Arkema Inc.) entered into a long-term contract with Novus International, Inc. on 1 January 2002 for the production of 3-methyl thiopropionaldehyde (MMP), an intermediate in the manufacture of methionine, at its site in Beaumont, Texas (United States). Under the terms of this contract, Atofina Chemicals, Inc. built an MMP production unit on behalf of Novus International, Inc., which operated by Atofina Chemicals, Inc. Most of the production capacity of the plant is reserved for the supply of Novus International, Inc.

Contract between Arkema and subsidiaries of Total S.A. for the supply of acrylic acid and acrylic derivatives

The Acrylics BU supplies acrylic acid and acrylic derivatives (particularly esters), as well as phthalic anhydride, to various subsidiaries of Total. These supplies represent an essential part of the sales of the Acrylics BU and contribute substantially to its profits. In the case of the acid and the acrylic derivatives, these supplies have been secured by an agreement with a term of five (5) years entered into with Total S.A. subsidiaries on 8 March 2006.

22.2 - Guarantees and indemnities from the Total Group

In connection with the Spin-Off of Arkema's Businesses, Total S.A. and certain Total S.A. companies have extended certain indemnities, or have assumed certain obligations, for the benefit of ARKEMA, relating to (i) certain antitrust litigation, (ii) certain actual or potential environmental liabilities of the Group arising from certain sites in France, Belgium and the United States, the operations on which in the majority of cases have ceased, (iii) certain tax matters, and (iv) the Spin-Off of Arkema's Businesses. These indemnities and obligations are described below.

The Indemnities extended by Total S.A. in respect of certain antitrust litigation

In order to cover potential risks in connection with antitrust litigation relating to anti-competitive agreements in Europe and the United States and arising from facts prior to the Completion Date (or prior to 7 March 2006, as the case may be), Total S.A. has extended to Arkema S.A. and Elf Aquitaine, Inc. has extended to Arkema Finance France, the indemnities, the principal term of which are described below.

Context of the Indemnities

The indemnities described below have been extended by Total S.A. and Elf aquitaine, Inc. in connection with, and in order to facilitate the completion of, the Spin-Off of Arkema's Businesses, and should not be interpreted as constituting an acknowledgement of liability of any kind whatsoever on the part of Total S.A. or any of its direct or indirect subsidiaries.

Subject matter of the Indemnities

By an agreement dated 15 March 2006 (the Arkema European Indemnity), Total S.A. agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to a money judgment imposed by EU antitrust authorities, or by national antitrust authorities of a Member State of the European Union, for violations of antitrust laws relating to anticompetitive agreements, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries).

By an agreement dated 15 March 2006 (the Arkema US Indemnity), Total S.A. also agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of a settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Finance France and its subsidiaries).

In connection with the sale of Arkema Delaware, Inc. shares by Elf Aquitaine, Inc. to Arkema Finance France, Elf Aquitaine, Inc. agreed, in the agreement dated 7 March 2006 (the Arkema Delaware Indemnity), to indemnify Arkema Finance France for 90% of (i) any payment due by Arkema Finance France or any of its subsidiaries pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations occurring prior to 7 March 2006 of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of the settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema Finance France or any of its subsidiaries pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred by Arkema Finance France or any of its subsidiaries in connection with such proceedings.

The amount covered by the Arkema Delaware Indemnity is subject to a cap of $893 million.

Finally, Total S.A. extended to Arkema S.A. a supplemental indemnity dated 15 March 2006 (the Supplemental Arkema Delaware Indemnity) covering 90% of sums payable by Arkema Finance France or any of its subsidiaries in respect of litigation relating to anticompetitive agreements in the United States in excess of the maximum amount covered by the Arkema Delaware Indemnity.

The Arkema European Indemnity, the Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are hereinafter referred to together as the Indemnities and individually as an Indemnity.

Liabilities not covered by the Indemnities

The following liabilities are not covered by the Indemnities:

- liabilities arising from facts occurring after the Completion Date in the case of the Arkema European Indemnity and the Arkema U.S. Indemnity, or after 7 March 2006 in the case of the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity (including, in case of liabilities arising from facts occurring both before and after the relevant date, the portion of the liability relating to the period after the Completion Date or after 7 March 2006, as the case may be);
- liabilities arising from violations of antitrust laws other than those prohibiting anticompetitive agreements;
- liabilities imposed by authorities outside the European Union (in the case of the Arkema European Indemnity) or the United States (in the case of the other Indemnities).

Participation of Total S.A. in the management of litigation covered by the Indemnities

The Indemnities provide for the participation by Total S.A. or Elf Aquitaine, Inc., as the case may be, in the management of litigation covered by the Indemnities, which involves a certain number of obligations on the part of Arkema S.A. and Arkema Finance France, in particular the obligation to notify Total S.A. or Elf Aquitaine, Inc., as the case may be, of certain events occurring in the context of proceedings covered by the Indemnities and act in accordance with the advice and instructions of Total S.A. or Elf Aquitaine, Inc, as the case may be, relating to such proceedings. Total S.A. and Elf Aquitaine, Inc., as the case may be, also have the right to assume sole control of the defense of the Group entity in question. Failure by Arkema S. A. or Arkema Finance France to comply with these obligations can result, in certain circumstances, in the automatic termination of the Indemnity, as described below.

Amount of the indemnification

The Arkema European Indemnity can be claimed when the cumulative liability covered by this indemnity exceeds the sum of €176.5 million for which provisions were created in the Group's account on the date of the spin off of ARKEMA from the Total Group . Until this deductible is reached, Arkema S.A. may not claim indemnification from Total S.A. under the Arkema European Indemnity. The Arkema US Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity do not have a deductible.

However, if the deductible under the Arkema European Indemnity is not reached within 10 years of the Completion Date, Arkema S.A. will reimburse Total S.A. the amounts paid by Total S.A. and Elf Aquitaine, Inc. under the Arkema U.S., Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity up to an amount equal to the difference between the deductible and the cumulative amount of liabilities (*Passifs*) (as defined in the Arkema European Indemnity). Indemnification obligations under the Indemnities are triggered only with respect to liabilities that are due and payable.

In the balance sheet as of 31 December 2005 a total provision of €212 million was recorded. This took into account the deductible of €176.5 million. Given the progress of the claims against the Group in 2006, described in section 6.5.1 of this reference document, this provision was reversed at the end of 2006 for the amount of the deductible. In addition, given that the deductible amount had been exceeded, the mechanisms of the Total indemnity for 90% of liabilities came into force.

The cross-indemnities of Arkema S.A. and Arkema Inc.

Arkema S.A. and Arkema Inc. have agreed to indemnify Total S.A. in respect of any liability covered by the Indemnities but which is borne, not by a Group entity but by Total S.A. or one of its subsidiaries due to facts attributable to a Group company, whether the liability of Total S.A. or of its subsidiaries is determined to be direct or derivative, exclusive or joint and several, relative to the liability of the Group entity to which the facts are attributable.

However, this cross-indemnity by Arkema S.A. and Arkema Inc. will be reduced by the indemnity which would have been paid by Total S.A. or Elf Aquitaine, Inc., as the case may be, under the relevant Indemnity if the liability had been borne by a Group company. Consequently, if the cross-indemnity of Arkema S.A. and Arkema Inc. is triggered, Arkema S.A. or Arkema Inc., as the case may be, would only be obliged to indemnify Total S.A. for 10% of the liabilities borne by Total S.A. or one of its subsidiaries (in the case of the Arkema European Indemnity, this 10% relates to the amount, if any, in excess of the deductible).

Term of the Indemnities

The Arkema European Indemnity and the Arkema U.S. Indemnity are valid for a term of 10 years from the Completion Date. The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are valid for a term of 10 years from 7 March 2006.

The Arkema S.A. cross-indemnity is valid for a term of 10 years from the Completion Date.

