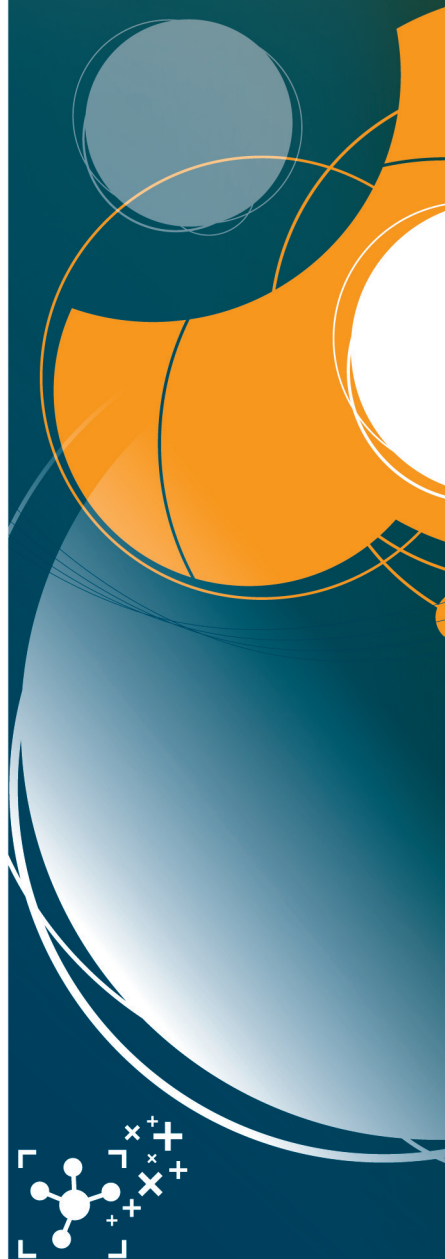


# Reference document

## 2007





# ARKEMA

## 2007 Reference Document



This document is a free translation of the French language reference document that received from the *Autorité des marchés financiers* (the “AMF”) visa number R.08-026 on 17 April 2008. It has not been approved by the AMF. This translation has been prepared solely for the information and convenience of shareholders of Arkema S.A. No assurances are given as to the accuracy or completeness of this translation, and ARKEMA assumes no responsibility with respect to this translation or any misstatement or omission that may be contained therein. In the event of any ambiguity or discrepancy between this translation and the French reference document, the French reference document shall prevail.

In accordance with its General Regulation, notably article 212-13, the French language version of this document was registered with the *Autorité des marchés financiers* on 17 April 2008 with visa number R.08-026. This document may only be used in connection with a financial operation if it is completed by a prospectus which has received the visa of the *Autorité des marchés financiers*. This document has been prepared by the issuer under the responsibility of its signatories. The registration, after examination of the relevance and internal consistency of the information regarding the Company’s situation, does not imply validation of the accounting and financial information presented.

Pursuant to article 28 of European Commission (EC) rule n° 809/2004, this reference document incorporates by reference the following information:

- the consolidated financial statements for the year ended 31 December 2006 included in chapter 20 of the reference document granted visa n° R.07-073 by the *Autorité des marchés financiers* on 21 May 2007, as well as the statutory auditors’ reports related thereto;
- the combined financial statements and pro forma financial statements for the year ended 31 December 2005 included in annexes C.1 and D.1 respectively to the prospectus granted visa n° 06-106 by the *Autorité des marchés financiers* on 5 April 2006, as well as the statutory auditors’ and the contractual auditors’ reports related thereto;
- the comparative analysis between the 2006 consolidated financial statements and the 2005 pro forma financial statements included in chapter 9 of the reference document granted visa n° R.07-073 by the *Autorité des marchés financiers* on 21 May 2007.

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## General comments

In this reference document:

- “Arkema S.A.” or “Company” mean the company named Arkema, whose shares are listed on Eurolist by Euronext™;
- “Group” or “ARKEMA” mean the group composed of Arkema S.A. and all the subsidiaries and shareholdings held directly or indirectly by Arkema S.A.

This reference document contains forward-looking statements about the Group’s targets and forecasts, in particular in chapters 12 and 13. Such statements may in certain cases be identified by the use of the future or conditional tense, or by forward-looking words including but not limited to “believes”, “targets”, “expects”, “intends”, “should”, “aims”, “estimates”, “considers”, “wishes”, “may”, etc. These statements are based on data, assumptions and estimates that the Group considers to be reasonable. They may change or be amended due to uncertainties linked to the economic, financial, competitive, regulatory and climatic environment. In addition, the Group’s business activities and its ability to meet its targets may be affected if certain of the risk factors described in chapter 6 of this reference document were to materialize. Furthermore, achievement of the targets and forecasts implies the success of the strategy presented in section 4.3 of this reference document.

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

Forward-looking statements and targets described in this reference document may be affected by risks, either known or unknown, uncertainties and other factors that may lead to the Group’s future results, performance and achievements differing significantly from

the stated or implied targets. These factors may include changes in economic or trading conditions and regulations, as well as the factors set out in chapter 6 of this reference document.

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

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

For the 2007 financial year, the Company has prepared annual accounts and consolidated financial statements for the period from 1 January to 31 December. These annual accounts and financial statements as well as the basis from which they were prepared are given in chapter 20 of this reference document.

Chapter 9 of this reference document provides a comparative analysis between the 2007 consolidated financial statements and the 2006 consolidated financial statements.

A glossary defining the technical terms used in this reference document can be found in chapter 27 of this reference document.

# Persons responsible for the reference document and for financial information

## 1.1 Person responsible for the reference document

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

## 1.2 Declaration by the person responsible for the reference document

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

I certify, to the best of my knowledge, that (i) the accounts have been prepared in accordance with the relevant accounting standards and give a true representation of the assets, financial situation and result of the Company and all consolidated companies, and (ii) the management report, consisting of the sections of this reference document listed in the reconciliation table given in chapter 29, is a true reflection of the evolution of the business, the results and the financial situation of the Company and all consolidated companies as well as a description of the main risks and uncertainties facing them.

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

This reference document incorporates, for reference purposes, financial statements relating to the financial year ended 31 December 2006 as well as the audit reports for this year by the statutory auditors and financial statements relating to the financial year ended 31 December 2005 as well as the audit reports for this year by the

statutory auditors and the contractual auditor presented respectively in the reference document filed on 21 May 2007 with the *Autorité des marchés financiers* under n° R.07-073 and in the prospectus that was granted visa by the *Autorité des marchés financiers* on 5 April 2006 (visa n° 06-106). The audit report by KPMG Audit and Ernst&Young Audit on the consolidated financial statements for the year ended 31 December 2006 include two observations which draw attention respectively on (i) the note to the financial statements which states that the comparative financial statements at 31 December 2005 are combined financial statements and (ii) the note to the financial statements which sets out the facts which lead to the preparation of consolidated financial statements for the year ended 31 December 2006 on 12 months as from 1st January 2006 and not as from 18 May 2006, being the date of legal and patrimonial constitution of the Group.

The consolidated financial statements for the financial year ended 31 December 2007 and the audit report from KPMG Audit and Ernst & Young Audit, statutory auditors, are included in chapter 20 of this reference document. This report includes an observation related to change realized during the financial year in accounting policies.”

**Thierry Le Hénaff**

**Chairman and Chief Executive Officer**

## 1.3 Person responsible for financial information

For any question concerning ARKEMA and its business activities:

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Vice-President Investor Relations

Arkema S.A.

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

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Department of KPMG S.A.

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92923 Paris la Défense Cedex

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

### *Alternate auditor*

#### **Jean-Marc Decléty**

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

### *Statutory auditors*

#### **Ernst & Young Audit**

Represented by François Carrega

Tour Ernst & Young  
Faubourg de l'Arche  
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First appointed at the annual general meeting of 10 May 2006.  
Current term ends at the conclusion of the annual general  
meeting to be held in order to approve the financial statements  
for the year ending 31 December 2011.

### *Alternate auditor*

#### **AUDITEX**

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



## Selected financial information

The table below sets out key annual financial information for ARKEMA for the 2005, 2006 and 2007 financial years, extracted (i) from chapters 9 and 20 of the 2006 reference document filed with the *Autorité des marchés financiers* under n° R.07-073, and (ii) from the 2007 financial statements included in chapter 20 of this reference document. The figures for 2005 provided in this section have been prepared on a pro forma basis excluding, in the case of the income statement, financial information for Cerexagri in accordance with the application of IFRS 5. These figures should be considered in connection with the financial statements and the information contained in chapter 9 of this reference document.

<i>In millions of euros except otherwise mentioned</i>	2005	2006	2007
Sales	5,515	5,664	5,675
EBITDA *	347	411	518
As % of sales	6.3%	7.3%	9.1%
Depreciation and amortization	(222)	(211)	(225)
Recurring operating income *	125	200	293
Other income and expenses *	(496)	(92)	(72)
Operating income *	(371)	108	221
Net income, group share	(427)	45	122
Shareholders' equity	1,463	1,906	1,935
Net debt *	567	324**	459
Capital employed*	3,106	3,024**	3,263
Cash flow from operating activities ***	(46)	68	319
Cash flow from investing activities ***	(323)	(348)	(413)
Cash flow from financing activities ***	349	395	10
Working capital on sales (in %)*	23.6%	20.6%	19.6%
Net cash flow excluding non-recurring pre spin-off items and impact of acquisitions/divestments (data computed by the Company but which are not extracted from the audited financial statements and which are detailed in section 9.2.7)***	(369)	79	128
Capital expenditure (gross) ***	333	336	325

\* These indicators are defined in chapters 9 and 20 of this reference document.

\*\* Excluding Cerexagri.

\*\*\* Gross capital expenditure figures and cash flow include the Cerexagri business sold on 1<sup>st</sup> February 2007 for 2005 and 2006.



# 4

## General presentation

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All the quantified information contained in this chapter is provided (i) on a *pro forma* basis for 2005 excluding, for income statement and information by business segment, data relating to Cerexagri, in application of IFRS 5, and (ii) on a consolidated basis for 2006 and 2007 (see chapters 9 and 20 of this reference document).

## 4.1 Presentation of the Group's industry sector

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

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

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

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

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

With estimated worldwide sales of almost €1,600 billion in 2006, the chemical sector is a worldwide industry located in three main geographic regions, namely Europe (about 34% of world production), North America (about 25% of world production) and Asia Pacific (about 35% of world production)<sup>(1)</sup>. Trade in chemicals between these three main production regions is growing, though is still limited at present.

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

## 4.2 General presentation of the Group

The Group operates in this industrial context with a coherent business portfolio focused on three segments: Vinyl Products, Industrial Chemicals, and Performance Products. With sales of €5.7 billion in 2007, the Group is one of the world's leading players in chemicals.

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

The Group ranks among the leading world or regional producers in its main product lines.

The Group has six research and development (R&D) centers, of which four are in France, one in the United States and one in Japan. Almost 1,400 researchers work within the Group. The Group's spending on R&D amounted to almost 3% of sales in 2007.

At 31 December 2007, the Group had 15,194 employees.

The Group is currently organized into three business segments (Vinyl Products, Industrial Chemicals, and Performance Products) that further break down into thirteen profit centers or business units (BU). This takes account of the Specialty Acrylic Polymers BU (Coatex) which became part of the Industrial Chemicals segment following the acquisition of the company Coatex on 1<sup>st</sup> October 2007 (see section 4.4.3 of this reference document). Moreover, the Urea

<sup>(1)</sup> Source: CEFIC, October 2007, excluding Pharmaceuticals.

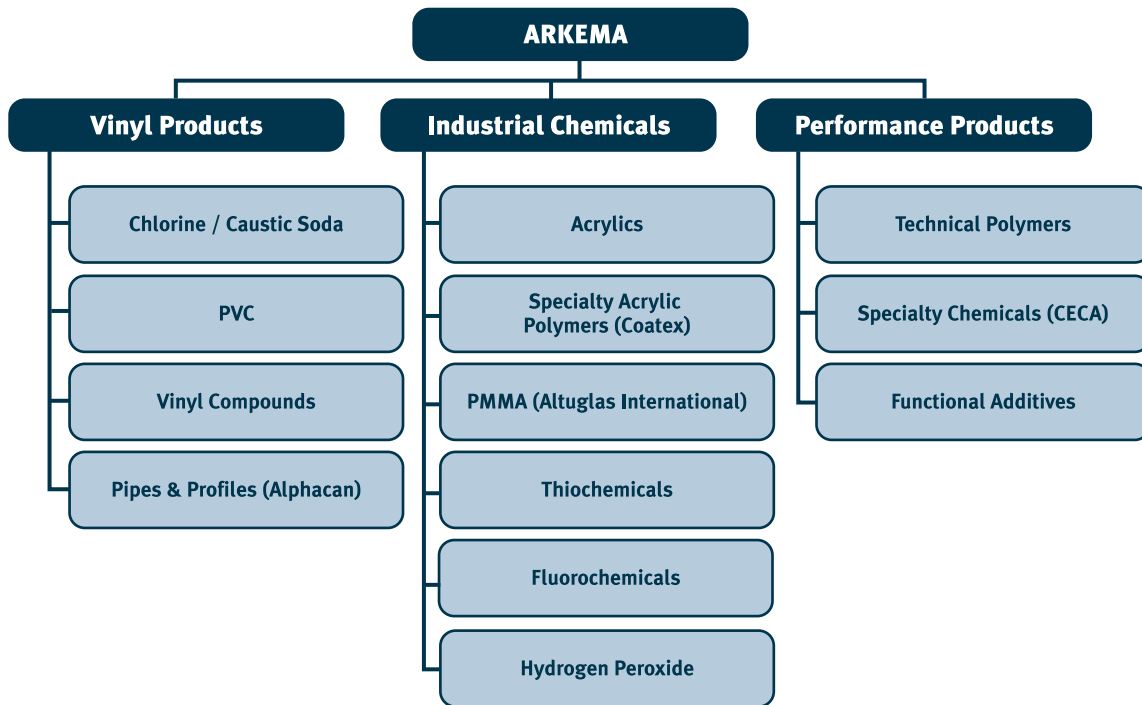
Formaldehyde Resins activity was sold on 1<sup>st</sup> November 2007 (see section 4.4.2 of this reference document).

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

Products segment encompasses the businesses focusing on applications products.

The BUs are in charge of production management, research, sales, marketing and customer relations. They are responsible for their results.

The simplified organization chart below shows the BUs operating within each business segment at the date of this reference document.

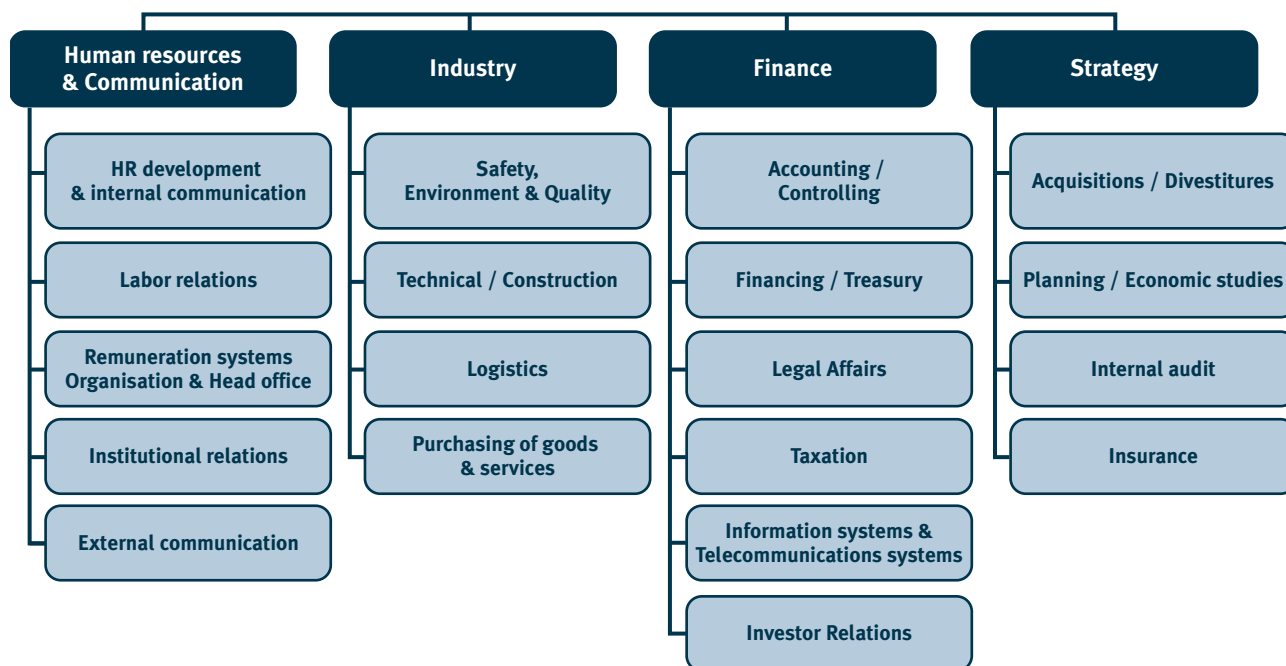


The BUs rely on functional divisions that provide them with continuous support, mainly in the fields of accounting, taxation, legal services, information systems, human resources and communication.

These functional divisions are generally responsible, under the authority of the Executive Committee (see section 14.2 of this reference document), for the coherence and control of the Group

and, in particular, the coordination of purchasing and logistics, as well as the maintenance of expertise in important areas such as safety, environment, R&D and process engineering. Some of these functional divisions, notably the investor relations, consolidation/reporting, internal audit and external communication functions, operate for the entire Group.

The simplified organization chart below describes the Group's functional divisions at the date of this reference document.



Exceptions to the general organizational principles of the functional divisions are the raw material purchasing division and the energy purchasing division that report to the head of the Industrial Chemicals

segment, as well as the R&D division that reports to the Chairman and Chief Executive Officer.

## SALES BY BUSINESS SEGMENT

<i>In billions of euros</i>	2005		2006		2007	
Vinyl Products	1.39	25%	1.38	24%	1.42	25%
Industrial Chemicals	2.41	44%	2.49	44%	2.53	45%
Performance Products	1.71	31%	1.79	32%	1.72	30%
<b>TOTAL</b>	<b>5.51</b>	<b>100%</b>	<b>5.66</b>	<b>100%</b>	<b>5.67</b>	<b>100%</b>



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

### Vinyl Products

Chlorine/Caustic soda	Chemicals, aluminum, pulp and paper, detergents and soaps, solvents, and raw materials for fluorinated products
PVC	Construction, pipes, profiles, packaging, cabling, automobiles
Vinyl Compounds	Cabling, bottles, automobiles, medical
Pipes and Profiles (Alphacan)	Pipes and profiles

### Industrial Chemicals

Acrylics	Resins, emulsions for adhesives, paints and coatings, superabsorbents
Specialty Acrylic Polymers (Coatex)	Specialty polymers used as rheological modifiers
PMMA (Altuglas International)	Acrylic glass used in construction, the automobile industry, for advertising boards, in decoration and the manufacture of sanitaryware
Thiochemicals	Chemical intermediates for animal feed, agrochemicals and pharmaceuticals, natural gas odorizers, petrochemicals, polymerization agents
Fluorochemicals	Refrigeration, air-conditioning, foams, solvents, intermediates, polymers
Hydrogen Peroxide	Hydrogen peroxide (pulp and paper bleaching, textile bleaching, electronics and water treatment), sodium chlorate, hydrazine hydrate and derivatives

### Performance Products

Technical Polymers	Technical polymers, including polyamides used in the automobile industry, the aerospace and aeronautic industry, the electronics industry, and in the manufacture of hotmelts, fluorinated polymers (PVDF) used in construction, chemical engineering, and the manufacture of paints and anti-corrosive coatings, functional polyolefins used in adhesives, the electrical and electronics industries, and packaging
Specialty Chemicals (CECA)	Separation of gases and liquids, adsorption/filtration, specialty surfactants
Functional Additives	Stabilizers and impact modifiers used in polymer converting, polymerization catalysts for polyethylene, PVC, polystyrene, cross-linking agents, tin-based intermediates

## INFORMATION BY GEOGRAPHIC REGION\*

Sales <i>In billions of euros</i>	2005		2006		2007	
Europe	3.18	58%	3.26	58%	3.37	60%
NAFTA **	1.39	25%	1.41	25%	1.26	22%
Asia	0.7	13%	0.72	13%	0.75	13%
Rest of the World	0.24	4%	0.27	4%	0.29	5%
<b>TOTAL</b>	<b>5.51</b>	<b>100%</b>	<b>5.66</b>	<b>100%</b>	<b>5.67</b>	<b>100%</b>

\* Based on the geographic location of customers.

\*\* USA, Canada, Mexico.

Capital employed <i>In billions of euros</i>	2005		2006		2007	
Europe	2.04	66%	2.01	66%	2.33	71%
NAFTA *	0.86	28%	0.82	27%	0.72	22%
Asia	0.17	5%	0.16	6%	0.18	6%
Rest of the World	0.04	1%	0.04	1%	0.03	1%
<b>TOTAL</b>	<b>3.11</b>	<b>100%</b>	<b>3.03</b>	<b>100%</b>	<b>3.27</b>	<b>100%</b>

\* USA, Canada, Mexico.

The breakdown of employees by geographic region over the last three years is given in section 17.1.1.1 of this reference document.

## 4.3 Strategy and competitive advantages

### 4.3.1 COMPETITIVE ADVANTAGES

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

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

- ▶ first-class commercial and manufacturing positions: the Group is one of the world's leading players in most of its businesses. This is particularly true of PMMA, fluorochemicals, hydrogen peroxide, thiochemicals, specialty polyamides (polyamides 11 & 12), PVDF, hydrazine hydrate, tin-based PVC stabilizers, impact modifiers and PVC processing aids, tin additives for glass coatings, and organic peroxides. In the chlorochemicals and PVC sectors, the Group is one of the leading European players;
- ▶ high quality manufacturing assets and sound expertise in manufacturing processes: the Group relies on its strong manufacturing positions in Europe, North America and Asia to respond to demand from its customers as effectively as possible. Its technical knowledge of products and manufacturing processes enables the Group to leverage its current production facilities, and gives it a key advantage in the conquest of new markets. In addition, this expertise enables it to complete investment projects on time, on budget, and with great efficiency. The Group also has important R&D skills on which it can rely to launch new innovative products on the market, provide its customers with the technical support they need, or further improve the performance of its manufacturing processes;
- ▶ a solid balance sheet: at 31 December 2007, the Group's net debt was €459 million, compared to the shareholders' equity (Group share) of €1,914 million;
- ▶ high quality teams who have proved their ability to manage complex industrial projects and successfully carry out restructurings needed by the lack of competitiveness in some product lines. The Group can count on personnel whose loyalty, professionalism and experience are widely recognized.

### 4.3.2 STRATEGY

The improvement in the Group's results since its operational launch in October 2004 confirms the soundness of its strategy, based on the following three key areas:

- restore its competitiveness;
- prepare the future by developing growth relays in its best product lines; and
- refocus its portfolio of activities.

As part of improving its competitiveness, ARKEMA has set itself an objective to reduce its fixed costs by €500 million, thereby improving its EBITDA by €200 million in 2010 compared to 2005. Accordingly, ARKEMA has undertaken a number of restructuring plans since its creation. The plans currently underway or announced in 2007 and beginning 2008 are summarized below:

- chlorochemicals consolidation plan which resulted in the closure of underperforming facilities and the debottlenecking of some production units (Chlorine/Caustic Soda and VCM at Fos-sur-Mer and Lavera, PVC at Berre and Balan, copolymers at Saint-Auban) (France);
- plan for the future of the Company's headquarters in Colombes (France);
- recentring of the activities of the Chantonay site (Pipes and Profiles) (France);
- improvement of competitiveness at the Lacq-Mourenx site (France);
- shut-down of the Doryl business in France and streamlining of the Resilia sites in Italy (Vinyl Compounds);
- improvement of competitiveness at the Carling-Saint-Avoid site (France) in the Acrylics BU;
- rationalization of fluorochemicals production plants at Pierre-Bénite (France);
- closure of tin derivatives production line for agrochemicals at Vlissingen (Netherlands);
- recentring of CECA specialty surfactants activity at Feuchy (France);
- two-step closure of copolyamides plant at Bonn (Germany);
- plan for the future of the Marseille Saint-Menet site (Technical Polymers) (France);
- plan for the future of the Functional Additives production site at Crosby (Texas);
- proposed future of the polyamides activity at the Serquigny site (France);
- proposed creation of two shared service centers for human resources and accounting functions (France).

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

Furthermore, in order to prepare the future and develop its growth relays, ARKEMA has announced several targeted growth projects, the purpose of which is to ensure the selective growth of its best facilities in Europe and North America, as well as the expansion of its presence in Asia and an increase in sales of new products.

Therefore the Group is committed to:

- speeding up its rate of development in Asia by increasing its investments in the region to over €50 million per year on average over the next three years, while also significantly increasing its sales in the region, aiming for a 20% share of its overall sales by 2012;
- increasing to 20% by 2010 the share of sales of new products developed over the last five years for the Performance Products business segment.

In this area, ARKEMA's 2007 highlights were:

- launch of new PMMA cast sheet production line at Saint AVOID (France);
- launch of new HFC-32 fluorochemicals production plant at Calvert City (United States);
- launch of new specialty molecular sieves production lines at Inowroclaw (Poland) and Honfleur (France);
- 10% capacity increase for hydrogen peroxide at Jarrie (France);
- doubling of copolyamide powder production capacity at Changshu (China);
- 30% capacity increase for DMDS at the Lacq site (France);
- launch of work to double hydrogen peroxide capacity at Shanghai (China).

During 2007 and early 2008, ARKEMA also announced the following new development projects:

- signature of a memorandum of understanding concerning a possible joint venture in India with the Essar group for the production and marketing of acrylic acid and its esters by 2010;
- creation of two joint ventures with the Daikin group, respectively for HFC-125 production at Changshu (China) by 2010, and for the marketing of refrigerant fluid blends in Asia Pacific from 2008;
- doubling of production capacity for PVC heat stabilizers at Beijing (China) in the first quarter 2008;
- doubling of hydrogen peroxide production capacity at Leuna (Germany) by mid-2010; and
- setting-up of new VF<sub>2</sub>/PVDF plant at Changshu (China) in the second half of 2010.

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

The Group announced in 2006 that asset divestitures could reach €300 million to €400 million (in terms of annual sales) over a three-year period, and that it planned to make targeted acquisitions of businesses with annual sales of between €500 million and €800 million (i) to compensate for the reduction in sales resulting from such disposals, (ii) to boost the coherence and integration of its portfolio, and (iii) to reduce its cyclicity. Thus, ARKEMA has already conducted divestments amounting to sales of €380 million euros as well as acquisitions amounting to sales of approximately €180 million. In 2007 and early 2008, ARKEMA sold in particular:

- ▶ its Cerexagri subsidiaries, covering nearly all assets of the Agrochemicals BU in the Performance Products business segment, to the Indian group United Phosphorus Limited on 1<sup>st</sup> February 2007. This activity had reported sales of €202 million in 2006;
- ▶ its specialty amines business produced at its American site of Riverview to Taminco on 1<sup>st</sup> May 2007. This activity has reported sales of US\$72 million in 2006;
- ▶ its mineral flocculants activity to the Kemira group in the last quarter 2007. This activity had reported sales close to €20 million in 2006;

- ▶ its urea formaldehyde resins activity at Leuna (Germany) to the Hexion group on 1<sup>st</sup> November 2007. This activity reported sales of €100 million in 2006;

ARKEMA also sold on 1<sup>st</sup> April 2008 to Sumitomo Seika its business in superabsorbent polymers which will be toll-manufactured by ARKEMA on its Carling industrial site. This business generates annual sales of around €20 million.

Meanwhile, ARKEMA completed the acquisition of the company Coatex on 1<sup>st</sup> October 2007 (see section 4.4.2 of this reference document). This initial acquisition is fully in line with the external growth strategy announced by ARKEMA for its core businesses, aiming for high added value activities. This business reported sales close to €150 million in 2006.

ARKEMA also completed on 29 February 2008 the acquisition of the PMMA activities of the Repsol YPF group (see section 4.4.2 of this reference document). This activity reported sales close to €30 million in 2006.

These broad strategic guidelines are detailed below by business segment.

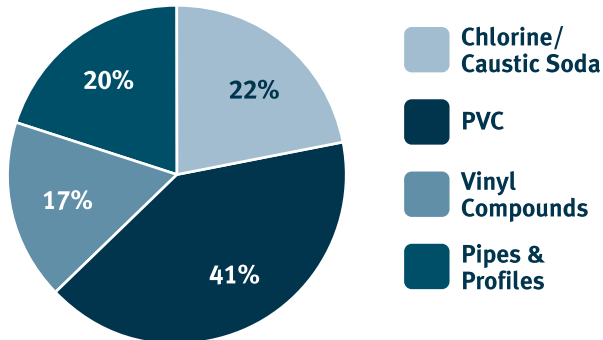
## 4.4 The Group's business segments

### 4.4.1 VINYL PRODUCTS SEGMENT

#### Key figures

<i>In millions of euros</i>	2005	2006	2007
Sales	1,387	1,379	1,418
EBITDA	20	38	90
Recurring operating income	8	21	65
Capital expenditure (gross value)	61	76	111

## Breakdown of the segment's sales by BU (2007)



## General description of the segment's business

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

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

Following the split of the Chlorochemicals and PVC BU into two distinct BUs, that involved the transfer of personnel to locations close to their production sites, the Vinyl Products segment now comprises four BUs: Chlorine/Caustic Soda, PVC, Vinyl Compounds, Pipes and Profiles (Alphacan) effective 1<sup>st</sup> January 2007.

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

The chlorochemicals sector also faces a number of specific constraints:

- energy costs, as chlorine and caustic soda are produced by electrolysis that requires approximately 3 MWh of electricity per tonne produced;
- the balance between chlorine and caustic soda that are necessarily produced in equal quantities, but for which demand varies independently;
- weak growth in demand in Europe that can be estimated at between 0 and 2% per year over the coming years, whereas growth in demand in Eastern Europe and Russia is far higher (currently 8 to 10%)<sup>(2)</sup>.

The Group's strategy is to remain one of the leading players in Europe, that is integrated and competitive. Thus, the Group intends to maintain competitive long-term supplies for its main raw

materials, turn its production sites into some of the most competitive in Europe, and increase the share of higher added value products. To this end, in 2005 the Group launched a consolidation plan for its Chlorochemicals and PVC activities. With completion due in 2008, the plan includes the closure of poorly performing production facilities and the debottlenecking of some plants. It entails a 523 job reduction and capital expenditure of nearly €100 million. The Group has also announced a number of measures in its downstream activities designed to boost the share of higher added value products (reorganization of Soveplast in France, development of specialty compounds, etc.).

### Chlorine/Caustic Soda BU (6% of total Group sales in 2007)

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

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

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

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

For chlorine, the Group's main competitors are Dow Chemicals, Solvay, Akzo, Bayer and Ineos. The markets in which the Chlorine/Caustic Soda BU operates are mature.

The BU's production units are located in Europe.

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

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

(2) Source: ARKEMA internal estimate.

The consolidation plan launched in 2005 has resulted for the Chlorine/Caustic Soda production facilities in:

- the cessation, at the end of December 2005, of sales of VCM and MCAA;
- the definitive closure, at the end of March 2006, of the units producing chlorine, VCM and certain chlorine derivatives at Saint-Auban (France);
- an increase in VCM production capacity at Lavera (France). This debottlenecking was completed during the major turnaround in April 2006;
- the debottlenecking of VCM production capacity at Fos-sur-Mer (France) during the five-year turnaround in September 2007.

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

### **PVC BU (10% of total Group sales in 2007)**

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

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

Based on the Group's production capacities, all of which are located in Europe, the Group ranks number three for PVC production in Europe<sup>(3)</sup>, where its main competitors are Ineos, Solvin, Vinnolit and Shin Etsu.

The markets in Europe in which the PVC BU operates are mature.

The consolidation plan launched in 2005 has resulted for PVC sites in:

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

### **Vinyl Compounds BU (4% of total Group sales in 2007)**

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

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

The Group considers that it is one of the leading players in the European compounds market, which represents approximately 25% of PVC volumes. Its main competitors are Ineos, Solvay and LVM. These three companies, together with ARKEMA, account for some 65% of European production capacity<sup>(4)</sup> (estimated capacity of 1.6 million tonnes).

This BU's main production sites are located in Europe (France, Germany, Belgium, Spain and Italy). It also has one production site in Vietnam, and has had a production plant in China since 2007.

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

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

Thus the Group inaugurated in October 2007 a new specialty compounds production line for the automobile market at Changshu (China). The capacity of this first production line, which came on stream in July 2007, will be doubled in the first half of 2008.

### **Pipes and Profiles BU (Alphacan) (5% of total Group sales in 2007)**

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

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

The main raw materials used by Alphacan are PVC and various additives such as mineral fillers, stabilizers and colorants. Alphacan obtains most of its PVC supply from the Group's production units, but also buys in some PVC from other producers.

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

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

<sup>(3)</sup> Source: *Parpinelli Tecnon ATEC 2008*.

<sup>(4)</sup> Source: *ARKEMA internal estimate*.

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

In pipes, Alphacan's strategy is based on maintaining its positions and its competitiveness, while at the same time developing sturdier pipes. In France for example, new waste water pipes have now been launched.

In profiles, Alphacan sells its products mainly in Southern Europe. These markets have attractive growth prospects (average estimated annual growth in Europe of 4 to 5% over the next few years)<sup>(5)</sup> thanks to the potential for PVC profiles to replace other materials. The main players in this market are Profine, Deceuninck, Veka, Rehau and Aluplast.

In this sector, Alphacan continues to expand, with a particular focus on higher value-added products.

The reorganization of the Chantonay (France) site within the Soveplast subsidiary, announced in January 2007, fits in fully with this strategy. This restructuring, aimed at restoring the competitiveness of this site, entails the cessation of production of low-margin products while reinforcing high value-added activities through growth investments and the implementation of a more targeted marketing policy. It has resulted in a reduction of 28 positions.

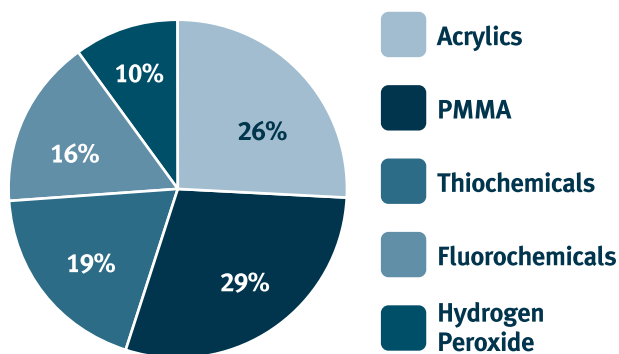
Finally, with the acquisition in October 2007 of the Croatian company Prozor, now called Alphacan d.o.o., specializing in the marketing of profiles, Alphacan continues its expansion in a region benefiting from many assets in terms of logistics and growth opportunities.

## 4.4.2 INDUSTRIAL CHEMICALS SEGMENT

### Key figures

In millions of euros	2005	2006	2007
Sales	2,406	2,494	2,529
EBITDA	316	267	289
Recurring operating income	204	160	178
Capital expenditure (gross value)	145	172	124

### Breakdown of the segment's sales by BU, excluding Specialty Acrylic Polymers BU (2007)



### General description of the segment's business

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

The Specialty Acrylic Polymers business (Coatex) has been part of this segment since 1<sup>st</sup> October 2007, representing its sixth BU.

Additionally, on 1<sup>st</sup> January 2007 the Group decided to include, within its PMMA BU, its MMA production and marketing activity which was hitherto part of the Acrylics BU.

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

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

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

(5) Source: ARKEMA internal estimate.

peroxides, and certain acrylic and thiochemical derivatives are used in the manufacture of plastic additives.

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

### **Acrylics BU (11% of total Group sales in 2007)**

The Acrylics BU's main products are acrylic acid and its derivatives, oxo-alcohols, phthalic anhydride and dioctylphthalate.

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

The Group is ranked number five worldwide for acrylic acid<sup>(6)</sup>. Its main competitors for this product are BASF, Dow Chemicals, Nippon Shokubai, and Rohm and Haas. The world growth in market for acrylic acid over the coming years is estimated at between 4 and 5% a year (between 2 and 3% in Europe, between 3 and 4% in North America, and between 8 and 10% in China)<sup>(7)</sup>. Following a tense period culminating in the autumn of 2005, the startup of new production plants in Asia has led to pressure on acrylics margins.

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

The Acrylics BU plans to build on its strong marketing positions and technical expertise to strengthen and expand its businesses globally, in particular in Asia, where growth is strongest.

In January 2007, ARKEMA and Indian group Essar announced the signature of a memorandum of understanding to study the formation of a 50-50 joint venture in India to produce and market acrylic acid and its esters.

Meanwhile, the Acrylics BU has initiated a performance plan at its Carling-Saint-Avoid (France) site to improve its competitiveness by reducing its structural costs (reduction in maintenance costs and rationalization of procurement of goods and services) and reorganizing the production of acrylic and methacrylic derivatives and specialty products. This program has resulted in a reduction of 58 positions.

On this site, ARKEMA also sold on 1<sup>st</sup> April 2008 to Sumitomo Seika its business in superabsorbent polymers which offers a genuine

opportunity to develop this activity in which Sumitomo Seika ranks among the world's leading companies. ARKEMA will continue to operate the Carling production unit. This divestment also includes a long-term contract for the supply of acrylic acid produced on the Carling site which contributed to the consolidation of ARKEMA's acrylics business by bolstering a direct downstream activity.

Finally, the acquisition of the company Coatex in October 2007 has helped strengthen the downstream integration of the acrylics chain in accordance with the Group's acquisition strategy.

### **Specialty Acrylic Polymers BU (Coatex)<sup>(8)</sup>**

The Specialty Acrylic Polymers BU manufactures specialty polymers, mainly acrylic based, used as dispersants and thickeners. The main end-markets for these high-growth specialty chemical activities include paper, paint, water treatment, cosmetics and textile. With its headquarters and largest site in Genay (France), near Lyon, Coatex also operates industrial and storage facilities in Europe, the United States and Asia. Coatex employs 300 people in the world, and reported sales of €150 million in 2006.

Coatex's business offers strong synergies with ARKEMA's in raw material, process and R&D terms, and represents the natural downstream activities of ARKEMA's acrylic monomer production sites in Bayport (United States) and Carling (France).

Additionally, this deal will help ARKEMA and Omya, Coatex's main customer, to develop strategic cooperation, in particular in technical and commercial fields.

### **PMMA BU (Altuglas International) (13% of total Group sales in 2007)**

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

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

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

The main products include various grades of PMMA resin as well as cast and extruded sheet. Altuglas International sells its products into a wide range of markets, of which the most important are construction, automobiles, sanitaryware, commercial display signs, electronics and household goods.

(6) Source: SRI-CEH Acrylic Acid & esters, July 2007.

(7) Source: ARKEMA internal estimate.

(8) The company Coatex was acquired by Arkema on 1<sup>st</sup> October 2007.



Over the next few years, growth in the PMMA market in Europe and North America is expected to be between 2 and 2.5% per year. In Asia growth is expected to be between 6 and 8% per year<sup>(9)</sup>.

The Group is the leading producer of PMMA in the world<sup>(10)</sup>. Its main competitors are Evonik Degussa, Mitsubishi Rayon Corp., Sumitomo and Lucite.

Accordingly, in order to boost its leading position in PMMA sheet in Europe, ARKEMA finalized on 29 February 2008 the acquisition of the PMMA sheet and block production activity from the Repsol YPF group. This business currently operates from manufacturing sites in Brønderslev, Denmark, and Polivar, Italy. It employs 125 people, and in 2006 achieved sales of around €30 million.

This acquisition also represents an excellent growth opportunity in a segment in which Altuglas International enjoys real expertise.

In addition, new developments in the use of PMMA in construction and automobile have taken place in the United States and Europe. Altuglas has also expanded into resins for LCD screens in Asia, thanks to its R&D efforts in this area.

Finally, in order to restore its margins, the PMMA BU had undertaken a plan to consolidate all its sheet production in Europe on two sites in France, at Bernouville and Saint-Avoid, which was completed by the launch of a cast sheet line at Saint-Avoid in late 2006 (to offset the closure, end of December 2006, of the Leeuwarden site in the Netherlands).

### Thiochemicals BU (8% of total Group sales in 2007)

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

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

Today, the Group is the world number one in this sector<sup>(11)</sup>. Its main competitor is Chevron Phillips Chemical. The Group also faces competition from certain local players on some products, and from upstream producers of integrated methionine (Evonik Degussa, Adisseo, etc.).

The Thiochemicals BU has production facilities in Europe and the United States.

In accordance with the Group's strategy, the Thiochemicals BU intends to further consolidate its world rankings in its main product lines. Accordingly, the Thiochemicals BU has implemented a number of development projects, and since 2003 has been recentring its portfolio. It has also carried out significant industrial restructuring to

adapt to its changing markets, and in particular to competition from Asia.

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

As part of its portfolio management, the Thiochemicals BU completed on 1<sup>st</sup> May 2007 the disposal to the company Taminco of its specialty amines activity operated at the Riverview site, which was deemed non strategic. This activity reported sales close to US\$72 million in 2006.

As regards restructuring, the main measures taken in 2006 concerned the Riverview site in the United States and the MLPC International business in France, with the loss of 60 and 74 jobs respectively.

In Early 2007, the Thiochemicals BU also launched an action plan to improve competitiveness at its Lacq-Mourenx production platform in France, through research into new high value-added applications, streamlining structures, and reducing fixed costs, resulting in a reduction of 48 positions. Additionally, production capacity for dimethyl disulfide (DMDS) will be increased by 30% in order to supply expanding refining and petrochemicals world markets. Finally, the Thiochemicals BU has relocated some operational teams to its La Chambre and Lacq-Mourenx production sites (France).

Meanwhile, the Thiochemical BU needs to address in France over the long term the consequences of the depletion of the Lacq natural gas field, anticipated for 2013, that currently provides sulfur to its Lacq facility. These consequences are described in section 6.2 of this reference document.

### Fluorochemicals BU (7% of total Group sales in 2007)

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

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

In Fluorochemicals, the Group ranks second in the world<sup>(12)</sup>. Its main competitors are Dupont, Ineos, Solvay and Honeywell.

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

<sup>(9)</sup> Source: ARKEMA internal estimate.

<sup>(10)</sup> Source: Parpinelli Tecnon ATEC 2008.

<sup>(11)</sup> Source: ARKEMA internal estimate..

<sup>(12)</sup> Source: SRI CEH Fluorocarbons, April 2004.

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

To take these regulations into account, the Fluorochemicals BU develops new HFC blends (32, 134a, 143a, 125, etc.) and new substitute products for foam. Together with HFC-32, HFC-125 is an essential component of new generation refrigerant blends, which include the R-410A blend poised to replace HCFC-22. Regulatory changes are also likely to lead the Group to consider projects to adapt its manufacturing facilities over time.

Against this background, the Fluorochemicals BU has carried out a significant investment, of the order of US\$45 million, to convert one of its two HFC-140 production lines at Calvert City, United States, to HFC-32 production. This production line opened successfully in September 2007, and should help the BU meet the fast-growing demand in this area.

The Fluorochemicals BU is also seeking to take advantage of the growth potential in emerging economies, particularly those in Asia. Accordingly, after increasing by 50% its Forane® 22 production capacity at its Changshu site in China in late 2006, the Group announced in September 2007 the creation of two joint ventures in partnership with the Daikin group to produce and market new generation refrigerant fluids in the Asia Pacific region, and so create the fluorinated gas leader in the region. These are:

- ▶ Arkema Daikin Fluorochemicals Co. Ltd, a 60% ARKEMA/40% Daikin joint venture set up for the production and marketing of HFC-125. Production, at a world-scale capacity, the first of its size in Asia, will be located on ARKEMA's Changshu site (China), for startup in 2010;
- ▶ Daikin Arkema Refrigerants Asia Ltd., a 60% Daikin/40% ARKEMA joint venture for the production and marketing in Asia Pacific of new generation HFC refrigerant fluid blends from 2008.

Finally, the Group launched in 2007 a project for the future of the Pierre-Bénite plant (France) designed to turn it into the main development hub for ARKEMA's fluorochemicals activities in Europe by restoring its competitiveness over the long term by:

- ▶ strengthening its best performing activities including Forane® 134a for refrigeration and Kynar® fluorinated polymers (Technical Polymers BU);
- ▶ closing down some production units: hydrofluoric acid and Forane® 22.

As part of this plan, the sale to the Kemira group of the flocculant activity (water treatment products), which reported sales of some €20 million in 2006, was completed in the last quarter of 2007.

Plans were also drawn up for the closure of peripheral activities within the Fluorochemicals BU (sulfuric acid and sodium chlorite) and the Functional Additives BU (epoxy soya oil).

These plans are underway, and will result in a reduction of 196 positions, as detailed in section 17.3.2 of this reference document.

### Hydrogen Peroxide BU (4% of Group sales in 2007)

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

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

Its main application markets are pulp and paper, chemical products (including organic peroxides in the case of the Group), textiles and electronics. Its intrinsic qualities, in particular its neutrality vis-à-vis the environment, give this product interesting growth prospects (average worldwide growth estimated at 4% a year, with higher growth in China and South America)<sup>(13)</sup>. Energy is an important component of the production costs of this business.

The Group ranks third in the world for production of hydrogen peroxide<sup>(14)</sup>, its main competitors being Evonik Degussa, Solvay, FMC and EKA.

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

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

To strengthen its global positions and take advantage of growth in the regions showing the strongest potential, the Group is carrying out various investments in Europe, North America and Asia. In the fourth quarter of 2006, production capacity at its Canadian Bécancour plant was increased by 20,000 tonnes, for an investment of around US\$10 million. The Group has also started work to double production capacity at Shanghai, China, taking it to nearly 80,000 tonnes per year. Completion of this extension is expected in early 2008. It will be carried out within the framework of the Arkema Shanghai Hydrogen Peroxide joint venture, in which Arkema S.A. holds an indirect 66.6% stake and Shanghai Coking 33.3%. Lastly, in 2007, ARKEMA launched an investment totaling around €7 million to improve the reliability of its Jarrie (France) plant and increase the site's hydrogen peroxide production capacity by 10%, taking it to 115,000 tonnes of commercial grades per year. Finally in March 2008, ARKEMA announced plans to double production capacity at its German site in Leuna to 80,000 tonnes per year by mid-2010, for an investment of around €40 million. On completion of all these projects, the Group's total production capacity will be close to 440,000 tonnes per year by mid-2010.

<sup>(13)</sup> Source: ARKEMA internal estimate.

<sup>(14)</sup> SRI CEH Hydrogen Peroxide, January 2006.

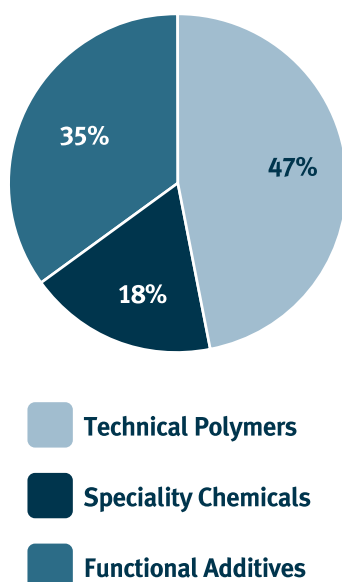
### 4.4.3 PERFORMANCE PRODUCTS SEGMENT

#### Key figures

In millions of euros	2005	2006	2007
Sales	1,713	1,784	1,723
EBITDA	102	156	184
Recurring operating income	15	71	97
Capital expenditure (gross value) *	117	87	83

\* Including Cerexagri for 2005 and 2006.

#### Breakdown of the segment's sales by BU, excluding urea formaldehyde resins activity (2007)



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

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

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

The key success factors for the Performance Products segment lie in the quality of its relations with its customers, its ability to provide innovative solutions resulting from its R&D efforts, to develop new, high value-added products, and its capacity to take advantage of the potential of growing regional markets, in particular Asian markets.

Since 2006, the priority for this segment has been to improve its results and restore its profitability that was affected by the rise in raw material and energy costs, and by the weakness of the US dollar vs the euro. The Performance Products segment intends to boost its presence in Asia and develop new products resulting from innovation. In this regard, the segment has set itself an objective to increase to 20% by 2010 the share of its sales generated by new products less than 5 years old. Additionally, the segment has initiated an active portfolio management by divesting its non-strategic activities in agrochemicals and urea formaldehyde resins, while planning targeted acquisitions to consolidate its portfolio. Finally, the Group has undertaken a number of restructuring actions across the segment's BUs.

#### Technical Polymers BU (14% of total Group sales in 2007)

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

#### General description of the segment's business

In 2006 and 2007, the Group reshaped its Performance Products business segment in depth, announcing the following changes:

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

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

These BUs share the same objective, which is to provide, in the various markets concerned, technical solutions adapted to the needs expressed by their customers.

The specialty polyamide market includes polyamides 11 and 12 which are used mainly in the transport, textile and oil and gas industries. Other products include Orgasol® ultrafine powders, used in cosmetics and paints, Pebax® (polyether block amide), which is used in sports equipment, and copolyamides, used in the textile industry. The Group is the world leader in the production of specialty polyamides (polyamides 11 and 12)<sup>(15)</sup>, where its main competitors are Evonik Degussa and EMS.

PVDF is used in architecture, chemical processes, electricity and electronics. The Group is the world leader in this product<sup>(16)</sup>, with Solvay as its main competitor.

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

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

- in February 2007, a 40% increase in the production capacity of Orgasol® ultrafine polyamide powders at its Mont site, France, reflecting ARKEMA's commitment to pursuing the development of this site's production units around high-potential specialty products (Orevac® and Orgasol®);
- in September 2007, the doubling of its production capacities for high-performance polyamides at its Changshu site, China;
- in the first quarter 2008, a capacity extension of over 2,000 tonnes per year for Kynar® PVDF at its Calvert City site (United States).

In 2007, the Group also announced its intention to increase its PVDF world capacity by setting up a new VF2/PVDF production plant at Changshu (China), due to come on stream in the second half of 2010.

Moreover, in order to improve its competitiveness, the Technical Polymers BU:

- launched in July 2006 a restructuring plan for its Rilsan® polyamide fine powder production activity at Serquigny (France), entailing the recentring of powder manufacture within a single plant where capacity was increased in late 2007. The plan resulted in a reduction of 37 positions. In January 2008, the Serquigny site continued the rationalization of its polyamides activity with the announcement

of a reorganization project. The project includes the loss of 49 positions, and the investment of €13 million designed to increase production capacity for new generation technical polymers;

- announced in the second quarter 2007 the closure, in two steps, of its copolyamide granule and powder production plant at Bonn (Germany). The powder activity was closed down in late 2007, and the site as a whole is due to be closed mid-2009. The shutdown will result in the loss of 83 positions in total;
- announced in October 2007 a project aiming to improve productivity at its Marseille Saint Menet (France) site, and to increase production capacity by 10% for the Rilsan® 11 monomer. With investments totaling €15 million, the project should result in a reduction of some 50 positions.

### Specialty Chemicals BU (CECA) (5% of total Group sales in 2007)

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

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

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

CECA has leading positions in some of its businesses. For example, CECA ranks second worldwide<sup>(17)</sup> in molecular sieves.

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

In order to take advantage of prospective market growth and strengthen its global position, CECA launched in 2007 its new specialty molecular sieves production lines at its Inowroclaw plant in Poland and its Honfleur plant in France, thereby increasing by 30% its production capacities.

In addition, in order to continue to boost its competitiveness, CECA:

- closed in April 2007 its Pierrefitte-Nestalas site in France, with the loss of 23 positions. New production capacities for sodium

<sup>(15)</sup> Source: ARKEMA internal estimate.

<sup>(16)</sup> Source: SRI CEH Fluoropolymers, October 2005.

<sup>(17)</sup> Source: ARKEMA internal estimate.

hypophosphite were opened in the Shanghai region of China, through an industrial partnership;

- announced in June 2007 a project to recenter the specialty surfactants activity, including the acquisition of the anticaking additives business from Akzo Nobel, and the divestment of its commodity primary amines activity to Akzo Nobel, with a resulting reduction of 22 positions at the Feuchy (France) site.

### Functional Additives BU (10% of total Group sales in 2007)

In September 2006, the Group announced the merger of its Additives and Organic Peroxides BUs, which are active in similar markets, into a single BU, Functional Additives. Effective 1<sup>st</sup> January 2007, this consolidation generates R&D synergy (particularly in nanotechnologies) and help reduce structural costs, generating savings totaling around €5 million.

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

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

PVC additives include impact modifiers, processing aids and heat stabilizers. In the coatings sector, the Group sells products used in flat glass and glass bottles. The group is one of the world's leading companies in each of its main applications. For example the Group ranks second worldwide in the production of tin-based heat stabilizers for PVC<sup>(18)</sup>, and is the leading US manufacturer of impact modifiers<sup>(19)</sup>. In tin-based stabilizers, its main competitors are Rohm & Haas and Chemtura.

Additives are produced in Europe, North America and Asia.

To meet strong growth in Asian construction and packaging markets, and to boost its leading position in this region, the Group announced in September 2007 the doubling of production capacity for PVC heat stabilizers in Beijing (China). This extension will increase capacity to 12,000 tonnes per year, making the Beijing plant the largest in Asia. It is due to come on stream in the first quarter 2008.

Additionally, in order to restore its competitiveness, in November 2007 the Functional Additives BU closed down production of organic peroxides at its Loison-sous-Lens site in France, resulting in a reduction of 57 positions.

In addition, the Group announced in 2007:

- a plan for the future of the Vlissingen site (Netherlands), designed to restore its competitiveness, and entailing primarily the closure of tin derivatives production for agrochemicals, resulting in a reduction of 57 positions;
- the closure of epoxy soya oil manufacture as part of the plan for the future of the Pierre-Bénite plant (see sections 4.5.2 and 17.3.2 of this reference document);
- a plan for the future of the organic peroxide activity at the Crosby site (United States) aimed at improving competitiveness, and resulting in a reduction of 26 positions.

### Urea Formaldehyde Resins activity

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

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

Following this restructuring, the Group sold off its last urea formaldehyde resins plant, at Leuna in Germany, to the Hexion group, as it offered only very limited synergy with the rest of ARKEMA's businesses. The disposal was completed on 1<sup>st</sup> November 2007.

### Agrochemicals (Cerexagri)

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

This sale was completed on 1<sup>st</sup> February 2007.

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

(18) Source: SRI CEH Organometallics, March 2005.

(19) Source: SCUP Plastics Additives, December 2006.



# 5

## Information about the Company

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## 5.1 Information about the Company

### 5.1.1 COMPANY NAME

The Company's name is Arkema.

### 5.1.2 REGISTRATION PLACE AND NUMBER

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

The Company's SIRET number is 445 074 685 00030. Its NAF code is 241L.

### 5.1.3 DATE OF INCORPORATION AND TERM

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

### 5.1.4 REGISTERED OFFICE, LEGAL FORM, AND APPLICABLE LEGAL REGIME

Following a decision dated 13 March 2007, the Board of Directors decided to transfer the Company's registered office from 4-8, Cours Michelet, 92800 Puteaux, to 420 rue d'Estienne-d'Orves, 92705 Colombes from 15 June 2007. This decision was approved at the annual shareholders' general meeting on 5 June 2007.

Registered office: 420, rue d'Estienne d'Orves, 92705 Colombes  
 (since 15 June 2007)  
 Telephone: +33 1 49 00 80 80

The Company is a French *société anonyme* with a Board of Directors governed by the legislative and regulatory provisions of the *Code de commerce*.

### 5.1.5 MAJOR EVENTS IN THE DEVELOPMENT OF ARKEMA'S ACTIVITIES

Please refer to section 4.4 of this reference document.

### 5.1.6 RECENT EVENTS

#### 5.1.6.1 Events between 31 December 2007 and the review of the accounts by the Board of Directors on 4 March 2008

Please refer to note 30 to the consolidated financial statements in section 20.3 of this reference document.

#### 5.1.6.2 Events since the review of the accounts by the Board of Directors on 4 March 2008

The Group announced on 15 April 2008 a plan to reduce greenhouse gas emissions from its Forane® 22 production plant at the Changshu industrial facility in China, by incinerating HFC 23, a by-product of HCFC 22 manufacture.

The project has been registered with the Executive Board of the Clean Development Mechanism, a body of the United Nations Framework Convention on Climate Change (UNFCCC). The incinerator should become operational by mid-2008.

The annual reduction in emissions has been estimated at some 6 million tonnes CO<sub>2</sub> equivalent, including a quota of 3.4 million

tonnes which will be eligible for certified emission reductions (CER, or carbon credits) allocated by UNFCCC, subject to verification by an independent body.

The project is part of the Group's ongoing sustainable development effort, and will result in a reduction of over 60% in its greenhouse gas (GHGs) emissions. Once the incinerator is in service, the Group's global GHG emissions will have been divided by six since 1990, the baseline year of the Kyoto Protocol.



## 5.2 Capital expenditure

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

The Group's capital expenditure (in intangible and tangible assets) amounted to €333 million in 2005, €336 million in 2006 (including Cerexagri), and €325 million in 2007. On average, the Group has therefore invested around €331 million per year. Over this period, capital expenditure has been focused on (i) the maintenance of industrial facilities, safety and environmental protection, accounting for 52% of the total, and (ii) development projects, in the form

of either major projects or productivity improvements in existing facilities, accounting for 48%.

On average, 25% of investments were spent on the Vinyl Products segment, 45% on the Industrial Chemicals segment, and 30% on the Performance Products segment. On average, 77% of these investments were made in Europe, 19% in North America, and 4% in Asia.

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

Year	BU	Description
2005	PMMA	Start-up of a new extruded sheet line at Bernouville (France) as part of the reorganization of the acrylic sheet business
	Thiochemicals	Start-up of new acrolein and MMP (methylthiopropionaldehyde) units at Beaumont (United States)
	Technical Polymers	Start-up of the new EVA unit at Balan (France) following the transfer of production from the unit at Mont (France)
	Functional Additives	Start-up of the new 3,000 tonnes a year organic peroxide unit at Changshu (China)
2006	Acrylics	Debottlenecking of an acrylic acid unit at Carling (France)
	Hydrogen Peroxide	Doubling of capacity for a hydrazine derivative at Lannemezan (France)
		Increase in hydrogen peroxide capacity at Bécancour (Canada)
		Debottlenecking of a production unit at Memphis (United States)
	PMMA	Construction of a new cast sheet line at Saint-Avold (France) following the closure of the site at Leeuwarden (Netherlands)
	Technical Polymers	Capacity increase at the Grafted Orevac <sup>®</sup> unit at Mont in France and at the grinding plant at Nanhui (China)
Chlorine / Caustic Soda	Debottlenecking of VCM production plant at Lavera (France) as part of Vinyl Products segment consolidation plan	
2007	Chlorine / Caustic Soda	Debottlenecking of VCM production plant at Fos-sur-Mer (France) as part of Vinyl Products segment consolidation plan
	Thiochemicals	Increase in DMDS capacity at Lacq-Mourenx (France)
	Fluorochemicals	Startup of new HFC-32 production plant at Calvert City (United States)
	Hydrogen Peroxide	Increase in hydrogen peroxide production capacity at Jarrie (France)
	Technical Polymers	Increase in polyamide ultrafine powder production capacity at Orgasol <sup>®</sup> plant at Mont (France)
		Doubling of high performance polyamide production capacity at Changshu (China)
		Increase in Kynar <sup>®</sup> PVDF production capacity at Calvert City (United States)
Specialty Chemicals	Start-up of new specialty molecular sieve production lines at Inowroclaw (Poland) and Honfleur (France)	

## 5.2.2 DESCRIPTION OF MAIN CURRENT INVESTMENT PROJECTS

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

<b>Chlorine / Caustic Soda</b>	Investment relating to the redeployment of production facilities following the consolidation plan
<b>Hydrogen Peroxide</b>	Doubling of the hydrogen peroxide capacity at the Shanghai plant in China
<b>Fluorochemicals</b>	Construction of HFC 125 production plant at Changshu (China) in partnership with Daikin
<b>Technical Polymers</b>	Optimization and increase in monomer capacity for Rilsan® 11 polyamide at Marseille (France)

Investments are first and foremost financed by the resources built up by the Company in the year. Beyond this, the Company can use the available part of its syndicate credit line for a total of €1.1 billion (see section 10.2 of this reference document). As at 31 December 2007, the amount available from this credit line was €695 million (see note 22.1 of the notes to the consolidated financial statements).

Moreover, in some specific cases, in particular when these are investments carried out as part of joint ventures or in countries in which regulations hinder intra-Group loans, specific loans can be put in place. As at 31 December 2007, long-term bank loans of this nature totalled €61 million.

## 5.2.3 FUTURE INVESTMENTS

The level of investment expected in 2008 is likely to be of the same order as in 2007 (around €340 million). As in the preceding year, a share of the expenditure will relate to the implementation of the consolidation plan in the Vinyl Products business segment, as described in section 4.4 of this reference document. In subsequent

years, ARKEMA considers that investment is likely to be reduced to an average of around €300 million per year from 2009, of which half will be for development and productivity investments. In particular, the Group intends to allocate over €50 million per year on average to its development in Asia.

## Risk factors

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The Group carries out its business activities in a rapidly changing environment, which creates risks for the Group, many of which are beyond its control. The risks and uncertainties described below are not the only ones which the Group faces or will face in the future. Other risks and uncertainties of which the Group is currently unaware or that it deems not to be significant as of the date of this reference document could also adversely affect its business activities, financial situation, results, or future prospects. Risk assessment and management are described in sections 15.7.1.3 and 15.7.1.5 B of this reference document.

## 6.1 Dependence factors

### 6.1.1 DEPENDENCE ON SUPPLIERS

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

In addition, some of the Group's operational units in France (in the chlorochemicals, acrylic acid, oxo-alcohols and functional polyolefins sectors) were built downstream of steamcrackers owned by Total Petrochemicals France (TPF). The level of physical integration of these units with TPF's production capacities is high, and the raw materials delivered by Total S.A. are essential for the operation of the Group's factories in France. The spin-off of ARKEMA from the Total group resulted in the conclusion of long-term supply agreements between

certain entities of Total S.A. and of ARKEMA so as to secure these sources of supply. The main contracts are described in section 22.1 of this reference document.

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

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

### 6.1.2 DEPENDENCE ON CERTAIN CUSTOMERS

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The Group has entered into agreements with certain customers that represent significant financial income. The Group in particular supplies significant quantities of acrylic derivatives to various companies, with the Acrylics and the Specialty Acrylic Polymers BUs deriving substantial sales from these customers. However, none of these sales represented more than 2% of total Group sales in 2007. The Group's business, financial situation, results and future prospects would be adversely affected in a material way if these agreements were to be terminated, were not renewed at the end of their term, or were renewed under less favorable conditions than the

conditions initially agreed upon, or if the supply of acrylic products to the relevant companies were interrupted.

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

### 6.1.3 DEPENDENCE ON CERTAIN TECHNOLOGIES

In its business activities the Group uses a number of technologies under license from third parties. If, for any reason, the Group were no longer able to use these technologies, this could produce an

adverse effect on its business, financial situation, results and future prospects.

## 6.2 Main risks

### 6.2.1 RISKS RELATING TO THE GROUP'S BUSINESS ACTIVITIES

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

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

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

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

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

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

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

To limit the impact of volatility in the prices of its main raw materials and energy sources, the Group may also use derivatives, such as futures, forwards, swaps and options, on both organized and over-the-counter markets. Such instruments are strictly related to existing contracts (see notes 23.5 and 24 of the notes to the financial statements presented in chapter 20 of this reference document).

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

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

Section 22.1.1 also gives details of progress in negotiations between EDF and the Exeltium consortium, of which Arkema France is a member, which will determine the basis on which ARKEMA could purchase part of its electricity requirements after 2010. If, for whatever reason, the parties are unable to conclude these negotiations, the possibility cannot be ruled out that the alternative solutions available to ARKEMA on expiry of the contracts concluded with EDF will result in an increase in electricity prices, which could have an adverse effect on the business, financial situation, results, and future prospects of the Group.

Historically, the thiochemical businesses were developed at the Lacq site in France to take advantage of the abundant supply of hydrogen sulfide available on site. Hydrogen sulfide is a key raw material in thiochemicals and is present in large proportions in the gas produced at Lacq. Due to the upcoming decline in and depletion of the Lacq

gas field, these conditions will disappear by 2013 (as projected today). While, as of the date of this reference document, no detailed study has been conducted to identify solutions that would enable the Group to continue to conduct its thiochemicals businesses under reasonable conditions, the Group cannot rule out the possibility that any potential remedial solutions adopted may not enable it to continue these operations in the future under conditions equivalent to those prevailing today, which could have a material adverse effect on the Group's results and future prospects.

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

Although Total S.A. has retained some pension obligations, the Group has obligations to its employees for pension benefits and other post-employment benefits due upon termination of employment in most countries where it operates (see section 17.4 of this reference document). Projections of the Group's obligations are based on actuarial assumptions and, more particularly, on estimated salaries at retirement age, mortality tables, discount rates, anticipated long-term yields on the invested funds, and rates of increase in compensation levels. If these actuarial assumptions failed to materialize, if new regulations were enacted or if existing regulations were amended or applied differently, the Group's pension, retirement and related obligations (i) would have to be adjusted and its cash position would be favorably or unfavorably affected by the financing of assets allocated to cover such obligations, and (ii) could exceed its related reserves as described in the financial statements included in chapter 20 of this reference document.

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

While as of 31 December 2007 the obligations relating to such benefits were adequately reserved for, the possibility that the Group may be required to allocate additional assets to cover these benefits cannot be ruled out, and this could have a material adverse effect on its results and financial situation.

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

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

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

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

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

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

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

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

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

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

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

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

While the Group owns most of the land on which its facilities are built, some facilities, particularly in France and in Asia, are located on land that belongs to third parties and that the Group occupies under the terms of leases or similar agreements. If these agreements were to be terminated or not renewed or if they were renewed on less

favorable terms than the terms initially agreed, this could adversely affect the Group's business, results, or financial situation.

***The various industries in which the Group is active are exposed to variations of supply and demand, which could have a material adverse effect on its results and financial situation.***

The Group's results could be directly or indirectly affected by variations of supply and demand in the various industries in which it operates.

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

***The Group faces intense competition.***

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

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

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

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

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

***The Group is dependent on the development of new products and processes.***

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

To remain competitive in the highly competitive chemical industry, the Group must dedicate substantial funds to R&D each year for the development of new products and processes. Even if its R&D efforts are successful, the Group's competitors could develop more effective products or successfully introduce a larger number of products on

the market. The Group spends approximately 3% of its revenues on R&D. Ongoing expenditure dedicated to launching new products or to research and development of future products could lead to higher than expected costs without producing a proportional increase in the Group's revenues.

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

***Some Group companies are exposed to risks relating to operations conducted through joint ventures in which they do not hold an exclusive controlling interest.***

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

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

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

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

The pacts or agreements relating to joint ventures are described in chapter 22 of this reference document for those that the Group considers significant.

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

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

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

The Group owns or uses a limited number of pipelines, some of which belong to third parties, for carrying supplies of raw materials. Despite the security measures that the Group has adopted for the operation of these pipelines (see section 8.2.1.1 of this reference document),

the possibility of an accident can never be ruled out. In addition to the environmental impact, such an accident would negatively affect the Group's raw materials supplies and could consequently produce

a material adverse effect on its business, financial situation, results and future prospects.

## 6.2.2 INDUSTRIAL AND ENVIRONMENTAL RISKS

### 6.2.2.1 Risks relating to environmental regulations

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

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

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

Examples include European regulation n° 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation and Authorization of Chemicals (or REACH), which came into force on 1<sup>st</sup> June 2007 (see section 8.2.2.3 of this reference document). Similarly, the transposition into French law, due in 2008, of Directive 2004/35/CE of 21 April 2004 relating to environmental liability with regard to the prevention and remedying of environmental damage, could lead to an upsurge in grounds for remedy invoked against industrial operators.

If existing regulations were to be amended to become more restrictive for the Group or if new regulations were adopted, this could (i) compel the Group to significantly scale back on production and marketing of certain products, or, possibly, discontinue production and marketing altogether, or shut down, temporarily or permanently, certain production units; (ii) restrict the Group's ability to alter or expand its facilities, to modify certain production processes or to continue production; and (iii) possibly compel it to abandon certain markets, to incur significant expenditure to produce substitute substances, to institute costly emissions control or reduction systems, or, more generally, to incur significant new expenditures, in particular

for remediation of existing sites. The resulting consequences and costs for the Group cannot be accurately estimated due to existing uncertainties over the content of such regulations, their implementation dates, or the allocation of costs among the various industry players.

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

### 6.2.2.2 Environmental and industrial safety risks

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

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

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

While the Group has secured insurance policies to cover civil liability and environmental risks from leading insurance companies (see section 6.3 of this reference document), should claims arise involving the Group's businesses or products, the possibility that it may be held liable for amounts exceeding the coverage ceilings or for uninsured events cannot be ruled out. Furthermore, any accident, whether it occurs at a production site or during the transport or use



of products made by the Group, may result in production delays or claims for compensation, particularly contractual claims, or product liability claims.

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

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

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

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

### ***Sites currently in operation***

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

the Nanterre correctional court. These proceedings are currently under preliminary investigation.

### ***Sites where operations have ceased***

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

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

### **6.2.2.3 Risks relating to exposure to hazardous or toxic substances**

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

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

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

Third party actions relating to asbestos are described in section 6.4.2.4 of this reference document.

Employees of the Group or its service providers or customers or persons living near the Group's manufacturing facilities are exposed or have in the past been exposed to certain substances that are currently considered not to be hazardous. However, chronic toxicity, even in very low concentrations or exposure doses, could

be discovered in the future. This could lead to claims against the Group and could adversely affect its business, results and financial situation.

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

#### 6.2.2.4 Risks relating to transport

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

transportation ties with other manufacturers. If this were to occur, it could adversely affect the Group's business, results and financial situation.

#### 6.2.2.5 Risks relating to storage

The Group uses many storage areas and warehouses located on its manufacturing sites and elsewhere. Such storage facilities may present risks to the environment or to public health and safety. Accidents for which the Group may be held liable could arise in the storage and warehousing centers used by the Group. If this were to occur, it could adversely affect the Group's business, results and financial situation.

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

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

### 6.2.3 TAX RISKS

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

Furthermore, the Group enjoys special tax treatment in some countries, such as reduced tax rates under certain conditions and

for limited periods of time. If such special tax treatment were to be withdrawn, amended or not renewed, this could adversely affect the Group's financial situation and results.

## 6.2.4 MARKET RISKS

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

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

### 6.2.4.1 Liquidity risk

The Group has a variable-rate credit facility for a maximum of (i) €1.1 billion expiring 31 March 2011, (ii) €1,094 millions expiring 31 March 2012 and (iii) €1,049 millions expiring 31 March 2013, the terms of which, and particularly the early repayment clauses, are described in section 10.2 of this reference document. If the banks were to accelerate the amounts due under the terms of this facility, this would result in a material adverse effect on the Group's financial situation, and would also make it extremely difficult to obtain new financing on equivalent terms. Moreover, the possibility cannot be ruled out that the refinancing of this facility will be difficult, or that when the Group comes to refinance this facility the conditions of new financing available to the Group will not be as favorable as those available to it under the existing facility.

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

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

- limit the Group's capacity to incur more debt in the future, given the undertakings contained in the loan agreements that Group companies have entered into.

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

The net debt of the Group at 31 December 2007 amounted to €459 million. The credit available at this date under the terms of this facility amounted to €695 million. This net debt corresponds to 0.9 times the consolidated EBITDA for the period ending 31 December 2007. The Group credit line allows a ratio of consolidated net debt to consolidated EBITDA of less than 3.

### 6.2.4.2 Currency risk

A significant part of the Group's assets, liabilities, revenues and expenses is denominated in currencies other than the euro, primarily the US dollar and, to a lesser extent, other currencies including the Japanese yen, the pound sterling, the Chinese yuan and the Canadian dollar, while its consolidated accounts are in euro. Fluctuations in these currencies, particularly the US dollar, against the euro have in the past and may in the future materially affect the Group's financial situation and its operating results. For an indication of the impact on sales of the conversion effect of the US dollar to the euro, please refer to section 9.2.4 of this reference document.

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

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

At 31 December 2007, the Group's balance sheet exposure to trading currencies other than euro was the following:

Group exposure to currency risk <i>In billions of euros</i>	USD	JPY	Other currencies
Trade accounts receivable	0.27	0.02	0.07
Trade accounts payable	(0.17)	(0.01)	(0.05)
Bank balances and loans/ borrowings	0.02	0.00	(0.02)
Off-balance sheet commitments (currency hedging contracts)	0.27	(0.03)	0.00
<b>Net exposure *</b>	<b>0.39</b>	<b>(0.02)</b>	<b>0.00</b>

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

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

As the assets and liabilities in the currencies of Group companies are covered compared to their respective functional currencies, variations in exchanges rates produce no material change in the income statement.

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

### 6.2.4.3 Interest rate risk

At 31 December 2007 the Group's net debt was €459 million which included drawing of €405 million against the variable rate €1.1 billion credit line available to the Group, details of which are given in section 10.2 of this reference document.

Based on the above, a 1% increase in interest rates would lead to an annual increase of €5 million in the cost of net debt, before taxes.

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

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

<i>In millions of euros</i>	DD to 1 year	1 to 5 years	> 5 years
Financial liabilities	(486)	(12)	(19)
Financial assets	58	-	-
Net position before hedging	(428)	(12)	(19)
Off balance sheet	-	-	-
<b>Net position after hedging</b>	<b>(428)</b>	<b>(12)</b>	<b>(19)</b>

### 6.2.4.4 Listed shares risk

Outside company shares, the Group's companies do not own any shares in listed companies at the date of this reference document, and, as such, are not exposed to market risk from listed shares.

On 31 March 2008, the Company owned 300,830 shares. These shares are allocated for the purpose of covering Company's free share allocations to employees and executive officers. A 10% variation of ARKEMA's share price would have an impact of around €1 million. This impact need not been taken into account into the Group's consolidated shareholders' equity in accordance with IAS 32 norm.

### 6.2.4.5 Counterpart risk

Please refer to note 23.4 of the consolidated financial statements featured in section 20.3 of this reference document.

## 6.2.5 LEGAL RISKS

In the normal course of its business activities, the Group is a party or may become a party to judicial and administrative proceedings. The most significant current and potential legal proceedings are detailed in section 6.4 of this reference document. In some of these proceedings, claims for substantial monetary damages have been or may be filed against one of the Group's entities. The provisions that the Group has booked for these cases may prove to be insufficient and this could have material adverse effects on its business, financial situation, results or future prospects.

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

Furthermore, certain contractual commitments and indemnities, in particular the antitrust indemnities, terminate upon the occurrence

of certain events, such as (i) a change of control of Arkema S.A. or (ii) a breach by the Group of its contractual obligations. Should these events occur, this could produce material adverse effects on the Group's results, financial situation and future prospects.

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

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

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

## 6.2.6 RISKS RELATING TO THE "ARKEMA" TRADEMARK

In using the name "ARKEMA" as a corporate name and in filing that name as trademark on a worldwide basis, the Group may encounter difficulties in Spain. Indeed two administrative opposition proceedings have been filed by a Spanish company against certain

trademarks; the possibility that the Group may in the future encounter difficulties in registering and using the name "ARKEMA" in Spain cannot be ruled out. This could adversely affect the Group's business, financial situation and results.

## 6.2.7 RISKS RELATING TO INSURANCE POLICIES

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

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

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

Insurers providing insurance cover as part of the Group's insurance program may (under certain conditions deemed customary for this type of insurance contracts) prematurely terminate the Group's insurance policies in the event of a major claim. In such an event, the Group will nevertheless remain covered throughout the notice period, which may vary from policy to policy.

## 6.3 Insurance

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

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

In the 2007 financial year, the total amount of premiums paid by the Group and relating to the Group's insurance policies presented hereafter, was less than 1% of its sales.

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

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

### 6.3.1 LIABILITY

The Group has contracted liability insurance policies with leading insurance companies. The liability insurance policies (subject to applicable exclusions) cover the Group throughout the world against the financial consequences of liability claims in the context

of its business activities and in respect of physical, material or pure economic damages or losses caused to third parties. This program provides cover of up to €700 million. Deductibles vary, particularly as a function of the location of subsidiaries.

### 6.3.2 PROPERTY DAMAGE

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

The cover includes a "direct damage" element and a "business interruption operating losses" element (including sub-limits for

machine breakdowns, natural disasters or terrorism) with the period of indemnification for the latter extending to a minimum of 24 months. Deductibles accepted vary according to the size of the subsidiary concerned.

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

### 6.3.3 CARGO

The Group is insured against the risk of damage to its assets, equipment, finished or semi-finished products and raw materials during transportation or storage by third parties up to a limit of €10 million per shipment. This limit is higher than the value of

the largest shipments made or received by the Group. The policy includes a deductible and several exclusions usual for this kind of agreement.

### 6.3.4 ENVIRONMENTAL RISKS

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

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

## 6.4 Litigation

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

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

rules described in the "accounting principles and methods" chapter of the financial statements. A review of legal risks and other risks that the Group could face is also carried out by the Risk Review Committee (please refer to section 15.7.1.3 of this reference document).

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

### 6.4.1 CLAIMS RELATING TO ANTITRUST LAWS

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

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

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

Based on its analysis of the cases, and taking into account the indemnities granted by Total S.A. and described in section 22.2 of this reference document, the Group has booked provisions in respect of these proceedings of €31 million (at 31 December 2007), of which €18.3 million have been deposited with the European Commission. Arkema France has filed appeals with the European Court of First Instance in respect of all these procedures.

#### Proceedings carried out by the European Commission

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

These cases are at different stages.

Following decisions taken by the European Commission in 2005 and 2006, Arkema France was sentenced, in part jointly and severally with Total S.A. and Elf Aquitaine, to pay the following fines:

- ▶ "mono-chloroacetic acid" case: €58.5 million;
- ▶ "hydrogen peroxide" case: €78.7 million; and
- ▶ "methacrylates" case: €219.1 million.

Appeals have been filed with the European Court of First Instance against these decisions. The corresponding cases are still ongoing at the date of this reference document.

Among other cases under investigation, the European Commission sent to Arkema France and Elf Aquitaine on 27 July 2007 a statement of objections relating to alleged breaches of EU competition law involving “sodium chlorate”, following on from a case launched in October 2004.

The Commission is expected to give its ruling in the course of 2008.

As regards the “heat stabilizers” case for which investigations began in February 2003, the European Commission’s enquiries are ongoing, and this case is likely to proceed further in the course of 2008.

Regarding the “impact modifiers”, “solvents” and “plasticizers and alcohols” investigations launched in February and March 2003, the European Commission made known in 2007 its decision not to pursue the investigation it launched in 2003.

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

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

Basell Polyoléfine started proceedings in Germany in late 2006, claiming alleged damages of €0.6 million. The case should be resolved in 2008.

## Proceedings in the United States and Canada

In the United States, Arkema Inc. has received subpoenas from the United States Department of Justice (the DOJ) in connection with the DOJ’s investigation into alleged violations of United States antitrust laws in the hydrogen peroxide sector. In Canada, preliminary contacts with the Canadian competition authorities, which took place in the area of monochloroacetic acid (MCAA) in 2001, do not appear to have resulted in any further official investigations.

Arkema France and/or Arkema Inc. have also been named in civil suits claiming alleged violations of United States antitrust laws in the following sectors: plastic additives, hydrogen peroxide, methyl methacrylate (MMA) and polymethyl methacrylate (“PMMA”). Civil suits relating to hydrogen peroxide, MMA and PMMA are also underway in Canada.

### a. DOJ investigations

➤ Arkema Inc. has responded to the DOJ subpoenas relating to the hydrogen peroxide sector by producing documents responsive to the subpoena. As at the date of this reference document,

Arkema Inc. has not been indicted or charged in connection with this investigation.

➤ Furthermore, the criminal investigations initiated by both the U.S. and Canadian competition authorities in the plastic additives sector were closed by these authorities during 2006; and the criminal investigation initiated by the DOJ in the PMMA sector was closed on November 2007.

### b. Civil actions

➤ Direct purchasers of products allegedly marketed by Arkema France and/or Arkema Inc. have commenced putative class actions against Arkema France and/or Arkema Inc. seeking damages for alleged violations of US competition law in the plastic additives, hydrogen peroxide, MMA and PMMA sectors. These putative class actions are pending in federal court in the United States. Trial courts have certified classes of direct purchasers in the hydrogen peroxide matter and in the plastics additives matter. The appeals court, however, has granted Arkema’s petitions for appellate review of the propriety of the class certifications in each of those matters.

➤ A direct purchaser of plastics additives and several direct purchasers of hydrogen peroxide have also brought individual actions against Arkema Inc. and Arkema France, alleging violation of federal US antitrust laws. The plastics additives direct purchaser case has been settled by Arkema Inc. and Arkema France. The direct purchaser cases involving hydrogen peroxide are also pending in federal court in the United States.

➤ Indirect purchasers of hydrogen peroxide, and of plastics additives, respectively, have brought putative class actions against Arkema Inc. alleging violation of state competition laws. Indirect purchasers of MMA and PMMA have filed putative class actions against both Arkema Inc. and Arkema France, also alleging violations of state competition laws. These cases are also pending in federal court in the United States. The putative class action by indirect purchasers of plastics additives has been stayed pending the outcome of Arkema’s appeal of the trial court’s class certification decision. As at the date of this reference document, no class of indirect purchasers has been certified in the hydrogen peroxide, plastics additives or the MMA/PMMA matters.

➤ In Canada, a number of civil actions alleging violations of Canadian competition laws concerning hydrogen peroxide products were filed in Québec, Ontario and British Columbia in 2005 and 2006. As at the date of this reference document, no class has been certified by the courts. A number of civil actions concerning MMA and PMMA were filed in Québec and in Ontario in 2006. As at the date of this reference document, no class has been certified by the courts.



