

## **HALF YEAR FINANCIAL STATEMENTS AT JUNE 30, 2006**

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**ERAMET**

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## Board of Directors

After the meeting of the Board of Directors held on September 6, 2006

**Chairman and Chief Executive Officer: Jacques Bacardats**  
**Honorary Chairman: Yves Rambaud**

### Directors

### Main positions held

Rémy Autebert	Director of the Mining-Chemicals-Enrichment division of Cogema
Cyrille Duval	Company Secretary of Aubert & Duval
Édouard Duval	Chairman of the Management Board at Sorame
Georges Duval	Manager of Sorame (Vice-Chairman of Eramet)
Patrick Duval	Chairman and CEO of Ceir
Pierre-Noël Giraud	Professor at the École Supérieure des Mines de Paris
François Henrot	Managing Partner of Rothschild & Cie
Gilbert Lehmann	Deputy Managing Director of Cogema
Harold Martin	Chairman of the Congress of New Caledonia
Louis Mapou	Chairman of the STCPI
Jacques Rossignol	Former CEO of Snecma and Arainespace
Michel Somnolet	Former Vice-Chairman and CEO of finance administration at L'Oréal
Antoine Treuille	Executive Managing Director of Mercantile Capital Partners
Areva (represented by Frédéric Tona)	Representative of the Chairman and CEO of Areva / Cogema

### Auditors

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

Deloitte & Associés  
185, avenue Charles-de-Gaulle  
92200 Neuilly sur Seine

French limited company (*Société anonyme*) with share capital of €78,659,115.70  
Registered office: Tour Maine Montparnasse - 33, avenue du Maine - 75 015 Paris  
Registered on the Paris Trade and Companies Register  
under number 632 045 381

## CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

### Income statement pursuant to IFRS

(millions of euros)	Notes	1st half 2006	1st half 2005	2005 FY
<b>Sales</b>	20.1	<b>1 514</b>	<b>1 399</b>	<b>2 712</b>
Other income	20.2	(6)	29	36
Cost of products sold	21	(1 179)	(1 018)	(2 068)
Administrative & selling costs	21	(52)	(53)	(106)
Research & development expenditure	21	(17)	(15)	(32)
<b>Current operating income</b>	21	<b>260</b>	<b>342</b>	<b>542</b>
Other operating income and expenses	22	(2)	(2)	112
<b>Operating income</b>	-	<b>258</b>	<b>340</b>	<b>654</b>
Net cost of debt	23.1	2	-	(3)
Other finance income and expenses	23.2	(11)	(5)	(9)
Share in earnings of affiliates	6	1	1	2
Income tax	24	(76)	(75)	(126)
<b>Net income</b>	-	<b>174</b>	<b>261</b>	<b>518</b>
Minority interests	13	(53)	(65)	(141)
<b>Group net income (loss)</b>	-	<b>121</b>	<b>196</b>	<b>377</b>
Basic earnings per share (EUR)	25	4,73	7,69	14,76
Diluted earnings per share (EUR)		4,70	7,59	14,62

## Balance sheet pursuant to IFRS

(millions of euros)	Notes	06/30/2006	06/30/2005	12/31/2005
Goodwill	3	178	35	35
Intangible assets	4	68	63	72
Property, plant & equipment	5	1 278	1 090	1 193
Companies accounted for using the equity method	6	10	14	11
Other financial assets	7 & 8	71	70	62
Deferred tax	16	170	131	127
<b>Total non-current assets</b>		<b>1 775</b>	<b>1 403</b>	<b>1 500</b>
Inventories	9	772	708	760
Trade receivables	10	580	538	523
Tax receivables	-	34	41	85
Financial derivatives	19	42	37	25
Cash and cash equivalents	11	478	503	523
<b>Total current assets</b>		<b>1 906</b>	<b>1 827</b>	<b>1 916</b>
<b>Total assets</b>		<b>3 681</b>	<b>3 230</b>	<b>3 416</b>
<b>Shareholders' equity and liabilities</b>				
(millions of euros)	Notes	06/30/2006	06/30/2005	12/31/2005
Share capital		79	79	79
Share premiums		222	218	219
Reserves		1 081	793	793
Translation adjustments		9	12	18
Net income (loss)		121	196	377
	12	<b>1 512</b>	<b>1 298</b>	<b>1 486</b>
Minority interests	13	478	418	499
<b>Shareholders' equity</b>		<b>1 990</b>	<b>1 716</b>	<b>1 985</b>
Employee benefits	14	139	133	145
Provisions	15	200	231	207
Deferred tax	16	237	229	234
Borrowings - due in more than one year	17	34	58	49
Other non-current liabilities	18	18	15	20
<b>Total non-current liabilities</b>		<b>628</b>	<b>666</b>	<b>655</b>
Borrowings - due in less than one year	17	221	66	110
Trade payables	18	606	660	543
Tax payables	-	71	71	80
Financial derivatives	19	165	51	43
<b>Total current liabilities</b>		<b>1 063</b>	<b>848</b>	<b>776</b>
<b>Total Shareholders' equity and liabilities</b>		<b>3 681</b>	<b>3 230</b>	<b>3 416</b>

## Cash flow statement pursuant to IFRS

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>Operating activities</b>			
Net income	174	261	518
Elimination of non-cash or non-business items:			
- Amortisation, depreciation and provisions	68	64	99
- Financial instruments	12	-	8
- Deferred tax	(3)	(5)	2
- Losses (gains) on disposals of non-current assets	(3)	-	6
- Share in earnings of equity accounted affiliates	(1)	(1)	(2)
<b>Cash flow</b> (*)	<b>247</b>	<b>319</b>	<b>631</b>
(Increase) or decrease in inventories	(28)	(104)	(151)
(Increase) or decrease in trade receivables	(57)	5	25
Increase or (decrease) in trade payables	30	8	1
Change in other assets and liabilities	103	117	158
Interest income received	1	2	4
Interest income paid	(7)	(4)	(8)
Tax paid	(36)	(103)	(182)
<b>Net change in operating assets and liabilities</b>	<b>6</b>	<b>(79)</b>	<b>(153)</b>
<b>Net cash flows from operating activities</b> (*)	<b>253</b>	<b>240</b>	<b>478</b>
<b>Investing activities</b>			
Purchases of non-current assets (1)	(311)	(90)	(252)
Disposals of non-current assets (1)	4	3	11
Investment subsidies received	-	-	-
(New) repayments of borrowings	(7)	2	7
Dividends from equity accounted companies	1	2	2
Impact of changes in scope of consolidation (2)	26	(3)	5
	(287)	(86)	(227)
New Caledonian mining reserves indemnity	-	(5)	(124)
<b>Net cash flows from investing activities</b> (*)	<b>(287)</b>	<b>(91)</b>	<b>(351)</b>
<b>Financing activities</b>			
Dividends paid: to Group shareholders	(54)	(51)	(51)
Dividends paid: to minority shareholders	(42)	(22)	(22)
Share capital increases	3	-	1
Disposal / (purchase) value of treasury shares (3)	2	8	8
New borrowings	134	6	61
Repayment of borrowings	(49)	(26)	(41)
Net change in financing-related assets and liabilities	-	1	1
<b>Net cash flows from financing activities</b>	<b>(6)</b>	<b>(84)</b>	<b>(43)</b>
Translation adjustments	(5)	1	2
<b>Increase (decrease) in net cash position</b>	<b>(45)</b>	<b>66</b>	<b>86</b>
<b>Opening cash balance</b>	<b>523</b>	<b>437</b>	<b>437</b>
<b>Closing cash balance</b>	<b>478</b>	<b>503</b>	<b>523</b>

(\*) Of which € million and €124 million with no impact on the Eramet Group's cash position, these amounts representing the impact on the 2005 half year financial statements and the 2005 full year financial statements of the mining reserves indemnity and the conclusion of the Bercy agreements (notes 22 and 26).

(1) The (purchases) and disposals of non-current assets comprise the following changes in the scope of consolidation:

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Consolidation of Weda Bay Mineral Inc. and its subsidiaries	(178)	-	-
- acquisition cost	(184)	-	-
- payables on non-current assets	6	-	-
Consolidation of Poum SAS	-	-	-
- acquisition cost	-	-	(6)
- payables on non-current assets	-	-	6
Consolidation of Bear Metallurgical Corp.	-	-	(10)
- acquisition cost	-	-	(10)
- payables on non-current assets	-	-	-
Consolidation of Setrag SA	-	-	(13)
- acquisition cost	-	-	(13)
- payables on non-current assets	-	-	-
<b>Total</b>	<b>(178)</b>	<b>-</b>	<b>(23)</b>

(2) The impact of changes in the scope of consolidation which correspond to cash and cash equivalents acquired or disposed of concern:

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Subsidiaries leaving scope of consolidation	(1)	(3)	(3)
Consolidation of Weda Bay Mineral Inc. and its subsidiaries	27	-	-
Consolidation of Bear Metallurgical Corp.	-	-	5
Consolidation of Setrag SA	-	-	3
<b>Total</b>	<b>26</b>	<b>(3)</b>	<b>5</b>

(3) The movements included in the amounts for the sale / (buyback) of the Company's shares include:

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Purchases and sales - liquidity contract	-	-	-
Stock purchase options exercised by employees	2	8	8
<b>Total</b>	<b>2</b>	<b>8</b>	<b>8</b>

## Statement of changes in shareholders' equity pursuant to IFRS

(millions of euros)	Number of shares	Share capital	Premiums	Reserves	Translation	Net income	Total Group share	Minority interests	Total
<b>Shareholders' equity as on December 31, 2004 (before application of IAS 32 &amp; 39)</b>	<b>25 744 944</b>	<b>79</b>	<b>218</b>	<b>490</b>	<b>(6)</b>	<b>346</b>	<b>1 127</b>	<b>375</b>	<b>1 502</b>
First-time application of IAS 32 & 39	-	-	-	37	-	-	37	16	53
<b>Shareholders' equity as on January 1, 2005 (after application of IAS 32 &amp; 39)</b>	<b>25 744 944</b>	<b>79</b>	<b>218</b>	<b>527</b>	<b>(6)</b>	<b>346</b>	<b>1 164</b>	<b>391</b>	<b>1 555</b>
Allocations to retained earnings and reserves	-	-	-	346	-	(346)	-	-	-
Dividends paid	-	-	-	(51)	-	-	(51)	(22)	(73)
Share capital increase	15 600	-	-	-	-	-	-	-	-
Translation adjustments	-	-	-	-	17	-	17	4	21
Purchase of treasury shares	-	-	-	8	-	-	8	-	8
Change in financial instrument re-measurement reserve - IAS 32 & 39	-	-	-	(36)	-	-	(36)	(19)	(55)
Changes in income recognised directly in shareholders' equity - IFRS 2	-	-	-	1	-	(1)	-	-	-
Other adjustments	-	-	-	(2)	1	-	(1)	-	(1)
Net income (loss)	-	-	-	-	-	197	197	64	261
<b>Shareholders' equity as on June 30, 2005</b>	<b>25 760 544</b>	<b>79</b>	<b>218</b>	<b>793</b>	<b>12</b>	<b>196</b>	<b>1 298</b>	<b>418</b>	<b>1 716</b>
Allocations to retained earnings and reserves	-	-	-	346	-	(346)	-	-	-
Dividends paid	-	-	-	(51)	-	-	(51)	(22)	(73)
Share capital increase	44 930	-	1	-	-	-	1	-	1
Translation adjustments	-	-	-	(1)	24	-	23	6	29
Purchase of treasury shares	-	-	-	8	-	-	8	-	8
Change in financial instrument re-measurement reserve - IAS 32 & 39	-	-	-	(38)	-	-	(38)	(19)	(57)
Changes in income recognised directly in shareholders' equity - IFRS 2	-	-	-	2	-	(2)	-	-	-
Other adjustments	-	-	-	-	-	-	-	2	2
Net income (loss)	-	-	-	-	-	379	379	141	520
<b>Shareholders' equity as on December 31, 2005</b>	<b>25 789 874</b>	<b>79</b>	<b>219</b>	<b>793</b>	<b>18</b>	<b>377</b>	<b>1 486</b>	<b>499</b>	<b>1 985</b>
Allocations to retained earnings and reserves	-	-	-	377	-	(377)	-	-	-
Dividends paid	-	-	-	(54)	-	-	(54)	(42)	(96)
Share capital increase	84 770	-	3	-	-	-	3	-	3
Translation adjustments	-	-	-	-	(9)	-	(9)	(4)	(13)
Purchase of treasury shares	-	-	-	1	-	-	1	-	1
Change in financial instrument re-measurement reserve - IAS 32 & 39	-	-	-	(38)	-	-	(38)	(28)	(66)
Changes in income recognised directly in shareholders' equity - IFRS 2	-	-	-	1	-	(1)	-	-	-
Other adjustments	-	-	-	1	-	-	1	-	1
Net income (loss)	-	-	-	-	-	122	122	53	175
<b>Shareholders' equity as on June 30, 2006</b>	<b>25 874 644</b>	<b>79</b>	<b>222</b>	<b>1 081</b>	<b>9</b>	<b>121</b>	<b>1 512</b>	<b>478</b>	<b>1 990</b>

## Reserves break down as follows:

(millions of euros)	Treasury shares	Payments in shares	Hedging instruments	Other reserves	Total
<b>As on December 31, 2004 (before application of IAS 32 &amp; 39)</b>	<b>(14)</b>	<b>-</b>	<b>-</b>	<b>504</b>	<b>490</b>
First-time application of IAS 32-39	-	-	37	-	37
- Currency hedging derivatives	-	-	37	-	-
<b>As on January 1, 2005 (after application of IAS 32 &amp; 39)</b>	<b>(14)</b>	<b>-</b>	<b>37</b>	<b>504</b>	<b>527</b>
Allocations to retained earnings and reserves	-	-	-	346	346
Dividends paid	-	-	-	(51)	(51)
Stock purchase options exercised by employees	8	-	-	-	8
Change in financial instrument re-measurement reserve - IAS 32 & 39	-	-	(36)	-	(36)
- Currency hedging derivatives	-	-	(42)	-	-
- Interest rate hedging derivatives	-	-	-	-	-
- Commodity hedging derivatives	-	-	6	-	-
Changes in net income recognised directly in shareholders' equity - IFRS 2	-	1	-	-	1
Other adjustments	-	-	-	(2)	(2)
<b>As on June 30, 2005</b>	<b>(6)</b>	<b>1</b>	<b>1</b>	<b>797</b>	<b>793</b>
Allocations to retained earnings and reserves	-	-	-	346	346
Dividends paid	-	-	-	(51)	(51)
Stock purchase options exercised by employees	8	-	-	-	8
Change in financial instrument re-measurement reserve - IAS 32 & 39	-	-	(38)	-	(38)
- Currency hedging derivatives	-	-	(41)	-	-
- Interest rate hedging derivatives	-	-	-	-	-
- Commodity hedging derivatives	-	-	3	-	-
Changes in net income recognised directly in shareholders' equity - IFRS 2	-	2	-	-	2
Other adjustments	-	-	-	(1)	(1)
<b>As on December 31, 2005</b>	<b>(6)</b>	<b>2</b>	<b>(1)</b>	<b>798</b>	<b>793</b>
Allocations to retained earnings and reserves	-	-	-	377	377
Dividends paid	-	-	-	(54)	(54)
Stock purchase options exercised by employees	1	-	-	-	1
Change in financial instrument re-measurement reserve - IAS 32 & 39	-	-	(38)	-	(38)
- Currency hedging derivatives	-	-	16	-	-
- Interest rate hedging derivatives	-	-	-	-	-
- Commodity hedging derivatives	-	-	(54)	-	-
Changes in net income recognised directly in shareholders' equity - IFRS 2	-	1	-	-	1
Other adjustments	-	-	-	1	1
<b>As on June 30, 2006</b>	<b>(5)</b>	<b>3</b>	<b>(39)</b>	<b>1 122</b>	<b>1 081</b>

IAS 32 and IAS 39 are only applied by the Eramet Group as from January 1, 2005 with an impact on shareholders' equity of €37 million (net of deferred tax), mainly concerning cash flow hedging. It is offset in "Hedging instruments" under assets or liabilities, depending on whether hedging gains or losses are recognised (note 19).

## Notes

Eramet is a French limited company (*société anonyme*) managed by a Board of Directors and governed by the provisions of articles L.225-17 et seq. of the French Code de Commerce, decree no. 67-236 of March 22, 1967 as amended and the provisions of its Memorandum and Articles of Association. Pursuant to the law, the statutory audit of the Company is carried out by two statutory auditors and two alternative auditors.

