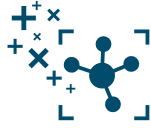




**ANNUAL AND SUSTAINABLE  
DEVELOPMENT REPORT**  
**2007**



## Inspiration



- 02** Renewable raw materials
- 04** Solar energy
- 06** Supramolecular chemistry
- 08** Asia



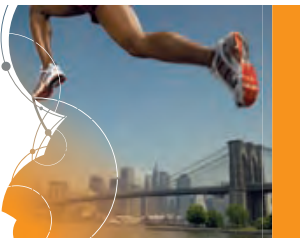
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The world is our inspiration

To drive the chemical industry of tomorrow and meet 21st-century challenges by delivering sustainable development solutions, we emphasize listening to and engaging with the world around us. We base our growth on innovation, designing products made from plant-derived raw materials and new materials to serve renewable energies.

Everyday, our employees work to build a modern, efficient manufacturing company where everyone's talents are fully utilized; a company with global reach that forges genuine partnerships with customers and strives to conduct business in a way that is healthy for people and safe for the environment; and a company transforming itself, creating value for shareholders at every stage in its development.

Mindful of the aspirations of all stakeholders, we are committed to responsible, competitive, innovative, forward-looking chemical manufacturing.



# Renewable raw materials will be the centerpiece of tomorrow's chemical industry

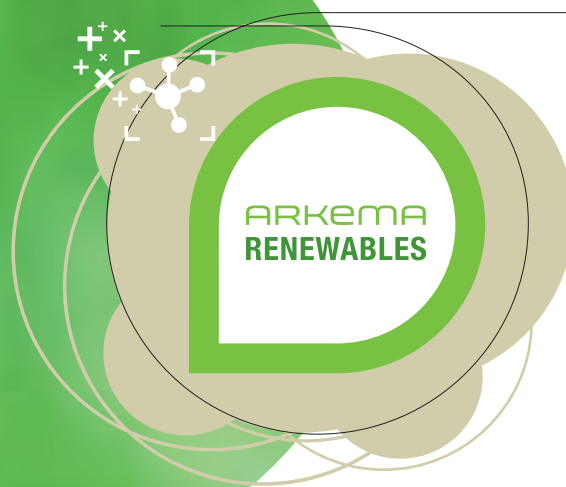
## Plant-derived resources to round out fossil fuel resources

Since earliest days of the industry, organic chemicals have been made primarily from petroleum, natural gas and coal, fossil resources that we must carefully conserve today. The future of chemical manufacturing therefore hinges to an extent on innovation and increased use of renewable molecules derived from plants, sustainable resources with the potential to replace petroleum.

## Arkema's expertise in plant-derived chemical manufacturing

Arkema has extensive experience in using raw materials harvested from plants. A prime example is castor oil, from which we derive a family of high-value-added performance products, including Rilsan® 11, a high-end polyamide with technical applications. Other derivatives from the castor oil production process are used in fragrances and agriculture.





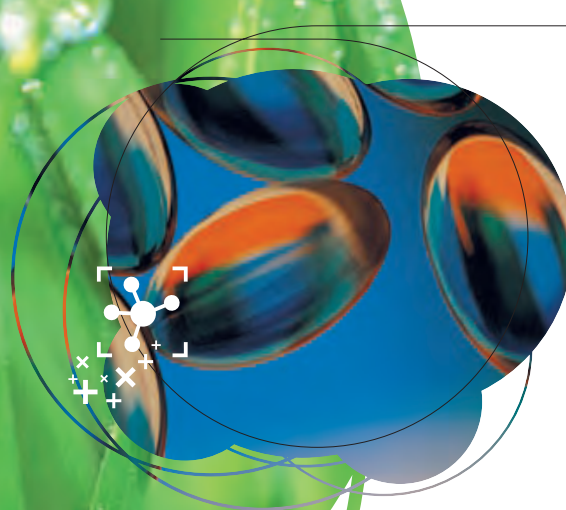
## Arkema Renewables, a quality label for products derived from renewable raw materials

Arkema products made entirely or in part from renewable raw materials — that is, deriving more than 20% of their carbon from non-fossil resources, as assessed by an independent auditor based on an international standard — carry the Arkema Renewables quality label and a dedicated logo. Arkema Renewables currently generate nearly 5% of our total sales, a figure that is expected to double by 2012.



## High-performance polymers made from plant feedstock

The first line of thermoplastic elastomers derived directly from castor oil, Pebax® Rnew chemicals offer the same exceptional properties as traditional, petroleum-derived Pebax® products. Platamid® Rnew, made entirely from renewable raw materials, is used to manufacture thermoplastic hot melt adhesives that solve even the most difficult bonding problems.



## Glycerol to supplement propylene

Arkema is conducting R&D on new uses for glycerol, a polyol that is a manufacturing byproduct of biofuels derived from oilseed plants like rapeseed, sunflower and soybeans. Glycerol could replace a portion of the propylene used to produce acrolein and acrylic acid, which have applications ranging from pharmaceuticals to animal feed and pulp and paper.



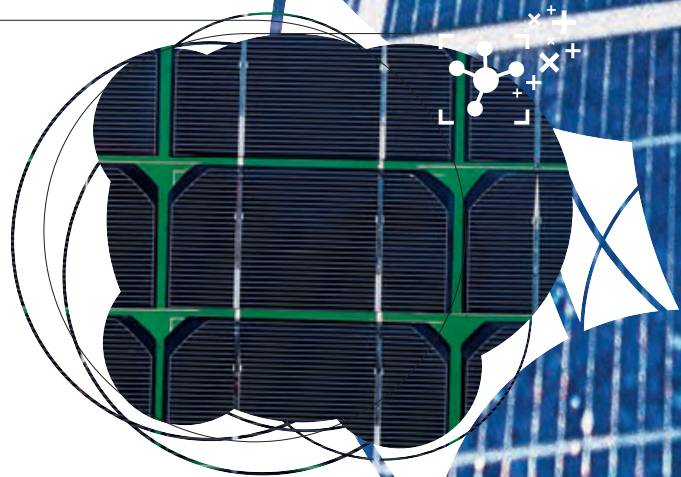
# Harnessing solar energy

## Photovoltaic energy, a clean, renewable source of electricity

Solar radiation is a clean, renewable energy source that already has many industrial and domestic heating applications. Captured and converted using photovoltaic cells that include two layers of crystalline silicon, the sun's rays can be used to generate electricity.

## The part we play: protecting silicon and electrical circuits

Arkema's Evatane® technical polymers, which are ethylene vinyl acetate resins with high vinyl acetate content, promote adhesion and effectively protect silicon and electrical circuits. Crosslinked with Luperox® organic peroxides, they are highly transparent and help to sustain photovoltaic cell performance over time.







## The part we play: improving solar cell efficiency

Arkema's Kynar® PVDF, used to make the films that coat the back of photovoltaic cells, combines several properties essential to cell longevity and efficiency. Easy to work with and resistant to moisture and temperature fluctuations, the stable white film also reflects light towards the silicon.

## Smart glass, combining comfort and energy efficiency

Arkema offers Certincoat® coating additives that are specifically designed for window glass. These low-emissivity coatings are especially well suited to cold and temperate climates, sharply reducing heat transfer through building windows and improving solar energy transmission. In residential and office buildings, they enhance comfort while decreasing by about 30% the energy used for heating in winter and air conditioning in summer.