The Arkema Inc. cross-indemnity is valid for a term of 10 years from 7 March 2006.

Termination of the Indemnities

Indemnities shall terminate in the event that a natural person or legal entity, acting alone or in concert with others, acquires, directly or indirectly, more than one third of the voting rights of Arkema S.A. (it being noted that voting rights are capped at 10%, or 20% in the case of double voting rights, unless an acquirer comes to own at least two-thirds of the total number of shares of Arkema S.A. following a public offer to buy all of Arkema S.A.'s shares); or if the Group were to transfer, in one or several transactions to a single third party or a number of third parties acting in concert, and irrespective of the details of such transfer, assets representing more than 50% of the enterprise value of the Group at the date of such transfer.

The Arkema European Indemnity and the Arkema U.S. Indemnity will terminate if Arkema S.A. loses control of Arkema France.

The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity will terminate if Arkema S.A. loses control of Arkema Finance France, or if Arkema Finance France loses control of Arkema Delaware Inc.

Finally, the Indemnities will terminate in the event of a material breach by the Group of its obligations under the relevant Indemnity if such breach has remained uncured for 30 days after notice by the indemnifying party demanding its cure.

The Indemnities provide that, upon the occurrence of a termination event, the only liabilities of Group companies that will remain covered by the Indemnities are those, if any, which (i) fell due prior to the termination event and (ii) were notified to Total S.A. or to Elf Aquitaine, Inc., as the case may be, prior to the termination event.

Obligations and indemnities given in respect of Former Industrial Sites in France and the United States

In order to cover certain risks relating to certain industrial sites situated in France and the United States in respect of which the Group is or could be held liable, and where, for the most part, operations have ceased (the Former Industrial Sites), Total S.A. companies have entered with Arkema S.A. or its subsidiaries into indemnity and service agreements the principal terms of which can be described as follows:

Agreement relating to Former Industrial Sites located in France

Prior to the spin-off of the Arkema's Businesses, Arkema France signed a number of contracts with various companies owned by Total S.A., most notably Retia. Pursuant to these agreements, the Total S.A. companies concerned, in consideration of a flat fee already paid by Arkema France, assume all the investigation, restoration and monitoring obligations that could be imposed on Arkema France by the competent administrative authorities in respect of industrial sites located in France the operation of which, for the most part, has ceased. To this end, the agreements provide, in particular, (i) in the majority of cases, for the transfer of ownership of the sites concerned by Arkema France to the Total S.A. companies concerned, (ii) for the Total companies concerned to be substituted for Arkema France in the capacity of last operator of those sites whenever that is possible, (iii) for the performance by the Total S.A. companies concerned of the restoration obligations of the sites in question in accordance with the applicable rules and (iv) for the indemnity by the Total S.A. companies in respect of the financial consequences of claims which could be brought against Arkema France by reason of the impact of those sites on the environment.

The transfer of land to Retia has been completed and the declarations of change of operator for most of the sites affected have been made to the body responsible for administering registered sites.

In most cases, Arkema France retains responsibility for the consequences concerning employees and former employees of Arkema France as well as third parties, in terms of public health or occupational pathologies, of the industrial activities formerly carried out by Arkema France and its predecessors on the sites which are the subject of the aforementioned agreements.

Agreement relating to certain Former Industrial Sites located in the United States

In March 2006, Arkema Finance France completed the acquisition from Elf aquitaine, Inc. and Arkema France of Arkema Delaware Inc., a holding company of most of the Group's operations in the United States. Under the negotiated terms of the stock purchase agreement among Elf aquitaine, Inc., Legacy Sites Services and Arkema Finance France (the Arkema Delaware main SPA), Elf aquitaine, Inc. provided capital of $270 million to a new subsidiary, Legacy Sites Services LLC, to be responsible, under an indemnity agreement, for the costs that might arise under the liability of Group entities covered by this indemnity for environmental pollution, including any damage to persons or property relating to such pollution. This indemnity covered 35 closed industrial sites that had been operated or owned by the Group in the past, and 24 sites belonging to third parties for which the responsibility of the Group is engaged due to the storage of waste coming from sites other than sites currently in operation. In exchange for this indemnification, Arkema Finance France agreed to grant to Legacy Sites Services LLC control over remediation activities and the defense of claims relating to contamination liabilities at these facilities and sites, subject to certain exceptions and exclusions.

The sites currently operated by the Group are excluded from this indemnity, as are sites that received waste associated with current operations of the Group and certain sites where no significant restoration work is currently under way or anticipated, and other sites where the Group could be held liable for environmental pollution. These other sites include, for example, sites where remediation has been conducted in the past or where future remediation costs or liability are believed to be insignificant or non-existent, based upon information available at the time when the indemnity was entered into. Arkema Finance France has waived any claims against Legacy Sites Services LLC, Total S.A. or their respective subsidiaries in respect of the sites not covered by the indemnity.

The Legacy Sites Services LLC indemnity covers the costs of restoration and clean-up of the soil and groundwater, the costs of related defense and settlement costs and personal injury, property and natural resource damages. The indemnity does not cover liabilities unrelated to site remediation, in particular liabilities in respect of products manufactured on the said sites, or liability arising from certain dangerous and potentially dangerous substances, particularly asbestos exposure and criminal liability.

The indemnity described above is capped at $270 million. At the same time as the stock purchase agreement and the indemnity described above, Legacy Site Services LLC and Arkema Inc. entered into a supplemental contamination indemnity agreement pursuant to which Legacy Site Services LLC will indemnify the liabilities of the Group in excess of $270 million, on the same terms, for the same sites and subject to the same exceptions as the indemnity described in the preceding paragraph.

Tax indemnity granted by Total S.A.

In order to cover potential tax risks related to the business activities transferred by the Group to TOTAL S.A. or from the reorganization in connection with the Spin-Off of Arkema's Businesses, TOTAL S.A. has granted an indemnity to Arkema S.A., the main terms of which can be described as follows.

Purpose of the tax indemnity

Under the terms of an agreement dated 15 March 2006 (the Tax Indemnity), Total S.A. has undertaken to indemnify Arkema S.A. for (i) liabilities arising from any tax, customs or levies not covered by reserves, for which the Group would remain liable, when such liabilities arise from (a) activities in the petrochemicals and specialties sectors that were transferred by the Group to Total S.A. and the triggering event of which occurred prior to the date of such transfer; or (b) the reorganization undertaken for the purpose of spinning off Arkema's Businesses from Total S.A.'s Chemicals sector, including, in particular, the Elf Spin-Off, the Total Spin-Off, the Merger and certain prior securities reclassification transactions; (ii) interest, fines, penalties, additional charges or other costs related thereto; and (iii) provided that Total S.A. has given its prior consent, the expenses incurred by Arkema S.A. or the relevant Group company in connection with such liabilities.

The Tax Indemnity, however, does not cover tax reassessments in connection with Arkema's Businesses (with the exception of reassessments that may affect Arkema UK, as indicated below).

Involvement of Total S.A. in the management of litigation covered by the Tax Indemnity

The Tax Indemnity provides for a procedure pursuant to which Arkema S.A. must involve Total S.A. in the management of the tax audits or litigation relating to the tax liabilities covered by the Tax Indemnity. In particular, this procedure entails the obligation to notify Total S.A. of any event that is likely to give rise to a liability covered by the Tax Indemnity and to comply with the advice and instructions of Total S.A. in defending the interests of the relevant Group company. In the event of unresolved disagreements on the strategy, means, method or type of such defense, the final decision will be taken by Total S.A. Arkema S.A.'s failure to comply with its obligations may result in automatic termination of the Tax Indemnity.

Amount of the indemnity

The Tax Indemnity includes no deductible, trigger threshold or cap.