Eramet's shares are traded on the Euronext Paris stock exchange where they are eligible for the SRD deferred settlement system.

The Eramet Group, via its subsidiaries and other investments, is a world-leading producer of nickel, manganese and alloys. Detailed information on the Group's activities is provided in the note to the financial statements relating to segment reporting (note 1.4).

The consolidated financial statements of the Eramet Group for the half year ended June 30, 2006 were reviewed by the Audit Committee on September 4, 2006 and presented for approval to the Board of Directors on September 6, 2006. The General Meeting of Shareholders is not required to approve half-year financial statements.

### 1 Accounting principles and measurement methods

#### 1.1 General principles

Pursuant to European regulation 1606/2002 of July 19, 2002 on the international accounting standards, the Eramet Group's summarised consolidated financial statements for the period ending June 30, 2006 were drawn up in millions of euros and in accordance with the international accounting standards (IFRS) and, in particular, IAS 34 on interim financial reporting, including the interpretations produced by IFRIC and the former SIC applicable as on June 30, 2006 as approved by the European Union on the date of drafting these financial statements. Therefore the recognition, measurement and presentation rules for transactions comply with IFRS. The new standards and interpretations that are mandatory and applicable as from January 1, 2006 are:

- The amendment to IAS 19 "Employee Benefits" relating to the treatment of actuarial gains and losses, Group plans and disclosures;
- The amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates" relating to the treatment of foreign currency loans to subsidiaries where such loans constitute a net investment in such subsidiaries;
- The amendment to IAS 39 "Financial Instruments" concerning the cash-flow hedging of forecast intra-group transactions;
- The amendment to IAS 39 "Financial Instruments" on the fair value option;
- IFRIC Interpretation 4 defining the conditions for determining whether an agreement contains a lease;
- IFRIC Interpretation 5 relating to rights to interests arising from decommissioning, restoration and environmental rehabilitation funds;
- IFRS 6 "Exploration for and Evaluation of Mineral Resources".

With the exception of IAS 19, in respect of which the "corridor method" is applied (notes 1.16 and 14), the effects on its financial statements of the other standards and interpretations are currently being analysed. The Group doesn't expect to find significant impacts.

The Eramet Group's consolidated financial statements have been prepared in accordance with the historical cost principle with the exception of certain types of assets and liabilities as stipulated in the directives issued in respect of the IFRS. The types of assets concerned are detailed, where relevant, in the following notes to the financial statements.

The Eramet Group opted to apply IAS 32/39 on financial instruments as on January 1, 2005 without restating the comparative information (statement of changes in shareholders' equity and note 20).

The Group has not opted for the early application of those standards and interpretations that become mandatory after this period end, i.e.:

- IFRS 7 "Financial Instruments : Disclosures", applicable as from January 1, 2007;
- IFRIC Interpretation 8 "Scope of IFRS 2", applicable as from January 1, 2007;
- The amendment to IAS 1 relating to capital disclosures, applicable as from January 1, 2007.

### 1.1.1 Estimates and judgements

In preparing its financial statements in accordance with IFRS, the Eramet Group is required to make estimates and assumptions that affect the carrying amounts of some assets and liabilities and income and expenses, as well as the information set out in specific notes.

The Eramet Group regularly reviews its estimates and assessments to take account of past experience and other factors that are deemed relevant with regard to economic conditions. As a result of changing assumptions and conditions, the amounts in future financial statements may differ from current estimates.

The main categories affected by changes to estimates are provisions for employee benefits and for site restoration, deferred taxes and impairment tests. In principle the Eramet Group only revises these estimates once a year, at the financial year end. However, where circumstances indicate that such action is necessary, additional estimates may be prepared at interim closings.

**Impairment:** In accordance with IAS 36, where events or economic developments in the markets in which Eramet operates indicate that its intangible assets or property, plant and equipment may have become impaired, such assets are the subject of impairment tests with a view to ascertaining whether their carrying amount is less than their recoverable amount, in which case a provision for impairment should be recognised equal to the difference. The value in use is determined by the use of the estimated future cash flow method, applied over a five-year period, and a terminal value (notes 1.7 and 1.10).

**Employee benefits:** The companies in the Eramet Group offer their employees various long-term benefits such as retirement indemnities, pension plans and medical coverage plans (note 1.16). As required by IAS 19, all of these commitments are estimated using assumptions such as discount rates or rates of return on the associated financial investments and future policies and salary trends (salary increases, staff turnover and mortality tables). In principle the Group updates these assumptions once a year and the most recent assumptions used are detailed in note 14 to the financial statements.

**Provisions for site restoration:** Certain companies in the Eramet Group must comply with regulatory and implicit commitments concerning the restoration of their mining sites at the end of the operating cycle. Therefore, as required by IAS 16 and IAS 37, as soon as a mining site opens, a provision for site restoration is booked, the other side of the entry being an asset for dismantling costs. These provisions are estimated on the basis of forecast cash flows classified by maturity and discounted by applying an inflation rate and a discount rate calculated using local economic parameters (note 15.5).

**Deferred tax:** The deferred tax assets that have been recognised in the financial statements relate mainly to temporary differences and tax losses carried forward, as stipulated by IAS 12 (note 16). These deferred tax assets are recognised if it is probable that the Eramet Group will generate sufficient future taxable income against which to offset these temporary differences and tax losses. The Group's ability to use these assets to reduce future tax liabilities is estimated using analysis of future cash flows performed at the level of each fiscal entity (note 1.17).

### 1.1.2 First-time application of the standards

As from January 1, 2005, the Eramet Group applied IAS 32-39 pursuant to IFRS 1.36. The main adjustments made to comply with IAS 32 and 39 relate to foreign currency hedging, particularly in US dollars, and commodity price hedging for nickel, fuel oil and aluminium.

### 1.1.3 "Current" and "non-current" assets

"Current" refers to assets and liabilities that are part of the operating cycle, regardless of their maturity, and other assets and liabilities with a term of less than one year from their balance sheet entry date. "Non-current" assets and liabilities include other assets and liabilities, i.e. those with maturities of over one year that are not part of the operating cycle.

## 1.2 Scope and method of consolidation

All material entities that Eramet exclusively controls, whether directly or indirectly, are fully consolidated. Companies over which Eramet has significant influence and in which it directly or indirectly holds a stake of over 20% are accounted for using the equity method (note 6). Jointly controlled companies are proportionally consolidated.

Certain interests are not consolidated even though they meet the above criteria as their consolidation would not have any material impact on the Group's financial statements and/or the benefits gained from their consolidation are less than the costs that would be incurred in their consolidation (notes 1.11.1 and 7).

The list of consolidated companies is set out in note 2.

Significant transactions between consolidated companies are eliminated on consolidation.

### **1.3 Business combinations**

The Group recognises business combinations using the purchase method. The assets, liabilities and contingent liabilities of an acquired company are measured at their fair value and the fair value adjustments calculated are made to the relevant assets and liabilities, including the minority interests' share. Any difference between the cost of the business combination and the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill in the balance sheet (note 1.6).

When the Eramet Group acquires assets and liabilities from minority shareholders of a company it already controls, no additional fair value adjustments are recognised and the difference between the acquisition cost and the carrying amount of the net assets acquired is recognised within goodwill (note 1.6).

### **1.4 Segment reporting**

The Group presents its segment information as follows:

Primary by business,

Secondary by geographic region: Europe, North America, Asia, Oceania and Africa.

Primary segment reporting is set out on the basis of the following divisions:

- The Nickel division, including mining, production and marketing activities centred on nickel and its derivative applications (ferronickel, high purity nickel, cobalt and nickel salts, cobalt and tungsten powders).
- The Manganese division, including mining, production and marketing activities centred on manganese alloys (ferromanganese, silicomanganese and refined alloys) and manganese chemical derivatives (oxides, sulphate, chloride). The Manganese division also includes subsidiaries that provide services to industry for the recovery and recycling of metals contained in oil catalysts, electric batteries and acid solutions from the electronics industry.
- The Alloys division, including subsidiaries that produce and market special high-performance steels, superalloys and pre-machined parts based on those materials or aluminium and titanium.

Each of these three divisions forms a distinct component that is exposed to specific risks and profitability. The column headed Holding and eliminations comprises the Group's central support services as well as Metal Securities and Eras SA.

Commercial relationships between the divisions are not material. The main relationships primarily relate to the billing of management fees and financial transactions.

Other relationships relate to the reinsurance company Eras SA and the financial company Metal Securities, both of which are fully consolidated via the Holding division (note 2):

Eras SA is a captive reinsurance company that enables it to offer primary coverage in some reinsurance programmes.

Metal Securities is a financial company responsible for pooling subsidiaries' cash to optimise investments with financial organisations outside the Group.

### **1.5 Translation of foreign currency denominated transactions and financial statements**

Foreign currency transactions are translated at the exchange rate at the time of the transaction. Foreign currency debts and receivables are measured at the closing rate under IAS 21. Translation adjustments resulting from foreign currency translation are recognised in the income statement (notes 1.23 and 1.24), with the exception of those relating to loans and borrowings between Group companies, which are regarded as an integral part of the net investment in a foreign subsidiary and are recognised directly in shareholders' equity under the heading "translation adjustments" and linked to the foreign subsidiary concerned.

The financial statements of foreign entities are translated using the official exchange rates at the end of the period for balance sheet items, except for shareholders' equity for which historical rates are applied. Income statement items and cash flows are translated at the average rates for the period. Goodwill arising on

acquisition is regarded as an element of the acquired entity and is therefore denominated in its functional currency and translated in the same way as other balance sheet items. Translation adjustments stemming from fluctuations in the exchange rates used to translate shareholders' equity and net income are allocated to reserves. Translation adjustments are detailed in the statement of changes in shareholders' equity and apportioned between Group share and minority interests.

## **1.6 Goodwill**

The cost of a business combination as at the time the interest is acquired is allocated to the identifiable assets, liabilities and contingent liabilities of the acquired company on the basis of their fair values. The residual, unassigned part is recorded under "goodwill" as a balance sheet asset. Goodwill is not amortised under IFRS 3 but undergoes an impairment test to detect any impairment loss. Impairment tests are regularly carried out at least once a year using the estimated discounted future cash flow method (cash flows being determined over a five-year period) and a terminal value. The discount rate used to calculate the value in use is the Group's weighted average cost of capital, which is 9% (unchanged since 2004). Provisions for impairment losses equal to the difference between the recoverable amount and the carrying amount are recognised in the income statement under "other operating income and expenses" (note 22). These provisions may not be reversed. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use.

If the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the interest acquired, the identification and measurement of the items acquired is reviewed and any excess still remaining (negative goodwill or badwill) is recognised directly in income (loss) for the period under "other operating income and expenses" (note 22).

Goodwill in respect of associated companies is recognized under equity method affiliates (note 6).

## **1.7 Intangible assets**

Intangible assets are measured at acquisition cost and amortised on a straight-line basis or on the basis of work units.

Capitalised amounts with respect to mineral deposits relate to partial asset contributions or permit acquisitions made since 1974. Depending on operating specificities, mining deposits are amortised on the basis of annual production vis-à-vis the reserves initially estimated or the length of the concession (note 4). The period over which computer software is amortised varies depending on the nature of the software but may not exceed five years.

Intangible assets are assigned to cash generating units (CGU) and are subject to impairment tests just like property, plant and equipment. Any impairment loss, calculated as the difference between the recoverable amount and the carrying amount, is recognised in income under "other operating income and expenses" (note 22). The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. The value in use is calculated by discounting the future cash flows expected to be derived from the use of the asset and its disposal.

## **1.8 Greenhouse gas emission quotas**

Following the withdrawal of IFRIC Interpretation 3, the Group does not recognise within assets and provisions any of the quotas granted to it (note 4). Eramet does not trade on a speculative basis on the greenhouse gas emission quotas market but may, where relevant, sell unused quotas. Income from the sale of unused quotas is recognised within "other operating income and expenses" (note 22).

## **1.9 Research and development expenditure**

Geological and other research expenditure is expensed in the period in which it is recorded (note 4).

Mine stripping costs are capitalised as property, plant and equipment and amortised on the basis of mined tonnage.

## 1.10 Property, plant and equipment

Items of property, plant and equipment appear in the balance sheet at acquisition or manufacturing cost (note 5). Items of property, plant and equipment are depreciated on a straight-line basis over the estimated lifespan or useful life having regard to the components of the asset. For guidance:

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Buildings	10 - 50 years
Industrial and mining facilities	5 - 50 years
Other items of property, plant and equipment	2 - 10 years

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A provision for impairment loss may be made in respect of items of property, plant and equipment should specific circumstances so warrant, on the basis of valuation tests using the estimated discounted future cash flow method to determine the value in use. This impairment loss, which corresponds to the difference between the recoverable amount and the carrying amount, is recognised in income under “other operating income and expenses” (note 22). The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use.

Equipment subsidies are recognised as deductions from the gross amounts of the items of property, plant and equipment in question. Spare parts deemed to be items of property, plant and equipment are capitalised and depreciated on the basis of their actual use. Tooling specifically manufactured for certain customers is recognised as an item of property, plant and equipment and depreciated over its likely lifespan. Major repairs are deemed to be components of items of property, plant and equipment. Borrowing costs are not capitalised as part of the cost of property, plant and equipment.

A provision was recorded upon the start-up of operations for the restoration of mining sites. This was done via the recognition of an item of property, plant and equipment that is depreciated over the operation of the mine on a straight-line basis.

Leases transferring the risks and benefits inherent in ownership (finance leases) are recognised as items of property, plant and equipment, offset by a debt (note 17). These are amortised over their expected working life on the same basis as the items of property, plant and equipment held or, if shorter, the term of the corresponding lease.

All items of property, plant and equipment are assigned to cash generating units. There are 18 “CGUs” in total, corresponding to the various production sites of the Eramet Group’s three main businesses (Nickel, Manganese and Alloys). Provisions for impairment losses may be made in respect of items of property, plant and equipment on the basis of impairment tests using forecasts drawn up per CGU and discounted at the pre-tax cost of capital.

## 1.11 Other financial assets

Other financial assets group together investments in related companies (notes 1.11.1 and 7) and other financial assets (notes 1.11.2 and 8).

### 1.11.1 Interests in related companies

Interests in related companies include the following:

Interests in companies that are controlled but not consolidated are kept in the balance sheet at their cost of acquisition, less any provisions for impairment losses. These impairment losses are offset in income under “other finance income and expenses” (note 23.2). Since the benefits to be gained from their consolidation would be less than the costs incurred in their consolidation, these interests are not consolidated.

Other investments are deemed to be available-for-sale financial assets and recognised at fair value. These securities relate to interests in companies over which the Group has no control or significant influence. Changes in the fair value of these securities are recorded as recyclable shareholders’ equity except in the event of material long-term impairment losses. Fair value is measured on the basis of the listed share price or, if unavailable, the discounted future cash flow method or, failing that, on the basis of the Group’s share of the company’s shareholders’ equity.

### **1.11.2 Other non-current financial assets**

Other non-current financial assets relate to loans or credit granted to related companies. They are initially recognised at their fair value plus acquisition costs and measured at each balance sheet date at their amortised cost in accordance with the effective interest method (for definition see note 1.14), less any offsetting provisions for impairment losses recognised in income under “other finance income and expenses” (note 23.2).

Financial assets as defined in IAS 32 are derecognised as soon as the Group no longer expects to receive future cash flows from said assets and all the risks and rewards associated with ownership of said assets have been transferred.

### **1.12 Assets held for sale and discontinued operations**

A non-current asset or group of directly related assets and liabilities is classified as held for sale if its carrying amount will be recovered through a sale transaction rather than through continuing use. In addition, the asset must be available for immediate sale and its sale must be highly probable. When several assets are to be disposed of in a single transaction, they are regarded as a group of assets together with the liabilities associated with those assets. Assets thus classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Intangible assets classified as held for sale are no longer amortised and property, plant and equipment classified as held for sale are no longer depreciated.

A discontinued operation is defined as a major operation of the Group that either has been disposed of or is classified as held for sale. The items in the financial statements related to the discontinued operation are grouped together under a specific heading in the Group’s consolidated financial statements.

At each balance sheet date, the value of assets held for sale must be reviewed to take into account any adjustments to their fair value less costs to sell.