Arkema France is currently involved in various investigations being carried out by the European Commission concerning several other products. At the present time, the Group is not aware of any DOJ investigation other than that described above, nor is it the subject of any civil claim in the United States in relation to products other than plastics additives, hydrogen peroxide, MMA and PMMA. It is, however, possible that certain matters addressed in a statement of objections on the part of the European Commission could also be the subject of proceedings in the United States in the future.

As has been indicated above, Arkema France and Arkema Inc. have not been indicted or served with subject or target letters in connection

with the United States DOJ's ongoing criminal investigation of the hydrogen peroxide sector. It is difficult to quantify the possible exposure with respect to the pending civil cases. Consequently, it is difficult to assess with certainty the quantum of the risk to which the Group could be exposed as a result of the pending civil cases in the United States and Canada. Nonetheless, in light of prior settlements of civil and criminal matters involving alleged international cartels, the Group considers the potential risk as a result of these proceedings to be significant.

## 6.4.2 OTHER LITIGATION

### 6.4.2.1 Arkema France

- ▶ In 1995, the company Gasco brought a claim for damages against Elf Atochem (the former name of Arkema France) before the court in Ghent (Belgium) in respect of an alleged breach of contract and breach of an exclusivity agreement. At first instance, Gasco obtained a judgment against Atofina for payment of €248,000 by way of damages for breach of contract (payment of that sum has been made), but its claim for breach of the exclusivity agreement was dismissed. Appeal proceedings are pending before the Ghent Court of Appeal. Gasco is asking for the judgment to be reversed insofar as it dismissed the claim for breach of the exclusivity agreement. As a result, it has put forward a claim for €24 million which the Group considers to be without foundation and which it is challenging both in principle and in its amount. Having regard to the weak basis of the allegations made against it and the defenses available to the Group, the Group's view as at the date of this reference document and as the matter currently stands, is that the amount of the provision made for this matter in the accounts is sufficient.
- ▶ Arkema France supplies various products for the coating of items used in a number of European countries in the manufacture of sanitary treatment facilities. These products are subject to inspection on the part of approved laboratories which must certify their conformity with the applicable sanitary regulations. Arkema France has a dispute with a French laboratory and has initiated discussions with the authorities as to the interpretation of the regulations applicable in France as regards regulatory clearance in France of a product even though it is approved in other European Union countries. The Group takes the view that this problem is

essentially administrative in nature. However, the possibility that users might seek to attach liability to Arkema France as the supplier cannot be ruled out. In the event that such claims were successful, the costs of replacement of the products and the damages that could be claimed could prove to be extremely high.

- ▶ In 2005 and 2006, 279 employees and 60 former employees of two Arkema France facilities (Pierre-Bénite and La Chambre – France) brought a claim for damages before the Lyon and Albertville industrial tribunals (*Conseils de prud' hommes*) for alleged breach of the provisions of the collective chemical industry agreement. The provisions of this agreement give workers, technicians and supervisors working continuous or semi-continuous shifts of more than six hours, a thirty-minute break during which they need not do any work. The claimants' view is that the management of those two establishments organized and arranged the break in such a way that employees were not completely free of any work so as to be able to deal with personal matters. They claim that they suffered loss-justifying compensation as a result. The amount of the claims is €6.35 million. Arkema France is contesting the claims. The Albertville Industrial Tribunal rejected the claim from employees at La Chambre in a ruling handed down on 8 November 2006. No employee has appealed this decision. As regards the Pierre-Bénite employees, the case has been referred to an arbitrator in light of the tied ruling handed down by the Lyon industrial tribunal (*Conseil de prud' hommes*) on 19 January 2007. A further hearing is scheduled for 27 March 2008. Provision has been made for this dispute in an amount that the Group considers sufficient.
- ▶ Claims relating to asbestos are discussed in detail in section 6.2.2.3 of this reference document.

### 6.4.2.2 CECA

In 1999, the company Intradis commissioned the company Antéa to carry out a survey on a site situated in France which had been used for industrial purposes and in particular by CECA (manufacture of sulfuric acid) and the company Hydro Agri (a fertilizer factory which does not belong to the Group). The survey noted pollution of the soil and water on the site, as well as the existence of pyrites in the open air, and classified the site as category 1 (a site requiring in-depth investigations and a detailed risk assessment). Following this survey, the prefect issued an order prescribing the company Intradis, as the site's owner, to take measures to protect the site by prohibiting access thereto. Intradis then made an application to have an expert urgently appointed to determine the nature and extent of the pollution affecting the site and to be able to establish the liability of CECA and Hydro Agri, the owners and operators of the site before its acquisition by Intradis. Following the expert's report, Intradis referred the case to the Administrative Court (*Tribunal administratif*) requesting the repeal of the prefect's order prescribing measures to protect the site. Intradis' claim was rejected in the first instance by the Administrative Court of Amiens (*Tribunal administratif d'Amiens*) on 6 July 2006. Intradis has appealed this decision before the Administrative Court of Appeal of Douai (*cour administrative d'appel de Douai*). In an order issued on 18 October 2007, the tribunal reversed the ruling, revoked the prefect's order, and decided that there were no grounds for ruling on Intradis' conclusions calling CECA into question.

In the absence of a quantified claim, no provision has been made for this dispute in the accounts of the Group as at the date of this reference document.

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

### 6.4.2.3 Alphacan

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

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

- reduction of the purchase price of the site at Roncq by an amount to be determined in an expert's report;
- payment of the cost of construction of the retention reservoir;
- payment of the liabilities of the company Novoplastic Nord, in compulsory liquidation;

- payment for the loss of value of the shareholding of Financière Christian Blanc in the company Novoplastic: in this respect an application is made for a provisional payment of €500,000 and the appointment of an expert; and
- payment of Novoplastic S.A.'s loss of claim against the company Novoplastic Nord and miscellaneous damage (commercial – moral). In this respect an application is made for a provisional payment of €500,000 and the appointment of an expert.

Overall, these claims, which are contested by Alphacan, amount to €5.8 million. An order was made by the Versailles commercial court (*Tribunal de commerce de Versailles*) for the preparation of an expert's report. The expert presented his report on 18 December 2007. On the basis of all this information, the Group considers that, as the matter stands, the amount of the provision provided in the accounts as at the date of this reference document is sufficient.

### 6.4.2.4 Arkema Inc.

- Norit Americas, Inc. (Norit) acquired an active carbon production unit from Arkema Inc., located in Pryor (Oklahoma, United States). Initially, Norit made a claim against Arkema Inc. for an indemnity, alleging breach by Arkema Inc. of the provisions of the Clean Air Act on that site. Norit has in fact been served with a violation notice by the Oklahoma Department of Environmental Quality, relating to emissions of particles of sulphur dioxide, particulate matter and nitrogen oxide. While contesting that the offences have been committed, Norit has sought indemnification from Arkema for any injunctive relief required, and for any fines which might arise in these proceedings. The parties have entered into a standstill agreement upon the expiry of which they will continue to proceed with their respective claims. Arkema Inc.'s claim is for the payment of the balance of the price of the production unit yet to be paid by Norit, and Norit's claims are for indemnities in respect of environmental matters. Provisions have been made in the Group's accounts for this litigation, in amounts which the Group considers to be sufficient.
- The past production activities on the site at Calvert City (Kentucky, United States) have caused pollution of the soil and groundwater and of the Tennessee River. Analyses and decontamination work on the site have been ongoing for a certain number of years and will continue in the future. Arkema Inc. continues to evaluate the impacts on the site and to negotiate reasonable decontamination obligations with the government authorities. A provision has been booked that the Group considers to be sufficient in the light of the information available to it.
- In the United States, the Group is currently involved in a substantial number of proceedings in various courts. These proceedings concern claims by third parties relating to (i) alleged exposure to asbestos on the Group's sites, or (ii) exposure to products containing asbestos and sold by former subsidiaries of the Group in the United States and elsewhere. When they are not covered by insurance policies, provisions have been made for these proceedings in an amount which the Group considers sufficient.

However, due to the continuing uncertainties as to the outcome of these proceedings, the Group is not, as at the date of this reference document, in a position having regard to the information available to it, to estimate the total amount of the claims that might finally be upheld against it by the various competent courts after the exhaustion of any avenues of appeal.

- ▶ The American tax authorities had been conducting both a civil and a criminal audit of certain affiliates of TOTAL S.A., including Arkema Inc., with respect to the non-issuance of W-2S to certain “inpatriated” foreign employees and the non-declaration of certain compensation related to stock option or share purchase plans. In May 2007, the tax authority closed the criminal investigation. Since then, Arkema Inc. has received an additional information request regarding the civil audit. To date, no estimate enabling a provision to be recognized can be reasonably made.
- ▶ Arkema Inc. is being sued in Texas state court by the family of an employee of a transportation company, who died during the delivery of an odorized product in May 2004. The case is in progress (discovery procedure). To date, no estimate enabling a provision to be recognized can be reasonably made.
- ▶ Arkema Inc. has been served with a Corrective Action Order issued by the US Environmental Protection Agency in relation to the site of the factory at Riverview (which includes the site at West Brine Field) and the former site at Wyandotte (United States), both of them being formerly owned by Arkema Inc. The order requires a Remedial Facility Investigation, a survey of corrective measures and the implementation of those measures on the said sites. Analysis of the remediation options has been ongoing for

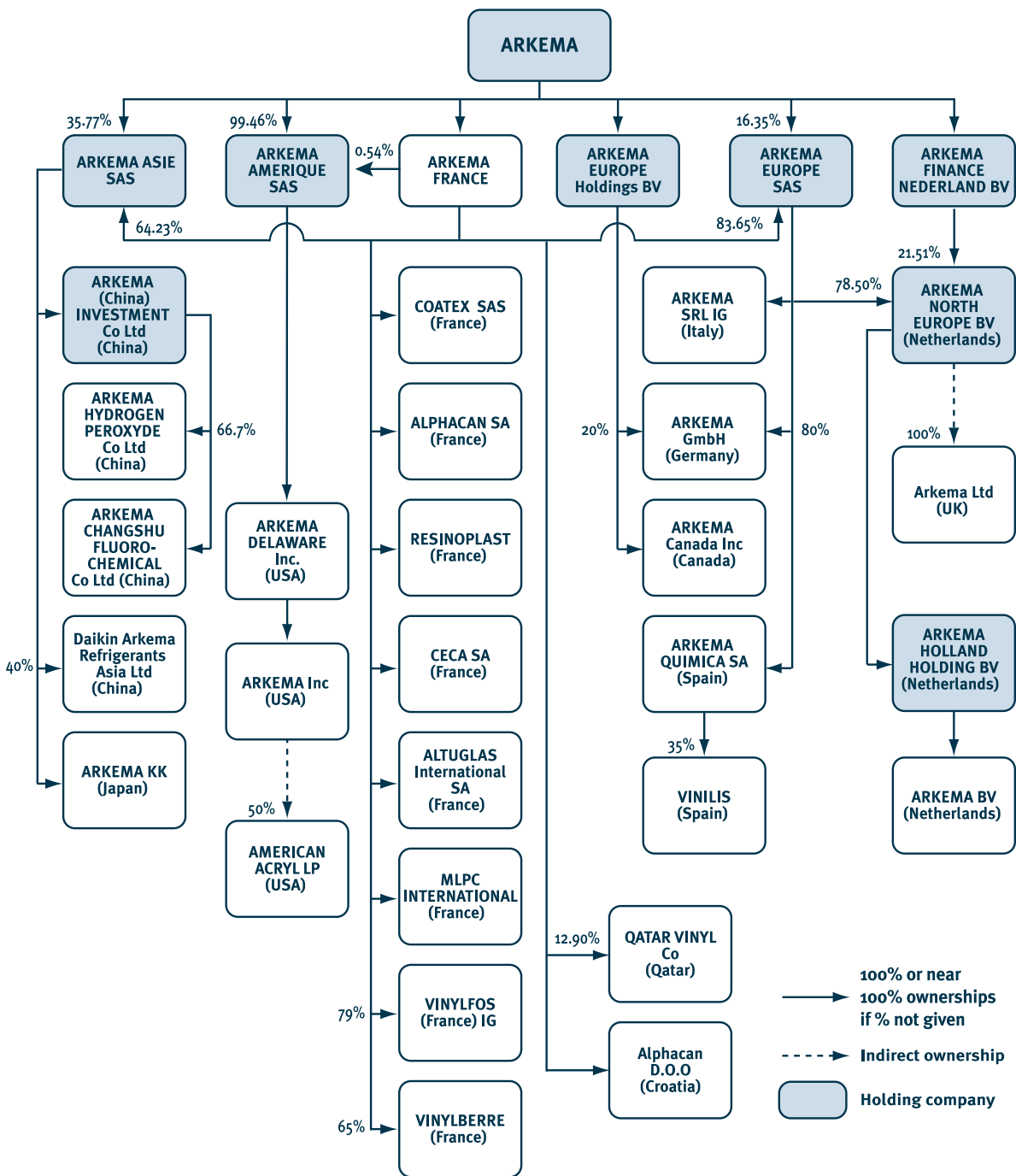
several years. Recently, Arkema Inc. has received an additional order which relates more specifically to an analysis of sediments in the Trenton canal of the Detroit River alongside the Wyandotte site. Depending on the results of this analysis, the costs involved in certain contaminations of the Wyandotte site will be divided between Arkema Inc. and other local industries which might potentially be implicated in any pollution of the sediments. As matters stand, it is difficult to determine what will be required from Arkema Inc. in relation to contaminated sediments in the Trenton canal and to estimate the associated costs. The costs associated with the closed site at Wyandotte and the impact on the Detroit River coming from the Wyandotte site have been assumed by the company Legacy Sites Services LLC, a subsidiary of Total S.A., under the environmental indemnity agreement described in section 22.2 of this reference document. The costs associated with the Riverview site, including any related impacts on the Detroit River, which are the subject of a provision in the Group’s accounts, remain payable by ARKEMA.

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



## Simplified legal organization chart

The following organization chart features the main direct and indirect subsidiaries of Arkema S.A. at the date of this reference document.





## Property, plant and equipment

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## 8.1 Property, plant and equipment

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

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

The net book value of the Group's tangible fixed assets at 31 December 2007 was €1.525 billion. It includes transportation equipment and pipelines owned by the Group.

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

Environmental information is given primarily in sections 6.2.2.1, 6.2.2.2, 6.3.4 and 8.2 of this reference document. For a description of environmental issues which could affect the use made by the Group

of its tangible assets, reference should be made to the sections referred to above.

## 8.2 Environment and industrial safety

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

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

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

Accordingly, the Group is a subscriber to the Responsible Care® initiative, a voluntary commitment by the world's chemical industries to improve safety as well as the protection of health and the environment, which is defined by the International Council of Chemical Associations (ICCA) at world level, by the European Chemical Industry Council (CEFIC) at European level, and taken up by the majority of national federations, in particular by the *Union des industries chimiques* (UIC) in France. In 2006 the ICCA launched the Responsible Care® Global Charter, to enhance the provisions of Responsible Care®, by strengthening sustainable development, product stewardship, and third-party audit of procedures. On 16 November 2006 the Company signed a declaration of support for the Responsible Care® Global Charter.



## 8.2.1 INDUSTRIAL SAFETY

The Group's industrial safety policies are grouped together under the title "Safety in Action" and aim to foster a culture of safety. This

policy is implemented worldwide and over the years has produced a steady improvement in industrial safety performance.

The table below shows the occupational accident frequency rate in number of accidents per million man-hours (excluding Coatex) for 2005, 2006 and 2007.

	2005	2006	2007
Lost-time accidents *	5.3	3.6	2.4
Total recordable accidents	11.3	8.4	7.1

\* "Lost-time accident" refers to any event causing bodily injury or psychological shock to an employee in the course of his/her duties and resulting in time off work.

### 8.2.1.1 Controlling industrial risks

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

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

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

At the time of the design of a new production unit or when a significant extension to an existing production unit is made, the best options for improving industrial safety are sought. In addition, the Group regularly makes improvements to its existing production units. Thus the Group's investments allocated to safety and environment and to maintaining the plants up to standard totaled €157 million in 2007.

#### Production sites

In Europe, at the date of this reference documents, 37 of the Group's production sites are monitored with extra vigilance, and are subject to European directive (EC) n° 96/82, dated 9 December 1996, that deals with the control of major accidents hazards involving hazardous substances, and called the "Seveso II directive". This directive

requires, in particular, the introduction of safety management systems and the regular updating of risk assessment surveys, whose conclusions can lead to additional risk-prevention requirements for the companies operating the sites.

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

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

#### Storage sites and warehouses

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

Risks relating to these storage sites and warehouses are described in section 6.2.2.5 of this reference document.

### The transport of hazardous products

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

The risks relating to the transport of hazardous products are described in section 6.2.2.4 of this reference document.

### Pipelines

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

### 8.2.1.2 Safety management processes

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

The so-called “high threshold” Seveso sites (European directive (EC) n° 96/82 of 9 December 1996) or their equivalent outside Europe are subject to greater safety requirements.

The Group lends much importance to feedback on incidents and accidents and on good practice, at Group level, from contractors operating on its sites, and from outside companies.

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

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

A monthly report describing the highlights and commenting on the trends in safety indicators such as the number of occupational accidents is distributed worldwide across a network of Group correspondents.

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

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

### 8.2.1.3 Preparation for and management of emergency situations

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

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

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

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

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

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

## 8.2.2 ENVIRONMENTAL PROTECTION

The Group has voluntarily launched a number of programs to reduce its atmospheric emissions, production of waste, discharge of wastewater, and energy consumption. To meet its regulatory obligations and environmental responsibilities, the Group has implemented an environmental management system and participates in the Responsible Care® program. The Group's environmental policy as a whole is implemented across the world, by every Group subsidiary and in every country in which the Group operates.

### 8.2.2.1 Reducing environmental impact

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

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

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

European directive (EC) n° 2003/87 established a greenhouse gas trading system within the European Union. Under this scheme the Group was allocated annual allowances of 779 kT for 2008 to 2012, readjusted to 731 kT in June 2007 to take into account the Mont and Villers Saint-Paul plants being withdrawn from the scope of the National Allocation Plan. The Group does not expect that it will need to make significant purchases of additional CO<sub>2</sub> allowances.

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

### Environmental indicators

The tables hereafter show the levels of emissions and volumes of hazardous and non-hazardous discharges produced by the Group's businesses (excluding Coatex) in 2005, 2006 and 2007.

Emissions to air	2005	2006	2007
Volatile organic compounds (VOCs) (tonnes)	8,710	6,890	6,269
All substances contributing to acidification (t eq SO <sub>2</sub> )	7,342	8,330	7,269
Greenhouse gases (kt eq CO <sub>2</sub> )	8,305	9,580	9,392
including CO <sub>2</sub>	2,042	1,796	1,611
including HFC	6,211	7,729	7,726
Dust (tonnes)	337	474	513
Carbon monoxide (CO) (tonnes)	9,425	9,230	9,277

Emissions to water	2005	2006	2007
Chemical Oxygen Demand (COD) (tonnes of O <sub>2</sub> )	4,079	4,030	3,689
Suspended solids (tonnes)	5,954	6,675	6,127

Waste in tonnes per year	2005	2006	2007
Hazardous waste excluding material recovery	160,558	200,710	198,670
including landfill disposal	2,795	9,479	8,419
Non-hazardous waste	87,459	91,686	84,281

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

Source of 2006 and 2007 data: 2006 and 2007 data for the VOC, GHG and COD environmental indicators were audited by Bureau Veritas Certification.

### 8.2.2.2 Controlling soil and groundwater pollution

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

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

#### Restoring sites

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

The Group has a large number of sites, some of which may be polluted given the length of time they have been operated and the diversity

of the activities that they house or used to house. The Group has therefore been developing a scheme for several years to identify and evaluate the environmental condition of its active industrial sites. The final closure of a site generally entails an obligation on the operator to restore the site prior to closure to a state that no longer presents any danger or harm to the environment. In France, in addition to this obligation and to the need to notify the authorities that operations are ceasing, there is a requirement to take into account the future use of the site when defining and carrying out the restoration work. Unless an agreement is met with the interested parties (in particular the local municipality concerned), the operating company may face higher restoration costs if the site is earmarked for a so-called "sensitive" use (redevelopment with a view to building offices or housing, for example). The amount of provisions for environmental risks at 31 December 2007 is given in note 20.3 in the notes to the consolidated financial statements.

Within the framework of service contracts and guarantees, some of Total S.A.'s subsidiaries assume certain responsibilities on a number of sites in France, Belgium and the United States, most of which have ceased operations. The conditions under which these responsibilities will be assumed are described in section 22.2 of this reference document. Please also refer to section 6.2.2.2 of this reference document.

### 8.2.2.3 Managing products responsibly (Product Stewardship)

The Group ensures that it markets products that do not, over their life cycle, harm human health or safety, or the environment.

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

In accordance with applicable regulations, a safety data sheet is regularly updated for each of the Group's products and sent out to customers. In addition, groups of regulatory experts employed

by the Group are in permanent contact with their toxicologist and ecotoxicologist colleagues, as well as with a worldwide network of correspondents on the industrial sites and in the BUs.

In Europe, regulations governing chemical products have been significantly reworked through the introduction of European regulation n° 1907/2006 of the European Parliament and the Council on 18 December 2006, concerning the Registration, Evaluation and Authorization of Chemicals (REACH). This regulation came into force on 1 June 2007.

This new regulation will oblige all manufacturers and importers of chemicals in Europe to file a complex registration file for each substance of which more than a tonne is produced per year. Each file will then be the subject of an evaluation by the relevant authorities. An authorization procedure will be required for substances of very high concern, namely those in the following categories: CMR (carcinogenic, mutagenic and reprotoxic), PBT (persistent, bioaccumulative and toxic) and vPvB (very persistent and very bioaccumulative). The Group has been preparing for the introduction of these new rules for a number of years, and expects to pre-register (prior to the 30 November 2008 mandatory deadline) and then register 430 substances (of which 35 to 40 are potentially subject to authorization). The Group estimates that compliance with this new regulation will cost it around €60 million over 12 years.

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

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

On 25 January 2006, the EPA wrote to certain manufacturers using PFOA and similar substances to ask them to commit to a program of

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

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

#### 8.2.2.4 Managing and preventing environmental risks

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

The environmental management system requires each of the Group's industrial sites to identify its impact on the environment (water, air including greenhouse gases, waste, noise, odors and soil) and set out the priorities which constitute their action plan. The periodical environmental analysis of sites allows measurement of the progress to date, and definition of new improvement objectives. Each site rigorously monitors its discharges, emissions (including CO<sub>2</sub> and greenhouse gas emissions), and waste. All this environmental data is collected and consolidated at the Group's head office and is published annually as part of the report on sustainable development.

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

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

## 8.2.3 HEALTH AND SAFETY

### 8.2.3.1 Promoting health and safety is a constant concern

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

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

The Group also conducts training in these areas and develops procedures aimed at ensuring safety at its sites.

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

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

### 8.2.3.2 Occupational illness

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

In this respect, like most industrial companies, in the past, the Group has used a variety of insulating or heat-proofing materials containing asbestos in its production facilities. Consequently, certain

employees may have been exposed to such materials before these were gradually phased out and replaced with substitute products.

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

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

The risks relating to occupational illness are described in section 6.2.2.3 of this reference document.

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

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

In this area, on 30 June 2003, Arkema France entered into an agreement with all trade unions aimed at improving the conditions under which its employees can leave the Group under the terms of this scheme, and at adjusting the departure date of the relevant employees so as to facilitate the transfer of expertise and know-how within the Group. These measures were extended to all Group companies in France under the terms of the group agreement reached on 1<sup>st</sup> September 2007 with all trade unions.

# Analysis of the Group and the Company's financial condition

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## 9.1 Analysis of the Group's financial condition and results

### 9.1.1 CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

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The Group's consolidated financial statements for 2007 are presented in chapter 20 of this reference document.

The report from KPMG Audit and Ernst & Young Audit, statutory auditors, on the consolidated financial statements for 2007 is included in chapter 20 of this reference document.

### 9.1.2 CONSOLIDATED FINANCIAL STATEMENTS FOR 2006

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For 2006, the Group's consolidated financial statements and the report from KPMG Audit and Ernst & Young Audit, statutory auditors, on these consolidated financial statements are presented in chapter 20 of the reference document filed with the *Autorité des marchés financiers* on 21 May 2007 under n° R.07-073.

These are incorporated by reference in this reference document.

### 9.1.3 COMBINED FINANCIAL STATEMENTS FOR 2005

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The Group's combined financial statements for 2005 are presented in Appendix C.1 of the prospectus that received *Autorité des marchés financiers* visa N°06-106 dated 5 April 2006, and the report from KPMG Audit, statutory auditors, on these combined financial statements is presented in Appendix 2 of this prospectus.

These are incorporated by reference in this reference document.

### 9.1.4 PRO FORMA FINANCIAL STATEMENTS FOR 2005

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The Group's pro forma financial statements for 2005 are provided in Appendix D.1 of the prospectus that received *Autorité des marchés financiers* visa N°06-106 dated 5 April 2006.

The report from KPMG Audit, statutory auditor, on the pro forma financial statements is presented in Appendix D.2 of this prospectus,

and the report from the contractual auditor on the pro forma financial statements for 2005 is presented in Appendix D.3 of the prospectus.

These are incorporated by reference in this reference document.



## 9.2 Comments and analysis on consolidated financial statements for 2006 and 2007

### 9.2.1 ACCOUNTING POLICIES

The consolidated financial statements at 31 December 2007 were prepared in accordance with the international financial reporting standards (IFRS) issued by the IASB (International Accounting Standards Board) as approved by the European Union at 31 December 2007.

The accounting methods and principles applied to the consolidated accounts at 31 December 2007 are identical to those used in the consolidated accounts at 31 December 2006, except for those described at the top of note B to the accounts 'Accounting Principles and Methods' in chapter 20.

Preparation of consolidated accounts in accordance with IFRS requires the Group management to make estimates and retain assumptions that can have an impact on the amounts recognized in assets and liabilities at the balance sheet date, and have a corresponding impact on the income statement. Management made

its estimates and determined its assumptions on the basis of past experience and taking into account different factors considered to be reasonable for the valuation of assets and liabilities. Use of different assumptions could have a material effect on these valuations. The main assumptions made by management in preparing the financial statements are those used for the depreciation and impairment, of pension benefit obligations, of deferred taxes and for the valuation of assets (property, plant & equipment, intangibles and investments), provisions, and certain financial instruments. The disclosures provided concerning assets and liabilities at the date of preparation of the consolidated financial statements also involve the use of estimates.

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

### 9.2.2 INDICATORS USED IN MANAGEMENT ANALYSIS

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

- **operating income:** this includes all income and expenses of continuing operations other than the financial result, equity in income of affiliates, and income taxes;
- **other income and expenses:** these correspond to a limited number of well-identified non-recurring items of income and expense of a particularly material nature that the Group presents separately in its income statement in order to facilitate understanding of its recurring operational performance. These items of income and expense notably include:
  - impairment losses in respect of property, plant and equipment and intangible assets,
  - gains or losses on sale of assets,
  - certain large restructuring and environmental expenses which would hamper the interpretation of recurring operating income,

- certain expenses related to litigation and claims or major damages, whose nature is not directly related to ordinary operations, and
- costs related to the Spin-off of the Arkema Businesses;
- **recurring operating income:** this is calculated as the difference between operating income and other income and expenses as previously defined;
- **adjusted net income:** this corresponds to "Net income – Group share" adjusted for:
  - other income and expenses, after taking account of the tax impact of these items,
  - income and expenses from taxation of an exceptional nature, the amount of which is deemed significant,
  - the net income from discontinued operations;
- **EBITDA:** this corresponds to recurring operating income increased by depreciation and amortization, accounted for in the recurring operating income (previously called recurring EBITDA);
- **working capital:** this corresponds to the difference between inventories, accounts receivables, other receivables and prepaid expenses and income tax receivables on the one hand and accounts

payable, other creditors and accrued liabilities and income tax liabilities on the other hand;

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

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

- **effect of changes in scope of business:** effects of changes in scope of business arise on acquisition or disposal of an entire business or on first-time consolidation or deconsolidation of an entity. An increase or reduction in capacity is not analyzed as creating a change in the scope of business;

- **effect of foreign currency movements:** the effect of foreign currency movements is the mechanical impact of consolidation of accounts denominated in currencies other than the euro at different exchange rates from one period to another. The effect of foreign currency movements is calculated by applying the foreign exchange rates of the prior period to the figures of the current period;

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

- **effect of changes in volumes:** the impact of changes in volumes is estimated by comparing quantities delivered in the reference period with the quantities delivered in the preceding period multiplied, in both cases, by the average weighted unit net sales prices of the relevant preceding period.

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

A number of main factors affected operating income in 2006 and 2007. These factors affected the performances achieved by the Group's three business segments to differing degrees:

- changes in the value of the euro relative to other currencies, and in particular the US dollar, had, in 2007, a negative effect on the income statement and the balance sheet;
- raw materials prices, in particular those of petrochemicals products, tin and energy, remained at high levels throughout the period under review. ARKEMA has sought to pass on these additional costs through a targeted policy of continuous increases in prices;
- changes in the balance of supply and demand in some activities like acrylics and PVC. In acrylics, the balance of supply and demand remained unfavorable in 2007. By contrast, PVC in Europe benefited from a favorable environment throughout the year. Meanwhile, market conditions in Fluorochemicals were less favorable in 2007.

In order to improve structurally its competitiveness and its results, ARKEMA has launched since its creation a large number of

restructuring plans in its three business segments. Thus six major restructuring plans concerning mainly chlorochemicals, the acrylic sheet activity, thiochemicals in France and the United States, and the closure of the Villers-Saint-Paul site (France), were announced prior to the listing of Arkema S.A. shares. Between the listing in May 2006 and the end of December 2006, ARKEMA further announced six plans concerning in particular the Performance Products business segment and the headquarters. In 2007, ARKEMA continued its reorganization with the announcement of eleven new productivity plans across its three business segments. Some of these plans resulted in a reduction of sales (loss of volumes following the closure of loss-making units). They also generated restructuring costs which had a significant negative impact on operating income and cash flow. In 2007, expenses relating to the plans in progress amounted to €94 million. These various plans contribute to ARKEMA's objective to reduce its fixed costs by €500 million, thus producing an estimated improvement in EBITDA of €200 million by 2010 compared to 2005. At the end of 2007, the gains from these productivity measures amounted to €230 million compared to 2005, *i.e.* a net impact on EBITDA of €109 million after taking account of inflation on fixed costs and losses of volumes resulting from plant closures.

## 9.2.4 ANALYSIS OF ARKEMA'S INCOME STATEMENT

	2006	2007	Change
<b>Sales</b>	<b>5,664</b>	<b>5,675</b>	<b>+0.2%</b>
Operating expenses	(4,879)	(4,827)	(1.1%)
Research and development expenses	(168)	(158)	(5.9%)
Selling and administrative expenses	(417)	(397)	(4.8%)
<b>Recurring operating income</b>	<b>200</b>	<b>293</b>	<b>+46.5%</b>
Other income and expenses	(92)	(72)	(21.7%)
<b>Operating income</b>	<b>108</b>	<b>221</b>	<b>x2</b>
Equity in income of affiliates	1	5	
Financial result	(10)	(15)	
Income taxes	(59)	(104)	
<b>Net income of continuing activities</b>	<b>40</b>	<b>107</b>	<b>x2.7</b>
<b>Net income of discontinued operations</b>	<b>7</b>	<b>17</b>	
<b>Net income</b>	<b>47</b>	<b>124</b>	<b>x2.6</b>
of which minority interests	2	2	
<b>Net income, group share</b>	<b>45</b>	<b>122</b>	<b>x2.7</b>
<b>EBITDA</b>	<b>411</b>	<b>518</b>	<b>+26.0%</b>
<b>ADJUSTED NET INCOME</b>	<b>115</b>	<b>186</b>	<b>+61.7%</b>

### Sales

In 2007, ARKEMA's sales rose slightly to €5,675 million against €5,664 million in 2006. This increase is the result of sound organic growth in volumes (+2.3%) sustained in particular by the development of the Group's activities in Asia and by targeted projects in North America and in Europe (plant extensions in Industrial Chemicals and launch of new products in Performance Products). This improvement is also due to an ongoing selective policy, across the Group's three business segments, to increase sales prices (+1.7%) in order to offset the impact of rising raw material and energy costs.

Changes to the scope of business resulting in particular from portfolio management (acquisition of Coatex group, and divestment of amines business in the United States and of urea formaldehyde resins) reduced sales by 1.2%. Performance Products sales showed a €29 million reduction following changes to the consolidation method for certain subsidiaries. Finally, the conversion effect, related primarily to the weakness of the US dollar vs the euro, amounted to -2.6%. Accordingly, given constant exchange rate and scope of business, Group's sales rose by 4.0%.

### Recurring operating income

Operating expenses dropped by 1.1% from €4,879 million in 2006 to €4,827 million in 2007. The rise in raw material costs contributed to an increase in variable costs, but was offset by a very significant reduction in fixed costs. This reduction is primarily a reflection of the various productivity initiatives launched across the business

segments since ARKEMA's creation which have helped reduce fixed costs significantly. In 2007, the reduction in fixed costs was due primarily to the initiatives launched in particular to reorganize chlorochemicals, restructure the PMMA sheet business and the Fluorochemicals activities in Europe, and reorganize the Functional Additives BU. This reduction in operating expenses also includes a positive conversion effect due to the evolution of the US dollar vs euro parity.

Research and development expenses amounted to €158 million, against €168 million in 2006. This reduction includes the conversion effect resulting primarily from the evolution of the US dollar vs euro parity. It also reflects a strict resource allocation policy set out by the Company.

Selling and administrative expenses were 4.8% lower at €397 million against €417 million in 2006. This drop was the result of a conversion impact as well as productivity measures aimed at simplifying organization and processes. The relocation of the headquarters to Colombes (France) in June 2007, the transfer of some headquarters-based teams to production sites in the Chlorine/Caustic Soda, PVC and Thiochemicals BUs, and the merger of the Additives and Organic Peroxides BUs have played a role in this significant cost reduction.

EBITDA rose by 26% to €518 million in 2007. This improvement reflects the major internal drive undertaken across the Group's activities, with (i) a significant reduction in fixed costs thanks to the various restructuring plans in progress as well as ongoing productivity efforts, (ii) the launch of new higher value-added product lines (in particular in PMMA, polyamides, molecular sieves

and oilfield chemicals) sustained by targeted debottleneckings in Europe and North America and by new capacities in Asia, and (iii) a favorable environment for PVC in Europe and for MMA. These actions amply offset the negative impact of the euro/US dollar parity, the impact of a reduction in acrylics margins, tougher competition in the fluorochemicals market, and the effects of inflation on fixed costs. In 2007, internal productivity measures helped generate a gain of €110 million, partially offset by the impact of inflation (-€42 million) and a loss of volumes related to the implementation of restructuring plans (-€11 million). Meanwhile, growth measures generated an improvement in EBITDA of €26 million. Thus, all internal measures helped improve EBITDA by €83 million.

Sustained by the internal progresses already achieved, EBITDA margin stood at 9.1% against 7.3% in 2006.

Finally, recurring operating income recorded a significant improvement, from €200 million in 2006 to €293 million in 2007. It included depreciation and amortization of €225 million, up €14 million due primarily to the many growth projects initiated since 2005. The depreciation and amortization variation also included a positive conversion effect resulting from the evolution of the US dollar vs euro.

## Operating income

Operating income doubled, from €108 million in 2006 to €221 million in 2007. This substantial increase was the result of a €93 million rise in recurring operating income and a €20 million reduction in other income and expenses.

In 2007, other income and expenses, which totaled -€72 million, mainly included:

- ▶ expenses related to the restructuring plans announced in 2007 in the three segments amounting to -€94 million;
- ▶ the financial consequences of a fire that struck one of the production ovens at the Lavera site (France) during the night of 23 to 24 May, *i.e.* net expenses amounting to -€23 million after taking account of the deductibles provided for under the terms of the Group's insurance policies;
- ▶ the capital gain of €16 million generated on the sale of the Tacoma land (United States);
- ▶ the capital gain on the sale of the urea formaldehyde resins business at Leuna (Germany) and of the specialty amines business at Riverview (United States), totaling €31 million.

In 2006 the main items of other income and expenses were essentially restructuring costs of €40 million in the Performance Products business segment and €29 million for headquarters, and

costs relating to the consolidation of the chlorochemicals business in France, for which provision could not be booked at the end of 2005, for €8 million.

## Equity in income of affiliates

Equity in the income of affiliates came to €5 million, against €1 million in 2006. This rise is due to the improvement in the results of Qatar Vinyl Company (QVC).

## Financial result

Financial result amounted to -€15 million in 2007 against -€10 million in 2006. This drop is due in particular to a rise in the cost of debt related to the evolution of the Group's debt. Moreover, financial result now includes the interest cost, the expected return on plan assets, and the actuarial gains and losses related to changes in the discount rate on other long-term benefits corresponding to net expenses of €2 million (see note 5 to the consolidated financial statements).

## Income taxes

Income taxes amounted to €104 million in 2007 against €59 million in 2006. In 2007, this charge included the withholding tax on the exceptional dividend paid by the American subsidiary to its parent company, and the tax on the capital gain on the sale of the urea formaldehyde resins activity. Excluding both these items, the taxation rate compared to the recurring operating income stood at 29.3%.

## Result of discontinued operations

In 2006, ARKEMA announced the divestment of its agrochemicals business (Cerexagri), and, in accordance with standard IFRS 5, treated the results of this activity as results of discontinued operations. In 2007, the result corresponded to the capital gain generated by the sale of this business.

## Adjusted net income and net income Group share

In 2007, for the second year running ARKEMA generated a positive net income of €122 million, compared to a profit of €45 million in 2006. The improvement in net income came essentially from the improvement in operating income.

Excluding the impact, after tax, of non-recurring items, the adjusted net income stood at €186 million, an improvement of some 62% over 2006.

## 9.2.5 ANALYSIS OF RESULTS BY SEGMENT

### 9.2.5.1 Vinyl Products segment

<i>In millions of euros</i>	2006	2007	Change
<b>Sales</b>	<b>1,379</b>	<b>1,418</b>	<b>+2.8%</b>
<b>Recurring operating income</b>	<b>21</b>	<b>65</b>	<b>X3.1</b>
Other income and expenses	(8)	(12)	n/a
<b>Operating income</b>	<b>13</b>	<b>53</b>	<b>X4.1</b>
<b>EBITDA</b>	<b>38</b>	<b>90</b>	<b>X2.4</b>

Vinyl Products sales rose by 2.8% to €1,418 million in 2007. Demand for PVC in Europe remained sustained throughout the year, which helped implement major price increases in particular. Sales volumes remained stable.

EBITDA improved significantly to €90 million, a €52 million increase. This improvement is due to (i) a rise in PVC sales prices which helped offset to a very large extent the increase in the cost of raw materials and energy, and (ii) the implementation of the chlorochemicals consolidation plan and the restructurings launched in downstream Vinyl Products (closure of Dorlyl in France and Novellara in Italy in Vinyl Compounds, and reorganization of the Chantonay site (France) in Pipes & Profiles) which helped reduce fixed costs significantly across the segment. In 2007 EBITDA also included the impact of the major five-year maintenance turnaround at the Fos plant (France) which restricted chlorine and VCM production in the 3<sup>rd</sup> quarter. The contribution of restructurings accounted for 40% of the segment's EBITDA improvement, the supportive environment which benefited this activity in 2007 representing 60% of the improvement.

As a result, EBITDA margin was significantly up, at 6.4% in 2007 against 2.8 % in 2006.

Recurring operating income rose by €44 million in 2007 to €65 million, in line with the improvement in EBITDA, and includes a €9 million increase in the depreciation charge primarily due to

investments carried out as part of the chlorochemicals consolidation plan.

Operating income amounted to €53 million in 2007 compared to €13 million in 2006. In 2007 it included other income and expenses totaling -€12 million. These included:

- ▶ expenses relating to the various restructuring operations announced during 2007 in the Vinyl Products downstream activities for -€10 million;
- ▶ the financial consequences of a fire that struck during the night of 23 to 24 May one of the three production ovens at the Lavera site (France). The plants gradually came back on stream in July, while the oven that had been damaged was started up again in September 2007. The amount related to the damage payable by the Group in view of the deductibles provided for under the terms of the Group's insurance policies and allocated to the Vinyl Products segment was compensated by the capital gain generated on the sale of the Tacoma land (United States).

In 2006, other income and expenses amounted to -€8 million, representing only the additional expenses which, by their nature, could not be provisioned and are related to the consolidation plan for the French chlorochemicals business.

### 9.2.5.2 Industrial Chemicals segment

<i>In millions of euros</i>	2006	2007	Change
<b>Sales</b>	<b>2,494</b>	<b>2,529</b>	<b>+1.4%</b>
<b>Recurring operating income</b>	<b>160</b>	<b>178</b>	<b>+11.3%</b>
Other income and expenses	2	(43)	n/a
<b>Operating income</b>	<b>162</b>	<b>135</b>	<b>(16.7)%</b>
<b>EBITDA</b>	<b>267</b>	<b>289</b>	<b>+8.2%</b>

On 1<sup>st</sup> October 2007 ARKEMA acquired the Coatex Group, which is now the "Specialty Acrylic Polymers" BU. Thus the segment's results include those generated by this activity in the 4<sup>th</sup> quarter. Their impact on EBITDA, however, remains limited bearing in mind the revaluation of inventories carried out at the time of the acquisition of these companies, in accordance with IFRS 3.

Industrial Chemicals sales rose by 1.4% to €2,529 million in 2007, against €2,494 million in 2006. Given a constant exchange rate, the segment's sales increased by 5%. This increase was due to higher volumes in all business units sustained by the startup or the growing momentum of various industrial projects (Bécancour in Canada for Hydrogen Peroxide; Beaumont in the United States for Thiochemicals), the launch of new products in particular in PMMA in the United States, and a favorable environment for MMA and Hydrogen Peroxide. As regards average sales prices, price rises recorded in PMMA, Thiochemicals and Acrylics helped fully compensate the decline recorded with 134a in Fluorochemicals. Finally, variations to the business scope had a limited effect on the segment's sales, the impact of the acquisition of Coatex offsetting that of the sale of the specialty amines activity in the United States and of the flocculant business in Europe.

### 9.2.5.3 Performance Products segment

<i>In millions of euros</i>	2006	2007	Change
<b>Sales</b>	<b>1,784</b>	<b>1,723</b>	<b>(3.4)%</b>
<b>Recurring operating income</b>	<b>71</b>	<b>97</b>	<b>+36.6%</b>
Other income and expenses	(41)	(8)	n/a
<b>Operating income</b>	<b>30</b>	<b>89</b>	<b>X3</b>
<b>EBITDA</b>	<b>156</b>	<b>184</b>	<b>+17.9%</b>

Performance Products sales amounted to €1,723 million, a €61 million drop compared to 2006. This decline is due in particular to a €29 million impact from changes to the consolidation method for certain subsidiaries, the sale of the urea formaldehyde resins activity at the Leuna site (Germany) on 1<sup>st</sup> November 2007, and finally a weak US dollar especially vs euro which had a significant impact on sales. Thus, given constant exchange rate and scope of business, sales for the segment improved by 2.7%.

Organic growth resulted primarily from (i) a strong improvement in volumes in Specialty Chemicals underpinned by commercial development of new products in oilfield and bitumen additives, and (ii) an increase in sales prices primarily in Functional Additives to offset the rising cost of raw materials such as tin.

EBITDA improved significantly to €184 million, up 18% compared to 2006. This improvement reflects the efforts undertaken in the segment since 2006 to (i) develop new products, (ii) start up industrial projects in particular in Technical Polymers (in China for polyamides) and in

EBITDA stood at €289 million in 2007, 8% up over 2006, as a result of business developments in higher value added products, lower fixed costs following the restructurings launched in Fluorochemicals at Pierre-Bénite, in cast sheet in Europe, and in Thiochemicals. These actions helped offset the drop in margins recorded in acrylics, tougher market conditions in for some fluorochemicals, in particular 134a, and the impact from the decrease of the US dollar vs the euro. EBITDA margin stood at 11.4% against 10.7% in 2006, confirming the good resilience of this segment in its changing markets and the internal progress achieved to date.

Recurring operating income rose from €160 million in 2006 to €178 million in 2007, with depreciation and amortization increasing by €4 million.

Operating income was down to €135 million in 2007 from €162 million in 2006. This reduction is due to the amount of other income and expenses recorded in 2007 totaling -€43 million. These include primarily restructuring charges relating to the various initiatives launched at the Carling site (France) in Acrylics, the Lacq-Mourenx site (France) in Thiochemicals, and the Pierre-Bénite site (France) in Fluorochemicals, totaling -€46 million.

Specialty Chemicals (debottlenecking at Inowroclaw), (iii) restore the margins by a selective sales price increase policy, and (iv) reduce fixed costs through the many restructuring plans launched since July 2006 in the segment's various business units. These internal efforts more than offset the negative impact from the US dollar vs euro, and the consequences of the slowdown of the US construction market for the PVC additives activity within the Functional Additives BU. EBITDA margin stood at 10.7% against 8.7% in 2006.

Recurring operating income also grew significantly, from €71 million in 2006 to €97 million in 2007.

Finally, operating income improved very significantly to €89 million from €30 million in 2006. In 2007 it included other income and expenses amounting to -€8 million, consisting of:

- -€38 million corresponding to restructuring costs related to the various plans undertaken in this segment, at the Serquigny site (France), the Marseille site (France), the Vlissingen site (Netherlands), and the Bonn site (Germany);

► €30 million corresponding to the net capital gain before tax on the sale of the urea formaldehyde resins activity at Leuna (Germany).

In 2006, other income and expenses amounted to -€41 million, and included essentially a charge of €40 million for the various

restructurings launched in the segment, primarily the closure of the Villers-Saint-Paul and Loison sites in France.

## 9.2.6 BALANCE SHEET ANALYSIS: COMPARISON OF 2007 WITH 2006

In millions of euros	31/12/2006	31/12/2007	Change
Non-current assets *	1,858	2,151	+15.8 %
Working capital	1,166	1,112	(4.6 %)
<b>Capital employed</b>	<b>3,024</b>	<b>3,263</b>	<b>+7.9 %</b>
Provisions	857	804	(6.2 %)

\* Excluding deferred taxes.

Non-current assets increased by €293 million between 2006 and 2007. This was due primarily to:

- a level of investment of €325 million that was greater than the depreciation and amortization charge of €225 million, as a result of the depreciation of assets booked in 2005;
- the consequences of the acquisition of Coatex which has resulted in an increase in the net value of tangible and intangible fixed assets of €297 million;
- a negative conversion impact of €68 million.

Working capital was reduced by €54 million. This reduction was due in particular to the impact of currency movements, which accounted for €36 million. At end December 2007, working capital to sales ratio for the year amounted to 19.6% against 20.6% at 31 December 2006. Adjusted for the conversion effect, this ratio stood at 20.2%, in line with the Group's stated objective to reduce this ratio to 20% by end 2008.

Consequently, ARKEMA's capital employed increased to €3,263 million in 2007 against €3,024 million in 2006. Capital employed per segment (excluding Corporate) was as follows: the Vinyl Products segment accounted for 19% of total capital employed (against 17% in 2006), while Industrial Chemicals rose from 47% to 49%, and the share of Performance Products dropped to 31% from 36% in 2006 as a result of the divestments carried out in the segment in 2007.

At 31 December 2007, the level of provisions stood at €804 million, down €53 million due primarily to reversals that were higher than new provisions (€164 million reversals for €145 million new provisions) and to currency movements amounting to -€17 million.

At 31 December 2007, the analysis of provisions by nature was as follows: pension and similar post employment benefit obligations €261 million (€296 million in 2006), litigations and claims €54 million (€52 million in 2006), environmental contingencies €207 million (€213 million in 2006), restructuring €113 million (€127 million in 2006), and other €169 million (€169 million in 2006).

A total of €115 million of these provisions represent the balance of provisions which were regarded as equivalent to debt at the time of the listing of Arkema S.A. shares. They amounted to €156 million at 31 December 2006. At 31 December 2007, the analysis of such provisions by type was as follows: pension and similar post employment benefit obligations €15 million (€24 million in 2006), litigations and claims €31 million (€31 million in 2006), environmental contingencies €19 million (€23 million in 2006), restructuring €50 million (€79 million in 2006).

Additionally, provisions relating to former industrial sites in the United States representing €67 million are covered by Total's guarantee, as described in paragraph 22.2 of this reference document. The corresponding receivables were booked on the asset side of the balance sheet.

Finally, provisions for restructuring relating to the restructuring plans announced after the listing of Arkema S.A. shares were considered as debt-equivalent items. At 31 December 2007 they represented €64 million.

Consequently, excluding all above-mentioned provisions, the amount of provisions regarded as current provisions amounted to €558 million, from which €15 million of pensions assets booked on the asset side of the balance sheet can be deducted, *i.e.* a net amount of €543 million.

## 9.2.7 CASH FLOW ANALYSIS: COMPARISON OF 2007 WITH 2006

Cash flow figures include Cerexagri in 2006.

<i>In millions of euros</i>	2006	2007
Operating cash flow *	86	372
Income taxes	(24)	(85)
Financial result	(10)	(15)
Change in working capital	16	47
<b>Cash flow from operating activities</b>	<b>68</b>	<b>319</b>
<b>Cash flow from investing activities</b>	<b>(348)</b>	<b>(413)</b>
<b>Net cash flow</b>	<b>(280)</b>	<b>(94)</b>
<i>of which:</i>		
<i>Cash flow from portfolio management</i>	-	(135)
<i>Non-recurring pre spin-off items</i>	(359)	(87)
<b>Net cash flow excluding non-recurring pre spin-off items and impact of acquisitions/divestments</b>	<b>79</b>	<b>128</b>
<i>Non-recurring post spin-off items</i>	(16)	(73)
<b>Recurring cash flow</b>	<b>95</b>	<b>201</b>
<b>Cash flow from financing activities</b>	<b>395</b>	<b>10</b>
Change in cash and cash equivalents	115	(84)

\* Calculated as cash flow from operating activities before financial result, income taxes, and change in working capital

### Cash flow from operating activities

In 2007, net resources generated by operations were positive at €319 million due mainly to the strong improvement in ARKEMA's income and a €47 million reduction in working capital.

These cash flows included cash payments related to "non-recurring pre spin-off items" of €43 million in total (described in paragraph "Cash flow excluding non-recurring items" below). They also included non-recurring items.

### Cash flow from investing activities

There was a net cash outflow on investing activities of €413 million. This related to investment in tangible and intangible assets concerning operations of €325 million of which €44 million related to the chlorochemicals business consolidation plan and considered as non-recurring items. The other investments made related in particular to (i) plant startups carried out in 2007, namely the new HFC-32 production line at Calvert City (United States), the debottlenecking of VCM production capacity at Fos-sur-Mer (France), and the increase in the molecular sieve granulation capacity at Inowroclaw (Poland), and

(ii) the growth projects being implemented, including the doubling of H<sub>2</sub>O<sub>2</sub> production capacity at Shanghai (China).

This cash flow also included the impact of all portfolio management operations finalized in 2007 with a net amount of -€135 million.

### Cash flow excluding non-recurring items

Prior to its listing in May 2006, ARKEMA benefited from a capital increase subscribed by companies belonging to the Total Group and designed to finance a number of exceptional items regarded as debt and called "non-recurring pre spin-off items". These items, totaling €580 million, included provisions totaling €435 million at 31 December 2005, CAPEX relating to the chlorochemicals restructuring plan for a total of €100 million, and additional expenses that could not be recognized at 31 December 2005 for a total of €45 million. Some of these items were expensed, thus having a negative effect on cash flow.

In 2007, non-recurring pre spin-off items expensed amounted to €87 million.



Excluding these items and cash flows from portfolio management, net cash flow stood at €128 million (against €79 million in 2006).

At end December 2007, outstanding non-recurring pre spin-off items amounted to €122 million, analyzed as follows: €115 million in provisions regarded as equivalent to debt (described in paragraph 9.2.6 of this reference document), and €25 million in investment relating to the chlorochemicals restructuring plan from which a non-current asset of €18 million relating to European antitrust claims should be deducted.

Cash flows also included non-recurring items described as “post spin-off” related in particular to the restructuring plans launched after the listing of Arkema S.A. shares. In 2007 these items included the amount of the withholding tax on the dividend paid by the American subsidiary to its parent company. In 2007 these items amounted to €73 million.

Excluding these various items, recurring cash flows amounted to €201 million in 2007 against €95 million in 2006.

## 9.2.8 IMPACT OF SEASONALITY

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

- ▶ demand for products manufactured by ARKEMA is generally weaker in the summer months (July-August) and in December, notably as a result of the slowdown in industrial activity during these months, particularly in France and Southern Europe;
- ▶ in some of ARKEMA's businesses, particularly those serving refrigeration markets, the level of sales is generally higher in the first half of the year than in the second half; and

- ▶ the major maintenance turnarounds at ARKEMA's production plants tend to take place in the second half of the year rather than in the first half.

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

# 9.3 Financial information on the Company's financial statements, financial condition and results

## 9.3.1 2007 ANNUAL COMPANY FINANCIAL STATEMENTS

The Company's annual financial statements for 2007 are given in chapter 20 of this reference document.

## 9.3.2 REPORT FROM STATUTORY AUDITORS ON THE 2007 ANNUAL FINANCIAL STATEMENTS

The report from KPMG Audit and Ernst & Young Audit, statutory auditors, on the Company's annual financial statements for 2007 is given in chapter 20 of this reference document.

## 9.4 Fees paid to statutory auditors

	KPMG				Ernst & Young			
	Amount in millions of euros		%		Amount in millions of euros		%	
	2007	2006	2007	2006	2007	2006	2007	2006
<b>Audit</b>								
<b>Auditing, certification, review of individual and consolidated financial statements</b>	1.8	2.3 <sup>(i)</sup>			1.6	1.3 <sup>(i)</sup>		
> Issuer	0.5	0.4 <sup>(i)</sup>			0.5	0.6 <sup>(i)</sup>		
> Globally integrated subsidiaries	1.3	1.9 <sup>(i)</sup>			1.1	0.7 <sup>(i)</sup>		
<b>Other due diligence work and services directly related to the auditor's mission</b>	-	-	-	-	0.8	0.1		
> Issuer	-	-	-	-	-	-		
> Globally integrated subsidiaries	-	-	-	-	0.8	0.1		
<b>SUBTOTAL</b>	<b>1.8</b>	<b>2.3</b>	<b>95%</b>	<b>96%</b>	<b>2.4</b>	<b>1.4</b>	<b>100%</b>	<b>100%</b>
<b>Other services provided by the networks to the globally integrated subsidiaries</b>	0.1	0.1	5%	4%			0%	0%
<b>TOTAL</b>	<b>1.9</b>	<b>2.4</b>	<b>100%</b>	<b>100%</b>	<b>2.4</b>	<b>1.4</b>	<b>100%</b>	<b>100%</b>

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

## Cash and shareholders' equity

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## 10.1 Description of Group cash flow

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

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

On 31 March 2006, Arkema S.A. and Arkema France (the **Borrowers**) and a syndicate of banks signed a revolving multi-currency credit facility in the maximum amount of €1.1 billion (the **Facility**).

The purpose of the Facility is to finance, in the form of drawings and bank guarantees, the Group's general corporate purposes for a period of five years with an option for an additional period of one or two years. The banks have exercised in 2007 their option to extend the period by a further 12 months in the amount of €1,094 million. In 2008 the banks have also exercised their option to extend the period by a further 12 months in the amount of €1,049 million. Thus, the maximum amount of Credit stands at (i) €1,100 million until 31 March 2011, (ii) €1,094 million until 31 March 2012, and (iii) €1,049 million until 31 March 2013.

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

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

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

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

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

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

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

## 10.3 Off-balance sheet commitments

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

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

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

## 10.5 Anticipated sources of financing for future investments

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

## 10.6 Dividend policy

The Company has distributed no dividend over the last three years.

The Board of Directors decided, on closing the 2007 financial statements, to propose to the Annual General Meeting on 20 May 2008 a resolution under which it will recommend the distribution of a dividend of €0.75 per share for 2007. This dividend will give ARKEMA's shareholders the opportunity to share in the improvement of the Company's results yielded by its in-depth transformation.

The decision to pay a dividend for the first time reflects ARKEMA's confidence in its ability to create value over the long term and to continue improving its results.

In the future the intention is to maintain the payment of a dividend the amount of which will be determined on the basis of the evolution of the Group's results.



# 11

## Research and Development

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## 11.1 Research and development

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

In 2007 R&D expenditure accounted for nearly 3% of the Group's total sales. The Group intends to keep up this research effort in the coming years in order to develop ever more innovative products, optimize the performance of its manufacturing units, and develop new processes. The Group's R&D function employs around 1,400 researchers, mainly split between six research centers located in France, the United States and Japan.

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

R&D expenses were split as follows:

- Vinyl Products segment: 12%;
- Industrial Chemicals segment: 30%;
- Performance Products segment: 46%;
- "Corporate" R&D program, to prepare for the innovations of the future, defined each year by the R&D department and submitted to the executive Committee for approval: 12%.

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

- in 2005, Blocbuilder®, a molecule that allows the controlled polymerization of many groups of styrenic, acrylic and methacrylic monomers;
- in 2006, new molecular sieve grades used in the production of medical oxygen;
- in 2007, a new range of CECABASE®RT bitumen additives for warm bitumen mix, the result of three years' research.

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

- the development of an innovative structure for the manufacture of photovoltaic cell panels from materials developed and produced by the Group's various business segments;
- the valorization of glycerol from plant origin and of amino 11 chemistry, for the production of molecules currently derived from petrochemicals (acrolein, acrylic acid).

Numerous collaborations have been entered into with the European Commission (under the 5<sup>th</sup> and 6<sup>th</sup> Framework Programs for Research and Technological Development – FPRTD), and with several French organizations such as *Agence nationale de la recherche (ANR, National Research Agency)*, *Agence de l'environnement et de la maîtrise de l'énergie (ADEME, Environment and Energy Agency)* and *Agence de l'innovation industrielle (Industrial Innovation Agency)*, enabling the Group's R&D efforts to enjoy joint public funding. The research projects carried out by the Group over many years with a network of university partners (more than 100 projects) also prove the quality and innovation of its R&D.

### 11.1.1 VINYL PRODUCTS SEGMENT

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

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

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



## 11.1.2 INDUSTRIAL CHEMICALS SEGMENT

The objectives of the Industrial Chemicals segment's R&D are to keep the processes competitive and find new applications, as well as new outlets for the Group's products. One of the major aims is therefore the constant improvement of the main processes (acrylics, methacrylics, fluorochemicals and sulfur products) in order to make them safer, more reliable and productive, and therefore more competitive. To this end, R&D uses new raw materials and carries

out tests on new catalysts and new types of reactors. In addition, formulation teams work on the development of new applications for products developed by R&D.

The project aiming to produce acrylic acid from renewable raw materials like glycerol is part of this approach.

## 11.1.3 PERFORMANCE PRODUCTS SEGMENT

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

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

Similarly, at the end of 2004, the Group marketed a new thermoplastic product, under the brand name Kynar® Adx. This product combines the remarkable chemical stability of fluorinated polymers with a very innovative adhesion performance on numerous materials such as metals and plastics. This unique combination of properties opens the way to numerous applications, notably in construction, automobile manufacture, and industry. 2007 saw the concrete application of developments expected for water transportation, fuel lines in service stations, and coatings for aggressive environment in the chemical industry.

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

2007 saw the development and commercial launch at the K'07 tradeshow of two new Pebax® groups: Pebax Clear®, a range of

transparent materials for sports (ski boots) and leisure (spectacle frames) applications, and the Pebax Rnew® range, partly bio-sourced as the polyamide block is PA 11 (the monomer of which is derived from a vegetable oil).

Additionally, following years of research and development work, the multilayer structures marketed under the brand name RILPERM® produced by the Group for fluid transfer in cars have been approved by several carmakers across the world, thanks in particular to their outstanding resistance to biofuels. The Group was in fact presented an award at the Bioplastics Conference on 6 and 7 December 2006.

A new polyamide powder was also developed, produced on a pilot line and then on an industrial scale for the cosmetics emulsions market, and was launched at the In Cosmetics tradeshow in Paris under the tradename Orgasol® Caresse.

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

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

The ambition of the Performance Products segment is to achieve by 2010 20% of its sales from products developed within the last 5 years.

## 11.2 Industrial property rights

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

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

### 11.2.1 PATENTS

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

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

The number of patents granted and the number of applications filed for patents are good indicators of investments in and quality of R & D. At 31 December 2007, the Group owned 6,029 patents (including 242 for Coatex). At the same date, it had 3,161 patents pending (including 196 for Coatex) (all patent applications made according to a centralized procedure – like that of the World Intellectual Property Organization (WIPO) – are accounted for as one application, even though the application may lead to the granting of several patents, depending on the number of countries covered by the application). During 2007, the Group filed 151 applications for priority patents (including 14 for Coatex).

In those countries where the Group seeks patent protection, the duration of that protection is usually twenty years, calculated from

the time the patent application was filed. The protection provided can vary from one country to another, depending on the type of patent and its remit. The Group uses patent protection in many countries, mainly in Europe, China, Japan, Korea, North America and latterly India.

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

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

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

### 11.2.2 TRADEMARKS

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

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

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

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

Risks regarding disputes relating to the "ARKEMA" brand are described in [section 6.2.6](#) of this reference document.

# 12

## Information on the Group's trends

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## 12.1 Main trends

As of the date of this reference document, the Group is operating in an environment where the key characteristics are the high cost of energy and raw materials, the slowdown of the American economy, the growth of Asian economies, a strong euro (especially against the US dollar), increasingly stringent regulations (especially with respect to environmental protection), and continued productivity enhancement efforts by the Group's main competitors.

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

reverse in the short term, or the long-term growth rates in the Group's main markets as described in chapter 4 of this reference document to be significantly affected.

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

## 12.2 Factors likely to affect the Group's prospects

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

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

Since its operational creation in October 2004, the Group has undertaken an in-depth transformation by implementing a strategy focused on improving its results and preparing its future growth. This is based on various plans to improve competitiveness, several growth projects, and the selective management of its portfolio. These efforts enabled the Group to report EBITDA growth of almost 26% in 2007 compared to 2006, and recurring operating income growth of 46.5% relative to 2006.

The Group plans to pursue this strategy over the coming years.

The Group has divested activities representing sales of some €380 million, and so is well ahead with the €300 to 400 million divestment program it had announced; it also plans to proceed with targeted acquisitions in its core business areas, with the objective of strengthening its best product lines, increasing integration, and reducing the cyclical nature of its business. The acquisition of the company Coatex on 1<sup>st</sup> October 2007 is perfectly in line with this strategy, and represents an initial step in this plan aiming to acquire activities accounting for between €500 million and €800 million in sales, while at the same time ensuring that the Group's gearing remains below 40%.

The Group believes that its strategy will enable it to generate fixed costs savings of €500 million between 2005 and 2010, *i.e.* a positive impact on the same period of €200 million EBITDA after taking into account inflation on salaries and losses of volumes resulting from restructuring operations.

Thus the Group believes that it can improve its operating margin (EBITDA as a percentage of sales) to a target of 12% by 2010, equating, at individual business segment level, to: 7 to 9% for Vinyl Products, 14 to 15% for Industrial Chemicals and Performance Products. Additionally, the Vinyl Products segment should account for just 18% of the Group's sales by 2010.

The Group has also indicated an EBITDA to sales target objective of 10% in 2008, based on an assumption of a moderate growth of sales of 1 to 2% in 2008 versus 2007. The achievement of this objective depends in particular on the many internal projects launched by the Group. Thus, productivity projects, targeted growth projects, and portfolio management (net impact of divestments and acquisitions announced in 2007) should help improve EBITDA by €42 million, €23 million, and €15 million respectively.

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

The Group has also stressed that reaching this target for EBITDA relative to sales within three years is based on assumptions deemed fair by the Group within this time frame as of the date of this reference document (in particular conditions for raw materials and energy prices and the balance of supply and demand for products sold by ARKEMA, the prices of these products, and exchange rates). However, this target does not take into account the materialization of some risks described in chapter 6 of this reference document, or unknown factors relating to the economic, financial, competitive or regulatory environment in which the Group operates, liable to affect this objective.

Finally, the Group has also indicated a target for the working capital to sales ratio of 18% in 2010.



## Administrative, management and supervisory bodies and senior management of the Company

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## 14.1 Board of Directors

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

The table below shows the composition of the Board of Directors at 31 December 2007.

<p><b>THIERRY LE HÉNAFF</b></p> <p><b>Main office held within the Company</b>  <b>Chairman and Chief:</b>            Executive Officer  <b>Date of first appointment:</b>            6 March 2006  <b>Date appointment expires</b>            AGM held to approve accounts for 2008 financial year  <b>Number of shares held at 31 December 2007:</b> 806</p>	<p><b>Current</b>  <b>France</b></p> <ul style="list-style-type: none"> <li>• Chairman of the Board of Directors, Arkema France</li> </ul> <p><b>International</b>            None</p> <p><b>Held in the past five years but now expired:</b>  <b>Expired in 2007</b>            None</p> <p><b>Expired 2003 to 2006</b></p> <ul style="list-style-type: none"> <li>• Chairman and Chief Executive Officer, Arkema France</li> <li>• Chief Executive Officer, Grande Paroisse</li> <li>• Director, Cray Valley</li> <li>• Director, Bostik Findley S.A.</li> <li>• Director, Cerexagri Inc.</li> <li>• Director, Bostik Findley Belux S.A. N.V.</li> <li>• Director, Bostik Findley Inc.</li> <li>• Chairman of the Board of Bostik Findley AB</li> </ul>
<p><b>FRANÇOIS ENAUD</b></p> <p><b>Main office held within the Company:</b>            Director  <b>Date of first appointment:</b>            10 May 2006  <b>Date appointment expires</b>            AGM held to approve accounts for 2008 financial year  <b>Number of shares held at 31 December 2007:</b> 301</p>	<p><b>Current</b>  <b>France</b></p> <ul style="list-style-type: none"> <li>• Manager, Groupe Steria SCA</li> <li>• Chairman and Chief Executive Officer, Steria S.A.</li> <li>• Director, Steria S.A.</li> </ul> <p><b>International</b></p> <ul style="list-style-type: none"> <li>• Chairman and Director, Steria Iberica</li> <li>• Director, Steria UK Limited</li> <li>• Director, Steria Holding Limited</li> <li>• Director, Steria Limited</li> <li>• Member of the Board of Directors, Steria Mummert Consulting GmbH</li> </ul> <p><b>Held in the past five years but now expired:</b>  <b>Expired in 2007</b>            None</p> <p><b>Expired 2003 to 2006</b></p> <ul style="list-style-type: none"> <li>• Director, Harrison &amp; Wolf S.A.</li> <li>• Chairman and Director, Steria Solinsa</li> <li>• Co.-manager, Steria GmbH Langen</li> <li>• Chairman, CEO and Director, Infogérance S.A.</li> <li>• Permanent representative of Steria on the Board of Steria Infogérance</li> </ul>
<p><b>BERNARD KASRIEL</b></p> <p><b>Main office held within the Company:</b>            Director  <b>Date of first appointment:</b>            10 May 2006  <b>Date appointment expires</b>            AGM held to approve accounts for 2008 financial year  <b>Number of shares held at 31 December 2007:</b> 600</p>	<p><b>Current</b>  <b>France</b></p> <ul style="list-style-type: none"> <li>• Partner and member of the Management Board, LBO France</li> <li>• Director, Lafarge</li> <li>• Director, L'Oréal</li> </ul> <p><b>International</b></p> <ul style="list-style-type: none"> <li>• Director, Nucor (USA)</li> </ul> <p><b>Held in the past five years but now expired:</b>  <b>Expired in 2007</b></p> <ul style="list-style-type: none"> <li>• Director, Sonoco Products Company (USA)</li> </ul> <p><b>Expired 2003 to 2006</b></p> <ul style="list-style-type: none"> <li>• Vice-Chairman of the Board of Directors, Lafarge</li> <li>• Chief Executive Officer, Lafarge</li> <li>• Vice-Chairman and Chief Executive Officer, Lafarge</li> </ul>



<p><b>LAURENT MIGNON</b></p> <p><b>Main office held within the Company:</b> Director</p> <p><b>Date of first appointment:</b> 10 May 2006</p> <p><b>Date appointment expires</b> AGM held to approve accounts for 2008 financial year</p> <p><b>Number of shares held at 31 December 2007:</b> 300</p>	<p><b>Current</b></p> <p><b>France</b></p> <ul style="list-style-type: none"> <li>• Manager, Oddo et Cie (since 4 October 2007)</li> <li>• Chairman and Chief Executive Officer, Oddo Asset Management (since 4 February 2008)</li> <li>• Chairman of the Supervisory Board, Oddo Corporate Finance (since 27 September 2007)</li> <li>• Director, Sequana Capital</li> </ul> <p><b>International</b></p> <p>None</p> <p><b>Held in the past five years but now expired:</b></p> <p><b>Expired in 2007</b></p> <ul style="list-style-type: none"> <li>• Chairman and Chief Executive Officer, AGF Vie, Director since 26 November 1998, Chief Executive Officer since 18 September 2003</li> <li>• Deputy Chief Executive Officer, AGF</li> <li>• Chairman of the Board of Directors, AGF IART</li> <li>• Chairman of the Supervisory Board, AGF Informatique</li> <li>• Vice-Chairman of the Board of Directors, Sequana Capital</li> <li>• Member of the Supervisory Board, Euler Hermès</li> <li>• Director, AGF Holding</li> <li>• Deputy Chief Executive Officer, AGF Holding</li> <li>• Director, AGF International</li> <li>• Director, AGF Asset Management</li> <li>• Director, W Finance</li> <li>• Member of the Supervisory Board, Oddo et Cie</li> <li>• Chairman of the Board of Directors, Génération Vie</li> <li>• Chairman of the Board of Directors, Coparc</li> <li>• Vice-Chairman of the Supervisory Board, Euler Hermès</li> <li>• Director, GIE Placements d'assurance</li> <li>• Chairman of the Supervisory Board, AVIP</li> </ul> <p><b>Expired 2003 to 2006</b></p> <ul style="list-style-type: none"> <li>• Chairman and Chief Executive Officer, Banque AGF</li> <li>• Chairman of the Board of Directors, AGF Private Banking</li> <li>• Chairman of the Board of Directors, AVIP</li> <li>• Chairman of the Supervisory Board, AGF Asset Management</li> <li>• Chairman of the Supervisory Board, W Finance</li> <li>• Permanent representative of AGF International on the Board of AGF IART</li> <li>• Permanent representative of AGF Holding on the Board of Bolloré Investissement</li> <li>• Permanent representative of AGF Vie on the Board of Bolloré</li> <li>• Permanent representative of AGF Holding on the Board of AGF Private Equity</li> <li>• Director, Gécina</li> <li>• Chairman of the Board of Directors, AGF Assurances Financières</li> <li>• Chairman of the Board of Directors, Assurances Fédérales IARD</li> <li>• Chairman of the Board of Directors, GIE Placement d'assurance</li> <li>• Vice-Chairman of the Supervisory Board, W Finance</li> <li>• Director, Enténial</li> <li>• Director, Meteo Transformer (Guernsey)</li> <li>• Permanent representative of AGF Holding on the Board of Génération Vie</li> <li>• Permanent representative of AGF Holding on the Board of Métropole S.A.</li> <li>• Permanent representative of AGF on the Board of Worms &amp; Cie</li> <li>• Vice-Chairman of the Supervisory Board, AGF Private Equity</li> <li>• Director, Sophia</li> <li>• Chairman of the Supervisory Board, AGF Assurances Financières</li> </ul>
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<p><b>THIERRY MORIN</b></p> <p><b>Main office held within the Company:</b> Director</p> <p><b>Date of first appointment:</b> 10 May 2006</p> <p><b>Date appointment expires</b> AGM held to approve accounts for 2008 financial year</p> <p><b>Number of shares held at 31 December 2007:</b> 1,000</p>	<p><b>Current</b></p> <p><b>France</b></p> <ul style="list-style-type: none"> <li>• Chairman and Chief Executive Officer, Valeo</li> <li>• Chairman, Valeo Finance</li> <li>• Chairman, Valeo Service</li> <li>• Chairman, Valeo Thermique Habitacle</li> <li>• Manager, Valeo Management Services</li> <li>• Director, Valeo Systèmes de Liaison (until 2 January 2008)</li> <li>• Director, CEDEP</li> </ul> <p><b>International</b></p> <ul style="list-style-type: none"> <li>• Chairman, Valeo Espana S.A.</li> <li>• Chairman, Valeo SpA</li> <li>• Chairman, Valeo Japan Co., Ltd</li> <li>• Chairman, Valeo (UK) Limited</li> <li>• Manager, Valeo Auto-Electric Beteiligungs GmbH</li> <li>• Manager, Valeo Germany Holding GmbH</li> <li>• Manager, Valeo Grundvermögen Verwaltung GmbH</li> <li>• Manager, Valeo Holding Deutschland GmbH</li> <li>• Director, Valeo Service Espana SA</li> <li>• Director, Valeo Iluminacion SA</li> <li>• Director, Valeo Termico SA</li> </ul> <p><b>Held in the past five years but now expired:</b></p> <p><b>Expired in 2007</b></p> <ul style="list-style-type: none"> <li>• Chairman, Société de Participations Valeo</li> <li>• Chairman, Valeo Bayen</li> </ul> <p><b>Expired 2003 to 2006</b></p> <ul style="list-style-type: none"> <li>• Chairman, Valeo International Holding BV</li> <li>• Chairman, Valeo Holding Netherlands BV</li> <li>• Director, Valeo Climatisation</li> <li>• Director, Valeo Services Ltd</li> <li>• Chairman of the Management Board, Valeo</li> </ul>
<p><b>JEAN-PIERRE SEEUWS</b></p> <p><b>Main office held within the Company:</b> Director</p> <p><b>Date of first appointment:</b> 10 May 2006</p> <p><b>Date appointment expires</b> AGM held to approve accounts for 2008 financial year</p> <p><b>Number of shares held at 31 December 2007:</b> 3,505</p>	<p><b>Current</b></p> <p>None</p> <p><b>Held in the past five years but now expired:</b></p> <p><b>Expired in 2007</b></p> <p>None</p> <p><b>Expired 2003 to 2006</b></p> <ul style="list-style-type: none"> <li>• Director, Cook Composites &amp; Polymers</li> <li>• Chairman, Hutchinson Industrias del Caucho</li> <li>• Chairman, Hutchinson S.A.</li> <li>• Chairman, Hutchinson Corp</li> <li>• Director, Atofina Delaware Inc</li> <li>• Director, Atofina Chemicals Inc</li> <li>• Director, Total Petrochemicals USA Inc</li> <li>• Director, Total Composites Inc</li> <li>• Director, Bostik Findley Inc</li> <li>• Director, Kalon Group plc</li> <li>• Director, Petrofina</li> <li>• Director, Total Chimie</li> </ul>

<p><b>TIDJANE THIAM</b></p> <p><b>Main office held within the Company:</b> Director</p> <p><b>Date of first appointment:</b> 12 September 2006</p> <p><b>Date appointment expires</b> AGM held to approve accounts for 2008 financial year</p> <p><b>Number of shares held at 31 December 2007:</b> 550</p>	<p><b>Current</b></p> <p><b>France</b> None</p> <p><b>International</b></p> <ul style="list-style-type: none"> <li>• Member of the Board of Directors, Prudential Plc (since September 2007)</li> </ul> <p><b>Held in the past five years but now expired:</b></p> <p><b>Expired in 2007</b></p> <ul style="list-style-type: none"> <li>• Chairman, Aviva Hayat ve Emeklilik AS</li> <li>• Chairman, Aviva Sigorta AS</li> <li>• Director, Ark Life Assurance Company Limited</li> <li>• Director, Aviva Group Holdings Limited</li> <li>• Director, Aviva Grupo Corporative SL</li> <li>• Director, Aviva International Holdings Limited</li> <li>• Director, Aviva USA Corporation</li> <li>• Director, Aviva Vida y Pensiones</li> <li>• Director, General Accident plc</li> <li>• Director, Hibernian Group plc</li> <li>• Director, Hibernian Life &amp; Pensions Limited</li> <li>• Director, Hibernian Life Holdings Limited</li> <li>• Member of the Supervisory Board, Delta Lloyd NV</li> <li>• Member of the Supervisory Board, Commercial Union Investment Management</li> <li>• Member of the Supervisory Board, Commercial Union Polska</li> </ul> <p><b>Expired 2003 to 2006</b> None</p>
<p><b>PHILIPPE VASSOR</b></p> <p><b>Main office held within the Company:</b> Director</p> <p><b>Date of first appointment:</b> 10 May 2006</p> <p><b>Date appointment expires</b> AGM held to approve accounts for 2008 financial year</p> <p><b>Number of shares held at 31 December 2007:</b> 300</p>	<p><b>Current</b></p> <p><b>France</b></p> <ul style="list-style-type: none"> <li>• Chairman, Baignas S.A.S.</li> <li>• Director, Groupama S.A.</li> <li>• Director, Infovista</li> </ul> <p><b>International</b> None</p> <p><b>Held in the past five years but now expired:</b></p> <p><b>Expired in 2007</b> None</p> <p><b>Expired 2003 to 2006</b> Chairman, Deloitte France</p>

**Thierry Le Hénaff**

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

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

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

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

He has been Chairman and Chief Executive Officer of Arkema S.A. since 6 March 2006, and Chairman of the Board of Directors of Arkema France since 18 April 2006, in which he was Chairman and Chief Executive Officer since 2004.

**François Enaud**

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

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

**Bernard Kasriel**

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

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

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

**Laurent Mignon**

Laurent Mignon, born in 1963, is a graduate of HEC and the Stanford Executive Program. He has been Manager of the private bank Oddo et Cie since September 2007.

Before joining Oddo et Cie, he spent 10 years with the AGF group. He joined AGF in 1997 as Chief Financial Officer, and was appointed member of the executive committee in 1998. In 2002 he was appointed to head the investment activities of Banque AGF, of AGF

Asset Management and of AGF Immobilier; in 2003, of the Life and Financial Services sector (asset management, banking activities, real estate) and of Credit Insurance (Euler Hermes group). He was appointed Chairman of the Executive Committee in January 2006.

In addition to his functions as Manager of Oddo et Cie, he is a member of the Board of Directors of Sequana Capital, Chairman of the Supervisory Board of Oddo Corporate Finance, and Chairman and Chief Executive Officer of Oddo Asset Management.

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

**Thierry Morin**

Thierry Morin, born in 1952, is a graduate of Paris IX – Dauphine University. He is also a *chevalier de la légion d'honneur* and a *chevalier des arts et des lettres*. He has been Chairman of the Management Board of Valeo since 2001 and Chairman and Chief Executive Officer of Valeo since March 2003.

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

**Jean-Pierre Seeuws**

Jean-Pierre Seeuws, born in 1945, holds a degree from *École polytechnique*.

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

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

**Tidjane Thiam**

Tidjane Thiam, born in 1962, is a graduate of *École polytechnique*, has a civil engineering degree from *École nationale supérieure des Mines de Paris*, and an MBA from Insead. He has been Group Chief Financial Officer and a member of the Board of Directors of Prudential plc since September 2007.

From 1986 to 1994, he was a strategic consultant with McKinsey & Company in France and the United States. From 1994 to 1998, he was Director General of the *Bureau national d'études techniques* and *de développement* (BNETD), reporting to the office of the President of the Republic of Côte d'Ivoire. He was Minister for Planning and Development in Côte d'Ivoire from 1998 to 1999, and was named a member of the Dream Cabinet by the World Economic

Forum in Davos. He was then a partner at McKinsey in Paris from 2000 to 2002. He joined the Aviva Group in 2002 as Head of Group Strategy and Development in London, followed by Chief Executive Officer of Aviva International, and later Chief Executive Officer of Aviva Europe until September 2007 when he joined the Prudential group.

**Philippe Vassor**

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

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

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

## 14.2 Senior Management

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

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

The following people sit on the Executive Committee: Thierry Le Hénaff, Bernard Boyer, Michel Delaborde, Alain Devic, Pierre Chanoine (effective 1<sup>st</sup> February 2008), Thierry Lemonnier, Marc Schuller and Otto Takken.

**Thierry Le Hénaff**

See section 14.1 above.

**Bernard Boyer**

Bernard Boyer, born in 1960, holds degrees from *École polytechnique* and *École nationale supérieure des pétroles et moteurs*.

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

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

**Michel Delaborde**

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

In 1980 he joined Total where he was in charge of human resources for both head office and refineries. After two years as head of the human resources department Trading & Middle-East head office, he was put in charge of communication for Total in 1996, serving as director of communications first for TotalFina, then for TotalFinaElf after the merger in 1999. In 2002 he joined Atofina as director of human resources and communication and was appointed to the Chemicals Executive Committee of Total.

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

**Alain Devic**

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

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

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

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

**Pierre Chanoine**

Pierre Chanoine, born in 1949, is a graduate of *École supérieure de commerce* in Reims and also holds an MBA from Sherbrooke University (Canada). He began his career in 1974 at Elf Aquitaine. After holding a number of financial positions, he joined Texas Gulf in the US in 1989, in charge of commercial development export. From 1991 to 2001 he was in charge of Corporate Planning and Strategy, and later the Chlorine/Caustic Soda business at Elf Atochem. After holding a position in Spain, in 2002 he became Group President in charge of Atofina's Urea Formaldehyde Resins business.

As of the date of this reference document, Pierre Chanoine is Executive Vice-President in charge of Performance Products, and oversees the Fluorochemicals Business Unit.

**Thierry Lemonnier**

Thierry Lemonnier, born in 1953, is a graduate of *École nationale supérieure de géologie* in Nancy and holds a Master's degree from Stanford University in the United States.

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

As of the date of this reference document, Thierry Lemonnier is Executive Vice-President and Chief Financial Officer and is thus responsible for accounting, management control, cash management, legal issues, tax issues, investor relations and IT systems.

**Marc Schuller**

Marc Schuller, born in 1960, is a graduate of *École supérieure des sciences économiques et commerciales*. He joined Orkem in 1985 as acrylics product manager.

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

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

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

**Otto Takken**

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

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

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

As of the date of this reference document, Otto Takken is Executive Vice-President in charge of Vinyl Products, also overseeing the Group's American affiliates.