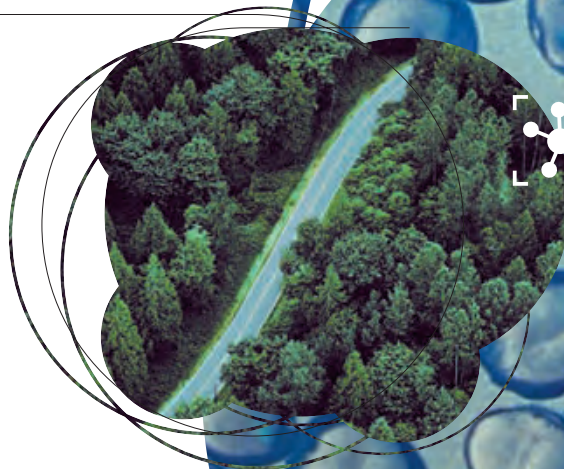
# Another way of considering matter

## Supramolecular materials with exceptional properties

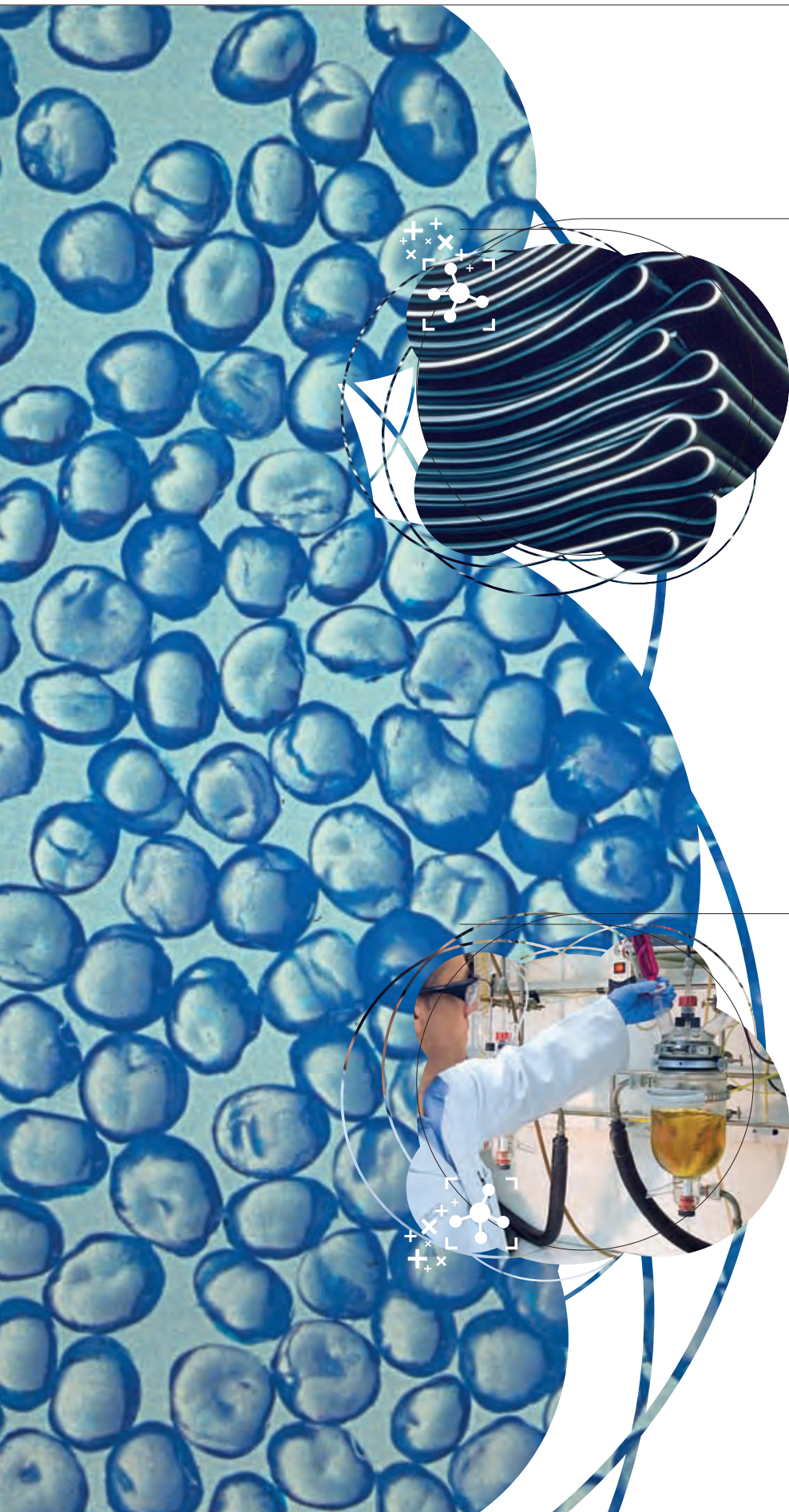
Traditional molecular chemistry creates new molecules using permanent bonds between the atoms. By contrast, supramolecular chemistry builds nanometric structures using reversible bonds, resulting in more complex molecular groupings. Similar bonds exist in nature, including those used in biological molecules like DNA.

## High-strength road asphalt

Leveraging our expertise in the area of asphalt additives, Arkema has developed a plant-derived supramolecular polymer that adds remarkable properties to materials used to pave roads and offers many advantages over traditional polymers: it is easy to work with, saves energy because it can be produced and applied at lower temperatures, and it is recyclable.







## Self-healing rubber

Conventional rubber is a flexible material that can be stretched and will return to its original shape. It owes its elasticity to very long molecular structures that are solidly bonded together. Supramolecular chemical processes can produce rubber made of small fatty acid molecules from pine trees, sunflowers and rapeseed joined in a network by weak bonds. This supramolecular rubber can spontaneously repair itself several times without the application of heat or mechanical stress and regain its elasticity each time.

## Plenty of everyday applications around the corner

Supramolecular chemistry opens up new horizons in everyday life: new plastics with enhanced properties whose intrinsic self-healing ability would give them a much longer life and new energy-efficient plant-derived adhesives and coatings.



# Asia, a strategic expansion

## Strong growth in Asia is a top priority

Chemical manufacturing has become increasingly global in recent years, with new operators debuting in emerging economies, particularly in Asia. We have a strong presence in China and throughout Asia, in India, Singapore, South Korea and Japan. We are stepping up the pace of our expansion in Asia, which we expect to account for 20% of our sales in 2012.

## Industrial partnerships and local technical expertise

Our strategy is to form long-term manufacturing partnerships, such as our ventures in fluorochemicals with Japan's Daikin and in hydrogen peroxide with China's Shanghai Coking. To support our growth in Asia, we rely on our local research center in Kyoto, Japan and on the gradual deployment of local technical expertise in China.







## Changshu, a modern, efficient production hub

Recent achievements — in particular a 50% increase in Forane® 22 capacity, the commissioning of a new organic peroxide unit and the doubling of polyamide production capacity — make our Changshu production hub near Shanghai a prime site for fresh Arkema developments in China. This hub will soon house two new production units, one for HFC125, an essential ingredient in next-generation refrigerants, and one for Kynar® PVDF, a high-performance technical fluoropolymer.