### **1.13 Inventories**

Inventories are measured using the weighted average cost or FIFO (first in, first out) method.

Inventories and work in progress are measured at the lower of cost price, including only production costs, and net realisable value. Costs stemming from sub-standard activity levels are eliminated from inventory measurement at the end of the period.

The impairment of spare parts that do not qualify for capitalisation is calculated on the basis of consumption during the year. Spare parts inventory in excess of one year’s consumption is fully written off.

### **1.14 Receivables and debts**

Receivables and debts are measured on initial recognition at their fair value plus transaction costs and are then re-measured at each balance sheet date at their amortised cost calculated in accordance with the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash movements. Foreign currency receivables and debts are re-measured at the rate on the last day of the period. Foreign currency gains or losses are recorded in income under translation adjustments.

A receivable gives rise to a provision for impairment if it is highly likely that it will not be recovered. This provision, which is offset in income under “current operating income” (note 21), reduces the nominal amount.

Receivables transferred (particularly under a factoring or securitization contract) with recourse to the transferor company in the event of payment default by the debtor are not derecognised.

### **1.15 Cash and cash equivalents**

Cash includes cash in hand and demand deposits, excluding bank overdrafts, which come under financial liabilities. Cash equivalents, which correspond to marketable securities, are comprised of investments held in order to meet short-term cash requirements and are not considered as held to maturity.

Marketable securities maturing in three months or less are recognised at their fair value in the balance sheet in accordance with IAS 39. To be considered as a cash equivalent, they must be readily convertible and subject to negligible risk in terms of fluctuations in their value. Changes in fair value are recognised in the income statement under “cost of borrowed capital” (note 23.1).

## 1.16 Employee liabilities

### Definition of plans

Defined benefit plans: Eramet Group companies offer their employees various long-term benefits such as severance indemnities or other additional post-employment benefits (pension plan or medical coverage plan). The characteristics of these schemes vary in line with the laws and regulations in force in each country and/or subsidiary.

In some companies, these liabilities are wholly or partly covered by contracts taken out with insurance companies or pension funds. In this case, liabilities and covering assets are assessed independently. The provision thus recognised in respect of the defined retirement benefits represents the discounted value of the obligation in respect of the defined benefits adjusted in respect of the actuarial gains and losses not recognised and past service cost not recognised and reduced by the fair value of the plan assets.

Defined benefit plans are measured in accordance with the projected unit credit actuarial method.

Defined contribution plans: For the defined contribution plans granted in certain Group subsidiaries, employer contributions are expensed in the period to which they relate.

### Main actuarial assumptions and methods

The Group's liabilities are appraised by independent actuaries in line with international frameworks (IFRS). The actuarial assumptions used (probability of active personnel remaining in the Group, mortality probability, retirement age, salary trends, etc.) vary according to the prevailing demographic and economic conditions in the countries in which the plan is in force.

The discounting rates used are based on the rate of government bonds or bonds in top-rated companies with an equivalent duration to that of the liabilities on the appraisal date.

The expected long-term return on assets was determined by taking into account the structure of the investment portfolio for each country.

Actuarial differences resulting from the change in discounting and return rates that represent over 10% of the discounted value of liabilities or of the fair value of plan assets are amortised over the expected average remaining working life of the employees in the plan (corridor principle).

Plan amendment costs are deferred over the remaining vesting period.

## 1.17 Deferred taxes

The amount of taxes actually owed at the close of the period is adjusted for deferred taxes, which are calculated using the variable carry-forward method on temporary differences between carrying amounts and tax amounts and on consolidation restatements. Deferred tax assets, including those related to loss carry-forwards, which are determined by fiscal entity, are recognised whenever it can be shown that they will probably be realised. Deferred taxes are not discounted.

To assess the probability that such assets will be realised, the Group considers the following:

- Forecasts of future results,
- Exceptional losses not expected to recur in the future,
- Track record of previous taxable profits and losses,
- Tax strategies.

Provisions are recorded for non-recoverable distribution taxes on the dividends planned with respect to the previous financial year. Deferred tax assets and liabilities are recognised as balance sheet assets and liabilities (note 16). Deferred tax assets and liabilities are regarded as non-current and classified as such.

## 1.18 Provisions

Provisions are recorded to meet all liabilities stemming from past events that are known on the cut-off date for the period and the settlement of which is likely to result in an outflow of resources that represent economic benefits.

Provisions for mining site restoration are recorded when the mining sites open. Restoration costs are discounted over the period remaining to the expected end of operation of the mine and the impact of the discounting is recognised in income under other finance income and expenses (note 23.2).

As regards industrial sites, insofar as there are no plans to discontinue operations, no provision is recorded for site restoration.

The costs of restructuring and redundancy plans are provided for in full when the Group has decided in principle to implement such measures and announced its intention prior to the balance sheet date.

### **1.19 Recognition of financial instruments**

**Risks:** To manage its foreign currency risk, the Group uses foreign currency forwards, foreign currency swaps and, to a lesser extent, foreign currency options. Foreign currency forwards are recognised as hedges to the extent that the Group has defined and documented the hedging relationship and demonstrated its effectiveness. Interest rate risk is generally managed using interest rate swaps and options. Lastly, the Group also uses forwards to hedge commodity purchases or sales.

**Measurement and presentation:** Derivatives are measured at their fair value upon initial recognition. Subsequently, the fair value of derivatives is reviewed at each balance sheet date. The fair value of foreign currency forwards is inferred from market conditions. The fair value of interest rate derivatives is what the Group would receive (or pay) to unwind current contracts on the closing date. The fair value of commodity derivatives is inferred from market conditions. Derivatives are presented in the balance sheet as current assets or current liabilities (note 19).

**Hedge accounting:** The Group identifies the hedging item and hedged item when the hedge is set up and formally documents the hedging relationship by identifying the hedging strategy, the hedged risk and the hedge effectiveness measurement method.

- Fair value hedging: The hedged item is re-measured with regard to the hedged risk and the hedging instrument is measured and recognised at fair value. Changes in these two items are simultaneously recognised under operating income.
- Future cash flow hedging: The hedged item is not re-measured. Only the hedging instrument is re-measured at fair value. To offset the re-measuring, the effective portion of the change in fair value that can be ascribed to the hedged risk is recognised net of tax in shareholders' equity. The aggregate shareholders' equity amounts are recycled in income whenever the hedged item has an impact on it.
- Recognition of derivatives not classed as hedging: The Company uses these derivatives solely to hedge future cash flows. Changes in fair value are immediately recognised in income.

### **1.20 Concession**

In the absence of the IASB's definitive publication of the IFRIC interpretation on the recognition method for contracts appointing a third party to manage a public service, the Transgabonais railway concession was recognised as follows.

Under the terms of the agreement, for an initial 30 year period, the concessionary freely sets the prices for the services it provides, in return for a commitment to fund the renewal of assets with the undertaking to catch up capital expenditure over the first five years, part of which is guaranteed by Comilog (€1 million). The assets relating to those renewal investments and the assets bought from the State are recognised as balance sheet assets and depreciated over their useful lifespan or over the remaining period of the concession, whichever is shorter.

### **1.21 Revenue**

Revenue mainly comprises the following:

- Sales, comprised of the sale of merchandise, goods and services generated in the course of the Group's main business activities. This is part of "current operating income" (note 21).
- Other income including other revenue assigned to "current operating income" (note 21) such as translation adjustments on sales, capitalised production, rental income, operating subsidies and insurance premiums received.
- Interest income recognised in income under "cost of borrowed capital" (note 23.1).
- Dividends included in income under "other finance income and expenses" (note 23.2).

The revenue recognition criteria by category are as follows:

- Sales and other income: Income is recognised as sales once the company has transferred the main risks and benefits inherent in ownership to the buyer. Sales are measured at the fair value of the corresponding

payment received or receivable. In the event of a deferred payment having a material impact on the calculation of the fair value, future payments are discounted accordingly.

- Interest: Income is recognised for the amount of accrued interest.
- Dividends: Income from investments is recognised whenever the Group is entitled to receive payment as a shareholder.

## 1.22 Share-based payment

Various stock option plans have been set up. The fair value of the services received in exchange for the grant of these options is definitively measured with reference to the fair value of said options on the grant date and to the number of options that will have vested by the end of the vesting period. In this regard, the Group uses a Black & Scholes-type mathematical valuation model.

During the vesting period, the total fair value thus determined is deferred on a straight-line basis over the full vesting period for the plan in question, the number of options for which the vesting conditions are satisfied being reviewed at each balance sheet date.

This charge is recorded under personnel costs, offset by an increase in shareholders' equity. When the options are exercised, the exercise price received by the Group is recognised in cash and offset in shareholders' equity.

In line with the transitional provisions in IFRS 1, only stock option plans subsequent to November 7, 2002 are recognised under the principle set out above and measured.

## 1.23 Current operating income and other operating income and expenses

The Eramet Group mainly uses current operating income as a performance indicator.

Current operating income includes gross profit (difference between sales income and the cost of goods sold), administrative and selling costs and research and development expenditure. Current operating income comprises in particular the costs associated with employee benefits including the financial component, the expenses associated with employee profit-sharing and incentive arrangements and the changes in the fair value of foreign currency hedges in respect of the Group's operating activities (trade receivables and payables).

Other operating income and expenses includes, in particular:

- Restructuring costs,
- Capital gains/losses or impairment losses on assets,
- Impairment losses on goodwill, other intangible assets and property, plant and equipment.

## 1.24 Finance income and expenses

Finance income and expenses is composed of the following:

- The cost of borrowed capital (income statement items associated with balance sheet items composing net debt, i.e. borrowings and cash and cash equivalents).
- Other finance income and expenses (dividends, provisions on securities, charges re reversing of discounting and gains/losses on hedging instruments).

## 1.25 Earnings per share

Basic earnings per share are calculated by dividing the Group net income (loss) by the weighted average number of shares outstanding in the year, excluding treasury shares.

Fully diluted earnings per share are obtained by correcting Group net income (loss) and the number of shares for the impact of potential dilution, the chief cause of which are the share subscription and purchase plans granted to staff.

## 1.26 Contingencies

**Environmental:** Where there is a legal or contractual obligation to restore mining sites, a provision for site restoration is recorded, the corresponding entry being an asset for dismantling costs. The provision is based on site-by-site cost estimates, the total cost being deferred over the operation of the mine (notes 1.10, 1.18 and 15.5).

Provisions are recorded for any other environmental contingencies on the basis of estimated future costs without, however, allowance for any insurance indemnities receivable (note 15.5).

**Market:** To manage its interest and foreign currency risks, the Group has recourse to various financial instruments. The Group's policy is to reduce its exposure to interest and exchange rate fluctuations, but not to speculate. Positions are traded either in recognised markets, or by private contract with reputable banks. Gains or losses on hedging instruments are symmetrically recognised with the gains or losses on the hedged items. However, unrealised losses on economic hedging transactions not classed as hedged are recognised in income.

All transactions outstanding as on the balance sheet date are recognised in the balance sheet, with no set-off (note 19).

**Foreign currency risks:** When the exposure stemming from the borrowing taken out by Group companies in currencies other than their reporting currencies is not offset by income in those currencies, the Group may hedge its foreign currency risk.

**Interest rate risks:** Depending on market conditions and on forecast changes in the financial position, the Group Finance Department checks the split between fixed and variable rates of debt and cash investments. The financial instruments used are interest rate swaps, caps or floors.

**Counterparty risk on financial transactions:** The Group may be exposed to credit risk in the event of default by a counterparty. In order to limit this risk, the Group obtains and reviews relevant information (rating agencies, published financial statements, etc.) before entering into financial transactions. The Group has not therefore implemented a specific system to cover counterparty risk.

## 2 Scope of consolidation

### 2.1 Changes in scope of consolidation

The scope of consolidation changed as follows during the first half of 2006:

#### Newly consolidated companies

**Nickel division:** acquisition by Eramet in early May 2006 for €184 million of 100% of the shares in the Canadian company Weda Bay Minerals Inc., which, through its Indonesian subsidiary Pt Weda Nickel, owns the Hamahera mineral deposit.

**Manganese division:** formation of the wholly-owned Chinese sales company Eramet Comilog Shanghai Trading Co Ltd.

#### Deconsolidated companies

**Alloys division:** the sales companies Erasteel GmbH and Erasteel Italiana Srl, which were wholly owned by Erasteel and previously fully consolidated, were deconsolidated as from January 1, 2006. The benefits gained from their consolidation were outweighed by the costs involved in their consolidation.

Overview of the main business combinations during the period: the acquisition of Weda Bay Minerals Inc. and its subsidiaries (Nickel division):

(millions of euros)	Weda Bay Minerals Inc. and its subsidiaries	
	Fair value	Carrying amount
Acquisition price		184
Goodwill and (negative goodwill) recognised		153
Non-current assets	31	31
Working capital	1	1
Net worth	(49)	(49)
Provisions and deferred tax	-	-
Net borrowings	17	17

The allocation of the acquisition price of Weda Bay Minerals Inc. had not yet been finalised as at June 30, 2006. The goodwill amounted to €153 million (note 3). The work required to finalise the allocation of the acquisition price will be carried out during the second half of 2006. It is nevertheless highly probable that a significant part will be allocated to mineral reserves within intangible assets (note 4). The impact on the Group income statement is not material. Pro forma statements were not drawn up.

## 2.2 List of consolidated companies on June 30, 2006

As on June 30, 2006, the scope of consolidation included 54 companies (as on December 31, 2005: 50), with 52 fully-consolidated and 2 accounted for using the equity method (as on December 31, 2004: 48 and 2).

Company	Country	Consolidation method	% control	% interest
<b>Eramet</b>	<b>France</b>	<b>Parent company</b>	-	-
<b>Nickel</b>				
Société Le Nickel	New Caledonia	Consolidated	60	60
Cominc	New Caledonia	Consolidated	60	60
Poum	New Caledonia	Consolidated	60	60
3132752 Nova Scotia Ltd	Canada	Consolidated	100	100
Weda Bay Minerals Inc.	Canada	Consolidated	100	100
Weda Bay Minerals Pty Ltd	Australia	Consolidated	100	100
Strand Minerals Pte Ltd	Singapore	Consolidated	100	100
Pt Weda Nickel Ltd	Indonesia	Consolidated	90	90
Eramet Holding Nickel	France	Consolidated	100	100
Eurotungstène Poudres	France	Consolidated	100	100
<b>Manganese</b>				
Eramet Holding Manganèse	France	Consolidated	100	100
Eramet Comilog Manganèse	France	Consolidated	100	83,63
Eramet Marietta Inc.	United States	Consolidated	100	100
Eramet Norway A/S	Norway	Consolidated	100	100
Comilog, SA	Gabon	Consolidated	67,25	67,25
Setrag SA	Gabon	Consolidated	83,88	56,66
Comilog Holding	France	Consolidated	100	67,25
Comilog International	France	Consolidated	100	67,25
Comilog Lausanne	Switzerland	Consolidated	100	67,25
Port Minéralier d'Owendo SA	Gabon	Equity accounted	36,35	24,45
Unimin AG	Switzerland	Consolidated	100	67,25
Erachem Comilog SA	Belgium	Consolidated	100	67,25
Comilog US	United States	Consolidated	100	67,25
Gulf Chemetals & Metallurgical Corp.	United States	Consolidated	100	67,25
Bear Metallurgical Corp.	United States	Consolidated	100	67,25
Erachem Comilog Inc.	United States	Consolidated	100	67,25
Eramet Comilog North America Inc.	United States	Consolidated	100	67,25
Comilog France	France	Consolidated	100	67,25
Comilog Dunkerque	France	Consolidated	100	67,25
Miner Holding BV	Netherlands	Consolidated	100	67,25
Erachem Mexico SA	Mexico	Consolidated	100	67,25
Comilog Asia Ltd	Hong Kong	Consolidated	100	93,45
Comilog Asia Ferro Alloys Ltd	Hong Kong	Consolidated	100	93,45
Guangxi Comilog Ferro Alloys Ltd	China	Consolidated	70	65,42
Guilin Comilog Ferro Alloys Ltd	China	Consolidated	100	93,45
Guangxi Eramet Comilog Chemicals Ltd	China	Consolidated	100	93,45
Comilog Far East Development Ltd	Hong Kong	Consolidated	100	93,45
Eramet Comilog Shangai Trading Co. Ltd	China	Consolidated	100	93,45
<b>Alloys</b>				
Eramet Alliages	France	Consolidated	100	100
Erasteel	France	Consolidated	100	100
Erasteel Commentry	France	Consolidated	100	100
Erasteel Champagnole	France	Consolidated	100	100
Erasteel Kloster AB	Sweden	Consolidated	100	100
Peter Stubs Ltd	United Kingdom	Consolidated	100	100
Erasteel Ltd	United Kingdom	Consolidated	100	100
Erasteel Inc.	United States	Consolidated	100	100
Société Industrielle de Métallurgie Appliquée	France	Consolidated	100	100
Forges M. Dembiermont	France	Equity accounted	33,2	33,2
Interforge	France	Consolidated	94	94
Aubert & Duval	France	Consolidated	100	100
Airforge	France	Consolidated	100	100
<b>Holding companies and miscellaneous</b>				
Eras SA	Luxembourg	Consolidated	100	100
Metal Securities	France	Consolidated	100	100

All companies within the scope of consolidation draw up their financial statements to December 31.