In the event that a liability cannot be clearly connected to the petrochemicals and specialties sector transferred by the Group to Total S.A. in relation to Arkema's Businesses, Arkema S.A. and Total S.A. will each bear 50% of the said liability.

Special provisions applying to Group companies that were included in the Total S.A. French tax group (groupe d'intégration fiscale de Total S.A.)

The tax sharing agreements (*conventions d'intégration fiscale*) between Total S.A. and the Group companies that were included in the Total S.A. French tax group provide that these companies will be required to pay to Total S.A. any additional taxes and penalties that may be due by Total S.A., as the head company of the tax group, where they relate to the taxable income of such companies during the time they were included in the tax group.

However, these companies will be exempt from such payments to Total S.A. with respect to tax liabilities relating to their taxable income for fiscal years during which they were included in the Total S.A. tax group, if such liabilities are covered by the Tax Indemnity. In exchange, these companies waive the indemnity to which they would have been entitled pursuant to the Tax Indemnity.

Furthermore, in the event of a tax reassessment of a Group company relating to Arkema's Businesses (which are not covered by the Tax Indemnity) for a fiscal year during which such company was included in the Total S.A. tax group, such company shall be liable to pay Total S.A. a contribution calculated on the basis of the net amount of the reassessment after the following allowances:

- if, following this reassessment, the Group Company has realized a profit in respect of the fiscal year to which the reassessment applies, a deductible of three million euros per company and per fiscal year;
- if, following this reassessment, the Group Company has realized a loss in respect of the fiscal year to which the reassessment applies, an allowance equal to the amount of the losses generated by such company with respect to Arkema's Businesses, as determined by Arkema S.A. and Total S.A.

Special provisions applying to certain foreign companies of the Group

No recourse shall be taken against Arkema Deutschland in respect of any tax reassessments applying to the years during which it was included in the German tax groups formed by Total Mineralöl und Chemie and Total Deutschland.

Tax liabilities arising from the reorganization undertaken for purposes of separating Arkema's Businesses from Total's Chemicals sector in the Netherlands, which may have been incurred by Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group of which Arkema North Europe B.V. is the parent company, are excluded from the Tax Indemnity. Any other tax liabilities arising from reassessments that may be applied to Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group will be assumed by these companies, which remain under Total S.A.'s control.

Arkema UK will benefit from a UK corporation tax indemnity covering any tax reassessments against it relating to Arkema's Businesses. This indemnity will be limited to the amount of losses generated by the Arkema's Businesses that have been transferred by Arkema UK as result of the group relief instituted by Total Holdings UK for corporation tax purposes in the United Kingdom.

Payment of the indemnity

The liabilities covered by the Tax Indemnity will give rise to an indemnification payment only if they are definitely determined by an enforceable decision that is not subject to appeal.

Duration of the Tax Indemnity

The Tax Indemnity shall expire at the end of two months following the statute of limitations effectively applicable to the tax liabilities covered by the Tax Indemnity.

Beneficiary of the Tax Indemnity

The Tax Indemnity is only for the benefit of Arkema S.A. or, as the case may be, Arkema France, if Arkema S.A. is merged into Arkema France.

Other indemnities given in the context of the Spin-Off of Arkema's Businesses

As part of the Total Contribution Agreement, Total S.A. and Arkema S.A. made certain representations and warranties, some of them in connection with the separation of ARKEMA from Total.

The agreement states that Total S.A. grants no indemnities, other than the indemnities and agreements entered into by the Total entities that are described in this paragraph 22.2, particularly with respect to the assets and the business activities of all ARKEMA entities, or the liabilities or obligations associated with such entities or activities, which Arkema S.A. declares that it is aware of and for which Arkema S.A. shall be responsible, including in the case of the appearance of any item that is not known as of the date of the Total Spin-Off Agreement, or of an increase in the amount of the aforesaid liabilities or obligations. Arkema S.A. releases Total S.A. from any such claim, except in the case of New Claims as defined below.

Representations and warranties relating to the reference document

Total S.A. and Arkema S.A. granted each other reciprocal representations and warranties regarding the accuracy and completeness of the information for which they are each responsible contained in the prospectus for the listing of Arkema S.A. shares on Eurolist by Euronext, that received from the *"Autorité des marchés financiers*" the visa n° 06-106.

Representations and warranties relating to information exchanged in preparing the Spin-off of Arkema's Businesses

Total S.A. and Arkema S.A. have made mutual representations and warranties with respect to the accuracy and completeness of the information exchanged by the two companies in preparing the Spin-Off of Arkema's Businesses.

Representations and warranties relating to potential claims

After conducting all necessary and customary due diligence, Arkema S.A. has declared, recognized and warranted that, to its knowledge and to the knowledge of the ARKEMA entities, as of the date of the Total Spin-Off Agreement, there were no grounds for claims, actions or complaints by any ARKEMA entity or by any one of its de facto or de jure employees, directors, corporate officers or executives against any Total entity or any one of its de facto or de jure employees, directors, corporate officers or executives (a Total Entity). The claims, actions or complaints mentioned above are hereinafter referred to as the Arkema Claim(s).

Consequently, Arkema S.A. has undertaken to indemnify Total S.A. and hold it harmless for the consequences of any Arkema Claim against any Total Entity.

Arkema S.A. has waived all Arkema Claims other than New Claims, as defined below.

Arkema S.A.'s indemnity and the waiver mentioned in the two preceding paragraphs do not apply to any potential Arkema Claim that would be based on (i) events attributable to a Total Entity or (ii) grounds of which no ARKEMA entity has any knowledge as of the date of the Total Spin-Off agreement, after completing the necessary and customary due diligences, but only if and insofar as such events or grounds do not relate solely to the fact that the ARKEMA companies belonged to Total prior to the Completion Date, or relate solely to the exercise of corporate offices or management functions by Total Entities within ARKEMA (the New Claim(s)).

At the same time, Total S.A. has declared, recognized and warranted that to its knowledge and to the knowledge of the Total entities, as of the date of the Total Spin-Off agreement, there were no grounds for claims, actions or complaints by any Total entity or by any one of its de facto or de jure directors, corporate officers or executives against any ARKEMA entity or any one of its de facto or de jure employees, directors, corporate officers or executives (the Arkema Entity(ies)), arising from the ownership or operation by ARKEMA entities of the companies or businesses acquired by Total S.A. before the Completion Date (the Total Claims).

Total S.A. has declared, recognized and warranted that it had no Total Claim(s) arising from the exercise of corporate offices or functions by Arkema Entities within Total S.A., and has waived all Total Claims on its part.

Consequently, Total S.A. has agreed to indemnify and hold harmless Arkema S.A. for the consequences of any Total Claim against any Arkema Entity.

Duration of the indemnities

No indemnity given in the Total Spin-Off agreement will survive after 10 years from the Completion Date.

In addition, the Arkema Delaware Main SPA provides that Arkema Finance France, which became a subsidiary of Arkema S.A. on the Completion Date, will indemnify Elf Aquitaine, Inc., a subsidiary of Total S.A., for any taxes that may result from a breach of representations or covenants under the Arkema Delaware Main SPA or the Tax Sharing Agreement dated January 1, 2001, among Total Holdings USA, Inc. and certain of its subsidiaries, by Arkema Finance France, Arkema Delaware Inc., or certain of the subsidiaries of Arkema Delaware Inc. Elf Aquitaine, Inc. will likewise indemnify Arkema Finance France for any taxes resulting from such breaches by Elf Aquitaine, Inc. Moreover, the Arkema Delaware Main SPA provides that Elf aquitaine, Inc. and its US subsidiaries, on the one hand, and Arkema Delaware Inc. with certain of its US subsidiaries, on the other hand, are each responsible for their share of US federal and state income taxes before March 7, 2006, as computed under the Tax Sharing Agreement, because for this period Elf Aquitaine, Inc. has filed a consolidated US federal income tax return that includes Arkema Delaware Inc. and certain of its subsidiaries and pays the taxes due in respect of the consolidated US federal income tax return. Arkema Delaware Inc. and certain of its subsidiaries will be required to pay such amounts to Elf Aquitaine, Inc. For periods after March 7, 2006, Arkema Delaware, Inc. and its US subsidiaries are responsible to file income tax returns separately from Elf Aquitaine, Inc. and separately to make all tax payments in respect of these returns.