## Arkema and Daikin team up to create the leading refrigerant producer in the Asia-Pacific region

In creating two joint ventures, one to make HFC125 at China's Changshu site and the other to market refrigerants in the Asia-Pacific region, Arkema and Japan's Daikin have pooled their respective expertise in the production and blending of next-generation refrigerants. These are major steps forward in our overall strategy to market HFC125 based mixtures worldwide.

# Transformation



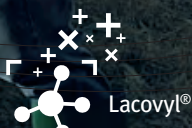
We are building a modern, competitive, world-class chemical company, with a long-term vision and a strategy of growth through innovation, expansion in Asia, cost control and proactive management of our portfolio.





  
Graphistrength®

  
Evatane®

  
Lacovyl®



# Interview with Thierry Le Hénaff

## How would you assess 2007?

In 2007, we successfully completed the first phase in the far-reaching transformation of Arkema. Our financial indicators rose sharply, exceeding our targets. EBITDA, for example, climbed 26%, and cash flow was up 62%, while net income increased by a factor of 2.7. These figures point to significantly improved competitiveness, despite the ground we still have to cover to catch up with our main rivals. In addition to cutting fixed costs, we undertook major organic growth and acquisition projects to secure our future. Sharply higher profits mean that we can, for the first time, recommend a dividend — €0.75 per share — at the Annual Shareholders' Meeting on May 20, 2008.

## Is growth through innovation on track in terms of your timetable?

In 2007, for the first time since Arkema was created, we reaped the benefits of R&D's innovation projects. Our Performance Products segment generated almost 20% of its total sales this year from products less than five years old, compared with just 13% three years ago. New grades of high-temperature, transparent technical polymers, polymers derived from renewable raw materials, special molecular sieves for medical applications and next-generation fluorocarbon gases for air conditioning are some examples of impressive successes.

## Does Arkema plan to be a major producer in Asia?

Asia is now an essential market for any chemical manufacturer interested in achieving global stature. Our stated goal is to boost Asia's share of total sales to 20% by 2012. To achieve this, we will invest about €50 million a year, equivalent to one-third of our development budget. We want to have world-class plants, notably by expanding our hub in Changshu, located close to Shanghai. And in 2007, we began a major fluorocarbon gas venture with our Japanese partner, Daikin.

## Where do you stand in terms of managing your portfolio?

We continued to adjust our portfolio's focus by divesting activities, such as agrochemicals, not closely related to our core businesses. We also made our first acquisitions, including Coatex in October 2007, which fits right into our acquisitions strategy in downstream acrylics, and Repsol's PMMA business, which bolsters our position in Europe in a sector where we are the global leader. As announced, we plan to make other acquisitions soon, purchasing companies with annual sales between €400 and €500 million downstream from Arkema's most efficient industrial processes.

## What is Arkema's outlook for 2008 and beyond?

From the moment Arkema was created, we established a long-term strategy and set goals that were far exceeded in 2006 and 2007. By continuing to stress internal improvement, we are confident that we can achieve our goal of a 10% EBITDA margin in 2008. In addition, I know that Arkema has what it takes to become a modern, competitive chemical manufacturer that creates long-term value.



**What can Arkema do to promote awareness of and action regarding the social and community issues of the 21<sup>st</sup> century?**

The chemical industry will undoubtedly be at the forefront of advances in sustainable development, and Arkema intends to play a role in moving the process forward. Our core responsibilities as a chemical producer, however, are health, safety and environmental stewardship. Our daily efforts to drive technical improvements and eliminate unsafe behavior are so much a part of our responsibility as a manufacturer that we don't talk much about them. We work relentlessly to improve our safety performance.

Reducing our greenhouse gas emissions is also a priority: we have decreased GHG emissions by a factor of 2.5 since 1990, the baseline year of the Kyoto Protocol, and our goal is to reduce them sixfold by 2010.

Sustainable development is also a wonderful opportunity for our R&D teams and the entire company to innovate. Our performance products are already helping us to develop new sources of energy, such as photovoltaics, fuel cells and supercapacitors. Our experience with plant-derived chemical manufacturing is an undeniable asset for developing new high-performance polymers from renewable raw materials. And many new avenues are opening, like nanostructured materials and supramolecular chemical applications.

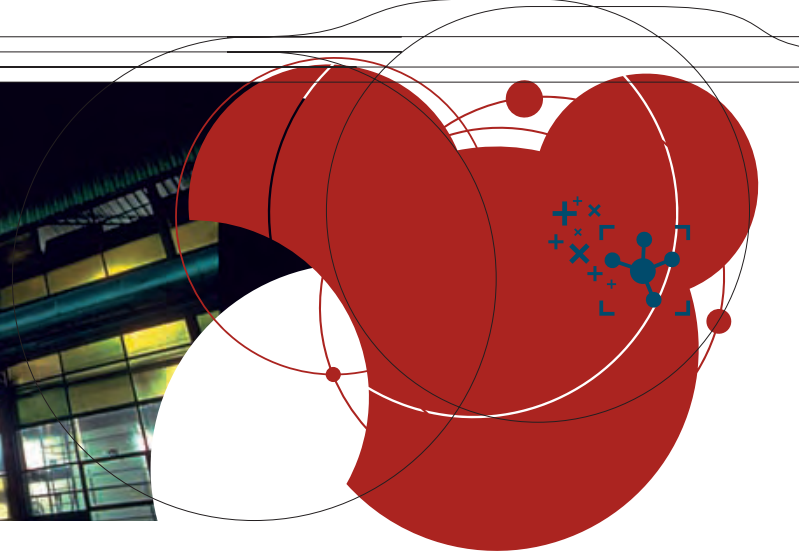
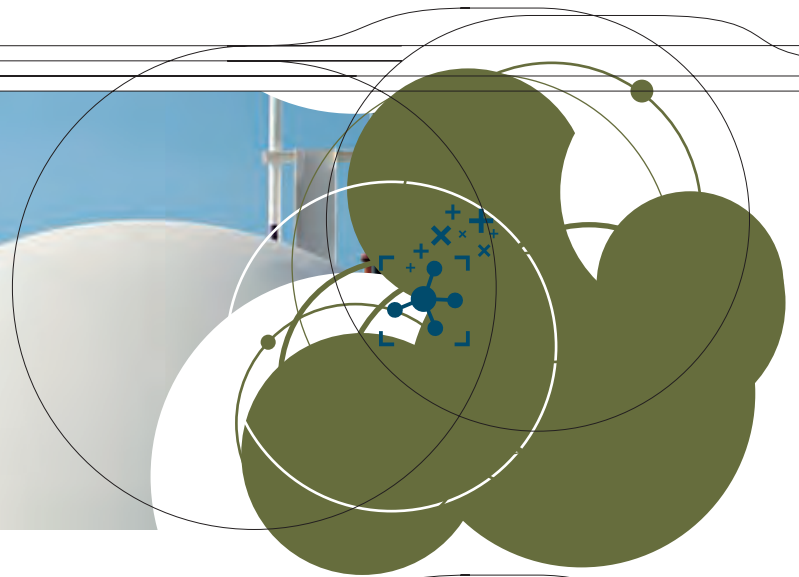
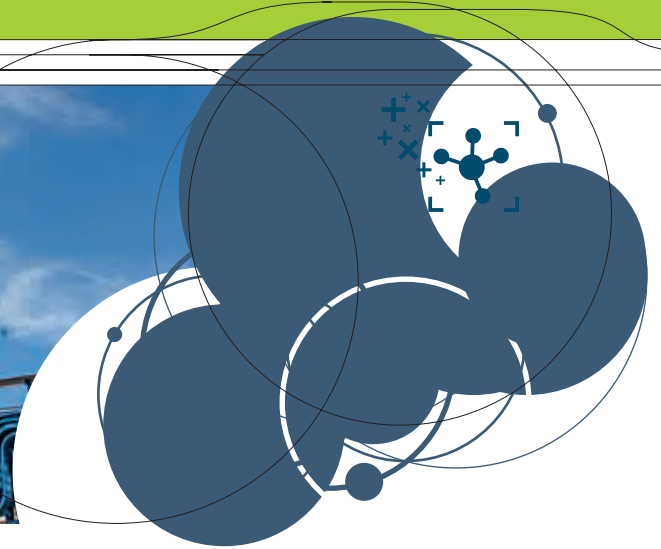
To conclude, I would like to stress the importance of integrating our activities into the local environment and maintaining quality relationships with our stakeholders. This is what drives our Common Ground® initiative and our partnership with the French Red Cross.