## 14.3 Declarations regarding administrative bodies

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

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

- ▶ convicted of fraud during the past five years;
- ▶ implicated in a bankruptcy, receivership or liquidation during the past five years;

- ▶ charged with any offence or any official public sanction taken against them by statutory or regulatory authorities during the past five years.

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

## 14.4 Conflicts of interest within administrative bodies and senior management

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

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

## 14.5 Information regarding service contracts

None.

## 14.6 Stock dealings by the senior managers of Arkema S.A.

The Company has no knowledge of any dealings in 2007 in the Company's stock or related financial instruments by the individuals

mentioned in paragraphs a) to c) of article L. 621-18-2 of the *Code monétaire et financier* (Monetary Financial Code).





## Functioning of administrative and management bodies

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The following preamble together with sections 15.3, 15.4, 15.5 and 15.7 of this reference document constitute the report required under article L. 225-37 of the *Code de commerce* (Commercial Code).

In accordance with the requirements of article L. 225-37 of the *Code de commerce*, the Chairman of the Board of Directors has prepared a report dated 4 March 2008 detailing:

- ▶ conditions for the preparation and organization of the work of the Board of Directors;
- ▶ the rules and principles approved by the Board of Directors to determine the remuneration and benefits in kind allocated to Directors;

- ▶ the internal control procedures adopted by the Company; and
- ▶ any limits imposed on the powers of the Chief Executive Officer.

This report has been drawn up by a working party in the Finance Department, consisting of representatives from the legal department and the head of the Internal Management Control department. It was submitted to the Audit and Accounts Committee on 26 February 2008 and to the Board of Directors on 4 March 2008.

## 15.1 Functioning and powers of the Board of Directors

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

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

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

### 15.1.2 COMPOSITION OF THE BOARD OF DIRECTORS

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

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

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

Subject to the laws applicable to provisional appointments made by the Board of Directors, the Directors shall serve for a term of office of three years. The Directors' term of office expires at the end of the ordinary general meeting called to vote on the accounts for the previous fiscal year and to be held during the year in which the term expires. The age limit for directors is 67. When a director has reached this age during his term of office, such term shall automatically come to an end.

Directors may receive, as attendance fees, a fixed sum per year, the amount of which is determined by the general meeting and remains in force until adoption of a new resolution. The Board freely distributes attendance fees among its members. In particular, it may allocate to directors who are also members of the committees provided by the articles of Association a higher portion than that allotted to the other directors. The Board may allocate exceptional remuneration to the directors for their performance of missions or mandates assigned thereby.

Costs incurred by the directors in the performance of their duties shall be reimbursed by the Company upon presentation of relevant proof thereof.

#### Director representing employees and appointed by the general meeting (article 10.2 of the articles of Association)

When the report presented by the Board of Directors at the general meeting pursuant to article L. 225-102 of the *Code de commerce*

states that the number of shares held by employees of the Company and affiliated companies within the meaning of article L. 225-180 of said Code amounts to over 3% of the share capital, a director representing the employee shareholders is appointed by the ordinary general meeting in accordance with the procedures set forth

by laws and regulations in force and by the articles of Association, insofar as the Board of Directors does not already include among its members a director representing employee shareholders or an elected employee.

### **15.1.3 MEETINGS OF THE BOARD OF DIRECTORS (ARTICLE 12 OF THE ARTICLES OF ASSOCIATION)**

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Board of Directors meetings are called as often as required to serve the Company's interest, at the registered office or at any other location indicated in the convening notice.

The convening notice may be delivered without a notice period and by any means, even verbally in urgent cases. The Board of Directors may take valid decisions, even if not convened by a notice, if all of its members are present or represented. Prior to the meeting,

Directors shall receive the agenda for the meeting and, wherever circumstances allow, a dossier containing the agenda, minutes of the previous meeting of the Board of Directors, and documentation relating to each agenda item.

Board of Directors meetings are chaired by the Chairman of the Board or, in his absence, by the oldest director in attendance.

### **15.1.4 QUORUM AND MAJORITY (ARTICLE 12 OF THE ARTICLES OF ASSOCIATION)**

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The validity of the Board of Directors' decisions requires at least half of directors to be present, or, when allowed by law, deemed to be present, under the conditions defined by article 2.3 of the Internal Regulations drawn up by the Board of Directors, through videoconferencing or telecommunications means that comply with

the technical attributes specified by the laws and regulations in force.

Decisions are taken by a majority of votes of the directors present, deemed to be present or represented. In the event of a tie vote, the Chairman of the meeting holds the casting vote.

## **15.2 Chairman of the Board of Directors and Chief Executive Officer**

### **15.2.1 APPOINTMENT OF THE CHAIRMAN (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)**

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The Board appoints a Chairman, who must be a natural person, from among its members. The term of office of the Chairman automatically ends upon the Chairman's sixty-seventh birthday, at the latest.

However, the Chairman shall remain in office until the Board of Directors meeting called to appoint his successor.

### 15.2.2 DUTIES AND RESPONSIBILITIES OF THE CHAIRMAN (ARTICLE 11 OF THE ARTICLES OF ASSOCIATION)

The Chairman represents the Board of Directors. He organizes and directs the Board's work and reports thereon to the general meeting. He ensures that the Company's bodies are operating properly and,

more particularly, that the directors are able to carry out their duties. The Board may revoke the Chairman's appointment at any time.

### 15.2.3 MAXIMUM AGE OF THE CHIEF EXECUTIVE OFFICER (ARTICLE 14.2 OF THE ARTICLES OF ASSOCIATION)

During his term of office, the Chief Executive Officer must be less than 67 years old. Once he has reached this age during his term of office, his term shall expire automatically and the Board of Directors shall appoint a new Chief Executive Officer. However, the Chief Executive Officer shall remain in office until the date of the Board of Directors'

meeting called to appoint his successor. Subject to the aforesaid age limit, the Chief Executive Officer may be re-elected for an unlimited number of terms.

### 15.2.4 REVOCATION AND IMPEDIMENT (ARTICLE 14.3 OF THE ARTICLES OF ASSOCIATION)

The Chief Executive Officer's appointment may be revoked at any time by the Board of Directors, pursuant to the applicable laws and regulations.

In the event that the Chief Executive Officer becomes temporarily unable to fulfil his duties, the Board of Directors may delegate the functions of Chief Executive Officer to a director.

## 15.3 Conditions for the preparation and organization of the work of the Board of Directors

The composition and functioning of the Company's Board of Directors are determined by current laws and regulations, by the Company's articles of Association, and by the Board of Directors' Internal Regulations, the main clauses of which are summarized or reproduced below.

Note that the Board of Directors on 6 March 2006 voted not to separate the roles of Chairman of the Board and Chief Executive Officer, and appointed Thierry Le Hénaff as Chairman of the Board and Chief Executive Officer for the period of his term of office.

The Board of Directors consists of eight Directors, including six independent directors in the sense of the criteria set by the internal regulations for the Board of Directors.

#### Duties and responsibilities of the Board of Directors

The Board of Directors determines the guidelines governing the Company's activity and oversees their application. Subject to those

powers expressly conferred on the shareholders and within the limits of the Company's corporate purpose, the Board of Directors considers any issue involving the proper operation of the Company.

To this end, it must review strategic developments in the Group, monitor their implementation and management, take decisions regarding major transactions and monitor the quality of information supplied to shareholders and the markets, and ensure the quality of the Board of Directors' operations.

The Board of Directors meets at least four times each year and as often as the interests of the Company demand.

Prior to the meeting, directors shall receive the agenda for the meeting and, wherever circumstances allow, a dossier containing the agenda, minutes of the previous meeting of the board of directors, and documentation relating to each agenda item.

In accordance with the internal regulations of the Board of Directors and of its committees, some subjects are submitted for prior review by the appropriate committee before being presented to the

Board of Directors for approval. Such subjects include (i) for the Audit and Accounts Committee the review of financial statements, the examination of internal control procedures, the activities of the statutory auditors and financial transactions, and (ii) for the

Nominating and Compensation Committee the remuneration policy and the employee share ownership schemes. The Committees exercise their proceedings under the responsibility of the Board of Directors.

### 15.3.1 ACTIVITY OF THE BOARD OF DIRECTORS

The Board of Directors met seven times in 2007. The average attendance rate for all directors at these meetings was 92.8%.

The agenda for these meetings included:

- the approval of the 2006 accounts, consideration of quarterly and half-yearly results, and review of the associated press releases;
- annual reports on the work of the Audit and Accounts Committee and the Nominating and Compensation Committee;
- annual assessment of the Board of Directors;
- assessment of the independence of the directors;
- setting of the fixed and variable parts of the remuneration for the Chairman and Chief Executive Officer for 2007;
- setting of the powers of the Chief Executive Officer in the granting of deposits, advance payments and guarantees;
- consideration of stock option and free share allocation programs;
- review of remuneration for the Executive Committee (“Comex”);

- Group insurance and safety policies;
- relocation of the Company’s headquarters and corresponding modification of the articles of Association; and
- reorganization and growth projects within the Group (acquisition of Coatex, etc.).

Between the beginning of 2008 and the meeting called to review the accounts for the 2007 financial year, held on 4 March 2008, the Board of Directors met twice, with an average attendance rate of 87.5%. These meetings discussed a review of the accounts for the year to 31 December 2007, the proposed share capital increase reserved for employees, the assessment of the independence of directors, annual reports from specialist committees, and the allocation of attendance fees for 2007.

In accordance with its internal regulations, the Board of Directors carried out its annual assessment for 2007, which was the subject of the Board of Directors’ discussions at its meetings on 17 January 2008 and 4 March 2008.

### 15.3.2 INTERNAL REGULATIONS OF THE BOARD OF DIRECTORS

In order to comply with best corporate governance practices, the Company’s Board of Directors has adopted a charter setting out the rights and obligations of the directors.

#### Independent directors

In accordance with the recommendations of the AFEP/MEDEF report, the Board of Directors decided that it should comprise a majority of independent directors. Decisions regarding the independence of directors are made by the Nominating and Compensation Committee as described below.

An independent director is a director who has no relationship whatsoever with the Company, its Group or its management, *i.e.*, in particular, a director who:

- is not an employee or executive of the Company, an employee or director of its parent company, if any, or of a company consolidated within the Company and who has not served in such a capacity during the previous five years;

- is not a corporate officer of a company in which the Company directly or indirectly holds a seat as director, or in which an employee appointed as such or a corporate officer of the Company (who currently holds such a position or has held such a position during the previous five years) holds a seat as director;
- is not a significant customer, supplier, corporate banker, or investment banker of the Company or its Group, or for whom the Company accounts for a material part of its business;
- has no close family ties with a corporate officer of the Company;
- has not, during the previous five years, served as statutory auditor of the Company, or of a company that holds at least 10% of the Company’s share capital or of the share capital of a company in which the Company held an interest of at least 10% as of the end of their term of service;

- has not been a director of the Company for more than twelve years;
- is not or does not represent a significant shareholder in the Company, *i.e.* a shareholder holding more than 10% of the Company's share capital or voting rights.

Following this analysis the Board of Directors on 17 January 2008 accepted the Nominating and Compensation Committee's recommendation that the following directors be considered as independent: François Enaud, Bernard Kasriel, Thierry Morin, Laurent Mignon, Tidjane Thiam and Philippe Vassor.

The offices held by the directors in other companies are listed in the Board of Directors' management report in accordance with article L. 25-102-1 of the *Code de commerce*.

### Duty of loyalty

A director may not use his title or functions as director to secure any advantage, whether monetary or otherwise, for himself or any third party. The director undertakes to notify the Board of any agreement between the said director and the Company, entered into directly or via an intermediary, or in which he has an indirect interest, prior to entering into such agreement. The director undertakes not to assume any duties in companies or business activities that are in competition with the Company without previously notifying the Board of Directors and the Chairman of the Nominating and Compensation Committee.

### Independence of directors and conflicts of interest

All directors undertake to maintain their independence of analysis, judgment, decision-making and action under all circumstances. Directors undertake not to seek or accept from the Company or any companies directly or indirectly affiliated therewith, any advantages that are liable to be construed as jeopardizing their independence.

Directors shall notify the Board of any conflict of interest, whether direct or indirect, actual or potential, with the Company. In such cases, the relevant director shall abstain from voting on any resolution submitted to the Board and from participating in any discussions preceding such voting. The Chairman may ask such a director not to attend the meeting. An exception shall be made to this provision if all directors were to abstain from voting in application thereof.

### Self-assessment of the Board of Directors

Every year, the Board of Directors shall hold a debate on its functioning.

### Communication of information to directors

Prior to each Board of Directors meeting, a file shall be sent to each director in sufficient time before the meeting, providing information on items on the agenda to be discussed that require special analysis and prior consideration, whenever this can be accomplished without any breach of confidentiality.

However, in the event of an emergency meeting in special circumstances, such information may be sent to the directors within a shorter period of time, or provided at the beginning of the meeting.

Directors may require from the Chairman or Chief Executive Officer any additional information they may consider necessary to properly fulfill their duties, particularly in the light of the meeting's agenda.

### Confidentiality

All documents provided for Board meetings and all information collected during or outside Board meetings (the Information) are confidential, without exception, whether or not the Information collected is presented as being confidential. Directors undertake not to express their individual views on matters brought before the Board of Directors outside the boardroom.

## 15.3.3 BOARD OF DIRECTORS' COMMITTEES

In accordance with its internal rules, the Board of Directors set up two standing committees in 2006, an Audit and Accounts Committee and a Nominating and Compensation Committee. The composition, purpose, organization and activity in 2007 of these two committees are reported below.

The Board of Directors has established internal regulations for each of these standing committees, the main provisions of which are summarized below.

### 15.3.3.1 The Audit and Accounts Committee

The Audit and Accounts Committee consists of Philippe Vassor (Chairman), Jean-Pierre Seeuws and Laurent Mignon; thus two of its three members, including its Chairman, are independent. Thierry Lemonnier, Chief Financial Officer of the Group, is the committee's secretary.

#### Composition (article 2 of the internal regulations)

The Committee comprises at least three directors appointed by the Board of Directors. In selecting the Committee members, the Board

of Directors shall grant special attention to their qualifications in the area of finance and accounting. A majority of the Committee members shall be independent directors. The Chairman of the Audit and Accounts Committee shall be an independent director.

Notwithstanding a reasoned decision to the contrary by the Board of Directors, no Committee member shall hold more than two other offices as a member of the audit and accounts committee of a listed company in France or abroad.

The Board of Directors shall ensure that it does not appoint to the Audit and Accounts Committee a director from a company on whose audit committee one of the Company's directors also holds a seat.

Committee members may receive from the Company only those attendance fees due in consideration for serving as director and Committee member.

The term of office of Committee members shall coincide with their term of office as director. The term of office of a Committee member may be renewed at the same time as his term of office as director. However, the Board of Directors may modify the composition of the Committee at any time.

### Duties (article 1 of the internal regulations)

In order to enable the Company's Board of Directors to ensure the quality of internal control and the reliability of information provided to shareholders and to the financial markets, the Committee performs the following roles:

- ▶ it submits recommendations on the appointment of the statutory auditors and their remunerations, in compliance with independence requirements;
- ▶ it ensures compliance with all applicable laws and regulations when statutory auditors are commissioned to perform work other than auditing the accounts;
- ▶ it reviews the options and assumptions used in preparing financial statements, reviews annual consolidated accounts, half-yearly and quarterly financial information and the full year financial statements and forecasts of Arkema S.A. prior to their consideration by the Board of Directors, and assesses the accounting content of press releases prior to their issue;
- ▶ it assesses the suitability and consistency from year to year of accounting principles and policies;
- ▶ it assesses internal control procedures;
- ▶ it reviews the work programs of external and internal auditors;
- ▶ it reviews audit work;
- ▶ it assesses the organization of delegations of commitment authority;
- ▶ it assesses the suitability of risk monitoring procedures;
- ▶ it reviews the conditions for using derivatives;
- ▶ it considers major transactions planned by the Group;
- ▶ it remains regularly updated on developments in significant claims and disputes;
- ▶ it reviews the main off balance sheet undertakings, particularly the most significant new undertakings;

- ▶ it prepares and submits reports as provided by the Internal Regulations of the Board of Directors, and presents to the Board in draft form that portion of the annual report and, more generally, any documents required by the applicable regulations, falling within its remit.

### Organization of work (article 3 of the internal regulations)

The Committee meets several times a year, in particular to review the periodic consolidated accounts. Meetings may be called by the Committee Chairman, by two Committee members or by the Chairman of the Board of Directors. The schedule of meetings is set by the Committee Chairman.

The Committee submits written reports to the Board of Directors on its work and an annual assessment of its operation, based on the requirements set out in the Internal Regulations as well as any suggestion for improvement in its functioning.

Recommendations submitted by the Committee to the Board of Directors are adopted by a majority of members present at the Committee meeting. The Committee Chairman casts the deciding vote if an even number of members is present at the meeting, unless only two members are present.

### Activity of the Committee

The Audit and Accounts Committee met five times in 2007 and reported on its work to the Board of Directors.

The average attendance rate for Committee members at these meetings was 86.6%.

The statutory auditors were present at each of these meetings. The Audit and Accounts Committee received their conclusions after the meetings and in the absence of representatives of the Company.

The work of the Audit and Accounts Committee over the year focused mainly on the review of quarterly, half-yearly and annual accounts, internal control procedures, the schedule and progress of Internal and External Auditing, and developments in the main claims and disputes involving the Group.

Between the beginning of 2008 and 4 March 2008, the date at which the Board of Directors approved the accounts for 2007, the Audit and Accounts Committee met once, with all members in attendance. This meeting concentrated on a consideration of the accounts for the year to 31 December 2007 and on the annual self-assessment of the work of the Committee.

### 15.3.3.2 The Nominating and Compensation Committee

The Nominating and Compensation Committee consists of Thierry Morin (Chairman), François Enaud and Bernard Kasriel, all independent directors. Michel Delaborde, Executive Vice-President Human Resources and Communication, is the committee's secretary.

### Composition (article 2 of the internal regulations)

The Nominating and Compensation Committee comprises at least three directors appointed by the Board of Directors. A majority of the Committee members shall be independent directors.

The Chairman of the Committee shall be an independent director.

Committee members may receive from the Company only those attendance fees due in consideration for serving as director and Committee member.

The term of office of Committee members shall coincide with their term of office as director. The term of office of a Committee member may be renewed at the same time as his term of office as director. However, the Board of Directors may modify the composition of the Committee at any time.

### Duties (article 1 of the internal regulations)

The Committee's main roles are the following:

Nomination:

- it submits to the Board of Directors recommendations on the composition of the Board of Directors and its Committees;
- every year, it submits to the Board of Directors a list of directors who can be considered as independent directors of the Company, in accordance with the provisions of article 2.1 of the Internal Regulations of the Company's Board of Directors;
- it assists the Board of Directors in appointing and evaluating the corporate officers, the directors, and the directors serving as Committee members;
- it prepares and submits an annual report on the Committee's operation and work.

Compensation:

- it reviews the main goals proposed by the senior management relating to compensation of the Company's executives, whether or not they are corporate officers;
- it submits to the Board of Directors policy recommendations and proposals in the areas of compensation, pension schemes and contingency funds, benefits in kind, and allocation of options to subscribe or purchase shares (stock options) or receive free shares;
- it reviews the compensation of Executive Committee members, including stock options, free shares, pension schemes, contingency funds and benefits in kind;

- it reviews the procedures for dividing attendance fees among Board members and the conditions for reimbursing any expenses incurred by the directors;
- it prepares and submits reports as provided for by the Internal Regulations, and presents to the Board of Directors that part of the annual report in draft form, and, more generally, any documents required by the applicable regulations and falling within its remit, in particular information on the compensation of corporate officers, stock options and free shares.

### Organization of work (article 3 of the internal regulations)

The Committee meets several times a year, including once prior to approval of the agenda for the annual general meeting. Meetings may be called by the Committee Chairman, by two Committee members or by the Chairman of the Board of Directors. The schedule of meetings is set by the Committee Chairman. The Committee reports to the Board of Directors on its work. It submits an annual assessment of its functioning, based on the requirements set out in the Internal Regulations, and any suggestion for improvement in its functioning.

Recommendations submitted by the Committee to the Board of Directors are adopted by a majority of members present at the Committee meeting. The Committee Chairman casts the deciding vote if an even number of members is present at the meeting, unless only two members are present.

### Activity of the Committee

The Nominating and Compensation Committee met three times in 2007 and reported on its work to the Board of Directors.

The average attendance rate for committee members at these meetings was 88.8%.

The work of the Nominating and Compensation Committee focused on the remuneration of Company officers and the Executive Committee, and the implementation of stock option and free share allocation plans.

Between the beginning of 2008 and 4 March 2008, the date at which the Board of Directors approved the accounts for 2007, the Nominating and Compensation Committee met twice, with all members in attendance on both occasions. These meetings concentrated on the annual review of the committee's work, the independence of directors, the allocation of attendance fees for 2007, and the assessment of the Board of Directors in 2007.



## 15.4 Principles and rules for determining compensation and all other benefits paid to officers of the Company

The principles and rules for determining compensation and all other benefits paid to officers of the Company are decided by the Board of Directors on the basis of recommendations from the Nominating and Compensation Committee, in accordance with the provisions of

internal regulations. These are described in the Board of Directors' management report in accordance with article L. 225-102-1 of the *Code de commerce*.

## 15.5 Limitations on the powers of Chief Executive Officer

The Chief Executive Officer is invested with the most extensive powers to act in the Company's name in all circumstances, within the limits of the Company's corporate purpose and subject to those powers expressly vested by law in the general meetings and the Board of Directors. He represents the Company in its relationships with third parties.

The Board of Directors may set limits on the powers of the Chief Executive Officer, but such limits are not enforceable against third parties.

The Board of Directors has authorized the Chief Executive Officer, with powers of sub-delegation, to issue in the name of the Company, deposits, commitments and guarantees up to a limit of €50 million, and to continue the deposits, commitments and guarantees previously made. This authorization was granted by the Board of Directors on 17 January 2008 for a period of twelve months, and expires on 17 January 2009.

In addition to any legal requirements noted above, the Chief Executive Officer shall inform the Board of Directors of, or submit to its approval, any transactions involving a greater sum. Therefore the Board of Directors shall be consulted in advance:

- ▶ for any industrial investment in excess of €80 million, with the annual investment budget also to be submitted to the Board of Directors for approval;
- ▶ for any acquisition or divestment project with an enterprise value in excess of €130 million;
- ▶ if annual liquidations of investment exceed the annual budget by over 10%.

Equally, the Board of Directors shall be informed after the event:

- ▶ of any industrial investment in excess of €30 million;
- ▶ of any acquisition or divestment project with an enterprise value in excess of €50 million.

## 15.6 Vice-Executive Officer

On the Chief Executive Officer's recommendation, the Board of Directors may appoint from one to five natural persons, who shall have the title of Vice-Executive Officer (*Directeur général délégué*), to assist the Chief Executive Officer, and shall determine their term of office and the extent of their powers, it being understood that the Vice-Executive Officers shall hold the same powers as the Chief

Executive Officer in representing the Company in its relationship with third parties. Vice-Executive Officers shall be less than 67 years old to serve in this office.

The Board of Directors may revoke the appointment of a Vice-Executive Officer at any time, on the recommendation of the Chief Executive Officer, in accordance with the applicable laws and regulations.

### 15.6.1 IDENTITY OF VICE-EXECUTIVE OFFICERS

None.

### 15.6.2 BIOGRAPHY OF VICE-EXECUTIVE OFFICERS

None.

## 15.7 Internal control procedures

### 15.7.1 GENERAL ORGANIZATION OF INTERNAL CONTROL

#### 15.7.1.1 Aims and objectives

The aims and objectives of the Group's internal control procedures were drawn up in accordance with COSO<sup>(20)</sup> guidelines and the principles recommended by a reference framework drawn up by a stock exchange group under the aegis of the *Autorité des marchés financiers* (AMF – French financial markets authority).

Internal control is a Group wide structure, defined and implemented by Senior Management, management and staff. Its aims and objectives are to ensure:

- compliance by the Group with current laws and regulations;
- application by the Group of the instructions and guidance of Senior Management;
- the correct operation of internal processes, notably those serving to protect assets;
- the reliability of financial information.

Generally, internal control is designed to help manage and control the Group's activities, the effectiveness of operations, and the efficient use of its resources.

However, no internal control structure can provide an absolute guarantee that these goals are met.

#### 15.7.1.2 Scope

The internal control framework is adapted to the Group's organization, which is structured around three components:

- 3 business segments (Vinyl Products business segment, Industrial Chemicals business segment, Performance Products business segment) made up of BUs which comprise a group of business lines or products that are coherent or complementary from a strategic, business or manufacturing perspective;

- the functional departments (or support functions), which assist the BUs in their area of competence, including accounting, legal affairs and information systems, and ensure that the Group's organization is consistent and optimized;
- the subsidiaries, through which the BUs exercise their business activities.

All those companies included in the basis of consolidation of the Group financial statements are concerned by the internal control procedures.

#### 15.7.1.3 Persons involved in internal control procedures

##### Board of Directors and Committees

The Board of Directors, the two committees in place, and the expertise of their members help contribute to the creation of an internal control culture suited to the needs of the Group.

In particular, it is the responsibility of the Audit and Accounts Committee to review internal control procedures, assess the schedule of internal auditors and the results of their work, and assess the relevance and adequacy of risk monitoring procedures.

##### Executive Committee

The Chairman and Chief Executive Officer has created an Executive Committee ("Comex") consisting of the seven operational and functional executives who report directly to him.

Thus Comex consists of:

- the Chairman and Chief Executive Officer of the Company, who also chairs Comex;
- the Executive Vice-Presidents overseeing the BUs within the three business segments (Vinyl Products, Industrial Chemicals, Performance Products);

(20) Committee of sponsoring Organisations of the Treadway Commission (COSO).

- ▶ the four Executive Vice-Presidents in charge of the support functions: Human Resources and Communication, Industry, Finance, and Strategy.

Comex is a decision-making body that concentrates on strategic matters and performance monitoring, and considers major issues regarding organization and large projects.

With regard to the internal control framework, Comex:

- ▶ defines the internal control framework and the rules for delegation of responsibility;
- ▶ sets targets for each BU, functional department and subsidiary, and provides the resources for these targets to be met;
- ▶ supervises the implementation of the control procedures that help achieve the targets it has set;
- ▶ considers the risks that are specific to each project submitted to Comex;
- ▶ carries out an annual review of the major risks to which the Group is exposed on the basis of the work of the Risk Review Committee.

Comex calls on the Internal Audit department and the Internal Control department to help with its operation.

Comex meets twice a month in principle.

Each member of Comex is responsible for ensuring that Group wide rules and principles constituting the internal control structure and procedures are observed in the entities for which he is responsible and for which he acts as the “tutor”.

### Risk Review Committee

In order to strengthen the formal framework of the risk identification and analysis procedures, and to monitor on a regular basis the evolution of risk factors, a Risk Review Committee was set up in October 2007.

Chaired by the Vice-President Strategy, the Committee reviews every quarter:

1. the summaries of audits and evaluations conducted by the Internal Audit department, the Safety Environment Quality department, and the Financial Internal Control department;
2. the information supplied quarterly by the Finance department on risks as well as claims and disputes;
3. a list of risks prepared from a survey conducted by the Internal Audit department.

The conclusions of this review are communicated to Comex.

### Internal Audit department

Internal Audit is an independent function under the responsibility of the Executive Vice-President Strategy. Its role in particular is to improve control over the Group's management systems and processes and, more broadly, to ensure that the Group's operations are in accordance with the internal control framework.

Any management process and system are subject to internal audit. The Internal Audit department provides the audited entities with a set of recommendations which are discussed and agreed with the

entities in question. Implementation of these recommendations is covered by action plans that the entities commit to implementing.

An internal committee consisting of the Chief Financial Officer, the Executive Vice-President Strategy, the Head of Internal Audit and the Head of the Internal Control department regularly monitors the effective implementation of these recommendations.

During 2007, the Internal Audit department carried out 21 audits.

In addition, to help build an internal control culture within the Group, the Internal Audit department, working with the Internal Control department, runs internal control awareness days.

### Internal Control department

The primary assignment of the Internal Control department, which reports to the Management Control and Accounts Department, is to strengthen the Group's internal accounting and financial control systems. The department's action is supported, at subsidiary level, by a network of correspondents within the finance and IT departments of the subsidiaries.

This department conducts analysis and formalization of processes having an impact on financial information, for which key controls have been defined.

The methodology consists of:

- ▶ the analysis, for a process or sub-process, of the main risks that could have a significant effect on consolidated financial statements;
- ▶ the formalization of control procedures to minimize any risk of error, omission or fraud;
- ▶ the periodic verification of the existence and effective operation of these controls;
- ▶ the definition of corrective measures in the event of shortcomings, and the control of their implementation.

In 2005, this methodology was applied to the companies Arkema France and Arkema Inc., on a series of business processes with a material impact on consolidated results (raw materials purchasing, sales, cash management, account closing procedures, etc.) and to the IT systems that they use.

For both these entities, the scope was extended to the Group Consolidation and Cash Management cycles in 2006 and the Investment cycle in 2007.

For the other entities, a selection of the most relevant cycles was defined in 2007, and a description of risks and guiding principles for the key controls of these risks was prepared.

The subsidiaries then adapt these guiding principles on the basis of their local specific requirements.

The rollout in 2007 of both these sets of measures covered 65% of the Company's third-party sales, with an 80% target by end 2008.

Where necessary the department's work results in the preparation of specific action plans, the implementation of which is monitored by the Internal Control department and by the relevant management teams. This work forms part of a process of continuous improvement in the Group's internal control.

### BU's, functional departments and subsidiaries

The Group's businesses are organized into three business segments totalling thirteen BUs, with each business segment under the responsibility of an operational vice-president who reports to the Chairman and Chief Executive Officer and is a member of Comex.

Within their respective area of activity, the BUs employ the resources allocated to them by Comex to meet the targets set. They are responsible for their own performance and for implementing suitable control procedures and processes, in accordance with the principles and procedures defined in particular within the Group's internal control reference framework, Code of Conduct, charters and guidelines (see sections 15.7.1.4 and 15.7.1.5 of this reference document).

The consistency and optimization of the Group's organization are ensured by the functional departments, most of which are described in section 15.7.1.6 of this reference document.

Each subsidiary is placed under the responsibility of a local manager who is responsible for ensuring that laws as well as rules and principles defined by the Group are observed, and who undertakes to employ the resources defined with the BUs and the support functions to meet the targets set. Within the strict respect of the powers delegated to the management bodies of the various legal entities, each subsidiary is supervised by a functional or operational department.

#### 15.7.1.4 Core documents

The Group has drawn up a Code of Conduct and two charters, the first covering primarily its policy regarding health, safety, environment and quality, and the second IT and electronic communication resources. These have been approved by Comex, and set out the values and aims of internal control.

#### Code of Conduct

In this document the Group confirms its adherence to the Universal Declaration on Human Rights and the European Convention on Human Rights, to the Fundamental Conventions of the International Labor Organization, and to the OECD's Guiding Principles for multinational enterprises.

Closely linked to the Group's values, the Code of Conduct details the Group's requirements wherever it does business, with respect to its shareholders, its customers, its employees and its other stakeholders. It also makes available to employees the rules and principles governing individual behavior within the Group.

An ethics mediator, appointed by the Chairman of the Company's Board of Directors, is available to all of the Group's employees on any ethical issue.

#### Health, Safety, Environment and Quality Charter

In this document the Group confirms that it places the highest importance on the safety and security of its businesses, the health of individuals, and the satisfaction of its customers.

The Charter describes the main undertakings that translate these priorities into action. Thus:

- ▶ the Group is committed to Responsible Care®, a voluntary approach to the responsible management of businesses and products, based on a process of continuous progress, and in November 2006 it signed the Responsible Care® Global Charter, which allows for validation of the approach by a third party;
- ▶ two programs are deployed worldwide: Safety in Action, to promote and strengthen a safety culture amongst all staff, and Common Ground®, to develop relationships of trust with the communities in which the Group is present.

In addition, in order to build loyalty amongst customers and other partners, the Group's organization and processes emphasize proximity, listening and innovation.

#### Charter for the use of IT and electronic communication resources

This Charter sets out the principles governing the proper use of IT resources within the Group. These principles seek to ensure (i) the correct application of guidelines, (ii) compliance by the Group with current laws and regulations, and rules regarding delegation of powers and confidentiality, and (iii) the protection of the integrity of IT systems and resources.

#### 15.7.1.5 Internal Control framework

The Group's internal control systems are based on three essential principles:

- ▶ clear definition of responsibilities and delegations of powers, observing rules governing the separation of duties (distinction between those who approve actions and those who take those actions) to ensure that any person who engages the Group's responsibility to a third party has the correct means to do so;
- ▶ identification, analysis and management of risks;
- ▶ regular review of the correct functioning of internal control.

The Group has defined its organization and operating guiding principles in a document entitled "Internal Control Framework", approved by Comex and available to all employees. This document, based on the Group's Charters and Code of Conduct, is structured in line with COSO guidelines and the *Autorité des marchés financiers* reference framework, around five components:

- A. The control environment;
- B. Risk assessment;
- C. Control activities;
- D. Information and communication;
- E. Continuous evaluation of internal control systems.

#### A. The control environment

The foundation of the other components of internal control, the control environment draws primarily on the organizational principles of the Group, the values of the Group set out in the Code of Conduct, and the level of awareness amongst employees.

Two of the major goals defined by Comex are risk management and the protection of people and environment.

All employees are informed of the importance attached to observing the rules of good conduct set out in the “Code of Conduct”, the “Health, Safety, Environment and Quality Charter”, and the “Charter for the use of IT and electronic communication resources”.

These documents include a Compliance Program (the rules of which have been made known to all Group employees concerned, and agreed by them) introduced to guarantee and, if necessary, substantiate, that the Group strictly complies with domestic and European competition regulations.

The resources employed to ensure the correct operation of this program are:

- the personal accountability of every employee, at all levels, regarding compliance with the competition regulations set out in the document;
- the appointment of a Compliance Officer whose role is to ensure the correct application of the program;
- the production and continuous updating of a Practical Guide to rules and correct conduct on competition matters;
- specific training;
- the application of appropriate measures in the event of a breach of the rules.

In the United States, the Compliance Program has been adapted to take account of specific local features.

In general, the roles and duties of every operational and functional manager are set out in their job description. Goals to be met by the managers are set by their respective line managers, to whom they must periodically report on their activities.

Lastly, the Group has set up a dynamic human resources management approach and a policy of ongoing training designed to ensure that staff skills are continuously adapted, and to maintain a high level of individual involvement and motivation.

## B. Risk assessment

In the course of its business, the Group is exposed to a number of internal and external risks.

As the Group’s structure is highly decentralized, risk assessment and management is essentially the responsibility of the BUs. All functional departments, each having a duty to minimize risks in their own area, provide assistance in identifying and reducing the risks inherent in their respective area.

A thorough review of the risks that the Group could face is (i) carried out annually by the Internal Audit department, which collates information from the BUs and functional departments, and (ii) presented to the Risk Review Committee. The conclusions of this review are communicated to Comex prior to the definition of the audit plan. The significant risks known to the Group and analyzed by the Risk Review Committee are set out in chapter 6 of this reference document.

## C. Control activities

Control activities entail the application of the standards and procedures that help ensure that Group management directives are carried out.

To this end, a body of rules has been formally established within the internal control framework, and general principles, applicable to all Group entities, have been defined in order to enable monitoring of the application of the strategy defined by Comex. By way of illustration, delegation of commitment authority and management of investments are the subject of specific notes. In addition, the control of access to IT systems forms a key element of internal control and is subject to formal management procedures involving the client departments and the IT department.

- BUs and subsidiaries are responsible for operational processes and are thus the first line of responsibility in internal control.
- Functional departments are responsible for defining and distributing policy and best practice guidelines relating to their area; they ensure that these are being correctly applied, particularly in the following fields:
  - compliance with laws and regulations,
  - safety and environmental protection,
  - reliability of financial information.

The Internal Audit team conducts evaluations of the Group’s compliance with its internal control framework in accordance with the Audit Plan approved annually by Comex and reviewed by the Audit and Accounts Committee.

## D. Information and communication

IT systems are a key component of the Group’s organization.

Mindful of the opportunities and risks related to the use of information technologies, the Group has set up an information system management structure, in terms of both controlling risks and creating value and performance.

This approach may be summed up in two words, “guidance and control”, and is designed to apply across the Group the 10 information system management practices drawn up formally by CIGREF (*Club informatique des grandes entreprises françaises*).

Additionally, the Group has a financial reporting system that meets management requirements and complies with the applicable rules and standards.

Finally, each support function develops professional best practice and disseminates details thereof throughout the Group via their intranet.

## E. Continuous assessment of internal control systems

The quality of the internal control system is assessed on an ongoing basis. Comex is responsible for the internal control system overall, for its performance and for its oversight. However, each entity remains responsible for improving internal control performance in its area.

In general, any weaknesses in the internal control system must be reported to management and, if necessary, to Comex.

In addition, recommendations made by the Internal Audit department on completion of its mission are systematically reviewed, and a summary is presented to the Audit and Accounts Committee. When decisions to apply corrective measures are adopted, their implementation is monitored on a formal basis.

In addition, the statutory auditors may, as part of their duties, alert the Company regarding any weaknesses that they have identified. These factors are taken into account by the Group in its efforts to improve internal control.

### 15.7.1.6 Group policies

#### Human Resources

The Group is committed to involving all its employees in its growth, to helping all employees in their day-to-day duties, and to empowering them to take individual initiative. The Group's efforts are focused on training, internal communication, and leadership by the management to pool individual talents and ensure that they best serve the common good. The Human Resources policy also aims to increase the international dimension of its workforce, and the sharing of expertise and experience worldwide.

The Group's Human Resources department is organized around three departments, Human Resources Development and Internal Communication department, Payroll Systems, Organization and Headquarters department, and Labor Relations department. The Human Resources Development and Internal Communication department plays a central role, supported by career managers, in managing executives from BUs and support functions, and in coordinating career management across all Group subsidiaries.

These Human Resources departments are responsible throughout the Group for recruitment, management of remuneration systems and social protection, and labor relations. At local level each establishment has its own Human Resources department responsible for recruitment, training and career management for local non-executive staff.

#### Safety and environmental Protection

The Group applies the highest standards in the areas of Health, Safety and Environmental protection.

The Group has formalized its fundamental requirements in a reference manual that is used worldwide, the HSE Manual, which is the foundation of the HSE management systems for all of the Group's entities. This framework document is available on the Group's intranet. In addition, the health and safety strategy as a whole is deployed worldwide under the "Safety in Action" label.

The safety management system at sites presenting significant risks is based on control systems designed according to ISRS guidelines. The Group has developed environmental management systems for its industrial sites, most of which have received ISO 14001 certification (or equivalent, such as the Responsible Care Management System® in the United States).

The qualitative and quantitative targets to be reached in the areas of safety and environmental protection are defined by the Industrial

Department and approved by Comex, to reflect regulatory changes and the views of the wider population. Through audits, the Industrial department regularly records divergences from targets and identified HSE risks in order to establish an accurate picture at Group level and take appropriate decisions.

The Group's sustainable development policy is based on its belief that its profitability over the long term will depend on the way in which it assumes its responsibilities in the areas of social relations, health and safety, and environment.

#### Short-term and long-term financing

The Group's Cash Management and Financing Department is responsible for defining the Group's cash management and optimizing its financing. It is organized around two departments, the Financial Operations and Subsidiaries department (main point of contact for subsidiaries within this department), and the Cash Management department (specialist point of contact for financing, hedging of financial risk, and cash management issues).

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

Each subsidiary is responsible, within its own business, for the management of its own cash flows and the preparation of cash flow forecasts. Subsidiaries are responsible for following the cash management rules issued by the Cash Management and Financing department, both for risk management (interest rates, foreign exchange, counterpart risks, intra-Group settlements, etc.) and for cash management.

#### Legal department

The Group is subject to a complex and constantly changing set of laws and regulations in a large number of fields: company law, commercial law, safety, environmental protection, labor law, tax law, customs, patent protection, etc.

Compliance with laws and regulations and in particular the prevention of criminal liability and risks relating to antitrust legislation (Compliance Program), with some specific exceptions (labor law, tax law, patent law), fall within the overall responsibility of the legal department. The legal Department is closely involved in the monitoring of risks, claims and disputes (quarterly and annual reviews) and the review of major contracts.

#### Insurance

The Group has a policy of centralized management for its insurance, covering the risks relating to the manufacture and marketing of its products.

The implementation of this policy is the responsibility of the Insurance Department, which reports to the Executive Vice-President Strategy.

Group insurance policies are taken out with leading insurance companies. They entail inspections of industrial sites with insurers, coordinated with the Industrial department.

### Purchasing

The Group implements a purchasing policy based on the following principles:

- the selection of a supplier must be based on the satisfaction of a need, quality, performance, sustainability, and best price;

- relations with suppliers must be based on trust, and developed transparently and in accordance with contractual terms;
- the Group's suppliers must observe principles equivalent to those set out in the Group's Code of Conduct.

## 15.7.2 ACCOUNTING AND FINANCIAL INTERNAL CONTROL PROCEDURES

Control and understanding of financial performance by operational and functional managers of the businesses for which they are responsible represents one of the key factors in the Group's financial control systems.

### 15.7.2.1 Organization of the finance function

The finance function, which is the responsibility of the Chief Financial Officer, includes:

- functions under his direct supervision:
  - the production of consolidated financial and accounting information, which is the remit of the Accounts and Management Control Department, responsible for the reliability of the data constituting ARKEMA's financial information and for providing management accounts shared across the various entities, thus facilitating the management of the businesses,
  - investor relations, whose remit is to establish, develop and maintain relations with shareholders and financial analysts, and publish financial information once this has been approved by the Board of Directors;
- functions delegated to:
  - the BUs, each having its own management control, allowing for monthly monitoring and analysis of BU performance,
  - the subsidiaries, each being responsible for its own monthly accounts and for its half-year and full-year financial information.

### 15.7.2.2 Accounting, Reporting and Management Control

The fundamental principles for financial reporting are set out in the financial reporting manual and management framework for the Group. These reference documents are updated annually by the Accounts and Management Control Department, after approval by the Chief Financial Officer, or Comex depending on the extent of any changes.

The purpose of financial reporting is primarily to enable the analysis of actual performance relative to forecasts. It is based on the following processes:

- forward-looking items:
  - medium-term plan,
  - budget,
  - end-of-year forecast;
- actual performance:
  - monthly reporting,
  - quarterly consolidation of accounts.

#### Medium-term plan

The Strategy department draws up a medium-term plan once a year. This plan serves as a basis for the strategic considerations of Comex. It enables Comex to assess the financial consequences of the major strategic directions and the main turning points identified in the long-term environment.

#### Budget

The budget is prepared annually under the responsibility of the Accounts and Management Control Department. Each BU and each functional department submits its budget proposals to Comex. The process is completed by the review of the budget by the Board of Directors. The budget sets out the financial performance targets to be achieved over the following year; it forms part of the medium-term plan approved by Comex.

The budget is the main point of reference to measure the actual performance of the BUs, the functional departments, and the Group overall.

#### End-of-year forecast

Once approved by Comex, the budget may no longer be modified. End-of-period forecasts, for the end of the current quarter and the end of the year, are prepared by the BUs and the functional departments, as required by the Accounts and Management Control department.

**Monthly reporting**

Key income statement items and investments are analyzed on a monthly basis.

Working capital and provisions are analyzed on a quarterly basis.

Capital employed is analyzed at the annual closure of accounts.

Each BU reports on its performance at a monthly presentation to the “tutor” of the business in question.

Results are then presented to Comex by the “tutors” and the Accounts and Management Control department.

**Consolidated financial statements**

ARKEMA publishes consolidated financial information on a quarterly basis. Figures for the six months to 30 June and the twelve months to 31 December are full financial statements in the sense of IFRS, whilst the information to 31 March and 30 September is in summary form only (balance sheet, income statement, cash flow statement).

Half-year financial statements are subject to a limited review by the statutory auditors, whilst full-year financial statements are fully audited.

As part of the closure of each accounting period, the Accounts and Management Control department identifies specific closure issues through meetings with the support functions and the BUs; in addition, a meeting is organized at least once a year with the main legal entities within the Group.

Moreover, on a quarterly basis the Accounts and Management Control department receives from each BU, functional department and subsidiary a report regarding risks.

Monitoring of changes in accounting regulations is provided by the Accounts and Management Control department which issues technical notes on points of specific relevance to ARKEMA.

**15.7.2.3 IT systems**

The IT Systems and Telecommunications department is responsible for the entire Group’s IT systems.

As part of a program to upgrade its information systems, ARKEMA has continued to introduce modern, high-performance systems (payroll management for the Group’s French companies, integrated management for the Asia Pacific region). These developments are helping to improve the internal control environment at ARKEMA, particularly through procedure review, increase in automated checks, and removal of interfaces.

**15.7.2.4 Letters of representation**

Each year, the Group issues, under the signature of its Chairman and Chief Executive Officer and its Chief Financial Officer, a letter of representation in particular of the accuracy and reliability of the consolidated financial statements addressed to the Group’s statutory auditors. To underpin this representation, the CEOs and CFOs of each consolidated subsidiary make an annual undertaking to observe the internal control rules and ensure the accuracy of the financial information supplied, in the form of a letter of representation to the Group’s Chairman and Chief Executive Officer and to its CFO, as well as to the statutory auditors.

**15.7.3 INVESTOR RELATIONS**

Press releases concerning quarterly consolidated financial information are prepared by the Investor Relations team and reviewed internally by the various departments of the Finance department

concerned, then by the statutory auditors, and then finally by the Audit and Accounts Committee. The Board of Directors then approves the final text.

## 15.8 Compliance with corporate governance system

In the interests of transparency and public information, the Company has established a set of corporate governance measures, including the creation of the Board Committees described above. Arkema S.A.

believes that the system of corporate governance introduced by the Company allows it to meet the standards of corporate governance generally applied in France.



# 16

## Compensation and benefits

**16.1 Compensation (including any conditional or deferred compensation) and benefits in kind granted by the Company and its subsidiaries 112**

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## 16.1 Compensation (including any conditional or deferred compensation) and benefits in kind granted by the Company and its subsidiaries

Note that the Company adopted the legal form of *Société Anonyme* (limited liability company) in March 2006 and that since 18 May 2006 it has been the central holding company of the Group. Since this date shares in Arkema S.A. have been listed on the Eurolist by Euronext™ market.

Therefore the information provided for the purposes of comparison is that which is applicable from that date.

### Compensation of members of the Executive Committee

The Board of Directors of the Company, on the recommendation of the Nominating and Compensation Committee, approved the overall total gross fixed compensation to be allocated for 2007 to members of the Executive Committee other than the Chairman and Chief Executive Officer at €1,562,000. The Board also approved the criteria to be used in determining the variable element of their compensation for 2007, based on specific qualitative and quantitative targets relating mainly to growth in EBITDA and to return on capital employed.

At 31 December 2007, the total gross compensation (fixed and variable) paid to the seven members of the Executive Committee as described above by Arkema S.A. or one of its consolidated subsidiaries was €2,153,511. The estimated amount of the variable part due to them for 2007 by the Company at 31 December 2007 totals €920,000, to be paid in 2008.

Members of the Executive Committee did not receive any attendance fees in relation to any directorships held within Group companies.

### Directors' compensation

#### General policy

In accordance with the provisions of the internal regulations of the Board of Directors, the Nominating and Compensation Committee issues recommendations or propositions concerning the compensation of the Company's directors.

#### Compensation of the Chairman and Chief Executive Officer

The compensation of Thierry Le Hénaff in his role as Chairman and Chief Executive Officer of Arkema S.A. is set by the Board of Directors on a recommendation from the Nominating and Compensation Committee.

In accordance with these provisions, the Board of Directors at its meetings on 7 March 2007 and 14 May 2007 set out the fixed

compensation as well as the elements determining the variable part of the compensation of Thierry Le Hénaff in his role as Chairman and Chief Executive Officer of the Company for 2007. This compensation consisted of:

- fixed gross annual compensation of €570,000;
- variable compensation up to a maximum of 100% of fixed annual compensation, based in 2007 on meeting a number of specific quantitative and qualitative targets. The quantitative targets related to the financial performance of the Company (EBITDA growth, return on capital employed). The qualitative targets related mainly to the implementation of the Group's strategy. The variable element relating to the quantitative financial targets may not exceed 80% of variable compensation. On the decision of a meeting of the Board of Directors on 4 March 2008, the gross amount of variable compensation for 2007 was set at €570,000.

Additionally, in his role as Chairman and Chief Executive Officer, Thierry Le Hénaff received the following benefits:

- a company car provided as a benefit in kind;
- unemployment insurance the cost of which borne by the Company was €12,279 for 2007;
- contractual indemnity in the event of early termination of contract equivalent to three times the gross annual compensation for the year in question, the payment of which is subject to conditions related to the performance of its beneficiary assessed with regards to those of the Company following the decision of a meeting of the Board of Directors on 4 March 2008 in application of article L.225-42-1 of the *Code de commerce*.

The performance conditions defined include four quantitative criteria: one criteria linked to safety (TRIR, LTIR), two economic criteria (EBITDA and earning per share) and one criteria linked to stock exchange (performance of the share price). Each of these criteria will represent a percentage of the performance as detailed below and their assessment will be made since the first appointment of Thierry Le Hénaff as Chairman and Chief Executive Officer in March 2006.

#### **First criteria – Criteria linked to safety (TRIR / LTIR) – 20% of performance:**

Reduction of the TRIR (Total Recordable Injury Frequency Rate) and the LTIR (Lost Time Injury Frequency) by 5% minimum each year on average compared to the reference index (values at 31 December 2005). Each of these criteria will represent half of the total percentage in the appreciation of this condition.

**Second criteria – EBITDA – 30% of performance:**

Growth in the EBITDA margin of minimum 5% each year on average compared to the reference index (values at 31 December 2005).

In case, the EBITDA margin improvement is less than 5% each year on average at the time the present condition is realized, the indemnity amount related to this condition will be reduced by 20% for each percentage of EBITDA margin inferior to the target.

**Third criteria – Earning per share – 30% of performance:**

Growth in the earning per share of minimum 10% each year on average compared to the reference index (values at 31 December 2006).

In case, the earning per share improvement is less than 10% each year on average at the time the present condition is realized, the indemnity amount related to this condition will be reduced by 10% for each percentage of earning per share inferior to the target.

**Fourth criteria – Share price – 20% of performance:**

Arkema's share price at the time the condition is realized is higher than Arkema's share price at the time of listing on 18 May 2006 or improvement in the share price is higher on average than the increase of the SBF 120 index during the same period.

For these performance conditions, the values to be taken into account for the definition of the end of the period for these criteria should be the end of the year for criteria 1 to 3 and the average of the 2 respective index prices to be compared during the previous month for the fourth criteria.

This convention was mentioned in the specific report from the statutory auditors in application of article L.225-40 of the *Code de commerce*.

There are no special pension arrangements for the Chairman and Chief Executive Officer. In addition to the general pension schemes operated for employees of the Group, he benefits from a supplementary scheme, financed by the Company and offered to certain executives of the Group receiving annual compensation of more than eight times the annual social security ceiling provided that the beneficiary is in the employ of the Company when they come to retire. The Company's pension liabilities relating to its Chairman and Chief Executive Officer corresponded, at 31 December 2007, to an annual retirement pension calculated in particular on the basis of the average compensation of the last three years, equal to 11.8% of his current annual compensation.

Thierry Le Hénaff receives no attendance fees in his role as Director and Chairman of the Board of the Company, and as a Director and Executive Officer does not benefit from any employee savings scheme in place in the Group.

During 2007, the gross compensation paid by the Company to Thierry Le Hénaff as Chairman and Chief Executive Officer of Arkema S.A.

was €973,247, as detailed below together with the comparable information for 2006:

	Compensation components paid in 2007	Compensation components paid in 2006
Fixed element	€570,000	€368,232
Variable element for 2006 / 2005	€396,925	Nil
Benefits in kind	€6,322	€3,224

In addition, the Board of Directors awarded stock options and free shares to Thierry Le Hénaff, as part of the stock option plans and free share allocation plans agreed on 4 July 2006 and 14 May 2007 (for further information on the stock option plans and free share allocation plans, please refer to section 17.5.4 below).

**Directors' Compensation**

The Annual General Meeting of 10 May 2006 set the maximum annual amount of attendance fees allocated to the Board of Directors at €300,000 for the year beginning 1 January 2006, and €360,000 for each subsequent year.

Following this decision, the Board of Directors, on a recommendation from the Nominating and Compensation Committee, decided that the split of the annual amount allocated by the Annual General Meeting should be determined on the basis of a fixed element and a variable element based on the attendance rate of directors at meetings of the Board of Directors and of its specialized committees.

Total attendance fees allocated to members of the Board of Directors amounted to €291,000 for 2007 (€225,000 for 2006), split as follows:

	In euros
François Enaud	€39,000
Bernard Kasriel	€40,000
Laurent Mignon	€39,000
Thierry Morin	€46,500
Jean-Pierre Seeuws	€46,000
Tidjane Thiam	€27,000
Philippe Vassor	€53,500

Except for Thierry Le Hénaff (see above), members of the Board of Directors received no other compensation and no other benefits in the year. The directors were not awarded any stock options or free shares. Except for Thierry Le Hénaff, no director has any stock option.

As no compensation was paid to directors of the Company by Group companies other than Arkema S.A. in 2007, the total compensation paid by the Company to its directors for the period was €1,199,247.

## 16.2 Total amounts covered by provisions or recorded elsewhere by the Company and its subsidiaries for purposes of paying pension, retirement or other benefits

Please refer to note 4 of the notes to the financial statements included in section 20.6 and to section 16.1 of this reference document.

# Employees

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## 17.1 Human Resources Policy

### 17.1.1 HUMAN RESOURCES POLICY

The Group is building its future by relying on its employees to play their role in its new history. The Human Resources policy underpins the Group's corporate project based on a spirit of initiative, a culture of result, solidarity, and a sense of responsibilities.

This entails in particular:

- a compensation policy based in particular on a recognition of personal performance;

- a career management policy based on professional paths looking to develop the employees' skills, with both functional and geographic mobility;

- an ambitious recruitment policy.

#### 17.1.1.1 Headcount

##### EVOLUTION BETWEEN 2005 AND 2007

At 31 December 2005, 2006 and 2007 the Group had respectively 18,377, 17,044 and 15,194 employees worldwide (including temporary staff). These figures correspond to the management scope of the Group.

The table below provides an analysis of the headcount by region over the past three years:

Geographic region	Headcount at 31/12/2005	Headcount at 31/12/2006	Headcount at 31/12/2007
France	11,164	10,179	9,179
Europe (excl. France)	2,846	2,743	2,223
North America	2,853	2,666	2,377
Asia	1,326	1,295	1,272
Rest of the world	188	161	143
<b>TOTAL ARKEMA</b>	<b>18,377</b>	<b>17,044</b>	<b>15,194</b>
<i>of which permanent</i>	17,735	16,521	14,690

At 31 December 2005, 2006 and 2007, the number of temporary staff worldwide amounted to 642, 523 and 504 respectively.

At 31 December 2007, personnel in France accounted for 60.4% of the Group's overall headcount.

##### BREAKDOWN BY CATEGORY AND SEX

At 31 December 2007, 22.6% of the Group's total employees were in managerial positions. In the same year, women made up 20.6% of the Group's total employees.

Geographic region	Managerial	Non Managerial	Male	Female
France	1,534	7,645	7,304	1,875
Europe (excl. France)	489	1,734	1,782	441
North America	1,063	1,314	1,883	494
Asia	306	966	972	300
Rest of the world	51	92	114	29
<b>TOTAL ARKEMA</b>	<b>3,443</b>	<b>11,751</b>	<b>12,055</b>	<b>3,139</b>
<i>of which permanent</i>	3,393	11,297	11,722	2,968

## 17.1.2 RECRUITMENT

The recruitment policy is designed to secure the highest level of skills for the Group in order to underpin its development.

In keeping with its founding values (simplicity, solidarity, performance and accountability), ARKEMA attaches, in its recruitment process, a great deal of importance to cultural openness in applicants, their ability to work in teams and bring solutions, and their desire to forge ahead.

To facilitate the job application process and standardise recruitment procedures, ARKEMA has developed a dedicated tool on its website ([www.arkema.com](http://www.arkema.com)). Used by every Group entity worldwide, this tool

under the Human Resources heading of the Group's website received a large number of job applications in 2007.

### 17.1.2.1 Evolution between 2005 and 2007

In 2007, the Group hired 648 employees under permanent employment contracts.

These figures apply to the Group's management scope worldwide. 65.5% of these new staff were hired outside France.

Geographic region	Permanent contracts 2005	Permanent contracts 2006	Permanent contracts 2007
France	317	282	223
Europe (excl. France)	98	69	74
North America	137	154	161
Asia	164	135	168
Rest of the world	16	17	22
<b>TOTAL ARKEMA</b>	<b>732</b>	<b>657</b>	<b>648</b>

### 17.1.2.2 Breakdown by category and sex

In 2007, 34.8% of new recruits concerned managerial profiles.

Women accounted for 25% of these recruitments.

TABLE AT 31 DECEMBER 2007

Geographic region	Managerial	Non Managerial	Male	Female
France	88	135	163	60
Europe (excl. France)	18	56	58	16
North America	77	84	117	44
Asia	32	136	135	33
Rest of the world	11	11	13	9
<b>TOTAL ARKEMA</b>	<b>226</b>	<b>422</b>	<b>486</b>	<b>162</b>

### 17.1.2.3 Relations with the world of education

The Group fosters special relations with the best educational and training structures for all its activities.

In France, ARKEMA sponsors *Ecole Supérieure de Physique et Chimie Industrielle (ESPCI)* in Paris and *Ecole Nationale Supérieure des Industries Chimiques* in Nancy (ENSIC). Mindful of optimising recruitment for its support functions, ARKEMA also fosters permanent contact with business schools, in particular ESSEC and ESCP-EAP.

In the United States, every year the Developing Engineer Program enables ARKEMA to take on four to six engineering undergraduates from the top American universities for concrete training internships on its industrial sites over five years.

ARKEMA also offers every year many opportunities for training, apprenticeship contracts, graduation projects, and international volunteer internships (*volontaire internationale en entreprise*, VIE), which help build up a recruitment pool.

### 17.1.3 ORGANIZATION OF THE WORKING WEEK

In every country, the Group implements working hours that comply with legal and professional requirements.

Employees work full time, and to a lesser extent part time. For example, at Arkema France in 2007, 281 people were employed on a part-time basis from a total of 6,638 employees.

Bearing in mind the specific features of the Group's industrial activities, the organization of the working week involves, for some employee groups, continuous, discontinuous or semi-continuous work regimes.

At Arkema France, these work regimes concerned 33% of employees in 2007.

In the event of additional workload or particular problems, the Group can, based on local current legislation and on the local job market, resort to fixed-term employment contracts, overtime, subcontracted work, or temporary staff agencies.

By way of example, the number of overtime man-hours at Arkema France was 79,000 in 2007.

In 2007, the number of hours off work (excluding authorised leave) at Arkema France was 435,144, i.e. 3.8% of total man-hours.

### 17.1.4 CAREER MANAGEMENT

#### 17.1.4.1 Players and tools

Career management is implemented at ARKEMA for Operators, Office Workers, Technicians and Supervisors ('OETAM'), as well as for managerial or executive personnel. It involves the following players and tools:

- career managers are responsible for following up employees throughout their professional path;
- career managers are organized into Corporate pool for managerial personnel and local pool for OETAM personnel;
- professional paths are developed taking account of both the employees' contracts and skills, and the company's needs;
- the Regional Organization for Mobility and Jobs network in France (*Organisation Régionale pour la Mobilité et l'Emploi - ORME*) for OETAM personnel allows mobility within each region;
- once a quarter the ORME network brings together the Human Resources and Employment Managers within the same region to discuss OETAM employment issues;

The main objectives are as follows:

- oversee the mobility of OETAM personnel through exchanges in vacancies and the employees' career aspirations. These exchanges are based on data stored in Arkemploi on the various sites,
- conduct projects on the future of HR methods and tools through exchanges and the sharing of best practice.

This network comprises 5 regions: Rhône-Alpes, Nord-Est, PACA, Ouest, and Ile de France.

Through its presence in many countries and regions, the Group can promote diversity and equality of chances.

#### 17.1.4.2 International experience

The Group conducts its activities in Europe, America and Asia. It runs 3 international human resources management programs that help capitalize on its international diversity by developing the skills of its personnel around the world.

##### ➤ International experts

Senior experts are sent to certain countries to work on major projects for the Group if their particular expertise is not already available locally. Their assignment is to launch and oversee the project, train the personnel, and transfer their skills. A number of these experts are currently involved in the Group's development projects in China.

##### ➤ Development program – a career landmark outside the home country

ARKEMA offers its young executives the opportunity to spend a few years abroad. This allows them to discover other practices, while giving them an additional asset in the progress of their career. Following a 2 to 3 year foreign posting, they return home, ready to share the wealth of new skills they have gained.

##### ➤ Exposure training

This 3 to 6 month training program allows ARKEMA personnel to broaden their field of expertise on one of the Group's sites used as training venue. This program utilizes the diversity and wealth of skills available within the Group, and is of as much benefit to those employees attending the training as it is to the host teams who are able to discover another culture.



## 17.1.5 TRAINING

Equipping employees with the skills and the means to contribute to technical, social and economic progress represents a major challenge for training, with training initiatives focusing on ARKEMA's values and strategy.

ARKEMA's training policy is designed to respond to the following two major challenges:

- to further the sharing of a concerted culture in terms of safety and environment, management practices, values, and understanding of the Company's environment;
- to allow all employees to take on and adapt to change (new tools, key projects, and changes in level of responsibility).

Safety, environment and industrial reliability represent a major part of the volume of training hours.

By way of example, the training plan at Arkema France in 2007 allocated 48,498 hours to "Health Safety Environment and Quality" training, and 117,357 hours to "cross-technology" from a total of 217,855 training hours.

Additionally, the scope of training available at ARKEMA aims to promote cultural mix and closer contact between employees through sharing experiences. New recruits take part in integration seminars organized on a worldwide basis, to acquaint themselves with the Group's organization and activities while taking advantage of an environment that is conducive to sharing in a culture common to the various countries in which ARKEMA operates.

The "Arkema Management Way" seminar allows managers to familiarize themselves with the Group's values, namely simplicity, solidarity, performance and accountability, and the resulting managerial model to adapt their behavior and that of their team members to the challenges of their own entity.

Awareness and exchange events on the topic of management-employee dialogue were initiated in 2006, and are organized on a regional basis for managers on all French sites.

In accordance with French legislation, there is also in France an 'individual right to training' (*droit individuel à la formation* – DIF). This is used by employees as part of their career paths with a view to advancing their qualifications.

## 17.1.6 COMPENSATION POLICY

Overall compensation is a key element of the Group's human resources policy. It strives to valorize and reward fairly the input from every employee in the Group's success.

The policy fulfils a number of objectives:

- compensate individual and collective performance;
- develop a sense of responsibilities in everyone, and involve all personnel in the pursuit of the objectives;
- ensure competitiveness within the job market;
- compensate fairly, and ensure consistency internally;
- controlling costs.

The Group is committed to observing the principle of equality of pay between men and women. In this regard, the 2008 pay agreement signed at Arkema France provides for a number of measures designed to uphold, throughout the employees' career, equality

of pay between men and women, including the benefit of a salary increase for employees returning from full parental leave applicable on their return to work, based on the average increase awarded to the other employees.

To strengthen the link between contribution and compensation, all executive posts have been rated in accordance with the Hay method. For these employees therefore, based on their level of responsibility, compensation includes a variable part the amount of which depends on individual performance and on the contribution to the collective performance of a BU, a country or the Group.

In France, profit-sharing and incentive agreements give every employee the opportunity to share in the results and the progress achieved by their entities.

Finally, free share allocation plans and stock option plans, introduced in 2006 and in 2007, are also part of the compensation policy.

## 17.1.7 INTEGRATION OF DISABLED EMPLOYEES IN THE WORKPLACE

In 2007, Arkema France counted 208 disabled employees.

Greater integration of disabled employees is one of the key points on which Arkema France has undertaken negotiations with the trade unions as part of the GPEC agreement (see section 17.3.1.2

below). In order to reach a concerted diagnosis, Arkema France has commissioned a specialist consultancy to draw up a detailed report of disability in the Company. The diagnosis exercise conducted by this consultancy should help determine at the beginning of 2008 the

actions on which Arkema France could set out commitments with the trade unions.

In the United States, Arkema Inc. implements an active policy in terms of recruiting, training and promoting disabled employees.

This policy aims to further diversity within the teams in line with the principles laid down in the “Equal Employment Opportunities” directive implemented by Arkema Inc.

## 17.2 Safety in Action

Safeguarding the health and safety of its employees, third parties working on its sites, and people living near its facilities is a priority for ARKEMA.

The Group's safety policy as a whole is deployed under the label “Safety in Action”, and aims to reinforce a safety culture.

### 17.2.1 RECENT TRENDS

Since 2006, through everyone's concerted efforts, ARKEMA's safety records, for own personnel and subcontracted personnel, have improved significantly, in particular with a 30% reduction in the lost-

time injury rate. Preventive actions have continued, driven by a desire and ambition to rank among the best in the profession.

Safety at work – ARKEMA own personnel and subcontracted personnel	2005	2006	2007	2007 target
LTIR	5.3	3.6	2.4	3.3
TRIR	11.3	8.4	7.1	7.2

LTIR = Lost-Time Injury Frequency Rate.

TRIR = Total Recordable Injury Frequency Rate.

An analysis of accident typology worldwide shows that 9% of all accidents are due to chemicals and to burns.

### 17.2.2 DEPLOYMENT METHODS AND RESOURCES

ARKEMA places the safety and security of its activities, the health of people, and the protection of the environment at the top of its priorities. ARKEMA is a signatory to Responsible Care®, a voluntary initiative for a responsible management of activities and products, based on a continuous improvement drive. Two programs in particular are being deployed worldwide: Safety in Action to promote and strengthen a safety culture in every employee, and Common Ground® to develop relations of trust with society at large (see section 17.6).

From its creation, ARKEMA translated this policy into commitments, as set out in its Health, Safety, Environment and Quality Charter.

In terms of safety, ARKEMA's approach, defined and managed at global level, is deployed in every country under the label “Safety in Action”. It is based on three complementary components:

- ▶ a technical component, covering primarily the prevention of major risks on the industrial sites and during the transport of hazardous materials;
- ▶ a component based on the quality of production operations, with the introduction of safety management systems adapted to the specifics of each industrial site. These management systems are regularly audited and validated by internal and external auditors on the basis of the ISRS (International Safety Rating System) reference database;
- ▶ a behavioral component, including safety and health at the workstation, as improvement in performance is closely linked to the implementation of a common safety culture. Since 2004, action

plans have taken into account the human behavior component for everyone on industrial sites, i.e. ARKEMA employees as well as subcontractors.

To improve both individual and collective behavior, ARKEMA deploys its "Safety in Action" initiative all around the world, by providing its industrial facilities with practical tools that are universal enough to be used by everyone.

- "High Points" refer to scheduled meetings with discussions, held four times a year, allowing every team on an industrial site to exchange and discuss ideas, after watching a short film lasting a few minutes shot on one of the Group's industrial sites. Each film is based on a scenario chosen from a number devised by the local teams on a given safety topic. The members of the team whose scenario has been picked take part as actors in the production of the film.

The screening of these films gives rise to discussions which help analyze everyday practices in the workplace, and commit the teams to taking up collective actions designed to improve behaviors and eliminate situations carrying risks.

- Peer observation

After being tested successfully in the United States, Germany and the Netherlands, the principle of peer observation of behavior in the midst of situations involving risks has now been deployed around the world. Using a structured observation method, each site begins by defining the method that best suits their own specific features (type of risks and nature of the activities). Next, the personnel puts the method into practice, with co-workers with similar qualifications observing each other while carrying out their duties on the site. The cross-observation principle capitalizes on positive experiences and a collective search for solutions to develop risk awareness and improve practices. Therefore it contributes to a reduction in the number of accidents.

- No drugs, no alcohol

In September 2007, ARKEMA's Executive Committee, as part of the Safety in Action programme, approved the launch of a drug and alcohol prevention initiative across the Group.

The program is based in particular on:

- a worldwide directive dated 23 April 2007 setting out ARKEMA's basic requirements in this regard;
  - implementation within each site, overseen by the site manager, the occupational physician, the human resources manager, and the HSE manager. Deployment across the Group should be completed by 1 January 2008 (by which time every site should be implementing the directive) so that the specifics of each country and local actions already in place may be taken into account;
  - a prevention initiative: in France, occupational physicians on the sites of Arkema France attend training by IPPSA (*Institut de Promotion de la Prévention Secondaire en Addictologie* which provides backup and expert advice) to gain a deeper understanding of the issues involved in alcohol and drug abuse; similar provisions will be put in place in the other countries.
- Health and safety of employees

ARKEMA has developed a tool called "Daliha" for monitoring individual exposure to toxic products and hazardous products, which is used jointly by the physicians and the HSE departments. It will be deployed across the world in 2008. A computerized system called "MRT" (management of risks at the workstation) will also be developed in 2008 to carry out an exhaustive risk analysis by applying a unique method concluding with a risk evaluation summary.

Arkema Inc. has developed the "Health at Work" initiative for all its employees in the United States. Launched in early September 2007, the project supports health programmes across the company by encouraging employees to take control of their health or continue with whatever approach they may already be following. It is based on five cornerstones: fight against obesity, giving up smoking, physical exercise, nutrition, and health information.

## 17.3 Dialogue with social partners and Group's development

To help further its transformation in an ever changing industrial environment, the Group promotes dialogue and trust in its relations with the trade unions.

### 17.3.1 AN ONGOING DIALOGUE WITH EMPLOYEE REPRESENTATIVES

#### 17.3.1.1 Levels of dialogue with employee representatives

As part of its labor relations policy, the Group is developing an ongoing dialogue with employee representatives, across all Group entities, in accordance with local laws and regulations.

At European level, the management and the members of the Special Negotiating Group (*Groupe Spécial de Négociation* - GSN) concluded on 27 February 2007, with a majority of GSN members in favor (13 out of 15), an agreement establishing the European Works Council. The agreement was presented to the European and French trade unions for signature, and ratified on 21 March 2007 by the FECCIA, CGT, CFE-CGC, CGT-FO and CFTC trade unions.

A meeting establishing the European Works Council was held at the Group's headquarters in Colombes on 10 July 2007. The European Works Council comprises 27 appointed members (18 French, 2 Italian, 2 German, 1 Spanish, 1 British, 1 Belgian, 1 Dutch, 1 Polish) and the 5 French trade union coordinators.

The European Works Council holds a one-and-a-half day plenary meeting once a year to discuss issues within its remit, in particular:

- economic issues: market trends, commercial situation, level of activity, main strategic areas, development prospects, and objectives;
- financial issues: review of the Group's consolidated financial statements, review of annual report, investments;
- labor issues: the Group's labor policy, employment situation - current and future;
- environmental issues: the Group's policy, changes in European regulations;
- organizational issues: substantial changes regarding the Group's organization, evolution of its activities, creation or closure of activities concerning at least two European Union countries.

The Liaison Office of the European Works Council, which comprises 11 members, meets with the management once every six months. The Liaison Office held its first meeting on 7 November 2007 at the Colombes headquarters.

In the People's Republic of China, the first "Employee Representatives Congress" (ERC) of Arkema China Investment, ARKEMA's main structure in China, was elected on 20 December 2007 and put in

place in January 2008. This body comprises 30 members who elected among them the five members of the "Presidium". The prerogatives of ERC are many, ranging from pay negotiations to safety and to training. This body complements the "Labour Unions" already in place in the Chinese industrial facilities.

#### 17.3.1.2 Review of agreements reached

In France, the Group continues to put in place a contractual employment policy that resulted, in the course of 2007, in the signature of two new agreements at Group level:

- Framework agreement on manpower and skills planning (*gestion prévisionnelle des emplois et des compétences* - GPEC) in the Group's companies.

This GPEC framework agreement was signed in July 2007 by 4 out of the 5 trade union organizations represented in the Group. The agreement applies to the Group's French companies, and covers 2 points:

- the methods to be used by every company to inform and consult the Works Council or the Central Works Council regarding the company's strategy and its foreseeable consequences on jobs,
- the main areas of the Group's human resources policy: career management, training, recruitment, internal mobility, assistance with employment of young people and disabled people.

Once the general framework of the agreement was set, the Group's French companies laid down the methods for following the provisions of the agreement adapted to their own context:

- Agreement on support measures concerning the early retirement of asbestos workers in the Group's companies.

Arkema France reached 6 company agreements over the course of 2007. The main agreements were as follows:

- agreement on support measures concerning changing work patterns for shift operators, signed by all trade union organizations on 2 July 2007;
- amendments to framework agreement on the provisions for early retirement financed by Arkema France concerning projects for the future of Pierre-Bénite (France) and Lacq-Mourenx (France) sites, signed by all trade union organizations on 19 January, 24 April and 2 July 2007 respectively;

- ▶ amendment to heads of agreement on trade union rights reached on 5 December 2007 with 4 out of the 5 trade union organizations;
- ▶ wage agreement for 2008 negotiated on 13 and 20 December 2007 and signed on 4 January 2008 by 4 out of the 5 trade union organizations.

Outside France, the employee relation's policy within the Group and its affiliates is carried out based on local practices applicable to staff representation and employee/management relations.

▶ Germany:

In Günzburg, an agreement was reached on 22 February 2007 on the drugs and alcohol ban, followed on 1 April 2007 by another on the use of individual protective equipment.

An agreement for labor support measures regarding the proposed closure of the Bonn site was signed on 12 June 2007 with the

personnel representative bodies (see section 17.3.2 of this reference document).

▶ Italy:

Trade unions at the Rho site together with regional trade unions signed an agreement on 21 June 2007 committing themselves to a greater involvement of all personnel on priority issues such as safety, employee health, and environmental protection.

▶ United States:

Employees in facilities with trade union representation are covered by collective agreements negotiated with local and central union organizations. These agreements have an average term of 3 years except for the Calvert City (2 years) and Birdsboro (5 years) sites, and cover in particular wages, employee benefits, and working conditions. In 2007, 3 agreements were renegotiated: Geneseo, Louisville and Memphis.

## 17.3.2 EMPLOYEE RELATIONS AND GROUP'S DEVELOPMENT

The Group's actions are part of a structured initiative involving joint consultation with and working alongside employee representative organizations to accommodate changes in the Group.

More specifically, the various reorganization plans that the Group has decided to initiate and implement have been accompanied by more in-depth exchanges as part of the employee representative organization information and consultation process at both central and local level. The Group pays particular attention to the treatment of the social impact of these changes.

- ▶ In January 2007, an information and consultation process was initiated with the Consultative Committee of Soveplast, a wholly-owned subsidiary of Alphacan (Pipes and Profiles BU) regarding proposed changes to its business. This project will result in the loss of 28 jobs at the Chantonnay site (France). By 31 December 2007 internal or external re-employment solutions had been found for all staff affected.
- ▶ In February 2007, an information and consultation process was initiated with the Consultative Committee of Dorlyl, a wholly-owned subsidiary of Arkema France that forms part of the Vinyl Compounds BU regarding the closure of this company. Implementation of this proposal will result in the loss of 59 jobs. The management team at Dorlyl has undertaken to devote all necessary efforts to facilitating internal transfers within the Group and, where necessary, external transfers. Employees meeting the scheme criteria have also been offered early retirement. By 31 December 2007, 36 employees had been redeployed, and solutions had been identified for several employees affected by the project.
- ▶ In February 2007, an information and consultation process was initiated with members of the Central Works Council of Arkema

France regarding reorganization proposals for the Lacq-Mourenx site (France). These proposals would result in the loss of 48 jobs. By 31 December 2007, internal re-employment solutions within the Group had been identified for 24 of the staff affected, with a further 3 yet to be redeployed.

- ▶ In March 2007, an information and consultation process was initiated with members of the Central Works Council of Arkema France concerning proposals to introduce a performance program at the Carling (France) site, aiming to safeguard the site's competitiveness by reducing structural costs and reorganizing production. This program entails the loss of 58 jobs. Almost half of the personnel concerned by the project have benefited from early retirement packages. Active management of employment and skills at this site, taking account of scheduled natural departures, is being implemented to ensure the re-employment of all employees affected by this loss of posts.
- ▶ In March 2007, a project for the proposed future of the Pierre-Bénite (France) industrial site was presented to the Central Works Council. The procedure was completed on 18 June 2007. The project is being implemented, with the loss of 196 jobs. To date, 105 employees have opted for early retirement, 18 have been redeployed within the Group, 10 have joined a Total group site, and 49 have found employment in other companies or have opted to launch a personal project. A further 14 cases are being processed.
- ▶ In May 2007, trade unions at the Bonn site (Germany) were notified of the proposed closure of Copolyamide production at this Technical Polymers BU plant which employs 90 people. Closure was scheduled to take place in two steps: end of 2007 for the closure of the powder activity, and mid-2009 for the closure of

the polymerization activity. An agreement was reached on 12 June 2007 with the trade unions regarding social support measures as a result of this proposed closure.

- ▶ On 14 June 2007 the management of CECA, the Specialty Chemicals BU, presented to the members of the Central Works Council a project intended to recenter its specialty surfactant activity by acquiring Akzo Nobel's fertilizer anticaking additives business and selling to Akzo Nobel its commodity primary amines activity. This divestment has resulted in changes in the organization of the Feuchy plant (Pas de Calais – France), with the loss of 22 positions. CECA has given priority to redeploying on its Feuchy site those employees affected by job losses and unable to qualify for the early retirement package put in place.
- ▶ On 22 June 2007, the management of the Vlissingen site (Netherlands) presented to the trade unions a project for the site's future designed to restore the competitiveness of this Functional Additives BU plant. The proposed closure of the tin derivatives production line for agrochemicals together with changes to the site's overall organization entail the loss of 57 jobs. A redundancy plan was negotiated locally with the trade unions.
- ▶ In October 2007, trade union representatives from the Rho site (Italy) were informed of a reorganization project that would result in the loss of 29 jobs in production and five jobs at the headquarters of Arkema Srl. An agreement was reached on 14 November 2007 between trade union organizations and Arkema Srl on the proposed restructuring of the Rho site. The redundancy plan provides for redeployment through internal mobility and for retirement and early retirement packages.
- ▶ On 12 October 2007 the management of the Arkema Marseille Saint-Menet site (France) presented to the Works Council a project for the future of the site aimed at consolidating its activities over the long term. The project would entail the loss of 48.5 positions and a 10% increase in production capacity for the monomer of Rilsan® 11 polyamide. The plan includes in particular offering those employees concerned redeployment opportunities (on the site itself as a matter of priority) and early retirement packages.
- ▶ On 20 December 2007, the management of the Functional Additives BU presented a project for the future of the Crosby site (Texas) aiming to boost the competitiveness of this organic peroxide plant. The project would result in the loss of 26 jobs from a total of 84 on the site.
- ▶ On 21 January 2008, the management of the Arkema Serquigny site (France) initiated an information and consultation procedure with its Works Council on a proposed reorganization of the site, which specializes in the manufacture of specialty polyamides. The implementation of the plan would result in the loss of 49 positions. Taking account of internal mobility possibilities within the site itself and the proposed negotiation of early retirement packages, redeployment solutions have been identified for everyone concerned.
- ▶ On 7 February 2008, an information and consultation procedure was initiated with the Central Works Council of Arkema France for the proposed creation of two Shared Services Centers for the Human Resources and Accounts functions. These centers would be based in the Lyon region and at the ARKEMA headquarters in Colombes. The project would entail the loss of 132 positions within Arkema France entities and the creation of 102 positions within the two Shared Services Centers.

## 17.4 Welfare - Retirement

### 17.4.1 WELFARE AND EMPLOYEE BENEFITS

Welfare schemes are in place in most countries, and cover at least risks related to death and disability.

The Group's various entities in France and abroad are responsible for ensuring that the social security and employee benefit provisions are in keeping with their needs and with local practices, within the constraints of the agreed annual budgets.

Accordingly, in the second half of 2006 Arkema France renegotiated the Welfare contract covering every employee in the Company as part of an agreement signed by every trade union organization.

## 17.4.2 SUPPLEMENTARY PENSION SCHEMES

### Supplementary pension plans – Arkema S.A.

Some executives benefit from defined benefit supplementary pension schemes, for which provisions have been made in the consolidated and corporate financial statements as detailed in section 16.2 of this reference document.

### Supplementary pension plans – Arkema France

In France, some employees benefit from defined benefit supplementary pension schemes of the differential type. These schemes were transferred from Rhône-Poulenc companies and various companies in the Pechiney Group. They were set up in the 1950s, and were closed to employees hired after 1973 at the latest.

The corresponding liabilities (all rights acquired by retired beneficiaries at the date of transfer and rights acquired up to the date of transfer for those still in employment) were outsourced to CNP Assurance on 31 December 2004.

Rights still to be acquired by scheme members still in employment are covered by provisions in the Group's accounts as they are acquired, and give rise to regular payments of an additional premium.

Two years into the implementation of this insurance contract, a new actuarial study has been commissioned to estimate future pensions for people still in employment, and therefore ensure that the assumptions made at the time of outsourcing were still valid. This study will be available in the second half of 2008.

### Group Pension Plans – Significant international subsidiaries

In some countries where basic mandatory pension plans do not guarantee an adequate income, the Group's entities have set up defined-benefit pension plans.

In order to limit the corresponding liabilities, these entities have gradually closed their schemes to new entrants, replacing them with defined contribution schemes.

This is the case in the United Kingdom and Germany where defined benefit schemes were closed to new entrants from 1 January 2002, on which date defined contribution schemes were set up.

In the United States, the following changes were made in 2006:

- ▶ the defined benefit plan was closed to employees recruited after 1 January 2007;
- ▶ the rights accrued by employees aged under 50 at 31 December 2007 will be frozen and retained definitively.

It should be noted that as part of the Spin-Off of ARKEMA's Businesses, the Total Group retained pension liabilities relating to retired persons prior to 1 January 2005 in the United States.