With the exception of the obligations or indemnities described in this section, Total S.A. has not given to ARKEMA other material commitments or indemnities of the kind referred to in the first paragraph of this section.

23 Information provided by third parties, statements by experts and declarations of interest

None.

24 Documents available to the public

24.1 - Place where documents and information relating to the Company may be consulted

All corporate documents of Arkema S.A. that are required to be made available to shareholders may be consulted at the Company's registered offices.

24.2 - Annual document prepared in accordance with article 221-1-1 of the general regulations of the Autorité des marchés financiers

In accordance with article 221-1-1 of the general regulations of the Autorité des marchés financiers, the following list details the information published or made public by Arkema S.A. over the last twelve months.

LIST OF PRESS RELEASES

Press releases are available on the Autorité des marchés financiers website (www.amf-france.org) and/or on the Company's website (www.finance.arkema.com).

Date	Title
February 2006	
01/02/2006	ARKEMA opens a Carbon Nanotube Pilot Plant at its Lacq Research Center (Pyrénées-Atlantiques, SW France)
15/02/2006	ARKEMA announces $45 million investment for a fluorochemicals plant at its Calvert City facility in the United States
March 2006	
23/03/2006	ARKEMA doubles the production capacity of the Shanghai Hydrogen Peroxide plant
April 2006	
03/04/2006	Arkema Increases production capacity for Orgasol® ultrafine polyamide powders
05/04/2006	Arkema Increases production capacity at its Carling acrylic acid plant
07/04/2006	ARKEMA announces 50% capacity increase at its Changshu Forane® 22 production plant in China
18/04/2006	CECA announces 30% granulation capacity increase of molecular sieves

Date	Title
May 2006	
03/05/2006	European Commission's decision on antitrust practices in the hydrogen peroxide sector
16/05/2006	ARKEMA delighted at the creation of Exeltium, awaiting initial tenders
31/05/2006	ARKEMA has been informed by the European Commission of its decision on past anti-trust practices in the Methacrylate market
June 2006	
01/06/2006	First quarter 2006 results
02/06/2006	Signature of an agreement regarding employee representation within the Arkema Group (available only in French)
02/06/2006	ARKEMA, industrial partner to Chinese glass manufacturer Qinhuangdao Yaohua
21/06/2006	ARKEMA announces Kynar® production capacity increase at its Calvert City facility in the US
July 2006	
05/07/2006	ARKEMA continues to improve the competitiveness of its Performance Products segment
August 2006	
09/08/2006	ARKEMA: 2nd Quarter 2006 sales
September 2006	
13/09/2006	Tidjane Thiam appointed to ARKEMA's Board of Directors
13/09/2006	ARKEMA: 2nd Quarter 2006 Results
25/09/2006	ARKEMA doubles high performance polyamides capacity in China, to be operational by September 2007.
October 2006	
12/10/2006	Planned Closure of ARKEMA's Loison-sous-Lens Plant
12/10/2006	Appointments within ARKEMA
November 2006	
10/11/2006	Proposed future of ARKEMA's headquarters
14/11/2006	Proposed divestment of Cerexagri to United Phosphorus Limited
15/11/2006	ARKEMA: 3rd quarter 2006 results
21/11/2006	ARKEMA becomes Nanoledge's dedicated supplier for carbon nanotubes
December 2006	
05/12/2006	ARKEMA announces a capacity increase at its Balan HC EVA production plant.
January 2007	
09/01/2007	Proposed future of the Soveplast Chantonnay industrial site
22/01/2007	ARKEMA and Essar announce the signing of a Memorandum of Understanding for the production of acrylic acid in India.
23/01/2007	Proposed future of the Lacq-Mourenx industrial site
February 2007	
02/02/2007	ARKEMA has finalized the sale of Cerexagri to United Phosphorus Limited
13/02/2007	Full year 2006 sales
March 2007	
08/03/2007	Arkema Increases by 10% hydrogen peroxide production capacity at its Jarrie site, France
14/03/2007	ARKEMA: 2006 annual results
21/03/2007	The world leader in DMDS, ARKEMA announces a 30% capacity increase at its Lacq production plant
21/03/2007	ARKEMA share eligible for SRD
22/03/2007	ARKEMA continues to reorganize its activities in Rhône-Alpes (France)

Date	Title
April 2007	
11/04/2007	Appointments following the reorganization of the Vinyl Products business segment
19/04/2007	Information related to the Annual General Meeting on June 5th 2007
May 2007	
02/05/2007	ARKEMA sells to Taminco its Specialty Amines business in North America
15/05/2007	ARKEMA: 1st quarter 2007 results

FINANCIAL PRESENTATIONS

Financial presentations are available on the Autorité des marchés financiers website (www.amf-france.org) and/or on the Company's website (www.finance.arkema.com).

Date	Type
18/05/2006	Roadshow presentation
23/06/2006	Citigroup Brussels presentation
13/09/2006	Presentation of 2nd Quarter and 1st Half 2006 results
29/11/2006	"Six months after spin-off" presentation – European Chemicals Conference
16/02/2007	Presentation "Building a strong chemical player"
14/03/2007	Presentation 2006 overview and mid-term perspectives

LIST OF BALO PUBLICATIONS

Date	Type of information
03/05/2006	Other transactions – appointment of account holder for registered shares
11/08/2006	Periodical publications – Commercial and Industrial Companies (sales)
18/10/2006	Periodical publications – Commercial and Industrial Companies (sales)
15/11/2006	Periodical publications – Commercial and Industrial Companies (sales)
14/02/2007	Periodical publications – Commercial and Industrial Companies (sales)
11/04/2007	Convocation – Shareholders meeting (first notice of meeting)
27/04/2007	Periodical publications – Commercial and Industrial Companies (Annual accounts)
02/05/2007	Convocation – Shareholders meeting (notice of meeting)

INFORMATION LAID BEFORE THE REGISTRAR OF THE COMMERCIAL COURT OF PARIS (WWW.INFOGREFFE.FR)

Date	Type of document
07/02/2006	Decision of the sole shareholder – Continuation of business despite loss of half of capital; decision to reduce then increase capital
06/03/2006	Submission of updated articles of association
06/03/2006	Minutes of Board of Directors' meeting – appointment of Chairman and Chief Executive
06/03/2006	Minutes of combined general meeting – Transformation of Company to S.A. status; change in corporate purpose; transfer of registered office; change in company name; appointment of director(s)
06/03/2006	Minutes of combined general meeting – change of company name
10/03/2006	Minutes of Board of Directors' meeting
15/03/2006	Agreement for asset contribution and spin-off granted by TOTAL S.A.
15/03/2006	Merger agreement with Société de Développement Arkema (SDA)
24/03/2006	Report of Mergers Commissioner – merger with SDA
24/03/2006	Report of Spin-off Commissioner – Partial contribution of assets by TOTAL S.A.
10/05/2006	Extract from minutes
10/05/2006	Extract from minutes – change of directors; appointment of statutory auditors and alternate auditors
02/06/2006	Submission of updated articles of association
02/06/2006	Chairman's decision – Merger; Capital increase
26/06/2006	Declaration of conformity
26/06/2006	Declaration of conformity
12/09/2006	Minutes of Board of Directors' meeting – appointment of directors

DECLARATION OF SHARE TRANSACTIONS MADE BY DIRECTORS (WWW.AMF-FRANCE.ORG)

	Security	Transaction type	Transaction date	Transaction place	Unit price	Transaction value
François Enaud	Shares	Purchase	18 May 2006	Paris	€31.15	€9,345
Bernard Kasriel	Shares	Purchase	18 May 2006	Paris	€27.50	€8,250
	Equities	Purchase	15 June 2006	Paris	€26.25	€7,875
Thierry Morin	Treasury	Purchase	10 July 2006	Paris	€29.87	€29,870
Tidjane Thiam	Shares	Purchase	4 October 2006	Paris	€37.47	€20,608.5
Philippe Vassor	Shares	Purchase	2 June 2006	Paris	€28.79	€8,637
	Shares	Purchase	7 July 2006	Paris	€29.92	€8,976(1)

(1) This purchase order has been cancelled after the issue of this declaration.