“After a top-to-bottom makeover, Arkema is now a more balanced company with real potential for growth.”

“Innovative advances led by our R&D will help us meet sustainable development challenges, especially in the area of new energy sources.”



# 3 business segments





# 13 business units

## Vinyl Products

Arkema is a leading European producer of chlorochemicals and vinyl products.

Integrated activities, ranging from brine electrolysis to PVC processing

**Chlorine/Caustic Soda, PVC, Vinyl Compounds, and Pipes and Profiles (Alphacan)**

## Industrial Chemicals

Arkema holds world-class positions in all of our intermediate chemical segments.

Product lines that are produced globally and well-integrated with Arkema's other activities

**Acrylics, Specialty Acrylic Polymers (Coatex), PMMA (Altuglas International), Thiochemicals, Fluorochemicals and Hydrogen Peroxide**

## Performance Products

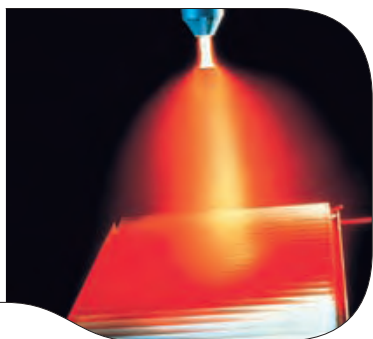
Arkema enjoys a technological lead and internationally recognized brands.

Innovative performance materials that push the technical envelope as we design the applications of the future

**Technical Polymers, Specialty Chemicals (CECA) and Functional Additives**

## Remaking Arkema into a competitive, growing company

**The sharp, quick turnaround in our financial performance shows that Arkema has pursued the right strategy since our creation. Our focus is threefold: improving our competitiveness, leveraging the for growth in our most successful product lines, and readjusting our portfolio to support our core businesses.**



### **Solid competitive strengths**

In a global economy shaped by high energy and raw material prices, a strong euro, the rise of Asian economies and stricter regulations, especially in the European Union, Arkema has many strengths we can leverage to successfully transform our company.

### **Quality manufacturing assets and exceptional process expertise**

Since our creation in October 2004, the performance of our production base and our ability to respond to market developments have been regarded as critical factors in our competitiveness. We aim to develop world-class facilities, enhance their operating performance, close non-competitive production lines and optimize production costs. We now have a solid manufacturing base in Europe, North America and Asia to cater to the requirements of our local customers. Our manufacturing process proficiency, technical expertise and innovative R&D give us a decisive edge in our bid to expand in long-standing markets and capture emerging ones.

### **World-class marketing positions**

Our internationally recognized products and brands make us a global leader in most of our businesses. Polymethyl methacrylate (PMMA), fluorochemical fluids, hydrogen peroxide, specialty polyamides 11 and 12, polyvinylidene fluoride (PVDF), thiochemicals (organosulfur compounds), organic peroxides and PVC additives are prime examples. Arkema is also a leader in chlorochemicals and PVC in Europe.

### **A healthy balance sheet**

Arkema has a healthy balance sheet, with very little debt and light pension and environmental liabilities.

### **An able workforce**

Our employees have demonstrated, in a variety of situations, that they can successfully carry out both complex industrial projects and the restructuring necessary to boost the competitiveness of certain businesses.

### **Three major strategic focuses**

#### **Improving competitiveness**

In 2007, Arkema carried out or announced several restructuring plans designed to make us more competitive, including the further consolidation of chlorochemicals, the relocation and reorganization of our headquarters, a plan to close our German facility in Bonn, the streamlining of the Pierre-Bénite facility's fluorochemical production units in France, an overhaul of the Marseille Saint-Menet plant in France, the closure of a production line at the Dutch facility in Vlissingen, and measures to improve the competitiveness of our Lacq-Mourenx and Carling sites in France.





### Selective developments to drive growth

Looking to the future, Arkema rolled out or announced a number of development projects in 2007 to bolster our top facilities in Europe and North America, strengthen our presence in Asia, where we hope to generate 20% of our sales in 2012, and boost the share of total sales involving performance products less than five years old to 20% by 2010. Highlights in 2007 included the commissioning of the new HFC32 plant in Calvert City, Kentucky; a 30% increase in dimethyl disulfide (DMDS) capacity at the Lacq facility in France; and the start of work to double the hydrogen peroxide production capacity of our Shanghai, China, site. We also announced new growth initiatives, including the creation of two joint ventures with Daikin, involving the production of HFC125 at our Changshu hub in China, the construction of another PVDF unit at the same site, and a doubling of our PVC heat stabilizer capacity in Beijing.

### A more tightly focused portfolio

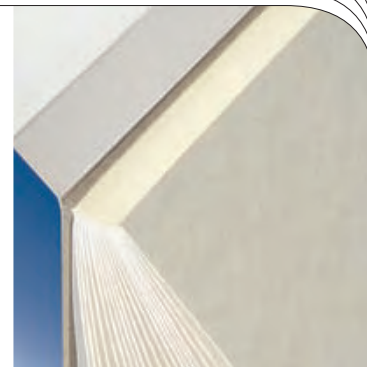
While maintaining a healthy balance sheet, we plan to develop an integrated, well-aligned portfolio of primarily top-tier businesses. In keeping with our announcement that we would divest assets with total sales of €300 to €400 million over a three-year period, we sold our Cerexagri subsidiary, the specialty amines business at the Riverview facility in the United States, inorganic flocculants, and our urea formaldehyde resins operations based at the Leuna site in Germany.

## Our new business unit, Coatex

The Coatex transaction in 2007 fits perfectly into our acquisition strategy, which focuses on high-value-added activities in our core businesses. Coatex offers major raw material, process and R&D synergies with Arkema. Its activities are also situated downstream from our acrylic monomer production plants, Bayport in the United States and Carling in France.

Coatex primarily makes acrylic polymers, which are used as dispersants and thickeners. The main outlets for these fast-growing specialty chemicals are in paper, paints, water treatment, cosmetics and textiles.

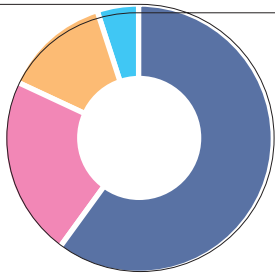
At the same time, we plan to make selective acquisitions generating €400 to €500 million in sales to build a better aligned, more integrated portfolio of businesses. The Coatex acquisition in October 2007 is in line with this strategy and brings high-value-added activities to a core Arkema business. The same goal was behind Altuglas International's acquisition of Repsol YPF's PMMA operations.