In the Netherlands, changes were made to the pension plan in 2006 to comply with new regulations, and the payment of a pension before the statutory pensionable age is no longer allowed. The corresponding pension liabilities are covered by an insurance policy in accordance with the law.

# 17.5 Collective compensation, employee savings schemes and employee share ownership

## 17.5.1 INCENTIVES AND PROFIT SHARING

In addition to the profit-sharing scheme required by law in France, Arkema France has set up an incentive scheme giving all employees a share of profits and incentives to meet certain performance objectives, so as to promote the company's growth.

Incentive compensation is made up of two components: a result-based bonus, which is a function of the financial results achieved by Arkema France in France, and a performance bonus defined by each facility based on achieving objectives specific to each facility.

The incentive agreement was renewed on 13 April 2005 and signed by the CFDT and CFTC trade unions. It covers the 2005, 2006 and

2007 financial years. Total incentive compensation that can be paid out for a given year amounts to 3.9% of total payroll.

For 2005, 2006 and 2007 the average amount paid to each employee was around €1,000.

The Group's other French entities have entered into specific incentive scheme agreements based on the same principles.

At the end of 2007 negotiations were undertaken to renew, for a further three years, the incentive and profit sharing agreement.

## 17.5.2 EMPLOYEE SAVINGS SCHEMES

A Group Savings Plan (*Plan d'Épargne Groupe* – PEG) allows employees and former employees of member companies to make voluntary contributions and invest their profit-sharing and bonus income.

They enjoy matching funding of up to €800/year from the employer, covering profit-sharing and bonus income as well as voluntary contributions.

The investment structures available are the 'ARKEMA Actionnariat France' company investment collective fund (*Fonds Commun de Placement d'Entreprise* - FCPE) entirely invested in ARKEMA shares, and a range of multi-company FCPE funds offering the choice of investment in different asset classes (equities, bonds, money market) and thus allowing employees to diversify their savings.

## 17.5.3 EMPLOYEE SHARE OWNERSHIP

ARKEMA is keen to pursue an active policy of encouraging employee share ownership and intends, from time to time, to carry out capital issues reserved for employees in order to involve them closely with the future growth of the Group.

The Annual General Meeting of 10 May 2006 had indeed delegated to the Board of Directors powers to approve one or more capital issues, within a maximum period of twenty-six months and within a limit of 2 million shares, reserving the subscription to Group employees who participate in a company savings scheme.

Using this delegation of powers, a meeting of the Board of Directors on 17 January 2008 decided to proceed with a share capital increase reserved for Group employees, the characteristics of which were determined at a Board of Directors meeting on 4 March 2008. Accordingly, the subscription price was set at €30.42 per share with €10 nominal value, with an effective date of 1 January 2007. This price corresponds to the average opening price quoted in the last 20 trading days preceding the date of the Board of Directors meeting, minus a 20% discount.

The subscription period opened on 25 March 2008 and will close on 13 April 2008 close of business.

In accordance with article 14 of the French *Autorité des marchés financiers* instruction, Arkema S.A. published on 20 March 2008, on its website, a news release setting out the terms and conditions of this operation.

The operation is open to employees of the Company and affiliated companies, under the conditions laid down in article L.233-16 of the French Commercial Code (*Code de commerce*), which participate in the PEG-A savings scheme, and for which local administrative authorizations have been obtained. It is also open to former employees of Arkema S.A. and its subsidiaries who have now retired but still have assets in the company savings plan.

Additionally, a recommendation will be put forward to the Extraordinary General Meeting of 20 May 2008 to authorize the Board of Directors to proceed with a share capital issue reserved for employees of the Company and its affiliates, under conditions set out in article L.233-16 of the *Code de commerce*, which participate in a company savings plan, for a maximum nominal amount of €20 million. The proposed authorization will render ineffectual, with effect from the same date, the authorization given by the Combined General Meeting of 10 May 2006 in its 21<sup>st</sup> resolution.

See annex 4 "Draft resolutions put forward to the Combined General Meeting of 20 May 2008".

## 17.5.4 STOCK OPTIONS AND FREE SHARE ALLOCATIONS

The Combined General Meeting of 10 May 2006 authorized the Board of Directors of ARKEMA to proceed with free share allocations and to grant stock options to employees of the Group in order to involve them more closely with its future growth as well as its financial and stock market performance.

In implementing this authorization and on recommendation from the Nominating and Compensation Committee, the Board of Directors, meeting on 4 July 2006 and 14 May 2007, approved a list of approximately 600 beneficiaries of a stock option plan or a free share allocation plan respectively, the main provisions of which are summed up below:

### Stock option plan

Options to subscribe for shares are granted for an eight-year period. The exercise price of the option is the average listed price for the shares during the twenty trading days prior to the date of allocation of the options, with no discount applied.

These options may only be exercised after an initial two-year period, provided the bearer is still employed by the Group, and shares acquired by the exercise of options may not be sold for a further two-year period.



## POSITION OF STOCK OPTION PLANS FOR ARKEMA S.A. AT 31 DECEMBER 2007

	2006 Plan	2007 Plan	Total
Date of Annual General Meeting	10 May 2006	10 May 2006	
Date of Board Meeting	4 July 2006	14 May 2007	
Total number of options awarded to / number of shares that may be subscribed by			
directors <sup>(1)</sup>	540,000	600,000	1,140,000
the 10 employees receiving the greatest number of shares <sup>(2)</sup>	55,000	70,000	125,000
	181,000	217,000	398,000
Date from which options may be exercised	5 July 2008	15 May 2009	
Closing date of Plan	4 July 2014	14 May 2015	
Exercise price (in euros)	28.36	44.63	
Number of options:			
> outstanding on 1 January 2007	540,000	-	540,000
> awarded in 2007	-	600,000	600,000
> exercised in 2007	-	-	-
> cancelled in 2007	4,000	-	4,000
Number of options outstanding on 31/12/2007	536,000	600,000	1,136,000

(1) Thierry Le Hénaff, Chairman and Chief Executive Officer, was awarded 55,000 stock options in 2006 and 70,000 stock options in 2007.

(2) Employees of Arkema S.A. and of any Group company who are not directors of Arkema S.A.

### Free share allocation plan

The free allocation of shares is not definitive until the end of a two-year period (the acquisition period), and is dependent on the beneficiary's continued employment by the Group and on condition of improvements in the profitability of the Group for the year preceding the definitive allocation year set by the Board of Directors.

After the acquisition period, and subject to the conditions set by the plan, shares are definitively acquired by the beneficiaries, who must then hold them for a further two-year period (the holding period) before they can sell them.

## POSITION OF FREE SHARE ALLOCATION PLAN FOR ARKEMA S.A. AT 31 DECEMBER 2007

	2006 Plan	2007 Plan	Total
Date of Annual General Meeting	10 May 2006	10 May 2006	
Date of Board Meeting	4 July 2006	14 May 2007	
Total number of free share allocation rights for	150,000	125,000	275,000
directors <sup>(1)</sup>	8,000	7,000	15,000
the 10 employees receiving the greatest number of shares <sup>(2)</sup>	30,500	21,700	52,200
Opening date of acquisition period	4 July 2006	14 May 2007	
Definitive acquisition date subject to the conditions set	5 July 2008	15 May 2009	
Closing date of period during which shares must be retained, save exception laid down by plan	5 July 2010	15 May 2011	
Number of free shares:			
> outstanding at 1 January 2007	150,000	-	150,000
> awarded in 2007	-	125,000	125,000
> cancelled in 2007	6,685	-	6,685
> awarded definitively in 2007	-	-	-
Number of rights to free allocation outstanding at 31/12/2007	143,315	125,000	268,315

(1) Thierry Le Hénaff, Chairman and Chief Executive Officer, benefited from 8,000 rights to free share allocation in 2006 and 7,000 in 2007.

(2) Employees of Arkema S.A. and of any Group company who are not directors of Arkema S.A.

Moreover, in accordance with regulatory requirements, stock option plans and free share allocation plans agreed by the Board of Directors meeting on 14 May 2007 require the directors of Arkema S.A. and the members of the Group's Executive Committee to retain, until termination of office, part of the shares from the stock options they have exercised and part of the shares awarded definitively.

## 17.6 Corporate citizenship and welfare initiatives

The Common Ground® initiative developed over the last few years is an initiative of open dialogue designed to acquaint the communities living in the vicinity of our industrial sites with ARKEMA's activities and products.

Common Ground® is based on the following principles:

- ▶ listening in order to understand concerns and expectations;
- ▶ regular dialogue with all stakeholders: elected officials, local residents, local associations, and the world of education, in order to explain the end-purpose of our products, the nature of our activities, and the way our plants operate;
- ▶ the promotion of a prevention culture to continuously improve industrial safety and the protection of health and the environment.

An outreach initiative launched in France, Common Ground® has been gradually rolled out in every country in which ARKEMA operates through many types of actions: open days, plant tours, public information meetings, exhibitions, safety promotion days.

- ▶ ARKEMA and the French Red Cross signed a partnership agreement for first-aid training on 14 October 2005. The programme is available to company employees and to people living near the 35 industrial sites run by ARKEMA and its subsidiaries in France. The stated objective of this partnership is to raise awareness and train 5,000 people over two years. Training was dispensed gradually over the course of 2006, at the headquarters and on the French industrial sites of ARKEMA and its subsidiaries, with over 3,200 people attending, almost half of whom from outside the Group. Through this partnership, ARKEMA reinforces its Common Ground® approach by involving employees and local communities near its plants in a progress initiative at the service of society at large.
- ▶ The *Fête de la Science* (science fair) takes place all over France, on the initiative of the deputy minister for Research and Education. This is a key event whereby researchers, academics, manufacturers and engineers meet the general public and schoolchildren to foster dialogue and promote access to new knowledge. The Rhône-Alpes region enjoys the largest attendance in the country. The 2007 science fair was the 16<sup>th</sup> edition.

From 8 to 14 October 2007, Arkema was present in a variety of venues: at the Rhône science village, at Lyon Villeurbanne, at a high school near the Balan plant, at Dagneux, and at the science village at La Maurienne, near the La Chambre plant.

The active participation of Arkema personnel involved in the event has helped publicize Arkema and its products with the general public. By promoting dialogue, openness and reaching out to different audiences, the *Fête de la Science* aptly fits in with the Common Ground® initiative.

► In the United States, the Science Teacher Program of Arkema Inc. has benefited hundreds of teachers and thousands of children from primary and secondary schools, most of them from disadvantaged backgrounds.

Teachers spend a week of intensive training on industrial sites, experimenting with practical tools designed to make the teaching of science subjects more appealing. Throughout the school year,

they have the support of researchers from Arkema Inc., and receive funding to purchase equipment they will use for their classroom experiments. Teachers also have the opportunity to visit the industrial facilities to learn more about manufacturing methods and the applications of products manufactured by the chemical industry.

The Science Teacher Program is deployed around 13 industrial sites of Arkema Inc. across several US states.

Meanwhile, ARKEMA also contributes to “social welfare initiatives”, which encompass the various activities or services developed for the benefit of its personnel and their families. These initiatives are run either directly or via the works councils. They are highly diverse, ranging from mutual health benefit schemes and catering, to cultural and sporting activities. Typically these various events on average involve 4% of the total workforce of Arkema France every year.



# 18

## Main shareholders

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## 18.1 Share ownership and voting rights

To the best of the Company's knowledge, the capital of Arkema S.A. at 31 December 2006 and 31 December 2007 was allocated as follows:

	2007		2006	
	% of share capital	% of voting rights	% of share capital	% of voting rights
<b>1. Shareholders owning at least 5% of share capital and voting rights</b>				
Greenlight Capital <sup>(a)</sup>	10.6	10.6	10.6	10.6
Dodge & Cox <sup>(b)</sup>	9.9	9.9	5.0	5.0
JP Morgan AM <sup>(c)</sup>	n/a	n/a	5.0	5.0
Groupe Bruxelles Lambert <sup>(d)</sup>	3.9	3.9	3.9	3.9
Compagnie Nationale à Portefeuille <sup>(d)</sup>	1.3	1.3	1.3	1.3
Barclays Global Investors <sup>(e)</sup>	5.9	5.9	n/a	n/a
<b>2. Other institutional shareholders</b>	<b>58.3</b>	<b>58.3</b>	<b>64.5</b>	<b>64.5</b>
of which holders of ADRs <sup>(g)</sup>	3.6	3.6	3.7	3.7
<b>3. Group employees <sup>(f)</sup></b>	<b>1.0</b>	<b>1.0</b>	<b>0.7</b>	<b>0.7</b>
<b>4. Individual shareholders</b>	<b>9.1</b>	<b>9.1</b>	<b>9.0</b>	<b>9.0</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

The breakdown of the share capital of Arkema S.A was established on the basis of 60,453,823 shares corresponding to 60,453,823 voting rights. TPI procedures were carried out at the end of both years.

To the Company's knowledge and based on its register, no share of the Company has been pledged, or used as a guarantee or a surety.

(a) Greenlight Capital LLC, Greenlight Capital Inc and DME Advisors LP reported that on 13 June 2006, they crossed over the 10% threshold of the share capital and voting rights of the Company. These companies made a declaration of intent to the *Autorité des marchés financiers* (French financial markets authority) on 20 June 2006 on the occasion of this threshold crossing, in which they stated that "operations have been and will be continued depending on market opportunities".

(b) Dodge & Cox reported that on 13 July 2006 it crossed over the 5% threshold of the share capital and voting rights of the Company.

(c) JP Morgan Asset Management (UK) reported that on 18 August 2006 it crossed over the 5% threshold of the share capital and voting rights of the Company. JP Morgan Asset Management (UK) reported that on 2 March 2007, it crossed downward the 5% threshold of the share capital and voting rights of the Company.

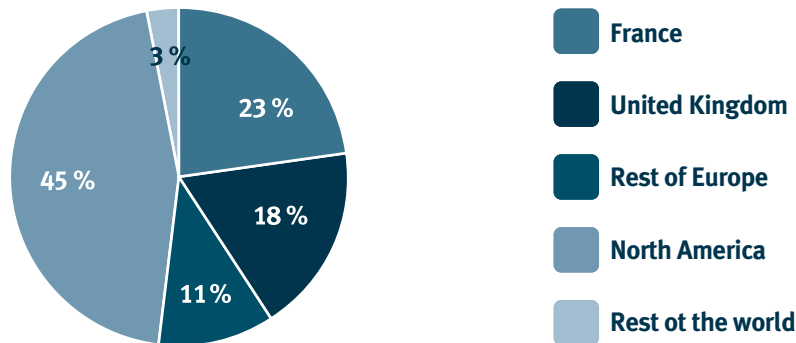
(d) Groupe Bruxelles Lambert is jointly controlled by the Desmarais family and Frère-Bourgeois S.A.; Frère-Bourgeois S.A.'s interest in Groupe Bruxelles Lambert is held mainly via its direct and indirect interests in Compagnie Nationale à Portefeuille.

(e) The company Barclays Global Investors UK Holding Ltd, acting on behalf of its subsidiaries, stated that it crossed over the 5% threshold of the share capital and voting rights of the Company on 2 August 2007.

(f) Based on the definition of employee share ownership within the meaning of article L.225-102 of the *Code de Commerce*.

(g) American Depositary Receipts. The Company has established an ADR program in the United States and to this end entered into a Deposit Agreement with Bank Of New York on 18 May 2006.

### Geographic share ownership breakdown (estimated at 31 December 2007)



## 18.2 Double voting rights and limitations on number of voting rights

Articles 17.3 and 17.4 of the articles of Association limit the percentage of voting rights held by a given shareholder to 10% of the total number of voting rights attached to the Company's shares, and confer double voting rights at the end of a period of two years after the shares have been registered, such double voting rights being limited to 20% of the total number of voting rights attached to the Company's shares.

The provisions regarding double voting rights and limitations on the number of voting rights, approved by the Combined General Meeting of shareholders on 10 May 2006, are described in section 21.2.6 of this reference document.

## 18.3 Termination of limitations on number of voting rights

The limitations provided in the Articles of Association and described in section 21.2.6 of this reference document shall lapse, without the need for the adoption of a new resolution by the extraordinary general meeting, when a natural person or a legal entity, acting separately or in concert with one or more natural persons or legal entities, comes to

hold at least two-thirds of the total number of shares in Arkema S.A. following a public offering for all Arkema S.A. shares. The Board of Directors then recognizes that the limitations have lapsed and carries out the related formalities to amend the Articles of Association.

## 18.4 Control of the Company

As of the date of this reference document, the Company is not controlled directly or indirectly by any shareholder.

As of the date of this reference document and to the best of the Company's knowledge, there is no shareholders' pact which if implemented could result in the acquisition of control over the Company.





# 19

## Related party transactions

The majority of companies not consolidated by the Group as of the date of this reference document are listed in chapter 25 of this reference document. Some of these companies sell products or provide services to companies consolidated by the Group.

In addition, certain consolidated Group companies sell products or provide services to certain non-consolidated companies.

These transactions, taken separately or together, are not material. They were entered into under ordinary conditions comparable to those applicable to similar transactions with third parties.

A description of related-party transactions is provided in note 27 of the notes to consolidated financial statements contained in chapter 20 of this reference document.



## Financial information concerning the assets, financial conditions and results of the issuer

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## 20.1 Report from Statutory Auditors on consolidated financial statements

*This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification of information in the group management report.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

### **Arkema S.A.**

Registered office: 420, rue d'Estiennes d'Orves - 92700 Colombes  
Share capital: € 604,538,230

#### **Statutory auditors' report on the consolidated financial statements**

Year ended 31 December 2007

To the Shareholders,

Following our appointment as statutory auditors by your General Meetings, we have audited the accompanying consolidated financial statements of Arkema S.A. for the year ended 31 December 2007.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

## **I. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities, of the financial position of the Group as at 31 December 2007 and of the results of its operations for the year then ended in accordance with IFRS as adopted by the EU.

Without qualifying our opinion, we draw your attention to chapter B "Accounting policies", and to note 10 "Impact of changes in accounting policies and reclassifications on the 2006 financial statements", respectively on pages 9 and 33 of the notes to the consolidated financial statements, which set out the accounting changes performed over the year, among which, the use of the option provided by IAS 19, which enables recognition of actuarial gain and losses directly in shareholders' equity, and the adoption of the proportionate consolidation method for companies over which joint control is exercised.

## II. JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L.823-9 of the French Commercial Law (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- ▶ Each year, the Group tests its property, plant and equipment and intangible assets for impairment following the methodology described in note 6 of Chapter B to the consolidated financial statements (“Accounting principles”). We have examined the methodology used for these impairment tests together with the underlying data and assumptions used and calculations made by the Group. We also verified that the disclosures made in notes 4, 11 and 12 of Chapter «Notes to the consolidated financial statements» provide an appropriate level of information.
- ▶ The Group recognizes provisions to notably cover environmental risks, litigations in respect of competition law and restructuring costs, following the principles disclosed in note 9 of Chapter B to the consolidated financial statements (“Accounting policies”). Notes 21.1 and 21.2 to the consolidated financial statements also disclose contingent liabilities reported in this respect. On the basis of available information, our work consisted in analyzing the procedures used by management to identify and measure risks subject to these provisions and examining the data and assumptions underlying the estimates provided by the Group to support such provisions, including some correspondence with lawyers, in order to assess their reasonableness. We also verified that the disclosures made in notes 4, 15, 20.4, 20.5, 20.6, 21.1 and 21.2 as well as in notes 29.2.1 and 29.2.2 of Chapter «Notes to the consolidated financial statements» provide an appropriate level of information.
- ▶ The Group recognizes provisions to cover its employee pensions and other post-employment benefit liabilities using the method described in note 10 of the Chapter B to the consolidated financial statements (“Accounting principles”). These liabilities were mainly measured by independent actuaries. We have examined the underlying data and assumptions used and verified that the disclosures made in notes 5, 10 and 20.3 of Chapter «Notes to the consolidated financial statements» provide an appropriate level of information.
- ▶ Note 7 - “Business combinations” of the Chapter «Notes to the consolidated financial statements» discloses the fair values of assets and liabilities acquired and of the goodwill related to the first consolidation of the Coatex Company. Our work consisted in analyzing the procedures used by the Group to determine these values and assessing the data and assumptions underlying the estimates supporting these values. On the basis of current available information, we have assessed the reasonableness of these estimates.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the formation of our opinion expressed in the first part of this report.

## III. SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also verified the information relative to the group, given in the parent company’s management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris la Défense, 5 March 2008

The Statutory Auditors

*French original signed by*

**KPMG Audit**

Département de KPMG S.A.

Bertrand Desbarrières

*Partner*

Jean-Louis Caulier

*Partner*

**ERNST & YOUNG AUDIT**

François Carrega

*Partner*

## 20.2 Consolidated financial statements at 31 December 2007

### CONSOLIDATED INCOME STATEMENT

<i>In millions of euros</i>	Notes	2006	2007
<b>Sales</b>	(1&2)	<b>5,664</b>	<b>5,675</b>
Operating expenses		(4,879)	(4,827)
Research and development expenses	(3)	(168)	(158)
Selling and administrative expenses		(417)	(397)
<b>Recurring operating income</b>	(1)	<b>200</b>	<b>293</b>
Other income and expenses	(4)	(92)	(72)
<b>Operating income</b>	(1)	<b>108</b>	<b>221</b>
Equity in income of affiliates	(13)	1	5
Financial result	(5)	(10)	(15)
Income taxes	(6)	(59)	(104)
<b>Net income of continuing operations</b>		<b>40</b>	<b>107</b>
<b>Net income of discontinued operations</b>	(8)	<b>7</b>	<b>17</b>
<b>Net income</b>		<b>47</b>	<b>124</b>
Of which: minority interests		2	2
<b>Net income - Group share</b>		<b>45</b>	<b>122</b>
Earnings per share (amount in euros)	(9)	0.75	2.02
Diluted earnings per share (amount in euros)	(9)	0.75	2.01
Depreciation and amortization	(1)	(211)	(225)
EBITDA *	(1)	411	518
<b>ADJUSTED NET INCOME *</b>		<b>115</b>	<b>186</b>

\* See note B-15 Accounting policies / Main accounting and financial indicators.

The accounting policies applied in preparing the consolidated financial statements at 31 December 2007 are identical to those used in the consolidated financial statements at 31 December 2006, except for the policies described at the start of note B Accounting policies.

## CONSOLIDATED BALANCE SHEET

<i>In millions of euros</i>	Notes	31 December 2006	31 December 2007
<b>Assets</b>			
Intangible assets, net	(11)	236	460
Property, plant and equipment, net	(12)	1,376	1,525
Equity affiliates: investments and loans	(13)*	104	42
Other investments	(14)	21	24
Deferred income tax assets	(6)*	36	18
Other non-current assets	(15)*	121	100
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,894</b>	<b>2,169</b>
Inventories	(16)	1,036	1,017
Accounts receivable	(17)*	1,011	1,000
Other receivables and prepaid expenses	(17)*	202	160
Income taxes recoverable		36	31
Other current assets	(24)	-	1
Cash and cash equivalents	(18)	171	58
<b>TOTAL ASSETS OF DISCONTINUED OPERATIONS</b>	<b>(8)</b>	<b>144</b>	<b>-</b>
<b>TOTAL CURRENT ASSETS</b>		<b>2,600</b>	<b>2,267</b>
<b>TOTAL ASSETS</b>		<b>4,494</b>	<b>4,436</b>
<b>Liabilities and shareholders' equity</b>			
Share capital		605	605
Paid-in surplus and retained earnings	*	1,313	1,449
Cumulative translation adjustment		(27)	(140)
Treasury shares		-	-
<b>SHAREHOLDERS' EQUITY – GROUP SHARE</b>	(19)	<b>1,891</b>	<b>1,914</b>
Minority interests		15	21
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,906</b>	<b>1,935</b>
Deferred income tax liabilities		14	54
Provisions and other non-current liabilities	(20) *	891	833
Non-current debt	(22)	52	61
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>957</b>	<b>948</b>
Accounts payable	*	791	786
Other creditors and accrued liabilities	(25) *	314	290
Income taxes payable		14	15
Other current liabilities	(24)	-	6
Current debt	(22)	443	456
<b>TOTAL LIABILITIES OF DISCONTINUED OPERATIONS</b>	<b>(8)</b>	<b>69</b>	<b>-</b>
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,631</b>	<b>1,553</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,494</b>	<b>4,436</b>

\* The amounts shown at 31 December 2006 include the effects of the changes in accounting policies and reclassifications described in note 10.

The accounting policies applied in preparing the consolidated financial statements at 31 December 2007 are identical to those used in the consolidated financial statements at 31 December 2006, except for the policies described at the start of note B Accounting policies.

## CONSOLIDATED CASH FLOW STATEMENT

<i>In millions of euros</i>	2006	2007
Net income	47	125
Depreciation, amortization and impairment of assets	218	246
Provisions, valuation allowances and deferred taxes	(210)	(3)
(Gains)/losses on sales of assets	(5)	(96)
Undistributed affiliate equity earnings	(1)	(5)
Change in working capital	16	47
Other changes	3	5
<b>Cash flow from operating activities</b>	<b>68</b>	<b>319</b>
Intangible assets and property, plant, and equipment additions	(336)	(325)
Acquisitions of subsidiaries, net of cash acquired	(7)	(294)
Increase in long-term loans	(59)	(15)
Total expenditures	(402)	(634)
Proceeds from sale of intangible assets and property, plant, and equipment	6	88
Proceeds from sale of subsidiaries, net of cash sold	-	105
Proceeds from sale of other investments	10	1
Repayment of long-term loans	38	27
Total divestitures	54	221
<b>Cash flow from investing activities</b>	<b>(348)</b>	<b>(413)</b>
Issuance (repayment) of shares	532	5
Dividends paid to parent company shareholders	-	-
Dividends paid to minority shareholders	(1)	-
Increase / decrease in long-term debt	(6)	9
Increase / decrease in short-term borrowings and bank overdrafts	(130)	(4)
<b>Cash flow from financing activities</b>	<b>395</b>	<b>10</b>
Net increase/(decrease) in cash and cash equivalents	115	(84)
Effect of exchange rates and changes in scope	(18)	(29)
Cash and cash equivalents at beginning of period	67	171
Cash and cash equivalents of discontinued operations at end of period	(14)	-
Cash advance granted to discontinued operations	20	-
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>171</b>	<b>58</b>

The cash flow statement in 2006 includes cash flows of discontinued operations (Cerexagri) (see note 8).

At 31 December 2007, income taxes paid amounted to €54 million (€104 million at 31 December 2006). Interest received and paid

included in cash flow from operating activities at 31 December 2007 amounted, respectively, to €0.5 million and €16 million (€0.2 million and €8 million at 31 December 2006).



## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

<i>In millions of euros</i>	Shares issued					Treasury shares		Shareholders' equity – Group share	Minority interests	Total shareholders' equity
	Number	Amount	Paid-in surplus	Retained earnings	Cumulative translation adjustment	Number	Amount			
<b>At 1 January 2006</b>	<b>4,000</b>	-	-	<b>1,312</b>	<b>83</b>	-	-	<b>1,395</b>	<b>14</b>	<b>1,409</b>
Cash dividend	-	-	-	-	-	-	-	-	(1)	(1)
Issuance of share capital	60,449,823	605	1,006	(1,078)	-	-	-	532	-	532
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Cancellation of purchased treasury shares	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Transactions with shareholders</b>	<b>60,449,823</b>	<b>605</b>	<b>1,006</b>	<b>(1,078)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>532</b>	<b>(1)</b>	<b>531</b>
Net income	-	-	-	45	-	-	-	45	2	47
Changes in items recognized directly through equity	-	-	-	1	-	-	-	1	-	1
Actuarial gains and losses	-	-	-	22	-	-	-	22	-	22
Change in translation adjustments	-	-	-	-	(110)	-	-	(110)	-	(110)
Other	-	-	-	5	-	-	-	5	-	5
<b>Total recognized income and expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73</b>	<b>(110)</b>	<b>-</b>	<b>-</b>	<b>(37)</b>	<b>2</b>	<b>(35)</b>
<b>AT 31 DECEMBER 2006</b>	<b>60,453,823</b>	<b>605</b>	<b>1,006</b>	<b>307</b>	<b>(27)</b>	<b>-</b>	<b>-</b>	<b>1,891</b>	<b>15</b>	<b>1,906</b>

In millions of euros	Shares issued			Retained earnings	Cumulative translation adjustment	Treasury shares		Shareholders' equity - Group share	Minority interests	Total shareholders' equity
	Number	Amount	Paid-in surplus			Number	Amount			
<b>At 1 January 2007</b>	<b>60,453,823</b>	<b>605</b>	<b>1,006</b>	<b>307</b>	<b>(27)</b>	-	-	<b>1,891</b>	<b>15</b>	<b>1,906</b>
Cash dividend	-	-	-	-	-	-	-	-	-	-
Issuance of share capital	-	-	-	-	-	-	-	-	5	5
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-
Cancellation of purchased treasury shares	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
<b>Transactions with shareholders</b>	-	-	-	-	-	-	-	-	<b>5</b>	<b>5</b>
Net income	-	-	-	122	-	-	-	122	2	124
Changes in items recognized directly through equity	-	-	-	7	-	-	-	7	-	7
Actuarial gains and losses	-	-	-	9	-	-	-	9	-	9
Change in translation adjustments	-	-	-	-	(113)	-	-	(113)	(1)	(114)
Other	-	-	-	(2)	-	-	-	(2)	-	(2)
<b>Total recognized income and expenses</b>	-	-	-	<b>136</b>	<b>(113)</b>	-	-	<b>23</b>	<b>1</b>	<b>24</b>
<b>AT 31 DECEMBER 2007</b>	<b>60,453,823</b>	<b>605</b>	<b>1,006</b>	<b>443</b>	<b>(140)</b>	-	-	<b>1,914</b>	<b>21</b>	<b>1,935</b>

The amounts shown at 1 January 2006 and 31 December 2006 include the effects of the changes in accounting policies and reclassifications described in note 10.

## A. HIGHLIGHTS

### 1. Main restructuring measures in the year

The accounting impacts are presented under the “Other income and expenses” caption (see note 4).

#### 1.1 Restructuring in the Vinyl Products segment

A plan for the future of the Soveplast industrial site at Chantonnay, France (Pipes and Profiles BU) was announced in January 2007 with a view to restoring the site’s competitiveness.

In February 2007, the Vinyl Compounds BU announced the shutdown in 2008 of Dorlyl activities in France and the rationalization of its sites in Italy.

#### 1.2 Restructuring in the Industrial Chemicals segment

In January 2007, the Thiochemicals BU launched an action plan to improve the competitiveness of its production site at Lacq-Mourenx (France). This project will result in the simplification of the organization and in a 30% increase in the production capacity of DMDS.

During the first quarter of 2007, the Acrylics BU launched a performance plan on its site at Carling-Saint-Avoid (France) with a view to increasing its competitiveness.

Finally, in March 2007, the Group announced, in its Fluorochemicals BU, the refocus of its plant at Pierre-Bénite (France) on its best performing businesses in order to make it a competitive European fluorochemicals site. The information and consultation process of the work councils was completed on June 18.

#### 1.3 Restructuring in the Performance Products segment

In May 2007, ARKEMA announced, in its Technical Polymers BU, the closure in two steps of its co-polyamide powder production plant at Bonn (Germany).

In June 2007, ARKEMA announced restructuring measures in respect of its functional additives site at Vlissingen (Netherlands).

In October 2007, ARKEMA announced a plan aimed at improving the productivity of its site at Marseille Saint-Menet (France) specialized in the production of the Rilsan® 11 polyamide monomer, and at increasing its production capacity by 10% and is continuing the restructuring of its polyamides activities through an optimization project on its site at Serquigny (France).

### 2. Events on the site of Lavéra (France)

In the night of 23 May to 24 May 2007, a fire started in one of the three ovens of the vinyl chloride production unit causing the shutdown of

the production units. As envisaged, the Lavéra production units were restarted at the end of September 2007. The financial consequences of this incident are included in “Other income and expenses” (see note 4).

### 3. Main changes in the portfolio of businesses

#### 3.1. Sale of Cerexagri to UPL

In November 2006, ARKEMA announced the sale of its agrochemicals business, Cerexagri, which specializes in the formulation and production of phytosanitary products to United Phosphorus Limited (UPL), an Indian company. This business generated sales of €202 million in 2006.

On 1 February 2007, ARKEMA finalized the sale of Cerexagri to UPL. After taking account of selling costs and the warranties granted to the purchaser, the capital gain on sale amounted to around €17 million (see note 8).

#### 3.2. Sale to Taminco of the specialty amines business in the United States

On 1 May, 2007, ARKEMA sold its specialty amines business (which formed part of the Thiochemicals BU), whose production is based at the Riverview (Michigan) site, to Taminco, a Belgian group. This business generated sales of \$72 million in 2006 and sales of \$21 million in 2007. The sale did not have a significant impact on the Group’s financial statements. The accounting impacts of this sale are presented in “Other income and expenses” (see note 4).

#### 3.3. Sale of the Urea Formaldehyde Resins business based on the Leuna site to Hexion

On 1 November 2007, ARKEMA sold its Urea Formaldehyde Resins business, whose production is based on the German site of Leuna, to Hexion Specialty Chemicals, an American company. This business generated sales of €101 million in 2006 and sales of €89 million in 2007. This sale generated a pre-tax capital gain of €30 million in the 2007 financial statements. The accounting impacts of this sale are presented in “Other income and expenses” (see note 4).

#### 3.4. Acquisition of Coatex

On 1 October 2007, ARKEMA finalized the acquisition of the Coatex group, which is specialized in polymers, mainly acrylic-based. Since this date this business constitutes the Specialty Acrylic Polymers BU and forms part of the Industrial Chemicals segment (see note 7).

## B. ACCOUNTING POLICIES

ARKEMA is a global chemical player, with three coherent and related business segments: Vinyl Products, Industrial Chemicals and Performance Products.

Arkema S.A. is a French limited liability company (société anonyme) with a Board of Directors, subject to the provisions of book II of the French Commercial Code as well as all other legal provisions applicable to French commercial companies.

The company's head office is at 420, rue d'Estiennes d'Orves, 92705 Colombes (France). It was formed on 31 January 2003 and the shares of Arkema S.A. are listed on the Paris stock market (Euronext) since 18 May 2006.

The consolidated financial statements of ARKEMA at 31 December 2007 were prepared under the responsibility of the Chairman and CEO of Arkema S.A. and were approved by the Board of Directors of Arkema S.A. on 4 March 2008. They will be submitted to the approval of the general meeting of 20 May 2008.

The consolidated financial statements at 31 December 2007 were prepared in accordance with the international accounting standards issued by the IASB (International Accounting Standards Board) at 31 December 2007 and also as endorsed by the European Union at 31 December 2007.

The accounting policies applied in preparing the consolidated financial statements at 31 December 2007 are identical to those used in the consolidated financial statements at 31 December 2006, except for:

- the treatment of actuarial gains and losses, for which ARKEMA has decided to abandon the "corridor" method and to use the option provided by the "Actuarial Gains and Losses, Group plans and disclosures" amendment to IAS 19 of December 2004, which enables recognition of actuarial gains and losses arising from changes in actuarial assumptions directly in shareholders' equity under the "Actuarial gains and losses" caption (see section B-10 and note 10);
- the classification, as from 1 January 2007, of interest cost relating to employee benefits provisions, of the expected return on plan assets (as defined by IAS 19) and the actuarial gains and losses related to changes in the discount rate on other long-term benefits within the financial result caption, as against the previous classification within operating expenses (see section B-10 and note 5);
- accounting for companies over which joint control is exercised under the proportionate consolidation method rather than under the equity method as previously (see section B-2);
- IFRS standards, amendments and interpretations that are obligatorily applicable for accounting periods commencing on or after 1 January 2007 (and which had not been applied early by the Group), being: IFRICs 7, 8, 9 and 10. Their application does not have any impact on the Group's consolidated financial statements at 31 December 2007. The impacts of the amendment to IAS 1 are reflected in notes 19 and 22. The impacts of the application of IFRS 7 are reflected in notes 22, 23 and 24.

Preparation of consolidated financial statements in accordance with IFRS requires Group management to make estimates and retain assumptions that can have an impact on the amounts recognized in assets and liabilities at the balance sheet date, and have a corresponding impact on the income statement. Management made its estimates and determined its assumptions on the basis of past experience and taking into account different factors considered to be reasonable for the valuation of assets and liabilities. Use of different assumptions could have a material effect on these valuations. The main assumptions made by management in preparing the financial statements are those used for the calculation of depreciation and impairment, of pension benefit obligations, of deferred taxes and for the valuation of assets (property, plant & equipment, intangibles and investments), provisions and certain financial instruments. The disclosures provided concerning contingent assets and liabilities at the date of preparation of the consolidated financial statements also involve the use of estimates.

The consolidated financial statements are prepared in accordance with the historical cost convention, except for certain financial assets and liabilities which are recognized at fair value.

The consolidated financial statements are presented in millions of euros, rounded to the nearest million, unless otherwise indicated.

### 1. Basis of preparation of the consolidated financial statements at 31 December 2006

The Arkema Group was legally formed on 18 May 2006, being the date on which the "Spin-off of Arkema's Businesses" took place. The two partial spin-offs and the merger were accounted for at net book value as exchanges of assets between entities under common control.

All companies in the ARKEMA scope were consolidated as of 1 January 2006, as:

- i) the Arkema Group existed operationally prior to 18 May 2006; and
- ii) all businesses were controlled at 1 January 2006 (effective control as a result of the existence of a Group management team).

The financial statements for 2006 thus cover the period from 1 January 2006, notwithstanding the date of finalization of the legal transactions. The consolidated financial statements at 31 December 2006 are prepared on the basis of the individual financial statements of consolidated companies covering the same period, restated if necessary to comply with the accounting policies of the Arkema Group.

The principal accounting policies applied by the Group are presented below.

### 2. Consolidation principles

- Companies which are directly or indirectly controlled by ARKEMA have been fully included in the consolidated financial statements.

- As from 1 January 2007, entities, assets and operations over which joint control is exercised are consolidated using the proportionate method. The purpose of the change in accounting policy decided upon by the Group was to facilitate comparability with other players in the chemicals industry. This change of accounting policy mainly concerns the new Joint-Venture projects for which proportionate consolidation best reflects their economic substance. Up until 31 December 2006, the companies concerned by the change of accounting policy only provided very limited information which did not enable this change to be accounted for retrospectively. Accordingly, this change in accounting policy is applied prospectively as from 1 January 2007 and the balances relating to 2006 have not been restated.

The effects of the changeover to the proportionate consolidation method were included in the reclassification flows of the period.

- In the consolidated income statement, the effect of the change in accounting policy at 31 December 2007 is a decrease of €29 million in sales, an increase of €1 million in operating income, a decrease of €1 million in financial result and a positive impact on EBITDA of €8 million.
- The effect of the change in accounting policy at 1 January 2007 is a decrease of €61 million in the “Equity affiliates: investments and loans” caption, an increase of €46 million in net property, plant and equipment, of €17 million in net intangible assets and of €9 million in net debt.
- The change of accounting policy did not have a significant impact on the consolidated cash flow statement.
- Investments in associates over which significant influence is exercised are consolidated under the equity method. Where the ownership interest is less than 20%, the equity method is only applied in cases where significant influence can be demonstrated.
- Shares owned in companies which do not meet the above criteria are included in other investments.

All material transactions between consolidated companies, and all intercompany profits have been eliminated.

### 3. Foreign currency translation

#### 3.1. Translation of financial statements of foreign companies

The functional operating currency of foreign companies in the scope of consolidation is their local currency, in which most of their transactions are denominated. Their balance sheets are translated into euros on the basis of exchange rates at the end of the period; the statements of income and of cash flows are translated using the average exchange rates during the period. Foreign exchange differences resulting from translation of the financial statements of these subsidiaries are recorded either in “Cumulative translation adjustments” in shareholders’ equity in the consolidated financial statements for the Group share or in “Minority interests” for the minority share.

#### 3.2. Transactions in foreign currencies

In application of IAS 21 “The effects of changes in foreign exchange rates”, transactions denominated in foreign currencies are translated by the entity carrying out the transaction into its functional currency at the exchange rate applicable on the transaction date. Monetary balance sheet items are restated at the closing exchange rate at the balance sheet date. Gains and losses resulting from translation are recognized in recurring operating income.

### 4. Intangible assets

Intangible assets include goodwill, software, patents, trademarks, leasehold rights, development costs and electricity consumption rights. Intangible assets are recognized in the balance sheet at their acquisition or production cost, less any accumulated amortization and impairment losses recognized.

Intangible assets other than goodwill and trademarks with indefinite useful lives are amortized on a straight-line basis over 3 to 20 years depending on the pattern according to which the entity envisages using the future economic benefits related to the asset.

#### 4.1. Goodwill and trademarks

Goodwill represents the difference between the purchase price, as increased by related costs, of shares of consolidated companies and the Group share of the value of their net assets and contingent liabilities at the acquisition date. Goodwill is not amortized, in accordance with IFRS 3 “Business combinations”. It is subject to impairment tests as soon as any indicators of potential impairment are identified. At a minimum, impairment tests are performed annually. The methodology used for the performance of impairment tests is described in paragraph 6.

Trademarks with indefinite useful lives are not amortized and are subject to impairment tests.

#### 4.2. Research and development costs

Research costs are recognized in expenses in the period in which they are incurred.

Under IAS 38 “Intangible assets”, development costs are capitalized as soon as ARKEMA can demonstrate, in particular:

- its intention and its financial and technical ability to complete the development project;
- that it is probable that future economic benefits attributable to the development costs will flow to the enterprise, which implies being certain of obtaining the required authorization to commercialize the product; and
- that the cost of the asset can be measured reliably.

## 5. Property, plant and equipment

### 5.1. Gross value

The gross value of items of property, plant and equipment corresponds to their acquisition or production cost in accordance with IAS 16 "Property, plant & equipment". Gross value is not subject to revaluation.

Equipment subsidies are deducted directly from the cost of the assets which they financed. Borrowing costs relating to the acquisition or the construction of items of property, plant and equipment are not capitalized but are rather recognized in expenses in the period in which they are incurred. Routine maintenance and repairs are charged to income in the period in which they are incurred. Costs related to major maintenance turnarounds of large chemical facilities are capitalized at the time they are incurred and depreciated over the period between two such major turnarounds.

Fixed assets which are held under finance lease contracts, as defined in IAS 17 "Leases", which have the effect of transferring substantially all the risks and rewards inherent to ownership of the asset from the lessor to the lessee, are capitalized in assets at their market value or at the discounted value of future lease payments if lower (such assets are depreciated using the methods and useful lives described below). The corresponding lease obligation is recorded as a liability. Leases which do not meet the above definition of finance leases are accounted for as operating leases.

### 5.2. Depreciation

Depreciation is calculated on a straight-line basis on the basis of the acquisition or production cost. Assets are depreciated over their estimated useful lives by category of asset. The principal categories and useful lives are as follows:

- machinery and tools: 5-10 years;
- transportation equipment: 5-20 years;
- specialized complex installations: 10-20 years;
- buildings: 10-30 years.

These useful lives are reviewed annually and modified if expectations change from the previous estimates. Such changes in accounting estimate are accounted for on a prospective basis.

## 6. Impairment of long-lived assets

The recoverable amount of property, plant & equipment and intangible assets is tested as soon as any indications of impairment are identified. A review to identify if any such indications exist is performed at each year-end. An impairment test is performed at least once a year in respect of goodwill and trademarks.

An asset's recoverable amount corresponds to the greater of its value in use or its fair value net of costs of disposal.

Tests are performed for each autonomous group of assets, termed Cash Generating Units (CGUs). A CGU is a group of assets whose continued use generates cash flows that are substantially independent of cash

flows generated by other groups of assets. They are worldwide business operations, which bring together groups of similar products in strategic, commercial and industrial terms. The value in use of a CGU is determined on the basis of the discounted future cash flows that are expected to be generated by the assets in question, based upon Group management's expectation of future economic and operating conditions or, when the asset is to be sold, by comparison with its market value. In 2006 and in 2007, the terminal value was determined on the basis of a growth rate of 1.5%. An after tax rate of 7.5% was used to discount future cash flows and the terminal value in 2006 and in 2007. Any impairment is calculated as the difference between the recoverable amount and the carrying amount of the CGU. Because of its unusual nature, any such impairment is presented separately in the income statement under the "Other income and expenses" caption. Impairment may be reversed, to the maximum carrying amount that would have been recognized for the asset had the asset not been impaired. Impairment recognized on goodwill cannot be reversed under any circumstances. In particular, in application of IFRIC 10, impairment losses on goodwill recognized in previous interim accounting periods cannot be reversed.

## 7. Financial assets and liabilities

Financial assets and liabilities are principally comprised of:

- other investments;
- loans and financial receivables included in other non-current assets;
- accounts receivable;
- cash and cash equivalents;
- debt and other financial liabilities (including accounts payable);
- derivatives.

### 7.1. Other investments

These instruments are accounted for, in accordance with IAS 39, as available-for-sale assets and are thus recognized at their fair value. In exceptional cases where fair value cannot be reliably determined, the securities are recognized at their historical cost. Changes in fair value are recognized directly through shareholders' equity.

If an objective indicator of impairment in the value of a financial asset is identified (particularly a material long-term decrease in its value), an irreversible impairment loss is recognized, in general, through recurring operating income. Release of such provisions only occurs at the date of disposal of the securities.

### 7.2. Loans and financial receivable

These financial assets are recognized at amortized cost. They are subject to impairment tests involving a comparison of their carrying amount to the present value of estimated recoverable future flows. These tests are carried out as soon as any indicators inferring that the present value of these assets is lower than their carrying amount are identified. As a minimum such tests are performed at each

balance sheet date. Any impairment loss is recognized in recurring operating income.

### 7.3. Accounts receivable

Accounts receivable are initially recognized at their fair value. Subsequent to initial recognition, they are recognized at amortized cost. If required, a bad debt provision is recognized on the basis of the risk of non-recovery of the receivables.

### 7.4. Cash and cash equivalents

Cash and cash equivalents are liquid assets and assets which can be converted into cash within less than 3 months that are subject to a negligible risk of change in value.

### 7.5. Non-current and current debt (including accounts payable)

Non-current and current debt (other than derivatives) is recognized at amortized cost.

### 7.6. Derivatives

The Group may use derivatives to manage its exposure to foreign currency risks and risks of changes in the prices of raw materials and energy. Derivatives used by the Group are recognized at their fair value in the balance sheet, in accordance with IAS 39.

Changes in the fair value of these derivatives are recognized within operating income, except for those on instruments which are considered to meet the criteria for cash flow hedge accounting under IAS 39. In this case, the effective portion of the change in fair value is recognized in shareholders' equity under the "Changes in items recognized directly through shareholders' equity" caption until such time as the underlying hedged item is recognized through the income statement. Any ineffective portion is recognized immediately in the income statement.

## 8. Inventories

Inventories are valued in the consolidated financial statements at the lower of cost and net realizable value, in accordance with IAS 2 "Inventories". Cost of inventories is generally determined using the weighted average cost (WAC) method.

Cost of chemical products inventories includes raw material and direct labor costs and an allocation of production overheads and depreciation. Start-up costs and general and administrative costs are excluded from the cost of chemical products inventories.

## 9. Provisions and other non-current liabilities

A provision is recognized when:

- the Group has a legal, regulatory or contractual obligation to a third party resulting from past events. An obligation can also result from Group practices or public commitments that create a reasonable expectation among the third parties in question that the Group will assume certain responsibilities;

- it is certain or probable that the obligation will lead to an outflow of resources to the benefit of the third party; and
- its amount can be estimated reliably and corresponds to the best possible estimate of the commitment. In exceptional cases where the amount of the obligation cannot be measured with sufficient reliability, disclosure is made in the notes to the financial statements in respect of the obligation (See Note 21 – Contingent liabilities).

When it is expected that the Group will obtain partial or total reimbursement of the cost that was provided against, the expected reimbursement is recognized in receivables if, and only if, the Group is virtually certain of the receipt.

Long-term provisions, other than provisions for pension and similar post-employment benefit obligations, are not discounted as the Group considers that the impact of discounting would not be significant.

## 10. Pension and similar post-employment benefit obligations

In accordance with IAS 19 "Employee benefits":

- payments made in the context of defined contribution plans are recognized in expenses of the period;
- obligations in respect of defined benefit plans are recognized and valued using the actuarial projected unit credit method.

### Post-employment benefits

For defined benefit plans, the valuation of obligations under the projected unit credit method principally takes into account:

- an assumption concerning the date of retirement;
- a discount rate which depends on the geographical region and the duration of the obligations;
- an inflation rate;
- assumptions in respect of future increases in salaries, rates of employee turnover and increases in health costs.

Differences which arise between the valuation of obligations and forecasts of such obligations (on the basis of new projections or assumptions) and between forecasts and outcomes of returns on plan assets are termed actuarial gains and losses.

As from 1 January 2007, the Group has decided to abandon the "corridor" method and to use the option provided by the "Actuarial Gains and Losses, Group plans and disclosures" amendment to IAS 19 of December 2004 which enables recognition of actuarial gains and losses directly in shareholders' equity under the "Actuarial gains and losses" caption.

On modification or creation of a plan, the portion of obligations which vest immediately as a result of past service is charged immediately to income; the portion of obligations which do not vest immediately is amortized over the remaining vesting period.

The amount of the provision takes account of the value of assets which are allocated to cover pension and other post-employment benefit obligations. The value of these assets is deducted from the provision for such benefit obligations.

### Other long-term benefits

In respect of other long-term benefits, and in accordance with applicable laws and regulations, provisions are recognized using a simplified method. Thus, if an actuarial valuation using the projected unit cost method is required, actuarial gains and losses and all past service costs are recognized immediately in the provision, with a double entry being recognized to the income statement.

The net expense related to pension benefit obligations and other employee benefit obligations is recognized in recurring operating income, with the exception of:

- the effect of curtailments or settlements of plans which are presented under the "Other income and expenses" caption in the case of substantial modifications to such plans;
- the interest cost, the expected return on plan assets and the actuarial gains and losses related to changes in the discount rate on other long-term benefits, which are classified within the financial result caption as from 1 January, 2007.

## 11. CO<sub>2</sub> emissions allowances

In the absence of an IFRS standard or interpretation relating to accounting for CO<sub>2</sub> emissions allowances, the following treatment has been adopted:

- allowances allocated without payment of consideration are recognized for a nil value;
- transactions carried out in the market are recognized at the transaction amount.

At this point, allowances allocated are adequate to cover the operational needs of ARKEMA's European units and a deficit is not currently forecast. ARKEMA does not carry out a trading activity in respect of CO<sub>2</sub> emissions allowances. However, in the normal course of its operations, ARKEMA may carry out cash or forward sales of its surpluses. These sales do not enter into the scope of application of IAS 39 because of the "own use" exception.

## 12. Recognition of sales

Sales are recognized on transfer to the purchaser of the risks and rewards related to ownership of the goods.

## 13. Deferred taxes

The Group uses the liability method whereby deferred income taxes are recognized based upon the temporary differences between the financial statement and tax basis of assets and liabilities, as well as on tax loss carry forwards and other tax credits, in accordance with IAS 12 "Income taxes".

Deferred tax assets and liabilities are valued at the tax rates that are expected to apply in the year in which the asset will be realized or the liability settled, on the basis of tax rates (and tax legislation) that have been enacted or virtually enacted at the balance sheet date. The effect of any changes in tax rates is recognized in income for the period, unless it relates to items that were previously debited or credited through equity. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognized to the extent that their recovery is probable. In order to assess the likelihood of recovery of such assets, account is notably taken of the profitability outlook determined by the Group and of historical taxable profits or losses.

## 14. Information by segment

Information by segment is prepared on the basis of two separate criteria. The primary criterion is based on the Group's business segments; the secondary criterion is based on the main geographical areas in which the Group operates.

The financial information for each business segment is reported on the same basis as that used internally by management in assessing segment performance and in allocation of segment resources.

The Group's activities are conducted through three business segments: Vinyl Products, Industrial Chemicals and Performance Products.

- Vinyl Products include Chlorine/Caustic Soda, PVC, Vinyl Compounds and downstream converting (Pipes and Profiles). They are used in areas such as water treatment, healthcare, hygiene, electronics, sports and leisure and automobile equipment.

- Industrial Chemicals brings together Acrylics, Specialty Acrylic Polymers as from 1 October 2007, PMMA, Thiochemicals, Fluorochemicals and Hydrogen Peroxide. These intermediates are used as raw materials in numerous industrial sectors such as refrigeration, insulation, production of paper pulp, textiles, pharmaceuticals, animal feed, ink and paint, electronics and the automobile sector.

- Performance Products brings together Technical Polymers, Specialty Chemicals, Functional Additives and, up until 31 October 2007, Urea Formaldehyde Resins. Performance Products are used in a variety of sectors from transport to sporting equipment, cosmetics to medical equipment, construction, civil engineering and even electronics.

Functional and financial activities which cannot be directly allocated to operational activities (notably certain research costs and central costs) are brought together under a Corporate section.

## 15. Main accounting and financial indicators

The main performance indicators used are as follows:

- **operating income:** this includes all income and expenses of continuing operations other than financial result, equity in income of affiliates and income taxes;



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

- impairment losses in respect of property, plant and equipment and intangible assets,
  - gains or losses on sale of assets,
  - certain large restructuring and environmental expenses which would hamper the interpretation of recurring operating income,
  - certain expenses related to litigation and claims or major damages, whose nature is not directly related to ordinary operations,
  - costs related to the Spin-off of the Arkema Businesses;
- **recurring operating income:** this is calculated as the difference between operating income and other income and expenses as previously defined;
- **adjusted net income:** this corresponds to “Net income – Group share” adjusted for:
- other income and expenses, after taking account of the tax impact of these items,
  - income and expenses from taxation of an exceptional nature, the amount of which is deemed significant,
  - net income of discontinued operations;
- **EBITDA:** this corresponds to recurring operating income increased by depreciation and amortization (previously called “Recurring EBITDA”);
- **working capital:** this corresponds to the difference between inventories, accounts receivable, other receivables and prepaid expenses and income tax receivables on the one hand and accounts payable, other creditors and accrued liabilities and income tax liabilities on the other hand;
- **capital employed:** this is calculated by aggregating the net carrying amounts of intangible assets, property, plant and equipment, equity affiliate investments and loans, other investments, other non-current assets (excluding deferred tax assets) and working capital;
- **Net debt:** this is the difference between current and non-current debt and cash and cash equivalents.

## 16. Cash flow statements

Cash flows in foreign currencies are translated into euros using the average exchange rates of each period. Cash flow statements exclude foreign exchange differences arising from the translation into euros of assets and liabilities recognized in balance sheets denominated in foreign currencies at the end of the period (except for cash and cash equivalents). In consequence, cash flows cannot be recalculated on the basis of the amounts shown in the balance sheet.

Changes in short-term borrowings and bank overdrafts are included in cash flows from financing activities.

## 17. Share-based payment

In application of IFRS 2 “Share-based payment”, the stock options and free shares granted to management and certain Group employees are measured at their fair value at the date of grant, which generally corresponds to the date of the Board of Directors’ meeting.

The fair value of the options is calculated using the Black & Scholes model. It is recognized in personnel expenses on a straight-line basis over the period from the date of grant to the date from which the options can be exercised.

The fair value of rights under free share grants corresponds to the opening market price of the shares on the day of the Board of Directors meeting that decides on the grant, adjusted for dividends not received during the vesting period. It is recognized in personnel expenses on a straight-line basis over the vesting period of the rights.

## 18. Earnings per share

Earnings per share correspond to the division of net income (Group share) by the weighted average number of ordinary shares in circulation since the start of the year.

Diluted earnings per share correspond to the division of net income (Group share) by the weighted number of ordinary shares, both of these figures being adjusted to take account of the effects of all dilutive potential ordinary shares.

The effect of dilution is thus calculated taking account of stock options and grants of free shares to be issued.

## 19. Business combinations

The Group uses the purchase accounting method for the recognition of all business combinations entering into the scope of IFRS 3. The cost of a business combination corresponds to the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree, plus any costs directly attributable to the acquisition. The Group recognizes, at the acquisition date, the identifiable assets of the acquiree, together with the identifiable liabilities and contingent liabilities assumed, at fair value. Purchased goodwill is recognized as an asset and is initially valued at the excess of the acquisition cost over the acquirer’s share in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Where the business combination agreement provides for a purchase price adjustment depending on future events, the Group includes the amount of this adjustment in the cost of the business combination at the acquisition date if the adjustment is probable and can be measured reliably.

The Group has a period of 12 months from the acquisition date to finalize accounting for a given business combination.

## 20. Discontinued operations and non-current assets held for sale

A discontinued operation is defined, according to IFRS 5, as a component of the Group's activity that either has been disposed of, or is classified as held for sale and which represents a separate major line of business or geographical area of operations that forms part of a single coordinated disposal plan.

The income statement, cash flow statement and balance sheet items relating to discontinued operations are presented in a specific note to the financial statements for the current financial year, with comparatives for the previous year.

The Group presents, for the financial year in question, assets and liabilities of continuing operations in the standard manner, to which assets and liabilities of discontinued operations and non-current assets held for sale are added. These latter assets and liabilities are not offset but are rather presented respectively in two specific balance sheet captions. The balance sheet of the previous financial year is not modified.

The Group presents, for the financial year in question and the previous financial year, the income statement of continuing operations in the standard manner, to which a single amount representing the income or loss after tax of discontinued operations is added.

For the two financial years considered, the Group presents the cash flow statement without distinguishing between continuing operations and discontinued operations. Disclosures regarding the cash flows of discontinued operations are nevertheless provided in a specific note to the financial statements.

## 21. New accounting standards and interpretations which are not yet applicable

The impact of standards and interpretations published, respectively, by the IASB and the IFRIC (International Financial Reporting Interpretations Committee) that are not yet in force at 31 December 2007 and that have not been applied early by the Group, such as the amended version of IAS 1, IFRS 8, IFRICs 11, 12, 13 and 14 and the amended version of IAS 23, are currently being analyzed.

## 20.3 Notes to the consolidated financial statements

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## Note 1 INFORMATION BY BUSINESS SEGMENT

Operating income and assets are allocated between business segments prior to inter-segment adjustments. Sales prices between segments approximate market prices.

31 December 2006					
<i>In millions of euros</i>	Vinyl Products	Industrial Chemicals	Performance Products	Corporate	Group Total
Non-Group sales	1,379	2,494	1,784	7	5,664
Inter segment sales	74	179	17	-	
<b>Total sales</b>	<b>1,453</b>	<b>2,673</b>	<b>1,801</b>	<b>7</b>	
<b>Recurring operating income</b>	<b>21</b>	<b>160</b>	<b>71</b>	<b>(52)</b>	<b>200</b>
Other income and expenses	(8)	2	(41)	(45)	(92)
<b>Operating income</b>	<b>13</b>	<b>162</b>	<b>30</b>	<b>(97)</b>	<b>108</b>
Equity in income of affiliates	1	(1)	1	-	1
Details of certain significant non-cash expenses by segment:					
Depreciation and amortization	(17)	(107)	(85)	(2)	(211)
Asset impairment charges	-	-	-	-	-
Changes in non-current provisions recognized through income	41	18	(21)	208	246
<b>EBITDA</b>	<b>38</b>	<b>267</b>	<b>156</b>	<b>(50)</b>	<b>411</b>
<b>Employees at year end</b>	<b>4,330</b>	<b>5,975</b>	<b>6,279</b>	<b>-</b>	<b>16,584</b>
Intangible assets and property, plant and equipment, net	204	798	592	18	1,612
Investments in equity affiliates	37	59	8	-	104
Non-current assets (excluding deferred income tax assets)	6	15	11	110	142
Working capital	236	482	436	12	1,166
<b>Capital employed</b>	<b>483</b>	<b>1,354</b>	<b>1,047</b>	<b>140</b>	<b>3,024</b>
Provisions	(226)	(182)	(203)	(246)	(857)
Deferred income tax assets	-	-	-	36	36
Deferred income tax liabilities	-	-	-	(14)	(14)
Net debt	-	-	-	324	324
Intangible assets and property, plant, and equipment additions (including Cerexagri)	76	172	87	1	336

The 31 December 2006 consolidated financial statements were restated for discontinued operations in respect of all the above items except "Intangible assets and property, plant, and equipment additions" which is taken from the cash flow statement (see note B 20 Accounting policies / Discontinued operations and non-current assets held for sale). The figures from the 2006 income statement do not

include the effects of the change to the proportionate consolidation method or of the reclassification of the interest cost, the expected return on plan assets and the actuarial gains and losses related to changes in the discount rate on other long-term benefits to the financial result caption (see note 10).

31 December 2007					
<i>In millions of euros</i>	Vinyl Products	Industrial Chemicals	Performance Products	Corporate	Group Total
Non-Group sales	1,418	2,529	1,723	5	5,675
Inter segment sales	63	158	18	-	
<b>Total sales</b>	<b>1,481</b>	<b>2,687</b>	<b>1,741</b>	<b>5</b>	
<b>Recurring operating income</b>	<b>65</b>	<b>178</b>	<b>97</b>	<b>(47)</b>	<b>293</b>
Other income and expenses	(12)	(43)	(8)	(9)	(72)
<b>Operating income</b>	<b>53</b>	<b>135</b>	<b>89</b>	<b>(56)</b>	<b>221</b>
Equity in income of affiliates	4	-	1	-	5
Details of certain significant non-cash expenses by segment:					
Depreciation and amortization	(26)	(111)	(86)	(2)	(225)
Asset impairment charges	-	(2)	-	-	(2)
Changes in non-current provisions recognized through income	10	(16)	(8)	41	27
<b>EBITDA</b>	<b>90</b>	<b>289</b>	<b>184</b>	<b>(45)</b>	<b>518</b>
<b>Employees at year end</b>	<b>4,000</b>	<b>5,866</b>	<b>5,143</b>	<b>-</b>	<b>15,009</b>
Intangible assets and property, plant and equipment, net	294	1,118	555	18	1,985
Investments in equity affiliates	38	-	4	-	42
Non-current assets (excluding deferred income tax assets)	4	15	23	82	124
Working capital	296	432	423	(39)	1,112
<b>Capital employed</b>	<b>632</b>	<b>1,565</b>	<b>1,005</b>	<b>61</b>	<b>3,263</b>
Provisions	(205)	(197)	(198)	(204)	(804)
Deferred income tax assets	-	-	-	18	18
Deferred income tax liabilities	-	-	-	(54)	(54)
Net debt	-	-	-	459	459
Intangible assets and property, plant, and equipment additions	111	124	83	7	325

The 2007 consolidated financial statements include:

► the effects of the change to the proportionate consolidation method. The change in consolidation method concerns Oxochimie and American Acryl, companies in the Industrial Chemicals segment, and Stannica LLC, a company in the Performance Products segment;

► the effects of the reclassification of the interest cost, expected return on plan assets and the actuarial gains and losses related to changes in the discount rate on other long-term benefits to the financial result caption.

## Note 2 INFORMATION BY GEOGRAPHICAL AREA

Non-Group sales are presented on the basis of the geographical location of customers. Capital employed is presented on the basis of the location of the assets in question.

31 December 2006						
<i>In millions of euros</i>	France	Rest of Europe	NAFTA <sup>(1)</sup>	Asia	Rest of the world	Total
Non-Group sales <sup>(3)</sup>	1,033	2,228	1,406	722	275	5,664
Capital employed <sup>(3)</sup>	1,591	420	817	162	34	3,024
Intangible assets and property, plant, and equipment additions <sup>(2)</sup>	228	31	68	9	-	336
Employees at year end <sup>(2)</sup>	10,002	2,634	2,634	1,216	98	16,584

The figures for 2006 do not include the effects of the change to the proportionate consolidation method.

31 December 2007						
<i>In millions of euros</i>	France	Rest of Europe	NAFTA <sup>(1)</sup>	Asia	Rest of the world	Total
Non-Group sales	1,041	2,332	1,264	747	291	5,675
Capital employed	1,932	393	721	183	34	3,263
Intangible assets and property, plant, and equipment additions	219	27	53	26	-	325
Employees at year end	9,179	2,133	2,341	1,254	102	15,009

(1) NAFTA: United States, Canada, Mexico.

(2) Including discontinued operations.

(3) Excluding discontinued operations.

The 2007 consolidated financial statements include the effects of the change to the proportionate consolidation method. The change in consolidation method concerns two American companies (American Acryl and Stannica LLC) and a French company (Oxochimie).

## Note 3 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses include salaries, purchases, sub-contracting costs, depreciation and amortization.

## Note 4 OTHER INCOME AND EXPENSES

In millions of euros	31.12.2006			31.12.2007		
	Expenses	Income	Net	Expenses	Income	Net
Restructuring and environmental charges	(86)	3	(83)	(101)	11	(90)
Goodwill impairment charges	-	-	-	(1)	-	(1)
Asset impairment charges (other than goodwill)	-	-	-	(18)	17	(1)
Litigation and claims	(5)	-	(5)	(27)	-	(27)
Gains (losses) on sales of assets	-	-	-	-	47	47
Other	(16)	12	(4)	-	-	-
<b>TOTAL OTHER INCOME AND EXPENSES</b>	<b>(107)</b>	<b>15</b>	<b>(92)</b>	<b>(147)</b>	<b>75</b>	<b>(72)</b>

The amounts relating to discontinued operations are presented in note 8.

In 2006, restructuring and environmental costs mainly include additional expenses related to the consolidation of the chlorochemicals business in France for €8 million, restructuring costs in the Performance Products segment for €40 million and related to the head office for €29 million.

No impairment loss or reversal of existing provisions for impairment was recognized in 2006.

Expenses relating to litigation and claims correspond to provisions and costs in respect of proceedings in the United States and Canada pertaining to antitrust legislation.

Other income mainly includes the impacts of the amendment of the pension plans in the United States. Other expenses mainly include costs related to the spin-off of the ARKEMA activities and impairment of the investment in a non-consolidated company.

In 2007, restructuring and environmental costs include restructuring costs in the Vinyl Products segment (€10 million), the Industrial Chemicals segment (€46 million) and the Performance Products segment (€38 million) (see A-1 Highlights).

Restructuring and environmental income mainly includes the sale of industrial assets in the context of restructuring measures.

Impairment losses were reversed on some assets, however these were offset by new impairment losses on other assets belonging to the Industrial Chemicals segment.

Expenses relating to litigation and claims mainly correspond to the fire which occurred at Lavéra (France) for a net amount of €23 million (see A-2 Highlights), as well as to costs of antitrust proceedings and litigation.

The gains on sale of assets mainly concern the sale of the Urea Formaldehyde Resins business based on the Leuna site to Hexion, the sale of the Amines business at Riverview to Taminco (USA) and the proceeds from the sale of land at Tacoma (USA).

## Note 5 FINANCIAL RESULT

Financial result includes the cost of debt and, as from 1 January 2007, the interest cost, the expected return on plan assets and the actuarial gains and losses related to changes in the discount rate on other long-term benefits.

The effect of the reclassification of the interest cost, expected return on plan assets and the actuarial gains and losses related to changes in the discount rate on other long-term benefits at 31 December 2007

is a net expense of €2 million. For comparison, this reclassification would have been a net expense of €6 million at 31 December 2006.

The cost of debt amounts to €13 million in 2007 (€10 million in 2006). The average interest rate in the financial year is approximately 5.0% (3.1% in 2006).

The change to the proportionate consolidation method had a negative impact of €1 million on financial result.

## Note 6 INCOME TAXES

Disclosures for 2006 only relate to continuing operations.

### 6.1 Income tax expense

The income tax expense is broken down as follows:

<i>In millions of euros</i>	2006	2007
Current income taxes	(21)	(85)
Deferred income taxes	(38)	(19)
<b>TOTAL INCOME TAXES</b>	<b>(59)</b>	<b>(104)</b>

The change in the income tax expense from one year to the next reflects the improvement in the Group's results; furthermore, tax consolidation put in place in France at 1 January 2007 generated a

saving of €20 million in current income taxes, offset by exceptional tax charges.

### 6.2 Analysis by source of net deferred tax assets (liabilities)

The analysis by source of the net deferred tax assets (liabilities) is as follows, before offset of assets and liabilities at fiscal entity level:

<i>In millions of euros</i>	31.12.2006 *	Changes recognized in the income statement	Changes recognized in shareholders' equity	Business combination	Translation adjustment	31.12.2007
Tax loss and tax credit carryforwards	9	(8)	-	1	-	2
Provisions for pensions and similar obligations	91	(5)	(9)	1	(1)	77
Other temporarily non-deductible provisions	297	(29)	(10)	-	(8)	250
<b>Gross deferred tax assets</b>	<b>397</b>	<b>(42)</b>	<b>(19)</b>	<b>2</b>	<b>(9)</b>	<b>329</b>
<b>Valuation allowance on deferred tax assets</b>	<b>(184)</b>	<b>30</b>	<b>(3)</b>	-	-	<b>(157)</b>
Excess tax over book depreciation	165	9	(13)	2	(8)	155
Other temporary tax deductions	26	(2)	1	31	(2)	54
<b>Deferred tax liabilities</b>	<b>191</b>	<b>7</b>	<b>(12)</b>	<b>33</b>	<b>(10)</b>	<b>209</b>
<b>NET DEFERRED TAX ASSETS (LIABILITIES)</b>	<b>22</b>	<b>(19)</b>	<b>(10)</b>	<b>(31)</b>	<b>1</b>	<b>(37)</b>

\* The amounts at 1 January 2007 include the effects of the changes in accounting policy and reclassifications presented in note 10

In the "Business combination" column, the acquisition de Coatex had an impact of €31 million on "Other temporary tax deductions", mainly related to the intangible assets recognized on acquisition.

After offset of assets and liabilities at fiscal entity level, and the reclassifications set out in note 10, deferred taxes are presented as follows in the balance sheet:

<i>In millions of euros</i>	31.12.2006	31.12.2007
Deferred tax assets	36	17
Deferred tax liabilities	14	54
<b>NET DEFERRED TAX ASSETS (LIABILITIES)</b>	<b>22</b>	<b>(37)</b>

At 31 December 2007, the acquisition of Coatex increased deferred tax liabilities by €29 million.



### 6.3 Reconciliation between income tax expense and pre-tax income

<i>In millions of euros</i>	31.12.2006	31.12.2007
Net income	40 *	124
Income taxes	(59)	(104)
Pre-tax income	98	228
French corporate tax rate	34.43%	34.43%
Theoretical tax expense	(34)	(79)
Difference between French and foreign income tax rates	(1)	(4)
Tax effect of equity in income of affiliates	1	2
Permanent differences	26	26
Change in valuation allowance against deferred tax assets	37	30
Deferred tax assets not recognized (losses)	(88)	(79)
<b>INCOME TAXES PER THE INCOME STATEMENT</b>	<b>(59)</b>	<b>(104)</b>

\* Net income of continuing operations.

The French corporate tax rate includes the standard tax rate (33.33%) and additional taxes applicable in 2006 and 2007, which bring the overall income tax rate to 34.43%.

### 6.4 Expiry of tax loss carryforwards and tax credits

The Group has tax loss carryforwards and tax credits which can be used up to their year of expiry indicated in the table below:

<i>In millions of euros</i>	31.12.2006		31.12.2007	
	Base	Tax amount	Base	Tax amount
2006	-	-	-	-
2007	11	3	3	1
2008	7	2	6	2
2009	1	-	1	-
2010	9	3	2	-
2011	2	1	4	1
2012 and beyond	22	7	20	8
Tax losses that can be carried forward indefinitely	358	124	544	187
<b>TOTAL</b>	<b>410</b>	<b>140</b>	<b>580</b>	<b>199</b>
Carry back deductible	-	1	-	1

NB: Tax loss carryforwards and tax credits have not given rise to recognition of deferred tax assets in the balance sheet.

## Note 7 BUSINESS COMBINATIONS

On 1 October 2007, ARKEMA acquired 100% of the shares in Coatex, paid entirely in cash (see A-3.4 Highlights).

The preliminary purchase price allocation is presented below:

<i>In millions of euros</i>	Carrying amount in Coatex	Fair value adjustments and goodwill	Fair value acquired
Intangible assets <sup>(a)</sup>	2	67	69
Goodwill	-	156	156
Property, plant and equipment	55	17	72
Deferred tax assets	1	-	1
Other non-current assets	-	-	-
<b>Total non-current assets</b>	<b>58</b>	<b>240</b>	<b>298</b>
Inventories	15	5	20
Accounts receivable	23	-	23
Cash and cash equivalents	6	-	6
Other current assets	8	-	8
<b>TOTAL CURRENT ASSETS</b>	<b>52</b>	<b>5</b>	<b>57</b>
<b>TOTAL ASSETS</b>	<b>110</b>	<b>245</b>	<b>355</b>
Deferred tax liabilities	2	31	33
Provisions and other non-current liabilities	2	-	2
Non-current debt	23	-	23
<b>Total non-current liabilities</b>	<b>27</b>	<b>31</b>	<b>58</b>
Accounts payable	12	-	12
Other current liabilities	15	-	15
<b>TOTAL CURRENT LIABILITIES</b>	<b>27</b>	<b>0</b>	<b>27</b>
<b>TOTAL LIABILITIES</b>	<b>54</b>	<b>31</b>	<b>85</b>
<b>NET ASSETS / COST OF THE BUSINESS COMBINATION</b>	<b>56</b>	<b>214</b>	<b>270</b>

(a) The fair value adjustment on intangible assets relates to the valuation of intangible assets not previously recognized in the balance sheet (trademark, contractual customer relationships, patents).

Goodwill mainly results from the synergies identified as a downstream customer for ARKEMA's acrylics business as well as from opportunities for development of new products resulting from the combination of Coatex's know-how and Arkema's technologies.

The impact of the consolidation of Coatex as from 1 January 2007 would have been €151 million on sales before elimination of intercompany sales (€107 million after elimination of intercompany sales) and €8 million on net income.

Since the acquisition date, the impact of the consolidation of Coatex amounts to €37 million on sales before elimination of intercompany sales (€26 million after elimination of intercompany sales). There was no impact on net income.

Remeasurement of assets and liabilities at their fair value at the acquisition date resulted in the recognition of deferred tax liabilities of €31 million. Reversals of these deferred tax liabilities through the income statement at 31 December 2007 totaled €2 million, corresponding to the consumption of inventories and to depreciation and amortization of the fair value adjustments in the last quarter of 2007.

## Note 8 DISCONTINUED OPERATIONS

In 2006 and 2007, discontinued operations include the Cerexagri business sold on 1 February 2007, with effect from 1 January 2007.

Cerexagri activities in 2007, presented under a single income statement caption "discontinued operations", correspond to the capital gain realized.

### 8.1 Income statement

<i>In millions of euros</i>	2006	2007
Sales	202	-
Recurring operating income	11	-
Other income and expenses	(1)	17
Operating income	10	17
<b>NET INCOME</b>	<b>7</b>	<b>17</b>
Of which: minority interests	-	-
<b>Net income - Group share</b>	<b>7</b>	<b>17</b>
Depreciation and amortization	(2)	-
<b>EBITDA</b>	<b>14</b>	<b>-</b>

### 8.2 Balance sheet items

<i>In millions of euros</i>	31 December 2006	31 December 2007
Non-current assets	21	-
Current assets	123	-
<b>TOTAL ASSETS OF DISCONTINUED OPERATIONS</b>	<b>144</b>	<b>-</b>
Non-current liabilities	8	-
Current liabilities	61	-
<b>TOTAL LIABILITIES OF DISCONTINUED OPERATIONS</b>	<b>69</b>	<b>-</b>

Working capital of discontinued operations amounted to €68.3 million at the end of 2006.

### 8.3 Cash flow statement

<i>In millions of euros</i>	2006	2007
Net income	7	-
Depreciation, amortization and impairment of assets	2	-
Provisions, valuation allowances and deferred taxes	(2)	-
Change in working capital	-	-
<b>Cash flow from operating activities</b>	<b>7</b>	<b>-</b>
<b>Cash flow from investing activities</b>	<b>(11)</b>	<b>-</b>
<b>Cash flow from financing activities</b>	<b>3</b>	<b>-</b>
Effect of exchange rates and changes in scope	(2)	-
<b>Cash and cash equivalents at the beginning of the year</b>	<b>17</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS AT YEAR-END</b>	<b>14</b>	<b>-</b>

## Note 9 EARNINGS PER SHARE

The calculation of earnings per share and diluted earnings per share is presented below:

	2006	2007
Weighted average number of ordinary shares	60,453,823 *	60,453,823
Dilutive effect of stock options	3,326	172,359
Dilutive effect of free share grants	23,520	118,425
Weighted average number of potential ordinary shares	60,480,669	60,744,607

\* The weighted average number of ordinary shares used for the calculation of 2006 earnings per share is the number of ordinary shares in circulation since the Spin-Off on 18 May 2006.

Earnings per share are calculated as set out below:

	2006	2007
Net income – Group share	45	122
Earnings per share (€)	0.75	2.02
Diluted earnings per share (€)	0.75	2.01

	2006	2007
Net income of continuing operations – Group share	38	105
Net income of discontinued operations – Group share	7	17
Weighted average number of potential ordinary shares	60,480,669	60,744,607
Earnings per share of continuing operations (€)	0.63	1.74
Diluted earnings per share of continuing operations (€)	0.63	1.73
Earnings per share of discontinued operations (€)	0.12	0.28
Diluted earnings per share of discontinued operations (€)	0.12	0.28

## Note 10 IMPACT OF CHANGES IN ACCOUNTING POLICIES AND RECLASSIFICATIONS ON THE 2006 FINANCIAL STATEMENTS

As set out in section B, ARKEMA decided to abandon the “corridor” method and to use the option provided by the “Actuarial Gains and Losses, Group plans and disclosures” amendment to IAS 19 of December 2004 which enables recognition of actuarial gains and losses arising from changes in actuarial assumptions directly in shareholders’ equity under the “Actuarial gains and losses” caption. As this change in accounting policy was treated retrospectively in accordance with IAS 8, the impacts on shareholders’ equity and the balance sheet are presented in the tables below in (1) and (6). Amortization of actuarial gains and losses in the published accounts at 31 December 2006 was not material.

In addition, reclassifications were made to the consolidated financial statements at 31 December 2006 in order to ensure their comparability with the consolidated financial statements for 2007, in accordance with the provisions of IAS 8 relating to accounting policies, changes in accounting estimates and errors.

These reclassifications relate to asset and liability accounts, and in consequence affect the corresponding cash flow statement captions.

The impacts of these accounting changes are as follows:

<i>In millions of euros</i>	01.01.2006 published	Changes in accounting policies and reclassifications	01.01.2006 after effects of changes
Paid-in surplus and retained earnings	1,366	(54) <sup>(1)</sup>	1,312

<i>In millions of euros</i>	31.12.2006 published	Changes in accounting policies and reclassifications	31.12.2006 after effects of changes
Equity affiliates: investments and loans	100	4 <sup>(2)</sup>	104
Other non-current assets	125	(4) <sup>(2)</sup>	121
Accounts receivable	1,051	(40) <sup>(3)</sup>	1,011
Accounts payable	786	5 <sup>(4) (5)</sup>	791
Other receivables and prepaid expenses	213	(11) <sup>(4)</sup>	202
Other creditors and accrued liabilities	369	(55) <sup>(3) (5)</sup>	314
Provisions and other non-current liabilities	855	36 <sup>(6)</sup>	891
Paid-in surplus and retained earnings	1,345	(32) <sup>(6)</sup>	1,313
Deferred income tax assets	32	4 <sup>(6)</sup>	36

(1) At 1 January 2006, Group paid-in surplus and retained earnings were decreased by €54 million, with a double entry being recognized to provisions (+€69 million) and deferred income tax assets (+€15 million). This follows the change in the accounting policy in respect of actuarial gains and losses, which are now recognized immediately against shareholders' equity, in application of IAS 19.

At 1 January 2006, the balance of actuarial gains and losses was €45 million for pension benefits and €24 million for other employee benefit obligations.

(2) The "Equity affiliates: investments and loans" caption is impacted by a reclassification of +€4 million correcting the "Other non-current assets" caption.

(3) Credit balances on receivables accounts are reclassified from the "Other creditors and accrued liabilities" caption to the "Accounts receivable" caption for €40 million.

(4) Debit balances on payables accounts are reclassified from the "Other receivables and prepaid expenses" caption to the "Accounts payable" caption for €11 million.

(5) The "Accounts payable" caption is also impacted by a reclassification of +€16 million from the "Other creditors and accrued liabilities" caption.

(6) The "Provisions and other non-current liabilities" caption was increased by €36 million with a double entry to reserves, including €18 million for pension benefits and €18 million for other employee benefit obligations.

The consequences of these adjustments have been reflected in the change in deferred taxes. The "Deferred income tax assets" caption was increased by €4 million with a double entry to retained earnings.

**Note 11 INTANGIBLE ASSETS**

<i>In millions of euros</i>	<b>Goodwill</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Gross value</b>			
At 1 January 2006	596	565	1,161
Acquisitions	-	14	14
Disposals	-	(4)	(4)
Changes in scope	-	-	-
Translation adjustments	(53)	(17)	(70)
Reclassifications	-	-	-
Discontinued operations	(5)	(56)	(61)
Other	-	-	-
<b>AT 31 DECEMBER 2006</b>	<b>538</b>	<b>502</b>	<b>1,040</b>
<b>Accumulated amortization and impairment</b>			
At 1 January 2006	(485)	(429)	(914)
Amortization	-	(17)	(17)
Impairment through the income statement	-	-	-
Disposals	-	4	4
Changes in scope	-	-	-
Translation adjustments	46	15	61
Reclassifications	-	4	4
Discontinued operations	5	53	58
<b>AT 31 DECEMBER 2006</b>	<b>(434)</b>	<b>(370)</b>	<b>(804)</b>
<b>Net value</b>			
At 1 January 2006	111	136	247
At 31 December 2006	104	132	236

In 2006, the group did not recognize any impairment on its intangible assets. The figures for 2006 do not include the effects of the change to the proportionate consolidation method.