### 3 Goodwill

#### 3.1 By category

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Weda Bay Minerals Inc.	142	-	-
Eramet Norway A/S	15	15	15
Peter Stubs Ltd	7	7	7
Eurotungstène Poudres (Etp)	6	6	6
Bear Metallurgical Corp.	2	-	1
Erachem Mexico SA	3	3	3
Aubert & Duval (Ad)	2	2	2
Other companies (under 1 million euros)	1	2	1
<b>Total</b>	<b>178</b>	<b>35</b>	<b>35</b>
Of which provisions for impairment losses	(12)	(12)	(12)

As a result of impairment testing carried out during the financial years 2003 and 2004, exceptional provisions for impairment losses of respectively €8 million and €4 million were recognised in respect of the goodwill of the companies Aubert & Duval and Peter Stubs Ltd (Alloys division).

#### 3.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>35</b>	<b>35</b>	<b>35</b>
Business combinations	153	-	1
Other changes in scope of consolidation	-	-	(1)
Impairment losses over the period	-	-	-
Translation and other adjustments	(10)	-	-
<b>As at end of period</b>	<b>178</b>	<b>35</b>	<b>35</b>

The movement in business combinations in the first half of 2006 corresponds to the acquisition on May 1, 2006 of the Canadian company Weda Bay Minerals Inc. (note 2).

The acquisition in early December 2005 of 50.5% of the US company Bear Metallurgical Corp. (Manganese division) explains the business combinations in 2005, while other changes in the scope of consolidation relate to the deconsolidations as on January 1, 2005 of non-material subsidiaries. The goodwill associated with the acquisition of Bear Metallurgical Corp. was provisionally allocated in full to tangible assets at December 31, 2005. On January 1, 2006, following the final measurement at fair value of the assets, residual goodwill of €1 million was reclassified.

### 4 Intangible assets

#### 4.1 By category

(millions of euros)	Gross amount	Amortis- ation	Provisions for impairment losses	Net 06/30/2006	Net 06/30/2005	Net 12/31/2005
Mineral reserves	115	(53)	-	62	55	65
Computer software	31	(28)	-	3	4	4
Other intangibles	7	(6)	-	1	1	1
Work-in-progress, down-payments	3	(1)	-	2	3	2
<b>Total</b>	<b>156</b>	<b>(88)</b>	<b>-</b>	<b>68</b>	<b>63</b>	<b>72</b>

## Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>72</b>	<b>67</b>	<b>67</b>
Business combinations	-	-	10
Other changes in scope of consolidation	-	-	-
Capital expenditure over the period	2	2	4
Amortisation and provisions over the period	(4)	(4)	(7)
Translation and other adjustments	(2)	(2)	(2)
<b>As at end of period</b>	<b>68</b>	<b>63</b>	<b>72</b>
- Gross amount	156	165	155
- Amortisation	(88)	(102)	(83)
- Provisions for impairment losses	-	-	-

The Group allocates the acquisition cost of a business combination to the identifiable assets, liabilities and contingent liabilities on the basis of their fair values (in particular to mineral deposits for the Nickel and Manganese divisions).

Mineral deposits relate to Gabon (Manganese division) and New Caledonia (Nickel division) for €13 million and €19 million respectively (€16 million and €19 million as on December 31, 2005). The increase in mineral deposits in New Caledonia relates to the completion of the Bercy agreements at the end of 2005 (note 26) with allocation of the Poum massif for a fair value of €10 million.

## 4.2 Greenhouse gas emission quotas

The greenhouse gas emission quotas granted to Group companies are as follows:

(in tons of Co2)	12/31/2005
Quotas granted	98 655
Actual emissions	96 449
Excess of quotas over emissions	2 206
Quotas sold on the market	-

The quotas are granted annually and relate to the Alloys division's industrial sites in France and Sweden.

## 4.3 Research and development expenditure – expenses during the period

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Non-capitalised research and development expenditure	17	15	32
<b>Total</b>	<b>17</b>	<b>15</b>	<b>32</b>
Percentage of sales	1,1%	1,1%	1,2%

The Nickel division's geology expenses are not capitalised and are expensed in the period in which they are incurred.

## 5 Property, plant and equipment

### 5.1 By category

(millions of euros)	Gross amount	Amortisation	Provisions for impairment losses	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
Land and buildings	561	(326)	(1)	234	211	237
Industrial and mining installations (*)	1 990	(1 271)	(55)	664	586	690
Other property, plant and equipment	319	(220)	(2)	97	65	87
Assets in progress and down-payments	284	(1)	-	283	228	179
<b>Total</b>	<b>3 154</b>	<b>(1 818)</b>	<b>(58)</b>	<b>1 278</b>	<b>1 090</b>	<b>1 193</b>
(*) Including investment subsidies deducted				(1)	(5)	(1)

Investment subsidies deducted from items of property, plant and equipment mainly relate to the strategic capital expenditure items defined in point 5.3, details of which are set out below.

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
40,000-ton press - Aubert & Duval	(1)	(4)	(1)
Other	-	(1)	-
<b>Total</b>	<b>(1)</b>	<b>(5)</b>	<b>(1)</b>

### 5.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>1 193</b>	<b>1 055</b>	<b>1 055</b>
Business combinations	31	-	17
Other changes in scope of consolidation	-	(8)	(8)
Capital expenditure over the period	137	78	227
Investment subsidies received	-	-	-
Disposals over the period	(1)	(2)	(5)
Depreciation and provisions over the period	(69)	(54)	(131)
Translation and other adjustments	(13)	21	38
<b>As at end of period</b>	<b>1 278</b>	<b>1 090</b>	<b>1 193</b>
- Gross amount	3 154	2 856	3 026
- Depreciation	(1 818)	(1 714)	(1 773)
- Provisions for impairment losses	(58)	(52)	(60)

Following impairment testing during the financial years 2003, 2004 and 2005, impairment losses were recognised in respect of items of property, plant and equipment in the Manganese and Alloys divisions amounting to €38 million and €16 million respectively (€40 million and €16 million as at December 31, 2005).

The recognition of liabilities for the restoration of mining sites in New Caledonia (Nickel division) resulted in the creation of a specific component with respect to recorded provisions (note 15.5). The net amount of those items of property, plant and equipment amounted to €17 million as on June 30, 2006 (€18 million as on December 31, 2005).

Business combinations for the financial year 2005 relate to Bear Metallurgical Corp. and Setrag SA for €9 million and €8 million respectively. Other changes in the scope of consolidation relate to the deconsolidation of non-material companies.

### 5.3 Details of main strategic capital expenditure

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Nickel production expansion (75KT project) - Société Le Nickel (Sln)	28	6	20
Manganese production expansion (3,500,000-ton project) - Comilog SA	13	4	24
EMD plant in China - Guangxi Eramet Chemetals Ltd	5	-	6
40,000-ton press - Aubert & Duval	8	15	21
<b>Total</b>	<b>54</b>	<b>25</b>	<b>71</b>

The main strategic capital expenditure projects are financed from cash and borrowings.

The value of items of property, plant and equipment financed by leasing and recognised in the balance sheet breaks down as follows:

(in millions of euros)	Gross amount	Depreciation	Provisions for impairment losses	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
40,000-ton press - Aubert & Duval	23	(1)	-	22	24	23
Industrial equipment - Aubert & Duval	15	(10)	-	5	6	6
Administrative building - Aubert & Duval	6	(2)	-	4	4	4
53 ème Tour Montparnasse - Eramet	5	(2)	-	3	3	3
<b>Total</b>	<b>49</b>	<b>(15)</b>	<b>-</b>	<b>34</b>	<b>37</b>	<b>36</b>

Details of future rental payments are provided in note 27 – Off-balance sheet liabilities.

### 5.4 Impairment tests

The data and assumptions used for impairment tests on assets included in cash generating units (CGU) are as follows:

- The discount rate used is the weighted average cost of capital (WACC), i.e. 9%.
- Cash flows are determined over 5 years and account is taken of a terminal value. The growth rates used are the same as those used in budgets and the perpetual growth rates used for terminal values are from 0% to 1% depending on the CGU.

No additional impairment losses were recognised as at June 30, 2006.

## 6 Equity method affiliates

### 6.1 By category

(millions of euros)	Company	Country	% held	Share	Share in shareholders' equity		
				in earnings	06/30/2006	06/30/2005	12/31/2005
	Forges M. Dembiermont	France	33.2%	1	8	7	7
	Port Minéralier d'Owendo SA	Gabon	36.35%	-	2	3	4
	Bear Metallurgical Corp.	United States	49.5%	-	-	4	-
	<b>Total</b>			<b>1</b>	<b>10</b>	<b>14</b>	<b>11</b>

Bear Metallurgical Corp., which was 49.5% owned and equity accounted accordingly until November 30, 2005, has been fully consolidated as from that date following the Group's buyout of the remaining 50.5% of its shares.

The shares in Forges M. Dembiermont are in the process of being sold during the second half of 2006 and a provision has been booked in respect of the capital loss expected to arise (note 15.6).

## 6.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>11</b>	<b>16</b>	<b>16</b>
Business combinations	-	-	(4)
Other changes in scope of consolidation	-	(1)	(1)
Capital expenditure over the period	-	-	-
Disposals over the period	-	-	-
Share in earnings over the period	1	1	2
Dividends paid	(2)	(2)	(2)
Translation and other adjustments	-	-	-
<b>As at end of period</b>	<b>10</b>	<b>14</b>	<b>11</b>

The simplified financial statements (corporate data) for the period ended December 31, 2005 of companies accounted for using the equity method are set out below:

(millions of euros)	Forges M. Dembiermont (Alloys Div.)	Port Minéralier d'Owendo SA (Manganese Div.)
Sales	46	8
Current operating income	2	3
Net income	-	3
Non-current assets	42	4
Working capital	5	-
Net worth	(26)	(8)
Provisions	(2)	-
Net borrowings	(19)	4

## 7 Non-consolidated subsidiaries

### 7.1 By category

(millions of euros)		% held	Gross amount	Provisions	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
<b>Company</b>	<b>Country</b>						
Société Financière Brown Europe	France	100%	8	-	8	8	8
Aubert & Duval USA Inc. (ex Htm Inc.)	United States	100%	3	-	3	3	3
Erasteel GmbH	Germany	100%	3	-	3	-	-
Aubert & Duval Mold and Die Technology	China	85%	3	-	3	-	2
La Petite-Faye	New Caledonia	100%	2	-	2	2	2
Stahlschmidt GmbH	Germany	61.5%	2	-	2	2	2
Erasteel Italiana Srl	Italy	100%	2	-	2	-	-
Eramet North America Inc. (ex Lni Inc.)	United States	100%	2	(1)	1	1	1
SAS Extract Ion	France	50%	1	(1)	-	1	-
Centre de Recherche de Trappes (CRT)	France	100%	1	-	1	1	1
Sogaferro	Gabon	69.99%	1	-	1	1	1
Microsteel	France	100%	2	(1)	1	1	1
Traitement Compression Service (Tcs)	France	51%	1	-	1	1	1
Erasteel Japan KK	Japan	100%	1	-	1	1	1
Erasteel Korea Ltd	South Korea	100%	1	-	1	1	1
Other companies (under 1 million euros)	-	-	26	(17)	9	14	13
<b>Total</b>			<b>59</b>	<b>(20)</b>	<b>39</b>	<b>37</b>	<b>37</b>

Interests in non-consolidated subsidiaries chiefly relate to controlled companies. They are recognised in the balance sheet at acquisition cost, less any provisions for impairment determined on the basis of the share of net shareholders' equity held, since the Group is not able to measure reliably their fair value.

As of January 1, 2006, non-consolidated subsidiaries include companies that were withdrawn from the scope of consolidation because of their slight impact on the Group's financial statements (note 2). These investments are measured at their equity stake value on the date of deconsolidation.

## 7.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>37</b>	<b>24</b>	<b>24</b>
Business combinations	-	-	-
Other changes in scope of consolidation	5	11	12
Capital expenditure over the period	1	2	5
Disposals over the period	(2)	-	(8)
Impairment losses over the period	(1)	-	3
Translation and other adjustments	(1)	-	1
<b>As at end of period</b>	<b>39</b>	<b>37</b>	<b>37</b>

Simplified financial statements (corporate data) for the main controlled but non-consolidated companies as on December 31, 2005 are set out below:

(millions of euros) (Basis: financial statements as on Decemb	Stahlschmidt GmbH	Erasteel GmbH	FBE & Brown Europe	Erasteel Italiana Srl	Tec Ingenierie	Centre Rech. Trappes (CRT)	Microsteel	Erasteel Japan KK	Erasteel Korea Ltd
Sales	28	24	17	13	10	9	8	7	5
Current operating income	1	1	3	-	1	-	-	-	-
Net income	1	-	2	-	1	-	-	-	-
Non-current assets	1	1	6	-	-	3	1	-	-
Working capital	4	2	6	1	(1)	-	2	1	1
Net worth	(4)	(3)	(11)	(1)	(2)	(2)	(1)	(1)	(1)
Provisions	-	(1)	-	-	-	(1)	-	-	-
Net borrowings	(1)	1	(1)	-	3	-	(2)	-	-

These companies are mainly sales and research & development entities whose services are wholly for the Eramet Group, and industrial subsidiaries of Sima (commission work, wiredrawing and drawing of metallurgical products).

## 8 Other financial assets

### 8.1 By category

(millions of euros)	Gross amount	Provisions	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
Deposits	10	-	10	11	7
Employee loans	5	-	5	2	2
Credit lines - Eramet International & Japan	2	-	2	-	2
Financial investments / US pensions	3	-	3	2	3
Advances - China Bayi	1	-	1	1	1
Accounts receivable - Sonadig (Gabon)	2	-	2	2	2
Credit lines - Microsteel	2	-	2	2	2
Credit lines - Bronzavia Industries	1	-	1	7	1
Other loans and credit lines	8	(3)	5	6	5
<b>Total</b>	<b>34</b>	<b>(3)</b>	<b>31</b>	<b>33</b>	<b>25</b>

Other financial assets chiefly relate to loans and credit granted to non-consolidated companies and are measured at amortised cost.

Credit granted to Bronzavia Industries has been fully provided for under liabilities (note 15.6).

## 8.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>25</b>	<b>26</b>	<b>26</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	5	-
Cash movements	7	1	(2)
Impairment losses over the period	-	-	4
Translation and other adjustments	(1)	1	(3)
<b>As at end of period</b>	<b>31</b>	<b>33</b>	<b>25</b>

## 8.3 By currency

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Euro	22	22	15
US dollar	5	5	3
CFA franc	-	4	4
Pacific franc	4	2	3
<b>Total</b>	<b>31</b>	<b>33</b>	<b>25</b>

## 8.4 By interest rate

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Interest free	15	16	15
Fixed rate	6	4	6
Variable rate	10	13	4
<b>Total</b>	<b>31</b>	<b>33</b>	<b>25</b>

The interest free amounts correspond mainly to deposits and certain loans granted to staff.

## 9 Inventories

### 9.1 By category

(millions of euros)	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
Raw materials	<b>244</b>	232	265
Merchandise and finished goods	<b>217</b>	251	229
Work in progress and semi-finished goods	<b>299</b>	218	256
Consumables and spare parts	<b>12</b>	7	10
<b>Total</b>	<b>772</b>	<b>708</b>	<b>760</b>
Of which impairment losses	(69)	(64)	(68)

The provisions for impairment losses relate mainly to raw materials, merchandise and finished goods.