# 2007 key figures

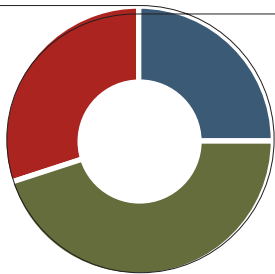
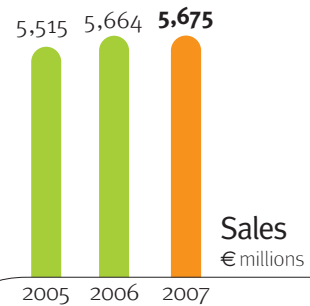
## International reach

**80 production plants: 20 in North and South America, 50 in Europe and 10 in Asia 15,200 employees; 1,400 researchers; six R&D centers — four in France, one in the United States and one in Japan.**



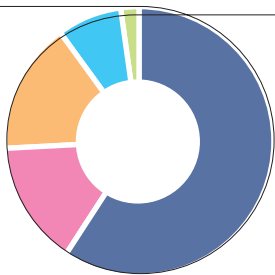
**Sales**  
by region

- Europe **60%**
- North and South America **22%**
- Asia **13%**
- Rest of the World **5%**



**Sales**  
by business segment

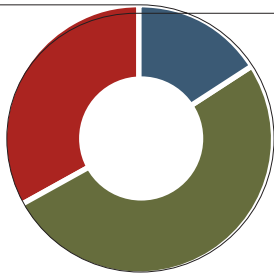
- Vinyl Products **25%**
- Industrial Chemicals **45%**
- Performance Products **30%**



**Workforce**  
by region

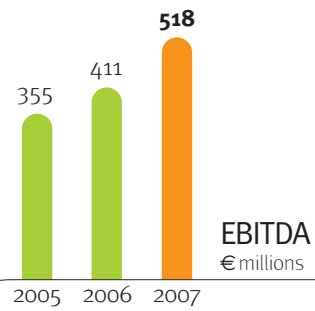
- France **60%**
- Europe (excluding France) **15%**
- North America **16%**
- Asia **8%**
- Rest of the World **1%**



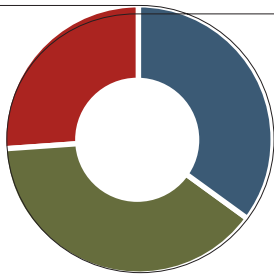


**EBITDA**  
by business segment

- Vinyl Products **16%**
- Industrial Chemicals **51%**
- Performance Products **33%**

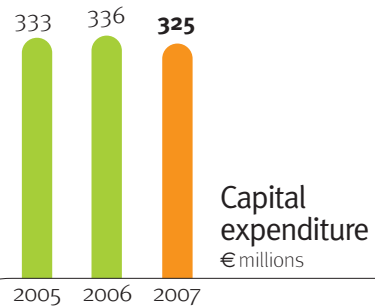


**EBITDA**  
€ millions



**Capital expenditure**  
by business segment

- Vinyl Products **35%**
- Industrial Chemicals **39%**
- Performance Products **26%**



**Capital expenditure**  
€ millions

# Results well above targets

**In 2007, Arkema introduced a number of new projects and exceeded its financial targets for the year, demonstrating our rapid, far-reaching transformation.**

## Key figures

(€ millions)	2006	2007
Sales	5,664	<b>5,675</b>
EBITDA	411	<b>518</b>
EBITDA margin	7.3%	<b>9.1%</b>
Recurring operating income	200	<b>293</b>
Net income - Group share	45	<b>122</b>
Capital employed	3,024	<b>3,263</b>
Net debt	324	<b>459</b>
Dividend	-	<b>0.75€</b>

**EBITDA** climbed 26% to €518 million, well above guidance. The sharp increase reflects concerted internal efforts across our businesses to boost growth and productivity. The launch of new high-value-added product lines, combined with targeted debottleneckings in Europe and the United States and further capital expenditure in Asia, raised EBITDA by €26 million. Fixed cost reductions achieved through improved productivity had an impact of €57 million.

The economic environment had a slightly positive effect. Overall, demand for Arkema products held steady, although the weak U.S. dollar had a negative impact. In the aggregate, price increases offset rising raw materials and energy costs.

**Recurring operating income** soared almost 47% to €293 million.

**Net income** practically tripled to €122 million, for earnings per share of €2.02.

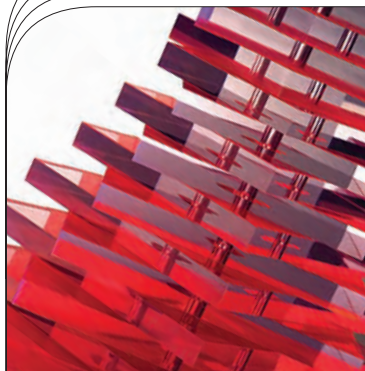
### First-ever dividend, €0.75 per share

Shareholders attending the Annual Shareholders' Meeting on May 20, 2008 will be asked to approve a dividend of €0.75 per share for 2007.

### EBITDA up 26%

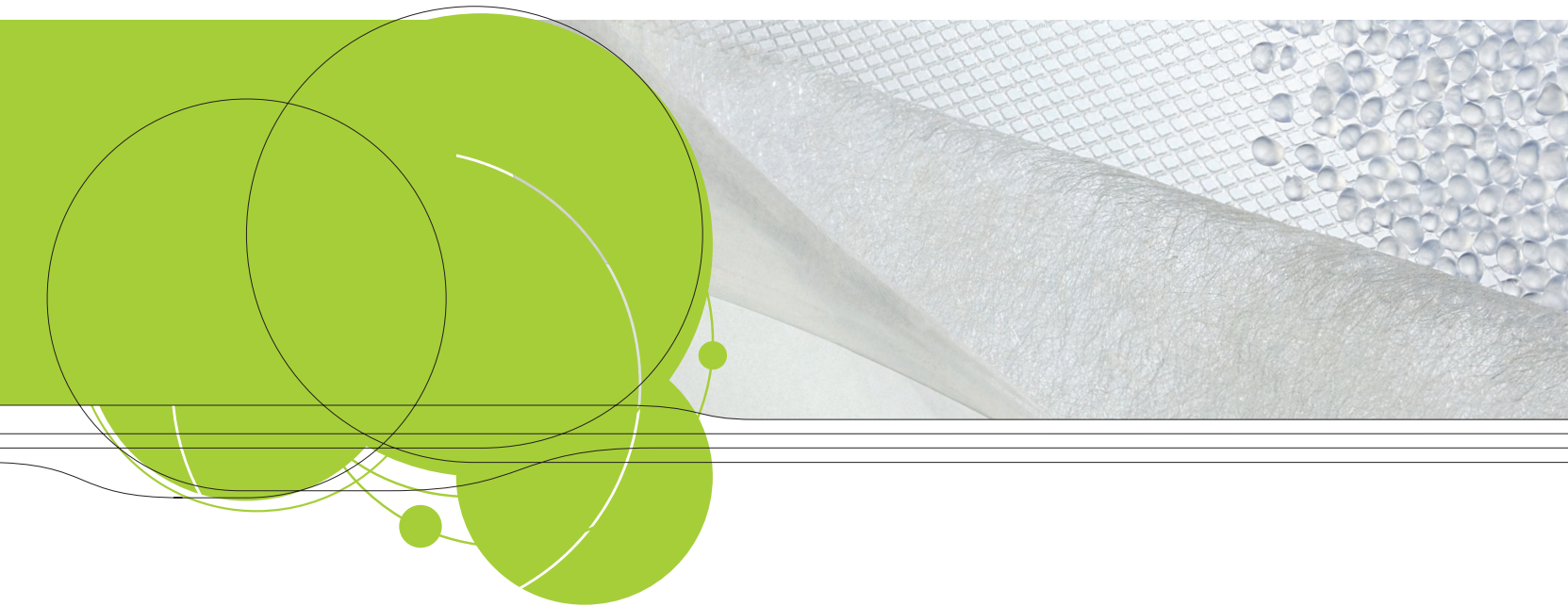
The initial 2007 financial target included a 10 to 15% increase in EBITDA<sup>(1)</sup>. Internal measures to enhance competitiveness and introduce a number of growth projects boosted EBITDA by 26% to €518 million, while net income nearly tripled to €122 million.