<i>In millions of euros</i>	Goodwill	Other intangible assets	Total
<b>Gross value</b>			
At 1 January 2007	538	502	1,040
Acquisitions	-	10	10
Disposals	-	(45)	(45)
Changes in scope	157	73	230
Translation adjustments	(48)	(8)	(56)
Reclassifications	-	26	26
Other	-	-	-
At 31 December 2007	647	558	1,205
<b>Accumulated amortization and impairment</b>			
At 1 January 2007	(434)	(370)	(804)
Amortization	-	(20)	(20)
Impairment through the income statement	(1)	-	(1)
Disposals	1	44	45
Changes in scope	-	(3)	(3)
Translation adjustments	41	6	47
Reclassifications	(2)	(7)	(9)
At 31 December 2007	(395)	(350)	(745)
<b>Net value</b>			
At 1 January 2007	104	132	236
At 31 December 2007	252	208	460

The reclassifications notably include the effect of the change to the proportionate consolidation method, being €17 million on net other intangible assets.

Changes in scope include the impact of the acquisition of Coatex, being €156 million on goodwill and €69 million on net other intangible assets.

**Note 12 PROPERTY, PLANT & EQUIPMENT**

<i>In millions of euros</i>	Land and buildings	Complex industrial facilities	Other property, plant and equipment	Construction in progress	Total
<b>Gross value</b>					
At 1 January 2006	1,277	3,115	1,465	225	6,082
Acquisitions	20	47	16	239	322
Disposals	(18)	(96)	(65)	-	(179)
Changes in scope	(9)	-	(3)	-	(12)
Translation adjustments	(38)	(116)	(8)	(5)	(167)
Reclassifications	36	47	131	(215)	(1)
Discontinued operations	(38)	(64)	(1)	(3)	(106)
At 31 December 2006	1,230	2,933	1,535	241	5,939
<b>Accumulated depreciation and impairment</b>					
At 1 January 2006	(919)	(2,640)	(1,191)	(10)	(4,760)
Depreciation and impairment through the income statement	(30)	(118)	(53)	-	(201)
Disposals	16	99	62	-	177
Changes in scope	7	4	3	-	14
Translation adjustments	21	86	4	-	111
Reclassifications	(11)	210	(194)	2	7
Discontinued operations	32	56	-	1	89
At 31 December 2006	(884)	(2,303)	(1,369)	(7)	(4,563)
<b>Net value</b>					
At 1 January 2006	358	475	274	215	1,322
At 31 December 2006	346	630	166	234	1,376

At 31 December 2006, other property, plant and equipment is mainly comprised of machinery and tools with a gross value of €970 million and accumulated depreciation and provisions for impairment of €908 million. In 2006, the company did not recognize any impairment on its property, plant & equipment.

The figures for 2006 do not include the effects of the change to the proportionate consolidation method.

In addition, in the context of its restructuring measures / disposals, ARKEMA recognized accelerated depreciation for an amount of €5 million in 2006.



<i>In millions of euros</i>	Land and buildings	Complex industrial facilities	Other property, plant and equipment	Construction in progress	Total
<b>Gross value</b>					
<b>At 1 January 2007</b>	<b>1,230</b>	<b>2,933</b>	<b>1,535</b>	<b>241</b>	<b>5,939</b>
Acquisitions	13	67	19	215	314
Disposals	(55)	(113)	(110)	-	(278)
Changes in scope	65	13	92	5	175
Translation adjustments	(21)	(106)	(8)	(4)	(139)
Reclassifications	41	154	138	(232)	101
<b>At 31 December 2007</b>	<b>1,273</b>	<b>2,948</b>	<b>1,666</b>	<b>225</b>	<b>6,112</b>
<b>Accumulated depreciation and impairment</b>					
<b>At 1 January 2007</b>	<b>(884)</b>	<b>(2,303)</b>	<b>(1,369)</b>	<b>(7)</b>	<b>(4,563)</b>
Depreciation and impairment through the income statement	(41)	(116)	(83)	(1)	(241)
Disposals	47	105	104	17	273
Changes in scope	(20)	(4)	(71)	-	(95)
Translation adjustments	10	78	5	-	93
Reclassifications	(1)	(131)	88	(10)	(54)
<b>At 31 December 2007</b>	<b>(889)</b>	<b>(2,371)</b>	<b>(1,326)</b>	<b>(1)</b>	<b>(4,587)</b>
<b>Net value</b>					
<i>At 1 January 2007</i>	<i>346</i>	<i>630</i>	<i>166</i>	<i>234</i>	<i>1,376</i>
<i>At 31 December 2007</i>	<i>384</i>	<i>577</i>	<i>340</i>	<i>224</i>	<i>1,525</i>

At 31 December 2007, other property, plant and equipment is mainly comprised of machinery and tools with a gross value of €1,231 million and accumulated depreciation and provisions for impairment of €1,003 million.

At 31 December 2007, the company reversed provisions for impairment of its property, plant and equipment in an amount of €17 million and also recognized new impairment provisions for €17 million.

In addition, in the context of its restructuring measures / disposals, ARKEMA recognized €19 million of accelerated depreciation of its assets in 2007.

Reclassifications notably include the effect of the change to the proportionate consolidation method, being €6 million (net) in the “Land and buildings” caption, €33 million (net) in the “Complex industrial facilities” caption and €7 million (net) in the “Other property, plant and equipment” caption.

Changes in scope include the effect of the acquisition of Coatex, being €40 million (net) in the “Land and buildings” caption, €8 million (net) in the “Complex industrial facilities” caption, €19 million (net) in the “Other property, plant and equipment” caption and €5 million in the “Construction in progress” caption.

The figures above include the following amounts in respect of assets held under finance lease arrangements:

<i>In millions of euros</i>	31.12.2006			31.12.2007		
	Gross value	Depreciation and impairment	Net	Gross value	Depreciation and impairment	Net
Complex industrial facilities and buildings	26	21	5	29	21	8

They mainly correspond to leases of transport barges and of a hydrogen production unit located at Lacq.

## Note 13 EQUITY AFFILIATES: INVESTMENTS AND LOANS

<i>In millions of euros</i>	% ownership		Equity value		Equity in income (loss)	
	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007
American Acryl NA LLC (DE)	50%	50%	28	-	-	-
Qatar Vinyl Company Limited Q.S.C.	13%	13%	27	28	1	4
Oxochimie	50%	50%	15	-	(1)	-
Vinilis	35%	35%	11	10	-	-
Arkema Yoshitomi Ltd	49%	49%	4	4	1	1
Stannica LLC	40%	40%	4	-	-	-
<b>Investments</b>			<b>89 *</b>	<b>42</b>	<b>1</b>	<b>5</b>
<b>Loans</b>			<b>15</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>			<b>104</b>	<b>42</b>	<b>1</b>	<b>5</b>

\* The amount at 31 December 2006 takes into account the reclassification described in note 10.

At 31 December 2007, Oxochimie, American Acryl NA LLC and Stannica LLC are no longer accounted for under the equity method – they are consolidated instead under the proportionate consolidation method.

## Note 14 OTHER INVESTMENTS

Other investments include the Group's investments in various non-listed companies, notably companies that distribute ARKEMA products.

The main movements in 2006 and 2007 are as follows:

<i>In millions of euros</i>	2006	2007
<b>At 1 January</b>	<b>22</b>	<b>21</b>
Acquisitions	6	4
Disposals	(8)	(1)
Valuation allowance	2	-
Changes in scope	(4)	-
Translation adjustments	-	-
Other movements	3	-
<b>At 31 December</b>	<b>21</b>	<b>24</b>

## Note 15 OTHER NON-CURRENT ASSETS

In millions of euros	31.12.2006			31.12.2007		
	Gross value	Provision for impairment	Net	Gross value	Provision for impairment	Net
Loans and advances	117	(8)	109	98	(8)	90
Security deposits paid	12	-	12	10	-	10
<b>TOTAL</b>	<b>129 *</b>	<b>(8) *</b>	<b>121 *</b>	<b>108</b>	<b>(8)</b>	<b>100</b>

\* The amounts at 31 December 2006 take account of the reclassifications described in note 10.

Loans and advances include €18 million of deposits with the European Commission in the context of the anti-trust proceedings (see note 20.4), €40 million of receivables on Total related to the

remediation costs in respect of closed industrial sites in the United States (see note 20.5) and an amount of €15 million in respect of pension assets (see note 20.3).

## Note 16 INVENTORIES

In millions of euros	31.12.2006	31.12.2007
<b>Inventories (cost)</b>	<b>1,110</b>	<b>1,094</b>
Opening valuation allowance	(82)	(74)
Net (allowance) reversal	1	(2)
Change in scope	-	-
Translation adjustments	1	1
Reclassifications	6	(2)
<b>Closing valuation allowance</b>	<b>(74)</b>	<b>(77)</b>
<b>INVENTORIES (NET)</b>	<b>1,036</b>	<b>1,017</b>
<i>Of which:</i>		
Raw materials and supplies	305	297
Finished products	731	720

The impact of the acquisition of Coatex on the Group's net inventories is €14 million at 31 December 2007.

## Note 17 ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAID EXPENSES

At 31 December 2007, accounts receivable are stated net of a bad debt provision of €30 million (€37 million at 31 December 2006).

Other receivables and prepaid expenses are comprised of various tax receivables from tax authorities in an amount of €79 million

(€138 million at 31 December 2006). The change between the two years mainly results from the reclassification of a French local taxes (taxe professionnelle) receivable into liabilities for €43 million.

## Note 18 CASH AND CASH EQUIVALENTS

<i>In millions of euros</i>	31.12.2006	31.12.2007
Cash advances	38 *	8
Monetary mutual funds	-	-
Available cash	133	50
<b>CASH AND CASH EQUIVALENTS</b>	<b>171</b>	<b>58</b>

\* Including €20 million of a cash advance from ARKEMA to Cerexagri in 2006.

The figures at 31 December 2007 notably include the effect of the change to the proportionate consolidation method for €5 million and the impact of the Coatex acquisition for €5 million.

## Note 19 SHAREHOLDERS' EQUITY

At 1 January 2006, share capital was composed of 4,000 shares with a nominal value of 10 euros, being a total amount of 40,000 euros. Following the completion of the transactions referred to in B-1, the share capital amounts to €604.5 million and is composed of 60,453,823 shares with a nominal value of 10 euros.

The Board of Directors decided, after approving the 2007 financial statements, to propose a resolution to the shareholders general meeting of 20 May 2008 under which a dividend representing 0.75 euros per share would be distributed in respect of the 2007 financial year.

## Note 20 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

### 20.1 Other non-current liabilities

Other non-current liabilities amount to €29 million at 31 December 2007 as against €34 million at 31 December 2006.

### 20.2 Provisions

<i>In millions of euros</i>	Pension and similar post employment benefit obligations	Litigation and claims	Environmental contingencies	Restructuring	Other	Total
<b>At 1 January 2006</b>	<b>371 *</b>	<b>235</b>	<b>241</b>	<b>130</b>	<b>178</b>	<b>1,155</b>
Increases in provisions	28	3	13	56	27	127
Reversals of provisions on use	(44)	(185)	(26)	(56)	(23)	(334)
Reversals of unused provisions	(1)	-	(2)	(4)	(8)	(15)
Changes in scope	-	-	-	-	-	-
Translation adjustments	(4)	(2)	(11)	(1)	(4)	(22)
Other	(52) *	1	(1)	3	0	(49)
Discontinued operations	(2)	-	(1)	(1)	(1)	(5)
<b>At 31 December 2006</b>	<b>296</b>	<b>52</b>	<b>213</b>	<b>127</b>	<b>169</b>	<b>857</b>
<i>Of which less than 1 year</i>		4	34	87	33	
<i>Of which more than 1 year</i>		48	179	40	136	

\* The amounts at 1 January 2006 include the effects of the changes in accounting policy and reclassifications presented in note 10 and the "Other" caption includes actuarial gains and losses for the financial year.

<i>In millions of euros</i>	Pension and similar post employment benefit obligations	Litigation and claims	Environmental contingencies	Restructuring	Other	Total
<b>At 1 January 2007</b>	<b>296 *</b>	<b>52</b>	<b>213</b>	<b>127</b>	<b>169</b>	<b>857</b>
Increases in provisions	27	11	20	57	35	150
Reversals of provisions on use	(38)	(2)	(16)	(64)	(24)	(144)
Reversals of unused provisions	-	(5)	(1)	(6)	(13)	(25)
Changes in scope	1	-	-	-	1	2
Translation adjustments	(2)	(2)	(9)	(1)	(3)	(17)
Other	(23) *	-	-	-	4	(19)
Discontinued operations	-	-	-	-	-	-
<b>At 31 December 2007</b>	<b>261</b>	<b>54</b>	<b>207</b>	<b>113</b>	<b>169</b>	<b>804</b>
<i>Of which less than 1 year</i>		5	31	63	24	
<i>Of which more than 1 year</i>		49	176	50	145	

\* The amounts at 1 January 2007 include the effects of the changes in accounting policy and reclassifications presented in note 10 and the "Other" caption includes actuarial gains and losses for the financial year.

The impact on provisions at 31 December 2007 of the acquisition of Coatex and the change to the proportionate consolidation method is immaterial.

### 20.3 Provisions for pensions and similar benefits

At 31 December 2007, provisions for pensions and similar benefits are mainly comprised of a Group pre-retirement plan in an amount of €17 million (€26 million at 31 December 2006), of pension benefits for €156 million (€175 million at 31 December 2006) and of other benefits for €88 million (€95 million at 31 December 2006). Other benefits are mainly comprised of healthcare plans.

Furthermore, pension assets amount to €15 million at 31 December 2007 (€15 million in 2006) (see note 15).

In accordance with the laws and practices of each country, ARKEMA participates in employee benefit plans offering retirement, death and disability, healthcare and special termination benefits. These plans provide benefits based on various factors such as length of service, salaries, and contributions made to the national bodies responsible for the payment of benefits.

These plans are either defined contribution plans or defined benefit plans. In certain cases they can be either partly or totally funded by investments in dedicated plan assets, mutual funds, general funds of insurance companies or other assets.

The Group's benefit obligations are mainly located in France, the United States, the Netherlands and Germany. The principal benefit obligations in respect of which funding has been put in place are pension benefits in France, the United States and the Netherlands. In France, supplementary pension plans closed up to 1973 at the latest, concerning an active working population, were subject to a transfer of pension rights to an insurance company.

In 2007, ARKEMA adopted, with retrospective effect, the option provided by the amendment to IAS 19 "Employee benefits", which enables recognition of actuarial gains and losses relating to defined benefit plans in the balance sheet with an offsetting entry through shareholders' equity, net of deferred taxes. Previously, the Group applied the corridor method and recognized through the income statement, over the probable remaining working life of employees, the portion of such gains and losses which exceeded 10% of the greater of the amount of the obligations or the fair value of plan assets.

## 20.3.1 Effect on the income statement

Expense in the income statement	Pension obligations		Other obligations	
	2006	2007	2006	2007
<i>In millions of euros</i>				
Service cost	23	20	2	2
Interest cost	23	23	4	4
Expected return on plan assets	(20)	(23)	-	-
Actuarial gains and losses recognized	- *	- *	- *	- *
Past service cost recognized	(4)	1	(1)	-
Curtailments and settlements	(1)	(5)	-	(1)
Other	1	-	1	-
<b>(INCOME) / EXPENSE: TOTAL</b>	<b>22</b>	<b>16</b>	<b>6</b>	<b>5</b>

\* Following the change in accounting policy described in note B-10 Accounting policies / Pension and similar post-employment benefit obligations, actuarial gains and losses are recognized directly through equity (SORIE).

The actual return on plan assets amounted to €18 million in 2007 (€28 million in 2006).

## 20.3.2 Change in provisions over the period

In millions of euros	Pension obligations		Other obligations	
	2006	2007	2006	2007
<b>Net liability / (asset) at beginning of year</b>	<b>213</b>	<b>160</b>	<b>98</b>	<b>95</b>
Expense for the year	22	16	6	5
Contributions made to plan assets	(22)	(10)	-	-
Net benefits paid by the employer	(21)	(16)	(3)	(2)
Other	(10)	1	(1)	(2)
Actuarial gains and losses	(22)	(10)	(5)	(8)
<b>Net liability / (asset) at end of year</b>	<b>160</b>	<b>141</b>	<b>95</b>	<b>88</b>

The amounts at 31 December 2006 take account of the reclassifications presented in note 10.

### 20.3.3 Valuation of benefit obligations and provisions at 31 December

#### a) Present value of benefit obligation

<i>In millions of euros</i>	Pension obligations		Other obligations	
	2006	2007	2006	2007
<b>Present value of benefit obligation at beginning of year</b>	<b>577</b>	<b>545</b>	<b>98</b>	<b>91</b>
- Service cost	23	20	2	2
- Interest cost	23	23	4	4
- Curtailments	-	(4)	-	(1)
- Settlements	(5)	(11)	-	-
- Specific benefits	-	-	-	-
- Plan participant's contributions	1	1	-	-
- Benefits paid	(26)	(33)	(3)	(2)
- Past service cost	(4)	1	(5)	-
- Actuarial loss (gain)	(14)	(15)	(5)	(8)
- Changes in scope	(1)	1	1	-
- Translation adjustment and other	(29)	(23)	(1)	(1)
<b>Present value of benefit obligation at end of year</b>	<b>545</b>	<b>505</b>	<b>91</b>	<b>85</b>

The amounts at 31 December 2006 take account of the reclassifications presented in note 10.

#### b) Change in fair value of plan assets

Plan assets are mainly located in the United States, France and the Netherlands. They are mainly comprised of mutual funds, general funds of insurance companies and shares.

<i>In millions of euros</i>	Pension obligations	
	2006	2007
<b>Fair value of plan assets at beginning of year</b>	<b>(364)</b>	<b>(384)</b>
Expected return on plan assets	(20)	(23)
Curtailments	-	-
Settlements	4	10
Plan participants contributions	(1)	(1)
Employer contributions	(22)	(10)
Benefits paid from plan assets	6	17
Actuarial (gains) and losses	(8)	5
Changes in scope	-	-
Translation adjustment and other	21	23
<b>Fair value of plan assets at end of year</b>	<b>(384)</b>	<b>(363)</b>

Contributions payable by the Group in 2008 in respect of funded plans are estimated at €3 million.

## c) Provisions in the balance sheet

In millions of euros	Pension obligations		Other obligations	
	2006	2007	2006	2007
Actuarial value of unfunded obligations	155	150	91	85
Actuarial value of funded obligations	390	355	-	-
Fair value of plan assets	(384)	(363)	-	-
<b>(Surplus) / Deficit of assets versus benefit obligations (a) – (b)</b>	<b>161</b>	<b>142</b>	<b>91</b>	<b>85</b>
Unrecognized actuarial gains (losses)	-	-	-	-
Unrecognized past service cost	(1)	(1)	4	3
Asset ceiling	-	-	-	-
<b>Net balance sheet provision</b>	<b>160</b>	<b>141</b>	<b>95</b>	<b>88</b>
Provision recognized in liabilities	175	156	95	88
Amount recognized in assets	(15)	(15)	-	-

Source of actuarial gains and losses generated on benefit obligations	Pension obligations		Other obligations	
	2006	2007	2006	2007
Experience adjustments	(9)	17	1	1
Effects of changes in actuarial assumptions	(5)	(32)	(6)	(9)

Experience adjustments generated by the difference between the actual return on plan assets at 31 December 2007 and the expected return on such assets amount to €5 million.

## d) Pre-tax amount recognized through equity (SORIE) during the valuation period

In millions of euros	Pension obligations	Other obligations
	2007	2007
Actuarial (gains) and losses generated in the period (A)	(10)	(8)
Effect of the surplus cap and of the asset ceiling (B)	-	-
<b>TOTAL AMOUNT RECOGNIZED IN SORIE (A + B)</b>	<b>(10)</b>	<b>(8)</b>
<b>CUMULATIVE ACTUARIAL (GAINS) AND LOSSES RECOGNIZED IN SORIE</b>	<b>(32)</b>	<b>(13)</b>

## e) Composition of the investment portfolio

	Pension obligations	
	At 31 December 2006	At 31 December 2007
Shares	39%	40%
Bonds	50%	48%
Monetary funds	-	-
Property	6%	6%
Other	5%	6%

The expected rate of return on plan assets was determined for each plan on the basis of the expected individual long-term return on each category of assets comprising the portfolio funding the plan and of the actual allocation at the valuation date.



f) Actuarial assumptions

Principal assumptions in %	Europe	USA	Europe	USA
	2006	2006	2007	2007
Discount rate	4.00 – 5.00	5.50	5.10 – 5.75	6.00
Expected return on plan assets	4.50 – 6.59	7.60	3.39 – 6.76	7.43
Rate of increase in salaries	2.30 – 3.75	4.00	2.00 – 4.40	4.00
Rate of increase of healthcare costs	4.00	6.00 – 8.00	4.00	6.00 – 7.00

The assumptions regarding the rate of increase of healthcare costs have a significant impact on the valuation of healthcare obligations. A change of plus or minus 1% in the rate of increase of healthcare costs would have approximately the following effects:

CHANGE OF +/- 1% IN THE RATE OF INCREASE OF HEALTHCARE COSTS

In millions of euros	Increase of 1%	Decrease of 1%
Actuarial valuation of benefit obligation at 31 December	18	(14)
Expense / (income) for the year	2	(1)

## 20.4 Provisions for litigation and claims

These mainly correspond to provisions recognized in respect of proceedings in progress in Europe and the United States pertaining to antitrust legislation.

In 2006, the European Commission ordered ARKEMA to pay two fines of €78.7 million and €219.1 million for anticompetitive practices in the hydrogen peroxide and methacrylate markets.

ARKEMA in 2006 made a payment of €61 million to the European Commission for the “MCAA (monochloroacetic acid)” fine, including applicable interest (in substitution for bank guarantees provided in 2005). It also paid €78.7 million for the “hydrogen peroxide” fine and €219.1 million for the “methacrylates” fine, being a total amount of €358.8 million. In accordance with the indemnity agreement of 15 March 2006, Total S.A. concurrently paid ARKEMA €164 million (being 90% of the amount exceeding the deductible of €176.5 million), which represents a net payment for ARKEMA of €194.8 million.

In 2006, the companies in question appealed to the Court of First Instance of the European Communities.

Taking account of the provisions previously recognized, the reversal of the provisions for the amount of the deductible in 2006 and of the indemnity mechanism agreed with the Total group, the impact on 2006 net income is nil. A net provision of €13 million remains at 31 December 2007 in respect of European proceedings (provision of €31 million in liabilities less €18 million in “other non-current assets”).

In 2007, the increase in provisions of €6 million mainly relates to a class action lawsuit in the United States, which is 90% covered by the indemnity mechanism agreed with the Total group (receivable recognized in “other non-current assets” for an amount of €3 million and €2 million recognized in “deferred tax assets”).

## 20.5 Provisions for environmental contingencies

Provisions for environmental contingencies are recognized to cover expenses related to soil and water table clean-up, mainly:

- ▶ in France for €100 million (€105 million at 31 December 2006);
- ▶ in the United States for €81 million (€90 million at 31 December 2006), of which €63 million in respect of former industrial sites covered 100% by the Total Group indemnity (receivable recognized in “other non-current assets” for an amount of €40 million) and €23 million recognized in deferred tax assets.

## 20.6 Restructuring provisions

Restructuring provisions are mainly in respect of restructuring of measures in France for €96 million (€109 million at 31 December 2006), in Europe outside France for €10 million (€6 million at 31 December 2006) and in the United States for €4 million (€9 million at 31 December 2006).

Increases in such provisions in the year correspond to the restructuring measures described in the “Highlights” paragraph (paragraph A-1 of the notes to the financial statements) and in note 4 (other income and expenses).

## 20.7 Other provisions

Other provisions are mainly comprised of long-service awards of for €44 million (€50 million at 31 December 2006), and provisions for removal of asbestos for €16 million (€16 million at 31 December 2006).

## Note 21 CONTINGENT LIABILITIES

### 21.1 Environment

Arkema's business activities are subject to constantly changing local, national and international regulations on the environment and safety, which entail meeting increasingly complex and restrictive requirements. In this regard, these activities can involve a risk of ARKEMA's liability being called upon, particularly in respect of clean-up of sites and industrial safety.

Taking account of the information available, agreements signed with Total, and the provisions for environmental contingencies recognized, ARKEMA's management considers that the environmental liabilities identified at this point are valued and recognized to the best of their knowledge in the financial statements. However if laws, regulations or government policy in respect of environmental matters were to change, ARKEMA's obligations could change, which could lead to additional costs.

#### Clean-up of sites

The competent authorities have made, are making or may in the future make specific demands that the Group rehabilitate or control emissions at certain sites that it is currently operating, or that it operated or disposed of in the past, at neighboring sites or at sites where the Group stored or disposed of waste.

#### Sites currently in operation

ARKEMA has many sites of which a certain number are probably polluted in view of their age and the range of activities that are carried out on them, or that were carried out on them in the past. As regards these sites, certain situations have been identified and ARKEMA has already carried out certain clean-up work, or otherwise developed action plans and recognized provisions in order to cover future clean-up work.

However, in the light of (i) the uncertainties over the technical means to be implemented, (ii) potential issues that are unknown (iii) uncertainties over the actual time required for remediation compared with the estimated time (e.g. "pump and treat"), and (iv) potential changes in regulations, the possibility that the expenses that the Group will incur will be higher than the amounts covered by reserves cannot be excluded. These potential excess costs relate mainly to the sites in Calvert City (United States), Carling (France), Günzburg (Germany), Jarrie (France), Pierre-Bénite (France), Riverview (United States), Rotterdam (the Netherlands) and Saint-Auban (France) and could adversely affect the Group's business, results and financial condition. As regards the site of Saint-Auban, different legal proceedings brought against Arkema France have been grouped together (merging of proceedings - "jonction de procédures") with the Nanterre correctional court. These proceedings are currently under preliminary investigation.

#### Closed industrial sites (Former industrial sites)

Total has directly or indirectly taken over the closed industrial sites.

### 21.2 Litigation, claims and proceedings in progress

#### 21.2.1 Antitrust litigation

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

To cover the risks associated with the proceedings in the United States and Europe, which arose prior to completion of the Spin-Off of Arkema's Businesses, Total S.A. and one of its subsidiaries have granted indemnities for the benefit of Arkema S.A. and Arkema Amériques SAS, the main terms of which are described in note 29 to the financial statements.

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

Based on its analysis of the cases, and taking into account the indemnities granted by Total S.A. and described in note 29 to the financial statements, the Group has recorded provisions in respect of these proceedings of €31 million (at 31 December 2007), of which €18.3 million related to the appeals by Arkema France with the Court of First Instance of the European Communities.

#### Proceedings carried out by the European Commission

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

These cases are at different stages.

Following decisions in 2005 and 2006, the European Commission imposed fines on Arkema France ("Monochloroacetic acid" (MCAA): €58.5 million, "Hydrogen peroxide": €78.7 million and "Methacrylates": €219.1 million). These fines were jointly and severally imposed, for part of their amounts, on Total S.A. and Elf Aquitaine.

Appeals were filed with the Court of First Instance of the European Communities against these decisions. The corresponding proceedings are still in progress.

Among the other cases under investigation, on 27 July 2007, the European Commission sent Arkema France and Elf Aquitaine a statement of objections regarding alleged violations of EU competition law regarding "Sodium chlorate", following an investigation initiated in October 2004. A decision is expected from the Commission during 2008.

As regards "Heat stabilizers", the investigation of which commenced in February 2003, the European Commission is continuing its investigation and it is likely that procedural developments will arise on this case in 2008.

Regarding the "Impact modifiers", "Solvents" and "Plasticizers and alcohols" cases, the European Commission made known in 2007 its decision not to pursue the investigations it launched in 2003.

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

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

Basell Polyolefine issued a legal claim for alleged damages of €0.6 million in Germany at the end of 2006. This case should be resolved during 2008.

#### ***Proceedings in the United States and Canada***

In the United States, Arkema Inc. has received subpoenas from the United States Department of Justice (the "DOJ") in connection with the DOJ's investigation into alleged violations of United States antitrust laws in the hydrogen peroxide sector. In Canada, preliminary contacts with the Canadian competition authorities, which took place in the area of monochloroacetic ("MCAA") acid in 2001, do not appear to have resulted in any further official investigations.

Arkema France and Arkema Inc. have also been named in civil suits claiming alleged violations of United States antitrust laws in the following sectors: plastic additives, hydrogen peroxide, MMA and polymethyl methacrylate ("PMMA"). Civil suits relating to hydrogen peroxide, MMA and PMMA are also underway in Canada.

##### **a. DOJ investigations**

Arkema Inc. has responded to the DOJ subpoenas relating to the hydrogen peroxide sector by producing documents responsive to the subpoena. Arkema Inc. has not been indicted or charged in connection with this investigation.

Furthermore, the criminal investigations initiated by both the U.S. and Canadian competition authorities in the plastic additives sector were closed by these authorities during 2006; and the criminal investigation initiated by the DOJ in the PMMA sector was closed in November 2007.

##### **b. Civil actions**

Direct purchasers of products marketed by Arkema France and Arkema Inc. have commenced putative class actions against Arkema France and Arkema Inc. seeking damages for alleged violations of U.S. competition law in the plastic additives, hydrogen peroxide, MMA and PMMA sectors. These putative class actions are pending in federal court in the United States. Trial courts have certified classes

of direct purchasers in the hydrogen peroxide matter and in the plastics additives matter. The appeals court, however, has granted ARKEMA's petitions for appellate review of the propriety of the class certifications in each of those matters.

A direct purchaser of plastics additives and several direct purchasers of hydrogen peroxide have also brought individual actions against Arkema Inc. and Arkema France, alleging violation of federal U.S. antitrust laws. The plastics additives direct purchaser case has been settled by Arkema Inc. and Arkema France. The direct purchaser cases involving hydrogen peroxide are also pending in federal court in the United States.

Indirect purchasers of hydrogen peroxide, and of plastics additives, respectively, have brought putative class actions against Arkema Inc. alleging violation of state competition laws. Indirect purchasers of MMA and PMMA have filed putative class actions against both Arkema Inc. and Arkema France, also alleging violations of state competition laws. These cases are also pending in federal court in the United States. The putative class action by indirect purchasers of plastics additives has been stayed pending the outcome of ARKEMA's appeal of the trial court's class certification decision.

At the date of this document, no class of indirect purchasers has been certified in the hydrogen peroxide, plastics additives or the MMA/PMMA matters by the appropriate courts.

In Canada, a number of civil actions alleging violations of Canadian competition laws concerning hydrogen peroxide products were filed in Québec, Ontario and British Columbia in 2005 and 2006. At the date of this document, no class has been certified by the courts. A number of civil actions concerning MMA and PMMA were filed in Québec and in Ontario in 2006. As at the date of this reference document, no class has been certified by the courts.

As indicated above, Arkema France is currently involved in various investigations being carried out by the European Commission concerning several other products. At the present time, the Group is not aware of any DOJ investigation other than that described above, nor is it the subject of any civil claim in the United States in relation to products other than plastics additives, hydrogen peroxide, MMA and PMMA. It is, however, possible that certain matters addressed in a statement of objections on the part of the European Commission could also be the subject of proceedings in the United States in the future.

As has been indicated above, Arkema France and Arkema Inc. have not been indicted or served with subject or target letters in connection with the United States DOJ's ongoing criminal investigation of the hydrogen peroxide sector. It is difficult to quantify the possible

exposure with respect to the pending civil cases. Consequently, it is difficult to assess with certainty the quantum of the risk to which the Group could be exposed as a result of the pending civil cases in the United States and Canada. Nonetheless, in light of prior settlements of civil and criminal matters involving alleged international cartels, the Group considers that the potential financial risk to which it is exposed as a result of these proceedings might be significant.

### 21.2.2 Occupational illness

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

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

At its French sites, the Group anticipated the regulatory provisions applicable to asbestos (Decrees No. 96-97 and 96-98 of 7 February 1996 and Decree No. 96-1133 of 24 December 1996). The Group made an inventory of asbestos-containing building materials within its premises, notified employees of the results of these investigations and took the collective and individual protective measures required by the applicable laws. However, claims for occupational illness related to past asbestos exposure have been filed against the Group, mostly for periods before 1980. Given the latency period of asbestos-related pathologies, a large number of claims for occupational illness are likely to be filed in the years ahead.

The Group has recognized provisions to cover the risks of employer liability claims related to notified cases of occupational illness.

### 21.2.3 Other litigation and claims and contingent liabilities

#### Arkema France

► In 1995, the company Gasco brought a claim for damages against Elf Atochem (the former name of Arkema France) before the court in Ghent (Belgium) in respect of an alleged breach of contract and breach of an exclusivity agreement. At first instance, Gasco obtained a judgment against Atofina for payment of €248,000 by way of damages for breach of contract (payment of that sum has been made) but its claim for breach of the exclusivity agreement was dismissed. Appeal proceedings are pending before the Ghent Court of Appeal. Gasco is asking for the judgment to be reversed insofar as it dismissed the claim for breach of the exclusivity agreement. Under this head it has put forward a claim for €24 million which the Group considers to be without foundation and which it is challenging both in principle and in its amount. Having regard to the weak basis of the allegations made against it and the defenses available to the Group, the Group's view as the matter currently stands, is that the amount of the provision made for this matter in the accounts is sufficient.

► Arkema France supplies various products for the coating of items used in a number of European countries in the manufacture of sanitary treatment facilities. These products are subject to inspection on the part of approved laboratories which must certify their conformity with the applicable sanitary regulations. Arkema France has a dispute with a French laboratory, and has commenced a debate with the public authorities, as to the interpretation of the regulations applicable in France as regards regulatory clearance in France of a product even though it is approved in other European Union countries. The Group takes the view that this problem is essentially administrative in nature. However, the possibility that users might seek to attach liability to Arkema France as the supplier cannot be excluded. In the event that such claims were successful, the costs of replacement of the products and the damages that could be claimed could prove to be extremely high.

► In 2005 and 2006, 279 employees and 60 former employees of two Arkema France sites (Pierre-Bénite and La Chambre – France) made a claim for damages with the employee claims courts (Conseils de prud'hommes) of Lyon and Albertville, for alleged non-compliance with the terms of the chemicals industry branch agreement. The provisions of this agreement provide workers, technicians and supervisors working at continuously or semi-continuously operating positions for a period in excess of six hours with a thirty minute break during which the employees are released from all work. The claimants consider that, given the manner in which work is organized and structured on these two sites, the break granted to them does not allow them to be released from all work and to be able to freely go about their personal affairs. They claim that they have suffered a prejudice justifying damages. The claim amounts to €6.35 million. Arkema France contests these claims. The Albertville court dismissed the claim of the La Chambre employees in a judgment dated 8 November 2006. No employee on the site has appealed this decision. As regards the Pierre-Bénite employees, a judge has been appointed to reach a decision following the inconclusive decision issued by the Lyon employee claims court on 19 January 2007. A new court session is envisaged for 27 March 2008. A provision has been recognized in the financial statements for an amount that the Group considers adequate.

#### CECA

► In 1999, the company Intradis commissioned the company Antéa to carry out a survey on a site situated in France which had been used for industrial purposes and in particular by CECA (manufacture of sulphuric acid) and the company Hydro Agri (a fertilizer factory which does not belong to the Group). The survey noted pollution of the soil and water on the site, as well as the existence of pyrites in the open air, and classified the site as in category 1 (a site requiring in-depth investigations and a detailed risk assessment). Following this survey, the Préfet (governmental representative) issued an order requiring Intradis, as the owner, to take measures to protect the site and to prohibit access to it. The company Intradis then made an application to have an expert urgently appointed in order to determine the nature and extent of the pollution affecting the site and to establish the liability of CECA and Hydro Agri, the owners and operators of the site before its

acquisition by the company Intradis. After receipt of the expert's report, Intradis applied to the Administrative Court to have the prefectural order requiring it to take measures to protect the site overturned. Intradis' application was rejected on 6 July 2006 in first instance by the Administrative Court of Amiens, however it appealed this decision to the Administrative Appeal Court of Douai. In a judgment dated 18 October 2007, the Court overturned the previous judgment, cancelled the prefectural order and decided that there was no need to rule on Intradis' conclusions against CECA.

- In the absence of a quantified claim, no provision has been made for this dispute in the accounts of the Group.
- The past environmental engineering activities of CECA have given rise to various claims by third parties. These claims have been transmitted to the Group's insurers. The Group has recognized provisions that it considers adequate. The possibility cannot be excluded that this activity, which has now ceased, may give rise to further claims in the future.

#### **Arkema Inc.**

- Norit Americas, Inc. (Norit) acquired an active carbon production unit from Arkema Inc., located in Pryor (Oklahoma, United States). Initially, Norit made a claim against Arkema Inc. for an indemnity, alleging breach by Arkema Inc. of the provisions of the Clean Air Act on that site. Norit has in fact been served with a violation notice by the Oklahoma Department of Environmental Quality, relating to emissions of particles of sulphur dioxide, particulate matter and nitrogen oxide. While contesting that the offences have been committed, Norit has sought indemnification from ARKEMA for any injunctive relief required, and for any fines which might arise in these proceedings. The parties have entered into a standstill agreement upon the expiry of which they will continue to proceed with their respective claims. Arkema Inc.'s claim is for the payment of the balance of the price of the production unit yet to be paid by Norit, and Norit's claims are for indemnities in respect of environmental matters. Provisions have been made in the Group's accounts for this litigation, in amounts which the Group considers to be sufficient.
- In the United States, the Group is currently involved in a substantial number of proceedings in various courts. These proceedings concern claims by third parties relating to (i) alleged exposure to asbestos on the Group's sites, or (ii) exposure to products containing asbestos and sold by former subsidiaries of the Group in the United States and elsewhere. When they are not covered

by insurance policies, provisions have been made for these proceedings in an amount which the Group considers sufficient.

- However, due to the continuing uncertainties as to the outcome of these proceedings, the Group is not in a position having regard to the information available to it, to estimate the total amount of the claims that might finally be upheld against it by the various competent courts after the exhaustion of any avenues of appeal.
- The American tax authorities had been conducting both a civil and criminal audit of certain affiliates of Total S.A., including Arkema Inc., with respect to the non-issuance of W-2s to certain "inpatriated" foreign employees and the non-declaration of certain compensation related to stock option or share purchase plans. In May 2007, the tax authority closed the criminal investigation. Since then, Arkema Inc. has received an additional information request regarding the civil audit. To date, no estimate enabling a provision to be recognized can be reasonably made.
- Arkema Inc. is being sued in state court by the family of an employee of a transportation company, who died during the delivery of an odorized product in May 2004. The case is in progress (discovery procedure). To date, no estimate enabling a provision to be recognized can be reasonably made.

#### **21.2.4 Statutory training entitlement**

The French Act of 4 May 2004 relating to professional training created a statutory training entitlement (DIF). Each employee has a new entitlement to at least 20 hours' training per year (which can be accumulated over 6 years). Use of the statutory training entitlement is at the employee's initiative, in agreement with the employer. If the employee leaves the company without having used the training entitlement, no compensation is due.

ARKEMA's investment in training will represent, in 2008, approximately 3.3% of payroll costs. In ARKEMA, more than 75% of training initiatives will enter into categories eligible to qualify under the statutory training entitlement and, in this respect, will be systematically proposed as a priority to employees with a statutory training entitlement.

In addition, branch agreements in the chemicals industries have enabled priority training initiatives in respect of the statutory training entitlement to be defined and, in this context, part of the teaching costs can be taken as a charge by the employee benefit body responsible for the scheme's administration.

In these conditions, implementing the statutory training entitlement does not result in any additional costs for ARKEMA.

## **Note 22 DEBT**

Group net debt amounted to €459 million at the end of December 2007, taking account of cash and cash equivalents of €58 million; it is mainly denominated in euros and bears interest at variable rates.

On 31 March 2006, the Group put in place a multi-currency syndicated credit facility in a maximum amount of €1,100 million, with a initial

duration of five years, maturing on 31 March 2011, with two possible one-year extensions, subject to the agreement of the lenders, exercisable at the end of the first and second years. In February 2007, the credit facility was extended a first time until 31 March 2012, for an amount of €1,094 million.

The purpose of the credit facility is to finance, in the form of drawings and bank guarantees, the Group's general corporate purposes; the credit facility provides for prepayment in certain cases, including a change of control over ARKEMA; should this clause be triggered by a lender, it could lead to prepayment and cancellation of the commitments of such a lender and incorporates:

- (i) information undertakings, including a representation pertaining to the continued validity and enforceability against the guarantors of the indemnities granted by Total S.A. and certain entities of Total as described in note 29 on off-balance sheet commitments;
- (ii) standard undertakings for this type of agreement, including, undertakings relating, among other things, to certain restrictions in connection with (but not limited to) the granting of securities, the completion of merger or restructuring

transactions, the sale or purchase of assets and the Group's debt. Depending on the case, such restrictions will not apply to ordinary operations or to transactions involving amounts below certain thresholds;

- (iii) a financial undertaking: ARKEMA undertakes to maintain a ratio of consolidated net debt to consolidated EBITDA (tested twice a year) of less than 3.

At the end of December 2007, the average interest rate of the syndicated credit facility is approximately 4.3% (compared with 3.5% at 31 December 2006) and the unused amount under the credit facility is €695 million (compared with €770 million at 31 December 2006).

The Group has indicated its intention of maintaining a gearing ratio (net debt / shareholders' equity) of below 40%.

## 22.1 Analysis of net debt by category

<i>In millions of euros</i>	31.12.2006	31.12.2007
Finance lease obligations	19	17
Bank loans	20	15
Other non-current debt	13	29
<b>Non-current debt</b>	<b>52</b>	<b>61</b>
Finance lease obligations	2	1
Syndicated credit facility	330	405
Other bank loans	108	43
Other current debt	3	7
<b>Current debt</b>	<b>443</b>	<b>456</b>
<b>Debt</b>	<b>495</b>	<b>517</b>
Cash and cash equivalents	171	58
<b>NET DEBT</b>	<b>324</b>	<b>459</b>

At 31 December 2007, the change to the proportionate consolidation method had an impact of €16 million on non-current debt.

## 22.2 Analysis of debt by maturity

The breakdown of debt, including interest costs, by maturity is as follows:

<i>In millions of euros</i>	31.12.2006	31.12.2007
2007	446	-
2008	18	460
2009	7	9
2010	6	7
2011	6	6
2012	4	9
2013 and beyond	19	37
<b>TOTAL</b>	<b>506</b>	<b>528</b>

Amounts maturing in 2008 include the current drawings under the syndicated credit facility for an amount of €405 million.

### 22.3 Analysis of debt by currency

ARKEMA's debt is mainly denominated in euros.

<i>In millions of euros</i>	31.12.2006	31.12.2007
Euros	457	465
US Dollars	2	20
Chinese Yuan	17	22
Korean Won	8	5
Other	10	5
<b>TOTAL</b>	<b>495</b>	<b>517</b>

## Note 23 MANAGEMENT OF RISKS RELATED TO FINANCIAL ASSETS AND LIABILITIES

ARKEMA'S businesses expose it to various risks, including market risks (risk of changes in exchange rates, interest rates and the prices of raw materials and energy), credit risk and liquidity risk.

### 23.1 Foreign currency risk

The Group is exposed to transaction risks related to foreign currencies. The Group's policy is that a risk exists, and must thus be taken into account in the foreign currency position to be hedged, as soon as the event generating the risk is certain: this leads the Group to hedge, in almost all cases, the foreign currency positions recognized in its accounts, and, much more rarely, forecast flows. Foreign currency risk is identified at the level of each subsidiary, each of which hedges its net foreign currency positions against its functional currency. The Group endeavors to minimize the foreign currency risk of each entity against its accounting currency. Thus, Group companies' debt is denominated in their functional currencies except when financing in a foreign currency is matched with a commercial risk in the same currency.

The Group hedges its foreign currency risk mainly through spot foreign currency transactions or through forward transactions over short maturities, generally not exceeding 6 months. In almost all cases, the Group's subsidiaries contract their foreign currency transactions with ARKEMA's central treasury department. ARKEMA's central treasury department thus hedges a net overall foreign currency position.

### 23.2 Interest rate risk

The Group obtains most of its financing through the variable rate syndicated credit facility of €1,100 million available to it. The general financing policy defined by the Group is to favor variable rate debt over fixed rate debt. Exposure to interest rate risk is managed by the Group's central treasury department and simple derivatives are used as hedging instruments. The Group has not entered into any interest rate hedges at 31 December 2007.

### 23.3 Liquidity risk

The Group's central treasury department manages the liquidity risk related to the Group's debt.

In almost all cases, Group companies obtain their financing from, and manage their cash with, Arkema France or other Group entities that manage cash pooling mechanisms.

Liquidity risk is managed with the main objective of ensuring renewal of the Group's financing and, in the context of meeting this objective, optimizing the annual financial cost of the debt. The Group has thus put in place a confirmed medium-term credit facility of €1,100 million from a syndicate of first-class banks maturing on 31 March 2012 (described in note 22) with the purpose of covering all of the Group's financing needs and of giving it sufficient margin of maneuver to meet its obligations.

The Group's net debt at 31 December 2007 amounts to €459 million.

At 31 December 2007, the amount available under the syndicated credit facility is €695 million and the amount of cash and cash equivalents is €58 million.

The main circumstance in which early repayment or termination of the facility could occur is if the ratio of consolidated net debt to consolidated EBITDA were to become greater than 3. At 31 December 2007, consolidated net debt represents 0.9 times consolidated EBITDA.

Note 22 provides details of the maturities of debt.

### 23.4 Credit risk

The Group is potentially exposed to credit risk on its accounts receivable and as regards its banking counterparts.

Credit risk on accounts receivable is limited because of the large number of its clients and their geographical dispersion. The Group's general policy for managing credit risk involves assessing the solvency of each new customer before entering into business relations: each customer is allocated a credit limit, which constitutes the maximum level of outstandings (receivables plus orders) accepted

by the Group, on the basis of the financial information obtained on the customer and the analysis of solvency carried out by the Group. These credit limits are revised regularly and, in any case, every time that a material change occurs in the customer's financial position. Customers who cannot obtain a credit limit because their financial position is not compatible with the Group's requirements in terms of solvency only receive deliveries when they have paid for their order.

In the last number of years, the Group has incurred very few bad debts and it does not thus hedge its credit risk on account of the statistically low default rate of its customers; however, in certain contexts related to the structure of the customer base, the organization of a BU or geographical considerations, the Group may hedge its credit risk by putting in place secured means of payment or by taking out credit insurance.

In addition, the Group's policy in respect of recognizing bad debt provisions has two components: receivables are individually provided against as soon as a specific risk of loss (economic and financial difficulties of the customer in question, entry into receivership, etc.) is clearly identified. The Group may also recognize general provisions for receivables that are overdue for such a period that the Group considers that a statistical risk of loss exists. These periods

are adapted depending on the BUs and the geographical regions in question.

Banking credit risk is related to financial investments, derivatives and credit facilities granted by banks. The Group limits its exposure to credit risk by only investing in liquid securities with first-class counterparts.

The net carrying amount of financial assets indicated in note 24 represents the maximum exposure to credit risk.

### 23.5 Risk related to raw materials and energy

The prices of certain raw materials used by ARKEMA are highly volatile and their fluctuations lead to significant variations in cost of production of the Group's products; in addition, because of the importance of the Group's requirements in terms of energy resources resulting notably from the electrically intensive nature of certain of its manufacturing processes, ARKEMA is also very sensitive to changes in the price of energy. In order to limit the impact of price volatility of the principal raw materials it uses, ARKEMA can decide to use derivatives matched with existing contracts or can negotiate fixed price contracts for limited periods.

## Note 24 PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES

### Financial assets and liabilities by accounting caption

2006 FINANCIAL YEAR

IAS 39 category Class of instruments		Assets/ liabilities measured at fair value through profit or loss	Assets/ liabilities measured at amortized cost	Available for sale assets	Total net carrying amount
<i>In millions of euros</i>	Notes				
Other investments	(14)	-	-	21	21
Other non-current assets (loans and advances)	(15)	-	121	-	121
Accounts receivable	(17)	-	1,011	-	1,011
Cash and cash equivalents	(18)	-	171	-	171
Derivatives	(24)	-	-	-	-
<b>FINANCIAL ASSETS</b>		-	<b>1,303</b>	<b>21</b>	<b>1,324</b>
Current and non-current debt	(22)	-	495	-	495
Accounts payable		-	791	-	791
Derivatives	(24)	-	-	-	-
<b>FINANCIAL LIABILITIES</b>		<b>0</b>	<b>1,286</b>	<b>0</b>	<b>1,286</b>



2007 FINANCIAL YEAR

IAS 39 category Class of instruments		Assets/ liabilities measured at fair value through profit or loss	Assets/ liabilities measured at amortized cost	Available for sale assets	Total net carrying amount
<i>In millions of euros</i>	Notes				
Other investments	(14)	-		24	24
Other non-current assets (loans and advances)	(15)	-	100	-	100
Accounts receivable	(17)	-	1,000	-	1,000
Cash and cash equivalents	(18)	-	58	-	58
Derivatives	(24)	1	-	-	1
<b>FINANCIAL ASSETS</b>		<b>1</b>	<b>1,158</b>	<b>24</b>	<b>1,183</b>
Current and non-current debt	(22)	-	517	-	517
Accounts payable		-	786	-	786
Derivatives	(24)	6	-	-	6
<b>FINANCIAL LIABILITIES</b>		<b>6</b>	<b>1,303</b>	<b>-</b>	<b>1,309</b>

At 31 December 2007 as at 31 December 2006, the fair value of financial assets and liabilities is approximately equal to their net carrying amount.

## Derivatives

The main derivatives used by the Group are as follows:

	Notional amount of contracts at 31.12.2006			Notional amount of contracts at 31.12.2007			Fair value of contracts (In millions of euros)	
	◁ 5 years and		▷ 5 years	◁ 5 years and		▷ 5 years	31.12.2006	31.12.2007
	◁ 1 year	▷ 1 year		◁ 1 year	▷ 1 year			
Forward foreign currency contracts (in millions of euros)	208	-	-	396	-	-	-	(6)
Commodities swaps								
▶ Aluminum (in tons)	900	150	-	225	-	-	Immaterial	Immaterial
▶ Gas (in MMBTU)	303,000	-	-	410,000	-	-	(0.2)	Immaterial
▶ Tin (in tons)	-	-	-	128	-	-	-	Immaterial

## Impact of financial instruments on the income statement

The income statement includes the following items related to financial assets (liabilities):

	2006	2007
<b>TOTAL INTEREST INCOME (EXPENSES) ON FINANCIAL ASSETS AND LIABILITIES *</b>	<b>(10)</b>	<b>(15)</b>
Impact on the income statement of valuation of derivatives at fair value	0	(6)
Impact on the income statement of valuation of available for sale assets	5	2

\* Excluding interest costs on pension obligations and the expected return on related plan assets.

The amount of foreign exchange gains and losses recognized in recurring operating income in 2007 is a gain of €2 million (loss of €1 million in 2006). As the foreign currency denominated assets and liabilities of Group companies are hedged with their respective functional currencies, a change in exchange rates does not have a material impact of the income statement.

An increase (decrease) of 1% (100 basis points) in interest rates would have the effect of increasing (decreasing) interest expenses on financial liabilities measured at amortized cost by €5 million.

### Impact of financial instruments on shareholders' equity

When the conditions are met, commodities-related derivatives used by the Group are designated as cash flow hedges under IAS 39. At 31 December 2007 (as at 31 December 2006), the amounts recognized in shareholders' equity in this respect are not material.

## Note 25 OTHER CREDITORS AND ACCRUED LIABILITIES

Other creditors and accrued liabilities are mainly comprised of employee-related liabilities for €168 million at 31 December 2007 (€144 million at 31 December 2006) and amounts owing to governments for €37 million at 31 December 2007 (€77 million at 31 December 2006). The change in amounts owing to governments

mainly results from the deduction of a French local taxes (taxe professionnelle) receivable from balance sheet liabilities for €43 million.

The entry of Coatex into the scope of consolidation had an impact of €13 million on other creditors and accrued liabilities.

## Note 26 PERSONNEL EXPENSES

Personnel expenses, including stock-options and free share grants (see note 28), amount to €932 million in 2007 (€1,010 million in 2006). They are comprised of €674 million of wages and salaries

and IFRS 2 expenses (€740 million in 2006) and €258 million of social charges (€270 million in 2006).

## Note 27 RELATED PARTIES

### 27.1 Transactions with non-consolidated or equity accounted companies

Transactions between consolidated companies have been eliminated in the consolidation process. In addition, in the normal course of business, the Group has business relationships with certain non-

consolidated companies or with companies which are consolidated under the equity method. These transactions mainly concern purchases of raw materials and interest charges on current accounts. The amounts are presented in the table below. The corresponding transactions were carried out at market prices.

In millions of euros	Equity accounted affiliates		Non-consolidated companies	
	31.12.2006	31.12.2007	31.12.2006	31.12.2007
<b>Transaction</b>				
Sales of goods	39	-	2	-
Other income	-	-	-	2
Purchases of goods and services	(90)	(36)	-	-
Other expenses (including financial expenses)	-	-	-	-
<b>Balance sheet amounts resulting from transactions</b>				
<b>Assets</b>				
Accounts receivable	6	-	-	-
Financial receivables and other receivables	23	-	-	-
<b>Liabilities</b>				
Accounts payable	7	2	-	-
Debt and other creditors	-	-	-	-

NB: The new companies consolidated in 2007 are listed in "Scope of consolidation".

At 31 December 2007, the transactions presented with equity accounted affiliates are reduced because of the change in consolidation method in respect of Oxochimie, American Acryl NA LLC and Stannica LLC (change from the equity method to the proportionate consolidation method).

## 27.2 Remuneration of key management personnel

Key management personnel of a group, as defined in IAS 24, are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The key management personnel of the Arkema Group are the directors and the members of its executive committee (COMEX).

The remuneration recognized in expenses by ARKEMA is as follows:

In millions of euros	2006 **	2007
Salaries and other short-term benefits	3.3	4.0
Pensions, other post-employment benefits and contract termination benefits	0.5 *	0.6
Other long-term benefits	-	-
Share-based payment	0.5	2.0

\* Excluding the impact of the accounting expenses of the spin-off.

\*\* Incomplete year (listing on 18 May 2006).

## Note 28 SHARE-BASED PAYMENTS

### 28.1 Stock options

The Board of Directors granted ARKEMA stock options to management and certain Group employees.

The main characteristics of the stock option plans are as follows:

	2006 Plan	2007 Plan	Total
Date of Annual General Meeting	10 May 2006	10 May 2006	
Date of Board of Directors meeting	4 July 2006	14 May 2007	
Minimum period until exercise	2 years	2 years	
Minimum period until sale	4 years	4 years	
Period of validity	8 years	8 years	
Exercise price	28.36	44.63	
<b>Number of options</b>			
In circulation at 1 January 2006	-	-	-
Granted	540,000	-	540,000
Cancelled	-	-	-
Exercised	-	-	-
<b>In circulation at 31 December 2006</b>	<b>540,000</b>	-	<b>540,000</b>
In circulation at 1 January 2007	540,000	-	540,000
Granted	-	600,000	600,000
Cancelled	4,000	-	4,000
Exercised	-	-	-
<b>In circulation at 31 December 2007</b>	<b>536,000</b>	<b>600,000</b>	<b>1,136,000</b>

### 28.2 Free share grant

The Board of Directors granted rights to free shares in ARKEMA to management and certain Group employees. The grant will only be definitive after a vesting period of 2 years as from the date of the

Board of Directors meeting that decided on the grant and subject to complying with a condition regarding growth in the Group's profitability. Shares definitively granted will only be able to be sold after a conservation period of 2 years.

The main characteristics of the free share grant plans are as follows:

	2006 Plan	2007 Plan	Total
Date of Shareholders' meeting	10 May 2006	10 May 2006	
Date of Board of Directors meeting	4 July 2006	14 May 2007	
Vesting period	2 years	2 years	
Conservation period	2 years	2 years	
<b>Number of free shares</b>			
In circulation at 1 January 2006	-	-	-
Granted	150,000	-	150,000
Cancelled	-	-	-
Exercised	-	-	-
<b>In circulation at 31 December 2006</b>	<b>150,000</b>	<b>-</b>	<b>150,000</b>
In circulation at 1 January 2007	150,000	-	150,000
Granted	-	125,000	125,000
Cancelled	6,685	-	6,685
Exercised	-	-	-
<b>In circulation at 31 December 2007</b>	<b>143,315</b>	<b>125,000</b>	<b>268,315</b>

### 28.3 Expense related to share-based payment

The amount of the expense recognized at 31 December 2007 in respect of share based payment was €7 million (€2 million at the end of 2006), broken down as follows:

- ▶ €3 million (€1 million at the end of 2006) in respect of the stock option plans;
- ▶ €4 million (€1 million at the end of 2006) in respect of the free share grant plans.

The fair value of the options granted was determined using the Black & Scholes method on the basis of assumptions, of which the main ones are as follows:

	2006	2007
Volatility	22%	20%
Risk-free rate	2.82%	3.39%
Maturity	4 years	4 years
Exercise price (in euros)	28.36	44.63
<b>Fair value of stock-options (in euros)</b>	<b>6.29</b>	<b>7.89</b>

The volatility assumption was determined on the basis of observation of historical movements in the ARKEMA share since its admission to listing, restated for certain non-representative days in order to better represent the long-term trend.

The maturity retained for the option corresponds to the period of unavailability for tax purposes.

The fair value of the rights to free shares corresponds to the opening stock-market price on the day of the Board of Directors meeting that decided on the grant, adjusted for any dividends not received during the vesting period.

## Note 29 OFF-BALANCE SHEET COMMITMENTS

### 29.1 Commitments given

#### 29.1.1 Off-balance sheet commitments given in ordinary course of business

The main commitments given are summarized in the table below:

<i>In millions of euros</i>	31.12.2006	31.12.2007
Guarantees granted	121	46
Comfort letters	2	2
Share of partnership (EIG) liabilities	6	-
Contractual guarantees	10	19
Customs and excise guarantees	7	8
<b>TOTAL</b>	<b>146</b>	<b>75</b>

Guarantees granted are mainly bank guarantees in favor of local authorities and public bodies (state agencies, environmental agencies) in respect of environmental obligations or concerning classified sites. The change at 31 December 2007 mainly results from the change of American Acryl to the proportionate consolidation method.

#### 29.1.2 Contractual commitments

##### *Irrevocable purchase commitments*

In the normal course of business, ARKEMA signed multi-year purchase agreements for raw materials and energy for the operational requirements of its factories, in order to guarantee the security and

continuity of supply. Signature of such contracts over periods of between 1 to 15 years is a normal practice for companies in Arkema's business sector in order to cover their needs.

These purchase commitments were valued taking into account, on a case-by-case basis, ARKEMA's financial commitment to its suppliers, as certain of these contracts include clauses which oblige ARKEMA to take delivery of the minimum volumes as set out in the contract or, otherwise, to pay financial compensation to the supplier. Depending on the case, these commitments are reflected in the purchase agreements in the form of notice periods, indemnification to be paid to the supplier in case of early termination of the contract or "take or pay" type clauses.

The total amount of the Group's financial commitments thus valued amounted to €869 million at 31 December 2007 (see maturity schedule below):

<i>In millions of euros</i>	31.12.2006	31.12.2007
2007	221	-
2008	144	221
2009	120	135
2010	73	132
2011	60	72
2012 until expiry of contracts	229	309
<b>TOTAL</b>	<b>847</b>	<b>869</b>

##### *Lease commitments*

In the context of its business, ARKEMA has signed lease contracts, of which the majority are operating lease agreements. Lease agreements signed by ARKEMA are mainly in respect of property rental (head offices, land, Fos port concession) and transportation equipment (rail cars, containers, transport barges).

The amounts presented in the table below correspond to the future minimum payments that will need to be made in accordance with these contracts (only the irrevocable portion of future lease payments has been valued).

In millions of euros	31.12.2006		31.12.2007	
	Capitalized leases	Non-capitalized leases	Capitalized leases	Non-capitalized leases
2007	2	18	-	-
2008	3	16	3	21
2009	3	13	3	20
2010	3	9	3	17
2011	3	10	3	14
2012 and beyond	14	54	14	77
<b>NOMINAL VALUE OF FUTURE LEASE PAYMENTS</b>	<b>29</b>	<b>120</b>	<b>25</b>	<b>149</b>
Finance cost	8	NA	6	NA
<b>PRESENT VALUE</b>	<b>21</b>	<b>NA</b>	<b>19</b>	<b>NA</b>

NA: not applicable.

### 29.1.3 Other commitments given

#### Warranties related to sales of business

Sales of businesses generally involve the provision of warranties in respect of unrecorded liabilities to the purchaser. In the past, ARKEMA has granted such warranties on the sale of businesses. In most cases these warranties are capped and granted for a limited period of time. They are also limited in terms of their coverage to certain types of litigation and claims. In the majority of cases, they cover risks of occurrence of environmentally related claims.

The cumulative residual amount of capped warranties in respect of unrecorded liabilities granted in the past by ARKEMA amounted to €58 million at 31 December 2006 and to €87 million at 31 December 2007. These amounts are stated net of provisions recognized in the balance sheet in respect of such warranties. The change at 31 December 2007 reflects the warranties for unrecorded liabilities granted by the Group in the context of disposals made during the year.

## 29.2 Commitments received

### Commitments received from Total in 2006

In connection with the Spin-Off of Arkema's Businesses, Total S.A. and certain Total companies have extended certain indemnities, or have assumed certain obligations, for the benefit of ARKEMA, relating to (i) certain antitrust litigation, (ii) certain actual or potential environmental liabilities of the Group arising from certain sites in France, Belgium and the United States, the operations on which in the majority of cases have ceased, (iii) certain tax matters, and (iv) the Spin-Off of Arkema's Businesses. These indemnities and obligations are described below.

#### 29.2.1 The Indemnities extended by Total in respect of certain antitrust litigation

In order to cover potential risks in connection with antitrust litigation relating to anti-competitive agreements in Europe and the United

States and arising from facts prior to 18 May 2006 (or prior to 7 March 2006, as the case may be), Total S.A. has extended to Arkema S.A. and Elf Aquitaine, Inc. has extended to Arkema Amériques SAS, the indemnities, the principal terms of which can be described as follows.

#### Subject-matter of the Indemnities

By an agreement dated 15 March 2006 (the Arkema European Indemnity), Total S.A. agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to a money judgment imposed by EU antitrust authorities, or by national antitrust authorities of a Member State of the European Union, for violations of antitrust laws relating to anticompetitive agreements, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries).

By an agreement dated 15 March 2006 (the Arkema U.S. Indemnity), Total S.A. also agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of a settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries).

In connection with the sale of Arkema Delaware, Inc. shares by Elf Aquitaine, Inc. to Arkema Amériques SAS, Elf Aquitaine, Inc. agreed, in the agreement dated 7 March 2006 (the Arkema Delaware

Indemnity), to indemnify Arkema Amériques SAS for 90% of (i) any payment due by Arkema Amériques SAS or any of its subsidiaries pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations occurring prior to 7 March 2006 of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of the settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema Amériques SAS or any of its subsidiaries pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred by Arkema Amériques SAS or any of its subsidiaries in connection with such proceedings.

Arkema Amériques SAS has benefited from an indemnification of \$12 million under the Arkema Delaware Indemnity. At 31 December 2007, the residual amount covered by this indemnity amounts to \$881 million.

Finally, Total S.A. extended to Arkema S.A. a supplemental indemnity dated 15 March 2006 (the Supplemental Arkema Delaware Indemnity) covering 90% of sums payable by Arkema Amériques SAS or any of its subsidiaries in respect of litigation relating to anticompetitive agreements in the United States in excess of the maximum amount covered by the Arkema Delaware Indemnity.

The Arkema European Indemnity, the Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are hereinafter referred to together as the Indemnities and individually as an Indemnity.

#### **Liabilities not covered by the Indemnities**

The following liabilities are not covered by the Indemnities:

- liabilities arising from facts occurring after 18 May 2006 in the case of the Arkema European Indemnity and the Arkema U.S. Indemnity, or after 7 March 2006 in the case of the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity (including, in case of liabilities arising from facts occurring both before and after the relevant date, the portion of the liability relating to the period after 18 May 2006 or after 7 March 2006, as the case may be);
- liabilities arising from violations of antitrust laws other than those prohibiting anticompetitive agreements; and
- liabilities imposed by authorities outside the European Union (in the case of the Arkema European Indemnity) or the United States (in the case of the other Indemnities).

#### **Participation of Total in the management of litigation covered by the Indemnities**

The Indemnities provide for the participation by Total S.A. or Elf Aquitaine, Inc., as the case may be, in the management of litigation covered by the Indemnities, which involves a certain number of obligations on the part of Arkema S.A. and Arkema Amériques SAS, in particular the obligation to notify Total S.A. or Elf Aquitaine, Inc., as the case may be, of certain events occurring in the context of proceedings covered by the Indemnities and act in accordance with the advice and instructions of Total S.A. or Elf Aquitaine, Inc. as the case may be, relating to such proceedings. Total S.A. and Elf Aquitaine, Inc., as the case may be, also have the right to assume sole control of the defence of the Group entity in question. Failure by Arkema S.A.

or Arkema Amériques SAS to comply with these obligations can result, in certain circumstances, in the automatic termination of the Indemnity, as described below.

#### **Amount of the indemnification**

The Arkema European Indemnity, whose deductible of €176.5 million has been exceeded, gave rise to indemnification of €171 million being received from Total SA. The Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity do not have a deductible.

#### **Cross-indemnities of Arkema S.A. and Arkema Inc.**

Arkema S.A. and Arkema Inc. have agreed to indemnify Total S.A. in respect of any liability covered by the Indemnities but which is borne, not by a Group entity but by Total S.A. or one of its subsidiaries due to facts attributable to a Group company, whether the liability of Total S.A. or of its subsidiaries is determined to be direct or derivative, exclusive or joint and several, relative to the liability of the Group entity to which the facts are attributable.

However, this cross-indemnity by Arkema S.A. and Arkema Inc. will be reduced by the indemnity which would have been paid by Total S.A. or Elf Aquitaine, Inc., as the case may be, under the relevant Indemnity if the liability had been borne by a Group company. Consequently, if the cross-indemnity of Arkema S.A. and Arkema Inc. is triggered, Arkema S.A. or Arkema Inc., as the case may be, would only be obligated to indemnify Total S.A. for 10% of the liabilities borne by Total S.A. or one of its subsidiaries (in the case of the Arkema European Indemnity, this 10% relates to the amount, if any, that exceed the deductible).

#### **Term of the indemnities**

The Arkema European Indemnity and the Arkema U.S. Indemnity are valid for a term of 10 years from 18 May 2006. The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are valid for a term of 10 years from 7 March 2006.

The Arkema S.A. cross-indemnity is valid for a term of 10 years from 18 May 2006.

The Arkema Inc. cross-indemnity is valid for a term of 10 years from 7 March 2006.

#### **Termination of the Indemnities**

Indemnities shall terminate in the event that a natural person or legal entity, acting alone or in concert with others, acquires, directly or indirectly, more than one third of the voting rights of Arkema S.A. (voting rights are subject to a ceiling of 10% — and 20% in the case of double voting rights — unless a purchaser acquires at least two thirds of the Total number of Arkema S.A. shares in a public transaction targeting all Arkema S.A. shares) or if the Group transfers, directly or indirectly, in one or several times, to the same third party or to several third parties acting in concert, assets representing more than 50% of the Group's "enterprise value" (as defined in the Indemnities) at the time of the relevant transfer.

The Arkema European Indemnity and the Arkema U.S. Indemnity will terminate if Arkema S.A. loses control of Arkema France.



The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity will terminate if Arkema S.A. loses control of Arkema Amériques SAS, or if Arkema Amériques SAS loses control of Arkema Delaware Inc.

Finally, the Indemnities will terminate in the event of a material breach by the Group of its obligations under the relevant Indemnity if such breach has remained uncured for 30 days after notice by the indemnifying party demanding its cure.

The Indemnities provide that, upon the occurrence of a termination event, the only liabilities of Group companies that will remain covered by the Indemnities are those, if any, which (i) fell due prior to the termination event and (ii) were notified to Total S.A. or to Elf Aquitaine, Inc., as the case may be, prior to the termination event.

### 29.2.2 Obligations and indemnities given in respect of Former Industrial Sites

In order to cover certain risks relating to certain industrial sites situated in France, Belgium and the United States in respect of which the Group is or could be held liable, and where, for the most part, operations have ceased (the Former Industrial Sites), Total S.A. companies have entered with Arkema S.A. or its subsidiaries into indemnity and service agreements the principal terms of which can be described as follows:

#### ***Agreement relating to Former Industrial Sites located in France***

Arkema France has entered into various agreements with Total companies and in particular Retia. Pursuant to these agreements, the Total companies concerned, in consideration of a flat fee already paid by Arkema France, assume all the investigation, restoration and monitoring obligations that could be imposed on Arkema France by the competent administrative authorities in respect of industrial sites located in France the operation of which, for the most part, has ceased. To this end, the agreements provide, in particular, (i) in the majority of cases, for the transfer of ownership of the sites concerned by Arkema France to the Total companies concerned, (ii) for the Total companies concerned to be substituted for Arkema France in the capacity of last operator of those sites whenever that is possible, (iii) for the performance by the Total companies concerned of the restoration obligations of the sites in question in accordance with the applicable rules and (iv) for the indemnity by the Total companies in respect of the financial consequences of claims which could be brought against Arkema France by reason of the impact of those sites on the environment.

In most cases, Arkema France retains responsibility for the consequences concerning employees and former employees of Arkema France as well as third parties, in terms of public health or occupational pathologies, of the industrial activities formerly carried out by Arkema France and its predecessors on the sites which are the subject of the aforementioned agreements.

#### ***Agreement relating to the Former Industrial Site at Rieme in Belgium***

On 30 December 2005, Arkema France sold all of the shares that it held in the share capital of the Belgian company Resilium Belgium to the company Septentrion Participations, a subsidiary of Total S.A.

The company Resilium Belgium is the owner of a Former Industrial Site located at Rieme in Belgium.

Having regard to the future costs that might arise from the restoration of the Former Industrial at Rieme, Arkema France has paid the company Septentrion Participations financial compensation. In exchange, Septentrion Participations has undertaken to assume all restoration obligations in respect of the site at Rieme and to indemnify Arkema France against all claims, actions and complaints relating to Resilium Belgium, its assets and its liabilities.

#### ***Agreement relating to certain Former Industrial Sites located in the United States***

In March 2006, Arkema Amériques SAS consummated the acquisition from Elf Aquitaine Inc. and Arkema France of Arkema Delaware Inc., a holding company of most of the Group's operations in the United States. The negotiated terms of the stock purchase agreement among Elf Aquitaine Inc., Legacy Sites Services LLC and Arkema Amériques SAS, dated 7 March 2006 (the Arkema Delaware Main SPA) required Elf Aquitaine Inc. to use \$270 million to capitalize a new subsidiary, Legacy Sites Services LLC that will perform remediation services and indemnify the Group against the cost of environmental contamination liabilities incurred by the Group entities covered by this indemnity, and related personal injury and property damage claims associated with contamination at 35 of the Group's closed and formerly operated facilities and 24 third party sites where the Group's liability arises solely out of wastes shipments from the sites other than currently operated sites. In exchange for this indemnification, Arkema Amériques SAS agreed to grant to Legacy Sites Services LLC control over remediation activities and the defence of claims relating to contamination liabilities at these facilities and sites, subject to certain exceptions and exclusions.

The sites currently operated by the Group are excluded from this indemnity, as are sites that received waste associated with current operations of the Group and certain sites where no significant restoration work is currently underway or anticipated and other sites where the Group could be held liable for environmental pollution. These other sites include, for example, sites where remediation has been conducted in the past or where future remediation costs or liability are believed to be insignificant or non-existent based upon information available at the time when the indemnity was entered into. Arkema Amériques SAS has waived any claims against Legacy Sites Services LLC, Total S.A. or their respective subsidiaries in respect of the sites not covered by the indemnity.

The Legacy Sites Services LLC indemnity covers the costs of restoration and clean-up of the soil and groundwater, the costs of related defence and settlement costs and personal injury, property and natural resource damages. The indemnity does not cover liabilities unrelated to site remediation, in particular liabilities in respect of products manufactured on the said sites, liability arising from certain dangerous and potentially dangerous substances, particularly asbestos exposure and criminal liability.

The indemnity described above is capped at \$270 million. The amount received by ARKEMA under this indemnity amounted to \$20 million. At the same time as the stock purchase agreement and the indemnity described above, Legacy Site Services LLC and Arkema Inc. entered into a supplemental contamination indemnity agreement pursuant

to which Legacy Site Services LLC will indemnify the liabilities of the Group in excess of \$270 million, on the same terms, for the same sites and subject to the same exceptions as the indemnity described in the preceding paragraph.

### 29.2.3 Tax indemnity granted by Total S.A.

In order to cover potential tax risks related to the business activities transferred by the Group to Total or from the reorganization in connection with the Spin-Off of Arkema's Businesses, Total S.A. has granted an indemnity to Arkema S.A., the main terms of which can be described as follows.

#### **Purpose of the tax indemnity**

Under the terms of an agreement dated 15 March 2006 (the Tax Indemnity), Total S.A. has undertaken to indemnify Arkema S.A. for (i) liabilities arising from any tax, customs or levies not covered by reserves, for which the Group would remain liable, when such liabilities arise from (x) activities in the petrochemicals and specialties sectors that were transferred by the Group to Total and the triggering event of which occurred prior to the date of such transfer; or (y) the reorganization undertaken for the purpose of spinning off Arkema's Businesses from Total's Chemicals sector, including, in particular, the Elf Spin-Off, the Total Spin-Off, the Merger and certain prior securities reclassification transactions; (ii) interest, fines, penalties, additional charges or other costs related thereto; and (iii) provided that Total S.A. has given its prior consent, the expenses incurred by Arkema S.A. or the relevant Group company in connection with such liabilities.

The Tax Indemnity, however, does not cover tax reassessments in connection with Arkema's Businesses (with the exception of reassessments that may affect Arkema UK, as indicated below) and is subject to the specific terms described hereafter.

#### **Involvement of Total S.A. in the management of litigation covered by the Tax Indemnity**

The Tax Indemnity provides for a procedure pursuant to which Arkema S.A. must involve Total S.A. in the management of the tax audits or litigation relating to the tax liabilities covered by the Tax Indemnity. In particular, this procedure entails the obligation to notify Total S.A. of any event that is likely to give rise to a liability covered by the Tax Indemnity and to comply with the advice and instructions of Total S.A. in defending the interests of the relevant Group company. In the event of unresolved disagreements on the strategy, means, method or type of such defence, the final decision will be taken by Total S.A. Arkema S.A.'s failure to comply with its obligations may result in automatic termination of the Tax Indemnity.

#### **Amount of the indemnity**

The Tax Indemnity includes no deductible, trigger threshold or cap.

In the event that a liability cannot be clearly connected to the petrochemicals and specialties sector transferred by the Group to Total in relation to Arkema's Businesses, Arkema S.A. and Total S.A. will each bear 50% of the said liability.

#### **Special provisions applying to Group companies that were included in the Total S.A. French tax group (groupe d'intégration fiscale de Total S.A.)**

The tax sharing agreements (conventions d'intégration fiscale) between Total S.A. and the Group companies that were included in the Total S.A. French tax group provide that these companies will be required to pay to Total S.A. any additional taxes and penalties that may be due by Total S.A., as the head company of the tax group, where they relate to the taxable income of such companies during the time they were included in the tax group.

However, these companies will be exempt from such payments to Total S.A. with respect to tax liabilities relating to their taxable income for fiscal years during which they were included in the Total S.A. tax group, if such liabilities are covered by the Tax Indemnity. In exchange, these companies waive the indemnity to which they would have been entitled pursuant to the Tax Indemnity.

Furthermore, in the event of a tax reassessment of a Group company relating to Arkema's Businesses (which are not covered by the Tax Indemnity) for a fiscal year during which such company was included in the Total S.A. tax group, such company shall be liable to pay Total S.A. a contribution calculated on the basis of the net amount of the reassessment after the following allowances:

- ▶ if, following this reassessment, the Group Company has realized a profit in respect of the fiscal year to which the reassessment applies, a deductible of €3 million per company and per fiscal year;
- ▶ if, following this reassessment, the Group Company has realized a loss in respect of the fiscal year to which the reassessment applies, an allowance equal to the amount of the losses generated by such company with respect to Arkema's Businesses, as determined by Arkema S.A. and Total S.A.

#### **Special provisions applying to certain foreign companies of the Group**

No recourse shall be taken against Arkema Deutschland in respect of any tax reassessments applying to the years during which it was included in the German tax groups formed by Total Mineralöl und Chemie and Total Deutschland.

Tax liabilities arising from the reorganization undertaken for purposes of separating Arkema's Businesses from Total's Chemicals sector in the Netherlands, which may have been incurred by Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group of which Arkema North Europe B.V. is the parent company are excluded from the Tax Indemnity. Any other tax liabilities arising from reassessments that may be applied to Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group will be assumed by these companies, which remain under Total S.A.'s control.

Arkema UK will benefit from a UK corporation tax indemnity covering any tax reassessments against it relating to Arkema's Businesses. This indemnity will be limited to the amount of losses generated by the Arkema Businesses that have been transferred by Arkema UK as result of the group relief instituted by Total Holdings UK for corporation tax purposes in the United Kingdom.

**Payment of the indemnity**

The liabilities covered by the Tax Indemnity will give rise to an indemnification payment only if they are definitely determined by an enforceable decision that is not subject to appeal.

**Duration of the Tax Indemnity**

The Tax Indemnity shall expire at the end of two months following the statute of limitations effectively applicable to the tax liabilities covered by the Tax Indemnity.

**Beneficiary of the Tax Indemnity**

The Tax Indemnity is only for the benefit of Arkema S.A. or, as the case may be, Arkema France, if Arkema S.A. is merged into Arkema France.

**29.2.4 Other indemnities given in the context of the Spin-Off of Arkema's Businesses**

As part of the Total Spin-Off Agreement, Total S.A. and Arkema S.A. made certain representations and warranties, some of them in connection with the separation of ARKEMA from Total.

The agreement states that Total S.A. grants no indemnities, other than the indemnities and agreements entered into by the Total entities that are described in this paragraph, particularly with respect to the assets and the business activities of all ARKEMA entities, or the liabilities or obligations associated with such entities or activities, which Arkema S.A. declares that it is aware of and for which Arkema S.A. shall be responsible, including in the case of the appearance of any item that is not known as of the date of the Total Spin-Off Agreement, or of an increase in the amount of the aforesaid liabilities or obligations. Arkema S.A. releases Total S.A. from any such claim, except in the case of New Claims as defined below.

**Representations and warranties relating to information exchanged in preparing the Spin-off of Arkema's Businesses**

Total S.A. and Arkema S.A. have made mutual representations and warranties with respect to the accuracy and completeness of the information exchanged by the two companies in preparing the Spin-Off of Arkema's Businesses.

**Representations and warranties relating to potential claims**

After conducting all necessary and customary due diligence, Arkema S.A. has declared, recognized and warranted that, to its knowledge and to the knowledge of the ARKEMA entities, as of the date of the Total Spin-Off Agreement, there were no grounds for claims, actions or complaints by any ARKEMA entity or by any one of its de facto or de jure directors, corporate officers or executives against any Total entity or any one of its de facto or de jure employees, directors, corporate officers or executives (a Total Entity). The claims, actions or complaints mentioned above are hereinafter referred to as the ARKEMA Claim(s).

Consequently, Arkema S.A. has undertaken to indemnify Total S.A. and hold it harmless for the consequences of any ARKEMA Claim

against any Total Entity. Arkema S.A. has waived all ARKEMA Claims other than New Claims, as defined below.

Arkema S.A.'s indemnity and the waiver mentioned in the two preceding paragraphs do not apply to any potential ARKEMA Claim that would be based on (i) events attributable to a Total Entity or (ii) grounds of which no ARKEMA entity has any knowledge as of the date of the Total Spin-Off agreement, after completing the necessary and customary due diligences, but only if and insofar as such events or grounds do not relate solely to the fact that the ARKEMA companies belonged to Total prior to 18 May 2006, or relate solely to the exercise of corporate offices or management functions by Total Entities within ARKEMA (the New Claim(s)).

At the same time, Total S.A. has declared, recognized and warranted that to its knowledge and to the knowledge of the Total entities, as of the date of the Total Spin-Off agreement, there were no grounds for claims, actions or complaints by any Total entity or by any one of its de facto or de jure directors, corporate officers or executives against any ARKEMA entity or any one of its de facto or de jure employees, directors, corporate officers or executives (the ARKEMA Entity(ies)), arising from the ownership or operation by ARKEMA entities of the companies or businesses acquired by Total before 18 May 2006 (the Total Claim(s)).

Total S.A. has declared, recognized and warranted that it had no Total Claim(s) arising from the exercise of corporate offices or functions by ARKEMA Entities within Total, and has waived all Total Claims on its part.

Consequently, Total S.A. has agreed to indemnify and hold harmless Arkema S.A. for the consequences of any Total Claim against any ARKEMA Entity.

**Duration of the indemnities**

No indemnity given in the Total Spin-Off agreement will survive after 10 years from 18 May 2006.

In addition, the Arkema Delaware Main SPA provides that Arkema Amériques SAS, which became a subsidiary of Arkema S.A. on 18 May 2006, will indemnify Elf Aquitaine, Inc., a subsidiary of Total S.A., for any taxes that may result from a breach of representations or covenants under the ARKEMA Delaware Main SPA or the Tax Sharing Agreement dated 1 January 2001, among Total Holdings USA, Inc. and certain of its subsidiaries, by Arkema Amériques SAS, Arkema Delaware Inc., or certain of the subsidiaries of Arkema Delaware Inc. Elf Aquitaine, Inc. will likewise indemnify Arkema Amériques SAS for any taxes resulting from such breaches by Elf Aquitaine, Inc. Moreover, the Arkema Delaware Main SPA provides that Elf Aquitaine Inc. and its US subsidiaries, on the one hand, and Arkema Delaware Inc. with certain of its US subsidiaries, on the other hand, will each be responsible for their share of US federal and state income taxes before 7 March 2006, as computed under the Tax Sharing Agreement, because for this period Elf Aquitaine, Inc. files a consolidated US federal income tax return that includes Arkema Delaware Inc. and certain of its subsidiaries and pays the taxes due in respect of the consolidated US federal income tax return. Arkema

Delaware Inc. and certain of its subsidiaries will be required to pay such amounts to Elf Aquitaine, Inc. For periods after 7 March 2006, Arkema Delaware, Inc. and its US subsidiaries will be responsible to file income tax returns separately from Elf Aquitaine, Inc. and separately to make all tax payments in respect of these returns.