PROSPECTUS

The prospectus for the listing of Arkema S.A. shares for trading on the Eurolist by Euronext™ market, having received visa n° 06-106 from the Autorité des marchés financiers on 5 April 2006, is available on the Autorité des marchés financiers website (www.amf-france.org) and on the Company's website (www.finance.arkema.com).

25 Information on shares held by the company

COMPANIES CONSOLIDATED AS OF THE DATE OF THIS REFERENCE DOCUMENT

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Akishima Chemical Industries Co. Ltd	15 F. Fukoku Seimei Building 15 F 2-2 Uchisaiwaicho 2 – Chome, Tokyo 100 0011	Japan	Production and marketing of PVC stabilizers	100*	100	O
Alphacan B.V	Taylorweg 4, 5466 AE Veghel Boîte postale 521 5460 AM Veghel	Netherlands	Production and marketing of water pipes	100*	100	O
Alphacan Espana S.A	Avenidad Republica Argentina 09200 Miranda de Ebro (Burgos)	Spain	Production and marketing of water pipes	100*	100	O
Alphacan Perfile S.A.U	Avenidad Republica Argentina 09200 Miranda de Ebro (Burgos)	Spain	Marketing of PVC profiles	100*	100	D
Alphacan S.A	Élysée II, 12-18 avenue de la Jonchère 78170 La Celle Saint-Cloud	France	Production and marketing of PVC tubes and profiles	100*	100	O
Alphacan S.P.A	Viale de l'Industria 1N 38057 Pergine Valsugana (Trento)	Italy	Production and marketing of PVC profiles	100*	100	O
Alphacan Soveplast	52 avenue Monseigneur Batiot 85110 Chantonnay	France	Production of PVC profiles	100*	100	O
Altuglas International B.V	Achter de Hoven 116 bis, 8933 CR Leeuwarden	Netherlands	Production of cast PMMA sheets	100*	100	O
Altuglas International Limited	6270 Bishops Court Birmingham Business Park, Birmingham B37 7YB	United Kingdom	Marketing of PMMA sheets	100*	100	D
Altuglas International Mexico Inc	2711 Centerville Rd Suite 400 Wilmington, DE 19808	USA	Distribution of raw materials (PMMA) in Mexico and importing of finished products (acrylic and plastic)	100*	100	D
Altuglas International S.A	89 Boulevard national 92250 La Garenne Colombes,	France	Production and marketing of PMMA sheets	100*	100	O
Altuglas International S.P.A	Via Gandhi 29 20017 Mazzo di Rhô	Italy	Marketing of PMMA	100*	100	D

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Altuglas International Services S.A.S	89 Boulevard national 92250 La Garenne Colombes,	France	Services	100*	100	O
Altumax Deutschland GmbH	Paulusstrasse 21-23 D 53227 Bonn	Germany	Marketing of PMMA	100*	100	D
Altumax Europe S.A.S	89 Boulevard national 92250 La Garenne Colombes,	France	Holding company	100*	100	H
American Acryl L.P	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Production of acrylic acid	50*	50	O
American Acryl NA, LLC	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Holding company	50*	50	H
ARKEMA	Dongyang Chemical Building, 50, Sogong-dong, Jung-gu, Seoul	South Korea	Production and marketing of chemical products	100*	100	O
Arkema B.V	Ottho Heldringstraat 41 1066 XT Amsterdam	Netherlands	Distribution of ARKEMA products in the Netherlands and Belgium	100*	100	D
Arkema Beijing Chemicals Co. Ltd	N° 1, Wutong Road, Tongzhou Industrial Development Zone, Tongzhou District, Beijing	China	Production and marketing of additives	100*	100	O
Arkema Canada Inc	700, Third Line, Oakville Ontario L6J 5A3	Canada	Production of hydrogen peroxide and marketing of chemical products	100*	100	O
Arkema Catalyst India Ltd	4th floor, Pharma Search House B.G. Kher Marg, Worli Mumbai 400 018	India	Production and marketing of aluminum chloride	100*	100	O
Arkema Changshu Chemical Co., Ltd.	Fluorochemical Industrial Park of Changshu Economic Development Zone Jiangsu	China	Production and marketing of organic peroxides	100*	100	O
Arkema Changshu Fluorochemical Co., Ltd	Fluorochemical Industrial Park of Changshu Economic Development Zone Jiangsu	China	Production and marketing of fluorochemical products	100*	100	O
Arkema China Investment Co., Ltd	Unit 12-25, 17 A-25 A, 31/F China World Tower 1, Jiangguomenwai Avenue, Pékin	China	Holding company	100*	100	H
Arkema Co., Ltd.	Unit 3207-11 Tower 32/F. The Gateway Harbour City. 25 Canton RD Tsim Sha Tsui Kowlon. Hong-Kong	China	Distribution of chemical products	100*	100	D
Arkema Delaware Inc	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Holding company	100*	100	H
Arkema Europe Holdings B.V	Ottho Heldringstraat 41 1066 XT Amsterdam 1006 BD Amsterdam	Netherlands	Holding company	100	100	H
Arkema Europe S.A.S	4/8 cours Michelet, 92800 Puteaux	France	Holding company	100	100	H

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Arkema Finance France	4/8 cours Michelet 92800 Puteaux	France	Holding company	100	100	H
Arkema Finance Nederland B.V	Ottho Heldringstraat 41 1066 XT Amsterdam	Netherlands	Holding company	100	100	H
Arkema France	4/8 cours Michelet 92800 Puteaux	France	Production and marketing of chemical products	100	100	O
Arkema GmbH	Tersteegenstr. 28 40474 Düsseldorf	Germany	Production of chemical products and distribution of chemicals products	100*	100	O
Arkema Guangzhou Chemicals Co., Ltd	N° 4, Xin'an road, yonghe District, Guangszhou Economic and technological Development District, Guangszhou	China	Production and marketing of additives and ceramic opacifiers	100*	100	O
Arkema Holdings Ltd	6270 Bishop's Court, Birmingham Business Park B37 7YB	United Kingdom	Holding company	100*	100	H
Arkema Holland Holding B.V	Ottho Heldringstraat 41 1066 XT Amsterdam	Netherlands	Holding company	100*	100	H
Arkema Hydrogen Peroxide Co., Ltd. Shanghai	N° 555, Shanghai Road Shanghai 201108 PR	China	Production and marketing of hydrogen peroxide.	66.67*	66.67	O
Arkema Inc	Corporation Service Company 2704 Commerce Drive	USA	Production and marketing of chemical products	100*	100	O
Arkema Iniciadores S.A. de C.V	Rio San Javier N° 10 Fraccionamiento Viveros del rio, Tlalnepantla, estato de Mexico CP 54060	Mexico	Marketing of organic peroxides	100*	100	D
Arkema K.K	15 F.. Fukoku Seimei Building 15 F 2-2 Uchisaiwaicho 2 – Chome, Tokyo 100 0011	Japan	Distribution of chemicals	100*	100	D
Arkema Ltd	6270 Bishop's Court, Birmingham Business park B37 7YB, Royaume-Uni	United Kingdom	Distribution of chemicals	100*	100	D
Arkema Ltd	N° 2, 15, A Road, Bien Hoa Industrial Zone, Bien Hoa City – Dong Nai Province	Vietnam	Production and marketing of PVC compounds	100*	100	O
Arkema North Europe B.V	Ottho Heldringstraat 41 1066 XT Amsterdam	Netherlands	Holding company	100*	100	H
Arkema Peroxides India Private Limited	1 floor, Balmer Lawrie House 628 anna Salai, Teynampet Chennai 60018	India	Production and marketing of organic peroxides	100*	100	O