**Sales** rose slightly to €5,675 million in 2007, versus €5,664 million the previous year. On a like-for-like basis, sales were up 4%, driven by growth of 2.3% in volumes and the continued deployment across our three business segments of a policy of selective price increases (+1.7%) to offset rising raw materials and energy costs.



(1) Earnings Before Interest, Taxes, Depreciation and Amortization.





### Stronger business segments

#### Vinyl Products

(€ millions)	2006	2007
Sales	1,379	<b>1,418</b>
EBITDA	38	<b>90</b>
Recurring operating income	21	<b>65</b>

Vinyl Products sales were up 2.8% to €1,418 million. Sustained demand for PVC in Europe and increased selling prices offset higher raw materials and energy costs, while deployment of the chlorochemicals consolidation plan and restructuring in the Vinyl Products downstream significantly lowered the entire segment's fixed costs. EBITDA improved sharply to €90 million, versus €38 million in 2006, while EBITDA margin jumped to 6.3% from 2.8% in 2006.

#### Industrial Chemicals

(€ millions)	2006	2007
Sales	2,494	<b>2,529</b>
EBITDA	267	<b>289</b>
Recurring operating income	160	<b>178</b>

Industrial Chemicals sales inched up 1.4% to €2,529 million, but increased 5% at constant foreign exchange rates, mainly as a result of higher volumes driven by the ramp-up of hydrogen peroxide, thiochemical and PMMA projects. EBITDA stood at €289 million, up 8% as a result of fixed cost

reductions related to the restructuring of fluorochemicals at Pierre-Bénite, PMMA cast sheets in Europe and thiochemicals, along with business growth in high-value-added products, especially PMMA and thiochemicals. EBITDA margin was 11.4%, demonstrating both the business' ability to ride out market changes and internal improvements already made.

#### Performance Products

(€ millions)	2006	2007
Sales	1,784	<b>1,723</b>
EBITDA	156	<b>184</b>
Recurring operating income	71	<b>97</b>

Performance Products sales came to €1,723 million, down from €1,784 million in 2006. The decrease is the result of a weak U.S. dollar and a change in scope following the divestment of the urea formaldehyde resins business. On a like-for-like basis, the segment's sales rose 2.7%, buoyed by new Specialty Chemicals products and higher Functional Additives selling prices, which partially offset more expensive raw materials such as tin.



## Results well above targets



- Initiatives begun in 2006 to develop new products, start industrial projects and cut fixed costs delivered significantly improved EBITDA, up 18% to €184 million. These factors largely offset a negative exchange rate effect, the impact of the U.S. construction slowdown on Functional Additives and higher raw materials costs. EBITDA margin broke 10%, reaching 10.7%, compared to 8.7% in 2006.

### Positive cash flow

**Cash flow** from operations and investments was a negative €94 million. This figure includes the impact of disposals and acquisitions completed in 2007 for a net negative amount of €135 million, as well as €160 million in non-recurring expenses, primarily to restructure our businesses. After adjustment for both these items, ordinary cash flow was a positive €201 million, compared with €95 million in 2006.

### A very strong balance sheet

**Capital expenditure** for the year amounted to €325 million, including €44 million relating to the chlorochemicals consolidation plan. In an average year, we allocate half of our capex budget to growth projects and the other half to facility maintenance, safety and environmental protection.

**Consolidated net debt** stood at €459 million. This includes the impact of the Coatex acquisition and the divestment of Cerexagri, Urea Formaldehyde Resins and Specialty Amines. Taking into account €122 million in non-recurring pre-spin-off items remaining at December 31 (down from €580 million at the time of IPO), the net debt-to-equity ratio was 30%, against 28% at December 31, 2006. This is in line with Arkema's goal of maintaining this ratio below 40%.

**Working capital** amounted to €1,112 million at year-end, down €54 million from 2006. Reducing working capital is a priority, with a target of 18% of sales by 2010. At year-end 2007, the working capital-to-sales ratio was in line with guidance, standing at 19.6%, compared with 20.6% at December 31, 2006.



# Shareholder notebook

**Since our May 18, 2006 IPO, Arkema has communicated widely, publishing information, engaging in local outreach and meeting with individual and institutional shareholders. Opportunities to meet investors in 2007 included our first Annual Shareholders' Meeting, the first Investor Days and the creation of the Arkema Shareholders' Club.**

## Shareholder relations

### Highlight of the year, the Annual Shareholders' Meeting

Our first Annual Shareholders' Meeting was held on June 5, 2007 and attended by more than 800 shareholders. Thierry Le Hénaff reviewed our businesses, performance, transformation and outlook. Shareholders approved all the resolutions put forward by the Board of Directors at the Meeting.

### Outreach

In France, Arkema reaches out to individual shareholders by holding a number of information meetings outside Paris. In 2007, we met almost 1,500 people in Lyon, Marseille, Lille and Nantes, and 2008 meetings are already planned for Lyon, Nantes, Lille, Bordeaux and Marseille. We also take part in the Actionaria investor fair every year, and in 2007 we welcomed more than 1,000 visitors to our stand. Thierry Le Hénaff spoke at the C.E.O. Forum.

Our first Investor Days on September 24 and 25, 2007 attracted more than 40 financial analysts and institutional investors, who were brought up to date on the far-reaching changes taking place at Arkema and given a tour of the Serquigny R&D Center in France. The event was followed by roadshows in Paris, London, Frankfurt and Geneva in Europe and in New York, Boston and San Francisco in the United States. Thierry Le Hénaff, Chairman and C.E.O., Thierry Lemonnier, Chief Financial Officer, and Bernard Boyer, Executive Vice-President,

Strategy, met with investors during the roadshow tour. A similar roadshow was held when our annual results were released. In addition, Arkema participated in various press conferences in Paris, Nice, London and New York. Quarterly results were discussed during conference calls led by Thierry Lemonnier and Bernard Boyer. The materials related to these events are available at [www.finance.arkema.com](http://www.finance.arkema.com).