## 9.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>760</b>	<b>601</b>	<b>601</b>
Business combinations	-	-	3
Other changes in scope of consolidation	(6)	(8)	(8)
Working capital adjustments	28	104	156
Impairment losses over the period	-	-	(5)
Translation and other adjustments	(10)	11	13
<b>As at end of period</b>	<b>772</b>	<b>708</b>	<b>760</b>

The increase in inventories relates mainly to the Alloys division following the continuing significant upturn in business at Aubert & Duval, particularly in aerospace.

## 10 Trade and other receivables

### 10.1 By category

(millions of euros)	Gross amount	Provisions	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
Trade receivables	511	(9)	502	455	449
Social and tax receivables	39	-	39	38	41
Other operating receivables	52	(25)	27	34	26
Amounts receivable on disposals of non-current assets	1	-	1	-	-
Prepaid expenses	11	-	11	11	7
<b>Total</b>	<b>614</b>	<b>(34)</b>	<b>580</b>	<b>538</b>	<b>523</b>

### 10.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>523</b>	<b>472</b>	<b>472</b>
Business combinations	1	-	15
Other changes in scope of consolidation	2	14	14
Working capital adjustments	57	34	6
Impairment losses over the period	1	7	-
Translation and other adjustments	(4)	11	16
<b>As at end of period</b>	<b>580</b>	<b>538</b>	<b>523</b>

Trade and other receivables are all due in less than one year. The increase is mainly due to the rise in sales. Foreign currency denominated receivables are translated at the closing rate. The Eramet Group has not assigned or securitized any of its receivables. The Group's exposure to credit risk is limited and would not be significantly affected by a third party defaulting.

## 11 Cash and cash equivalents

### 11.1 By category

(millions of euros)	Gross amount	Provisions	Net amount as on 06/30/2006	Net amount as on 06/30/2005	Net amount as on 12/31/2005
Cash	41	-	41	99	51
Cash equivalents	437	-	437	404	472
<b>Total</b>	<b>478</b>	<b>-</b>	<b>478</b>	<b>503</b>	<b>523</b>

### 11.2 By currency

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Euro	419	401	453
US dollar	51	83	57
Yuan Ren Min Bi (China)	3	4	4
Other currencies	5	15	9
<b>Total</b>	<b>478</b>	<b>503</b>	<b>523</b>

### 11.3 By interest rate

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Interest free	26	48	13
Fixed rate	13	22	22
Variable rate	439	433	488
<b>Total</b>	<b>478</b>	<b>503</b>	<b>523</b>

The cash heading covers cash and cash equivalents covers marketable securities. Marketable securities are mainly comprised of money market funds in euros bearing interest at variable rates under 3%.

The change from one period to the next is analysed via a cash flow statement drawn up using the indirect method.

## 12 Shareholders' equity

### 12.1 Changes in share capital

The share capital is comprised of 25,874,644 shares with a par value of €3.05, broken down as follows:

Distribution	1st half 2006				1st half 2005				2005 FY				
	Share capital		Voting rights		Share capital		Voting rights		Share capital		Voting rights		
	%	shares	%	shares	%	shares	%	shares	%	shares	%	shares	
Registered shares													
Sorame et Compagnie d'Etudes Industrielles du Rouvray (CEIR)	37,11	9 603 338	43,65	19 182 674	37,28	9 603 338	43,55	18 980 985	37,24	9 603 338	43,76	19 182 665	
Areva	26,12	6 757 277	30,75	13 514 554	26,23	6 757 277	31,01	13 514 554	26,20	6 757 277	30,83	13 514 554	
S.T.C.P.I.	5,11	1 323 471	5,95	2 614 378	5,14	1 323 471	6,00	2 614 378	5,13	1 323 471	5,96	2 614 378	
Société Minière G. Montagnat	0,25	65 545	0,29	129 478	0,25	65 545	0,30	129 478	0,25	65 545	0,30	129 478	
Eramet SA	0,45	117 531	-	-	0,67	173 547	-	-	0,59	151 212	-	-	
Fonds Actions Eramet SA	0,18	46 970	0,21	92 190	0,18	46 220	0,21	92 440	0,18	45 220	0,21	90 440	
Other	1,89	490 034	2,15	944 863	1,89	486 468	2,18	950 304	1,91	492 421	2,16	948 641	
<b>Total registered shares</b>	<b>71,13</b>	<b>18 404 166</b>	<b>83,00</b>	<b>36 478 137</b>	<b>71,64</b>	<b>18 455 866</b>	<b>83,24</b>	<b>36 282 139</b>	<b>71,50</b>	<b>18 438 484</b>	<b>83,23</b>	<b>36 480 156</b>	
Other bearer shares	28,87	7 470 478	17,00	7 470 478	28,36	7 304 678	16,76	7 304 678	28,50	7 351 390	16,77	7 351 390	
<b>Total number of shares</b>	<b>100,00</b>	<b>25 874 644</b>	<b>100,00</b>	<b>43 948 615</b>	<b>100,00</b>	<b>25 760 544</b>	<b>100,00</b>	<b>43 586 817</b>	<b>100,00</b>	<b>25 789 874</b>	<b>100,00</b>	<b>43 831 546</b>	
- Single voting right shares	30,15%	7 800 673	17,75%	7 800 673	30,80%	7 934 271	18,20%	7 934 271	30,04%	7 748 202	17,68%	7 748 202	
- Double voting right shares	69,85%	18 073 971	82,25%	36 147 942	69,20%	17 826 273	81,80%	35 652 546	69,96%	18 041 672	82,32%	36 083 344	

Sorame, Compagnie d'Etudes Industrielles du Rouvray (C.E.I.R.) and Areva are signatories to a shareholders' agreement constituting a concert party, which was subject to an opinion by the Conseil des Marchés Financiers (French financial markets regulator) on May 18, 1999 under reference number 199C0577. This agreement was entered into for a term of seven years expiring on June 30, 2006 and is renewable for periods of one year if notice is not given one month before expiry that it is to be terminated. It has been renewed as from July 1, 2006. The shares with double voting rights were issued in 2002.

## Dividends

	2006 FY	2005 FY	2004 FY	2003 FY
Net dividend	2,10	2	0,86	1
Tax credit	-	-	0,43	0,50
Total return	2,10	2	1,29	1,50
<b>Total net distribution</b>	<b>54</b>	<b>51</b>	<b>22</b>	<b>25</b>

## Treasury shares

As on June 30, 2006, Eramet SA held 137,965 treasury shares (166,821 shares as on December 31, 2005), mainly bought between 2000 and 2002 under the buy-back programme set out in the prospectus published on July 2, 1999 and approved by the Extraordinary and Ordinary General Shareholders' Meeting of July 21, 1999, representing 117,606 shares (151,212 shares as on December 31, 2005). The balance of 20,359 shares (15,609 shares as on December 31, 2005) in bearer shares relates to shares bought under a liquidity contract agreed with Exane BNP Paribas and not yet registered as on the date of drafting of the table. The total amount of buybacks was charged to shareholders' equity.

The fall in the number of treasury shares is mainly the result of stock option exercises by employees during the first half of 2006, relating to 33,606 shares (note 12.2).

The following table summarises the transactions in treasury shares:

		Share price support	Share options granted	Other purposes	Total
<b>Position as on December 31, 2004</b>		<b>12 773</b>	<b>313 028</b>	<b>8 682</b>	<b>334 483</b>
As percentage of share capital	25 577 574	0,05%	1,22%	0,03%	1,31%
Allocated for use under share option plans					
- granted		-	-	-	-
- other		-	-	-	-
Exercise of purchase options		-	(147 788)	-	(147 788)
Purchases		15 537	-	-	15 537
Sales		(22 190)	-	-	(22 190)
<b>Position as on June 30, 2005</b>		<b>6 120</b>	<b>165 240</b>	<b>8 682</b>	<b>180 042</b>
As percentage of share capital	25 760 544	0,02%	0,64%	0,03%	0,70%
Allocated for use under share option plans					
- granted		-	(10 225)	10 225	-
- other		(350)	350	-	-
Exercise of purchase options		-	(170 848)	-	(170 848)
Purchases		45 854	-	-	45 854
Sales		(42 668)	-	-	(42 668)
<b>Position as on December 31, 2005</b>		<b>15 609</b>	<b>132 305</b>	<b>18 907</b>	<b>166 821</b>
As percentage of share capital	25 789 874	0,06%	0,51%	0,07%	0,65%
Allocated for use under share option plans					
- granted		-	-	-	-
- other		-	(150)	150	-
Exercise of purchase options		-	(33 606)	-	(33 606)
Purchases		29 303	-	-	29 303
Sales		(24 553)	-	-	(24 553)
<b>Position as on June 30, 2006</b>		<b>20 359</b>	<b>98 549</b>	<b>19 057</b>	<b>137 965</b>
As percentage of share capital	25 874 644	0,08%	0,38%	0,07%	0,53%

## 12.2 Stock subscription and purchase options and free shares

### 12.2.1 Stock subscription options and free shares

(1)	Date of Shareholders' meeting	Date of Board meeting	Subscription price	Number of beneficiaries as on originally 07.01.2006		Originally allotted	Exercised or lapsed prior to 01.01.2006	Exercised in 2006	Lapsed in 2006	Exercisable from 07.01.2006	Number of beneficiaries as on 07.01.2006	Expiry date of plans	
1	05.27.1998	12.12.2001	32,60	EUR	61	46	153 000	(40 730)	(84 770)	-	27 500	13	12.11.2009 (2)
2	05.23.2002	12.15.2004	64,63	EUR	81	81	130 000	-	-	-	130 000	81	12.15.2012 (3)
3	05.11.2005	12.13.2005	free		90	90	14 000	-	-	-	14 000	90	n/a
<b>Total</b>							<b>297 000</b>	<b>(40 730)</b>	<b>(84 770)</b>		<b>171 500</b>		

(1) Start date of plans: 1 = 12.12.2003 ; 2 = 12.12.2006 ; 3 = 12.12.2007.

(2) Could only be exercised as from Dec. 12, 2003. Shares could not be sold prior to Dec.14, 2005.

(3) May only be exercised as from Dec. 12, 2006. Shares may not be sold prior to Dec. 14, 2008.

The exercise of 84,770 subscription options during the period at an average price of €6.90 contributed to the increase in shareholders' equity in exchange for cash through the creation of the same number of shares.

### 12.2.2 Stock purchase options

(1)	Date of Shareholders' meeting	Date of Board meeting	Subscription price	Number of beneficiaries as on originally 07.01.2006		Originally allotted	Exercised or lapsed prior to 01.01.2006	Exercised in 2006	Lapsed in 2006	Exercisable from 07.01.2006	Number of beneficiaries as on 07.01.2006	Expiry date of plans	
1	07.21.1999	09.15.1999	47,14	EUR	5 646	2 452	423 450	(327 180)	(21 729)	(150)	74 391	1 021	09.14.2007
2	05.27.1998	12.14.1999	54,00	EUR	80	65	166 500	(130 465)	(11 877)	-	24 158	19	12.13.2007 (2)
<b>Total</b>							<b>589 950</b>	<b>(457 645)</b>	<b>(33 606)</b>	<b>(150)</b>	<b>98 549</b>		

(1) Start date of plans: 1 = 09.15.1996 ; 2 = 12.14.2001.

(2) Shares could not be sold prior to Dec. 14, 2004.

The exercise of 33,606 purchase options during the period at an average price of €102.31 resulted in the sale of treasury securities in return for cash. The result of the sale was charged to shareholders' equity.

## 12.3 Share based compensation

Share based compensation only relates to stock option and free share plans granted to employees. They represent a charge of €1 million (€2 million as on December 31, 2005).

The applicable rules are common to all plans:

Vesting or allocation of rights relate to the date of the meeting of the Board of Directors,

The exercise period follows a two-year retention period as from the date of the grant.

When an option is exercised, the outcome is in the form of shares. Only stock options issued subsequent to November 7, 2002 in respect of which the rights have not vested by January 1, 2005 are recognised pursuant to IFRS 2. Consequently, only the plans allocated at the meetings of the Board of Directors of December 15, 2004 (plan 3, note 12.2.1) and December 13, 2005 (plan 4, note 12.2.1.) fall under IFRS 2. The fair values of stock options are calculated using the Black & Scholes method. They are deferred on a straight-line basis over the vesting period of the plan under personnel costs and offset in shareholders' equity.

Plan measurement: the assumptions used to assess the plans are based on expected volatility of 40%, a risk-free rate of 2.80% over the duration of the plan and a future distribution rate of 3.28%. Based on these assumptions, the fair values used to calculate the charge work out respectively at €20.75 per share for plan 3, i.e. €3 million in total, and €68.04 per share for plan 4, i.e. €1 million in total, written off over periods of two years from December 15, 2004 (plan 3) and three years from December 13, 2005 (plan 4).

## 13 Minority interests

### 13.1 By category

	Minority interest (%)	06/30/2006		06/30/2005	12/31/2005
		Net income	Total	Total	Total
Société Le Nickel (Sln)	40%	41	350	319	376
Comilog SA	32.75%	12	123	95	118
Guangxi Comilog Ferro Aloys Ltd	30%	-	4	4	4
Interforge	6%	-	1	-	1
<b>Total</b>		<b>53</b>	<b>478</b>	<b>418</b>	<b>499</b>

### 13.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>499</b>	<b>375</b>	<b>375</b>
Business combinations	-	-	2
Other changes in scope of consolidation	-	-	-
Cash movements	-	-	-
Dividends paid	(42)	(22)	(22)
Net income for the period	53	64	141
First-time application of IAS 32 & 39	-	16	16
Change in financial instrument re-measurement reserve - IAS 32 & 39	(28)	(19)	(19)
Translation and other adjustments	(4)	4	6
<b>As at end of period</b>	<b>478</b>	<b>418</b>	<b>499</b>

The business combinations in 2005 relate to the consolidation at the end of 2005 of Setrag SA.

## 14 Employee benefits

Eramet Group companies offer their employees various long-term benefits depending on the prevailing rules and practices of the countries in which they operate. The commitments of all Group companies have been the subject of an actuarial valuation in accordance with a uniform actuarial framework (assumptions and methods) defined by the Group in compliance with the principles defined by IAS 19 – Employee Benefits. This valuation is carried out every two or three years, unless exceptional circumstances necessitate additional valuations.

The Group's main commitments in terms of employee benefits are as follows:

#### Belgium:

- Retirement plans providing for the payment of an annuity as from the age of 65 to management personnel with 25 years' service. A reduced annuity may be taken at an earlier date.
- Long-service awards: payment of one month's salary to all employees after 25 years' service.

#### United States:

- Retirement plans providing for the payment of a pension the amount of which is based on length of service on the employee's retirement date (62 or 65 depending on the plan). Possibility of early retirement and eligibility for invalidity benefits based on length of service and the plan in question.
- Medical insurance plan for retired employees of certain sites, part of the closed plan.
- Life insurance plan for employees of certain sites.

#### France:

- Retirement benefit plans providing for the payment of a lump sum depending on length of service and final salary.
- Medical expenses plan for employees and retired employees of Eramet's Sandouville site.

- Long-service awards: payment of a flat-rate amount, the precise amount depending on the site in question, after 20, 30, 35 and 40 years' service.
- Supplementary retirement plan for certain Eramet managerial staff.

**Gabon :**

- Retirement plan providing for the payment after 3 years' service of a benefit calculated on the basis of salary and length of service.
- Plan providing for the payment after 2 years' service of a benefit on the employee leaving the Group (retirement, death or layoff) expressed as a percentage of the average monthly salary for the last 12 months per year of service.
- Long-service awards: payment of a flat-rate amount after 10, 20 and 30 years' service.

**Mexico:**

- Retirement indemnity representing 12 days' salary paid to all employees aged over 60 and with 15 years' service.

**Norway:**

- Long-service awards: payment of a flat-rate amount to all employees after 25, 30, 40 and 50 years' service and on their retirement.

**New Caledonia:**

- Retirement plan providing for the payment of a lump sum based on salary and length of service.
- Loyalty bonuses paid after 10 years' service and then every 5 and 10 years and calculated as a percentage of basic salary.
- Long-service awards: payment of a flat-rate amount after 15-20, 22.5-30, 26.25-35 and 30-40 years' service.

**United Kingdom:**

- Retirement plan providing for the payment of either a lump sum or an annuity based on final salary and adjusted annually to take account of inflation.

**Sweden:**

- Retirement plan offered to the former employees of Stora, providing for the payment of an annuity corresponding to a percentage (above 65%) of final salary.