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Arkema Pte Ltd	53, Tuas Crescent, Singapore 638732	Singapore	Distribution of chemicals in southeast Asia	100*	100	D
Arkema Pty Ltd	893 Princess Highway P.O. Box 201 Springvale Vic 3171	Australia	Distribution of chemicals	100*	100	D
Arkema Quimica Ltda	Av. Ibirapuera, N° 2033 – 4 ° andar – laela – CEP – 04 029-901 – Sao Paulo	Brazil	Production of organic peroxides and distribution of chemicals	100*	100	O
Arkema Quimica S.A	Avenida de Burgos, 12 28036 Madrid	Spain	Production and marketing of chemical products	100*	100	O
Arkema Re	Reg. No: 420011 10 Lower Mount Street Dublin 2	Ireland	Captive Reinsurance Company	100*	100	O
Arkema Rotterdam B.V	Tankhoofd 10, 3196 KE Vondelingenplaat	Netherlands	Production and marketing of thiochemical products	100*	100	O
Arkema Shanghai Distribution	D Part, No. 28 Warehouse, No. 500, Fu Te Road (No. 2 East), Shanghai Wai Gao Qiao Free Trade Zone, Shanghai	China	Distribution of chemicals	100*	100	D
Arkema SP Z.o.o	Ul.Marynarska 19 a, 02-674 Varsovie	Poland	Production and marketing of chemical products	100*	100	O
Arkema Srl	Via pergnana 61 Rho (MI)	Italy	Production and marketing of chemical products	100*	100	O
Arkema Vlissingen B.V	Europaweg v cittershaven, 4389 PD Ritthem	Netherlands	Production and marketing of plastic additives and agrochemicals	100*	100	O
Arkema Wyoming Holdings, Inc	1821 Logan Avenue Cheyenne, WY 82001	USA	Holding company	100*	100	H
Arkema Yoshitomi Ltd	4-9 Hiranomachi 2 – chome, Chuo-Ku Osaka 541-0046	Japan	Production and marketing of organic peroxides	49*	49	O
Ceca Italiana Srl	Via Galileo Galilei 51/53 Piotello (MI)	Italy	Production and marketing of activated carbon and agents	100*	100	O
Ceca S.A	89 boulevard national, 92257 La Garenne-Colombes Cedex	France	Production and marketing of specialty chemical products	100*	100	O

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Delaware Chemicals Corporation	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Holding company	100*	100	H
Dorlyl SNC	297 rue des phantiers BP 1152 76063 Le Havre	France	Production and marketing of vinyl compounds	100*	100	O
Febex S.A	Routes des Placettes 1880 Bex	Switzerland	Production and marketing of additives for electroplating and electronics	96.77*	96.77	O
Luperox Iniciadores S.A. de C.V	Km. 6.5 Carr. Nanchital- Las Choapas El Chapo, Ixhuatlan del Sureste Ver., Mexico 96360	Mexico	Production of organic peroxides	100*	100	O
Maquiladora General de Matamoros S.A. de C.V	Poniente dos numero 17, Ciudad Industrial Matomoros Tamaulipas	Mexico	Production and marketing of PMMA sheets	100*	100	O
Michelet Finance Inc	2711 centerville Rd. Suite 400 Wilmington DE 19808	USA	Financial services	100*	100	F
MLPC International	209 avenue Charles Despiau 40370 Rion-des-Landes	France	Production and marketing of additives for the rubber industry	100*	100	O
Oxochimie	4/8 cours Michelet 92800 Puteaux	France	Production of butanol and of 2-EH	50*	50	O
Ozark Mahoning Company	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Dormant company	100*	100	
Plasgom	Poligono Industrial la Torre del Rector c/mar del Caribe, 5 08130 Santa Perpetua de Mogoda	Spain	Production and marketing of vinyl compounds	100*	100	O
Plasticos Altumax S.A	Botanica 160 p. Ind. Gran Via sud 08908 Hospitalet de Llobregat	Spain	Marketing of PMMA sheets and other plastic sheets	100*	100	D
Qatar Vinyl Company Limited	Merqiled -Doha 24440	Qatar	Production and marketing of caustic soda, EDC and VCM	12.9*	12.9	O
Résil Belgium	Neerhonderd 35 B 9230 Weteren	Belgium	Production and marketing of vinyl compounds	100*	100	O
Résilia Srl	Via Milano N. 201 21017 Samarate (Varese)	Italy	Production and marketing of vinyl compounds	100*	100	O

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Resinoplast	Chemin de Saint Léonard 51683 Reims Cedex 2	France	Production and marketing of vinyl compounds	100*	100	O
Seki Arkema	79 Kyenam-ri, Chilseao-nyum, Hamagun, Kyoungnam	South Korea	Production and marketing of organic peroxides	51*	40	O
Shanghai Arkema Gaoyuan Chemical Co., Ltd	N° 8999, Human Road, Xuanqiao (Jing-an Industrial Park Nanhui, Shanghai 201314 PR	China	Production of vinyl compounds	91.07*	91.07	O
Société Financière Arkema S.A.S. (SOFIA)	4/8 cours Michelet 92800 Puteaux	France	Holding company	100	100	H
Stannica LLC	Corporation Trust company 1209 Orange Street Wilmington, DE 19808	USA	Production and marketing of plastic additives	40*	40	O
Sunclear	280 avenue de la Marne Marcq en Baroeul	France	Marketing of plastic sheets	100*	100	D
Turkish Products Inc	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Dormant company	100*	100	
Viking Chemical Company	380 Jackson Street suite 418 Saint Paul, MN 55101	USA	Production of epoxied vegetable oils	100*	100	O
Vinilis S.A	Mallorca, 269 08008 Barcelona	Spain	PVC production	35*	35	O
Vinylberre	4/8 cours Michelet 92800 Puteaux	France	PVC production	65*	65	O
Vinylfos	4/8 cours Michelet 92800 Puteaux	France	VCM production	79*	70	O
Wyoming Holdings Delaware Inc	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Dormant company	100*	100	