## First-ever dividend to be recommended at the 2008 Annual Shareholders' Meeting

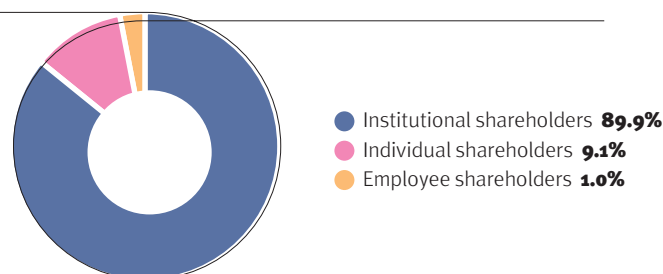
Arkema shareholders also stand to benefit from our improved results. Shareholders at the Annual Shareholders' Meeting on May 20, 2008 will be asked to approve a dividend of €0.75 per share for fiscal year 2007, to be paid on May 27, 2008. We plan to continue paying a dividend, whose amount will depend on Arkema's financial performance.



## Shareholder notebook

## Shareholder base

## Share capital by type of investor (% of share capital)



## As of December 31, 2007

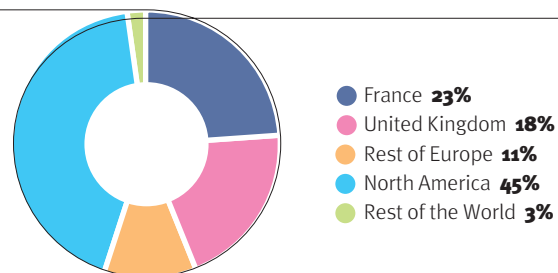
## Institutional shareholders owning at least 5% of the share capital

	% of share capital
Greenlight Capital	10.6
Dodge & Cox	9.9
Barclays Global Investors	5.9
Groupe Bruxelles Lambert <sup>(a)</sup>	3.9
Compagnie Nationale à Portefeuille <sup>(a)</sup>	1.3
<b>Other institutional shareholders</b>	<b>58.3</b>
including holders of ADRs	3.6
<b>Individual shareholders</b>	<b>9.1</b>
<b>Arkema employees<sup>(b)</sup></b>	<b>1.0</b>

(a) 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.

(b) Based on the definition of employee shareholder within the meaning of Article L. 225-102 of the French Code of Commerce.

## Shareholder base by region



## Communication resources

Our shareholders have access to an Investor Relations section on our Web site, a 24/7 toll-free number in France and various publications. They can request the *Registration Document*, a share registration form, the *Annual and Sustainable Development Report*, the corporate brochure, the Shareholders' Club calendar and the *Shareholder Newsletter* at any time. We also keep our shareholders informed through the print media by publishing regular financial notices.

## And now a Shareholders' Club

The Arkema Shareholders' Club was set up in November 2007 at the Actionaria investor fair. Individual shareholders with at least five registered or 25 bearer shares can join free of charge. Its main purpose is to familiarize investors with Arkema and help them to understand our organization and what we do, especially through site tours. Shareholders' Club members are also eligible for first aid training via the French Red Cross, with which we have a partnership.

The following Club events are scheduled for the first half of 2008:

- February 20, 2008: Innovation Conference.
- March 12, 2008 and May 27, 2008: First aid classes (French Red Cross).
- June 16, 2008: Tour of the Balan plant in eastern France.



## Recognition

In Arkema's first year of participation, our investor relations initiatives earned us fifth place in the CAC MID100 category for Best Shareholder Relations at the *Fils d'Or* awards, held on October 18, 2007 and organized by the *La Vie Financière* magazine and business daily *Les Échos* in partnership with Synerfil. Arkema was also a winner in Swiss daily *Agefi's* 2007 Corporate Governance Awards, taking second prize in the Governance Process category. The award recognizes the strides we have made in governance.





### 2008 calendar

February 15, 2008 – Release of 2007 full-year sales  
 March 5, 2008 – Release of 2007 results  
 April 9, 2008 – Shareholder information meeting in Lyon  
 May 14, 2008 – Release of first-quarter 2008 results  
 May 20, 2008 – Annual Shareholders' Meeting in Paris  
 June 2, 2008 – Shareholder information meeting in Nantes  
 June 10, 2008 – Shareholder information meeting in Lille  
 August 7, 2008 – Release of interim 2008 results  
 October 20, 2008 – Shareholder information meeting in Bordeaux  
 November 13, 2008 – Release of third-quarter 2008 results  
 November 21-22, 2008 – *Salon Actionaria* investor fair in Paris  
 December 4, 2008 – Shareholder information meeting in Marseille

### Contacts

Arkema  
 Investor Relations  
 420 rue d'Estienne d'Orves  
 92705 Colombes Cedex, France  
 Fax : +33 1 49 00 50 24  
[www.finance.arkema.com](http://www.finance.arkema.com)

### Individual shareholders:

[actionnaires-individuels@arkema.com](mailto:actionnaires-individuels@arkema.com)

▶ **Toll-free number 0 800 01 00 01** (France only)

24/7: real-time share price, financial calendar, news and financial information.

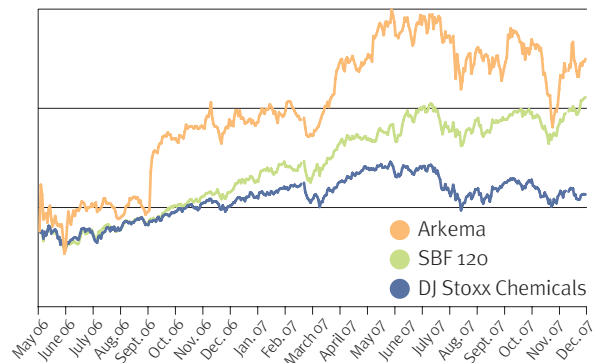
An individual shareholder advisor is available Monday to Friday, from 9:00 a.m. to 12:30 p.m. and 1:30 to 5:00 p.m. This service can be reached from outside France by dialing +33 1 49 00 82 01.

### Institutional shareholders:

[investor-relations@arkema.com](mailto:investor-relations@arkema.com)

### Share performance since IPO: up 63% at December 31, 2007

Arkema share performance versus the SBF 120 and DJ Stoxx Chemicals indexes



IPO price: €27.50

Price on Dec. 31, 2007: €44.94

High: €50.88

Low: €24.94

Performance since IPO on May 18, 2006:

Arkema: up 63.42% at December 31, 2007

SBF 120: up 13.71%

DJ Stoxx Chemicals: up 49.82%

Average daily traded volume in 2007: €11 million

### Fact sheet for the Arkema share

- IPO: May 18, 2006
  - Market capitalization on Dec. 31, 2007: €2.7 billion
  - Number of shares on Dec. 31, 2007: 60,453,823
  - Par value: €10
  - Free float: 100%
  - Listed on: Euronext (Paris) stock exchange
  - Indexes: SBF 120, CAC MID 100, DJ STOXX Chemicals
  - ISIN code: FR0010313833
  - Eligible for the Deferred Settlement Service (SRD) and French equity savings plans (PEA)
- Registrar: BNP Paribas Securities Services  
 GCT Émetteurs – Immeuble Tolbiac  
 75450 Paris Cedex 09, France  
 Toll-free number: 0 800 115 153  
 E-mail: [arkema-actionnaires@bnpparibas.com](mailto:arkema-actionnaires@bnpparibas.com)

# Growth through innovation

**Whether creating next-generation materials, designing ever more efficient processes to support sustainable development, improving products or working with customers to develop innovative applications, Arkema's R&D teams are critical drivers of our growth strategy.**



## Nanostrength® and Graphistrength®: Arkema's nanomaterials

**Nanostrength®** is a new line of block copolymers based on Arkema's proprietary technology and anionic, controlled radical polymerization process. These copolymers make materials tougher while maintaining key properties of the matrix into which they are incorporated.