The Eramet Group's commitments in respect of the defined benefit pension plans detailed above break down as follows: United States (48% of commitments), France (21% of commitments), Norway (18% of commitments) and New Caledonia (6% of commitments).

The actuarial assumptions used for the valuations as at December 31, 2005 are as follows:

	Europe	North America	New Caledonia	Gabon
Discount rate	3.6% - 4.9%	5.5% - 9.8%	3.9%	6.5%
Inflation rate	2% - 2.7%	2.4% - 3.5%	2%	2.3%
Salary increase rate	2% - 3.5%	3% - 4.5%	4.5%	3.3%
Return on plan financial assets	5% - 7.2%	7.7% - 7.75%	5.3%	n/a

The results of the valuation as at December 31, 2005 are detailed below:

(millions of euros)	Fair value of plan assets	Actuarial value of liabilities	Financial position Surplus / (deficit)
Pension plans	93	173	(80)
Retirement indemnities	39	67	(28)
Service bonuses		20	(20)
Medical coverage plans		29	(29)
<b>Total</b>	<b>132</b>	<b>289</b>	<b>(157)</b>

(millions of euros)	Unrecognised actuarial (gains) / losses	Unrecognised past service	Balance sheet provision (assets) / liabilities
Pension plans	9		71
Retirement indemnities	1	1	26
Service bonuses			20
Medical coverage plans	1		28
<b>Total</b>	<b>11</b>	<b>1</b>	<b>145</b>

The impact of changes in pension plans is not immediately recognised in the balance sheet. Consequently, the recorded provision of €145 million does not cover the total liabilities of €157 million. For these plans, actuarial differences in excess of 10% of the current value of the liability with respect to defined benefits or 10% of the fair value of plan assets at the previous closing date, whichever is higher, are deferred over the remaining working life of plan participants. In the event of changes to the plan, the past service cost is deferred on a straight-line basis over the average remaining period until the corresponding rights vest.

Pension fund assets were invested as follows as at December 31, 2005:

(millions of euros)	Shares	Bonds	Other investments	Total
Amounts	62	60	10	132
Percentages	47%	45%	8%	100%

The pension fund asset distribution policy depends on country specific practices.

The change in employee benefits over the period was as follows:

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>145</b>	<b>131</b>	<b>131</b>
Business combinations	-	-	8
Other changes in scope of consolidation	-	-	-
Recognised expenses	7	6	19
- Past service cost	5	3	8
- Net interest expense	6	6	13
- Hedging asset yields	(4)	(3)	(8)
- Amortisation of actuarial differences and past service	-	-	6
- Other	-	-	-
Contributions paid	(6)	(12)	(24)
Translation and other adjustments	(7)	8	11
<b>As at end of period</b>	<b>139</b>	<b>133</b>	<b>145</b>

## 15 Provisions

### 15.1 By category

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Personnel	30	33	33
Major disputes	12	13	12
Environmental contingencies and site restoration	120	131	127
Other contingencies and losses	38	54	35
<b>Total</b>	<b>200</b>	<b>231</b>	<b>207</b>

### 15.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>207</b>	<b>213</b>	<b>213</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	5	7
Allowance (reversal) for the period	(4)	10	(20)
- charge for the period	11	36	48
- (reversal) for the period - provision used	(17)	(17)	(67)
- (reversal) for the period - provision not used	-	(11)	(4)
- un-discounting charges	2	2	3
Translation and other adjustments	(3)	3	7
<b>As at end of period</b>	<b>200</b>	<b>231</b>	<b>207</b>

### 15.3 Personnel

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Restructuring and redundancy plans	16	21	18
Other payroll contingencies and charges	14	12	15
<b>Total</b>	<b>30</b>	<b>33</b>	<b>33</b>

**Restructuring and redundancy plans:** All restructuring and redundancy costs are fully provided for whenever the conditions defined by IFRS are satisfied. The following table sets out these liabilities.

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Aubert & Duval redundancy plan	5	10	7
Closure of the Boulogne-sur-Mer plant - Comilog France	1	1	1
Other restructuring and redundancy plans - Manganese division	8	9	8
Other restructuring and redundancy plans - Alloys division	2	1	2
<b>Total</b>	<b>16</b>	<b>21</b>	<b>18</b>

The changes over the period were as follows:

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>18</b>	<b>32</b>	<b>32</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	-	-
Allowance (reversal) for the period	(2)	(11)	(14)
- charge for the period	-	1	3
- (reversal) for the period - provision used	(2)	(12)	(17)
- (reversal) for the period - provision not used	-	-	-
Translation and other adjustments	-	-	-
<b>As at end of period</b>	<b>16</b>	<b>21</b>	<b>18</b>

The fall in provisions for restructuring, which amounted to €16 million as on June 30, 2006 (€18 million as on December 31, 2005), is due to the redundancy plans implemented in France, Belgium and Norway in the Alloys and Manganese divisions.

**Other contingencies and payroll charges:** these provisions largely relate to lawsuits with employees and welfare bodies and break down as follows:

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>15</b>	<b>8</b>	<b>8</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	-	-
Allowance (reversal) for the period	-	3	6
- charge for the period	2	3	9
- (reversal) for the period - provision used	(2)	-	(3)
- (reversal) for the period - provision not used	-	-	-
Translation and other adjustments	(1)	1	1
<b>As at end of period</b>	<b>14</b>	<b>12</b>	<b>15</b>

## 15.4 Major lawsuits

Provisions for major lawsuits stemming from the acquisition of Comilog SA in 1996/1997 are unchanged (€2 million). The Group estimates that they should be sufficient to cover all the lawsuits in question.

## 15.5 Environmental contingencies and site restoration

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Environmental contingencies	<b>40</b>	46	47
Site restoration (*)	<b>80</b>	85	80
<b>Total</b>	<b>120</b>	<b>131</b>	<b>127</b>
(*) of which provisions with a corresponding asset for dismantling costs	56	48	54

**Environmental contingencies:** The provision as on June 30, 2006 amounted to €40 million (€47 million as on December 31, 2005) and largely related to the Manganese division (€23 million compared with €30 million as on December 31, 2005) and the Alloys division (€9 million compared with €14 million as on December 31, 2005).

Provisions were recorded in the Manganese division to meet environmental undertakings stemming from regulatory and legal measures or obligations. In Marietta (USA), provisions specifically cover obligations with regard to impoundments. These provisions were appraised on the basis of expert reports and technical analyses.

Changes in environmental contingencies

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>47</b>	<b>36</b>	<b>36</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	-	-
Allowance (reversal) for the period	(6)	8	(2)
- charge for the period	-	8	12
- (reversal) for the period - provision used	(6)	-	(14)
- (reversal) for the period - provision not used	-	-	-
Translation and other adjustments	(1)	2	13
<b>As at end of period</b>	<b>40</b>	<b>46</b>	<b>47</b>

**Site restoration:** Mining site restoration actually opened relates to Le Nickel-SLN in New Caledonia (Nickel division) for €56 million (€54 million as on December 31, 2005) and Comilog SA in Gabon (Manganese division) for €7 million (€7 million as on December 31, 2005). Restoration costs are discounted over the remaining period to the expected end of mining operations, over on average 9 years (the maximum

period being 14 years) in New Caledonia and 8 years (the maximum period being 15 years) in Gabon. These provisions are discounted at the rate of 4.75% in New Caledonia and 6.5% in Gabon and an increase or decrease of 1% in the rates would have an impact of €5 million on the provisions and the associated assets.

At Boulogne-sur-Mer, provisions were recorded in 2003 for regulatory and implicit obligations with regard to the demolition and restoration of the site following the decision to shut down the plant (note 15.3).

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>80</b>	<b>83</b>	<b>83</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	-	-
Allowance (reversal) for the period	1	2	(8)
- charge for the period	1	-	1
- (reversal) for the period - provision used	(2)	-	(12)
- (reversal) for the period - provision not used	-	-	-
- charges re reversing of discounting	2	2	3
Translation and other adjustments	(1)	-	5
<b>As at end of period</b>	<b>80</b>	<b>85</b>	<b>80</b>

## 15.6 Other contingencies and losses

The other provisions split between the three divisions cover miscellaneous contingencies, including the cost of closing the Boulogne-sur-Mer plant (€6 million compared with €7 million at the end of 2005) and the financial risk for Bronzavia Industries (€3 million), Dembiermont (€2 million) and commercial contingencies/litigation (€1 million, unchanged from the end of 2005).

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>35</b>	<b>42</b>	<b>42</b>
Business combinations	-	-	-
Other changes in scope of consolidation	-	5	7
Allowance (reversal) for the period	3	8	(2)
- charge for the period	8	24	23
- (reversal) for the period - provision used	(5)	(5)	(21)
- (reversal) for the period - provision not used	-	(11)	(4)
- charges re reversing of discounting	-	-	-
Translation and other adjustments	-	(1)	(12)
<b>As at end of period</b>	<b>38</b>	<b>54</b>	<b>35</b>

## 15.7 On-going disputes

To the best of the Company's knowledge, there are no other exceptional situations or disputes likely to have a material impact on the financial position, net income or assets of the Company or Group.

## 16 Deferred tax

### 16.1 By category

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Difference between tax and consolidated amounts of non-current assets	67	49	66
Tax-related item restatements	100	105	105
Other temporary differences	56	63	54
Hedging instruments	12	11	7
Other	2	1	2
<b>Deferred tax liabilities</b>	<b>237</b>	<b>229</b>	<b>234</b>
Temporary differences	87	77	85
Tax losses carried forward - (*)	3	19	12
Elimination of inter-company gains	23	17	18
Hedging instruments	57	14	12
Other	-	4	-
<b>Deferred tax assets</b>	<b>170</b>	<b>131</b>	<b>127</b>
<b>Total</b>	<b>67</b>	<b>98</b>	<b>107</b>
(*) Limited or impaired deferred tax assets	35	79	47
Capitalised deferred tax assets	3	19	12

Other temporary differences recognised as liabilities as at June 30, 2006 (€6 million) relate mainly to finance leases (€20 million), the portion of the income taxable in the future in Sweden (€14 million), actuarial liabilities (€8 million) and the unrealised gains on UCITS (€5 million).

Temporary differences recognised as assets (€87 million) relate mainly to employee benefits, chiefly in the United States and Norway (€25 million), provisions (€16 million), finance leases (€14 million) and temporary differences associated with provisions recognised in the parent company financial statements (€13 million).

### 16.2 Changes over the period

(millions of euros)	Liabilities	Assets	Net 1st half 2006	Net 1st half 2005	Net 2005 FY
<b>As on January 1</b>	234	127	107	106	106
Business combinations	-	-	-	-	2
Other changes in scope of consolidation	-	-	-	-	1
Deferred tax - Shareholders' equity	4	40	(36)	(4)	(3)
Deferred tax - Profit and loss	(3)	-	(3)	(5)	2
Translation and other adjustments	2	3	(1)	1	(1)
<b>As at end of period</b>	<b>237</b>	<b>170</b>	<b>67</b>	<b>98</b>	<b>107</b>

Pursuant to IAS 12, deferred tax assets and liabilities are presented separately in the balance sheet.

Except for tax consolidation in France (note 16.3) and the United States (note 16.4), every company is an independent fiscal entity.

### 16.3 Scope of tax consolidation in France

Tax consolidation in France is comprised of the following companies:

Companies constituting the tax group	06/30/2006	06/30/2005	12/31/2005
<u>Consolidated companies</u>			
Eramet SA	x	x	x
Erasteel SA	x	x	x
Erasteel Commentry	x	x	x
Erasteel Champagnole	x	x	x
Eramet Holding Nickel (Ehn)	x	x	x
Eramet Holding Manganèse (Ehm)	x	x	x
Société Industrielle de Métallurgie Avancée (Sima)	x	x	x
Aubert et Duval (ad)	x	x	x
Airforge	x	x	x
Eramet Alliages	x	x	x
Eurotungstène Poudres (Etp)	x	x	x
<u>Non-consolidated companies</u>			
Selnic			
Eramet International	x	x	x
Eramet Japan	x	x	x
Tec Ingénierie	x	x	x
Eramine	x	x	x
Forges de Montplaisir	x	x	x
Supa	x	x	x
Microsteel	x	x	x
Transmet	x	x	x
Financière Brown Europe	x	x	x
Brown Europe	x	x	x

Tax losses, which amounted to €1 million, were fully capitalised as on June 30, 2006. As on December 31, 2005, the tax losses amounted to €33 millions and were fully capitalised (representing a deferred tax asset of €1 million), on the basis of the estimated recovery assumption used in the business plans of the companies in question. Furthermore, the tax consolidation net deferred tax position in France was a €23 million liability (€68 million of liabilities; €45 million of assets).

### 16.4 Scope of tax consolidation in the United States

Tax consolidation in the USA is comprised of the following companies:

Companies constituting the tax group	06/30/2006	06/30/2005	12/31/2005
<u>Consolidated companies</u>			
Comilog US	x	x	x
Erachem Comilog Inc.	x	x	x
Gulf Chemetals & Metallurgical Corp. (Gcmc)	x	x	x
Eramet Comilog North America Inc. (Ecna)	x	x	x

The tax consolidation in the USA is a net liability of €3 million (€13 million of liabilities; €10 million of assets). There are no tax loss carry-forwards as on June 30, 2006.

## 17 Borrowings

### 17.1 By category

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Borrowings from banks	179	36	85
Bank overdrafts	32	49	36
Finance leases	22	25	22
Other borrowings	22	14	16
<b>Total</b>	<b>255</b>	<b>124</b>	<b>159</b>

Since 2005, Eramet has implemented a commercial paper issue programme. The total amount issued amounted to €179 million as on June 30, 2006 (€55 million as on December 31, 2005).

### 17.2 By currency

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Euro	216	58	110
US dollar	11	22	16
CFA franc	7	19	12
British pound	-	1	1
Other currencies	21	24	20
<b>Total</b>	<b>255</b>	<b>124</b>	<b>159</b>

### By maturity

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Under 1 year	221	66	110
1 to 5 years	12	42	33
Over 5 years	22	16	16
<b>Total</b>	<b>255</b>	<b>124</b>	<b>159</b>

Eramet SA has confirmed medium and long-term credit facilities. The unused facilities as on the balance sheet date would allow the Group to refinance its short-term debts on a longer-term basis.

Unused credit lines	600	600	600
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The bank covenants associated with these credit facilities are wholly satisfied. The covenants relate to the ratio of Group net debt to shareholders' equity.

### 17.3 By interest rate

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Interest-free	9	9	3
Fixed interest rates	24	26	22
- less than 5%	7	5	4
- 5% - 10%	17	20	17
- Over 10%	-	1	1
Variable interest rates	222	89	134
- less than 5%	222	80	121
- 5% - 10%	-	8	12
- Over 10%	-	1	1
<b>Total</b>	<b>255</b>	<b>124</b>	<b>159</b>

## 17.4 Finance leases

(millions of euros)	Nominal amount	Discounted amount
Under 1 year	3	2
1 to 5 years	11	9
Over 5 years	12	11
<b>Total</b>	<b>26</b>	<b>22</b>
Interest expense	-	4
<b>Total</b>	<b>26</b>	<b>26</b>

Finance leases mainly relate to capital expenditure for the 40,000-ton press in Pamiers (Airforge – Alloys division) for €18 million (note 5.3).

## 17.5 Net cash or net borrowing position

### 17.5.1 By category

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Borrowings	(255)	(124)	(159)
Cash equivalents	437	404	472
Cash	41	99	51
<b>Total</b>	<b>223</b>	<b>379</b>	<b>364</b>

## 17.5.2 Statement of changes in net cash/borrowing position

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>Operating activities</b>			
EBITDA (note 21)	344	421	694
Elimination of non-cash or non-business items:	(97)	(102)	(63)
<b>Operating cash flow before changes in working capital</b> (*)	<b>247</b>	<b>319</b>	<b>631</b>
Changes in operating working capital requirement	6	(79)	(153)
<b>Net cash flows from operating activities</b> (*)	<b>253</b>	<b>240</b>	<b>478</b>
<b>Investing activities</b>			
Capital expenditure	(139)	(83)	(231)
Non-current financial assets	(185)	(3)	(32)
Disposals of non-current assets	7	11	19
Investment subsidies received	-	-	-
Net change in non-current asset receivables / liabilities	12	(9)	(113)
Changes in scope of consolidation and loans	9	2	21
Dividends from equity accounted affiliates	1	2	2
<b>Net cash flows from investing activities</b>	<b>(295)</b>	<b>(80)</b>	<b>(334)</b>
<b>Financing activities</b>			
Dividends paid	(96)	(73)	(73)
Share capital increases	3	-	1
Change in working capital requirement related to financing activities	-	1	1
<b>Net cash flows from financing activities</b>	<b>(93)</b>	<b>(72)</b>	<b>(71)</b>
Impact of translation adjustments	(6)	3	3
<b>Decrease (increase) in net cash (borrowing) position</b>	<b>(141)</b>	<b>91</b>	<b>76</b>
<b>Opening net cash (borrowing) position</b>	<b>364</b>	<b>288</b>	<b>288</b>
<b>Closing net cash (borrowing) position</b>	<b>223</b>	<b>379</b>	<b>364</b>

(\*) of which €124 million with no impact on the Group's cash position, this amount representing the impact on the 2005 financial statements of the conclusion of the Bercy agreements (notes 22 and 26).