With the exception of the obligations or indemnities described in this section, Total has not given to ARKEMA other material commitments or indemnities of the kind referred to in the first paragraph of this section "Commitments received from Total in 2006".

## Note 30 SUBSEQUENT EVENTS

ARKEMA's Board of Directors, in its meeting on 17 January 2008, decided to implement the share buyback program that was approved by the shareholders' general meeting of 5 June 2007, with a maximum purchase price of 50 euros per share and a maximum limit on the number of shares that could be purchased equal to 3% of the share capital.

Since this date, the company has purchased treasury shares under this program. These shares may notably be allocated to cover the free share grants to employees and directors of the company or of its Group.

In January 2008, Arkema France agreed the sale of buildings situated in the Paris region; this sale is subject to conditions precedent that the company expects will not derail the transaction. The transaction is expected to generate a profit.

On 7 February 2008, the company announced a project to create shared services centers (SSCs) for its Human Resources and Accounting functions. This project would result in the redeployment of 132 positions from the existing sites to the SSCs and would lead to a net headcount reduction of 30 for the company as a whole.

## SCOPE OF CONSOLIDATION AT 31 DECEMBER 2007

Companies consolidated for the first time in 2007 are marked with an asterisk: \*.

Companies sold in 2007, and that formed part of the discontinued operation in 2006 are marked with two asterisks: \*\*.

Companies whose consolidation method changed from the equity method to the proportionate consolidation method are marked with three asterisks: \*\*\*.

Arkema Wyoming Holdings Inc and Wyoming Holdings Delaware Inc were liquidated.

The percentage of control indicated below also corresponds to the Group's ownership interest in each entity.

Akishima Chemical Industries Co.ltd	Japan	100.00	FC
Alphacan BV	Netherlands	100.00	FC
Alphacan DOO *	Croatia	100.00	FC
Alphacan Espana SA	Spain	99.84	FC
Alphacan Perfiles SAU	Spain	99.84	FC
Alphacan SA	France	100.00	FC
Alphacan Soveplast	France	100.00	FC
Alphacan SPA	Italy	100.00	FC
Altuglas International Services SAS	France	100.00	FC
Altuglas International SPA	Italy	100.00	FC
Altuglas International BV	Netherlands	100.00	FC
Altuglas International Mexico Inc	United States	100.00	FC
Altuglas International S.A.	France	100.00	FC
Altuglas International UK Ltd	United Kingdom	100.00	FC
Altumax Deutschland GmbH	Germany	100.00	FC
Altumax Europe SAS	France	100.00	FC
American Acryl LP ***	United States	50.00	PC
American Acryl NA LLC ***	United States	50.00	PC

Anning Decco Fine Chemical Co. Ltd. **	China	55.00	FC
ARKEMA	South Korea	100.00	FC
Arkema S.A.	France	100.00	FC
Arkema Amériques SAS (ex Arkema Finance France)	France	100,00	FC
Arkema Asie (ex Sofia)	France	100,00	FC
Arkema Beijing Chemicals Co. Ltd	China	100.00	FC
Arkema BV	Netherlands	100.00	FC
Arkema Canada Inc	Canada	100.00	FC
Arkema Catalyst India Ltd	India	100.00	FC
Arkema Changshu Chemicals Co Ltd	China	100.00	FC
Arkema Changshu Fluorochemical Co. Ltd	China	100.00	FC
Arkema Changshu Haike Chemicals *	China	49.00	FC
Arkema China Investment Co. Ltd	China	100.00	FC
Arkema Company Ltd	Hong-Kong	100.00	FC
Arkema Delaware Inc.	USA	100.00	FC
Arkema Europe SAS (ex Mimosa SAS)	France	100,00	FC
Arkema Europe Holdings BV	Netherlands	100.00	FC
Arkema Finance Nederland BV	Netherlands	100.00	FC
Arkema France	France	100.00	FC
Arkema GmbH	Germany	100.00	FC
Arkema Guangzhou Chemicals Co. Ltd	China	100.00	FC
Arkema Holding Ltd	United Kingdom	100.00	FC
Arkema Holland Holding BV	Netherlands	100.00	FC
Arkema Inc.	USA	100.00	FC
Arkema Iniciadores SA de CV	Mexico	100.00	FC
Arkema KK	Japan	100.00	FC
Arkema Ltd (UK)	United Kingdom	100.00	FC
Arkema Ltd (Vietnam)	Vietnam	100.00	FC
Arkema North Europe BV	Netherlands	100.00	FC
Arkema Peroxides India Private Limited	India	100.00	FC
Arkema Pte Ltd	Singapore	100.00	FC
Arkema Pty Ltd	Australia	100.00	FC
Arkema Quimica Ltda	Brazil	100.00	FC
Arkema Quimica SA	Spain	99.84	FC
Arkema Hydrogen Peroxide Co. Ltd, Shanghai	China	66.67	FC
Arkema RE	Ireland	100.00	FC
Arkema Rotterdam BV	Netherlands	100.00	FC
Arkema Shanghai Distribution	China	100.00	FC
Arkema sp Z.o.o	Poland	100.00	FC
Arkema SRL	Italy	100.00	FC
Arkema Vlissingen BV	Netherlands	100.00	FC
Arkema Yoshitomi Ltd	Japan	49.00	EM
Ceca Italiana SRL	Italy	100.00	FC
Ceca SA	France	100.00	FC

Cerexagri **	France	100.00	FC
Cerexagri B.V. **	Netherlands	100.00	FC
Cerexagri Delaware Inc. **	USA	100.00	FC
Cerexagri Iberica SA Unipersonal **	Spain	99.84	FC
Cerexagri Inc. **	USA	100.00	FC
Cerexagri Italia SRL **	Italy	100.00	FC
Cerexagri Ziraat VE Kimya Sanayi Ve Ticaret Ltd Sirketi **	Turkey	100.00	FC
Coatex SAS *	France	100.00	FC
Coatex Netherlands BV *	Netherlands	100.00	FC
Coatex Inc *	United States	100.00	FC
Coatex Korea *	South Korea	100.00	FC
Coatex CEE *	Slovakia	100.00	FC
Coatex NA *	United States	100.00	FC
Coatex Asia Pacific *	South Korea	100.00	FC
Delaware Chemicals Corporation	United States	100.00	FC
Desarollo Quimica Industrial SA **	Spain	100.00	FC
Dorlyl snc	France	100.00	FC
Febex SA	Switzerland	96.77	FC
Luperox Iniciadores SA de CV	Mexico	100.00	FC
Maquiladora General de Matamoros sa de cv	Mexico	100.00	FC
Michelet Finance, Inc.	United States	100.00	FC
MLPC International	France	100.00	FC
Oxochimie ***	France	50.00	PC
Ozark Mahoning Company	United States	100.00	FC
Plasgom	Spain	99.84	FC
Plasticos Altumax SA	Spain	100.00	FC
Qatar Vinyl Company Limited	Qatar	12.90	EM
Résil Belgium	Belgium	100.00	FC
Resilia SRL	Italy	100.00	FC
Resinoplast	France	100.00	FC
Safepack Products Ltd **	Israel	100.00	FC
SEKI Arkema	South Korea	51.00	FC
Shanghai Arkema Gaoyuan Chemicals Co, Ltd	China	91.07	FC
Stannica LLC ***	United States	40.00	PC
Sunclear	France	100.00	FC
Turkish Products, Inc.	United States	100.00	FC
Viking chemical company	United States	100.00	FC
Vinilis	Spain	35.00	EM
Vinylberre	France	65.05	FC
Vinylfos	France	79.00	FC

NB: FC: Full consolidation; PC: Proportionate consolidation; EM: consolidation by the equity method.

## 20.4 Report from Statutory Auditors on Parent company financial statements

*This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes explanatory paragraphs discussing the auditors' assessments of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the annual financial statements. The report also includes information relating to the specific verification of information in the management report.*

*This report, together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France*

### **KPMG Audit**

Département de KPMG S.A.  
1, cours Valmy  
92923 Paris-La Défense Cedex  
S.A. au capital de € 5.497.100

commissaire aux comptes Membre de la compagnie  
régionale de Versailles

### **ERNST & YOUNG Audit**

Faubourg de l'Arche  
11, allée de l'Arche  
92037 Paris-La Défense Cedex  
S.A.S. à capital variable

commissaire aux comptes Membre de la compagnie  
régionale de Versailles

### **Statutory Auditors' Report on the annual financial statements**

**Year ended December 31, 2007**

(Free translation of a French language original)

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meetings, we hereby report to you, for the year ended December 31, 2007, on:

- the audit of the accompanying annual financial statements of Arkema S.A.,
- the justification of our assessments,
- the specific verifications and information required by law.

These annual financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

## **I. OPINION ON THE FINANCIAL STATEMENTS**

We conducted our audit in accordance with the professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2007 and the results of its operations for the year then ended, in accordance with the accounting rules and principles applicable in France.

Without qualifying our opinion, we draw your attention to the change in accounting policy relating to the recognition of actuarial gains and losses discussed in note B III to the notes to the financial statements, «Provisions for pensions and similar post employment benefit obligations».

## II. JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of article L. 823-9 of French Company Law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- ▶ As described in note B I of the notes to the financial statements, the value in use of investments is assessed by reference to the share held in the investee's net assets, or, by reference to an external valuation or by reference to discounted future cash flows, where these methods provide more relevant information than the share held in the investee's net assets. Within the framework of our assessments in relation to accounting principles and policies, we verified the above accounting methods were appropriate.
- ▶ The note B III of the notes to the financial statements describes the valuation methods used to assess provisions for pensions and similar post-employment benefits. These obligations were mainly measured by independent actuaries. We have examined the underlying data and assumptions used. Within the framework of our assessments, we ensured of the reasonableness of these estimates.

The assessments were thus made in the context of the performance of our audit of the financial statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

## III. SPECIFIC VERIFICATIONS AND INFORMATION

We have also performed the specific verifications required by law in accordance with professional standards applicable in France. We have no matters to report regarding:

- ▶ the fair presentation and the conformity with the financial statements of the information given in the Directors' Report and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- ▶ the fair presentation of the information given in the Directors' Report in respect of remunerations and benefits granted to the relevant directors and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in current function.

In accordance with French law, we have ensured that the required information concerning the purchase of investments and controlling interests and the names of the principal holders of the voting rights have been properly disclosed in the Directors' Report.

Paris-La Défense, March 5, 2008

The Statutory Auditors

*French original signed by*

**KPMG Audit**

A division of KPMG S.A.

Bertrand Desbarrières

*Partner*

Jean-Louis Caulier

*Partner*

**ERNST & YOUNG AUDIT**

François Carrega

*Partner*



## 20.5 Parent company financial statements at 31 December 2007

### BALANCE SHEET

#### ASSETS

<i>In millions of euros</i>	31.12.2007			31.12.2006
	Gross	Depreciation and impairment	Net	Net
Investments, net	2,809	1,181	1,628	1,671
Other financial fixed assets	0	-	0	0
<b>TOTAL FIXED ASSETS</b>	<b>2,809</b>	<b>1,181</b>	<b>1,628</b>	<b>1,671</b>
Trade receivables	2	-	2	3
Subsidiary current accounts	183	-	183	31
Other receivables	28	-	28	-
Cash and cash equivalents	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>213</b>	<b>-</b>	<b>213</b>	<b>35</b>
Prepaid expenses	0	-	0	0
<b>TOTAL ASSETS</b>	<b>3,022</b>	<b>1,181</b>	<b>1,841</b>	<b>1,706</b>

#### LIABILITIES AND SHAREHOLDERS' EQUITY

<i>In millions of euros</i>	31.12.2007	31.12.2006
Share capital	605	605
Paid-in surplus	1,006	1,006
Legal reserve	61	61
Retained earnings	18	-
Net income for the year	121	18
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,811</b>	<b>1,690</b>
<b>PROVISIONS</b>	<b>7</b>	<b>5</b>
Debt	0	0
Trade payables	11	8
Tax and employee-related liabilities	4	3
Other payables	8	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>23</b>	<b>11</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,841</b>	<b>1,706</b>

## INCOME STATEMENT

<i>In millions of euros</i>	2007	2006
Services billed to related companies	6	2
Other purchases and external expenses	(12)	(8)
Taxes other than income taxes	(0)	(0)
Personnel expenses	(5)	(5)
Other operating expenses	(0)	(0)
(Allowances) and reversals of provisions	(2)	(5)
<b>Operating income</b>	<b>(13)</b>	<b>(16)</b>
Dividends from investments	181	34
Interest income	4	0
Interest expenses	-	(0)
Net foreign exchange gains (losses)	(0)	-
Impairment of investments	(70)	-
<b>Financial result</b>	<b>115</b>	<b>34</b>
<b>Pre-tax income</b>	<b>102</b>	<b>18</b>
Income taxes	19	0
<b>NET INCOME</b>	<b>121</b>	<b>18</b>

## CASH FLOW STATEMENT

<i>In millions of euros</i>	2007	2006
Net income	121	18
Changes in provisions	2	5
Changes in impairment	70	-
Gross operating cash flow	193	23
Change in working capital	(15)	8
<b>Cash flow from operating activities</b>	<b>178</b>	<b>31</b>
Cost of acquisition of investments	(27)	(0)
<b>Cash flow from investment activities</b>	<b>(27)</b>	<b>(0)</b>
Increases in loans	0	(0)
Change in share capital and other equity	-	0
<b>Cash flow from financing activities</b>	<b>0</b>	<b>(0)</b>
<b>Change in net debt</b>	<b>152</b>	<b>31</b>
Net debt at beginning of period	31	0
Net debt at end of period	183	31

## TABLE OF SUBSIDIARIES AND INVESTMENTS AT 31/12/2007

### Detailed information on subsidiaries and investments:

Subsidiaries and investments	Share capital <i>In € millions</i>	Shareholders' equity other than capital <i>In € millions</i>	Gross value of shares owned <i>In € millions</i>	Net carrying amount of shares owned <i>In € millions</i>	Ownership interest <i>In %</i>	Loans, advances & current accounts <b>Gross Value</b> <i>In € millions</i>	Guarantees given by the company <i>In € millions</i>	Net sales of last financial year <i>In € millions</i>	Net income (loss) <i>In € millions</i>	Dividends received by the company <i>In € millions</i>
<b>French subsidiaries</b>										
Arkema France	69	355	1,418	306	99.99	183	1,100	3,254	(183)	-
Arkema Amériques SAS	1,049	664	1,044	1,044	99.46	-	-	-	664	-
Arkema Europe SAS	1,150	81	188	188	16.35	-	-	-	81	-
Arkema Asie SAS	75	25	27	27	35.77	-	-	-	23	-
<b>SUB-TOTAL</b>			<b>2,677</b>	<b>1,565</b>		<b>183</b>	<b>1,100</b>	<b>3,254</b>	<b>585</b>	<b>0</b>
<b>Foreign subsidiaries</b>										
Arkema Finance Nederland BV	98	(70)	98	28	100.00	-	-	-	111	181
Arkema Europe holding BV	35	17	35	35	100.00	-	-	-	(19)	-
<b>SUB-TOTAL</b>			<b>133</b>	<b>63</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>92</b>	<b>181</b>
<b>TOTAL</b>			<b>2,810</b>	<b>1,628</b>		<b>183</b>	<b>1,100</b>	<b>3,254</b>	<b>677</b>	<b>181</b>

## 20.6 Notes to the parent company financial statements at 31 December 2007

### A. HIGHLIGHTS

#### I. Changes in investments

Arkema S.A. subscribed €26.8 million to the capital increase of Arkema Asie SAS.

#### II. Exceptional dividend

Arkema S.A. received an exceptional dividend from Arkema Finance Nederland BV amounting to €181 million.

#### III. Formation of a tax consolidation group

On 1 January 2007, ARKEMA formed a tax consolidation group (groupe d'intégration fiscale) in accordance with the provisions of article 233A of the French general tax code (CGI). The scope of tax consolidation includes 19 French companies, subject to corporate income taxes, that are more than 95% owned, directly or indirectly, by Arkema S.A., which is the parent company of the tax consolidation group.

### B. ACCOUNTING POLICIES

The annual financial statements of Arkema S.A. were prepared under the responsibility of the Chairman and CEO of Arkema S.A. and were approved by the Board of Directors on 4 March 2008.

The financial statements of Arkema S.A. have been prepared in accordance with French laws and regulations. The presentation of the balance sheet and the income statement have been adapted to the holding company activity exercised by the company.

The usual French accounting conventions have been applied, in compliance with the prudence principle, in accordance with the following basic assumptions:

- going concern;
- consistency of accounting policies from one financial year to the next;
- accruals basis of accounting and cut-off;

except for the accounting change regarding the provisions for pensions and similar post employment benefit obligations; and in accordance with the general rules for the preparation and presentation of annual financial statements.

The basic method used to value items recorded in the accounting records is the historical cost method.

The main accounting policies used by the company are presented below.

#### I. Investments

Investments are stated at the lower of acquisition cost and value in use. Investment acquisition expenses are recognized in the income statement as incurred.

Value in use is assessed by reference to the share held in the investee's net assets. Value in use may however also be assessed by reference to an external valuation or by reference to discounted future cash flows where these methods provide more relevant information than the share held in the investee's net assets.

#### II. Stock options and free share grants

Stock options are accounted for, at the date of exercise, as a capital increase for an amount corresponding to the subscription price paid by the stock option holders. The difference between the subscription price and the nominal value of the shares created, if any, represents paid-in surplus.

Regarding free share grants:

- where this operation is carried out by issuing new shares, the capital increase by means of a transfer from reserves of the nominal amount of the shares created is recognized in the financial statements at the end of the two-year vesting period;
- where this operation is carried out through buybacks of existing shares (following a decision taken by the Board of Directors in relation to the plan in question), a provision representing the obligation to deliver the shares is recognized at year end for (i) the probable purchase price if the shares have not yet been purchased or (ii) the net carrying amount of the treasury shares if they have already been purchased. On delivery at the end of the two-year vesting period, the purchase price paid by the company for the shares granted is recognised in expenses and the provision previously recorded is reversed .

### III. Provisions for pensions and similar post employment benefit obligations

Arkema S.A. has granted top-up pension plans and other non-pension benefits (lump sum payments on retirement, long service awards, death and disability benefits, contributions to healthcare bodies) to certain employees.

Provisions are recognized in respect of these obligations in the financial statements.

The amount of the provision corresponds to the present value of employee's vested rights at the balance sheet date.

The valuation of obligations, under the projected unit credit method, principally takes into account:

- an assumption concerning the date of retirement;
- a discount rate which depends on the duration of the obligations;
- an inflation rate;
- assumptions in respect of future increases in salaries, rates of employee turnover and increases in health costs.

Actuarial gains and losses are fully recognised in the income statement as from the financial year starting 1 January 2007. An amount of €1.6 million was recognised in expenses in this respect in 2007.

### IV. Tax consolidation

The tax consolidation agreements signed between Arkema S.A. and the other companies in the tax consolidation group refer to a neutrality principle in accordance with which each consolidated subsidiary must recognise in its own financial statements, during the entire period of its consolidation within the ARKEMA tax group, a corporate income tax expense (or income), additional levies and minimum corporate tax (IFA) identical to that which it would have recognized had it not formed part of the tax group.

In its accounting records, Arkema S.A. recognizes:

- in "other receivables", with an offsetting entry to income taxes, the amount of income taxes owed by profitable companies in the tax consolidation group;
- in "other payables", with an offsetting entry to income taxes, the amount of taxes due by the tax consolidation group.

In addition, in accordance with opinion 2005-G of the urgent issues committee of the French National Accounting Committee (CNC), Arkema S.A. recognizes, as necessary, a provision to cover the parent company's obligation to return the tax savings resulting from the use of its subsidiaries' tax losses to such subsidiaries as soon as they become profitable again.

## C. SUBSEQUENT EVENTS

ARKEMA's Board of Directors, in its meeting on 17 January 2008, decided to implement the share buyback program that was approved by the shareholders' general meeting of 5 June 2007, with a maximum purchase price of 50 euros per share and a maximum limit on the number of shares that could be purchased equal to 3% of the share capital.

Since this date, the company has purchased treasury shares under this program. These shares may notably be allocated to cover the free share grants to employees and directors of the company or of its Group.

## D. NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

The figures presented in the notes to the parent company financial statements are expressed in millions of euros (unless otherwise indicated).

Arkema S.A. became the Group holding company on 18 May 2006, the date of the spin off. The figures presented in the 2006 income statement thus relate to a 7-month accounting period as against a 12-month accounting period in 2007.

### 1) Investments

<i>In millions of euros</i>	31/12/2006	Increase	Decrease	31/12/2007
Gross value	2,782	27	-	2,809
Provision for impairment	(1,111)	(70)	-	(1,181)
<b>NET VALUE</b>	<b>1,671</b>	<b>(43)</b>	-	<b>1,628</b>
The changes in the "Investments" caption result from:				
* the capital increase of Arkema Asie		27		
* impairment of the investment in Arkema Finance Nederland BV		(70)		
<b>TOTAL</b>		<b>(43)</b>		

### 2) Current assets

The breakdown of the company's receivables at 31 December 2007 by maturity is as follows:

<i>In millions of euros</i>	Gross amount	Of which less than 1 year	Of which more than 1 year
Operating receivables	2	2	
Cash advances to subsidiaries	183	183	
Sundry receivables	28	20	8 *
<b>TOTAL</b>	<b>213</b>	<b>205</b>	<b>8</b>

\* Relates to the research tax credit.

### 3) Shareholders' equity

At 1 January 2007, the share capital is composed of 60,453,823 shares with a nominal value of 10 euros

Changes in shareholders' equity are as follows:

<i>In millions of euros</i>	31/12/2006	Increase	Decrease	Other	31/12/2007
Capital	605				605
Paid-in surplus	881				881
Merger surplus	125				125
Legal reserve	61				61
Other reserves	-				0
Retained earnings	-	18			18
Net income for 2006	18	(18)			0
Net income for 2007	-			121	121
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,690</b>	<b>0</b>	-	<b>121</b>	<b>1,811</b>

#### 4) Provisions

Changes in provisions recognized in the company's balance sheet are set out in the table below:

<i>In millions of euros</i>	31/12/2006	Increase	Decrease	31/12/2007
Provisions for pensions and similar benefits	5	2 *	0	7
Provisions for long-service awards	0	-	0	0
<b>TOTAL</b>	<b>5</b>	<b>2</b>	<b>0</b>	<b>7</b>

\* Of which actuarial gains and losses: €1.6 million (See "Accounting Policies III").

#### 5) Current liabilities

The due dates for payment of the company's payables at 31 December 2007 are as follows:

<i>In millions of euros</i>	Gross amount	Of which less than 1 year	Of which 1 to 5 years	Of which more than 5 years
Debt	0	0		
Trade payables	11	11		
Tax and employee-related liabilities	4	4		
Sundry payables *	8		8	
<b>TOTAL</b>	<b>23</b>	<b>15</b>	<b>8</b>	<b>-</b>

\* Relates to the research tax credit.

#### 6) Related parties

Details of transactions and balances with related parties are set out below:

<i>In millions of euros</i>	
<b>Financial fixed assets</b>	
Investments	1,628
<b>Receivables</b>	
Trade receivables	1
Other receivables (incl. current accounts)	183
Sundry receivables	28
<b>Payables</b>	
Trade payables	10
Sundry payables	8
<b>Net sales</b>	
Billing of management fees to subsidiaries	6
<b>Financial expenses</b>	
Interest and financial expenses	-
<b>Financial income</b>	
Income from investments	181
Interest income	4

## 7) Financial result

In 2007, the company received a dividend of €181 million paid by its subsidiary Arkema Finance Nederland BV.

The interest income corresponds to the remuneration of the cash transferred to Arkema France S.A. in the context of the Group's cash pooling system.

## 8) Income taxes

In 2007, application of the tax consolidation regime resulted in tax income (negative expense) for Arkema S.A. of €19 million. This amount corresponds to the income taxes of the profitable companies.

If there had been no tax consolidation, Arkema S.A. would not have borne any tax expense in respect of 2007 because of its tax loss position.

## 9) Deferred tax position

### INCREASES AND REDUCTIONS IN FUTURE TAX LIABILITIES AT 31 DECEMBER 2007

<i>In millions of euros</i>	
<b>Temporarily non-deductible expenses</b>	
Provisions for pensions and death and disability benefits	2
Other expenses	-

The tax loss at 31 December 2007 amounted to €7 million, being a reduction of €2 million compared with 31 December 2006.

The standard rate tax loss carryforwards of the tax group at 31 December 2007 amount to €225 million.

## 10) Free share grant plans and stock option plans

### Stock options

The Board of Directors granted ARKEMA stock options to management and certain Group employees.

The main characteristics of the stock options plans are as follows:

	2006 Plan	2007 Plan	Total
Date of Annual General Meeting	10 May 2006	10 May 2006	
Date of Board of Directors meeting	4 July 2006	14 May 2007	
Minimum period until exercise	2 years	2 years	
Minimum period until sale	4 years	4 years	
Period of validity	8 years	8 years	
Exercise price	28.36	44.63	
<b>Number of options</b>			
In circulation at 1 January 2006	-	-	-
Granted	540,000	-	540,000
Cancelled	-	-	-
Exercised	-	-	-
<b>IN CIRCULATION AT 31 DECEMBER 2006</b>	<b>540,000</b>	-	<b>540,000</b>
In circulation at 1 January 2007	540,000	-	540,000
Granted	-	600,000	600,000
Cancelled	4,000	-	4,000
Exercised	-	-	-
<b>IN CIRCULATION AT 31 DECEMBER 2007</b>	<b>536,000</b>	<b>600,000</b>	<b>1,136,000</b>



### Free share grant

The Board of Directors granted rights to free shares in ARKEMA to management and certain Group employees. The grant will only be definitive after a vesting period of 2 years as from the date of the

Board of Directors meeting that decided on the grant and subject to complying with a condition regarding growth in the Group's profitability. Shares definitively granted will only be able to be sold after a conservation period of 2 years.

	2006 Plan	2007 Plan	Total
Date of Shareholders' meeting	10 May 2006	10 May 2006	
Date of Board of Directors meeting	4 July 2006	14 May 2007	
Vesting period	2 years	2 years	
Conservation period	2 years	2 years	
<b>Number of free shares</b>			
In circulation at 1 January 2006	-	-	-
Granted	150,000	-	150,000
Cancelled	-	-	-
Exercised	-	-	-
<b>IN CIRCULATION AT 31 DECEMBER 2006</b>	<b>150,000</b>	<b>-</b>	<b>150,000</b>
In circulation at 1 January 2007	150,000	-	150,000
Granted	-	125,000	125,000
Cancelled	6,685	-	6,685
Exercised	-	-	-
<b>IN CIRCULATION AT 31 DECEMBER 2007</b>	<b>143,315</b>	<b>125,000</b>	<b>268,315</b>

## 11) Off-balance sheet commitments

The information set out below concerns Arkema S.A. or certain of its subsidiaries, and is disclosed on account of Arkema S.A.'s holding company status.

### 11.1 Commitments given

On 31 March 2006, Arkema S.A. and Arkema France S.A. signed a multi-currency syndicated credit facility in a maximum amount of €1,100 million. Arkema S.A. has provided the banks with joint guarantees of the obligations of the other borrowers (Arkema France S.A.) in respect of this credit facility.

At 31 December 2007, an amount of €405 million was used under this credit facility (€330 million in 2006) and was wholly drawn by Arkema France S.A.

### 11.2 Commitments received

#### Commitments received from Total in 2006

In connection with the Spin-Off of Arkema's Businesses, Total S.A. and certain Total companies have extended certain indemnities, or have assumed certain obligations, for the benefit of ARKEMA, relating to (i) certain antitrust litigation, (ii) certain tax matters, and (iii) the Spin-Off of Arkema's Businesses. These indemnities and obligations are described below.

#### 11.2.1 The Indemnities extended by Total in respect of certain antitrust litigation

In order to cover potential risks in connection with antitrust litigation relating to anti-competitive agreements in Europe and the United States and arising from facts prior to 18 May 2006 (or prior to 7 March 2006, as the case may be), Total S.A. has extended to Arkema S.A. the indemnities, the principal terms of which can be described as follows.

##### Subject-matter of the Indemnities

By an agreement dated 15 March 2006 (the *Arkema European Indemnity*), Total S.A. agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to a money judgment imposed by EU antitrust authorities, or by national antitrust authorities of a Member State of the European Union, for violations of antitrust laws relating to anticompetitive agreements, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries).

By an agreement dated 15 March 2006 (the *Arkema U.S. Indemnity*), Total S.A. also agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to a money judgment imposed by U.S. courts or antitrust authorities

for violations of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of a settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries).

In connection with the sale of Arkema Delaware, Inc. shares by Elf Aquitaine, Inc. to Arkema Amériques SAS, Elf Aquitaine, Inc. agreed, in the agreement dated March 7, 2006 (the **Arkema Delaware Indemnity**), to indemnify Arkema Amériques SAS for 90% of (i) any payment due by Arkema Amériques SAS or any of its subsidiaries pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations occurring prior to 7 March 2006 of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of the settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema Amériques SAS or any of its subsidiaries pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred by Arkema Amériques SAS or any of its subsidiaries in connection with such proceedings.

Arkema Amériques SAS has benefited from an indemnification of US\$12 million under the Arkema Delaware Indemnity. At 31 December 2007, the residual amount covered by this indemnity amounts to US\$881 million.

Finally, Total S.A. extended to Arkema S.A. a supplemental indemnity dated 15 March 2006 (the **Supplemental Arkema Delaware Indemnity**) covering 90% of sums payable by Arkema Amériques SAS or any of its subsidiaries in respect of litigation relating to anticompetitive agreements in the United States in excess of the maximum amount covered by the Arkema Delaware Indemnity.

The Arkema European Indemnity, the Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are hereinafter referred to together as the **Indemnities** and individually as an **Indemnity**.

#### Liabilities not covered by the Indemnities

The following liabilities are not covered by the Indemnities:

- liabilities arising from facts occurring after 18 May 2006 in the case of the Arkema European Indemnity and the Arkema U.S. Indemnity, or after 7 March 2006 in the case of the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity (including, in case of liabilities arising from facts occurring both before and after the relevant date, the portion of the liability relating to the period after 18 May 2006 or after 7 March 2006, as the case may be);
- liabilities arising from violations of antitrust laws other than those prohibiting anticompetitive agreements; and
- liabilities imposed by authorities outside the European Union (in the case of the Arkema European Indemnity) or the United States (in the case of the other Indemnities).

#### Participation of Total in the management of litigation covered by the Indemnities

The Indemnities provide for the participation by Total S.A. or Elf Aquitaine, Inc., as the case may be, in the management of litigation covered by the Indemnities, which involves a certain number of obligations on the part of Arkema S.A. and Arkema Amériques SAS, in particular the obligation to notify Total S.A. or Elf Aquitaine, Inc., as the case may be, of certain events occurring in the context of proceedings covered by the Indemnities and act in accordance with the advice and instructions of Total S.A. or Elf Aquitaine, Inc., as the case may be, relating to such proceedings. Total S.A. and Elf Aquitaine, Inc., as the case may be, also have the right to assume sole control of the defence of the Group entity in question. Failure by Arkema S.A. or Arkema Amériques SAS to comply with these obligations can result, in certain circumstances, in the automatic termination of the Indemnity, as described below.

#### Amount of the indemnification

The Arkema European Indemnity, whose deductible of €176.5 million has been exceeded, gave rise to indemnification of €171 million being received from Total S.A. (paid directly to Arkema France S.A., the indemnities granted by Total also benefit the subsidiaries). The Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity do not have a deductible.

#### Cross-indemnity of Arkema S.A.

Arkema S.A. has agreed to indemnify Total S.A. in respect of any liability covered by the Indemnities but which is borne, not by a Group entity but by Total S.A. or one of its subsidiaries due to facts attributable to a Group company, whether the liability of Total S.A. or of its subsidiaries is determined to be direct or derivative, exclusive or joint and several, relative to the liability of the Group entity to which the facts are attributable.

However, this cross-indemnity by Arkema S.A. will be reduced by the indemnity which would have been paid by Total S.A. under the relevant Indemnity if the liability had been borne by a Group company. Consequently, if the cross-indemnity of Arkema S.A. is triggered, Arkema S.A. or Arkema Inc., as the case may be, would only be obligated to indemnify Total S.A. for 10% of the liabilities borne by Total S.A. or one of its subsidiaries (in the case of the Arkema European Indemnity, this 10% relates to the amount, if any, that exceed the deductible).

#### Term of the indemnities

The Arkema European Indemnity and the Arkema U.S. Indemnity are valid for a term of 10 years from 18 May 2006. The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are valid for a term of 10 years from 7 March 2006.

The Arkema S.A. cross-indemnity is valid for a term of 10 years from 18 May 2006.

#### Termination of the Indemnities

Indemnities shall terminate in the event that a natural person or legal entity, acting alone or in concert with others, acquires, directly or indirectly, more than one third of the voting rights of Arkema S.A. (voting rights are subject to a ceiling of 10% — and 20% in the case of

double voting rights — unless a purchaser acquires at least two thirds of the Total number of Arkema S.A. shares in a public transaction targeting all Arkema S.A. shares) or if the Group transfers, directly or indirectly, in one or several times, to the same third party or to several third parties acting in concert, assets representing more than 50% of the Group's "enterprise value" (as defined in the Indemnities) at the time of the relevant transfer.

The Arkema European Indemnity and the Arkema U.S. Indemnity will terminate if Arkema S.A. loses control of Arkema France S.A.

The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity will terminate if Arkema S.A. loses control of Arkema Amériques SAS, or if Arkema Amériques SAS loses control of Arkema Delaware Inc.

Finally, the Indemnities will terminate in the event of a material breach by the Group of its obligations under the relevant Indemnity if such breach has remained uncured for 30 days after notice by the indemnifying party demanding its cure.

The Indemnities provide that, upon the occurrence of a termination event, the only liabilities of Group companies that will remain covered by the Indemnities are those, if any, which (i) fell due prior to the termination event and (ii) were notified to Total S.A. or to Elf Aquitaine, Inc., as the case may be, prior to the termination event.

#### 11.2.2 Tax indemnity granted by Total S.A.

In order to cover potential tax risks related to the business activities transferred by the Group to TOTAL or from the reorganization in connection with the Spin-Off of Arkema's Businesses, Total S.A. has granted an indemnity to Arkema S.A., the main terms of which can be described as follows.

##### Purpose of the tax indemnity

Under the terms of an agreement dated 15 March 2006 (the Tax Indemnity), Total S.A. has undertaken to indemnify Arkema S.A. for (i) liabilities arising from any tax, customs or levies not covered by reserves, for which the Group would remain liable, when such liabilities arise from (x) activities in the petrochemicals and specialties sectors that were transferred by the Group to Total and the triggering event of which occurred prior to the date of such transfer; or (y) the reorganization undertaken for the purpose of spinning off Arkema's Businesses from Total's Chemicals sector, including, in particular, the Elf Spin-Off, the Total Spin-Off, the Merger and certain prior securities reclassification transactions; (ii) interest, fines, penalties, additional charges or other costs related thereto; and (iii) provided that Total S.A. has given its prior consent, the expenses incurred by Arkema S.A. or the relevant Group company in connection with such liabilities.

The Tax Indemnity, however, does not cover tax reassessments in connection with Arkema's Businesses and is subject to the terms described hereafter.

##### Involvement of Total S.A. in the management of litigation covered by the Tax Indemnity

The Tax Indemnity provides for a procedure pursuant to which Arkema S.A. must involve Total S.A. in the management of the tax audits or litigation relating to the tax liabilities covered by the Tax Indemnity. In particular, this procedure entails the obligation to notify Total S.A. of any event that is likely to give rise to a liability covered by the Tax Indemnity and to comply with the advice and instructions of

Total S.A. in defending the interests of the relevant Group company. In the event of unresolved disagreements on the strategy, means, method or type of such defence, the final decision will be taken by Total S.A. ARKEMA's failure to comply with its obligations may result in automatic termination of the Tax Indemnity.

##### Amount of the indemnity

The Tax Indemnity includes no deductible, trigger threshold or cap.

In the event that a liability cannot be clearly connected to the petrochemicals and specialties sector transferred by the Group to Total in relation to Arkema's Businesses, Arkema S.A. and Total S.A. will each bear 50% of the said liability.

##### Special provisions applying to Group companies that were included in the Total S.A. French tax group (groupe d'intégration fiscale de Total S.A.)

The tax sharing agreements (conventions d'intégration fiscale) between Total S.A. and the Group companies that were included in the Total S.A. French tax group provide that these companies will be required to pay to Total S.A. any additional taxes and penalties that may be due by Total S.A., as the head company of the tax group, where they relate to the taxable income of such companies during the time they were included in the tax group.

However, these companies will be exempt from such payments to Total S.A. with respect to tax liabilities relating to their taxable income for fiscal years during which they were included in the Total S.A. tax group, if such liabilities are covered by the Tax Indemnity. In exchange, these companies waive the indemnity to which they would have been entitled pursuant to the Tax Indemnity.

Furthermore, in the event of a tax reassessment of a Group company relating to Arkema's Businesses (which are not covered by the Tax Indemnity) for a fiscal year during which such company was included in the Total S.A. tax group, such company shall be liable to pay Total S.A. a contribution calculated on the basis of the net amount of the reassessment after the following allowances:

- ▶ if, following this reassessment, the Group Company has realized a profit in respect of the fiscal year to which the reassessment applies, a deductible of €3 million per company and per fiscal year;
- ▶ if, following this reassessment, the Group Company has realized a loss in respect of the fiscal year to which the reassessment applies, an allowance equal to the amount of the losses generated by such company with respect to Arkema's Businesses, as determined by Arkema S.A. and Total S.A.

##### Payment of the indemnity

The liabilities covered by the Tax Indemnity will give rise to an indemnification payment only if they are definitely determined by an enforceable decision that is not subject to appeal.

##### Duration of the Tax Indemnity

The Tax Indemnity shall expire at the end of two months following the statute of limitations effectively applicable to the tax liabilities covered by the Tax Indemnity.

##### Beneficiary of the Tax Indemnity

The Tax Indemnity is only for the benefit of Arkema S.A. or, as the case may be, Arkema France S.A., if Arkema S.A. is merged into Arkema France S.A.

### 11.2.3 Other indemnities given in the context of the Spin-Off of Arkema's Businesses

As part of the Total Spin-Off Agreement, Total S.A. and Arkema S.A. made certain representations and warranties, some of them in connection with the separation of ARKEMA from Total.

The agreement states that Total S.A. grants no indemnities, other than the indemnities and agreements entered into by the Total entities that are described in this paragraph, particularly with respect to the assets and the business activities of all ARKEMA entities, or the liabilities or obligations associated with such entities or activities, which ARKEMA declares that it is aware of and for which Arkema S.A. shall be responsible, including in the case of the appearance of any item that is not known as of the date of the Total Spin-Off Agreement, or of an increase in the amount of the aforesaid liabilities or obligations. ARKEMA releases Total S.A. from any such claim, except in the case of New Claims as defined below.

#### Representations and warranties relating to information exchanged in preparing the Spin-off of Arkema's Businesses

Total S.A. and ARKEMA have made mutual representations and warranties with respect to the accuracy and completeness of the information exchanged by the two companies in preparing the Spin-Off of Arkema's Businesses.

#### Representations and warranties relating to potential claims

After conducting all necessary and customary due diligence, Arkema S.A. has declared, recognized and warranted that, to its knowledge and to the knowledge of the ARKEMA entities, as of the date of the Total Spin-Off Agreement, there were no grounds for claims, actions or complaints by any ARKEMA entity or by any one of its de facto or de jure directors, corporate officers or executives against any Total entity or any one of its de facto or de jure employees, directors, corporate officers or executives (a Total Entity). The claims, actions or complaints mentioned above are hereinafter referred to as the ARKEMA Claim(s).

Consequently, Arkema S.A. has undertaken to indemnify Total S.A. and hold it harmless for the consequences of any ARKEMA Claim against any Total Entity.

Arkema S.A. has waived all ARKEMA Claims other than New Claims, as defined below.

ARKEMA's indemnity and the waiver mentioned in the two preceding paragraphs do not apply to any potential ARKEMA Claim that would be based on (i) events attributable to a Total Entity or (ii) grounds of which no ARKEMA entity has any knowledge as of the date of

the Total Spin-Off agreement, after completing the necessary and customary due diligences, but only if and insofar as such events or grounds do not relate solely to the fact that the ARKEMA companies belonged to Total prior to 18 May 2006, or relate solely to the exercise of corporate offices or management functions by Total Entities within ARKEMA (the New Claim(s)).

At the same time, Total S.A. has declared, recognized and warranted that to its knowledge and to the knowledge of the Total entities, as of the date of the Total Spin-Off agreement, there were no grounds for claims, actions or complaints by any Total entity or by any one of its de facto or de jure directors, corporate officers or executives against any ARKEMA entity or any one of its de facto or de jure employees, directors, corporate officers or executives (the ARKEMA Entity(ies)), arising from the ownership or operation by ARKEMA entities of the companies or businesses acquired by Total before 18 May 2006 (the Total Claim(s)).

Total S.A. has declared, recognized and warranted that it had no Total Claim(s) arising from the exercise of corporate offices or functions by ARKEMA Entities within Total, and has waived all Total Claims on its part.

Consequently, Total S.A. has agreed to indemnify and hold harmless Arkema S.A. for the consequences of any Total Claim against any ARKEMA Entity.

#### Duration of the indemnities

No indemnity given in the Total Spin-Off agreement will survive after 10 years from 18 May 2006.

With the exception of the obligations or indemnities described in this section, Total has not given to ARKEMA other material commitments or indemnities of the kind referred to in the first paragraph of this section "Commitments received from Total in 2006".

## 12) Employees

The breakdown of employees by category of personnel at year end is as follows:

Engineers and managerial	8
Supervisors and technicians	0
<b>Total</b>	<b>8</b>

As they are members or ex-members of the executive committee, their remuneration appears directly on the face of the income statement. For this reason, remuneration of key management personnel is not covered by a specific note.

## 20.7 Results of the company in the last 5 years

<i>In millions of euros (unless otherwise indicated)</i>		2003	2004	2005	2006	2007
<b>I -</b>	<b>Financial position at year end</b>					
a)	Share capital	0	0	0	605	605
b)	Number of shares issued	4,000	4,000	4,000	60,453,823	60,453,823
<b>II -</b>	<b>Operations and results</b>					
a)	Sales (excluding VAT)	None	None	None	2	6
b)	Income before tax, depreciation, impairment and provisions	Immaterial	Immaterial	Immaterial	24	174
c)	Income taxes	Immaterial	Immaterial	Immaterial	-	19
d)	Employee legal profit sharing	Immaterial	Immaterial	Immaterial	-	-
e)	Income after tax, depreciation, impairment and provisions	Immaterial	Immaterial	Immaterial	18	121
f)	Amount of dividends distributed	-	-	-	-	NC
<b>III -</b>	<b>Earnings per share (in euros) *</b>					
a)	Income after tax but before depreciation, impairment and provisions	Immaterial	Immaterial	Immaterial	0.39	3.19
b)	Income after tax, depreciation, impairment and provisions	Immaterial	Immaterial	Immaterial	0.30	2.01
c)	Net dividend per share	-	-	-	-	NC
<b>IV -</b>	<b>Employee data</b>					
a)	Number of employees	-	-	-	8	8
b)	Total payroll	-	-	-	1	3
c)	Amounts paid to employee benefit bodies in the year	-	-	-	1	1

\* The weighted average number of ordinary shares used for the calculation of 2006 and 2007 earnings per share is the number of ordinary shares in circulation since the Spin-Off on 18 May 2006.  
Articles 133, 135 and 148 of the decree of 23 March 1967 on commercial companies.



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## 21.1 Issued capital

### 21.1.1 AMOUNT OF SHARE CAPITAL (ARTICLE 6 OF THE ARTICLES OF ASSOCIATION)

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As of the date of this reference document, the Company's share capital is €604,538,230, divided into 60,453,823 fully paid up shares of a single category.

### 21.1.2 FORM AND TRANSFER OF SHARES (ARTICLE 7 OF THE ARTICLES OF ASSOCIATION)

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Shares may be held in registered or bearer form as required by the shareholder and providing that there are no legal or regulatory stipulations to the contrary.

The shares are freely negotiable. They are registered in an account and are transmitted by a transfer from one account to another, under the conditions of the applicable laws and regulations.

### 21.1.3 SECURITIES NOT GIVING ACCESS TO THE COMPANY'S CAPITAL

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As of the date of this reference document, there are no securities other than equity securities.

### 21.1.4 SHARES HELD BY THE COMPANY

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#### 21.1.4.1 Shares held by the company – share buy-back program

At 31 December 2007, the Company did not hold Arkema shares directly.

As part of the share buy-back program authorized by the Combined General Meeting of 5 June 2007, the Company purchased 300,830 shares in the first quarter 2008, as detailed in the special report prepared in implementing article L. 225-209 of the French Commercial Code (Code de commerce) given in Annex 8 to this reference document.

The Annual General Meeting of 20 May 2008 will be requested to approve authorization to trade in ARKEMA shares through a share buy-back program implemented as part of article L. 225-209 of the Code de commerce and in accordance with the provisions of EC Regulation n° 2273/2003 of 22 December 2003 setting out the terms

for implementing European Directive n°2003/6/CE of 28 January 2003. The terms of this program are described in Annex 8 to this reference document.

#### 21.1.4.2 ARKEMA shares held by group companies, members of administrative bodies and employees

At 31 December 2007, no subsidiary in the Group held shares in the Company.

Information relating to shares held by members of administrative bodies is given in section 14.6 of this reference document.

Information relating to employee share ownership is given in section 18.1 of this reference document.



## 21.1.5 UNISSUED AUTHORIZED CAPITAL, UNDERTAKINGS TO ISSUE CAPITAL

As of 31 December 2007 there were no securities other than the Company's shares giving access to the Company's capital.

A summary table of the outstanding delegations given to the Board of Directors by the combined general meeting of 10 May 2006 and the combined general meeting of 5 June 2007 to make capital increases, and of the uses made of these delegations, is given below.

Summary of purpose	Date of annual general meeting	Period of authorization	Maximum authorized nominal value	Use made by the Board of Directors (date)
Delegation of authority granted to the Board of Directors to issue shares in the Company and/or any securities giving access to shares in the Company or one of its subsidiaries, <b>with</b> preferential subscription rights. *	10 May 2006	26 months	€200 million €500 million (debt securities)	none
Delegation of authority granted to the Board of Directors to issue shares in the Company and/or any securities giving access to shares in the Company or one of its subsidiaries, <b>without</b> preferential subscription rights. *	10 May 2006	26 months	€200 million €500 million (debt securities)	none
Authorization of the Board of Directors in the event of a capital issue with or without elimination of preferential subscription rights of existing shareholders (see 1 and 2 above) to increase the number of shares to be issued. *	10 May 2006	26 months	15% of the initial issue for each of the issues made under the delegations described at 1 and 2 above	none
Delegation of authority to the Board of Directors allowing the issue of shares in the Company and other securities giving access to shares in the Company in the event of a public share exchange offering made by the Company. *	10 May 2006	26 months	€200 million	none
Delegation of powers to the Board of Directors allowing the issue of shares in the Company and other securities giving access to shares in the Company, in consideration for transfers to the Company of shares or securities giving access to shares. *	10 May 2006	26 months	10% of issued capital at 2 June 2006, or €60,453,823	none
Delegation of authority to the Board of Directors allowing the issue of shares in the Company as a result of the issue by a subsidiary of the Company of securities giving access to shares in the Company. *	10 May 2006	26 months	€200 million	none
Limitation on combined amount under the authorizations listed above *	10 May 2006	26 months	€200 million	none
Delegation of authority to the Board of Directors allowing an increase in the Company's capital through incorporation of reserves, profits or premiums. *	10 May 2006	26 months	€100 million	none
Delegation of authority to the Board of Directors allowing the issue of shares in the Company reserved for employees subscribing to a company savings plan. * **	10 May 2006	26 months	€20 million	none
Authorization given to the Board of Directors to make free allocations of the Company's shares.	10 May 2006	38 months	3% of issued capital at 2 June 2006, or €18,136,146	Allocation of 125,000 shares (14 May 2007) Allocation of 150,000 shares (4 July 2006)

Summary of purpose	Date of annual general meeting	Period of authorization	Maximum authorized nominal value	Use made by the Board of Directors (date)
Authorization given to the Board of Directors to issue options to subscribe for the Company's shares.	10 May 2006	38 months	5% of issued capital at 2 June 2006, or €30,226,911	Allocation of 600,000 options giving the right to subscribe for 600,000 shares (14 May 2007) Allocation of 540,000 options giving the right to subscribe for 540,000 shares (4 July 2006)
Authorization for the Board of Directors to reduce the share capital by cancelling shares.	5 June 2007	24 months	10% of issued capital	none

\* These delegations being due to expire shortly, new authorizations will be put to the vote of the Annual General Meeting scheduled for 20 May 2008 (for further information, please refer to the "Draft text of the resolutions presented to the Combined General Meeting on 20 May 2008" given in Annex 4 to this reference document).

\*\* The Board of Directors meeting on 17 January 2008 decided to proceed with a share capital increase reserved for Group employees, the characteristics of which were laid down at a meeting of the Board of Directors on 4 March 2008. Accordingly, the subscription price was set at €30.42 per share with a €10 nominal value, with effective date 1 January 2007. This price corresponds to the average opening price in the 20 trading days preceding the Board of Directors' meeting, to which a 20% discount has been applied. The subscription period opened on 25 March 2008 and will close on 13 April 2008 close of business. In accordance with article 14 of the Autorité des marchés financiers' instruction, Arkema S.A. published a news release on 20 March 2008 setting out in particular the terms of the operation.

At 31 December 2007, the Company's capital, which was €604,538,230, in 60,453,823 shares, was subject to an increase of 1,136,000 shares resulting from the exercise of 1,136,000 options, taking account of subscription options canceled during the year, giving potential maximum dilution of 1.87%. There are no other

securities giving access to the Company's capital either immediately or in the future.

See section 17.5.3 of this reference document for a description of these options.

## 21.1.6 CAPITAL COVERED BY AN OPTION

As of the date of this reference document, and other than the stock option plans described in section 17.5.4, to the Company's knowledge,

no option structure exists that could affect the Company's share capital.

## 21.1.7 HISTORY OF THE COMPANY'S CAPITAL OVER THE PAST THREE YEARS

The Company's shares have been listed on Euronext Paris market since 18 May 2006. The breakdown of the Company's share capital at

31 December 2007 and 31 December 2006 is given in section 18.1.

## 21.2 Memorandum and Articles of Association

### 21.2.1 THE COMPANY'S CORPORATE PURPOSE (ARTICLE 3 OF THE ARTICLES OF ASSOCIATION)

The Company's corporate purpose in any country is:

- ▶ to carry out all operations directly or indirectly relating to research, production, processing, distribution and marketing of all chemical and plastic products and their derivatives, by-products thereof and of all parachechemical products;
- ▶ to acquire, hold and manage all securities, negotiable or otherwise, in French and foreign companies, through newly-created companies, contributions, limited partnerships, or by subscribing for or purchasing securities or corporate rights, or

through mergers, combinations, joint venture companies or by obtaining the use of any property or rights under a lease, lease-management agreement or by dation, or otherwise; and

- ▶ more generally, to enter into all financial, commercial, industrial, real or personal property transactions that may be directly or indirectly related to any of the objects referred to above or to any other similar or connected objects, and designed to promote the Company's purpose, expansion or development.

### 21.2.2 MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BODIES

Provisions relating to the Board of Directors and management bodies are described in sections 15.1 to 15.3.3 of this reference document.

### 21.2.3 RIGHTS AND OBLIGATIONS ATTACHED TO THE SHARES (ARTICLE 9 OF THE ARTICLES OF ASSOCIATION)

In addition to the right to vote, each share gives the bearer the right of ownership of a portion of the Company's assets, its profits and winding-up dividends (*boni de liquidation*), determined proportionately to the shareholding it represents.

Ownership of one share entails compliance with the Articles of Association of the Company and with all resolutions approved by the Company's shareholders at general meetings.

### 21.2.4 ALLOCATION OF PROFITS (ARTICLE 20 OF THE ARTICLES OF ASSOCIATION)

The following sums are allocated from the Company's profits for the year, less any retained losses, in the following order:

1. at least 5% is allocated to the legal reserve fund; once the legal reserve fund amounts to one-tenth of the share capital, this allocation is no longer mandatory;
2. any amounts that the shareholders have resolved to transfer to reserves, for which they will determine the allocation or use, pursuant to a resolution adopted at a general meeting; and
3. any amount that the general meeting shall decide to allocate to retained earnings.

Any remaining balance is paid out to the shareholders as dividends. The Board of Directors may pay interim dividends under the conditions provided by the applicable laws and regulations.

The general meeting called to approve the accounts for the financial year may grant each shareholder the option to receive all or part of the dividends or interim dividends in cash or in shares.

The general meeting may, at any time, on the Board of Directors' recommendation, decide to distribute all or part of the amounts contained in the reserve fund accounts either in cash or in shares in the Company.

## 21.2.5 AMENDMENTS TO SHAREHOLDERS' RIGHTS

In accordance with applicable laws, all amendments to the Articles of Association are subject to approval by an extraordinary general meeting duly constituted under the quorum and majority requirements provided by the applicable laws and regulations.

## 21.2.6 GENERAL MEETINGS

### Convening notice (article 16.1 of the Articles of Association)

General meetings are called under the conditions provided by the applicable laws and regulations.

### Place of meeting (article 16.2 of the Articles of Association)

Meetings are held at the registered office or at any other place indicated in the notice of meeting.

### Admission to general meetings (article 16.3 of the Articles of Association)

All shareholders, regardless of the number of shares they own, have the right to attend or to be represented at general meetings, providing that all payments due with respect to such shares have been made and that the shares are registered in an account under the following conditions:

- owners of bearer shares or shares registered in a securities account not held by the Company who wish to attend or be represented at general meetings must submit a certificate drawn up by the intermediary that holds their account, certifying the non-transferability of their shares until the meeting date. Such certificate shall be filed at the place indicated in the notice of meeting, at least three days before the date set for the meeting;
- owners of shares registered in an account held by the Company who wish to attend or be represented at general meetings must have their shares registered in the Company shareholder register at least three days before the date set for the meeting.

However, the Board of Directors or the Chairman, if so authorized by delegation, always has the power to reduce or cancel such notice periods and to accept filings that do not comply with these limits.

The Combined General Meeting of 20 May 2008 will be requested to amend this article in the Articles of Association in order to include the provisions of the decree of 23 March 1967 (codified in the regulatory part of the *Code de commerce*) regarding the provisions allowing shareholders to attend annual general meetings and pertaining to the introduction of a record date system superseding the share immobilization principle applying until the date of the Annual General Meeting. (See Annex 4 "Draft text of the resolutions presented to the Combined General Meeting on 20 May 2008").

### Use of telecommunications means (article 16.6 of the Articles of Association)

The Board of Directors has the power to decide that shareholders who take part in the general meeting by videoconference or other means of telecommunication that enable them to be identified and where the nature and conditions of such means of participation are determined by decree shall be deemed present for the purposes of calculating quorum and majority.

### Representation at general meetings (article 16.5 of the Articles of Association)

Shareholders may be represented at general meetings by their spouse or by another shareholder or, if they are not domiciled in France, by an intermediary registered on their behalf, in accordance with the applicable laws and regulations.

Shareholders that are legal entities attend meetings through their legal representatives or any proxy appointed for this purpose.

Any member of the meeting who wishes to be represented by proxy shall send a proxy form to the Company, either on paper, or, if the Board of Directors provides for this option in both the announcement and convening notice, in electronic format, at least three days before the meeting. However, the Board of Directors or Chairman, if so authorized by delegation, has the power to reduce or waive such notice periods and to accept proxy forms that do not fall within this limit.

Proxies in electronic format may be filed or received by the Company until 3:00 p.m., Paris time, on the eve of the general meeting. The Board of Directors or Chairman, if so authorized by delegation, has the power to reduce or waive this period.

### Exercise of voting rights (article 16.4 of the Articles of Association)

As from the time the meeting is called, any shareholder may request from the Company in writing a paper absentee ballot, or, if the Board of Directors provides for this option in both the announcement and notice of meeting, an electronic absentee ballot. Such requests must be delivered to or received at the registered office of the Company no later than six days before the date of the meeting. The Board of Directors has the power to reduce or waive this period.

Paper absentee ballots must be delivered to or received by the Company at least three days before the date of the general meeting.

Electronic absentee ballots may be delivered to or received by the Company until 3:00 p.m., Paris time, on the eve of the general meeting. The Board of Directors or Chairman, if so authorized by delegation, has the power to reduce or waive this period.

### Chair of general meetings (article 17.1 of the Articles of Association)

General meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a director who is appointed specifically for this purpose by the Board of Directors. Failing this, the meeting elects its own chairman.

### Quorum and majority at general meetings (article 17.2 of the Articles of Association)

General meetings, whether they are ordinary, extraordinary, combined or special, are duly constituted when they meet the quorum and majority conditions provided by applicable laws and regulations governing such meetings, and exercise the powers ascribed to them by the law.

### Voting rights, double voting rights (article 17.3 of the Articles of Association)

Subject to the provisions set forth below, each member of the meeting is entitled to as many voting rights and votes as the number of shares he owns or represents, providing that all payments due for such shares have been met.

However, double voting rights are conferred on all fully paid up shares in registered form that have been registered in the name of the same shareholder for at least two years, under the conditions applicable by law and by regulations.

Furthermore, in the event of a capital increase by capitalization of reserves, profits or share premiums, double voting rights are conferred, as of their issue, to shares in registered form allocated to shareholders on the basis of existing shares held by such shareholders and conferring such entitlement.

The merger or spin-off of the Company has no effect on double voting rights, which may be exercised within the beneficiary company or companies if the Articles of Association of such company provide for such rights.

Any share converted to a bearer share or the ownership of which is transferred loses the double voting rights gained under the three provisions above. However, transfer resulting from inheritance, the separation of assets between spouses or a living gift to a spouse or close relative does not result in the loss of rights acquired nor interrupt the qualifying period indicated above.

### Limitations on voting rights (article 17.4 of the Articles of Association)

In a general meeting, no shareholder may, directly or through a proxy, express more than 10% of the total voting rights attached to the Company's shares, taking into account single voting rights attached to shares that he directly or indirectly holds and to the powers conferred to him. However, if such a shareholder also holds personally or as a proxy double voting rights, the 10% limit may be exceeded, taking into account only the additional voting rights resulting therefrom, and the combined voting rights expressed shall not exceed 20% of the total voting rights attached to the Company's shares.

In application of the foregoing provisions:

- ▶ the total number of voting rights attached to the Company's shares that is taken into consideration is calculated as of the date of the general meeting and the shareholders are notified thereof at the beginning of such general meeting;
- ▶ the number of voting rights held directly and indirectly means those voting rights attached to shares to which a natural person holds title, either personally or jointly, or through a company, group, association or foundation, and those that are attached to the shares held by a company that is controlled, within the meaning of article L.233-3 of the *Code de Commerce*, by another company or by a natural person, association, group or foundation;
- ▶ a shareholder's proxy returned to the Company without stating the name of the proxy is subject to the foregoing limitations. However, such limitations do not apply to the chairman of a general meeting who is voting by virtue of all such proxies combined.

The limitations provided in the foregoing paragraphs have no effect in calculating the total number of voting rights, including double voting rights, attached to the Company's shares and which must be taken into account in applying the legal, regulatory or statutory provisions providing for specific obligations by reference to the number of voting rights existing in the Company or the number of shares having voting rights.

The limitations set forth above shall lapse, without any need for a new resolution by an extraordinary general meeting, whenever a natural person or a legal entity, acting separately or in concert with one or more natural persons or legal entities, should come to hold at least two thirds of the total number of shares in the Company following a public offering for all of the Company's shares. The Board of Directors then recognizes that the limitations have lapsed and carries out the related formalities to amend the Articles of Association.

### 21.2.7 CLAUSES LIABLE TO HAVE AN EFFECT ON CONTROL OF THE COMPANY

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Subject to the granting of double voting rights to any shareholder who owns fully-paid shares and for which said shareholder must prove registered ownership for at least two years (article 17.3 of the Articles of Association) and to the limitation on voting rights (article 17.4 of the Articles of Association), no provision of the Articles of Association can delay, defer or prevent a change of control over the Company.

The clauses pertaining to double voting rights and limitations on voting rights that are liable to have an effect on control of the Company are set out in section 21.2.6 of this reference document.

### 21.2.8 IDENTIFICATION OF THE SHAREHOLDERS (ARTICLE 8.1 OF THE ARTICLES OF ASSOCIATION)

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The Company may at any time make use of all applicable laws and regulations to identify the holders of securities that confer immediate or future voting rights in its own general meetings.

For purposes of identifying the holders of shares in bearer form the Company has the right, under the conditions provided by the applicable laws and regulations, to request at any time, at its own expense, that the central depository in charge of its securities issue account provide the name or company name, nationality, year of birth or of incorporation and the address of the holders of securities giving immediate or future access to voting rights at its general meetings as well as the number of securities held by each and any restrictions that may apply to such securities. If such information is not received within the period of time stipulated by the applicable regulations or if the information provided by the custodian account-holder is incomplete or erroneous, the central depository may request that the president of the district court (*Président du tribunal de grande instance*) order such information to be provided in a summary proceeding (*en référé*).

The information obtained by the Company cannot be transferred thereby, even at no charge, subject to the criminal sanctions provided by article 226-13 of the French Penal Code (*Code Pénal*).

Under the conditions specified by the applicable laws and regulations (particularly those concerning time limits), the intermediary registered on behalf of holders of securities in registered form who are not domiciled on the French territory is required to reveal the identity of the holders of such securities and of the number of securities held by each, at the request of the Company or of its representative, which may be submitted at any time.

As long as the Company deems that certain holders of securities in bearer form or in registered form whose identity has been communicated to the Company hold such shares on behalf of third parties, it has the right to request such holders to reveal the identity of the owners of these securities and the number of securities of each such owner under the conditions indicated above. When a person who has received a request in accordance with the foregoing provision fails to provide the information thus requested within the time specified by laws and regulations, or has provided incomplete or erroneous information either on his own capacity, or on the owners of the securities, or on the number of securities held by each, the shares or securities giving immediate or future access to the share capital and for which that person was registered shall be disqualified for voting purposes at any general meeting that may be held until the date on which all such information is made accurate, and payment of the corresponding dividend shall be postponed until such date.

Moreover, in the event that a registered person should knowingly fail to comply with the above provisions, the court having jurisdiction in the territory of the Company's registered office may, at the request of the Company or of one or more shareholders holding at least 5% of the share capital, partially or completely disqualify the questionable shares from voting and potentially from receiving the dividend, for a total of no more than five years.

Furthermore, without prejudice to the disclosure requirements set forth in article 8.2 of the Articles of Association, the Company may ask any legal entity that holds shares in the Company for more than one-fortieth of the share capital or voting rights to disclose the identity of persons who directly or indirectly hold more than one-third of the share capital or of the voting rights which are liable to be exercised at general meetings of such legal entity.

## 21.2.9 CROSSING OF THRESHOLDS (ARTICLE 8.2 OF THE ARTICLES OF ASSOCIATION)

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In addition to the legal obligation to notify the Company of their holding of certain percentages of the share capital or voting rights, any natural person or legal entity, acting alone or in concert, that shall come to own, within the meaning of articles L.233-9 and L.233-10 of the *Code de Commerce*, directly or indirectly, 1% or more of the share capital or voting rights, is required to notify the Company thereof by registered letter with return receipt stating the total number of shares, voting rights and securities giving future access to the capital and of voting rights attached thereto that it holds, alone or in concert, directly or indirectly, within five trading days from the date on which it crosses this threshold.

Above this 1% threshold and up to 33.33%, this disclosure requirement must be fulfilled under the conditions set forth above, each time the shareholder crosses a multiple of 0.5% of the share capital or voting rights.

Failure to disclose these thresholds as set forth in the first two paragraphs above shall result in those shares that should have been disclosed being disqualified for voting purposes at general meetings, if so requested at a meeting by one or more shareholders separately or together holding at least 3% of the Company's share capital or voting rights.

All shareholders, whether natural persons or legal entities, must also notify the Company in the manner and within the time limits indicated in the first two paragraphs above, whenever their direct, indirect or joint holdings fall below any of the thresholds mentioned in the said paragraphs.





## Significant contracts

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## 22.1 Significant contracts

### 22.1.1 CONTRACTS OF FUNDAMENTAL IMPORTANCE FOR THE GROUP OR FOR A BU

At BU, or even Group level, the agreements described below are of fundamental importance, particularly in terms of supplies of raw materials or energy resources, profit margins, transport capacity or the setting-up of establishments in attractive markets.

#### Agreement with EDF relating to the supply of electricity to chlorine-producing plants in France (1995-2010)

In an agreement entered into with EDF on 21 December 1995 and amended in July 2005 (the *Agreement*), Arkema France negotiated specific terms for the price indexation of electricity delivered to its four chlorine-producing plants (Fos-sur-Mer, Jarrie, Lavera and Saint-Auban) until the end of 2010. The competitiveness of the prices negotiated by Arkema France can be explained, in particular, by the duration of the commitments entered into, the substantial volumes of electricity purchased annually (electricity being the raw material for electrolysis) and a very specific consumption profile of the chlorine-producing sites, namely the constant rate of consumption (24 hours a day, 365 days a year) which provides synergies with electricity produced from nuclear power. Arkema France also agreed to reduce its consumption of electricity for short periods at the request of EDF and has waived its rights to electricity from hydro-electric power in favor of EDF.

In the medium- and long-term, the challenge for the Group is to negotiate the renewal of competitive terms for the supply of electricity beyond 2010 in the context of increasing energy prices.

Implementation of the rectificative Finance Act n° 2005-1720 of 30 December 2005 made it possible to create, on 12 May 2006, a consortium consisting of seven “electricity intensive” industrial companies including Arkema France.

This consortium, called Exeltium, is a *société par actions simplifiée* (simplified joint stock company) the main purpose of which is the purchase and resale of electricity under long-term contracts, including invitations to tender, negotiation and management of contracts throughout their term.

On 5 April 2007, Exeltium and the EDF Group signed an industrial partnership contract for the long-term supply of electricity. This contract defines the terms and conditions of volumes, prices and the sharing of industrial risk with respect to this long-term electricity supply. EXELTIUM and EDF are holding discussions with the European authorities on the compatibility of this partnership contract with Community competition law. Accordingly, the first supplies of electricity to the members of the consortium should not take place before the second half of 2008. In any event, ARKEMA does not expect to receive supplies of electricity under the conditions provided for under this partnership agreement until the Agreement expires at the beginning of 2011.

#### Industrial Agreement with EDF signed on 21 December 1995 and amended in 2005 relating to the supply of electricity to non-chlorine producing sites in France

Elf Atochem (now known as Arkema France) reserved electricity supplies from EDF for its non-chlorine producing sites over a period of 25 years (1996-2020) in consideration for payment to EDF of a sum corresponding to a drawing right. The quantities of electrical power reserved at the time would cover the electricity consumption of the non-chlorine producing sites of the former Elf Atochem France and its subsidiaries. This agreement was split into two between Total Petrochemicals France and Arkema France by an amendment dated 23 September 2005, which set out the rights and obligations of each party for the 15 years left to run. Since the liberalization of energy markets, prices are negotiated by mutual agreement with EDF based on market prices.

#### Agreement with Total Exploration Production France regarding the supply of standard hydrogen sulfide

Historically, the thiochemicals activities have operated on the Lacq site due to the local availability of hydrogen sulfide (H<sub>2</sub>S) at low cost. Hydrogen sulfide, which is a key raw material in thiochemicals, is present in significant proportion in the gas at Lacq.

On 9 August 2002, Arkema France entered into an agreement for the supply of hydrogen sulfide with Elf Aquitaine Exploration Production France. This agreement took effect on 1 January 2003. Under the terms of this agreement, Total Exploration Production France (TEPF), formerly named Elf Aquitaine Exploration Production France, supplies acid gas rich in hydrogen sulfide via pipelines to the Arkema France units located at Lacq (France) and Mourenx (France). The agreement was entered into for an initial period of three years. It is tacitly renewable for periods of one year.

#### EDA services contract with Total Petrochemicals France (line 41 at Carling)

Total Petrochemicals France (TPF) owns line 41 on the Carling site, which mainly produces EDA for Arkema France, and can also produce polyethylene for TPF. Under the line 41 EDA toll-processing contract signed on 15 March 2006 with retroactive effect from 1 January 2005, Arkema France is responsible for procurement of the main raw materials, the supply of the EDA production process and the financing of related investment. For its part, TPF provides Arkema France with toll-processing services, on line 41, of main raw materials into EDA and the supply of secondary raw materials and associated services. Arkema France pays TPF a remuneration calculated on the

basis of a formula including actual costs and a fixed contractual remuneration supplement based on TPF's fixed costs. The agreement was concluded for an initial term of 8 years for Arkema France and 10 years for TPF. It is tacitly renewable for periods of one year.

### Joint venture company with Nippon Shokubai (American Acryl)

The company American Acryl LLC was incorporated on 16 June 1997 for a term of 99 years and is owned in equal shares by NA Industries, Inc. (owned by Nippon Shokubai Co., Ltd) and by ARKEMA through its subsidiary Elf Atochem North America, Inc. (now called Arkema Inc.). The company was incorporated for the purpose of building an acrylic acid production unit, to operate such unit and to allocate its production to its members. Pursuant to the joint venture agreement, all important decisions are taken unanimously. For the purposes of production of acrylic acid, American Acryl LLC uses Nippon Shokubai technology under a license agreement. The activity of this joint venture company is essential for the Acrylics business, since it is the Group's sole source of production of acrylic acid in the United States.

### Agreement for the production of hydrofluoric acid and Forane® F22 for Daikin on the Changshu site

In 2002, the Group started production of Forane® F22 at its unit in Changshu near Shanghai. The production of Forane® F22 is backed

up by the upstream production of hydrofluoric acid (HF). The Group shares this production of Forane® F22 with the Japanese company Daikin pursuant to Heads of Agreement signed on 30 July 1998. This agreement provides for Daikin to have reserve capacity and to have access to the supplies of hydrofluoric acid necessary for its production. The amounts payable by Daikin in consideration of this are calculated on the basis of (i) the variable costs incurred as a function of the quantities produced, (ii) the share of fixed costs corresponding to the capacity reserved for Daikin, and (iii) the depreciation established to cover Daikin's share of the investment in the facilities. Initially, the Group was in fact the only investor in the production facilities. In order to obtain a reserve capacity, Daikin granted the Group various loans.

### VCM contract for river transport by barge on the Rhône River

By a long-term contract which commenced on 1 April 2000, Arkema France agreed with Compagnie Fluviale de Transports de gaz (CFT gaz) the terms governing the transport of vinyl chloride monomer (VCM) from Fos-sur-Mer and Lavera to Saint-Fons by means of three motorized barges. This contract stipulates a minimum tonnage for transport. Its economic importance for the Group is fundamental since it enables the transportation of VCM in accordance with high safety standards and on economically favorable terms.

## 22.1.2 AGREEMENTS ILLUSTRATING SITUATIONS OF INDUSTRIAL DEPENDENCE

In certain cases, the supply of certain products or the geographic locations on a specific market can prove to be particularly dependent on the terms contained in a number of agreements. The agreements mentioned below illustrate such situations of industrial dependence.

### Supply of ethylene (C2)

Pursuant to a long-term supply agreement entered into on 15 March 2006 and commencing on 1 May 2006, Total Petrochemicals France (TPF), using Petrofina as its agent, agreed to sell and deliver to Arkema France ethylene produced by its steamcrackers at Carling, Feyzin and Lavera, for use at Arkema France's sites and facilities at Carling, Balan, Jarré, Fos-sur-Mer and Lavera, respectively. The product is delivered to Arkema France's sites and facilities by pipelines belonging to Total S.A. or to the Shell group. The quantities delivered are invoiced on the basis of a negotiated price or, in the absence of agreement, on the basis of a price which takes into account the quarterly contract price "free delivered North West Europe" published by ICIS.

### Supplies of propylene (C3)

Pursuant to a long-term agreement for the supply of propylene entered into on 15 March 2006 and commencing on 1 May 2006, TPF and Petroraf, using Petrofina as their agent, agreed to sell and deliver to Arkema France propylene produced by the steamcrackers at Carling and Lavera or from the refinery at La Mède, for use at Arkema France's sites and facilities at Carling (Acrylics) and Lavera (oxo-alcohol production). The product is delivered to Arkema France's sites and facilities by pipelines. The quantities delivered are invoiced on the basis of a negotiated price or, in the absence of agreement, on the basis of a price which takes into account the quarterly contract price "free delivered North West Europe" published by ICIS.

### Butanol purchase agreement (Notre-Dame-de-Gravenchon)

Pursuant to a long-term agreement concluded on 15 March 2006, TPF, through Petrofina, undertook to supply the Arkema France plant at La Chambre (Maurienne valley, France) with all the secondary butanol (B<sub>2</sub>) synthesized by TPF at its Notre-Dame-de-Gravenchon unit (France). In order to synthesize B<sub>2</sub>, the Notre-Dame-de-

Gravenchon unit uses Raffinate 2 (a mixture of butane and butenes) which comes from (i) Raffinate 1 produced by the steamcracker at Gonfreville belonging to TPF, transformed into Raffinate 2 by the company Lubrizol, with which TPF is bound by an agreement for the supply of services, and (ii) in addition, from purchases made from other European petrochemical companies. B<sub>2</sub> is the essential raw material for the Arkema France unit at La Chambre and is used in the production of an organic solvent, methyl ethyl ketone (MEK). In the event of termination or non-renewal of the Lubrizol agreement, non-renewal of the butanol purchase agreement with TPF, structural difficulties in obtaining supplies from other suppliers, or in the event of the closure of the site at Notre-Dame-de-Gravenchon, the future of the Arkema France unit at La Chambre would be significantly at risk.

### **MMA capacity entitlement contract with Rohm and Haas in the United States**

The Group signed a contract with Rohm and Haas in October 2000 to reserve methyl methacrylate (MMA) production capacity in the United States, which was supplemented by two further contracts, signed in 2001 and 2003. Pursuant to these long-term contracts, Rohm and Haas supplies the Group with significant quantities of MMA. These contracts represent the Group's only source of MMA supply in the United States.

## **22.1.3 AGREEMENT REPRESENTING SIGNIFICANT INCOME**

The agreements described below represent a significant source of sales for the Group.

### **Contract between Arkema Inc. and Novus for the supply of 3-methyl thiopropionaldehyde (MMP)**

Atofina Chemicals, Inc. (now known as Arkema Inc.) entered into a long-term contract with Novus International, Inc. on 1 January 2002 for the production of 3-methyl thiopropionaldehyde (MMP), an intermediate in the manufacture of methionine, at its site in Beaumont, Texas (United States). Under the terms of this contract, Atofina Chemicals, Inc. built an MMP production unit on behalf of Novus International, Inc., which is operated by and receives its feedstock from Atofina Chemicals, Inc.

### **Contract between ARKEMA and subsidiaries of Total S.A. for the supply of acrylic acid and acrylic derivatives**

The Acrylics BU supplies acrylic acid and acrylic derivatives (particularly esters), as well as phthalic anhydride, to various

subsidiaries of Total. These supplies represent an essential part of the sales of the Acrylics BU and contribute substantially to its profits. In the case of the acid and the acrylic derivatives, these supplies have been secured by an agreement with a term of five (5) years entered into with Total S.A. subsidiaries on 8 March 2006.

### **Contract for the supply by Coatex of dispersants to the Omya group**

On 1 October 2007 ARKEMA acquired Coatex, one of the world's leading producers of rheology modifiers for aqueous phase formulations. A long-term supply contract was concluded on 1 October 2007 between Coatex and the Omya group (former Coatex shareholder) for the supply of dispersants by Coatex. The supplies executed under this contract represent a significant part of Coatex's overall sales.

## 22.2 Guarantees and indemnities from the Total Group

In connection with the Spin-Off of Arkema's Businesses, Total S.A. and certain Total S.A. companies have extended certain indemnities, or have assumed certain obligations, for the benefit of ARKEMA, relating to (i) certain antitrust litigation, (ii) certain actual or potential environmental liabilities of the Group arising from certain

sites in France, Belgium and the United States, the operations on which have ceased in the majority of cases, (iii) certain tax matters, and (iv) the Spin-Off of Arkema's Businesses. These indemnities and obligations are described below.

### THE INDEMNITIES EXTENDED BY TOTAL S.A. IN RESPECT OF CERTAIN ANTITRUST LITIGATION

In order to cover potential risks in connection with antitrust litigation relating to anti-competitive agreements in Europe and the United States and arising from facts prior to 18 May 2006 (7 March 2006, as the case may be), Total S.A. has extended to Arkema S.A., and Elf Aquitaine, Inc. has extended to Arkema Amériques SAS (formerly Arkema Finance France), indemnities, the principal terms of which are described below.

#### Context of the Indemnities

The indemnities described below have been extended by Total S.A. and Elf Aquitaine, Inc. in connection with, and in order to facilitate the completion of, the Spin-Off of Arkema's Businesses, and should not be interpreted as constituting an acknowledgement of liability of any kind whatsoever on the part of Total S.A. or any of its direct or indirect subsidiaries.

#### Subject matter of the Indemnities

By an agreement dated 15 March 2006 (the **Arkema European Indemnity**), Total S.A. agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to a money judgment imposed by EU antitrust authorities, or by national antitrust authorities of a Member State of the European Union, for violations of antitrust laws relating to anticompetitive agreements, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries).

By an agreement dated 15 March 2006 (the **Arkema US Indemnity**), Total S.A. also agreed to indemnify Arkema S.A. for 90% of (i) any payment due by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant

to a money judgment imposed by U.S. courts or antitrust authorities for violations of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of a settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries) pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred in connection with such proceedings by Arkema S.A. or any of its subsidiaries (with the exception of Arkema Amériques SAS and its subsidiaries).

In connection with the sale of Arkema Delaware, Inc. shares by Elf Aquitaine, Inc. to Arkema Amériques SAS, Elf Aquitaine, Inc. agreed, in the agreement dated 7 March 2006 (the **Arkema Delaware Indemnity**), to indemnify Arkema Amériques SAS for 90% of (i) any payment due by Arkema Amériques SAS or any of its subsidiaries pursuant to a money judgment imposed by U.S. courts or antitrust authorities for violations occurring prior to 7 March 2006 of U.S. federal or state antitrust laws relating to anticompetitive agreements, or in respect of the settlement entered into in the context of such proceedings, (ii) any damages payable by Arkema Amériques SAS or any of its subsidiaries pursuant to civil proceedings arising from the same facts which form the basis of a judgment referred to in (i), and (iii) certain expenses incurred by Arkema Amériques SAS or any of its subsidiaries in connection with such proceedings.

The amount covered by the Arkema Delaware Indemnity is subject to a cap of US \$893 million.

Finally, Total S.A. extended to Arkema S.A. a supplemental indemnity dated 15 March 2006 (the **Supplemental Arkema Delaware Indemnity**) covering 90% of sums payable by Arkema Amériques SAS or any of its subsidiaries in respect of litigation relating to anticompetitive agreements in the United States in excess of the maximum amount covered by the Arkema Delaware Indemnity.

The Arkema European Indemnity, the Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are hereinafter referred to together as the Indemnities and individually as an Indemnity.

## Liabilities not covered by the Indemnities

The following liabilities are not covered by the Indemnities:

- liabilities arising from facts occurring after 18 May 2006 in the case of the Arkema European Indemnity and the Arkema U.S. Indemnity, or after 7 March 2006 in the case of the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity (including, in case of liabilities arising from facts occurring both before and after the relevant date, the portion of the liability relating to the period after 18 May 2006 or after 7 March 2006, as the case may be);
- liabilities arising from violations of antitrust laws other than those prohibiting anticompetitive agreements;
- liabilities imposed by authorities outside the European Union (in the case of the Arkema European Indemnity) or the United States (in the case of the other Indemnities).

## Participation of Total S.A. in the management of litigation covered by the Indemnities

The Indemnities provide for the participation by Total S.A. or Elf Aquitaine, Inc., as the case may be, in the management of litigation covered by the Indemnities, which involves a certain number of obligations on the part of Arkema S.A. and Arkema Amériques SAS, in particular the obligation to notify Total S.A. or Elf Aquitaine, Inc., as the case may be, of certain events occurring in the context of proceedings covered by the Indemnities and act in accordance with the advice and instructions of Total S.A. or Elf Aquitaine, Inc. as the case may be, relating to such proceedings. Total S.A. and Elf Aquitaine, Inc., as the case may be, also have the right to assume sole control of the defense of the Group entity in question. Failure by Arkema S.A. or Arkema Amériques SAS to comply with these obligations can result, in certain circumstances, in the automatic termination of the Indemnity, as described below.

## Amount of the indemnification

The Arkema European Indemnity can be claimed when the cumulative liability covered by this indemnity exceeds the sum of €176.5 million for which provisions were created in the Group's accounts on the date of the spin-off of ARKEMA from the Total Group. Until this deductible is reached, Arkema S.A. may not claim indemnification from Total S.A. under the Arkema European Indemnity. The Arkema US Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity do not have a deductible.

In accordance with the terms of the Arkema European Indemnity, if the deductible was not reached within 10 years from 18 May 2006, Arkema S.A. would have to reimburse Total S.A. the amounts paid by Total S.A. and Elf Aquitaine, Inc. under the Arkema U.S. Indemnity, the Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity up to an amount equal to the difference between the deductible and the cumulative amount of liabilities (*Passifs*) (as defined in the Arkema European Indemnity).

Indemnification obligations under the Indemnities are triggered only with respect to liabilities that are due and payable.

Given that the deductible amount has been exceeded, the mechanisms of the Total indemnity for 90% of liabilities are now applicable.