COMPANIES NOT CONSOLIDATED AS OF THE DATE OF THIS REFERENCE DOCUMENT

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding : company
Arkema International	80-82 rue de Lausanne CH-1201 Genève	Switzerland	Management of international staff	100*	100	O
Arkema Kft	H 11 15 Budapest – Bartol Bela u. 105-113	Hungary	Distribution of chemicals	100*	100	D
Arkema Mexico S.A. de C.V	Rio San Javier N° 10 Fraccionamiento Viveros del rio, Tlalnepantla, estato de Mexico CP 54060	Mexico	Distribution of chemicals	100*	100	D
Arkema Pension Fund Trustee Company Ltd	6270 Bishop's Court, Birmingham Business park B37 7YB	United Kingdom	Pension fund management	100*	100	F
Arkema Quimica Lda	Rua pero Alvito, 4 a 2400 – 208 Leiria	Portugal	Distribution of chemicals	100*	100	D
Arkema S.A	Carera 21 No 82-46 of 301	Colombia	Distribution of chemicals in Colombia, Ecuador and Peru	100*	100	D
Arkema Sdn Bhd	16 1(st)floor jalan Usj10/1 UEP Bubang Jaya	Malaysia	Distribution of chemicals	100*	100	D
Arkema Sro	U Tleparny 3 158000 Prague	Czech Republic	Distribution of chemicals in the Czech Republic and Slovakia	100*	100	D
Arkema VE Kimya Sanayi ve ticaret A.S	Ihlmur, Yildiz Cd. Kessal Sk n° 4 Betsiktas 80700 Istambul	Turkey	Distribution of chemicals	100*	100	D
Arkema A/S	Herlev Hovedgade 195, DK-2730 Herlev	Denmark	Distribution of chemicals in northern Europe	100*	100	D
Atofina Argentina S.A	Marcelo T. de Alvear N° 1719	Argentina	Company in receivership	100*	100	
Bourbon plastiques S.A	Bras Panon Rivières du Mat 97412 île de La Réunion	France	Distribution of plastic products	1.59*	1.59	D
Changshu Haike Chemicals Co Ltd	Jiangsu Hi-Tech Fluorine Chemical Industrial Park Changshu City Jiangsu Province	China	Research into technology regarding exhaust gases (HFC 23) in fluorochemicals	49*	49	O
Changshu Resichina Engineering Polymers CO ltd	Jiangsu Hi-Tech Fluorine Chemical Industrial Park Changshu City Jiangsu Province	China	Production and marketing of compounds	100*	100	O
Difi 1	4/8 cours Michelet 92800 Puteaux	France	Dormant company	100*	100	
Difi 2	4/8 cours Michelet 92800 Puteaux	France	Dormant company	100*	100	
Elemica Inc	Wayne, Pennsylvania (Suburban Philadelphia)	USA	E-commerce distribution of chemical products	9*	9	D
Elfa Oxychemie S.A	76 Roherstrasse CH-5001 Aarau	Switzerland	Marketing of hydrogen peroxide	50*	50	D

Company name	Registered office	Country	Business	% stake (*=indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding : company
Exeltium	79, avenue Raymond Poincaré 75116 Paris	France	Buying and selling of electricity	14.29*	14.29	
Fosfanil S/A	Av. Ibirapuera N° 2033, 4° andar 04029 – 901 Sao Paulo	Brazil	Company in receivership	96.58*	96.58	
Irish Ceca	Allenwood Enterprise Park Naas	Republic of Ireland	Marketing of molecular sieves	100*	100	D
Marjolaine S.A.S	4/8 cours Michelet 92091 Paris La Défense Cedex	France	Dormant company	100*	100	
Mempile Inc	1313 N Market Street, Suite 5100, Wilmington Delaware 19801	USA	Research and Development	9*	9	
Nitto Kasei Company Ltd	17-14, Nishiawaji 3-chome, Higashiyodogawa-ku, Osaka 533-0031	Japan	Production and marketing of plastic additives, industrial chemical products and agrochemicals	6.59*	6.59	O
Polimeri Termoplastici Srl (Politerm)	Via E. Melatello 271 40034 Forlimpoli	Italy	Distribution of plastic sheets	21*	21	D
Rionil Compostos Vinilcos Ltda	Rodovia Washington Lutz N° 14235 Campos Eliseos CEP 25.055.009 Duquede Caxias	Brazil	Production and marketing of blended PVC compounds	66.70*	66.70	O
SCI agricole de Parapon	La Saline 30600 Vauvert	France	Operation of land at Parapon (Gard)	98*	98	
Sequoia S.A.S	4/8 cours Michelet 92800 Puteaux	France	Dormant company	100*	100	
Société Alsacienne et Lorraine de Sondage	2 rue Gabriel Peri 54110 Dombasle-sur-Meurthe	France	Surveying for salt water sources and rock salt	30.24*	30.24	O
Société d'études et de réalisation financières (SERF)	4/8 cours Michelet 92091 Paris La Défense Cedex	France	Holding	100*	100	H
Société Fluides Diélectriques	4/8 cours Michelet 92800 Puteaux	France	Distribution of products for the electrical industry	50*	50	D
Soficar	Route de Lagor 64750 Bidos	France	Production and marketing of various forms of carbon and intermediate products	30*	30	O
Vetek S.A	Avenue del libertador 5480 – piso 11 (C1426BXP) Buenos Aires	Argentina	Distribution of chemicals	60*	60	D

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Statutory auditors' report, prepared in accordance with article L.225-235 of the french commercial code (code de commerce)

on the report prepared by the chairman of the board of Arkema S.A., on the internal control procedures relating to the preparation and processing of financial and accounting information.

This is a free translation into English of a report signed and issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders

As statutory auditors of Arkema S.A., and in accordance with Article L. 225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of the Board of Directors of your Company in accordance with Article L. 225-37 of the French Commercial Code (Code de Commerce) for the year ended December 31, 2006.

In his report, the Chairman reports, in particular, on the conditions for the preparation and organization of the Board of Directors'work and the internal control procedures implemented by the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with French professional standards. These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures consisted principally of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as described in the Chairman's report;
- obtaining an understanding of the work performed to support the information provided in the report.

On the basis of these procedures, we have nothing to report on the information provided on the Company's internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, in accordance with Article L. 225-37 of the French Commercial Code (Code de Commerce).

Paris-La Défense, April 5, 2007

The Statutory Auditors

French original signed by

KPMG Audit	Ernst & Young Audit
Bertrand Desbarrières Partner	Francois Carrega Partner
Jacques-François Lethu Partner	Yvon Salaün Partner

27 Glossary

Term	Definition
Acrylic acid	An acid derived from propylene and mainly used as an intermediate in the preparation of super-absorbents and derivatives used in the manufacture of paints, inks, and glues.
Acrylic esters	Acrylic acid esters
Activated carbons	Treated charcoals used for their properties as adsorption agents (i.e. the retention of molecules of a gas or a substance in solution or suspension on the surface of a solid).
Alkylamines and alkylalcanolamines	Amines used as synthesis intermediates
Amines	A compound obtained by substituting monovalent hydrocarbonic radicals for one of the hydrogen atoms of ammonia.
Amino 11 -undecanoic acid	A polyamide 11 monomer.
Arkema's Businesses	The Vinyl Products, Industrial Chemicals and Performance Products businesses
CEFIC	European council of the Chemical Industry
CH_4	Methane
Chloromethane	A molecule obtained by substituting one atom of chlorine for one of the hydrogen atoms of methane. It is used mainly in the manufacture of fluorine derivatives and silicones.
CO	Carbon monoxide
CO_2	Carbon dioxide
COD	Chemical oxygen demand. A parameter for measuring water pollution by organic compounds, whose decomposition consumes oxygen.
Completion Date	The day when the Spin-Off of Arkema's Businesses came into effect, namely Thursday, 18 May 2006, at 00:00 am.
Controlled oxidation	The oxidation reaction carried out under particular conditions and/or with catalysts, as opposed to total oxidation or combustion.
Co-polyamide	A polyamide obtained from two or more types of monomer
Cross linking	The modification of a linear polymer into a three-dimensional polymer by creating cross links.
Debottlenecking	A change made to an industrial installation in order to increase production capacity.
Depth of interruptibility	In electricity consumption, the ratio between interruptible MWh and total MWh subscribed to.
Diatomites	Unicellular micro-organisms used in their fossil state (diatomites) by the chemicals industry for their properties as filtering agents.