## 18 Trade and other payables

### 18.1 By category

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Trade payables	288	267	267
Payroll and tax payables	182	164	171
Other operating payables	64	63	49
Liabilities on non-current assets	66	62	53
Shareholders - dividends	5	4	4
Prepaid income	19	21	19
Poum / Koniambo mining indemnity (note 26)	-	94	-
<b>Total</b>	<b>624</b>	<b>675</b>	<b>563</b>
- Non-current liabilities	18	15	20
- Current liabilities	606	660	543

The €18 million (€20 million as on December 31, 2005) payable under non-current liabilities relates to Setrag SA's 25-year debt vis-à-vis the Gabonaise State for the purchase of separate property and a portion of the spare parts inventory for €1 million (unchanged from December 31, 2005) and the tax benefit with respect to the financing of the furnace no. 10/75 Kt project at Le Nickel-SLN for €7 million (€9 million as on December 31, 2005), which is staggered over 5 years.

### 18.2 Changes over the period

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at 1 January</b>	<b>563</b>	<b>594</b>	<b>594</b>
Business combinations	1	-	11
Other changes in scope of consolidation	-	34	34
Working capital movements	71	36	(88)
Translation and other adjustments	(11)	11	12
<b>As at end of period</b>	<b>624</b>	<b>675</b>	<b>563</b>

Foreign currency denominated debts are translated at the closing rate. The Poum/Koniambo mining indemnity was reversed in income following the conclusion of the Bercy agreements at the end of 2005 (notes 22 and 26).

## 19 Hedging instruments

### Recognised as assets:

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Hedging instruments	6	6	4
Currency hedging	28	12	6
Interest rate hedging	-	-	-
Commodity hedging	8	19	15
<b>Total</b>	<b>42</b>	<b>37</b>	<b>25</b>

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>25</b>	<b>15</b>	<b>15</b>
Hedging instruments at fair value as part of the first-time application of IAS 39	-	82	82
Change in hedging instruments over the period - shareholders' equity	13	(50)	(58)
Change in hedging instruments over the period - finance income (expenses)	2	(1)	(3)
Change in hedging instruments - total assets	2	(9)	(11)
<b>As at end of period</b>	<b>42</b>	<b>37</b>	<b>25</b>

#### Recognised as liabilities:

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
Hedging instruments - liabilities	3	7	7
Currency hedging	5	39	29
Interest rate hedging	-	1	1
Commodity hedging	157	4	6
<b>Total</b>	<b>165</b>	<b>51</b>	<b>43</b>

(millions of euros)	1st half 2006	1st half 2005	2005 FY
<b>As at beginning of period</b>	<b>43</b>	<b>2</b>	<b>2</b>
Hedging instruments at fair value as part of the first-time application of IAS 39	-	2	2
Change in hedging instruments over the period - shareholders' equity	114	39	30
Change in hedging instruments over the period - finance income (expenses)	13	3	4
Change in hedging instruments - total liabilities	(5)	5	5
<b>As at end of period</b>	<b>165</b>	<b>51</b>	<b>43</b>

Foreign currency denominated receivables and payables are translated at the closing rate. The hedging instrument is measured and recorded at fair value. The breakdown of the change in that fair value, for both covering assets and liabilities, is set out in the “hedging instruments – assets or liabilities” line.

The first-time application of IAS 32 and IAS 39 as on January 1, 2005, recognised in opening shareholders' equity, had the following impact on the balance sheet:

#### Currency hedging

(millions of euros)	01/01/2005	Hedging	Non-hedging
Financial hedging instruments	82	76	6
<b>Total assets</b>	<b>82</b>	<b>76</b>	<b>6</b>
Reserves	38	35	3
Minority interests	15	14	1
<b>Shareholders' equity</b>	<b>53</b>	<b>49</b>	<b>4</b>
Deferred tax	29	27	2
Financial hedging instruments	-	-	-
<b>Total shareholders' equity and liabilities</b>	<b>82</b>	<b>76</b>	<b>6</b>

Interest rate hedging had no impact as on January 1, 2005 and commodity hedging was not material as on the same date.

**Currency risks:** Hedging is almost exclusively for the US dollar and is designed to hedge the Group's structurally long present and future positions on business transactions.

As on June 30, 2006:

(millions of currency units)	2006 sales			2007 sales			2008 and subsequent sales		
	Amount	Currency	Rate	Amount	Currency	Rate	Amount	Currency	Rate
<b>Commercial hedging</b>									
Eur / Usd	753	Usd	1,2589	373	Usd	1,2454	6	Usd	1,0518
Eur / Nok	38	Eur	8,1631	-	-	-	-	-	-
Eur / Gbp	4	Gbp	0,6919	-	-	-	-	-	-
	2	Eur	0,7034	-	-	-	-	-	-
Gbp / Usd	4	Usd	1,7836	1	Usd	1,8184	-	-	-
Gbp / Sek	7	Gbp	13,4125	-	-	-	-	-	-
Jpy / Sek	239	Jpy	0,0680	-	-	-	-	-	-
Eur / Sek	312	Eur	9,3530	-	-	-	-	-	-
Usd / Sek	4	Usd	7,4398	-	-	-	-	-	-
Eur / Jpy	551	Jpy	136,3641	-	-	-	-	-	-
<b>Financial hedging</b>									
Eur / Usd	231	Usd	1,2813						
	1	Eur	1,2799						
Cad / Usd	9	Cad	1,1059						
	14	Eur	1,1672						
Eur / Sek	50	Sek	9,2413						

As on June 30, 2005:

(millions of currency units)	2004 sales			2005 sales			2006 sales			2007 and subsequent sales		
	Amount	Currency	Rate	Amount	Currency	Rate	Amount	Currency	Rate	Amount	Currency	Rate
<b>Commercial hedging</b>												
Eur / Usd	27	Usd	1,1569	733	Usd	1,2461	421	Usd	1,2867	13	Usd	1,0497
Usd / Nok	9	Usd	6,2020									
Eur / Nok				67	Eur	8,1845	69	Eur	8,3314			
Eur / Gbp				4	Gbp	0,6968						
				2	Eur	0,6966						
Gbp / Usd				3	Usd	1,7892	2	Usd	1,8524			
Gbp / Sek				6	Gbp	12,8316						
Jpy / Sek				90	Jpy	0,0675	125	Jpy	0,0697			
Eur / Sek				10	Eur	9,1576	8	Eur	9,1517			
				24	Sek	9,1001	44	Sek	9,1295			
Usd / Sek	3	Usd	6,9177	(1)	Usd	5,0959						
Eur / Jpy				219	Jpy	134,7200	155	Jpy	130,5047			
<b>Financial hedging</b>												
Eur / Usd	22	Usd	1,3162									
	2	Eur	1,3110									
Eur / Nok	125	Nok	7,9024									
Eur / Sek	27	Sek	9,2741									

As on December 31, 2005:

(millions of currency units)	2005 sales			2006 sales			2007 and subsequent sales		
	Amount	Currency	Rate	Amount	Currency	Rate	Amount	Currency	Rate
<b>Commercial hedging</b>									
Eur / Usd	187	Usd	1,2172	555	Usd	1,2620	13	Usd	1,0497
Usd / Nok	14	Usd	6,6129	3	Usd	6,5152	-	-	-
Eur / Nok	3	Eur	7,8373	90	Eur	8,2232	-	-	-
Eur / Gbp	3	Gbp	0,6921	3	Gbp	0,6876	-	-	-
	1	Eur	0,6899	3	Eur	0,7016	-	-	-
Gbp / Usd	3	Usd	1,7923	4	Usd	1,7608	-	-	-
Gbp / Sek	4	Gbp	13,3176	4	Gbp	13,6011	-	-	-
Jpy / Sek	79	Jpy	0,0686	293	Jpy	0,0690	-	-	-
Eur / Sek	81	Eur	9,1802	26	Eur	9,4079	-	-	-
	25	Sek	9,2021	-	-	-	-	-	-
Usd / Sek	10	Usd	7,4477	3	Usd	7,6769	-	-	-
Eur / Jpy	145	Jpy	138,7172	505	Jpy	133,9093	-	-	-
<b>Financial hedging</b>									
Eur / Sek	37	Sek	9,4345	-	-	-	-	-	-

As on June 30, 2006, unrealised gains resulting from the difference between the closing rates and hedging rates of the transactions set out above resulted in a net asset of €23 million (December 31, 2005: net liability of €23 million).

**Interest rate risks:** Eramet hedges part of its interest rate risk exposure, principally stemming from its borrowings, via EURIBOR 3-month rate swaps against variable and fixed rates for durations of between 3 months and 3 years. This mechanism is rebuilt every year and differences recognised in full as finance income for the period. On June 30, 2006, as on December 31, 2005, these instruments were not classed as hedges.

(millions of euros)	2007
Outstanding amounts hedged	20
Average maximum rate	3,65

**Commodity risks:** During 2006, Eramet hedged a portion of the fuel oil for Le Nickel-SLN and a portion of its nickel sales: the closing fair value was respectively €3 million in assets and €157 million in liabilities. Some of Aubert & Duval's aluminium purchases during the year were hedged with an asset fair value at the end of June 2006 of €4 million.

## 20 Sales and other income

### 20.1 Sales

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Sales	1 456	1 376	2 659
Services	58	23	53
<b>Total</b>	<b>1 514</b>	<b>1 399</b>	<b>2 712</b>

## 20.2 Other income

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Foreign currency gains/(losses) on sales	(12)	18	1
Capitalised production	3	5	15
Other	3	6	20
<b>Total</b>	<b>(6)</b>	<b>29</b>	<b>36</b>

## 21 Current operating income / EBITDA

(millions of euros)	Notes	1st half 2006	1st half 2005	2005 FY
<b>Sales</b>			<b>1 399</b>	<b>2 712</b>
Other income			29	36
Cost of sales - excluding depreciation, amortisation and provisions			(939)	(1 916)
Administrative & selling costs - excluding depreciation, amortisation and provisions			(53)	(106)
Research & development expenditure - excluding depreciation, amortisation and provisions			(15)	(32)
<b>EBITDA</b>			<b>421</b>	<b>694</b>
Depreciation, amortisation & impairment of non-current assets	21.1	(73)	(60)	(127)
Impairment losses and provisions	21.2	(11)	(19)	(25)
<b>Current operating income</b>		<b>(84)</b>	<b>342</b>	<b>542</b>

Research and development expenditure in the first half of 2005 was the subject of a €3 million reclassification corresponding to the amortisation of the Nickel division's geology expenses (notes 1.9 and 4).

### 21.1 Depreciation, amortisation and provisions on non-current assets

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Intangible assets	(4)	(4)	(7)
Property, plant & equipment	(69)	(56)	(120)
<b>Total</b>	<b>(73)</b>	<b>(60)</b>	<b>(127)</b>

### 21.2 Provisions

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Pensions and other employee benefits	(7)	(4)	(9)
Other payroll contingencies and charges	(2)	(3)	(8)
Environmental contingencies	-	-	(3)
Site restoration	(1)	-	(1)
Other contingencies and losses	(1)	(12)	(4)
<b>Total</b>	<b>(11)</b>	<b>(19)</b>	<b>(25)</b>

## 22 Other operating income and expenses

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Gains on asset disposals	1	-	-
Restructuring and redundancy plans	-	-	3
Losses identified by impairment tests	-	-	(9)
Other items - income	1	5	126
Other items - expenses	(4)	(7)	(8)
<b>Total</b>	<b>(2)</b>	<b>(2)</b>	<b>112</b>

**Restructuring and redundancy plans:** The various redundancy plans announced and being implemented in France, Belgium and Norway generated provisions of €74 million in 2003. Assets no longer used in the Alloys and Manganese divisions with a carrying amount of €55 million were also fully written off. A €34 million provision was recorded for the net costs of the closure and restoration of sites. In the case of both 2005 and the half year to June 30, 2006, expenditure in the period relating to those restructuring plans was covered by provision reversals for €14 million and €2 million, respectively (note 15.3).

**Impairment tests:** A forecast of industrial performance was carried out at the main sites in 2005. This resulted in the recording of net impairment losses of €9 million in the Manganese and Alloys divisions to reduce these assets to their fair value. As on June 30, 2006, no additional impairment losses were recognised.

**Other items - income:** As on June 30, 2005 the vested portion of the Poum / Koniambo indemnity (note 26) amounted to €5 million. At the end of 2005, the vested indemnity amounted to €8 million, plus the impact of the conclusion of the Bercy agreements (note 26) for €16 million (€2 million for the main indemnity and €4 million in interest) and the reversal in income of the €2 million in negative goodwill stemming from the acquisition of Poum SAS.

**Other items - expenses:** As on June 30, 2005, provisions were recorded in the Manganese division to cover environmental contingencies and lawsuits for €6 million. As on December 31, 2005, €6 million in additional provisions were recorded in the Manganese and Alloys divisions for environmental contingencies and lawsuits (slag heaps and occupational diseases). Aligning the long service bonus scales between the various sites in the Alloys division resulted in an additional allowance of €1 million.

## 23 Cost of borrowed capital and other financial items

### 23.1 Cost of borrowed capital

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Interest income	1	2	4
Interest expense	(7)	(4)	(8)
Net gains on disposal of marketable securities	4	8	15
Change in fair value of marketable securities	2	(5)	(8)
Foreign currency gain (loss)	2	(1)	(5)
Other	-	-	(1)
<b>Total</b>	<b>2</b>	<b>-</b>	<b>(3)</b>

### 23.2 Other finance income and expenses

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Income from investments or dividends	1	3	3
Gains/(losses) on disposals of marketable securities	2	-	-
Net financial provisions/reversals	(2)	(1)	(2)
Foreign currency gain (loss)	-	-	-
Charges re reversing of discounting	(2)	(2)	(3)
Financial instruments not classified as hedges	(11)	(4)	(7)
Other	1	(1)	-
<b>Total</b>	<b>(11)</b>	<b>(5)</b>	<b>(9)</b>

Expenses relating to the reversing of discounting relate to provisions for mining site restoration. Financial instruments not classified as hedges correspond to the portion of hedging instruments (currency/commodity/interest rate) recognised in income pursuant to IAS 32/39 (note 19).

## 24 Income tax

### 24.1 By category

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Current tax	(79)	(80)	(124)
Deferred tax	3	5	(2)
<b>Total</b>	<b>(76)</b>	<b>(75)</b>	<b>(126)</b>

### 24.2 Effective tax rate

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Operating income	258	340	654
Cost of borrowed capital and other finance income (expenses)	(9)	(5)	(12)
<b>Consolidated net income before tax</b>	<b>249</b>	<b>335</b>	<b>642</b>
Standard French tax rate (as percentage)	33.33%	33.33%	33.33%
<b>Notional tax charge</b>	<b>(83)</b>	<b>(111)</b>	<b>(214)</b>
Adjustments to notional tax charge:			
- Permanent differences between accounting and taxable profits	3	11	43
- Additional contributions in France	-	-	-
- Difference in rates payable in other countries	(2)	(1)	(4)
- Reduced tax rates	-	3	4
- Tax credits	1	-	5
- Withholding tax on distributions	(7)	(2)	(4)
- Unrecognised or limited deferred tax assets	11	25	40
- Miscellaneous	1	-	4
<b>Actual tax charge</b>	<b>(76)</b>	<b>(75)</b>	<b>(126)</b>
<b>Effective rate</b>	<b>30%</b>	<b>22%</b>	<b>20%</b>

On June 30, 2006, as in 2005, unrecognised or limited deferred tax assets mainly related to tax losses not capitalised of Manganese division companies (primarily Comilog SA and Erachem Comilog SA).