## The cross-indemnities of Arkema S.A. and Arkema Inc.

Arkema S.A. and Arkema Inc. have agreed to indemnify Total S.A. in respect of any liability covered by the Indemnities but which is borne not by a Group entity but by Total S.A. or one of its subsidiaries due to facts attributable to a Group company, whether the liability of Total S.A. or of its subsidiaries is determined to be direct or derivative, exclusive or joint and several, relative to the liability of the Group entity to which the facts are attributable.

However, this cross-indemnity by Arkema S.A. and Arkema Inc. will be reduced by the indemnity which would have been paid by Total S.A. or Elf Aquitaine, Inc., as the case may be, under the relevant Indemnity if the liability had been borne by a Group company. Consequently, if the cross-indemnity of Arkema S.A. and Arkema Inc. is triggered, Arkema S.A. or Arkema Inc., as the case may be, would only be obliged to indemnify Total S.A. for 10% of the liabilities borne by Total S.A. or one of its subsidiaries (in the case of the Arkema European Indemnity, this 10% relates to the amount, if any, in excess of the deductible).

## Term of the Indemnities

The Arkema European Indemnity and the Arkema U.S. Indemnity are valid for a term of 10 years from 18 May 2006. The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity are valid for a term of 10 years from 7 March 2006.

The Arkema S.A. cross-indemnity is valid for a term of 10 years from 18 May 2006.

The Arkema Inc. cross-indemnity is valid for a term of 10 years from 7 March 2006.

## Termination of the Indemnities

Indemnities shall terminate in the event that a natural person or a legal entity, acting alone or in concert with others, acquires, directly or indirectly, more than one third of the voting rights of Arkema S.A. (it being noted that voting rights are capped at 10%, or 20% in the case of double voting rights, unless an acquirer comes to own at least two-thirds of the total number of shares of Arkema S.A. following a public offer to buy all of Arkema S.A.'s shares); or if the Group were to transfer, in one or several transactions to a single third party or a number of third parties acting in concert, and irrespective of the details of such transfer, assets representing more than 50% of the enterprise value of the Group at the date of such transfer.

The Arkema European Indemnity and the Arkema U.S. Indemnity will terminate if Arkema S.A. loses control of Arkema France.

The Arkema Delaware Indemnity and the Supplemental Arkema Delaware Indemnity will terminate if Arkema S.A. loses control of Arkema Amériques SAS, or if Arkema Amériques SAS loses control of Arkema Delaware Inc.

Finally, the Indemnities will terminate in the event of a material breach by the Group of its obligations under the relevant Indemnity if such breach has remained uncured for 30 days after notice by the indemnifying party demanding its cure.

The Indemnities provide that, upon the occurrence of a termination event, the only liabilities of Group companies that will remain covered by the Indemnities are those, if any, which (i) fell due prior to the termination event and (ii) were notified to Total S.A. or to Elf Aquitaine, Inc., as the case may be, prior to the termination event.

## OBLIGATIONS AND INDEMNITIES GIVEN IN RESPECT OF FORMER INDUSTRIAL SITES IN FRANCE AND THE UNITED STATES

In order to cover certain risks relating to certain industrial sites situated in France and the United States in respect of which the Group is or could be held liable, and where, for the most part, operations have ceased (the Former Industrial Sites), Total S.A. companies have entered with Arkema S.A. or its subsidiaries into indemnity and service agreements the principal terms of which can be described as follows:

### Agreement relating to Former Industrial Sites located in France

Prior to the spin-off of the Arkema Businesses, Arkema France signed a number of contracts with various companies owned by Total S.A., most notably Retia. Pursuant to these agreements, the Total S.A. companies concerned, in consideration of a flat fee already paid by Arkema France, assume all the investigation, restoration and monitoring obligations that could be imposed on Arkema France by the competent administrative authorities in respect of industrial sites located in France the operation of which, for the most part, has ceased. To this end, the agreements provide, in particular, (i) in the majority of cases, for the transfer of ownership of the sites concerned by Arkema France to the Total S.A. companies concerned, (ii) for the Total companies concerned to be substituted for Arkema France in the capacity of last operator of those sites whenever that is possible, (iii) for the performance by the Total S.A. companies concerned of the restoration obligations of the sites in question in accordance with the applicable rules, and (iv) for the indemnity by the Total S.A. companies in respect of the financial consequences of claims which could be brought against Arkema France by reason of the impact of those sites on the environment.

The transfer of land to Retia has been completed and the declarations of change of operator for most of the sites affected have been made to the body responsible for administering registered sites.

In most cases, Arkema France retains responsibility for the consequences concerning employees and former employees of Arkema France as well as third parties, in terms of public health or occupational pathologies, of the industrial activities formerly carried out by Arkema France and its predecessors on the sites which are the subject of the aforementioned agreements.

### Agreement relating to certain Former Industrial Sites located in the United States

In March 2006, Arkema Amériques SAS completed the acquisition from Elf aquitaine, Inc. and Arkema France of Arkema Delaware Inc., a holding company of most of the Group's operations in the United States. Under the negotiated terms of the stock purchase agreement among Elf aquitaine, Inc., Legacy Sites Services and Arkema Finance France (now Arkema Amériques SAS) (the Arkema Delaware main SPA), Elf aquitaine, Inc. provided capital of US \$270 million to a new subsidiary, Legacy Sites Services LLC, to be responsible, under an indemnity agreement, for the costs that might arise under the liability of Group entities covered by this indemnity for environmental pollution, including any damage to persons or property relating to such pollution. This indemnity covered 35 closed industrial sites that had been operated or owned by the Group in the past, and 24 sites belonging to third parties for which the responsibility of the Group is engaged due to the storage of waste coming from sites other than sites currently in operation. In exchange for this indemnification, Arkema Amériques SAS agreed to grant to Legacy Sites Services LLC control over remediation activities and the defense of claims relating to contamination liabilities at these facilities and sites, subject to certain exceptions and exclusions.

The sites currently operated by the Group are excluded from this indemnity, as are sites that received waste associated with current operations of the Group and certain sites where no significant restoration work is currently underway or anticipated, and other sites where the Group could be held liable for environmental pollution. These other sites include, for example, sites where remediation has been conducted in the past or where future remediation costs or liability are believed to be insignificant or non-existent, based upon information available at the time when the indemnity was entered into. Arkema Amériques SAS has waived any claims against Legacy Sites Services LLC, Total S.A. or their respective subsidiaries in respect of the sites not covered by the indemnity.

The Legacy Sites Services LLC indemnity covers the costs of restoration and clean-up of the soil and groundwater, the costs of related defense and settlement costs and personal injury, property and natural resource damages. The indemnity does not cover

liabilities unrelated to site remediation, in particular liabilities in respect of products manufactured on the said sites, or liability arising from certain dangerous and potentially dangerous substances, particularly asbestos exposure and criminal liability.

The indemnity described above is capped at \$270 million. At the same time as the stock purchase agreement and the indemnity

described above, Legacy Site Services LLC and Arkema Inc. entered into a supplemental contamination indemnity agreement pursuant to which Legacy Site Services LLC will indemnify the liabilities of the Group in excess of US \$270 million, on the same terms, for the same sites and subject to the same exceptions as the indemnity described in the preceding paragraph.

## TAX INDEMNITY GRANTED BY TOTAL S.A.

In order to cover potential tax risks related to the business activities transferred by the Group to Total S.A. or from the reorganization in connection with the Spin-Off of Arkema's Businesses, Total S.A. has granted an indemnity to Arkema S.A., the main terms of which can be described as follows.

### Purpose of the tax indemnity

Under the terms of an agreement dated 15 March 2006 (the Tax Indemnity), Total S.A. has undertaken to indemnify Arkema S.A. for (i) liabilities arising from any tax, customs or levies not covered by reserves, for which the Group would remain liable, when such liabilities arise from (a) activities in the petrochemicals and specialties sectors that were transferred by the Group to Total S.A. and the triggering event of which occurred prior to the date of such transfer; or (b) the reorganization undertaken for the purpose of spinning off Arkema's Businesses from Total S.A.'s Chemicals sector, including, in particular, the Elf Spin-Off, the Total Spin-Off, the Merger and certain prior securities reclassification transactions; (ii) interest, fines, penalties, additional charges or other costs related thereto; and (iii) provided that Total S.A. has given its prior consent, the expenses incurred by Arkema S.A. or the relevant Group company in connection with such liabilities.

The Tax Indemnity, however, does not cover tax reassessments in connection with Arkema's Businesses (with the exception of reassessments that may affect Arkema UK, as indicated below).

### Involvement of Total S.A. in the management of litigation covered by the Tax Indemnity

The Tax Indemnity provides for a procedure pursuant to which Arkema S.A. must involve Total S.A. in the management of the tax audits or litigation relating to the tax liabilities covered by the Tax Indemnity. In particular, this procedure entails the obligation to notify Total S.A. of any event that is likely to give rise to a liability covered by the Tax Indemnity and to comply with the advice and instructions of Total S.A. in defending the interests of the relevant Group company. In the event of unresolved disagreements on the strategy, means, method or type of such defense, the final decision will be taken by Total S.A. Arkema S.A.'s failure to comply with its obligations may result in automatic termination of the Tax Indemnity.

### Amount of the indemnity

The Tax Indemnity includes no deductible, trigger threshold or cap.

In the event that a liability cannot be clearly connected to the petrochemicals and specialties sector transferred by the Group to Total S.A. in relation to Arkema's Businesses, Arkema S.A. and Total S.A. will each bear 50% of the said liability.

### Special provisions applying to Group companies that were included in the Total S.A. French tax group (*groupe d'intégration fiscale de Total S.A.*)

The tax sharing agreements (*conventions d'intégration fiscale*) between Total S.A. and the Group companies that were included in the Total S.A. French tax group provide that these companies will be required to pay to Total S.A. any additional taxes and penalties that may be due by Total S.A., as the head company of the tax group, where they relate to the taxable income of such companies during the time they were included in the tax group.

However, these companies will be exempt from such payments to Total S.A. with respect to tax liabilities relating to their taxable income for fiscal years during which they were included in the Total S.A. tax group, if such liabilities are covered by the Tax Indemnity. In exchange, these companies waive the indemnity to which they would have been entitled pursuant to the Tax Indemnity.

Furthermore, in the event of a tax reassessment of a Group company relating to Arkema's Businesses (which are not covered by the Tax Indemnity) for a fiscal year during which such company was included in the Total S.A. tax group, such company shall be liable to pay Total S.A. a contribution calculated on the basis of the net amount of the reassessment after the following allowances:

- if, following this reassessment, the Group Company has realized a profit in respect of the fiscal year to which the reassessment applies, a deductible of three million euros per company and per fiscal year;
- if, following this reassessment, the Group Company has realized a loss in respect of the fiscal year to which the reassessment applies, an allowance equal to the amount of the losses generated by such company with respect to Arkema's Businesses, as determined by Arkema S.A. and Total S.A.



## Special provisions applying to certain foreign companies of the Group

No recourse shall be taken against Arkema Deutschland in respect of any tax reassessments applying to the years during which it was included in the German tax groups formed by Total Mineralöl und Chemie and Total Deutschland.

Tax liabilities arising from the reorganization undertaken for purposes of separating Arkema's Businesses from Total's Chemicals sector in the Netherlands, which may have been incurred by Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group of which Arkema North Europe B.V. is the parent company at the time of the separation of the Arkema Businesses, are excluded from the Tax Indemnity. Any other tax liabilities arising from reassessments that may be applied to Atotech B.V. and Atotech Nederland B.V. as a result of the Dutch tax group will be assumed by these companies, which remain under Total S.A.'s control.

Arkema UK will benefit from a UK corporation tax indemnity covering any tax reassessments against it relating to Arkema's Businesses. This indemnity will be limited to the amount of losses generated by the Arkema Businesses that have been transferred by Arkema UK

as result of the group relief instituted by Total Holdings UK for corporation tax purposes in the United Kingdom.

## Payment of the indemnity

The liabilities covered by the Tax Indemnity will give rise to an indemnification payment only if they are definitely determined by an enforceable decision that is not subject to appeal.

## Duration of the Tax Indemnity

The Tax Indemnity shall expire at the end of two months following the statute of limitations effectively applicable to the tax liabilities covered by the Tax Indemnity.

## Beneficiary of the Tax Indemnity

The Tax Indemnity is only for the benefit of Arkema S.A. or, as the case may be, Arkema France, if Arkema S.A. is merged into Arkema France.

## OTHER INDEMNITIES GIVEN IN THE CONTEXT OF THE SPIN-OFF OF ARKEMA'S BUSINESSES

As part of the Total Contribution Agreement, Total S.A. and Arkema S.A. made certain representations and warranties, some of them in connection with the separation of ARKEMA from Total.

The agreement states that Total S.A. grants no indemnities, other than the indemnities and agreements entered into by the Total entities that are described in this paragraph 22.2, particularly with respect to the assets and the business activities of all ARKEMA entities, or the liabilities or obligations associated with such entities or activities, which Arkema S.A. declares that it is aware of and for which Arkema S.A. shall be responsible, including in the case of the appearance of any item that is not known as of the date of the Total Spin-Off Agreement, or of an increase in the amount of the aforesaid liabilities or obligations. Arkema S.A. releases Total S.A. from any such claim, except in the case of New Claims as defined below.

### Representations and warranties relating to the reference document

Total S.A. and Arkema S.A. granted each other reciprocal representations and warranties regarding the accuracy and completeness of the information for which they are each responsible contained in the prospectus for the listing of Arkema S.A. shares on Euronext by Euronext, that received from the *Autorité des marchés financiers* visa n° 06-106.

### Representations and warranties relating to information exchanged in preparing the Spin-off of Arkema's Businesses

Total S.A. and Arkema S.A. have made mutual representations and warranties with respect to the accuracy and completeness of the information exchanged by the two companies in preparing the Spin-Off of Arkema's Businesses.

### Representations and warranties relating to potential claims

After conducting all necessary and customary due diligence, Arkema S.A. has declared, recognized and warranted that, to its knowledge and to the knowledge of the ARKEMA entities, as of the date of the Total Spin-Off Agreement, there were no grounds for claims, actions or complaints by any ARKEMA entity or by any one of its de facto or de jure employees, directors, corporate officers or executives against any Total entity or any one of its de facto or de jure employees, directors, corporate officers or executives (a Total Entity). The claims, actions or complaints mentioned above are hereinafter referred to as the Arkema Claim(s).

Consequently, Arkema S.A. has undertaken to indemnify Total S.A. and hold it harmless for the consequences of any Arkema Claim against any Total Entity.

Arkema S.A. has waived all Arkema Claims other than New Claims, as defined below.

Arkema S.A.'s indemnity and the waiver mentioned in the two preceding paragraphs do not apply to any potential Arkema Claim that would be based on (i) events attributable to a Total Entity, or (ii) grounds of which no ARKEMA entity has any knowledge as of the date of the Total Spin-Off agreement, after completing the necessary and customary due diligences, but only if and insofar as such events or grounds do not relate solely to the fact that the ARKEMA companies belonged to Total prior to 18 May 2006, or relate solely to the exercise of corporate offices or management functions by Total Entities within ARKEMA (the New Claim(s)).

At the same time, Total S.A. has declared, recognized and warranted that to its knowledge and to the knowledge of the Total entities, as of the date of the Total Spin-Off agreement, there were no grounds for claims, actions or complaints by any Total entity or by any one of its de facto or de jure directors, corporate officers or executives against any ARKEMA entity or any one of its de facto or de jure employees, directors, corporate officers or executives (the Arkema Entity(ies)), arising from the ownership or operation by ARKEMA entities of the companies or businesses acquired by Total S.A. before 18 May 2006 (the Total Claims).

Total S.A. has declared, recognized and warranted that it had no Total Claim(s) arising from the exercise of corporate offices or functions by Arkema Entities within Total S.A., and has waived all Total Claims on its part.

Consequently, Total S.A. has agreed to indemnify and hold harmless Arkema S.A. for the consequences of any Total Claim against any Arkema Entity.

### Duration of the indemnities

No indemnity given in the Total Spin-Off agreement will survive after 10 years from 18 May 2006.

In addition, the Arkema Delaware Main SPA provides that Arkema Amériques SAS, which became a subsidiary of Arkema S.A. on 18 May 2006, will indemnify Elf Aquitaine, Inc., a subsidiary of Total S.A., for any taxes that may result from a breach of representations or covenants under the Arkema Delaware Main SPA or the Tax Sharing Agreement dated 1 January 2001, among Total Holdings USA, Inc. and certain of its subsidiaries, by Arkema Amériques SAS, Arkema Delaware Inc., or certain of the subsidiaries of Arkema Delaware Inc. Elf Aquitaine, Inc. will likewise indemnify Arkema Amériques SAS for any taxes resulting from such breaches by Elf Aquitaine, Inc. Moreover, the Arkema Delaware Main SPA provides that Elf Aquitaine, Inc. and its US subsidiaries, on the one hand, and Arkema Delaware Inc. with certain of its US subsidiaries, on the other hand, are each responsible for their share of US federal and state income taxes before 7 March 2006, as computed under the Tax Sharing Agreement, because for this period Elf Aquitaine, Inc. has filed a consolidated US federal income tax return that includes Arkema Delaware Inc. and certain of its subsidiaries and pays the taxes due in respect of the consolidated US federal income tax return. Arkema Delaware Inc. and certain of its subsidiaries will be required to pay such amounts to Elf Aquitaine, Inc. For periods after 7 March 2006, Arkema Delaware, Inc. and its US subsidiaries are responsible to file income tax returns separately from Elf Aquitaine, Inc. and separately to make all tax payments in respect of these returns.

With the exception of the obligations or indemnities described in this section, Total S.A. has not given to ARKEMA other material commitments or indemnities of the kind referred to in the first paragraph of this section.

## Information provided by third parties, statements by experts and declarations of interest

None.



## Documents available to the public

24.1 Place where documents and information relating to the Company  
may be consulted 236

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24.2 Annual document prepared in accordance with articles 222-7  
and 221-1 of the general regulations of the *Autorité des marchés  
financiers* 236

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## 24.1 Place where documents and information relating to the Company may be consulted

All corporate documents of Arkema S.A. that are required to be made available to shareholders may be consulted at the Company's registered office.

## 24.2 Annual document prepared in accordance with articles 222-7 and 221-1 of the general regulations of the *Autorité des marchés financiers*

In accordance with articles 222-7 and 221-1 of the general regulations of the *Autorité des marchés financiers*, the following list details the information published or made public by Arkema S.A. over the last twelve months.

### LIST OF PRESS RELEASES

Press releases are available on the Company's website ([www.finance.arkema.com](http://www.finance.arkema.com)).

Date	Title
<b>January 2007</b>	
09/01/2007	Proposed future of the Soveplast Chantonay industrial site
22/01/2007	ARKEMA and ESSAR announce the signing of a memorandum of understanding for the production of acrylic acid in India
23/01/2007	Proposed future of the Lacq-Mourenx industrial site
<b>February 2007</b>	
02/02/2007	ARKEMA has finalized the sale of Cerexagri to United Phosphorus Limited
13/02/2007	2006 Full-Year Sales
<b>March 2007</b>	
08/03/2007	ARKEMA increases by 10% hydrogen peroxide production capacity at its Jarrie site, France
14/03/2007	ARKEMA 2006 Annual Results
21/03/2007	The world leader in DMDS, ARKEMA announces a 30% capacity increase at its Lacq production plant
21/03/2007	ARKEMA share eligible for SRD
22/03/2007	ARKEMA continues to reorganize its activities in Rhône-Alpes
<b>April 2007</b>	
11/04/2007	Appointments following the reorganization of the Vinyl Products business segment
19/04/2007	Information related to the Shareholders General Meeting of 5 June 2007
<b>May 2007</b>	
02/05/2007	ARKEMA sells to Taminco its Specialty Amines business in North America
15/05/2007	ARKEMA: 1 <sup>st</sup> Quarter 2007 Results
22/05/2007	Registration of the 2006 Reference Document
24/05/2007	ARKEMA announces twofold increase in its production capacities for Platamid® Copolyamide Powders in China
25/05/2007	ARKEMA sells its Urea Formaldehyde Resins business to Hexion

Date	Title
<b>June 2007</b>	
05/06/2007	ARKEMA holds its first Shareholders General Meeting since its listing on the Eurolist by Euronext™ stock market
19/06/2007	Proposed plan for the future of the Pierre-Bénite plant (France): end of the information/consultation procedure with the works council
22/06/2007	Proposed future of the ARKEMA Vlissingen site (Netherlands)
25/06/2007	Proposed recentering of CECA's Specialty Surfactant business
<b>July 2007</b>	
03/07/2007	ARKEMA plans to acquire Coatex
<b>August 2007</b>	
09/08/2007	ARKEMA: 2007 Half-Year Results
<b>September 2007</b>	
06/09/2007	ARKEMA successfully starts up the world's largest HFC-32 production plant in Calvert City (United States)
21/09/2007	ARKEMA and Daikin to produce and market new generation refrigerant fluids in Asia-Pacific
24/09/2007	ARKEMA 2010: a deeply transformed group, genuine growth potential
24/09/2007	ARKEMA holds its 1 <sup>st</sup> Investor Days
24/09/2007	ARKEMA speeds up its development in China
<b>October 2007</b>	
01/10/2007	ARKEMA has finalized the acquisition of Coatex
12/10/2007	ARKEMA announces a project to improve the productivity of its Marseille Saint-Menet site and increase its production capacity
<b>November 2007</b>	
02/11/2007	ARKEMA finalizes the sale of its Urea Formaldehyde Resins business to Hexion
15/11/2007	ARKEMA: 3 <sup>rd</sup> Quarter 2007 Results
<b>December 2007</b>	
19/12/2007	ARKEMA plans to acquire Repsol YPF's PMMA business
21/12/2007	Proposed evolution of ARKEMA's Crosby site (Texas)
<b>January 2008</b>	
17/01/2008	Appointment to ARKEMA's Executive Committee
25/01/2008	Proposed reorganization of the Serquigny industrial site
<b>February 2008</b>	
07/02/2008	ARKEMA France reorganizes its Human Resources and Accounting functions with the creation of Shared Services Centers
15/02/2008	Publication of 2007 Annual Sales
29/02/2008	ARKEMA has finalized the acquisition of Repsol YPF's PMMA business
<b>March 2008</b>	
05/03/2008	ARKEMA 2006 Annual Results
05/03/2008	ARKEMA to double production capacity at its Leuna hydrogen peroxide facility
10/03/2008	Proposed agreement between ARKEMA and Sumitomo Seika in Superabsorbents
<b>April 2008</b>	
09/04/2008	ARKEMA to stop production of MBS modifiers at its US facility in Axis (Alabama)
10/04/2008	ARKEMA announces the proposed acquisition by CECA of SNF Italia's "Activated and Carbon Regeneration" activity
11/04/2008	Information related to the Annual General Meeting on 20 May 2008
15/04/2008	Plan to reduce greenhouse gas emissions at the Changshu industrial site in China

## FINANCIAL PRESENTATIONS

Financial presentations are available on the Company's website ([www.finance.arkema.com](http://www.finance.arkema.com)).

Date	Type of information
16/02/2007	Presentation "Building a strong chemical player"
14/03/2007	Presentation of 2006 overview and mid-term prospects
05/06/2007	Presentation to Shareholders General Meeting of 5 June 2007
07/06/2007	Presentation "ARKEMA, a transformation story"
24 & 25/09/2007	Presentations at Investor Days: "Creating our future" "Financial Review" "Vinyl Products" "Industrial Chemicals" "Fluorochemicals" "Performance Products" "Asia: a strong priority" "R&D"
15/11/2007	Presentation of 3rd Quarter 2007 Results
11/12/2007	Presentation "Creating our Future" (December 2007)
05/03/2008	Presentation of 2007 full year results and mid-term prospects "ARKEMA another step further"

## LIST OF BALO PUBLICATIONS

BALO publications are available on the BALO website ([www.journal-officiel.gouv.fr/balo/](http://www.journal-officiel.gouv.fr/balo/))

Date	Type of information
14/02/2007	Periodical publications – Commercial and Industrial Companies (Sales)
11/04/2007	Convocation – Shareholders Meeting (Notice of Meeting)
27/04/2007	Periodical publications – Commercial and Industrial Companies (Annual Accounts)
02/05/2007	Convocation – Shareholders Meeting (Notice of Meeting)
18/05/2007	Periodical publications – Commercial and Industrial Companies (Sales)
25/05/2007	Convocation – Shareholders Meeting (Notice of 2nd Meeting)
29/06/2007	Periodical publications – Commercial and Industrial Companies (Annual Accounts)
10/08/2007	Periodical publications – Commercial and Industrial Companies (Sales)
10/09/2007	Periodical publications – Commercial and Industrial Companies (Interim Accounts)
21/11/2007	Periodical publications – Commercial and Industrial Companies (Sales)
15/02/2008	Periodical publications – Commercial and Industrial Companies (Sales)
11/04/2008	Convocation – shareholders Meeting (Notice of Meeting)



## INFORMATION LAID BEFORE THE REGISTRAR OF THE COMMERCIAL COURT OF PARIS

The Registrar's publications are available on the website [www.infogreffe.fr](http://www.infogreffe.fr)

Date	Type of information
28/06/2007	Minutes of Board of Directors' Meeting
28/06/2007	Submission of updated Articles of Association

## DECLARATION OF SHARE TRANSACTIONS MADE BY DIRECTORS

See section 14.6 of this reference document.

## PERIODICAL INFORMATION

The documents listed below are available on the Company's website ([www.finance.arkema.com](http://www.finance.arkema.com)).

Date	Type of information
22/05/2007	2006 Reference Document
09/08/2007	2007 Half-Yearly Financial Report
15/11/2007	Financial informatio <sup>n</sup> 3rd Quarter 2007
22/01/2008	Description of the share buy-back program approved by the Combined General Meeting of 5 June 2007
20/03/2008	Information relating to the capital increase reserved for employees in application of article 221-3 of the general regulations of the Autorité des marchés financiers
11/04/2008	Information related to the Annual General Meeting on 20 May 2008

## OTHER INFORMATION

Type of information	Date and publication support
First convening notice of Annual General Meeting (for 21 May 2007)	Les Petites Affiches 2 May 2007
Second convening notice of Annual General Meeting (for 5 June 2007)	Les Petites Affiches 25 May 2007
Publication of total number of Company voting rights in existence at date of second Annual General Meeting of 5 June 2007	Journal Spécial des Sociétés Françaises par Actions 13 and 14 June 2007
Share buy-back statement for week 23/01/2008 to 29/01/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>
Share buy-back statement for week 06/02/2008 to 12/02/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>
Share buy-back statement for week 27/02/2008 to 04/03/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>
Share buy-back statement for week 05/03/2008 to 11/03/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>
Share buy-back statement for week 12/03/2008 to 18/03/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>
Share buy-back statement for week 19/03/2008 to 25/03/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>
Share buy-back statement for week 26/03/2008 to 01/04/2008	<a href="http://www.finance.arkema.com">www.finance.arkema.com</a>



## Information on shares held by the Company

In the course of 2007, the Group acquired the French company Coatex SAS. Information related to this company is given below.

### COMPANIES CONSOLIDATED AS OF THE DATE OF THIS REFERENCE DOCUMENT

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Hol- ding F: Financial
Akishima Chemical Industries Co. Ltd	15 F. Fukoku Seimei Building 15 F 2-2 Uchisaiwaicho 2 – Chiyoda-Ku, Tokyo 100 0011	Japan	Production and marketing of PVC stabilizers	100 *	100	O
Alphacan B.V	Taylorweg 4, 5466 AE Veghel Boîte postale 521 5460 AM Veghel	Netherlands	Production and marketing of water pipes	100 *	100	O
Alphacan Doo <sup>21</sup>	Zagrebačka 93, Prigorje Brdovečko, Zagreb	Croatia	Marketing of PVC profiles	100*	100	O
Alphacan Espana S.A	Avenida Republica Argentina s/n apdo. 61 09200 Miranda de Ebro (Burgos)	Spain	Production and marketing of water pipes	100*	100	O
Alphacan Perfil S.A.U	Avenida Republica Argentina s/n apdo. 61 09200 Miranda de Ebro (Burgos)	Spain	Marketing of PVC profiles	100 *	100	D
Alphacan S.A	Élysée II, 12-18 avenue de la Jonchère 78170 La Celle Saint-Cloud	France	Production and marketing of PVC pipes and profiles	100 *	100	O
Alphacan S.P.A	Viale de l'Industria 1N 38057 Pergine Valsugana (Trento)	Italy	Production and marketing of PVC profiles	100 *	100	O
Alphacan Soveplast	Route de Nantes 85110 Chantonnay	France	Production of PVC profiles	100 *	100	O
Altuglas International B.V	Achter de Hoven 116 bis 8933 CR Leeuwarden	Netherlands	Production of cast PMMA sheets	100 *	100	O
Altuglas International Denmark AS <sup>22</sup>	Industrivej 16 – 9700 Brønderslev - Nordjylland	Danemark	Production and marketing of PMMA sheets	100 *	100	D
Altuglas International Limited	6270 Bishop's Court Birmingham Business Park Birmingham B37 7YB	United Kingdom	Marketing of PMMA sheets	100 *	100	D

<sup>21</sup> Participation acquired in October 2007.

<sup>22</sup> Stakeholding acquired on 29 February 2008.

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Hol- ding F: Financial
Altuglas International Mexico Inc	2711 Centerville Rd Suite 400 Wilmington DE 19808	USA	Distribution of raw materials (PMMA) in Mexico and importing of finished products (acrylic and plastic)	100 *	100	D
Altuglas International S.A	89 boulevard National Garenne Colombes	France	Production and marketing of PMMA sheets	100 *	100	O
Altuglas International Srl	Via Per Villapia 27 20010 Cazorezzo (Milan)	Italy	Marketing of PMMA	100 *	100	D
Altuglas International Services S.A.S	89 boulevard National 92250 La Garenne Colombes	France	Services	100*	100	O
Altuglas Polivar Spa <sup>23</sup>	Via Trieste 10-12 00040 Pomezia	Italy	Production and marketing of PMMA sheets	100 *	100	D
Altumax Deutschland GmbH	Paulusstrasse 21-23 D 53227 Bonn	Germany	Marketing of PMMA	100 *	100	D
Altumax Europe S.A.S	89 Boulevard national 92250 La Garenne Colombes	France	Holding company	100 *	100	H
American Acryl L.P	12100 Port Road TX 77507 Pasedena Texas	USA	Production of acrylic acid	50 *	50	O
American Acryl NA, LLC	12100 Port Road TX 77507 Pasedena Texas	USA	Holding company	50 *	50	H
Arkema Ltd	11 F Oriental Chemical Building SO Sokong-dong Junk Ku 100-718 Seoul	South Korea	Production and marketing of chemical products	100 *	100	O
Arkema B.V	41 Ottho Heldringstraat 1066 XT Amsterdam	Netherlands	Distribution of ARKEMA products in the Netherlands and Belgium	100 *	100	D
Arkema Beijing Chemicals Co. Ltd	n° 1, Wutong Road, Tongzhou Industrial Development Zone Tongzhou District, Beijing	China	Production and marketing of additives	100 *	100	O
Arkema Canada Inc	700 Third Line, Oakville Ontario L6J 5A3	Canada	Production of hydrogen peroxide and marketing of chemical products	100 *	100	O
Arkema Catalyst India Ltd	Ruby House Building B – 2 <sup>nd</sup> floor JK Sawant Marg Dadar 400028 Mumbai, Bombay	India	Production and marketing of aluminum chloride	100 *	100	O
Arkema Changshu Chemical Co., Ltd.	Fluorochemical Industrial Park of Changshu Economic Development Haiyu town 215522 Changshu	China	Production and marketing of organic peroxides	100 *	100	O

<sup>23</sup> Stakeholding acquired on 29 February 2008.

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Hol- ding F: Financial
Arkema Changshu Fluorochemical Co., Ltd	Fluorochemical Industrial Park of Changshu Economic Development Haiyu town 215522 Changshu	China	Production and marketing of fluorochemical products	100 *	100	O
Arkema China Investment Co., Ltd	Unit 1902, Block B Jianwai n° 39 East third Ring Road Chaoyang District 100022 Beijing	China	Holding company	100 *	100	H
Arkema Co., Ltd.	Tower 1 The Gateway Harbour City 25 Canton Road Tsim Sha Tsui Kowlon. Hong Kong	China	Distribution of chemical products	100 *	100	D
Arkema Delaware Inc	2711 Centerville Road Suite 400, Wilmington DE 19808	USA	Holding company	100 *	100	H
Arkema Europe Holdings B.V	41 Ottho Heldringstraat 41 1066 XT Amsterdam	Netherlands	Holding company	100	100	H
Arkema Europe S.A.S	420, rue d'Estienne d'Orves - 92700 Colombes	France	Holding company	100	100	H
Arkema Amériques SAS (formerly called Arkema Finance France)	420, rue d'Estienne d'Orves - 92700 Colombes	France	Holding company	100	100	H
Arkema Finance Nederland B.V	41 Ottho Heldringstraat 1066 XT Amsterdam	Netherlands	Holding company	100	100	H
Arkema France	420, rue d'Estienne d'Orves - 92700 Colombes	France	Production and marketing of chemical products	100	100	O
Arkema GmbH	Tersteegenstrasse 28 40474 Düsseldorf	Germany	Production of chemical products and distribution of chemicals products	100 *	100	O
Arkema Guangzhou Chemicals Co., Ltd	n° 4, Xin'an road, yonghe District, Guangszhou Economic and technological Development District Guangszhou	China	Production and marketing of additives and ceramic opacifiers	100 *	100	O
Arkema Holdings Ltd	6270 Bishop's Court Birmingham Business Park Birmingham B37 7YB	United Kingdom	Holding company	100 *	100	H
Arkema Holland Holding B.V	41 Ottho Heldringstraat 1066 XT Amsterdam	Netherlands	Holding company	100 *	100	H
Arkema Hydrogen Peroxide Co., Ltd. Shanghai	n° 555, Shanghai Road Shanghai 201108 PR	China	Production and marketing of hydrogen peroxide	66.67 *	66.67	O

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding F: Financial
Arkema Inc	Corporation Service Company 2704 Commerce Drive	USA	Production and marketing of chemical products	100 *	100	O
Arkema Iniciadores S.A. de C.V	Rio San Javier N° 10 Fraccionamiento Viveros del rio, Tlalnepantla, estado de Mexico CP 54060	Mexico	Marketing of organic peroxides	100 *	100	D
Arkema K.K	15 F. Fukoku Seimei Building 2-2 Uchisaiwaicho 2 – Chome Tokyo 100 0011	Japan	Distribution of chemicals	100 *	100	D
Arkema Ltd	6270 Bishop's Court Birmingham Business park Birmingham B37 7YB	United Kingdom	Distribution of chemicals	100 *	100	D
Arkema Ltd	N° 2, 15, A Road, Bien Hoa Industrial Zone, Bien Hoa City – Dong Nai Province	Vietnam	Production and marketing of PVC compounds	100 *	100	O
Arkema North Europe B.V	41 Ottho Heldringstraat 1066 XT Amsterdam	Netherlands	Holding company	100 *	100	H
Arkema Peroxides India Private Limited	1st floor, Balmer Lawrie House 628 Anna Salai Teynampet 60018 Chennai (Madras)	India	Production and marketing of organic peroxides	100 *	100	O
Arkema Pte Ltd	10 Science Park Road, #01-01A, The Alpha Science Park II 117684 Singapore	Singapore	Distribution of chemicals in southeast Asia	100 *	100	D
Arkema Pty Ltd	Ground Floor 600 Victoria Street VIC 3121 Richmond	Australia	Distribution of chemicals	100 *	100	D
Arkema Quimica Ltda	2033 Av. Ibirapuera 4° andar 04 029-901 – Sao Paulo	Brazil	Production of organic peroxides and distribution of chemicals	100 *	100	O
Arkema Quimica S.A	12-7 Avenida de Burgos 28036 Madrid	Spain	Production and marketing of chemical products	100 *	100	O
Arkema Re	Reg. No: 420011 10 Lower Mount Street Dublin 2	Ireland	Captive Reinsurance Company	100 *	100	O
Arkema Rotterdam B.V	Tankhoofd 10 Haven 32553196 KE Vondelingenplaat	Netherlands	Production and marketing of thiochemical products	100 *	100	O
Arkema Shanghai Distribution	D Part, No. 28 Warehouse, n° 500, Fu Te Road (n° 2 East) Shanghai Wai Gao Qiao Free Trade Zone Shanghai	China	Distribution of chemicals	100 *	100	D
Arkema SP Z.o.o	Ul.Marynarska 19 a, 02-674 Warsaw	Poland	Production and marketing of chemical products	100 *	100	O

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Hol- ding F: Financial
Arkema Srl	Via Pregnana, 63 20017 Rho (Milan)	Italy	Production and marketing of chemical products	100 *	100	O
Arkema Vlissingen B.V	Haven 9850 4389 PD Vlissingen oost	Netherlands	Production and marketing of plastic additives and agrochemicals	100 *	100	O
Arkema Wyoming Holdings, Inc	1821 Logan Avenue Cheyenne, WY 82001	USA	Holding company	100 *	100	H
Arkema Yoshitomi Ltd	4-9 Hiranomachi 2 - Chome, Chuo-Ku 541-0046 Osaka	Japan	Production and marketing of organic peroxides	49 *	49	O
Ceca Italiana Srl	51/53 Via Galileo Galilei 20096 Pioletto (MI)	Italy	Production and marketing of activated carbon and agents	100 *	100	O
Ceca S.A	89 boulevard National, 92257 La Garenne-Colombes Cedex	France	Production and marketing of specialty chemical products	100 *	100	O
Changshu Haike Chemicals Co Ltd	Jiangsu Hi-Tech Fluorine Chemical Industrial Park Changshu City Jiangsu Province	China	Research into Fluorochemicals	49 *	49	O
Coatex SAS <sup>24</sup>	35, rue Ampère 69730 Genay	France	Production and marketing of chemical products	100	100	O
Coatex Netherlands BV <sup>24</sup>	Middenweg 47 4782 PM Moerdijk	Netherlands	Production and marketing of chemical products	100 *	100	O
Coatex Central Eastern Europe sro <sup>24</sup>	Tomasikova 30 Bratislava 821 01	Slovakia	Marketing of chemical products	100 *	100	D
Coatex Korea Inc <sup>24</sup>	1635-1 Soryong-Dong Kunsan City Jeongbuk Province	Korea	Production and marketing of chemical products	100 *	100	O
Coatex Asia Pacific Inc <sup>24</sup>	12th Floor DaeWoo Securities Building 34-3 Yoido-Dong Youngdeungpo-Ke Seoul	Korea	Marketing of chemical products	100 *	100	D
Coatex Inc <sup>24</sup>	547 Ecology Lane SC 29706 Chester	United States	Production and marketing of chemical products	100 *	100	O
Coatex North America Inc <sup>24</sup>	547 Ecology Lane SC 29706 Chester	United States	Marketing of chemical products	100 *	100	D
Coatex Latin America Comercio de Produtos Quimicos Ltda <sup>24</sup>	Rua Pasteur 463 Cj 1004 Ed Jatoba Curitiba PR	Brazil	Production and marketing of chemical products	100 *	100	O

<sup>24</sup> Participation acquired on 1 October 2007.

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Hol- ding F: Financial
Delaware Chemicals Corporation	2711 Centerville Road Suite 400, Wilmington, DE 19808	USA	Holding company	100 *	100	H
Dorlyl SNC	297 rue des Chantiers BP 1152 76063 Le Havre Cedex	France	Production and marketing of vinyl compounds	100 *	100	O
Febex S.A.	Routes des Placettes Case Postale 189 1880 Bex	Switzerland	Production and marketing of additives for electroplating and electronics	96.77 *	96.77	O
Luperox Iniciadores S.A. de C.V	Km. 6.5 Carr. Nanchital- Las Choapas El Chapo Ixhuatlan del Sureste 96360 Veracruz - Mexico	Mexico	Production of organic peroxides	100 *	100	O
Maquiladora General de Matamoras S.A. de C.V	Poniente n 17 Ciudad Industrial 87470 Matamoros Tamaulipas	Mexico	Production and marketing of PMMA sheets	100 *	100	O
Michelet Finance Inc	2711 Centerville Rd Suite 400 Wilmington DE 19808	USA	Financial services	100 *	100	F
MLPC International	209 avenue Charles Despiaud 40370 Rion-des-Landes	France	Production and marketing of additives for the rubber industry	100 *	100	O
Oxochimie	420, rue d'Estienne d'Orves - 92705 Colombes	France	Production of butanol and 2-EH	50 *	50	O
Ozark Mahoning Company	2711 Centerville Road Suite 400, Wilmington DE 19808	USA	Dormant company	100 *	100	
Plasgom	Poligono Industrial la Torre del Rector c/mar del Caribe 5 08130 Santa Perpetua de Mogoda Barcelona	Spain	Production and marketing of vinyl compounds	100 *	100	O
Plasticos Altumax S.A	Botanica 160/162 Poligon Ind. Gran Via Sud 08908 Hospitalet de Llobregat Barcelona	Spain	Marketing of PMMA sheets and other plastic sheets	100 *	100	D
Qatar Vinyl Company Limited	Merqiled -Doha 24440	Qatar	Production and marketing of caustic soda, EDC and VCM	12.9 *	12.9	O
Résil Belgium	Neerhonderd 35 9230 Wetteren	Belgium	Production and marketing of vinyl compounds	100 *	100	O
Résilia Srl	201 Via Milano 21017 Samarate (Varese)	Italy	Production and marketing of vinyl compounds	100*	100	O



Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Hol- ding F: Financial
Resinoplast	Chemin de Saint Léonard 51683 Reims Cedex 2	France	Production and marketing of vinyl compounds	100 *	100	0
Seki Arkema	8B 16L, Chilseo Industrial Complex Haman-Gun, Kyoungnam 637-940 Haman- Gun Gyeongnam	South Korea	Production and marketing of organic peroxides	51 *	40	0
Shanghai Arkema Gaoyuan Chemical Co., Ltd	N° 8999, Hunan Gonglu Nanhui County 201314 Shanghai	China	Production of vinyl compounds	91.07*	91.07	0
Arkema Asie SAS (formerly called Société Financière Arkema)	420, rue d'Estienne d'Orves - 92705 Colombe	France	Holding company	100	100	H
Stannica LLC	Corporation Trust company 1209 Orange Street Wilmington, DE 19808	USA	Production and marketing of plastic additives	40 *	40	0
Sunclear	280 avenue de la Marne Marcq en Baroeul	France	Marketing of plastic sheets	100 *	100	D
Turkish Products Inc	2711 Centerville Road Suite 400, Wilmington, DE 19808	USA	Dormant company	100 *	100	
Viking Chemical Company	380 Jackson Street suite 418 Saint Paul, MN 55101	USA	Production of epoxied vegetable oils	100 *	100	0
Vinilis S.A	Mallorca, 269 08008 Barcelona	Spain	PVC production	35 *	35	0
Vinylberre	420, rue d'Estienne d'Orves - 92705 Colombes	France	PVC production	65 *	65	0
Vinylfos	420, rue d'Estienne d'Orves - 92705 Colombes	France	VCM production	79 *	70	0
Wyoming Holdings Delaware Inc	2711 Centerville Road, Suite 400, Wilmington, DE 19808	USA	Dormant company	100 *	100	

## COMPANIES NOT CONSOLIDATED AS OF THE DATE OF THIS REFERENCE DOCUMENT

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Opera- tional (industrial or provision of services and commercial) D: Distribution H: Holding: company
Arkema International	47, route des Acacias CH-1211 Genève	Switzerland	Management of international staff	100 *	100	O
Arkema Kft	Bartok Bela 105-113 1115 Budapest	Hungary	Distribution of chemicals	100 *	100	D
Arkema Mexico S.A. de C.V	Conjunto Corporativo Tlalnepantla Via Gustavo Baz 2160 Edificio 3 Fracc. Industrial La Loma 54070 Tlalnepantla Mexico	Mexico	Distribution of chemicals	100 *	100	D
Arkema Pension Fund Trustee Company Ltd	6270 Bishop's Court Business Park Birmingham B37 7YB	United Kingdom	Pension fund management	100 *	100	F
Arkema Quimica Lda	Rua pero Alvito, 4 a 2400 - 208 Leiria	Portugal	Distribution of chemicals	100 *	100	D
Arkema S.A	Carera 21 No 82-46 of 301	Colombia	Distribution of chemicals in Colombia, Ecuador and Peru	100 *	100	D
Arkema Sdn Bhd	16, 1st floor, Jalan, USJ 10/1 Uep Subang Jaya 47620 Selangor	Malaysia	Distribution of chemicals	100 *	100	D
Arkema Sro	U Tleparny 3 15800 Prague	Czech Republic	Distribution of chemicals in the Czech Republic and Slovakia	100 *	100	D
Arkema VE Kimya Sanayi ve ticaret A.S	Ayazaga Mah. Büyükdere Cad. Maslak is Merkezi n°41 K6 34398 Istanbul	Turkey	Distribution of chemicals	100 *	100	D
Arkema A/S	Herlev Hovedgade 195 2730 Herlev	Denmark	Distribution of chemicals in northern Europe	100 *	100	D
Atofina Argentina S.A	Marcelo T. de Alvear n° 1719	Argentina	Company in receivership	100 *	100	
Bourbon plastiques S.A	Bras Panon Rivières du Mat 97412 Ile de La Réunion	France	Distribution of plastic products	1.59 *	1.59	D
Changshu Resichina Engineering Polymers CO ltd	Jiangsu Hi-Tech Fluorine Chemical Industrial Park Changshu City Jiangsu Province	China	Production and marketing of compounds	100 *	100	O
Difi 1	420, rue d'Estienne d'Orves - 92705 Colombes	France	Dormant company	100 *	100	
Difi 2	420, rue d'Estienne d'Orves - 92705 Colombes	France	Dormant company	100 *	100	
Elemica Inc	Wayne, Pennsylvania (Suburban Philadelphia)	USA	E-commerce distribution of chemical products	9 *	9	D

Company name	Registered office	Country	Business	% stake (* = indirect)	% voting rights	Category O: Operational (industrial or provision of services and commercial) D: Distribution H: Holding: company
Elfa Oxychemie S.A	76 Roherstrasse CH-5001 Aarau	Switzerland	Marketing of hydrogen peroxide	50 *	50	D
Exeltium	79, avenue Raymond Poincaré 75116 Paris	France	Buying and selling of electricity	14.29 *	14.29	
Fosfanil S/A	Av. Ibirapuera N° 2033, 4° andar 04029 – 901 Sao Paulo	Brazil	Company in receivership	96.58 *	96.58	
Irish Ceca	Allenwood Enterprise Park Naas, Ireland	Republic of Ireland	Marketing of molecular sieves	100 *	100	D
Marjolaine S.A.S	420, rue d'Estienne d'Orves – 92705 Colombes	France	Dormant company	100 *	100	
Mempile Inc	1313 N Market Street, Suite 5100, Wilmington Delaware 19801	USA	Research and Development	9 *	9	
Nitto Kasei Company Ltd	17-14, Nishiawaji 3-chome Higashiyodogawa-ku, Osaka 533-0031	Japan	Production and marketing of plastic additives, industrial chemical products and agrochemicals	6.59 *	6.59	O
Polimeri Termoplastici Srl (Politerm)	Via E. Melatello 271 40034 Forlimpoli	Italy	Distribution of plastic sheets	21 *	21	D
SCI agricole de Parapon	La Saline 30600 Vauvert	France	Operation of land at Parapon (Gard)	98 *	98	
Sequoia S.A.S	420, rue d'Estienne d'Orves – 92705 Colombes	France	Dormant company	100 *	100	
Société Alsacienne et Lorraine de Sondage	2 rue Gabriel Peri 54110 Dombasle-sur-Meurthe	France	Surveying for salt water sources and rock salt	30.24 *	30.24	O
Société d'études et de réalisation financières (SERF)	420, rue d'Estienne d'Orves – 92705 Colombes	France	Holding	100 *	100	H
Société Fluides Diélectriques	420, rue d'Estienne d'Orves – 92705 Colombes	France	Distribution of products for the electrical industry	50 *	50	D
Soficar	Route de Lagor 64750 Bidos	France	Production and marketing of various forms of carbon and intermediate products	30 *	30	O
Vetek S.A	Avenue del libertador 5480 – piso 11 (C1426BXP) Buenos Aires	Argentina	Distribution of chemicals	60 *	60	D



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# ANNEX 1 - Statutory auditors' report, prepared in accordance with article L.225-235 of the French commercial code (Code de commerce)

*This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and is construed in accordance with, French law and professional auditing standards applicable in France.*

## Arkema S.A.

Registered office: 420, rue d'Estienne d'Orves – 92700 Colombes  
Share capital: € 604,538,230

**Statutory Auditors' report prepared in accordance with Article L.225-235 of French company law (Code de commerce) on the report prepared by the Chairman of the Board of Arkema S.A. on the internal control procedures relating to the preparation and processing of accounting and financial information**

Year ended 31 December 2007

To the Shareholders,

In our capacity as Statutory Auditors of Arkema S.A., and in accordance with Article L.225-235 of French company law (Code de commerce), we hereby report on the report prepared by the Chairman of your company in accordance with Article L.225-37 of French company law (Code de commerce) for the year ending 31 December 2007.

It is the Chairman's responsibility to describe in his report the preparation and organization of the Board's work and the internal procedures implemented by the company. It is our responsibility to report to you on the information contained in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information.

We conducted our work in accordance with French professional standards. These standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- ▶ obtaining an understanding of the internal control procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report are based and existing documentation;
- ▶ obtaining an understanding of the work involved in the preparation of this information and existing documentation;
- ▶ determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board in accordance with Article L.225-37 of French company law (Code de commerce).

Paris la Défense, 5 March 2008

The Statutory Auditors

*French original signed by*

**KPMG Audit**

Département de KPMG S.A.

Bertrand Desbarrières  
*Partner*

Jean-Louis Caulier  
*Partner*

**ERNST & YOUNG AUDIT**

François Carrega  
*Partner*

# ANNEX 2 - Statutory auditors' report on regulated conventions

*This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

## Special Report of the Statutory Auditors on Related Party Agreements and Commitments

*(Free translation of a French language original)*

To the Shareholders,

In our capacity as statutory auditors of your Company, we hereby report on the agreements and commitments with related parties.

### I. AGREEMENTS AND COMMITMENTS AUTHORISED BETWEEN JANUARY 1<sup>ST</sup>, 2007 AND MARCH 4<sup>TH</sup>, 2008

In accordance with Article L.225-40 of French company law (*Code de Commerce*), we have been advised of the agreements and commitments which were authorized by your Board of Directors.

We are not required to ascertain whether any other agreements and commitments exist but to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments notified to us. We are not required to comment as to whether they are beneficial or appropriate. It is your responsibility, in accordance with Article R. 225-31 of French company law (*Code de Commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

We conducted our work in accordance with the professional standards applicable in France. These standards require that we perform the necessary procedures to verify that the information provided to us is consistent with the documentation from which it has been extracted.

#### **With Mr. Thierry Le Hénaff, chairman and chief executive officer of your Company,**

In accordance with French law n°2007-1223 dated August 21<sup>st</sup>, 2007, the Board of Directors has modified on March 4<sup>th</sup> 2008 the terms of the contractual indemnity which would be granted to Mr Thierry Le Hénaff in the event of non-voluntary early termination of his contract.

Following this decision and in accordance with article L. 225-42-1 of French company law (*Code de Commerce*) an indemnity would be granted to Mr Thierry Le Hénaff in the event of non-voluntary early termination, the payment of which would be subject to conditions related to the performance of its beneficiary assessed with regards to those of the Company, and equivalent to three times the global gross annual compensation for the year in question.

The performance conditions defined include four quantitative criteria: one related to safety (injury frequency rates with and without leave), two economic criteria (EBITDA and earning per share) and one criterion related to stock exchange (performance of the share price). Each of these criteria represent a percentage of the performance as detailed below and their assessment will be made since the first appointment of Thierry Le Hénaff as Chairman and Chief Executive Officer of your Company, in March 2006.

The first criterion represents 20% in the appreciation of performance: The Total Recordable Injury Frequency Rate and the Lost Time Injury Frequency Rate will have to be reduced by 5% minimum each year on average compared to the reference index (values at 31 December 2005), each of these criteria representing half of the total percentage in the appreciation of this condition.

The second criterion represents 30% in the appreciation of performance: The EBITDA margin will have to be increased by a minimum 50% each year on average compared to the reference index (values at 31 December 2005). In case of an EBITDA margin improvement smaller than 5% each year on average at the time this condition is assessed, the indemnity amount related to this condition will be reduced by 20% for each percentage of EBITDA margin inferior to the target.

The third criterion represents 30% in the appreciation of performance: The earning per share will have to be increased by a minimum of 10% each year on average compared to the reference index (values at 31 December 2006). In case of an earning per share improvement smaller than 10% each year on average at the time this condition is assessed, the indemnity amount related to this condition will be reduced by 10% for each percentage of earning per share inferior to the target.

The fourth criterion represents 20% in the appreciation of performance: ARKEMA'S share price at the time the condition is assessed will have to be higher than ARKEMA'S share price at the time of listing on 18 May 2006 or the improvement in the share price will have to be higher on average than the increase of the SBF 120 index during the same period.

The values to be taken into account for the determination of these criteria at the time when the performance will be assessed should be those at year-end for criteria 1 to 3 and the average of the two respective relevant index prices during the previous month for the 4<sup>th</sup> criterion.

This agreement modifies the previous agreement, which set out a contractual indemnity in the event of non-voluntary early termination of contract of the same amount, but not subject to performance conditions. The other terms of the previous agreement remain otherwise unchanged and provide for the maintenance of stock option and free shares already granted to the beneficiary.

## II. AGREEMENTS AND COMMITMENTS CONCLUDED IN PRIOR YEARS WHICH REMAINED CURRENT IN THE YEAR ENDED DECEMBER 31, 2007

In accordance with the French Company Law (*Code de commerce*), we have been advised that the following agreements and commitments, approved in prior years, remained current in the year ended December 31, 2007.

### With Mr. Thierry Le Hénaff, chairman and chief executive officer of your Company,

In addition to the general pension schemes operated for employees of the group, Mr Thierry Le Hénaff benefits from a supplementary scheme, financed by the company and offered to certain executives of the Group, provided that the beneficiary is in the employ of the company when he comes to retire. On July 4<sup>th</sup>, 2006, your board of directors has approved the calculation of accumulated benefits vested by the Chairman and Chief Executive Officer in 2006 as part of this supplementary scheme, according to which the company's pension liabilities relating to the Chairman and Chief Executive Officer correspond, at 31 December 2007, to an annual retirement pension equal to 11.8% of his current annual compensation.

### With the company Arkema France S.A.

The multi-currency syndicated credit facility, approved by your combined shareholder's meeting of the 4<sup>th</sup> of July 2006, signed between Arkema S.A. and Arkema France on the one hand and a syndicate of banks among others Calyon, BNP Paribas, ABN AMRO and Citybank International Plc on the other hand remained current during the year 2007.

This credit facility is renewable, is for a maximum amount of €1.1 billion and its purpose is to finance, in the form of drawings and bank guarantees, the Arkema Group's general corporate purposes over a period of five years, with a possible extension of a one-year or two-years period. In February 2007, the credit facility was extended a first time, until 31 March 2012, for an amount of €1.1 billion.

Other entities of the Arkema Group are authorized to withdraw cash on this credit facility. The credit facility provides situations for early reimbursement, including a change of control over Arkema SA (as defined as the holding, by a person acting solely or together, of a direct or indirect ownership interest representing more than one third of the voting rights of Arkema S.A.); should this clause be triggered by a lender, it could lead to early reimbursement and cancellation of the commitments of this lender.

Paris-La Défense, March 5, 2008

The Statutory Auditors

*French original signed by*

**KPMG Audit**

A division of KPMG S.A.

Bertrand Desbarrières

*Partner*

Jean-Louis Caulier

*Partner*

**ERNST & YOUNG AUDIT**

François Carrega

*Partner*



# ANNEX 3 - Agenda of the Combined Ordinary and Extraordinary General Meeting on 20 May 2008

## ORDINARY GENERAL MEETING

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- Approval of the parent company financial statements for the year ended 31 December 2007.
- Approval of the consolidated financial statements for the year ended 31 December 2007.
- Allocation of earnings for the year.
- Special report of the statutory auditors on agreement covered by article L.225-38 of the French Commercial Code.
- Special report of the statutory auditors on the agreement covered by article L.225-42-1 of the French Commercial Code.
- Renewal of the appointment of a statutory auditor.
- Renewal of the appointment of an alternate auditor.
- Authorization for the Board of Directors to trade shares in the Company.

## EXTRAORDINARY GENERAL MEETING

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- Delegation of authority granted to the Board of Directors to issue shares in the Company and/or any securities giving access to capital of the Company or one of its subsidiaries, with preferential subscription rights.
- Delegation of authority granted to the Board of Directors to issue shares in the Company and/or any securities giving access to capital of the Company or one of its subsidiaries, without preferential subscription rights.
- Authorization for the Board of Directors, in the event of a capital issue with preferential subscription rights, to increase the number of shares to be issued in implementing the 9<sup>th</sup> Resolution.
- Delegation of authority granted to the Board of Directors to issue shares in the Company and/or other securities giving access to shares in the Company, to remunerate contributions in kind granted to the Company and represented by shares or securities giving access to capital.
- Overall limitation of immediate and/or future authorizations to increase capital.
- Delegation of authority granted to the Board of Directors for the purpose of conducting an increase in the Company's capital through incorporation of reserves, profits or premiums
- Delegation of authority granted to the Board of Directors to conduct capital increases reserved for employees participating in a company savings plan.
- Harmonization of the Company's Articles of Association with amendments to the decree of 23 March, 1967 – Corresponding amendment to article 16-3 of the Company's Articles of Association.
- Powers to complete formalities.

# ANNEX 4 - Text of draft resolutions presented to the Combined General Meeting on 20 May 2008

## RESOLUTIONS PROPOSED TO THE ORDINARY GENERAL MEETING

### 1<sup>st</sup> resolution

*(Approval of the parent company financial statements for the year ended 31 December 2007)*

Having heard the Board of Directors' report and the Statutory Auditors' general report, and voting under the quorum and majority conditions required for ordinary business, the shareholders hereby approve the parent company financial statements for the year ended 31 December 2007, together with the business operations reflected therein and summarized in the reports.

### 2<sup>nd</sup> resolution

*(Approval of the consolidated financial statements for the year ended 31 December 2007)*

Having heard the Board of Directors' report and the Statutory Auditors' report on the consolidated financial statements, and voting under the quorum and majority conditions required for ordinary business, the shareholders hereby approve the consolidated financial statements for the year ended 31 December 2007, together with the business operations reflected therein and summarized in the reports.

### 3<sup>rd</sup> resolution

*(Allocation of earnings for the year ended 31 December 2007)*

The shareholders, voting under the quorum and majority conditions required for ordinary business, hereby acknowledge that the balance sheet as at 31 December 2007 shows a net profit of €121,256,210.57.

The shareholders, acting on the recommendation of the Board of Directors, hereby resolve to allocate this amount bearing in mind the 60,453,823 shares effective date 1 January 2007 in existence at 31 December 2007, and the 2,000,000 shares effective date 1 January 2007 that may be created as part of the share capital increase reserved for employees, i.e. a total of 62,453,823 shares maximum entitled to a dividend for 2007, as follows:

*In euro*

Profit	€121,256,210.57
Retained earnings from previous year	€18,124,589.06
<b>TOTAL</b>	<b>€139,380,799.63</b>
Dividend distributed	€46,840,367.25
Balance allocated to retained earnings	€92,540,432.38

Accordingly, a dividend of €0.75 per share shall be paid. It shall be paid in cash on 27 May 2008.

This payment is eligible for the 40% reduction provided for under article 158.3-2° of the French General Tax Code, which is available to those individual taxpayers whose tax residence is in France.

For the record, the Company has not paid any dividends in the past three years.

If at the time of the payment of the dividend, the Company held any own shares, or if the number of shares created effective date 1 January 2007 as part of the share capital increase reserved for employees was less than 2,000,000 shares, then the amount corresponding to dividends unpaid with respect to these shares would be allocated to "retained earnings".

In accordance with the provisions of article 223 quater of the General Tax Code, the shareholders note that no expenses or charges referred to under article 39-4 of said Code were incurred during the year.

### 4<sup>th</sup> resolution

*(Approval of agreement covered by article L.225-38 of the French Commercial Code)*

Having heard the statutory auditors' special report on agreements covered by article L.225-38 of the French Commercial Code, and voting under the quorum and majority conditions required for ordinary business, the shareholders hereby approve the conclusion of said report and the agreements mentioned therein.

## 5<sup>th</sup> resolution

### *(Approval of agreement governed by article L. 225-42-1 of the French Commercial Code)*

Having heard the statutory auditors' special report on the agreement governed by article L.225-42-1 of the French Commercial Code, and voting under the quorum and majority conditions required for ordinary business, the shareholders hereby approve the agreement mentioned therein with Mr Thierry Le Hénaff.

## 6<sup>th</sup> resolution

### *(Renewal of the appointment of a statutory auditor)*

The shareholders, voting under the quorum and majority conditions required for ordinary business, noting that the appointment of KPMG Audit, statutory auditors, is expiring at the conclusion of this Annual General Meeting, resolve to renew this appointment for a term of six years, namely until the Annual General Meeting called to approve the financial statements for the year ending 31 December 2013.

## 7<sup>th</sup> resolution

### *(Renewal of the appointment of an alternate auditor)*

The shareholders, voting under the quorum and majority conditions required for ordinary business, noting that the appointment of Mr Jean-Marc Decléty, alternate auditor, is expiring at the conclusion of this Annual General Meeting, resolve to renew his appointment for a term of six years, namely until the Annual General Meeting called to approve the financial statements for the year ending 31 December 2013.

## 8<sup>th</sup> resolution

### *(Authorization for the Board of Directors to trade shares in the Company)*

Having considered the Board of Directors' report, and voting under the quorum and majority conditions required for ordinary business, the shareholders hereby authorize the Board of Directors, with possibility of subdelegation of powers, in accordance with articles L.225-209 *et seq.* of the French Commercial Code, the General Regulation (*Règlement général*) of the French Financial Markets Authority (*Autorité des marchés financiers*) and of European Council Regulation n° 2273/2003 dated 22 December 2003, to purchase shares in the Company or have shares in the Company purchased to a maximum of 10% of the total number of shares comprising the share capital, adjusted where applicable for any capital transactions carried out after this meeting, as follows:

- the maximum purchase price per share may not exceed €60.

The Board of Directors may notwithstanding adjust the aforementioned purchase price to take into account the impact on

the share price of transactions such as a capitalization of share premiums, reserves or earnings giving rise either to an increase in the par value of the shares or to the issuance and distribution of shares for no consideration, a stock-split or reverse-stock-split, or any other transaction affecting the shareholders' equity;

- the maximum amount of expenditure incurred on the share buyback program may not exceed €200 million;
- share purchases made by the Company under this authorization may under no circumstances increase the Company's holding, whether directly or indirectly, to more than 10% of the shares comprising the share capital;
- the shares purchased and kept by the Company shall be stripped of their voting rights and shall not be eligible for dividend payments;
- the shares may be purchased or transferred at any time, under the conditions and within the limits, particularly volume and price, permitted by law on the date of transaction in question. The shares may be purchased by any and all means, including over-the-counter, by way of block trades or by way of derivatives traded on a regulated or over-the-counter market, under the conditions set out in the stock exchange regulations and at the times the Board of Directors or its delegated representative deems appropriate.

The shares may be purchased for any purpose permitted by law either now or in the future, and notably for the following purposes:

- to implement market practices permitted by the *Autorité des marchés financiers* such as (i) purchasing shares in the Company to keep and subsequently tender as consideration for acquisitions, mergers, spin-offs or asset transfers up to a maximum of 5% of the share capital at the time of the transaction; (ii) purchasing or selling shares under a liquidity agreement that complies with the code of conduct approved by the *Autorité des marchés financiers*, entered into with an investment services provider; and (iii) any market practice that might in the future be permitted by the *Autorité des marchés financiers* or by law;
- to implement and honour obligations and more particularly to allot the shares upon the exercise of rights attached to securities giving immediate or future access to the share capital by whatever means, and to cover the Company's (or one of its subsidiaries) existing obligations in connection with such securities, under the conditions permitted by the market authorities and at the times the Board of Directors or its delegated representative deems appropriate;
- to cover stock option plans granted to employees or executive officers of the Company or its group;
- to award stock grants to employees or executive officers of the Company or its group under the conditions set out under articles L.225-197-1 *et seq.* of the French Commercial Code;

- ▶ to award shares for no consideration to employees, directly or through an employee share ownership plan, under the conditions set out by law and particularly articles L.443-1 *et seq.* of the French Labor Code;
- ▶ to reduce the Company's share capital.

The Board of Directors shall report each year to the Annual General Meeting on all purchases and sales of shares made pursuant to this resolution in accordance with article L.225-209 of the French Commercial Code.

The shareholders confer full powers, which may be delegated, on the Board of Directors to place, buy and sell orders, enter into contracts,

draw up and amend documents, particularly returns, fulfil formalities including allocating or reallocating the shares purchased to the various permitted purposes, file documents with the *Autorité des marchés financiers* and any other organizations, and more generally, do all things necessary.

This authorization is valid for a period of eighteen months with effect from the date of this meeting or until the date of its renewal at an Ordinary General Meeting prior to expiration of the eighteen-month period. It cancels the unused portion of the authorization granted under the 7<sup>th</sup> resolution at the Annual General Meeting of 5 June 2007.

## RESOLUTIONS WITHIN THE COMPETENCE OF THE EXTRAORDINARY GENERAL MEETING

### 9<sup>th</sup> resolution

***(Delegation of authority granted to the Board of Directors to issue shares in the Company and/or any securities giving access to capital of the Company or one of its subsidiaries, with preferential subscription rights)***

Having considered the Board of Directors' report and the Statutory Auditors' special report, and voting under the quorum and majority conditions required for extraordinary business, in accordance with articles L. 225-129-2, L.225-132, L. 228-91, L. 228-92 and L. 228-93 of the French Commercial Code, the shareholders noting the payment in full of the capital, hereby delegate authority to the Board of Directors, with option of subdelegation under the terms of the law, to decide the issue, free of charge or against payment, while maintaining the shareholders' preferential subscription rights, of (i) shares in the Company, (ii) securities giving access by any means, immediately or in the future, to existing shares in the Company or shares to be issued in the Company and (iii) securities giving access by any means, immediately or in the future, to existing shares in a company or shares to be issued in a company of which the Company holds directly or indirectly more than half of the capital (the "Subsidiary"), and (iv) securities giving access to the granting of debt securities issued free of charge or against payment, governed by articles L.228-91 *et seq.* of the French Commercial Code, for which subscription may be executed either in cash, or by offsetting debts, it being specified that this delegation may allow one or more issues in implementing article L.228-93 of the French Commercial Code.

The maximum nominal amount of the share capital increase of the Company, immediate or future, resulting from all the issues executed under this delegation is set at €120 million, it being specified that this amount is applied to the maximum provided for under the 13<sup>th</sup> Resolution and that it does not include the nominal value of the shares in the Company to be issued, as the case may be, with respect to adjustments carried out in compliance with the law and, where applicable, contractual stipulations to protect the rights of bearers of securities giving access to shares in the Company.

The securities giving access to shares in the Company or a Subsidiary thus issued may consist of debt securities or be related to the issue of such securities, or allow their issue as intermediary shares. Debt securities issued under this delegation may take the form in particular of subordinated securities or otherwise, undated or otherwise, and be issued either in euros, or in other currencies, or in any monetary unit pegged to several currencies. The nominal amount of the debt securities thus issued may not exceed €500 million or the equivalent value of this amount as of the date of the issuance decision, it being specified (i) that this amount does not include the redemption premiums above par, if this was provided for, (ii) that this amount is common to all the debt securities whose issue is provided for under the 10<sup>th</sup> Resolution of this Annual General Meeting, (iii) but that this amount is autonomous and distinct from the amount of debt securities whose issue would be decided or authorized by the Board of Directors pursuant to article L. 228-40 of the French Commercial Code. The period of the loans, other than those represented by undated securities, may not exceed 15 years. The loans may carry fixed rate or variable rate interest or within limits set by the law, with capitalization, and be covered by the granting of guarantees or securities, redemption with or without premium, or amortization, while the securities may also be the subject of purchase on the stock market, or a purchase or exchange offer by the Company.

Shareholders have a preferential subscription right for securities issued under this resolution pro rata with their amounts of shares. The Board of Directors may grant shareholders the right to subscribe for any shares or securities thus issued on a reducible basis, pro rata with the subscription rights they hold and within the limit of their requests.

If the subscriptions on an irreducible basis and, if applicable, on a reducible basis, have not absorbed the entire issuance of shares or securities as defined above, the Board of Directors may choose to use in the order that it will determine the options provided for below or some of them: (i) limit the issuance to the amount of the subscriptions received on condition that this amount reaches at least three quarters of the issuance decided, (ii) allocate freely all or a

portion of the unsubscribed securities, or (iii) offer all or a portion of the unsubscribed securities to the public, through a public issue, on the French market, on the international market or abroad.

The shareholders take formal note that the decision to issue securities providing access to capital shall imply that the shareholders waive their preferential subscription rights to the shares in the Company to which the securities thus issued under this delegation may entitle them, in accordance with the provisions of article L. 225-132 of the French Commercial Code.

The shareholders resolve that the issues of share subscription warrants in the Company may be executed by subscription offer, as well as by free allocation to owners of old shares and that in the event of a free allocation of subscription warrants, the Board of Directors shall have the authority to decide that the rights to fractions of shares shall be neither negotiable nor assignable and that the shares corresponding to the exercising of the said rights shall be sold.

The Board of Directors shall determine the characteristics, amount, terms and conditions for any issue as well as for the shares issued. In particular, it shall determine the category of shares issued and shall set, bearing in mind the indications contained in its report, their subscription price, with or without premium, the terms and conditions for their payment in full, their due date, retroactively if applicable, the terms and conditions under which the securities issued under this resolution will give access to shares in the Company or in a Subsidiary, and, in the event of debt securities, their subordination rank. The Board of Directors shall have authority to decide to allocate the issuance costs and fees to the corresponding premium amount, and to draw from this amount the sums required to raise the legal reserve to one tenth of the new capital after each issuance.

If necessary, the Board of Directors may suspend the exercising of rights related to securities giving access, directly or indirectly, immediately or in the future, to the Company's capital, for a maximum three-month period, and shall take all necessary measures with regard to any adjustments to be made as required by law, and, if applicable, to contractual stipulations to protect the bearers of rights related to securities giving access to the Company's shares.

The Board of Directors shall have, in accordance with article L. 225-129-2 of the Commercial code, with authority to subdelegate under the conditions set by the law, all powers to implement this resolution, in particular by agreeing any convention in this regard, particularly for the due completion of any issuance, to conduct in one or more stages, in the proportion and at the times it will determine, in France or, as applicable, abroad or on an international market, the aforementioned issuances – as well as, where applicable, to postpone these –, to note their execution and to make the corresponding amendments to the Articles of Association, as well as to execute all formalities and declarations and request all authorizations that may prove necessary for the proper execution and completion of these issuances.

The Board of Directors shall report to the next Annual General Meeting the use made of this delegation of authority in accordance with the legal and regulatory provisions, in particular those of article L. 225-129-5 of the French Commercial code.

This authorization shall be granted for a period of 26 months from the date of this Annual General Meeting. It shall render ineffectual,

from the same date, the authorization granted by the Annual General Meeting of 10 May 2006 under its 14<sup>th</sup> Resolution.

## 10<sup>th</sup> Resolution

***(Delegation of authority granted to the Board of Directors to issue shares in the Company and/or any securities giving access to capital of the Company or one of its subsidiaries, without preferential subscription rights)***

Having considered the Board of Directors' report and the Statutory Auditors' special report, and voting under the quorum and majority conditions required for extraordinary business, in accordance with articles L. 225-129-2, L. 225-135, L. 225-136, L. 228-91, L. 228-92 and L. 228-93 of the French Commercial Code, the shareholders noting the payment in full of the capital, hereby delegate authority to the Board of Directors, with option of subdelegation under the terms of the law, to decide the issue (i) of shares in the Company, (ii) of securities giving access by any means, immediately or in the future, to existing shares in the Company or shares to be issued in the Company, and (iii) securities giving access by any means, immediately or in the future, to existing shares in a company or shares to be issued in a company of which the Company holds directly or indirectly more than half of the capital (the "Subsidiary"), and (iv) securities giving access to the granting of debt securities issued free of charge or against payment, governed by articles L.228-91 *et seq.* of the French Commercial Code, for which subscription may be executed either in cash, or by offsetting debts, it being specified that this delegation may allow one or more issues in implementing article L.228-93 of the French Commercial Code.

The Shareholders resolve to withdraw the shareholders' preferential subscription rights to these shares and securities.

The maximum nominal amount of the share capital increase of the Company, immediate or future, resulting from all the issues executed under this delegation is set at €120 million, it being specified that this amount is applied to the maximum provided for under the 13<sup>th</sup> Resolution and that it does not include the nominal value of the shares in the Company to be issued, as appropriate, with respect to adjustments carried out in compliance with the law and, where applicable, contractual stipulations to protect the rights of bearers of securities giving access to shares in the Company.

The securities giving access to shares in the Company or a Subsidiary thus issued may consist of debt securities or be related to the issue of such securities, or allow their issue as intermediary shares. Their payment, subordination rank or amortization shall apply, for their issuance, throughout their existence and for their access to shares, while the provisions concerning the securities of a same nature may be issued under the previous resolution. The nominal amount of the debt securities thus issued may not exceed €500 million or the equivalent value of this amount as of the date of the issuance decision, it being specified (i) that this amount does not include the redemption premiums above par, if this was provided for, (ii) that this amount is common to all the debt securities whose issue is provided for under the 9<sup>th</sup> resolution of this Annual General Meeting, (iii) but that this amount is autonomous and distinct from the amount of debt

securities whose issue would be decided or authorized by the Board of Directors under article L. 228-40 of the French Commercial Code.

The Board of Directors may grant shareholders the right to subscribe, on an irreducible or a reducible basis, for shares or securities, for which it will set, under the terms of the law, the terms and conditions of the exercise, without giving rise to the creation of tradeable rights. Unsubscribed shares under this right may be the subject of a public issue in France or abroad, or on the international market.

If the subscriptions, including, if applicable, those from the shareholders, have not absorbed the entire issuance of shares or securities as defined above, the Board of Directors may limit the amount of the operation under the terms of the law.

The Annual General Meeting takes formal note that the decision to issue securities providing access to capital shall imply that the shareholders waive their preferential subscription rights to the shares to which the securities thus issued entitle them, in accordance with the provisions of article L. 225-132 of the French Commercial Code.

The Board of Directors shall determine the characteristics, amount, terms and conditions of any issue as well as of the shares issued. In particular, it shall determine the category of shares issued and shall set, bearing in mind the indications contained in its report, their subscription price, with or without premium, their due date, retroactively if applicable, as well as, if appropriate, the duration and the terms and conditions under which the securities issued on the basis of this resolution will give access to shares, it being specified that:

- a) the shares' issue price shall be no less than the minimum amount provided for by current laws and regulations at the time that this delegation is used, following adjustment, if applicable, of this amount to take account of the difference in the due date;
- b) the securities' issue price shall be such that the sum received by the Company or, in the case of issuance of securities giving access to shares in a Subsidiary, by the Subsidiary, increased, where applicable, by that which the Company or the Subsidiary may receive subsequently, as the case may be, namely for each share issued as a result of the issuance of these securities, at least equal to the amount referred to under paragraph "a)" above, following adjustment, where applicable, of this amount to take account of the difference in the due date.

The Board of Directors shall have the authority to decide to apply the cost of the issuances executed in implementing this resolution to the corresponding premium amount, and to draw from this amount the sums required to raise the legal reserve to one tenth of the new capital after each issuance.

The Board of Directors shall have, with authority to subdelegate under the conditions set by the law, all powers to implement this resolution, in particular by agreeing any convention in this regard, particularly for the due completion of any issuance, to conduct in one or more stages, in the proportion and at the times it will determine, in France or, as applicable, abroad or on an international market, the aforementioned issuances – as well as, where applicable, to postpone these – to note their execution and to make the corresponding amendments to the Articles of Association, as well as to execute all formalities and declarations and request all authorizations that may

prove necessary for the proper execution and completion of these issuances.

The Board of Directors shall report to the next Annual General Meeting the use made of this delegation of authority in accordance with the legal and regulatory provisions, in particular those of article L. 225-129-5 of the French Commercial code.

This authorization shall be granted for a period of 26 months from the date of this Annual General Meeting. It shall render ineffectual, from the same date, the authorization granted by the Annual General Meeting of 10 May 2006 under its 15<sup>th</sup> resolution.

### 11<sup>th</sup> resolution

***(Authorization for the Board of Directors, in the event of a capital issue with preferential subscription rights, to increase the number of shares to be issued in implementing the 9<sup>th</sup> resolution)***

Having considered the Board of Directors' report and the auditors' special report, and voting under the quorum and majority conditions required for extraordinary business, the shareholders hereby authorize the Board of Directors, with possibility of subdelegation of powers under the provisions of the law, in accordance with articles L. 225-135-1 of the French Commercial Code, to resolve, within thirty days of the closing date of the initial issue subscription, for each of the issuances resolved in implementing the 9<sup>th</sup> resolution above, to increase the number of shares to be issued, within the limit of 15% of the initial issue, subject to the maximum provided for in the resolution under whose implementation the issue is decided and at the same price as that applying to the initial issue.

The Board of Directors shall report to the next Annual General Meeting the use made of this delegation of authority in accordance with the legal and regulatory provisions, in particular those of article L. 225-129-5 of the French Commercial code.

This authorization shall be granted for a period of 26 months from the date of this Annual General Meeting. It shall render ineffectual, from the same date, the authorization granted by the Annual General Meeting of 10 May 2006 under its 16<sup>th</sup> resolution.

### 12<sup>th</sup> resolution

***(Delegation of authority granted to the Board of Directors to issue shares in the Company and/or other securities giving access to shares in the Company, to remunerate contributions in kind granted to the Company and comprising shares or securities giving access to capital)***

Having considered the Board of Directors' report and the auditors' special report, and voting under the quorum and majority conditions required for extraordinary business in accordance with articles L. 225-147 and L. 228-92 of the French commercial code, the shareholders hereby delegate to the Board of Directors, with possibility of subdelegation under the conditions laid down by law, its powers to execute, on the report from the assets auditor(s) referred to in paragraphs 1 and 2 of article L. 225-147 mentioned above, the issuance of shares in the Company and/or securities giving access by any means, immediately or in the future, to existing shares in

the Company or shares to be issued in the Company, with a view to remunerating the contributions in kind granted to the Company and comprising shares or securities giving access to the capital, where the provisions of article L. 225-148 of the French Commercial Code are not applicable, and decides, as need be, to withdraw, for the benefit of shares or securities bearers, the subject of the contributions in kind, the shareholders' preferential subscription right to subscribe the shares and securities thus issued.

The maximum nominal amount of the share capital increase of the Company, immediate or future, resulting from all the issuances executed under this delegation is set at 10% of the Company's share capital, it being specified that the maximum nominal amount resulting from this share capital increase is applied to the maximum provided for under the 13<sup>th</sup> resolution and that it does not include the nominal value of the shares in the Company to be issued, as appropriate, with respect to adjustments carried out in compliance with the law and, where applicable, contractual stipulations to protect the rights of bearers of securities giving access to shares in the Company.

The Annual General Meeting takes formal note that this delegation shall imply, in accordance with the provisions of article L. 225-132 of the French Commercial Code, that the shareholders waive their preferential subscription right to the shares to which the securities issued under this delegation entitle them.

The Board of Directors shall have, with authority to subdelegate under the provisions of the law, all powers to implement this resolution, in particular to take decisions, on the assets auditor(s)' report referred to in paragraphs 1 and 2 of article L. 225-147 mentioned above, on the evaluation of the contributions and the granting of particular advantages, to note the definitive share capital increases executed under this delegation, to make the corresponding amendments to the Articles of Association, and to execute all formalities and declarations and request all authorizations that may prove necessary for the proper execution of these contributions.

The Board of Directors shall report to the next Annual General Meeting the use made of this delegation of authority in accordance with legal and regulatory provisions.

This authorization shall be granted for a period of 26 months from the date of this Annual General Meeting. It shall render ineffectual, from the same date, the authorization granted by the Annual General Meeting of 10 May 2006 under its 18<sup>th</sup> resolution.

### 13<sup>th</sup> resolution

#### *(Overall limitation of immediate and/or future authorizations to increase capital)*

Having considered the Board of Directors' report, and voting under the quorum and majority conditions required for extraordinary business, and consequent to adopting the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> resolutions above, the shareholders resolve to set at €120 million the maximum nominal amount of share capital increases, immediate or in the future, that may be executed under the delegations granted by the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> resolutions, it being specified that may be added to this nominal amount, as the case may be, the nominal amount of the shares in the Company to be issued as adjustments made to protect the bearers of rights pertaining to the securities giving access to shares.

### 14<sup>th</sup> resolution

#### *(Delegation of authority granted to the Board of Directors for the purpose of conducting an increase in the Company's capital through incorporation of reserves, profits or premiums)*

Having considered the Board of Directors' report, and voting under the quorum and majority conditions required for ordinary business in accordance with articles L. 225-129-2 and L. 225-130 of the French commercial code, the shareholders hereby delegate to the Board of Directors, with possibility of subdelegation of powers in accordance with the provisions of the law, the authority to decide to increase the share capital, in one or more stages, at the time and under the terms it will determine, through incorporation in the share capital of reserves, profits or premiums, followed by the creation and allocation of free shares or the raising of the nominal value of the existing shares, or a combination of both.

The Shareholders delegate to the Board of Directors the authority to decide that the rights to fractions of shares shall be neither negotiable nor assignable and that the corresponding shares shall be sold; the proceeds from the sale shall be allocated to the bearers of rights within a timescale set by the regulations.