Term	Definition
Dioctylphthalate or DOP	An ester made from phthalic anhydride and mainly used as a plasticizer.
EDA	Refers to copolymers and terpolymers made from ethylene and acrylic esters
EDC	The ISO code for dichloroethane.
Elf Spin-Off	The contribution by Elf Aquitaine to S.D.A. of shareholdings held in entities carrying out Arkema's Businesses and the allocation to Elf Aquitaine shareholders of S.D.A. shares issued as consideration for such contribution
EMAS	Environment Management Audit System. A European regulation (Eco Audit) that defines the criteria for implementing a management system for the environment within companies.
Esterification	The formation of an ester through the reaction of an acid with an alcohol
First trading	The admission to trading of Arkema S.A.'s shares on Eurolist by Euronext(TM), which took place on Thursday, 18 May 2006, at 00:00 am.
Functional polyolefins	Ethylene-derived polymers used as binding agents in multi-layer food packaging and other industrial applications.
GEG	Greenhouse-effect gases.
Grafted polyolefins	Grafted olefin-based polymers
H_2S	Hydrogen sulfide.
HCFC	Hydrochlorofluorocarbons.
HCFC 142b	Hydrochlorofluorocarbon, the precursor of VF2.
Heat stabilizers	Additives used to improve a polymer's resistance to heat.
HF	Hydrofluoric acid.
HFC	Hydrofluorocarbons. Hydrogen-, carbon- and fluorine-based products that are mainly used in refrigeration as substitutes for CFCs (chlorofluorocarbons), following the introduction of the Montreal Agreement.
Hydrazine hydrate	A nitrogen-, hydrogen- and water- based product used as an intermediate in agrochemicals, pharmaceuticals, chemical synthesis, water treatment and foaming agents for plastics and elastomers.
ICCA	International Council of Chemical Associations.
Impact modifiers	Additives introduced into certain products, in particular PVC, to make them more impact-resistant.
Initiators	Products used to initiate chemical reactions.
Interface agents	Products used in the formulation of additives
ISO 14001	An international standard that defines the criteria for introducing a management system for the environment in companies.
Kyoto protocol	An international agreement between 84 countries on 11 December 1997 in Kyoto (Japan), which is complementary to the Convention on Climate Change of May 1992 within the framework of the United Nations (known as UNFCCC — United Nations Framework Convention on Climate Change). The Kyoto Protocol came into force on 16 February 2005.
Lactam 12	The polyamide 12 monomer.
Maleic anhydride	A benzene derivative mainly used in the manufacture of plasticizers and as a synthesis intermediate.
Mercaptans	Thio-alcohols and phenols.
Merger	Refers to the merger of S.D.A. with and into Arkema S.A.
Methyl methacrylate	An essential raw material in the manufacture of polymethyl methacrylate (PMMA) for the automotive, construction and equipment industries. Methyl methacrylate is used not only in the manufacture of PMMA, but also in the fields of acrylic emulsions and plastic additives.
Methylmercaptan	A mercaptan mainly used as an intermediate in the synthesis of methionine (an amino acid used in animal feed), but also as a raw material for various sulfur derivates.
Mineral charges	Mineral additives introduced into the composition of certain products in order to modify their properties.
MIS	Refers to organic materials in suspension. These are solid particles present in water that can be retained by physical or mechanical means (filtration and sedimentation).

Term	Definition
Molecular sieves	Synthesized mineral products used to purify liquids and gases by the selective absorption of molecules.
N_2O	Nitrogen protoxide. A gas produced by certain processes and also present in the emissions from furnaces.
NH_3	Ammonia.
NOX	The family of nitrogen oxides, produced mainly by combustion processes
Organic Peroxides	Oxidizing organic products used as initiators for polymerization and as cross-linking agents.
Oxo-alcohols	Alcohols derived from propylene and used as synthesis intermediates
Oxygenated solvents	Substances such as alcohols, ketones, and ethers that contain oxygen atoms and have the ability to dissolve other substances without modifying them chemically.
PER	The ISO code for polyethylene terephthalate.
Perlite	The oxidation reaction carried out under particular conditions and/or with catalysts, as opposed to total oxidation or combustion.
PET	The ISO code for polyethylene terephthalate.
Phthalic anhydride	An orthoxylene derivative mainly used in the manufacture of plasticizers and as a synthesis intermediate.
PMMA	The ISO code for polymethyl methacrylate.
Polyamide	A polymer obtained by the reaction of a di-acid on a di-amine, or from the polymerization of a monomer having both an acid and an amine function.
Polyamide 11 or PA 11 and polyamide 12 or PA 12	Thermoplastic polyamides, whose monomers have 11 and 12 carbon atoms, respectively.
Polyethylene	A plastic obtained by the polymerization of ethylene
Polymerization	The union of several molecules of one or more compounds (monomers) to form a large molecule.
Polymers	Products made by polymerization
Polystyrene	A plastic obtained by the polymerization of styrene, an aromatic compound.
Polyvinyl chloride or PVC	A plastic obtained by the polymerization of VCM.
Processing agents	Products that facilitate the conversion of polymers by molding or extrusion.
Product life cycle	Refers to all the transformation stages of a material, from the extraction of raw materials through to the management of the final used product.
PTFE	The ISO code for polytetrafluoroethylene.
PVC	The ISO code for vinyl polychloride or polyvinyl chloride.
PVDF	The ISO code for polyvinylidene fluoride.
RCMS	The Responsible Care® Management System.
REACH (Registration, Evaluation and Authorisation of Chemicals)	The European regulation n° 1907/2006 of the Parliament and the Council dated 18 December 2006, concerning the registration, evaluation and authorization of chemical substances, that is due to come into force on 1 June 2007
Responsible care®	A voluntary initiative by the world chemical industry to achieve continuous progress in safety, health and environment, managed in France by the UIC under the name of 'Engagement de progrès®' ('Commitment to Progress').
S.D.A.	The company formerly known as DAJA 38. Under a decision by the partners on 6 March 2006 the company's name was changed to Société de Développement Arkema (S.D.A.).
SDF	Security data form.
SF6	Sulfur hexafluoride
SO_2	Sulfur dioxide
Sodium chlorate	A sodium salt used in the treatment of paper pulp, as an herbicide, or as a synthesis intermediate.
Sodium perchlorate	Sodium salt used as a synthesis intermediate.

Term	Definition
SQAS	Safety and Quality Assessment Systems.
Stabilizers	Additives used to preserve a given composition of a product.
Surfactants	An agent that causes an increase in a liquid's extendibility and moistening properties by lowering its surface tension
T111	1.1.1-trichloroethane.
The Spin-Off of Arkema's Businesses	Refers to the transaction, the subject of the prospectus that received AMF visa n° 06-106 dated 5 April 2006, that was carried out through two partial spin-offs (scissions partielles) and a merger, with the aim of establishing an important player in the world chemicals industry that is independent of Total and encompasses the Vinyl Products, Industrial Chemicals and Performance Products businesses operated by Arkema after completion of this transaction. The Spin-Off of Arkema's Businesses is described in Chapter 5.1.5 of this reference document.
Thioglycolic acid	An organic thio-acid used in a variety of applications (notably the stabilization of PVC and cosmetics).
Total Spin-Off	The contribution by Total S.A. to Arkema S.A. of shareholdings in the entities carrying out Arkema's Businesses and the allocation to Total S.A.'s shareholders of Arkema S.A. shares issued as consideration for such contribution.
UIC	Union des Industries Chimiques, or Union of Chemical Industries. The professional body of the chemical industry in France.
Unsaturated polyesters	Esters with high molecular weights produced by the linking of numerous ester molecules that have double bonds between carbon atoms.
Urea-formaldehyde resins or amino resins	Synthetic resins obtained by the reaction of condensation between urea and formaldehyde.
VCM	The ISO code for vinyl chloride monomer.
VF_2	The PVDF monomer
Vinyl acetate	An ester derived from methanol and mainly used as raw material for EVAs (performance polyolefins).
Vinyl compounds and PVC compounds	Useable products that are produced by mixing PVC with additives (plasticizers, stabilizers, dyes, etc.).
VOC	Volatile organic compounds

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Cross reference table

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13.3.	Profit forecast or estimate prepared on a basis comparable to historic financial information	Not applicable	
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