Major permanent differences in the 2005 financial year chiefly relate to untaxed exceptional revenue stemming from the conclusion of the Poum/Koniambo mining indemnity (notes 22 and 26).

## 25 Earnings per share

	1st half 2006			1st half 2005			Full year 2005		
	Net income	Number of shares	Earnings per share	Net income	Number of shares	Earnings per share	Net income	Number of shares	Earnings per share
Basic earnings per share	121	25 699 404	4,73	196	25 494 376	7,69	377	25 543 203	14,76
Subscription options	-	27 500	-	-	149 600	-	-	112 270	-
Purchase options	-	98 549	-	-	165 240	-	-	132 305	-
<b>Diluted earnings per share</b>	<b>121</b>	<b>25 825 453</b>	<b>4,70</b>	<b>196</b>	<b>25 809 216</b>	<b>7,59</b>	<b>377</b>	<b>25 787 778</b>	<b>14,62</b>

Earnings per share are calculated using the weighted average number of shares outstanding in the year, less the weighted number of treasury shares:

	Ordinary shares		Treasury shares		Outstanding shares	
	As at end of period	Weighted average	As at end of period	Weighted average	As at end of period	Weighted average
<b>Number of shares as on December 31, 2004</b>	<b>25 744 944</b>	<b>25 744 944</b>	<b>334 483</b>	<b>334 483</b>	<b>25 410 461</b>	<b>25 410 461</b>
Purchases and disposals - liquidity contract	-	-	(6 653)	(5 330)	6 653	5 330
Subscription options exercised by employees	15 600	6 143	-	-	15 600	6 143
Purchase options exercised by employees	-	-	(147 788)	(72 441)	147 788	72 441
<b>Number of shares as on June 30, 2005</b>	<b>25 760 544</b>	<b>25 751 087</b>	<b>180 042</b>	<b>256 712</b>	<b>25 580 502</b>	<b>25 494 375</b>
Purchases and disposals - liquidity contract	-	-	3 186	(3 787)	(3 186)	3 787
Subscription options exercised by employees	44 930	11 708	-	-	44 930	11 708
Purchase options exercised by employees	-	-	(170 848)	(117 247)	170 848	117 247
<b>Number of shares as on December 31, 2005</b>						
- Weighted average	-	<b>25 756 652</b>	-	<b>213 449</b>	-	<b>25 543 203</b>
- As at end of period	<b>25 789 874</b>	<b>25 789 874</b>	<b>166 821</b>	<b>166 821</b>	<b>25 623 053</b>	<b>25 623 053</b>
Purchases and disposals - liquidity contract	-	-	4 750	(1 537)	(4 750)	1 537
Subscription options exercised by employees	84 770	56 292	-	-	84 770	56 292
Purchase options exercised by employees	-	-	(33 606)	(18 522)	33 606	18 522
<b>Number of shares as on June 30, 2006</b>	<b>25 874 644</b>	<b>25 846 166</b>	<b>137 965</b>	<b>146 762</b>	<b>25 736 679</b>	<b>25 699 404</b>

Exercisable stock subscription options and stock purchase options as on June 30, 2006 numbered 171,500 and 98,549 respectively (256,270 and 132,305 options as on December 31, 2005). Only 27,500 potential shares (112,270 shares as on December 31, 2005) were included in fully diluted net income per share, allowing for the 144,000 options that were not exercisable as at the end of the first half of 2006 (144,000 options at end-2005).

## 26 New Caledonian oil reserves issue

### - Recap of facts

The issue stemmed from a claim by SMSP, a Caledonian mining company controlled by the Northern Province, in association with the Canadian nickel producer Falconbridge, one of Eramet's major global competitors, to part of SLN's mining reserves in order to supply a new plant to be built in the Northern Province.

The agreement concluded in February 1998 with government officials provided for an exchange of mining rights on condition that the Northern plant is built, with SMSP receiving the much richer reserves of the Koniambo mine owned by SLN, in exchange for SMSP's poorer Poum reserves.

This exchange came with an indemnity from the State to compensate for the impact on SLN's and Eramet's businesses of the difference in reserves between the two deposits.

### - First stage

In the second half of 1998, SLN and SMSP transferred their mining rights in Koniambo and Poum respectively to SAS Poum-Koniambo, an independent entity responsible for holding them until their final assignment. The transfer of Koniambo, for a gross selling price of €8 million, was included as an extraordinary item in the 1998 consolidated financial statements.

The indemnity, calculated following a valuation by the Group's bankers and the State at €152 million net of tax (€125 million for SLN and €27 million for Eramet), was paid to the two companies.

### - Second stage

The second stage was to take place as soon as the promoters began construction of the Northern plant, provided this occurred prior to January 2006. Following Eramet's summons before a French court in December 2005, on the 28th of that month the judge unmistakably confirmed Falconbridge's binding obligation to build the Northern plant and authorised the vesting of the Koniambo mining rights. In parallel, Le Nickel-SLN acquired Poum SAS, the company holding the Poum massif for a contractually agreed amount of €6 million from SAS Poum-Koniambo. Payment should be made by the end of 2006 as soon as all the conditions have been complied with.

### - Recognising transactions

In accordance with the 1998 agreements, the indemnity is vested in its entirety and was recognised in other operating income for €9.7 million plus interest for which €24.2 million in provisions were recorded in previous years.

In the IFRS financial statements, the Poum massif was measured using the discounted cash flow method on the basis of reserves estimated to the best of the Company's knowledge. Assumptions regarding price, capital expenditure, cost price and discounting, etc. were made on the basis of the assessments usually made by the Group in its strategic plans. The fair value of €10 million generates after-tax negative goodwill of €2.5 million recognised directly in income. In total, these transactions resulted in 2005 in a gain of €126 million, recognised in other operating income and expenses (note 22) and a gain of €77 million under Group net income (loss).

## 27 Off-balance sheet liabilities

(millions of euros)	06/30/2006	06/30/2005	12/31/2005
<b>Commitments given</b>			
Endorsements, pledges and guarantees	51	42	34
Collateral:	146	147	162
- Property, plant and equipment	30	54	35
- Financial assets	90	55	89
- Inventories	24	25	25
- Receivables and other assets	2	13	13
<b>Commitments received</b>			
Endorsements, pledges and guarantees	24	21	21
Collateral	nil	nil	nil
Credit facilities	600	600	600

The sharp increase in endorsements, pledges and guarantees given stems from the pledges associated with the lease financing of the investment in the 40,000-ton press in Pamiers - Aubert & Duval (notes 5.3 and 17.5).

The above table does not include current business orders (from customers or with suppliers), or liabilities on orders of items of property, plant and equipment with respect to strategic capital expenditure projects (defined in note 5.3). Such orders and liabilities amounted to €61 million (€75 million as on December 31, 2005).

Liabilities stemming from shareholder agreements within companies that are not fully owned (reciprocal intra-group agreements to acquire minority interests estimated on the basis of the carrying amount of shareholders' equity) amounted to €20 million and largely relate to Le Nickel-SLN.

Following an increase in Comilog SA's share capital at the end of 2002, the state of Gabon has an option to acquire, prior to the end of 2005, 75,302 shares representing 3.23% of the share capital at the subscription price. As on the cut-off date, the Gabonese state had not bought back any shares.

### Leases

Leases relate mainly to property and motor vehicle rental, particularly in New Caledonia and Gabon. The amounts recognised in the income statement for the period totalled €15 million in the case of operating leases and €2 million in the case of finance leases.

## 28 Related party transactions

To the best of the Group's knowledge, there are no transactions with shareholders holding over 5% of the share capital. Details of related party transactions during the first half of 2006 are set out below.

(millions of euros)	1st half 2006	2005 FY
<b>Sales</b>		
- Non-consolidated subsidiaries	32	23
- Affiliated companies	-	1
<b>Cost of sales and administrative &amp; selling costs</b>		
- Non-consolidated subsidiaries	(12)	(19)
- Affiliated companies	(3)	(8)
<b>Net cost of borrowed capital</b>		
- Non-consolidated subsidiaries	-	-
- Affiliated companies	-	-

As at June 30, 2006, balance sheet assets and liabilities resulting from related party transactions are as follows:

(millions of euros)	1st half 2006	2005 FY
<b>Trade receivables</b>		
- Non-consolidated subsidiaries	21	10
- Affiliated companies	-	-
<b>Trade payables</b>		
- Non-consolidated subsidiaries	6	4
- Affiliated companies	1	1
<b>Net financial assets (debts)</b>		
- Non-consolidated subsidiaries	7	4
- Affiliated companies	-	-

Eramet does not provide any guarantees on related party debts.

## 29 Workforce and personnel costs

### 29.1 Average workforce by division

	1st half 2006	1st half 2005	2005 FY
Nickel	2 571	2 509	2 551
Manganese	6 473	5 205	5 147
Alloys	4 525	4 545	4 555
Holding company and miscellaneous	104	99	100
<b>Total</b>	<b>13 673</b>	<b>12 358</b>	<b>12 353</b>

### 29.2 Workforce by division as at end of period

	06/30/2006	06/30/2005	12/31/2005
Nickel	2 567	2 510	2 562
Manganese	6 462	5 172	6 484
Alloys	4 596	4 530	4 542
Holding company and miscellaneous	102	100	103
<b>Total</b>	<b>13 727</b>	<b>12 312</b>	<b>13 691</b>

### 29.3 Personnel costs by category

(millions of euros)	1st half 2006	1st half 2005	2005 FY
Wages and salaries	(181)	(154)	(336)
Profit-sharing schemes	(11)	(7)	(19)
Other payroll costs	(75)	(61)	(131)
Employee benefits	(1)	6	5
Share-based payments	(1)	(1)	(2)
<b>Total</b>	<b>(269)</b>	<b>(217)</b>	<b>(483)</b>
Temporary employee costs	(14)	(11)	(26)
<b>Payroll costs - income statement</b>	<b>(283)</b>	<b>(228)</b>	<b>(509)</b>
Payroll costs as a percentage of sales (including temps)	19%	16%	19%
Average employee costs (excluding temps) - thousands of euros	(39)	(35)	(39)

### 30 Events after the balance sheet date

To the best of the Company's knowledge, there are no events after the balance sheet date to report.

## 31 Segment reporting

### 31.1 By division

(millions of euros)	Nickel	Manganese	Alloys	Holding & eliminations	Total
<b>1st half 2006</b>					
Non-Group sales	493	563	456	2	<b>1 514</b>
Intra-Group sales	2	-	-	(2)	-
Sales	495	563	456	-	<b>1 514</b>
Cash flows from operating activities	132	68	45	2	<b>247</b>
Current operating income	168	67	32	(7)	<b>260</b>
Other operating income and expenses	-	-	-	-	(2)
Operating income	-	-	-	-	<b>258</b>
Cost of borrowed capital	-	-	-	-	2
Other finance income and expenses	-	-	-	-	(11)
Share of income from equity accounted companies	-	-	-	-	1
Income tax	-	-	-	-	(76)
Minority interests	-	-	-	-	(53)
Group net income (loss)	-	-	-	-	<b>121</b>
Non-cash expenses	(16)	(14)	(29)	(14)	(73)
- Depreciation & amortisation	(26)	(28)	(19)	(1)	(74)
- Provisions	(1)	10	(2)	(4)	3
- Impairment losses	-	-	-	-	-
Capital expenditure (intangibles and property, plant & equipment)	54	53	30	2	<b>139</b>
Total balance sheet assets (current and non-current)	1 674	1 104	1 107	(204)	<b>3 681</b>
Total balance sheet liabilities (current and non-current excluding shareholder)	622	501	759	(191)	<b>1 691</b>
<b>1st half 2005</b>					
Non-Group sales	393	596	410	-	<b>1 399</b>
Intra-Group sales	4	-	-	(4)	-
Sales	397	596	410	(4)	<b>1 399</b>
Cash flows from operating activities	145	145	36	23	<b>349</b>
Current operating income	155	172	25	(10)	<b>342</b>
Other operating income and expenses	-	-	-	-	(2)
Operating income	-	-	-	-	<b>340</b>
Cost of borrowed capital	-	-	-	-	-
Other finance income and expenses	-	-	-	-	(5)
Share of income from equity accounted companies	-	-	-	-	1
Income tax	-	-	-	-	(75)
Minority interests	-	-	-	-	(65)
Group net income (loss)	-	-	-	-	<b>196</b>
Non-cash expenses	(23)	(17)	(19)	1	(58)
- Depreciation & amortisation	(28)	(17)	(19)	(1)	(65)
- Provisions	1	(1)	(3)	-	(3)
- Impairment losses	-	-	-	-	-
Capital expenditure (intangibles and property, plant & equipment)	25	26	31	1	<b>83</b>
Total balance sheet assets (current and non-current)	1 330	1 069	1 028	(197)	<b>3 230</b>
Total balance sheet liabilities (current and non-current excluding shareholder)	480	535	709	(210)	<b>1 514</b>

<b>2005 FY</b>					
Non-Group sales	766	1 134	811	1	<b>2 712</b>
Intra-Group sales	8	1	-	(9)	-
Sales	774	1 135	811	(8)	<b>2 712</b>
Cash flows from operating activities	355	223	59	(6)	<b>631</b>
Current operating income	243	264	47	(12)	<b>542</b>
Other operating income and expenses	-	-	-	-	<b>112</b>
Operating income	-	-	-	-	<b>654</b>
Cost of borrowed capital	-	-	-	-	<b>(3)</b>
Other finance income and expenses	-	-	-	-	<b>(9)</b>
Share of income from equity accounted companies	-	-	-	-	<b>2</b>
Income tax	-	-	-	-	<b>(126)</b>
Minority interests	-	-	-	-	<b>(141)</b>
Group net income (loss)	-	-	-	-	<b>377</b>
Non-cash expenses	(59)	(21)	(29)	(4)	<b>(113)</b>
- Depreciation & amortisation	(51)	(39)	(36)	(3)	<b>(129)</b>
- Provisions	(8)	16	11	6	<b>25</b>
- Impairment losses	-	(7)	(2)	-	<b>(9)</b>
Capital expenditure (intangibles and property, plant & equipment)	68	94	66	3	<b>231</b>
Total balance sheet assets (current and non-current)	1 446	1 146	1 057	(233)	<b>3 416</b>
Total balance sheet liabilities (current and non-current excluding shareholder)	422	528	718	(237)	<b>1 431</b>

## 31.2 By geographic region

(millions of euros)	Europe	North America	Asia	Oceania	Africa	South America	Total
<b>Sales (destination of sales)</b>							
<b>1st half 2006</b>	<b>713</b>	<b>320</b>	<b>416</b>	<b>19</b>	<b>37</b>	<b>9</b>	<b>1 514</b>
1st half 2005	714	311	329	11	25	9	<b>1 399</b>
Full year 2005	1 358	614	666	27	29	18	<b>2 712</b>
<b>Capital expenditure (intangibles and property, plant &amp; equipment)</b>							
<b>1st half 2006</b>	<b>41</b>	<b>15</b>	<b>6</b>	<b>51</b>	<b>26</b>	<b>-</b>	<b>139</b>
1st half 2005	41	4	1	21	16	-	<b>83</b>
Full year 2005	98	21	10	60	42	-	<b>231</b>
<b>Total balance sheet assets (current and non-current)</b>							
<b>1st half 2006</b>	<b>2 163</b>	<b>475</b>	<b>146</b>	<b>628</b>	<b>269</b>	<b>-</b>	<b>3 681</b>
1st half 2005	1 971	305	102	633	219	-	<b>3 230</b>
Full year 2005	2 006	369	115	654	272	-	<b>3 416</b>

## **Statutory auditors' review report on the first half-year financial information for 2006**

*This is a free translation into English of the statutory auditor's review report issued in French 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

In our capacity of statutory auditors and in accordance with the requirements of article L 232-7 of the French Commercial Law (the Code de Commerce), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Eramet, for the period January 1 to June 30, 2006,
- the verification of information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34- standard of the IFRSs as adopted by the European Union applicable to Interim financial information.

In accordance with professional standards applicable in France, we have also verified the information given in the interim half-year financial report commenting the condensed half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Neuilly-sur-Seine and Paris-La-Défense, September 7, 2006

The statutory auditors

DELOITTE & ASSOCIES

ERNST & YOUNG Audit

Nicholas L.E. Rolt

François Carrega