The maximum nominal amount of the share capital increase of the Company, immediate or future, resulting from all the issuances executed under this delegation has been set at €100 million, it being specified that this maximum is set (i) not taking account of the nominal value of the shares in the Company to be issued, as the case may be, in respect of adjustments made in accordance with the law and, where applicable, of the contractual stipulations to protect the bearers of rights pertaining to the securities giving access to shares in the Company, and (ii) autonomously and distinctly from the maximum for share capital increases resulting from issuances of shares or securities authorized under the 9<sup>th</sup> to 12<sup>th</sup> resolutions above.

The Board of Directors shall have all powers to implement this resolution, and generally do all things necessary and carry out any and all formalities to execute and duly complete each share capital increase.

The Board of Directors shall report to the next Annual General Meeting the use made of this delegation of authority in accordance with the legal and regulatory provisions, in particular those of article L. 225-129-5 of the French Commercial code.

This authorization shall be granted for a period of 26 months from the date of this Annual General Meeting. It shall render ineffectual, from the same date, the authorization granted by the Annual General Meeting of 10 May 2006 under its 21<sup>st</sup> resolution.

### 15<sup>th</sup> resolution

#### *(Delegation of authority granted to the Board of Directors to conduct capital increases reserved for employees participating in a company savings plan)*

Having considered the Board of Directors' report and the auditors' special reports, and voting under the quorum and majority conditions required for extraordinary business, the Shareholders hereby:

delegate to the Board of Directors, in accordance with articles L. 225-129-6, L. 228-92, L. 225-138 I and II and L. 225-138-1 of the French Commercial Code and articles L. 443-1 *et seq.* of the French Labor Code, with possibility of subdelegation under conditions set by the law, authority to decide to increase the share capital on its decision alone, in one or more stages, at times and under terms that it will determine, by issuing shares or securities giving access to existing shares or shares to be issued by the Company, or by the allocation of free shares or securities giving access to existing shares or to shares to be issued by the Company, in particular by incorporating in the capital reserves, profits or premiums, within the legal and regulatory limits, reserved for employees and former employees of the Company and companies or groups in France and abroad related to it in the sense of the current regulations, who are members of a Company Savings Plan (Plan d'Epargne d'Entreprise).

The maximum nominal amount of the share capital increase of the Company, immediate or future, resulting from all the issues executed under this delegation is set at €20 million, it being specified that this maximum (i) does not take account of the nominal value of the shares in the Company to be issued, as the case may be, in respect of adjustments made in accordance with the law, and, where applicable, of the contractual stipulations to protect the bearers of rights pertaining to the securities giving access to shares in the Company, and (ii) is set autonomously and distinctly from the maximum for share capital increases resulting from issues of shares or securities authorized under the 9<sup>th</sup> to 12<sup>th</sup> resolutions above.

The maximum nominal amount of the share capital increase of the Company resulting from all the issuances executed under this delegation through incorporation of reserves, profits or premiums under the conditions and within the limits set by the aforementioned articles of the French Labor Code and their application texts, is set at €20 million, it being specified that this maximum is set (i) not taking account of the nominal price of the ordinary shares in the Company to be issued, where applicable, with respect to adjustments made to protect the bearers of shares pertaining to securities giving access to ordinary shares, and (ii) autonomously and distinctly from the 13<sup>th</sup> resolution above.

Should the subscriptions not absorb the entire share issue, the share capital will only be increased by the amount of shares subscribed.

The Shareholders resolve to withdraw from employees and former employees referred to in the second paragraph of this resolution the preferential subscription rights of shareholders in shares or securities giving access to shares to be issued under this resolution, and to waive any right to shares or other securities awarded free of charge under this delegation. The Shareholders take formal note that this delegation requires the shareholders to waive their preferential subscription rights to the shares to which the securities that would be issued under this delegation may entitle them.

The Shareholders resolve that:

- the subscription price shall be equal to the average of the prices quoted in the twenty sessions prior to the date of the Board of Directors' decision establishing the opening date of subscription, less the maximum discount provided for by law on the day of the Board of Directors' decision, it being specified that the Board

of Directors may reduce this discount as it deems appropriate, in particular in the event of an offer to members of a company share savings plan on the international market or abroad in order to fulfil the requirements of current local legislation. The Board of Directors may also substitute all or part of the discount with the allocation of shares or other securities in implementing the provisions below;

- the Board of Directors may provide for the allocation at no cost of existing shares or securities giving access to existing shares in the Company, it being understood that the overall benefit from this allocation and, as the case may be, the discount mentioned above may not exceed the legal limits, and subject to the taking into account of the equivalent monetary value of the shares allocated free of charge, valued at the subscription price, not resulting in the legal limits being exceeded.

The Board of Directors shall have, with the possibility of subdelegation under the conditions provided for by law, all powers to implement this resolution, and in particular to:

- lay down the characteristics, amounts and terms and conditions of all issuances or allocations of shares free of charge;
- determine that the subscriptions may be executed directly by the beneficiaries or via collective bodies;
- lay down, in accordance with the law, a list of companies or groups whose employees and former employees may subscribe to shares or securities issued, and, where applicable, receive shares or securities allocated free of charge;
- determine the nature and terms and conditions of the share capital increase as well as the terms and conditions of the issuance or allocation of free shares;
- set the share subscription price and the duration of the subscription period;
- set the conditions of length of service required to be fulfilled by the beneficiaries of new shares or securities resulting from the share capital increase(s) or from the shares pertaining to each free allocation, the subject matter of this resolution;
- set the terms and conditions for the issuances of shares and securities that will be executed under this delegation and in particular their effective date and the terms for their payment in full;
- lay down the subscriptions opening date and closing date and collect the subscriptions;
- note the execution of the share capital increase by the issuance of shares corresponding to the amount of the shares actually subscribed;
- determine, if applicable, the nature of the shares allocated free of charge, as well as the terms and conditions of this allocation;
- determine, if applicable, the amount of the sums to be incorporated in the capital within the limit set above, the share capital heading(s) from which they are drawn, and the due date of the shares thus created;



- on its decision alone and if it deems appropriate, apply the costs of share capital increases to the amount of premiums relating to these increases, and draw from this amount the sums needed to raise the legal reserve to one tenth of the new capital after each increase;
- do all things necessary to execute and complete share capital increases, perform all related formalities, in particular those relating to the quotation of the shares created, and make the amendments to the Articles of Association relating to these share capital increases, and generally carry out all necessary duties.

This authorization shall be granted for a period of 26 months from the date of this Annual General Meeting. It shall render ineffectual, from the same date, the authorization granted by the Annual General Meeting of 10 May 2006 under its 22<sup>nd</sup> resolution.

### 16<sup>th</sup> resolution

*(Harmonization of the Company's Articles of Association with amendments to the decree of 23 March 1967 – Corresponding amendment to article 16-3 of the Company's Articles of Association)*

Having considered the Board of Directors' report, and voting under the quorum and majority conditions required for extraordinary business, the Shareholders hereby resolve:

- to amend the Company's Articles of Association with a view to harmonizing them with the provisions of article 35 of decree n° 2006-1566 of 11 December 2006 pertaining to the right of access of shareholders to annual general meetings;

- consequently to replace the text of article 16.3 of the Articles of Association entitled "Conditions of access to Annual General Meetings" ("*Conditions d'accès aux Assemblées*") with the following text:

#### **"Article 16.3 – Conditions of Access to Annual General Meetings**

In accordance with current regulatory provisions, all shareholders are entitled to attend Annual General Meetings and participate in the deliberations or be represented, regardless of the number of shares they hold, if it can be shown, under legal and regulatory conditions, that the shares are registered in their name or in the name of an intermediary entitled to act on their behalf, in implementing the seventh paragraph of article L.225-1 of the French Commercial Code, on the third business day prior to the date of the Annual General Meeting at 0.00 am Paris time, either in the registered share accounts held by the Company, or in the bearer share accounts held by an authorized intermediary.

The registration or accounting entry of shares in the bearer share accounts held by an authorized intermediary shall be ascertained by a shareholding certificate issued by the intermediary account holder under current legal and regulatory conditions."

### 17<sup>th</sup> resolution

*(Powers for formalities)*

The Shareholders hereby grant to the bearer of an original, or a certified correct copy or extract from the minutes of this Annual General Meeting all powers for all procedures of filing and publication and for the execution of all formalities statutory or administrative.

# ANNEX 5 - Report from the Board of Directors to the Combined Annual General Meeting on 20 May 2008

We give below the proposed resolutions which we are submitting for your approval.

## RESOLUTIONS WITHIN THE COMPETENCE OF THE ORDINARY GENERAL MEETING

### Approval of Parent Company Annual Accounts and allocation of profit (1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> resolutions)

The Board of Directors is requesting that you approve the 2007 statutory accounts as presented in its Management Report, together with the business operations reflected or mentioned therein. These statutory accounts show a net profit of €121,256,210.57.

We recommend, in the 3<sup>rd</sup> resolution, that you appropriate and allocate these earnings, bearing in mind the 60,453,823 shares effective date 1 January 2007 in existence at 31 December 2007, and the 2,000,000 shares effective date 1 January 2007 that may be created as part of the share capital increase reserved for employees, i.e. a total of 62,453,823 shares maximum entitled to a dividend for 2007, as follows:

In euros	
Profit	€121,256,210.57
Retained earnings from previous year	€18,124,589.06
<b>TOTAL</b>	<b>€139,380,799.63</b>
Dividend distributed	€46,840,367.25
Balance allocated to retained earnings	€92,540,432.38

Accordingly, a dividend of €0.75 per share shall be paid. It shall be paid in cash on 27 May 2008.

This payment would be eligible for the 40% reduction provided for under article 158.3-2° of the French General Tax Code, which is available to those individual taxpayers whose tax residence is in France.

For the record, the Company has not paid any dividends in the past three years.

If at the time of the payment of the dividend, the Company held any own shares, or if the number of shares created effective date 1 January 2007 as part of the share capital increase reserved for employees was less than 2,000,000 shares, then the amount corresponding to dividends unpaid with respect to these shares would be allocated to "retained earnings".

You will then be asked, with respect to the 2<sup>nd</sup> resolution, to approve the 2007 consolidated financial statements, in accordance with the provisions of article L.225-100 of the French Commercial Code.

### Regulated agreements governed by article L.225-38 of the French Commercial Code (4<sup>th</sup> resolution)

We recommend that you approve the ongoing execution of the agreements governed by article L.225-38 of the French Commercial Code previously approved, and which are covered by a special report by the statutory auditors.

This concerns pension undertakings for the Chairman and Chief Executive Officer the multi-currency syndicate credit agreement concluded in 2006 between ARKEMA and Arkema France on the one hand, and a number of banks on the other hand, renewable, for a maximum amount of €1.1 billion.

### Agreement governed by article L.225-42-1 of the French Commercial Code (5<sup>th</sup> resolution)

We would remind you of the regulated agreement between the Company and the Chairman and Chief Executive Officer approved by the Shareholders General Meeting of 5 June 2007 pertaining to contractual compensation in the event of redundancy.

We wish to inform you that the Board of Directors, pursuant to article L.225-42-1 of the French Commercial Code as amended by article 17 of the so-called "TEPA" French law (*Loi en faveur du travail, de l'emploi et du pouvoir d'achat*) of 21 August 2007, has ruled that the proceeds from this compensation be subject to the fulfilling of the conditions related to the performances of the beneficiary evaluated in relation to those of the Company as detailed in the Board of Directors' Management Report and in the Statutory Auditors' Special Report pursuant to the provisions of the law.

Accordingly, we recommend, in the 5<sup>th</sup> resolution, that you approve this agreement as amended.

### Renewal of the appointment of a Statutory Auditor and an Alternate Auditor (6<sup>th</sup> and 7<sup>th</sup> resolutions)

We propose, in these resolutions, the renewal of the appointments, which are expiring, of KPMG Audit as statutory auditors, and of Mr Jean-Marc Decléty as alternate auditor, both for a term of six years.

## Authorization to trade shares in the Company (8<sup>th</sup> resolution)

We wish to inform you that, as the authorization granted by the Shareholders General Meeting on 5 June 2007 is due to expire on 5 December 2008, we recommend that you authorize your Board of Directors to trade shares in the Company at a maximum purchase price of €60 per share with €10 par value and a maximum total amount of purchases set at €200 million.

These transactions would be conducted pursuant to article L.225-209 of the French Commercial Code and in accordance with the provisions of European Council Regulation n° 2273/2003 dated 22 December 2003 pertaining to the terms of application of European Directive n° 2003 /6/CE dated 28 January 2003.

The maximum amount of shares that may be purchased under this authorization may not exceed 10% of the total number of shares comprising the share capital, it being specified that this limit of 10% is applicable to an amount of the Company's share capital that will be, where applicable, adjusted for any capital transactions carried out after this Meeting, as any share purchases made by the Company may under no circumstances increase the Company's holding, whether directly or indirectly, through indirect subsidiaries, to more than 10% of the share capital.

The shares may be purchased for any purpose permitted by law either now or in the future, and notably for the following purposes:

- ▶ to implement market practices permitted by the *Autorité des marchés financiers* such as (i) purchasing shares in the Company to keep and subsequently tender as consideration for acquisitions, mergers, spin-offs or asset transfers up to a maximum of 5% of the share capital at the time of the transaction; (ii) purchasing or selling shares under a liquidity agreement that complies with the

code of conduct approved by the *Autorité des marchés financiers*, entered into with an investment services provider; and (iii) any market practice that might in the future be permitted by the *Autorité des marchés financiers* or by law;

- ▶ to implement and honour obligations and more particularly to allot the shares upon the exercise of rights attached to securities giving immediate or future access to the share capital by whatever means, and to cover the Company's (or one of its subsidiaries') existing obligations in connection with such securities, under the conditions permitted by the market authorities and at the times the Board of Directors or its delegated representative deems appropriate;
- ▶ to cover stock option plans granted to employees or executive officers of the Company or its group;
- ▶ to award stock grants to employees or executive officers of the Company or its group under the conditions set out under articles L.225-197-1 *et seq.* of the French Commercial Code;
- ▶ to award shares for no consideration to employees, directly or through an employee share ownership plan, under the conditions set out by law and particularly articles L.443-1 *et seq.* of the French Labor Code;
- ▶ to reduce the Company's share capital.

This authorization for purchasing shares in the Company could not be used during the period of a public offering on the Company and would be given for a period of eighteen months with effect from the date of this meeting, superseding the authorization granted previously under the 7<sup>th</sup> resolution at the Combined Shareholders Meeting of 5 June 2007.

## RESOLUTIONS WITHIN THE COMPETENCE OF THE EXTRAORDINARY GENERAL MEETING

We will then recommend that you grant your Board of Directors a number of delegations for the purposes of renewing the authorizations allowing the Board of Directors to bring together quickly and with flexibility the necessary financial resources to implement the Group's growth strategy.

### Delegations of authority to decide to issue shares in the Company and various securities (9<sup>th</sup> and 10<sup>th</sup> resolutions)

The 9<sup>th</sup> and 10<sup>th</sup> resolutions would allow, by decision of the Board of Directors, the issue of securities in France, outside France and/ or on international markets, while maintaining, or withdrawing, the shareholders' preferential subscription rights, on the basis of the opportunities offered by the financial markets and the interests of the Company and its shareholders.

The 9<sup>th</sup> resolution therefore authorizes the Board of Directors to issue securities giving access, immediately or in the future, to shares in the Company that are or will be issued as part of a share capital increase, while maintaining the shareholders' preferential subscription rights.

The maximum nominal amount of capital increases that may be executed under this delegation is set at €120 million, i.e. approximately 19% of the capital at 31 December 2007, to which may be added the nominal amount of additional shares to be issued to safeguard the rights of bearers of securities giving access to shares in the Company, in accordance with the provisions of the law.

The maximum nominal amount of debt securities giving access to capital that may be issued, in implementing the delegation granted to the Board of Directors, is set at €500 million or at the equivalent value of this amount if they are issued in other currencies.

The 10<sup>th</sup> resolution authorizes the Board of Directors to issue securities giving access, immediately or in the future, to shares in the Company that are or will be issued as part of a share capital increase, without the shareholders' preferential subscription rights being exercised.

Indeed, in order to be able to respond without delay to any financial opportunity based in particular on the diversity of the financial markets in France and abroad, the Board of Directors may be required to execute issuances that may be placed with investors interested in certain types of financial products. This requires the Board of Directors to be able to execute these issuances without the shareholders' preferential subscription rights being exercised.

Should this option be exercised, the shareholders could benefit from a preferential subscription right, for a given period and under terms and conditions to be fixed by the Board of Directors.

The maximum nominal amount of capital increases that may be executed under this delegation is set at €120 million, namely approximately 19% of the capital at 31 December 2007, to which may be added the nominal amount of additional shares to be issued to safeguard the rights of bearers of securities giving access to shares in the Company, in accordance with the provisions of the law.

The maximum nominal amount of debt securities giving access to capital that may be issued, in implementing the delegation granted to the Board of Directors, is set at €500 million or at the equivalent value of this amount if they are issued in other currencies.

In 2007, the Board of Directors made no use of these authorizations.

These authorizations would be granted for a period of 26 months from the date of this Annual General Meeting, and would render ineffectual, from the same date, the authorizations of a same nature granted by the Annual General Meeting of 10 May 2006.

### **Increase in the number of shares to be issued should demand exceed the issues (11<sup>th</sup> resolution)**

The eleventh resolution is to renew the authorization granted to the Board of Directors, in accordance with the provisions of article L.225-135-1 of the French Commercial Code, to increase within the limit of 15% of the initial issuance, the amount of issue with preferential subscription right subject to your approval under the 9<sup>th</sup> resolution, should demand from investors exceed these issues.

In 2007, the Board of Directors made no use of this authorization.

This authorization would be given for a period of 26 months from the date of the Annual General Meeting, and would render ineffectual, as of the same date, the delegation of a same nature granted by the Annual General Meeting of 10 May 2006.

### **Delegation to issue shares in the Company and securities within the limit of 10% of the Company's share capital to remunerate contributions in kind granted to the Company (12<sup>th</sup> resolution)**

The purpose of the 12<sup>th</sup> resolution is to renew the authorization granted to the Board of Directors, in accordance with the provisions

of article L.225-147 of the French Commercial Code, to issue shares or other securities as remuneration of contributions in kind, within the limit of 10% of the Company's share capital.

This procedure shall be governed by the rules relating to contributions in kind, in particular those relating to the evaluation of contributions by an assets auditor in accordance with the provisions of article L.225-147 of the French Commercial Code.

In 2007, the Board of Directors made no use of this authorization.

This authorization would be granted for a period of 26 months from the date of this Annual General Meeting, and would render ineffectual, from the same date, the delegation of a same nature granted by the Annual General Meeting of 10 May 2006.

### **Overall limitation of authorizations to increase capital (13<sup>th</sup> resolution)**

The purpose of this 13<sup>th</sup> resolution is to set an overall limit on the nominal amount of share capital increases, immediate or in the future, with or without shareholders' preferential subscription right, that may be executed by the Board of Directors under the 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> resolutions.

The maximum nominal amount of share capital increases referred to in the above resolutions is set at €120 million, to which the nominal amount of shares to be issued in addition may be added, as applicable, to safeguard the right of the bearers of securities giving access to shares in the Company, in accordance with the provisions of the law.

### **Delegation of authority for the purpose of conducting an increase in the Company's capital through incorporation of reserves, profits or premiums (14<sup>th</sup> resolution)**

The purpose of this resolution is to authorize the Board of Directors to increase the share capital through incorporation of reserves, profits or premiums. The Board of Directors may combine this operation with a share capital increase by creating and allocating shares free of charge or by raising the nominal value of existing shares.

The maximum nominal amount of share capital increases that may be executed under this delegation is set at €100 million, to which may be added the nominal amount of shares to be issued in addition to safeguard the rights of the bearers of securities giving access to shares in the Company, in accordance with the provisions of the law.

In 2007, the Board of Directors made no use of this authorization.

This authorization would be granted for a period of 26 months from the date of this Annual General Meeting, and would render ineffectual, from the same date, the delegation of a same nature granted by the Annual General Meeting of 10 May 2006.

### Delegation of authority to conduct capital increases reserved for employees participating in a company savings plan (15<sup>th</sup> resolution)

The purpose of this resolution, presented in implementing article L.225-129 *et seq.* and L.225-138-1 of the French Commercial Code and articles L.443-1 *et seq.* of the French Labor Code, is to authorize the Board of Directors to issue shares and/or securities giving access to the share capital issued by the Company reserved to those employees participating in a Company Savings Plan (*Plan d'Epargne Entreprise*).

In accordance with article L.225-138-1 of the French Commercial Code, this resolution implies the waiving of the preferential subscription rights of shareholders in favour of those employees participating in a Company Savings Plan for ARKEMA or related companies in the meaning of article L.225-180 of the French Commercial Code and of article L.444-3 of the French Labor Code.

The subscriptions may be executed by members of an ARKEMA Company Savings Plan (*Plan d'Epargne Entreprise*) or via direct share ownership in the countries in which these instruments may not be available. The total number of shares and/or securities giving access to share capital that may be issued in implementing the authorization requested from the Annual General Meeting is set at 2 million shares.

In implementing article L.443-5 of the French Labor Code, the subscription price shall be neither above the average of the Company's quoted share prices in the twenty trading sessions prior to the date of the Board of Directors' decision, nor below this average less the maximum discount provided for by the regulations.

This authorization would be granted for a period of 26 months from the date of the Annual General Meeting, and would render ineffectual, from the same date, the delegation of a same nature granted by the Annual General Meeting on 10 May 2006.

In 2007, The Board of Directors made no use of this authorization. However, we can inform you that the Board of Directors meeting on 17 January 2008 decided to proceed with a share capital increase operation reserved for Group employees the characteristics of which were set at the meeting of 4 March 2008. Accordingly, the subscription price has been set at €30.42 per share with a €10 nominal value,

with effective date on 1 January 2007. This price corresponds to the average opening prices quoted in the 20 days preceding the date of the Board's meeting, to which a 20% discount was applied. The subscription period will begin on 25 March 2008 and close on 13 April 2008 close of business.

### Harmonization of the Company's Articles of Association with amendments to the decree of 23 March 1967 – Corresponding amendment to article 16.3 of the Company's Articles of Association (16<sup>th</sup> resolution)

The purpose of this resolution is to harmonize the Company's Articles of Association with the amendments made to the decree of 23 March 1967 pertaining to the provisions allowing shareholders to attend Annual General Meetings and take part in the deliberations by introducing a "record date" system superseding the share immobilization principle applying until the date of the Annual General Meeting.

Accordingly, evidence of share ownership allowing access to annual general meetings may be determined from this amendment to the rules, on the third business day at 0.00 am (Paris time) prior to the Annual General Meeting, for both bearer shareholders and registered shareholders.

We request therefore that you amend article 16.3 of the Articles of Association entitled "Conditions of access to Annual General Meetings" ("*Conditions d'accès aux Assemblées*") in order to take these provisions into account.

### Powers for formalities (17<sup>th</sup> resolution)

You are being requested in the 17<sup>th</sup> resolution to grant to the bearer of an original, or a certified correct copy or extract from the minutes of this Annual General Meeting all powers for the execution of all formalities statutory or administrative.

The draft resolutions presented comprise the main points of this Report, and we would request that you adopt them.

The Board of Directors

# ANNEX 6 - Additional Report from the Board of Directors on the use of financial delegations granted by the Shareholders

In accordance with provisions of articles L.225-129-5 of the French commercial code, we give below information relating to the delegations granted to the Board of Directors which were used during 2007.

## AUTHORIZATION GRANTED TO THE BOARD OF DIRECTORS TO AWARD SHARES IN THE COMPANY FOR NO CONSIDERATION

Having considered the Board of Directors' report and the Auditors' special report, and voting under the quorum and majority conditions required for extraordinary business, the Combined General Meeting of 10 May 2006 delegated to the Board of Directors, in its 23<sup>rd</sup> resolution, in accordance with articles L. 225-197-1 et seq. of the French Commercial Code, authority to proceed with the granting of shares in the Company, in existence or to be issued, in one or more operations under the conditions described below.

The beneficiaries shall be eligible employees and executive officers (in the meaning of article L. 225-197-1 II paragraph 1 of the French Commercial Code) of the Company or companies or groups related to it in the meaning of article L. 225-197-2 of the French Commercial Code, or certain categories thereof.

This authorization was granted for a period of 38 months with effect from 10 May 2006.

The total number of shares in the Company in existence or to be issued granted for no consideration by virtue of this resolution may not exceed 3% of the Company's share capital on the day of the subscription-split, i.e. €18,136,146.

The Board of Directors shall lay down, under the terms of the law, with every decision to grant shares, the acquisition period, at the close of which the shares shall be allocated definitively. This period shall not be less than two years from the date of the award.

The Board of Directors shall lay down, under the terms of the law, with every decision to grant shares, the period during which the beneficiaries must hold the shares in the Company, which runs from the date of the definitive award of the shares. This period shall not be less than two years.

The existing shares that may be granted by virtue of this resolution shall be acquired by the Company, either as part of article L. 225-208 of the French Commercial Code, or, if applicable, as part of the share purchase programme authorized by the 10<sup>th</sup> resolution presented for adoption by this Annual General Meeting in accordance with article L.225-209 of the French Commercial Code or any share purchase programme applicable at a later date.

The Shareholders ruled and decided, where appropriate, that this delegation entails, for the benefit of the beneficiaries of free allocations of shares, in existence or to be issued, the waiving by the shareholders (i) of their preferential subscription right for the shares that will be issued as and when the shares are allocated definitively, (ii) of any right to shares awarded for no consideration on the basis of this delegation, and (iii) to any right on the amount of reserves and premiums to which, as applicable, the issuance of the new shares will be allocated.

The Shareholders gave all powers to the Board of Directors, within the limits set above, for the purposes of implementing this authorization and in particular of:

- ▶ determining the identity of the beneficiaries, the allocation criteria, the number of shares awarded to each of them, the conditions and methods for awarding the shares and in particular the acquisition period and the holding period for the shares thus awarded;
- ▶ laying down, under the terms and within the limits of the law, the dates at which the free share allocations may take place;
- ▶ deciding the effective date, even retroactively, of the newly issued shares;
- ▶ deciding the conditions under which the number of shares awarded for no consideration will be adjusted; and,
- ▶ generally, with the possibility of subdelegation subject to the provisions of the law, concluding all agreements, preparing all documents, noting share capital increases following definitive allocations, amending, where applicable, the Articles of Association accordingly, carrying out all formalities and declarations to all bodies and otherwise perform all necessary duties.

The Board of Directors may, within the limits it has set beforehand, delegate to the Chief Executive Officer, or, with the agreement of the latter, to one or more vice presidents the powers given to him by virtue of this resolution.

## Use of the aforementioned delegation in 2007

The Board of Directors meeting on 14 May 2007 agreed, by virtue of the aforementioned delegation and on the recommendation of the Nominating and Compensation Committee, the provisions of a free share allocation plan for a period of eight years concerning 125,000 shares.

The free allocation of shares shall not be definitive until the end of a two-year acquisition period and is dependent on the beneficiary's

continued employment by the Group and on condition of improvements in the profitability of the Group. After this acquisition period, the shares shall be definitively awarded to the beneficiaries, subject to the above conditions, who must then hold them for two years.

As part of this authorization, bearing in mind the 150,000 shares (6,685 shares of which were cancelled in 2007) allocated by the Board of Directors on 4 July 2006, the Board of Directors awarded 275,000 free shares.

## AUTHORIZATION GIVEN TO THE BOARD OF DIRECTORS FOR THE PURPOSES OF AWARDING STOCK OPTIONS IN THE COMPANY

Having considered the Board of Directors' report and the Auditors' special report, and voting under the quorum and majority conditions required for extraordinary business, the Combined General Meeting of 10 May 2006 delegated to the Board of Directors, in accordance with articles L. 225-177 et seq. of the French Commercial Code, authority to proceed with the award of stock options in the Company, under the conditions described below.

The beneficiaries shall be eligible employees and executive officers (in the meaning of article L. 225-185-1 paragraph 4 of the French Commercial Code) of the Company or companies or groups related to it in the meaning of article L. 225-180 of the French Commercial Code, or certain categories thereof. The options may be awarded by the Board of Directors to all or part of these people.

This authorization was granted for a period of 38 months with effect from 10 May 2006.

Each option shall entitle the beneficiary to subscribe for or acquire a new ordinary share or an existing ordinary share as the case may be. The total number of options that may be awarded by virtue of this resolution may not give the right to subscribe for or acquire a number of shares exceeding 5% of the Company's share capital as set on completion of the subscription-split, i.e. €30,226,911.

The shares that may be obtained by the exercising of stock options awarded by virtue of this resolution must be acquired by the Company in accordance with article L. 225-208 of the French Commercial Code or with article L. 225-209 of the French Commercial Code.

The price for exercising these stock options shall be set by the Board of Directors as of the day on which the options will be awarded, under the conditions provided for by article L. 225-177 of the French Commercial Code for stock subscription options and by article L. 225-179 of the French Commercial Code for stock purchase options.

The stock options thus allocated shall be exercised within a maximum 8-year period from the date of their award by the Board of Directors.

The shareholders ruled and decided, where appropriate, that this delegation entails, for the benefit of the beneficiaries of stock options, the express waiving by the shareholders of their preferential subscription right for the shares that will be issued as and when the options are exercised.

The shareholders gave all powers to the Board of Directors for the purposes of implementing this resolution and in particular of:

- fixing, under the conditions of and within the limits of the law, the dates at which the options may be awarded;
- determining the list of stock option beneficiaries, the number of options awarded to each of them, the terms and methods for the award and the exercising of the options;
- setting the terms and conditions for exercising the options and in particular limit, restrict or prohibit (a) the exercising of the options or (b) the transfer of shares obtained through the exercising of the options, at certain periods or from the date of certain events, while its decision may (i) concern all or part of the options, and (ii) concern all or part of the beneficiaries;
- deciding the effective date, even retroactively, for the new shares obtained through the exercising of subscription options;
- taking, in the cases provided for by the law, the necessary measures to protect the interests of the beneficiaries of the options under the conditions provided for by article L. 228-99 of the French Commercial Code;
- generally, with the possibility of subdelegation subject to the provisions of the law, concluding all agreements, preparing all documents, noting share capital increases following the exercising of options, amending, where applicable, the Articles of Association accordingly, carrying out all necessary formalities for the quotation of the shares thus issued and all declarations to all bodies and otherwise perform all necessary duties.

The Board of Directors shall inform every year the Ordinary General Meeting of any operations conducted by virtue of this resolution, in accordance with article L. 225-184 of the French Commercial Code.

The Board of Directors may, within the limits it has set beforehand, delegate to the Chief Executive Officer, or, with the agreement of the latter, to one or more vice presidents the powers given to him by virtue of this resolution.

### Use of the aforementioned delegation in 2007

The Board of Directors meeting on 14 May 2007 agreed, by virtue of the aforementioned delegation and on the recommendation of the Nominating and Compensation Committee, the provisions of a stock option plan for a period of eight years and concerning 600,000 options.

Each option thus allocated gives the right to one share in the Company at an exercising price corresponding to the average of the prices quoted for the Arkema share in the 20 days preceding the date of the award, i.e. €44.63.

The stock options awarded as part of this plan may only be exercised after an initial two-year period, provided the bearer is still employed by the Group, and shares acquired by the exercise of options may not be sold for a further two-year period with the exception of specific cases provided for in the plan.

As part of this authorization, bearing in mind the 540,000 shares (4,000 stock options of which were cancelled in 2007) allocated by the Board of Directors on 4 July 2006, the Board of Directors awarded 1,140,000 stock options.

In accordance with regulatory requirements, stock option plans and free share allocation plans agreed by the Board of Directors meeting

on 14 May 2007 require the directors of Arkema S.A. and the members of the Group's Executive Committee to retain, until termination of office, part of the shares from the stock options they have exercised and part of the shares awarded definitively.

Additionally, we wish to inform you that the Board of Directors meeting on 17 January 2008 decided to proceed with a share capital increase operation reserved for Group employees the characteristics of which were set at its meeting of 4 March 2008. Accordingly, the subscription price has been set at €30.42 per share with a €10 nominal value, with effective date on 1 January 2007. This price corresponds to the average of the opening prices quoted in the 20 days preceding the date of the Board's meeting, to which a 20% discount was applied. The subscription period will begin on 25 March 2008 and close on 13 April 2008 close of business.

We confirm that the Board of Directors' Additional Report on the use of the delegation to conduct the share capital increase reserved for employees will be prepared when the subscription period has come to a close and the definitive conditions of the share capital increase and in particular the definitive amount of the subscription are known.

The Board of Directors



# ANNEX 7 - Statutory auditors' report on the financial delegations granted by the General Meeting of shareholders to the Board of Directors

*This is a free translation into English of a report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

## **Statutory Auditors' report on the Company's share capital operations exposed in the resolutions 9, 10, 11, 12 and 15, proposed to the Combined General Meeting on 20 May 2008**

To the Shareholders,

In our capacity as statutory auditors of your Company and in compliance with the assignments entrusted to us by the French Company Law (*Code de commerce*), we hereby report to you on the operations which are submitted to your approval.

### **I. ISSUE OF SHARES AND/OR FINANCIAL INSTRUMENTS GIVING ACCESS TO THE CAPITAL OF THE COMPANY WITH MAINTAINING AND/OR CANCELLING OF THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHTS (RESOLUTIONS 9 TO 12)**

In compliance with the assignment entrusted to us by the French Company Law (*Code de commerce*) and notably Articles L.225-135, L.225-136, L.225-138 et L.228-92 we hereby report to you on the proposals of delegation of authority to the Board of Directors to issue ordinary shares and other financial instruments giving access to capital of the Company, operations which are submitted to your approval.

Your Board of Directors proposes you, on the basis of its report presented in Annex 5 of the 2007 Reference Document:

- ▶ to delegate him, with option of sub delegation under the terms of the law, for a period of 26 months from the date of this Annual General Meeting, the authority to decide in favour of the operations mentioned below and to definitely set the conditions of these issues and proposes you, as need be, to cancel your preferential subscription right:
  - ▶ Issue, free of charge or against payment, with maintaining the shareholders' preferential rights, of i) ordinary shares in the Company, ii) financial instruments giving access by any means, immediately or in the future, to existing shares in the Company or shares to be issued in the Company, iii) financial instruments giving access by any means, immediately or in the future to existing shares in the Company or shares to be issued in a subsidiary of the Company and iv) financial instruments giving access to the granting of debt securities (ninth resolution),
  - ▶ Issue, with cancellation of the shareholders' preferential subscription rights, with option for the Board of Directors to grant the shareholders a right to subscribe, on an irreducible or a reducible basis, of i) ordinary shares in the Company, (ii) of financial instruments giving access by any means, immediately or in the future, to existing shares in the Company or shares to be issued in the Company, (iii) financial instruments giving access by any means, immediately or in the future, to existing shares in a company or shares to be issued in a subsidiary of the Company, and (iv) financial instruments giving access to the granting of debt securities) (tenth resolution),
- ▶ To authorize him, by the tenth resolution and while implementing this delegation of Authority, to set the subscription price of shares and financial instruments, in accordance with the provisions of Article R.225-119,
- ▶ To delegate him, for a period of 26 months from the date of this Annual General Meeting, the power to execute the issuance of shares and/or financial instruments giving access by any means, immediately or in the future, to existing shares in the Company or shares to be issued in the Company, with a view to remunerating the contributions in kind granted to the Company and comprising shares or financial instruments giving access to the capital, with cancellation, as need be, for the benefit of shares or financial instruments bearers, the subject of the contributions in kind, of the shareholders' preferential subscription right to subscribe the shares and maximum financial instruments thus issued (twelfth resolution), within the limit of 10% of the Company's share capital

The ceiling of the nominal amount of the share capital increase of the Company that may be executed under the delegations granted by the 9th, 10th, 11th and 12th resolutions, immediately or in the future, is set at €120 million, being specified that may be added to this nominal amount, as the case may be, the nominal amount of the shares in the Company to be issued as adjustments made to protect the bearers of rights pertaining to the financial instruments giving access to shares.

The nominal amount of the debt securities that may be issued under the ninth and tenth resolutions may not exceed €500 million in total.

The number of shares to be issued in implementing the ninth resolution may be increased in accordance with Article L.225-135-1 of the French Company Law (*Code de commerce*), subject to your approval of the eleventh resolution.

It is the responsibility of your Board of Directors to prepare a report in accordance with the provisions of Articles R.225-113, R.225-114 and R.225-117 of the French Company Law (*Code de commerce*). It is our responsibility to express an opinion on whether the information issued from the financial statements is fairly stated, on the proposal to cancel the preferential subscription right and on various other information dealing with these operations, given in this report.

We have performed the procedures which we considered necessary in accordance with the professional standards applicable in France relating to this engagement. These procedures consisted in verifying the information provided in the Board of Directors' report dedicated to these operations and the methods used for determining the subscription price of the shares to be issued.

Subject to our further examination of the conditions of issues that may be decided, we have no matters to report on the methods used for determining the subscription price of the shares to be issued given in the Board of Directors' report under the tenth resolution.

In addition, as this report does not detail the methods used for determining the subscription price of the shares to be issued under the ninth and twelfth resolutions, we do not express any opinion on the elements of the subscription price calculation.

As the share issue price has not yet been determined, we do not express any opinion on the final conditions under which issues will be processed and, accordingly, on the proposal of cancellation of the shareholders' preferred subscription right under the tenth resolution.

In accordance with the provisions of Article R.225-116 of the French Company Law (*Code de commerce*), we will issue an additional report, as need be, when your Board of Directors makes use of these delegations while issuing of ordinary shares in the Company with cancellation of the preferential subscription right and financial instruments giving access to shares in the Company and/or giving access to the granting of debt securities.

## **2. CAPITAL INCREASES RESERVED FOR EMPLOYEES PARTICIPATING IN A COMPANY SAVINGS PLAN, WITH CANCELLING THE SHAREHOLDERS' PREFERENTIAL SUBSCRIPTION RIGHT (RESOLUTION 15).**

In compliance with the assignment entrusted to us by Articles L. 225-135 and after and Article L. 228-92 of the French Company Law (*Code de commerce*), we hereby report to you the project of delegation of authority to the Board of Directors to decide to increase the share capital, in one or more stages, by issuing shares or securities giving access to existing shares or to shares to be issued by your Company, with cancellation of the shareholders' preferential subscription right, reserved for employees and former employees of the Company and related companies or groups in France and abroad in the meaning of the current laws and regulations, who are members of the Arkema Company Savings Plan, or via direct share ownership in the countries in which these instruments may not be available, for a maximal nominal amount of €20 million, operation submitted to your approval.

These capital increases are submitted to your approval in accordance with the provisions of Articles L. 225-129-6 of the French Company Law (*Code de commerce*) and L. 443-5 of the French Labor Code (*Code du travail*).

Your Board of Directors proposes you, on the basis of its report, to delegate to him for a period of 26 months from the date of this Annual General Meeting, your authority to decide to increase the share capital in one or more stages and to waive your preferential subscription right to the shares to be issued. If need be, it is his responsibility to set the definitive conditions of these operations.

It is the responsibility of your Board of Directors to issue a report in accordance with articles R. 225-113, R. 225-114 et R. 225-117 of the French Company Law (*Code de commerce*). It is our responsibility to express an opinion on certain information included in this report, and on the proposal to cancel the preferential subscription right.

We have performed the procedures which we considered necessary in accordance with the professional standards applicable in France relating to this engagement. We verified the information provided in the Board of Directors' report dedicated to these operations and the methods of determining the subscription price. In accordance with article L.443-5 of the French Labor Code (*Code du travail*), the subscription price can not exceed the average of the prices of your Company's share on the Eurolist Market of Euronext Paris S.A. during the twenty Paris stock market trading days preceding the date of decision by the Board of Directors, or be lower than this average minus the maximal discount provided for by current laws and regulations.

Subject to further review of the terms of capital increases that may be decided, we have no matters to report on the methods of determining the subscription price of the shares to be issued given in the Board of Directors' report.

As the amount of the subscription price of the shares to be issued is not set yet, we do not give any opinion on the final conditions in which potential share capital increases will be processed and, accordingly, on the proposal of cancelling of the shareholders' preferential subscription right.

In accordance with the provisions of Article R.225-116 of the French Company Law (*Code de commerce*), we will issue an additional report, as need be, when your Board of Directors makes use of this delegation.

Paris-La Défense, April 17, 2008

The Statutory Auditors

*French original signed by*

**KPMG Audit**

A division of KPMG S.A.

Bertrand Desbarrières

*Partner*

Jean-Louis Caulier

*Partner*

**ERNST & YOUNG AUDIT**

François Carrega

*Partner*

## ANNEX 8 - Special report from the Board of Directors on the share buy-back program in application of article L.225-209 of the *Code de commerce*

The purpose of this report is (i) to inform ARKEMA'S Annual General Meeting of the completion of the share buy-back operations as part of the share buy-back program approved by the Shareholders General Meeting of 5 June 2007, and (ii) to present the new buy-back program on which the Company's Annual General Meeting of 20 May 2008 will be asked to vote.

This document has been prepared in accordance with articles 241-1 *et seq.* of the *Autorité des marchés financiers* General Regulation.

### REVIEW OF THE SHARE BUY-BACK PROGRAM AUTHORIZED ON 5 JUNE 2007 (2007 SHARE BUY-BACK PROGRAM)

The Shareholders General Meeting of 5 June 2007, having considered the Board of Directors' report, authorized the Board of Directors, in accordance with the provisions of article L.225-209 of the *Code de commerce* and the European Council Regulation n° 2273/2003 dated 22 December 2003 pertaining to the terms of application of European Directive n° 2003/6/CE dated 28 January 2003, to purchase shares in the Company as part of a share buy-back program, the main features of which are as follows:

- maximum purchase price: €60, with the Company's holding as a result of this purchase not exceeding 10% of the shares comprising the share capital;
- duration of this authorization: 18 months;
- the shares may be purchased or transferred at any time, including during a public offering, provided it is fully settled in cash, under the conditions and within the limits, particularly volume and price, permitted by law at the date of the transaction in question, by any and all means, including over the counter, by way of block trades or by way of derivatives traded on a regulated or over-the-counter market, under the conditions permitted by the market authorities and at the times the Board of Directors or its delegated representative deems appropriate.

Under this 2007 Share Buy-back Program, own shares may be repurchased for any purpose permitted by law, notably the following:

- to implement market practices permitted by the *Autorité des Marchés Financiers* such as (i) purchasing shares in the Company to keep and subsequently tender as consideration for possible external growth operations, acquisitions, mergers, spin-offs or asset transfers up to a maximum of 5% of the share capital at the

time of the transaction, or (ii) purchasing or selling shares under a liquidity agreement that complies with the code of conduct approved by the *Autorité des Marchés Financiers*, entered into with an investment services provider, and (iii) any market practice that might in the future be permitted by the *Autorité des Marchés Financiers* or by law;

- to implement and honour obligations and more particularly to allot the shares upon the exercise of rights attached to securities giving immediate or future access to the share capital by whatever means, and to cover the Company's (or one of its subsidiaries') existing obligations in connection with such securities, under the conditions permitted by the market authorities and at the times the Board of Directors or its delegated representative deems appropriate;
- to cover stock option plans granted to employees or executive officers of the Company or its group;
- to award stock grants to employees or executive officers of the Company or its group under the conditions set out in articles L. 225-197-1 *et seq.* of the *Code de commerce*;
- to grant shares for no consideration to employees, directly or through an employee share ownership plan, under the conditions set out by law and particularly articles L. 443-1 of the French Labor Code;
- to reduce the Company's share capital.

The Board of Directors of 17 January 2008 decided to implement the share buy-back program authorized by the Combined Shareholders Meeting of 5 June 2008 at a maximum price of €50 with the number of shares acquired not exceeding 3% of the share capital.

## OPERATIONS COMPLETED AS PART OF THE 2007 SHARE BUY-BACK PROGRAM

As at 5 June 2007, when the Shareholders General Meeting approved the 2007 Share Buy-back Program, the Company held, directly or indirectly, no own share.

The following tables give a summary of the operations carried out as part of the 2007 Share Buy-back Program:

Summary statement as at 31 March 2008	
Number of shares comprising the Company's capital at 5 June 2007	60,453,823
Own shares held directly or indirectly at 5 June 2007	None
Number of securities purchased between 5 June 2007 and 31 March 2008	300,830
Weighted average gross price of securities purchased ( <i>in euros</i> )	34.70
Number of portfolio-held securities at 31 March 2008	300,830
Number of securities cancelled in the last 24 months	None
Accounting value of portfolio ( <i>in euros</i> )	10,439,893.36
Market value of portfolio ( <i>in euros</i> ) based on closing price at 31 March 2008, i.e. €35.42	10,655,398.60

### SUMMARY OF TRANSACTIONS FOR THE PROGRAM BETWEEN 5 JUNE 2007 AND 31 MARCH 2008

Summary of transactions for the program between 5 June 2007 and 31 March 2008	Aggregate gross movements		Open positions at 31 March 2008	
	Purchases	Sales / transfers	Open buying positions	Open selling positions
Number of securities	300,830	-	None	None
Average price of transaction ( <i>in euros</i> )	34.70	-	None	None
Amounts ( <i>in euros</i> )	10,439,893.36	-	None	None

Breakdown of shares held by Arkema by objectives:

As at 31 March 2008, the 300,830 shares held by the Company were allocated for the purpose of covering Company stock grants

to employees and executive officers of the Company and affiliated companies.

## SHARE BUY-BACK PROGRAM RECOMMENDED TO THE ANNUAL GENERAL MEETING OF 20 MAY 2008 (2008 SHARE BUY-BACK PROGRAM)

Arkema's Board of Directors wishes the Company to continue with a share buy-back program.

To this end, the Board of Directors will recommend to the Combined Shareholders Meeting of 20 May 2008 the cancellation of the 7<sup>th</sup> resolution voted by the Combined Shareholders Meeting of

5 June 2007 and the authorization for implementation of a new share buy-back program in accordance with the provisions of European Council Regulation n° 2273/2003 dated 22 December 2003 pertaining to the terms of application of European Directive n° 2003/6/CE dated 28 January 2003.

## OBJECTIVES OF THE 2008 SHARE BUY-BACK PROGRAM

As part of the 2008 Share Buy-back Program that will be recommended to the Combined General Meeting of 20 May 2008, ARKEMA is considering repurchasing own shares or having own shares repurchased for any purpose permitted by law either now or in the future, and notably for the following purposes:

- to implement market practices permitted by the *Autorité des Marchés Financiers* such as (i) purchasing shares in the Company to keep and subsequently tender as consideration for possible external growth operations, acquisitions, mergers, spin-offs or asset transfers up to a maximum of 5% of the share capital at the time of the transaction, or (ii) purchasing or selling shares under a liquidity agreement that complies with the code of conduct approved by the *Autorité des Marchés Financiers*, entered into with an investment services provider, and (iii) any market practice that might in the future be permitted by the *Autorité des Marchés Financiers* or by law;
- to implement and honour obligations and more particularly to allot the shares upon the exercise of rights attached to securities giving immediate or future access to the share capital by whatever means, and to cover the Company's (or one of its subsidiaries')

existing obligations in connection with such securities, under the conditions permitted by the market authorities and at the times the Board of Directors or its delegated representative deems appropriate;

- to cover stock option plans granted to employees or executive officers of the Company or its group;
- to award stock grants to employees or executive officers of the Company or its group under the conditions set out in articles L. 225-197-1 *et seq.* of the *Code de commerce*;
- to grant shares for no consideration to employees, directly or through an employee share ownership plan, under the conditions set out by law and particularly articles L. 443-1 of the French Labor Code;
- to reduce the Company's share capital.

The securities repurchased may be cancelled in accordance with the 8<sup>th</sup> resolution adopted by the Combined Shareholders Meeting of 5 June 2007 applicable until 5 June 2009.

## MAXIMUM PROPORTION OF CAPITAL TO BE REPURCHASED AND MAXIMUM NUMBER OF SHARES THAT MAY BE ACQUIRED UNDER THE 2008 SHARE BUY-BACK PROGRAM

The maximum proportion of capital to be repurchased under the 2008 Share Buy-back Program shall be 10% of the total number of shares comprising the Company's share capital (as at 31 March 2008, the total number of shares comprising the share capital was 60,453,823).

In accordance with article L.225-210 of the French Commercial Code, the number of share that the Company may hold at any time may not exceed 10% of the shares comprising the Company's share capital on the date in question.

The securities that the Company is considering acquiring are shares.

## MAXIMUM UNIT PURCHASE PRICE AUTHORIZED

The maximum purchase price would be €60 per share, it being specified that the Board of Directors may adjust the purchase price to take account of the impact on the share price of transactions such as a capitalization of share premiums, reserves or earnings giving rise either to an increase in the par value of the shares or to the issuance and distribution of shares for no consideration, a stock split

or reverse stock split, or any other transaction affecting the share capital.

Accordingly, the maximum amount of expenditure dedicated to the 2008 Share Buy-back Program would be €200 million.

## **TERMS AND CONDITIONS FOR THE 2008 SHARE BUY-BACK PROGRAM**

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The shares may be purchased or transferred at any time, under the conditions and within the limits, particularly volume and price, permitted by law at the date of the transaction in question, by any and all means, including over the counter, by way of block trades or by

way of derivatives traded on a regulated or over-the-counter market, under the conditions permitted by the market authorities and at the times the Board of Directors or its delegated representative deems appropriate.

## **DURATION OF THE 2008 SHARE BUY-BACK PROGRAM**

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In accordance with the resolution to be submitted for the approval of the Combined Shareholders Meeting of 20 May 2008, the 2008 Share Buy-back Program would be authorized for a period of 18 months from the date of its approval, namely until 20 November 2009.

The Board of Directors





Term	Definition
Acrylic acid	An acid derived from propylene and mainly used as an intermediate in the preparation of superabsorbents and derivatives used in the manufacture of paint, ink and glue.
Acrylic esters	Acrylic acid esters.
Activated carbon	Processed charcoal used for its properties as an adsorption agent (i.e. the retention of molecules of a gas or a substance in solution or suspension on the surface of a solid).
Alkylamines and alkylalcanolamines	Amines used as synthesis intermediates.
Amines	A compound obtained by substituting monovalent hydrocarbon radicals for one of the hydrogen atoms of ammonia.
Amino 11 - undecanoic acid	A polyamide 11 monomer.
Arkema's Businesses	The Vinyl Products, Industrial Chemicals, and Performance Products businesses
CEFIC	European Chemical Industry Council.
CH <sub>4</sub>	Methane.
Chloromethane	A molecule obtained by substituting one atom of chlorine for one of the hydrogen atoms of methane. It is used mainly in the manufacture of fluorine derivatives and silicones.
CO	Carbon monoxide.
CO <sub>2</sub>	Carbon dioxide.
COD	Chemical oxygen demand. A parameter for measuring water pollution by organic compounds, whose decomposition consumes oxygen.
Controlled oxidation	The oxidation reaction carried out under particular conditions and/or with catalysts, as opposed to total oxidation or combustion.
Co-polyamide	A polyamide obtained from two or more types of monomer.
Cross-linking	The modification of a linear polymer into a three-dimensional polymer by creating cross-links.
Debottlenecking	A modification made to an industrial installation in order to increase production capacity.
Depth of interruptibility	In electricity consumption, the ratio between interruptible MWh and total MWh subscribed to.
Diatomites	Unicellular micro-organisms used in their fossil state (diatomites) by the chemical industry for their properties as filter aid.
Diethylphthalate or DOP	An ester made from phthalic anhydride and mainly used as a plasticizer.
DMDS	Abbreviation for dimethyldisulfide.
EDA	Refers to copolymers and terpolymers made from ethylene and acrylic esters.
EDC	The ISO code for dichloroethane.
Elf Spin-Off	The contribution by Elf Aquitaine of shareholdings held in entities carrying out Arkema Businesses.
EMAS	Eco-Management and Audit Scheme. A European regulation (Eco Audit) that defines the criteria for implementing an environmental management system in companies.
Esterification	The formation of an ester through the reaction of an acid with an alcohol.
First trading	The admission to trading of Arkema S.A.'s shares on Eurolist by Euronext™, which took place on Thursday, 18 May 2006, at 00:00 am.

Term	Definition
<b>Functional polyolefins</b>	Ethylene-derived polymers used as binding agents in multilayer food packaging and other industrial applications.
<b>GHGs</b>	Greenhouse gases.
<b>Grafted polyolefins</b>	Grafted olefin-based polymers.
<b>H<sub>2</sub>S</b>	Hydrogen sulfide.
<b>HCFCs</b>	Hydrochlorofluorocarbons.
<b>HCFC 142b</b>	Hydrochlorofluorocarbon precursor of VF <sub>2</sub> .
<b>Heat stabilizers</b>	Additives used to improve a polymer's resistance to heat.
<b>HF</b>	Hydrofluoric acid.
<b>HFCs</b>	Hydrofluorocarbons. Hydrogen-, carbon- and fluorine-based products that are mainly used in refrigeration as substitutes for CFCs (chlorofluorocarbons), following the introduction of the Montreal Protocol.
<b>Hydrazine hydrate</b>	A nitrogen-, hydrogen- and water-based product used as an intermediate in agrochemicals, pharmaceuticals, chemical synthesis, water treatment and blowing agents for plastics and elastomers.
<b>ICCA</b>	International Council of Chemical Associations.
<b>Impact modifiers</b>	Additives introduced into certain products, in particular PVC, to make them more impact-resistant.
<b>Initiators</b>	Products used to initiate chemical reactions.
<b>Interface agents</b>	Products used in the formulation of additives.
<b>ISO 14001</b>	An international standard that defines the criteria for introducing an environmental management system in companies.
<b>Kyoto protocol</b>	An international agreement between 84 countries on 11 December 1997 in Kyoto (Japan), which is complementary to the Convention on Climate Change of May 1992 within the framework of the United Nations (known as UNFCCC – United Nations Framework Convention on Climate Change). The Kyoto Protocol came into force on 16 February 2005.
<b>Lactame 12</b>	The polyamide 12 monomer.
<b>Maleic anhydride</b>	A benzene derivative mainly used in the manufacture of plasticizers and as a synthesis intermediate.
<b>Mercaptans</b>	Thio-alcohols and phenols.
<b>Merger</b>	Refers to the merger of S.D.A. with and into Arkema S.A.
<b>Methyl methacrylate</b>	An essential raw material in the manufacture of polymethyl methacrylate (PMMA) for the automotive, construction and equipment industries. Methyl methacrylate is used not only in the manufacture of PMMA, but also in the fields of acrylic emulsions and plastic additives.
<b>Methylmercaptan</b>	A mercaptan mainly used as an intermediate in the synthesis of methionine (an amino acid used in animal feed), but also as a raw material for various sulfur derivatives.
<b>Mineral charges</b>	Mineral additives introduced into the composition of certain products in order to modify their properties.
<b>MIS</b>	Refers to organic materials in suspension. These are solid particles present in water that can be retained by physical or mechanical means (filtration and sedimentation).
<b>Molecular sieves</b>	Synthesized mineral products used to purify liquids and gases by the selective adsorption of molecules.
<b>N<sub>2</sub>O</b>	Nitrogen protoxide. A gas produced by certain processes and also present in emissions from furnaces.
<b>NH<sub>3</sub></b>	Ammonia.
<b>NOX</b>	The family of nitrogen oxides, produced mainly by combustion processes.
<b>Organic Peroxides</b>	Oxidizing organic products used as initiators for polymerization and as cross-linking agents.
<b>Oxo-alcohols</b>	Alcohols derived from propylene and used as synthesis intermediates.
<b>Oxygenated solvents</b>	Substances such as alcohols, ketones, and ethers that contain oxygen atoms and have the ability to dissolve other substances without modifying them chemically.

Term	Definition
PER	The ISO code for polyethylene terephthalate.
Perlite	A natural silicate of volcanic origin used in industry for its properties as a filter aid.
PET	The ISO code for polyethylene terephthalate.
Phthalic anhydride	An orthoxylene derivative mainly used in the manufacture of plasticizers and as a synthesis intermediate.
PMMA	The ISO code for polymethyl methacrylate.
Polyamide	A polymer obtained by the reaction of a di-acid on a di-amine, or from the polymerization of a monomer having both an acid and an amine function.
Polyamide 11 or PA 11 and polyamide 12 or PA 12	Thermoplastic polyamides, whose monomers have 11 and 12 carbon atoms, respectively.
Polyethylene	A plastic obtained by the polymerization of ethylene.
Polymerization	The union of several molecules of one or more compounds (monomers) to form a large molecule.
Polymers	Products made by polymerization.
Polystyrene	A plastic obtained by the polymerization of styrene, an aromatic compound.
Polyvinyl chloride or PVC	A plastic obtained by the polymerization of VCM.
Processing agents	Products that facilitate the conversion of polymers by molding or extrusion.
Product life cycle	Refers to the various processing stages of a material, from raw material extraction through to management of end-of-life.
PTFE	The ISO code for polytetrafluoroethylene.
PVC	The ISO code for vinyl polychloride or polyvinyl chloride.
PVDF	The ISO code for polyvinylidene fluoride.
RCMS	The Responsible Care® Management System.
REACH (Registration, Evaluation and Authorisation of Chemicals)	The European regulation n° 1907/2006 of the Parliament and the Council dated 18 December 2006, concerning the registration, evaluation and authorization of chemical substances, that came into force on 1 June 2007.
Responsible care®	A voluntary initiative by the world chemical industry to achieve continuous progress in safety, health and environment, managed in France by the UIC under the name of 'Engagement de progrès®' ('Commitment to Progress').
SDS (or MSDS)	Safety data sheet (or Material safety data sheet).
SF6	Sulfur hexafluoride.
SO2	Sulfur dioxide.
Sodium chlorate	A sodium salt used in the treatment of paper pulp, as a herbicide, or as a synthesis intermediate.
Sodium perchlorate	Sodium salt used as a synthesis intermediate.
SQAS	Safety and Quality Assessment Systems.
Stabilizers	Additives used to preserve a given composition of a product.
Surfactant	An agent that causes an increase in a liquid's flow and wetting properties by lowering its surface tension.
T111	1.1.1-trichloroethane.
The Spin-Off of Arkema's Businesses	Refers to the transaction, the subject of the prospectus that received the <i>Autorité des marchés financiers</i> visa n° 06-106 dated 5 April 2006.
Thioglycolic acid	An organic thio-acid used in a variety of applications (notably the stabilization of PVC and cosmetics).
Total Spin-Off	The contribution by Total S.A. of shareholdings in the entities carrying out Arkema Businesses.

Term	Definition
UIC	Union des Industries Chimiques (Union of Chemical Industries). The professional body of the chemical industry in France.
Unsaturated polyesters	Esters with high molecular weights produced by the linking of numerous ester molecules that have double bonds between carbon atoms.
Urea formaldehyde resins or amino resins	Synthetic resins obtained by the reaction of condensation between urea and formaldehyde.
VCM	The ISO code for vinyl chloride monomer.
VF2	The PVDF monomer.
Vinyl acetate	An ester derived from methanol and mainly used as raw material for EVAs (performance polyolefins).
Vinyl compounds and PVC compounds	Ready-to-use materials produced by mixing PVC with additives (plasticizers, stabilizers, colorants, etc.).
VOC	Volatile organic compounds.

## Cross-reference table

In accordance with Annex I of EC regulation n° 809/2004 of 29 April 2004			Reference document	
N°	Heading	Section	Page(s)	
<b>1.</b>	<b>Persons responsible</b>	<b>Chapter 1</b>	<b>5</b>	
1.1.	Persons responsible for the information given in the reference document	1.1	5	
1.2.	Declaration by persons responsible for the reference document	1.2	5	
<b>2.</b>	<b>Statutory auditors</b>	<b>Chapter 2</b>	<b>7</b>	
2.1.	Names and addresses of the Company's statutory auditors	Chapter 2	7	
2.2.	Statutory auditors having resigned, been removed or not been re-appointed during the period covered by the reference document	Not applicable		
<b>3.</b>	<b>Selected financial information</b>	<b>Chapter 3</b>	<b>9</b>	
3.1.	Selected historical financial information	Chapter 3	9	
3.2.	Selected financial information for intermediary periods	Not applicable		
<b>4.</b>	<b>Risk factors</b>	<b>Chapter 6</b>	<b>33-49</b>	
<b>5.</b>	<b>Information about the Company</b>	<b>Chapter 5</b>	<b>29-32</b>	
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5.1.2.	Place of registration and registration number of the Company	5.1.2	30	
5.1.3.	Date of incorporation and term of the Company	5.1.3	30	
5.1.4.	Registered offices and legal form of the issuer, legislation under which the Company operates, its country of incorporation, address and telephone number	5.1.4	30	
5.1.5.	Important events in the development of the Company's business	5.1.5	30	
5.2.	Investments	5.2	31-32	
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5.2.2.	Principal investments by the Company that are in progress	5.2.2	32	
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<b>6.</b>	<b>General presentation</b>	<b>Chapter 4</b>	<b>11-27</b>	
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6.1.1.	Nature of the Company's operations and its principal activities	4.1, 4.2 and 4.3	12-18	
6.1.2.	Significant new products or services introduced onto the market	4.4	18-27	
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6.3.	Exceptional factors influencing the information provided in accordance with items 6.1 and 6.2	Not applicable		
6.4.	Extent of the Company's dependence on patents and licenses, industrial, commercial or financial contracts or new manufacturing processes	6.1	34-35	
6.5.	Basis for any statements made by the Company regarding its competitive position	4.4	18-27	

In accordance with Annex I of EC regulation n° 809/2004 of 29 April 2004			Reference document	
N°	Heading		Section	Page(s)
<b>7.</b>	<b>Structure</b>		<b>Chapter 7</b>	<b>51</b>
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7.2.	List of the Company's significant subsidiaries		Chapter 7	51
<b>8.</b>	<b>Property, Plant and Equipment</b>		<b>Chapter 8</b>	<b>53-60</b>
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8.2.	Environmental issues that may affect the Company's use of tangible fixed assets		8.2 and 6.2.2	54-60 and 38-40
<b>9.</b>	<b>Operating and financial review</b>		<b>Chapter 9</b>	<b>61-72</b>
9.1.	Description of the Company's financial condition, changes in its financial condition and results of its operations during each financial year and interim period for which historical financial information is required		9.1, 9.2.1, 9.2.2, 9.2.3, 9.2.4, 9.2.5, 9.2.6, 9.2.7, 9.2.8,	62-71
9.2.	Operating income		9.2.4	65-66
9.2.1.	Significant factors, including unusual or infrequent events or new developments materially affecting or that may materially affect the Company's income from operations		9.2.4, 9.2.5.1, 9.2.5.2, 9.2.5.3	65-69
9.2.2.	Discussion of changes in net sales or revenues		9.2.4, 9.2.5.1, 9.2.5.2, 9.2.5.3	65-69
9.2.3.	Governmental, economic, fiscal, monetary or political strategy or factors that have materially affected or could materially affect the Company's operation		9.2.4, 9.2.5.1, 9.2.5.2, 9.2.5.3	65-69
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10.2.	Sources and amounts of Company's cash flows and description of these cash flows		10.1	74
10.3.	Information on the Company's borrowing requirements and funding structure		10.2	74
10.4.	Information regarding any restrictions on the use of capital resources liable to have a significant effect, whether direct or indirect, on the operations of the Company		10.4	75
10.5.	Information regarding anticipated sources of funds required to honor any undertakings listed under headings 5.2.3 and 8.1		5.2.2	32
<b>11.</b>	<b>Research and development, patents and licenses</b>		<b>Chapter 11</b>	<b>77-80</b>
<b>12.</b>	<b>Trend information</b>		<b>Chapter 12</b>	<b>81-82</b>
12.1.	Most significant trends in production, sales and inventory, costs and selling prices from the end of the last financial year up to the date of the reference document		12.1	82
12.2.	Information on any known trends, uncertainty, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year		12.2	82
<b>13.</b>	<b>Profit forecasts or estimates</b>		<b>Chapter 13</b>	<b>83</b>
13.1.	Declaration regarding the main assumptions on which the Company has based its forecasts or estimates		STTE	
13.2.	Report from the statutory accountants or auditors		Not applicable	
13.3.	Profit forecast or estimate prepared on a basis comparable to historic financial information		Not applicable	
13.4.	Declaration indicating whether or not the profit forecast is still valid at the date of the reference document and, if not, explain why it is no longer valid		Not applicable	

EC Regulation 809/2004 of the European Commission dated 29 April 2004 – Annexe I		Reference document	
N°	Heading	Reference	Page(s)
<b>14.</b>	<b>Administrative, management and Supervisory bodies and senior management of the company</b>	<b>Chapter 14</b>	<b>85-93</b>
14.1.	Names, business addresses and functions in the issuer of the following persons and an indication of the principal activities performed by them outside that issuer where these are significant with respect to that issuer: a) members of the administrative, management or Supervisory bodies; b) partners with unlimited liability, in the case of a limited partnership with a share capital; c) founders, if the issuer has been established for fewer than five years; and d) any senior manager who is relevant to establishing that the issuer has the appropriate expertise and experience for the management of the issuer's business. The nature of any family relationship between any of those persons. In the case of each member of the administrative, management or Supervisory bodies of the issuer and of each person mentioned in points (b) and (d) of the first subparagraph, details of that person's relevant management expertise and experience and (a) the names of all companies and partnerships of which such person has been a member of the administrative, management or Supervisory bodies or partner at any time in the previous five years; (b) any convictions in relation to fraudulent offences for at least the previous five years; (c) details of any bankruptcies, receiverships or liquidations for at least the previous five years; (d) details of any official public incrimination and/or sanctions of such person by statutory or regulatory authorities and whether such person has ever been disqualified by a court from acting as a member of the administrative, management or Supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years. Declaration that there is no such information to be disclosed.	14.1, 14.2, 14.3	86-92
14.2.	Conflicts of interest for members of administrative, management and Supervisory bodies and senior management and any arrangement or understanding	14.4	93
<b>15.</b>	<b>Remuneration and benefits</b>	<b>Chapter 16</b>	<b>111-114</b>
15.1.	The amount of remuneration paid and benefits in kind granted by the Company and its subsidiaries	16.1	112-113
15.2.	Total amounts covered by provisions or recorded elsewhere by the Company and its subsidiaries for purposes of paying pension, retirement or other benefits	16.2	114
<b>16.</b>	<b>Functioning of administrative and management bodies</b>	<b>Chapter 15</b>	<b>95-110</b>
16.1.	Date of expiration of the current term of office, if applicable, and the period during which the person has served in that office	14.1	86-91
16.2.	Information about members of the administrative, management or Supervisory bodies' service contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment, or an appropriate negative statement.	14.5	93
16.3.	Information on the Company's audit committee and compensation committee	15.3.3	100-102
16.4.	A statement as to whether or not the Company complies with the corporate governance regime in its country	15.8	110
<b>17.</b>	<b>Employees</b>	<b>Chapter 17</b>	<b>115-129</b>
17.1.	Number of employees at the end of each period covered by the historical financial information or the average number over each financial year of this period and the breakdown of employees by main category of activity and by location	17.1.1.1	116
17.2.	Shareholdings and stock options. Indication of the same information regarding directors of the Company	17.5	125-128
17.3.	Description of any arrangements for involving employees in the capital of the Company	17.5.1	125
<b>18.</b>	<b>Major shareholders</b>	<b>Chapter 18</b>	<b>131-133</b>
18.1.	The name of any person other than a member of the administrative, management or Supervisory bodies who, directly or indirectly, has an interest in the Company's capital or voting rights which is notifiable under the issuer's national law, together with the amount of each such person's interest or, if there are no such persons, an appropriate negative statement	18.1	132-133
18.2.	Different voting rights or an appropriate negative statement	18.2	133
18.3.	Direct or indirect control over the Company	18.4	133

EC Regulation 809/2004 of the European Commission dated 29 April 2004 – Annexe I		Reference document	
N°	Heading	Reference	Page(s)
18.4.	A description of any arrangements, known to the Company, the operation of which may at a subsequent date result in a change in control of the Company	18.4	133
<b>19.</b>	<b>Related party transactions</b>	<b>Chapter 19</b>	<b>135</b>
<b>20.</b>	<b>Financial information concerning the assets, financial condition and results of the Company</b>	<b>Chapter 20</b>	<b>137-211</b>
20.1.	Historical financial information	Chapter 20	137-211
20.2.	Pro forma financial information	Not applicable	
20.3.	Financial statements	Chapter 20	137-211
20.4.	Auditing of historical financial information	Chapter 20	137-211
20.4.1.	Declaration that the historical financial information has been audited	Chapter 20	137-211
20.4.2.	Other information in the reference document which has been audited by the statutory auditors	Not applicable	
20.4.3.	Where financial data in the registration document is not extracted from the Company's audited financial statements, state the source of the data and state that the data is unaudited	Not applicable	
20.5.	Date of the latest audited financial information	9.1.1, Chapter 20	62, 137-211
20.6.	Interim and other financial information	Not applicable	
20.6.1.	Quarterly or half yearly financial information published since the last financial statements and, where appropriate, the audit or review report	Not applicable	
20.6.2.	Interim financial information, which may be unaudited, covering at least the first six months of the financial year if the reference document is dated more than nine months after the last audited financial year	Not applicable	
20.7.	Dividend policy	10.6	75
20.7.1.	Dividend per share	Not applicable	
20.8.	Legal and arbitration proceedings	6.4	45-49
20.9.	Significant change in the issuer's financial or trading position	Not applicable	
<b>21.</b>	<b>Additional information</b>	<b>Chapter 21</b>	<b>213-221</b>
21.1.	Issued capital	21.1	214-217
21.1.1.	The amount of issued capital, the number of shares authorized, the number of shares issued and fully paid, the number of shares issued but not fully paid, the par value per share and a reconciliation of the number of shares in issue at the beginning and end of the year	21.1.1	214
21.1.2.	Shares not representing capital	21.1.3	214
21.1.3.	The number, book value and face value of shares in the Company held by or on behalf of the issuer itself or by subsidiaries of the issuer	21.1.4	214
21.1.4.	Convertible securities, exchangeable securities or securities with warrants	21.1.5	215-216
21.1.5.	Information about and terms of any acquisition rights and/or obligations over authorized but unissued capital or an undertaking to increase the capital	21.1.6	216
21.1.6.	Information about any capital of any member of the group which is under option or agreed conditionally or unconditionally to be put under option	21.1.6	216
21.1.7.	History of share capital for the period covered by the historical financial information	21.1.7	217
21.2.	Memorandum and Articles of Association	21.2	217-221
21.2.1.	Company purpose	21.2.1	217
21.2.2.	Members of administrative, management and Supervisory bodies	21.2.2	217
21.2.3.	A description of the rights, preferences and restrictions attaching to each class of the existing shares	21.2.3	217



EC Regulation 809/2004 of the European Commission dated 29 April 2004 – Annexe I		Reference document	
N°	Heading	Reference	Page(s)
21.2.4.	A description of what action is necessary to change the rights of holders of the shares	21.2.5	218
21.2.5.	A description of the conditions governing the manner in which annual general meetings and extraordinary general meetings of shareholders are called, including the conditions of admission	21.2.6	218-219
21.2.6.	A brief description of any provision of the Company's articles of association, statutes, charter or bylaws that would have an effect of delaying, deferring or preventing a change in control of the issuer	21.2.7	220
21.2.7.	An indication of the articles of association, statutes, charter or bylaw provisions, if any, governing the ownership threshold above which shareholder ownership must be disclosed	21.2.8, 21.2.9	220-221
21.2.8.	A description of the conditions imposed by the memorandum and articles of association statutes, charter or bylaw governing changes in the capital, where such conditions are more stringent than is required by law	Not applicable	
<b>22.</b>	<b>Significant contracts</b>	<b>Chapter 22</b>	<b>223-232</b>
<b>23.</b>	<b>Third party information and statement by experts and declarations of any interest</b>	<b>Not applicable</b>	
23.1.	Information regarding persons having issued a declaration or report	Not applicable	
23.2.	Confirmation that information has been accurately reproduced and that no facts have been omitted which would render the reproduced information inaccurate or misleading	Not applicable	
<b>24.</b>	<b>Documents available to the public</b>	<b>Chapter 24</b>	<b>235-239</b>
<b>25.</b>	<b>Information on shares held by the Company</b>	<b>Chapter 25</b>	<b>241-249</b>



## Reconciliation table

This reference document features all the elements of the Company's Management Report as required under articles L.225-100 *et seq.*, L.232-1, II and R.225-102 of the French Commercial Code. It also features all information from the Annual Financial Report referred to under article L.451-1-2 of the French Monetary-Financial Code and article 222-3 of the General Regulation of the *Autorité des marchés financiers*.

In order to facilitate the reading of the Management Report and the Annual Financial Report mentioned above, the following reconciliation table has been prepared to help identify the sections constituting these reports. The reconciliation table also lists the other Board of Directors reports and Statutory Auditors reports.

However, some sections of this reference document which also constitute sections of the management report by the Board of Directors, have been completed since 4 March 2008, date at which this report was reviewed by the Board of Directors. It concern mainly chapters or sections 3, 4.4.1, 5.2, 6.2.4, 8, 9, 10.2 and 13.

N°	Information	Reference
I	<b>Management Report</b>	
1	Situation and activity of the Company during the past year and, where applicable, its subsidiaries and the companies under its control	Chapter 4 Sections 5.1.5, 5.1.6 and 5.2 Section 9.2 Note 30 of the notes to consolidated financial statements Section A of the notes to consolidated financial statements
2	Modifications to accounts presentation method and to evaluation methods used in previous years	Section B of the notes to consolidated financial statements
3	Results of the activity of the Company, its subsidiaries and the companies under its control	Section 9.2
4	Key financial performance indicators	Chapter 3
5	Analysis of evolution of the business, the results and the financial situation	Section 9.2
6	Progress achieved or problems encountered	Section 9.2
7	Description of main risks and uncertainties facing the Company (including the Company's exposure to financial risks)	Chapter 6
8	Indications on the use of financial instruments, and the Company's objectives and policy in terms of financial risk management	Chapters 6 and 10
9	Significant events that have occurred since the accounts closing date	Section 5.1.6
10	Foreseeable evolution and future prospects of the Company	Chapters 12 and 13
11	Research and development activities	Chapter 11
12	List of terms of office and duties held in any company by each executive officer in the year ended	Section 14.1
13	Total remuneration and employee benefits of any kind paid to each executive officer in the year ended <sup>25</sup>	Chapter 16
14	Undertakings of any kind made by the Company for the benefit of its executive officers, corresponding to items of remuneration, indemnities or benefits due or expected to be due as a result of the commencement or termination of these duties or to changes in these duties, or post-duties	Chapter 16

<sup>25</sup> This includes remunerations and employee benefits awarded by the Company and its subsidiaries, including in the form of allocation of equity securities, debt securities, or securities giving access to equity. A distinction should be made between the fixed, variable and exceptional components making up these remunerations and employee benefits, as well as the criteria used to calculate them or the circumstances on the basis of which they have been established.

N°	Information	Reference
15	Operations conducted by the senior management on the Company's securities	Section 14.6
16	Key environmental and personnel indicators	Section 8.2.2 and Chapter 17
17	Personnel information:	
	Total headcount, new recruits (fixed term and permanent contracts), recruitment problems, if applicable, redundancies and their reasons, overtime, subcontracted labor	Sections 17.1.1.1.1, 17.1.1.2.1 and 17.1.3
	If applicable, information relating to personnel reduction and job protection plans, rehiring and support measures	Section 17.3.
	Organization of working week, number of working hours for full-time and part-time employees, absenteeism	Section 17.1.3
	Remunerations and evolution of remunerations, social security contributions, application of provisions under title IV of book IV of French Labor Code, professional equality between men and women	Section 17.1.6
	Professional relations and review of collective agreements	Section 17.3.1
	Health and safety conditions	Section 17.2
	Training	Section 17.1.5
	Employment and hiring of disabled people	Section 17.1.7
	Welfare initiatives	Section 17.6
	Importance of subcontracting and manner in which the Company promotes within its subcontractors and ensures compliance by its subsidiaries with the provisions of the fundamental conventions of the International Labor Organization	Section 17.2.1
	Manner in which the Company takes account of the regional impact of its activities in terms of employment and regional development	Section 17.6
	Relations between the Company and employment associations, educational establishments, environmental associations, consumer associations and local communities	Section 17.1.2.3 Section 17.6
	Manner in which the Company's foreign subsidiaries take account of the impact of their activities on regional development and on local communities	Section 17.6
18	Employee share ownership situation	Section 17.5.3 Section 18.1
19	Environmental information:	
	Consumption of water, raw material and energy resources, with, where applicable, the measures taken to improve energy efficiency, the use of renewable energies, conditions for using soil, emissions to air, water and soil with a serious impact on the environment, noise and odour pollution, wastes	Section 8.2.2.1 Section 8.2.2.2
	Measures taken to minimize impacts on biological balance, the natural environment, protected animal and plant species	Section 8.2.2
	Evaluation and certification initiatives taken as regards the environment	Section 8.2.2.1
	Measures taken, where applicable, to ensure compliance of the Company's activity with the relevant applicable legal and regulatory requirements	Section 6.2.2 Section 8.2
	Expenditure incurred to prevent the consequences of the Company's activity on the environment	Section 8.2
	Existence within the Company of internal environment management departments, training and information of employees regarding the environment, resources allocated to minimizing environmental risks, organization put in place to deal with accidental pollution where the consequences impact beyond the Company's site boundaries	Section 8.2.3 Section 17.1.5 Section 17.2
	Amount of provisions and guarantees for environmental risks	Section 6.3.4 Section 8.2.2.2
	Amount of indemnities paid during the year in enforcing court orders regarding the environment and actions carried out in reparation or compensation of damages caused to the environment	N/a
	Environmental objectives assigned by the Company to its foreign subsidiaries	Section 8.2.2

N°	Information	Reference
20	Information on the technological accident risk prevention policy, the Company's ability to cover its civil liability toward property and people as a result of classified facilities, and resources provided for to ensure the management of compensation to victims of technological accident involving the Company's responsibility	Sections 6.4 and 8.2
21	Shareholdings in companies headquartered in France and representing over 1/20, 1/10, 1/5, 1/3, or 2/3 of these companies' capital or voting rights	Chapter 25
22	Transfer or disposal of shares undertaken to regularize cross shareholdings	N/a
23	Natural persons or corporate bodies holding directly or indirectly over 1/20, 1/10, 3/20, 1/5, 1/4, 1/3, 1/2, 2/3 or 19/20 of the Company's share capital or voting rights at Annual General Meetings	Section 18.1
24	Injunctions or financial penalties in respect of anticompetitive practices	Section 6.5
25	Items that may have an incidence in the event of a public offering:	
	Structure of the Company's capital	Section 18.1
	Restrictions under the Articles of Association on the exercising of voting rights and the transfer of shares, clauses of the agreements notified to the Company pursuant to article L. 233-11 of the French Commercial Code	Sections 18.2, 18.3, 18.4 Sections 21.2.6, 21.2.7, 21.2.8 and 21.2.9
	Direct or indirect shareholdings in the Company's capital of which it is aware under articles L. 233-7 and L. 233-12 of the French Commercial Code	Section 18.1
	List of bearers of any securities entailing special controlling rights and description thereof	N/a
	Control mechanisms in place for personnel shareholding scheme, if applicable, where controlling rights are not exercised by the latter	N/a
	Agreements between shareholders of which the Company is aware and which can entail restrictions on the transfer of shares and on the exercising of voting rights	N/a
	Rules applicable to the nomination and replacement of members of the Board of Directors, and to amendments to the Company's Articles of Association	Sections 15.1, 15.2 and 21.2
	Powers of the Board of Directors, in particular regarding share issuance and buy-back	Sections 15.1 and 21.1.5
	Agreements reached by the Company and which are amended or lapse in the event of a change of control <sup>25</sup>	Section 10.2 Section 22.2 <sup>26</sup>
	Agreements providing indemnities to members of the Board of Directors or to employees who resign or are made redundant without any real or serious reason or if their job is made redundant as a result of a public offering	Chapter 16
26	Company management mode (only in the event of amendments)	N/a
27	Items of calculation and results of adjustment of conversion bases or of exercising of securities giving access to capital and of stock options	Section 17.5
28	Information on share buy-back programs	Section 21.1.4
29	Summary table of outstanding delegations regarding share capital increase	Section 21.1.5
30	Table of results of the Company in the last 5 years	Section 20.7
31	Amount of dividends distributed in the last 3 years	Section 10.6
<b>II Annual Financial Report</b>		
1	Annual Accounts	Sections 20.2 and 20.3
2	Consolidated Accounts	Sections 20.5 and 20.6
3	Report by Statutory Auditors on statutory accounts	Section 20.1

25. Except if this disclosure, excluding cases of lawful disclosure, were to violate the Company's interests.

26. The significant contracts will need to be reviewed to establish whether they feature or otherwise clauses on change of control.

N°	Information	Reference
4	Report by Statutory Auditors on consolidated accounts	Section 20.4
5	Management report featuring at least the information mentioned under articles L.225-100, L.225-100-2, L.225-100-3 and L.225-211 paragraph 2 of the French Commercial Code	Please refer to the Management Report indicated under I above, and in particular items 4, 5, 7, 8, 25, 28 and 29
	Declaration by the people accepting responsibility for the Management Report	Chapter 1
6	Statutory Auditors' Fees	Section 9.3
7	Report by the Chairman on the conditions for preparing and organizing the Board of Directors' work as well as the internal control procedures implemented by the Company	Annex 1 Sections 15.3, 15.4, 15.5 and 15.7
8	Report by Statutory Auditors on internal control	Annex 2
9	List of all information published by the Company or made public in the last 12 months	Section 24.2
<b>III</b>	<b>Other documents</b>	
1	Special Report by statutory auditors on regulated conventions	Annex 2
2	Agenda for the Combined Shareholders Meeting on 20 May 2008 <sup>27</sup>	Annex 3
3	Text of draft resolutions presented to the Shareholders General Meeting on 20 May 2008	Annex 4
4	Report by the Board of Directors to the Combined Shareholders Meeting on 20 May 2008	Annex 5
5	Complementary report by the Board of Directors on the use of financial delegations granted by the Shareholders General Meeting	Annex 6
6	Report by statutory auditors on the delegations granted by the Shareholders General Meeting to the Board of Directors	Annex 7
7	Special report by the Board of Directors on share buy-back	Annex 8
8	Special report by the Board of Directors on stock options and free share allocations	Section 17.5.4





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