**Graphistrength®** is the brand name for multiwall carbon nanotubes developed by Arkema. When properly dispersed, they impart outstanding mechanical strength and electrical and thermal conductivity to the material or medium to which they have been added.

**Nanostrength® and Graphistrength®** materials have applications in a wide array of markets, including advanced aerospace materials, sports equipment, automotive manufacturing, electrical and electronic components, high-performance adhesives, tires, industrial rubber and thermoplastic elastomers.

### Toward the chemical industry of the future

Arkema's R&D competencies are unquestionably one of our most valuable competitive advantages. R&D enjoys funding equal to almost 3% of our sales, and benefits from the skills and expertise of our 1,400 researchers and an international base of six research centers in France, the United States and Japan. Our commitment to innovation concentrates our investments on high-value-added activities, especially Performance Products, which accounts for nearly half of our R&D budget. Our projects are truly groundbreaking, setting the stage for next-generation processes and products. They support sustainable development, notably through the increasing use of renewable raw materials and inputs that promote the energy solutions of the future. Notable examples include nanostructured materials and related cutting-edge applications, the use of technical polymers in photovoltaic and fuel cells, and the utilization of bioresources and asphalt additives.

### Materials designed to perform

#### Carbon nanotubes for the materials of tomorrow

The pilot facility that produces Graphistrength® carbon nanotubes at our Lacq research center in southwestern France explores applications for carbon nanotubes and increases our knowledge of their physical, chemical and toxicological properties, so that carbon nanotubes can eventually be manufactured on an industrial scale.



#### Technical fluoropolymers for fuel cells

Our King of Prussia research center in the United States is developing fluoropolymer membranes in partnership with other manufacturers, to produce fuel cells that will supply clean, efficient energy for tomorrow's transportation. The research program has been awarded funding by the U.S. Department of Energy for a period of three years.

#### Molecular sieves for medical use

Patients suffering from respiratory insufficiency need a reliable source of oxygen-enriched air. Arkema's subsidiary CECA has developed new grades of Siliporite® molecular sieves that concentrate oxygen from ambient air to produce an airflow containing more than 90% oxygen. The system works by filtering room air through zeolite, a porous mineral whose nanometer-size cavities separate nitrogen from oxygen molecules.

#### A range of partnerships with customers

Arkema aims to be an innovative supplier by emphasizing the development of new products and applications in synergy with customers. At the same time, we are stepping up our presence and visibility in key markets, especially sports equipment, through top-of-mind campaigns to strengthen and link our respective brands. A prime example is the Pebax® brand, which has been selected by several sporting goods manufacturers — it is used by Lotto for its revolutionary soccer shoe, the first without laces, Asics for its upscale running shoes, Le Coq Sportif for its new rugby shoe styles, worn at the 2007 Rugby World Cup, and Fischer for its Nordic ski boots.

## Asphalt additives for “greener” streets

CECA is marketing a next-generation additive derived from our R&D that reduces the application temperature of coated materials for road surfaces from 170°C to 120°C. Added to asphalt in tiny quantities, this surfactant-base additive, made more than 50% from renewable raw materials, offers many advantages, including reducing energy use and gas emissions by 20 to 50% and offering more comfortable working conditions for road crews.





# Corporate governance

**Arkema has created a corporate governance organization that emphasizes and carefully monitors the effectiveness of our organizational, internal control and decision-making processes.**

**The Board of Directors determines the strategic vision of the company and ensures its implementation.  
The Executive Committee is responsible for implementing the company's strategic vision through day-to-day management.**



**Board of Directors**

Left to right, front row: Messrs. Jean-Pierre Seeuws, Thierry Le Hénaff, Laurent Mignon;  
back row: Messrs. Philippe Vassor, François Enaud, Tidjane Thiam, Bernard Kasriel, Thierry Morin.



### Board of Directors

The Board of Directors comprises eight directors, six of whom are deemed to be independent (indicated by an asterisk) under the criteria specified in the Board of Directors' bylaws.

#### Thierry Le Hénaff

Born in 1963, Thierry Le Hénaff holds degrees from France's *École Polytechnique* and *École Nationale des Ponts et Chaussées* engineering schools and a Master's degree in Industrial Management from Stanford University in the United States. He was appointed Chairman and Chief Executive Officer of Arkema on March 6, 2006.

#### François Enaud\*

Born in 1959, François Enaud is a graduate of France's *École Polytechnique* and *École Nationale des Ponts et Chaussées* engineering schools. He has been Chairman and Chief Executive Officer of Stéria since 1998.

#### Bernard Kasriel\*

Born in 1946, Bernard Kasriel is a graduate of France's *École Polytechnique* engineering school and has an MBA from Harvard Business School and INSEAD business school. He was appointed Vice Chairman & Chief Operating Officer of Lafarge in 1995 and was Chief Executive Officer there from 2003 to end-2005. He has been a Managing Partner at LBO France since September 2006.

#### Laurent Mignon\*

Born in 1964, Laurent Mignon is a graduate of France's *Hautes Études Commerciales* business school and the Stanford Executive Program. He has served as Managing Partner of private bank Oddo & Cie since September 2007.

#### Thierry Morin\*

Born in 1952, Thierry Morin is a graduate of *Université de Paris IX-Dauphine* and a *Chevalier de la Légion d'Honneur, des Arts et des Lettres* (Knight of the Order of Arts and Letters). He was appointed Chairman of the Management Board of Valeo in 2001 and Chairman and Chief Executive Officer of Valeo in March 2003.

#### Jean-Pierre Seeuws

Born in 1945, Jean-Pierre Seeuws is a graduate of France's *École Polytechnique* engineering school. He was a member of

Total SA's Executive Committee from 1996 to 2000. Between 2000 and 2005, he was General Delegate for Total's Chemicals businesses in the United States and Chief Executive Officer of Atofina Chemicals Inc. and Total Petrochemicals Inc.

#### Tidjane Thiam\*

Born in 1962, Tidjane Thiam is a graduate of France's *École Polytechnique* and *École des Mines de Paris* engineering schools. He holds an MBA from INSEAD business school. He was appointed Chief Financial Officer of Prudential Plc and a member of the Company's Board of Directors in September 2007.

#### Philippe Vassor\*

Born in 1953, Philippe Vassor is a graduate of France's *École Supérieure de Commerce de Paris* business school and a certified public accountant and statutory auditor. He spent most of his career (1975 to 2005) at Deloitte & Touche, where he was Chairman and Chief Executive Officer in France and a member of the global Executive Group, responsible for Human Resources, from 2000 to 2004. He has served as the Chairman of Bagnas SAS since June 2005.

### Duties and procedures of the Board of Directors

The Board of Directors, its various committees and the combined skills of the individuals who serve on them help to foster a culture of internal control appropriate to Arkema's line of business. The Board monitors the Company's progress in achieving and implementing our strategic objectives and oversees the Company's management. It has decision-making authority over major transactions and oversees the quality of investor information provided. The Board meets at least four times a year and whenever circumstances so require.

### Board of Directors activity in 2007

The Board of Directors met seven times in 2007. The average attendance was 92.8%.

The agenda for these meetings included, but was not limited to, the following subjects:

- Preparation of the financial statements for fiscal year 2006 and review of quarterly and interim earnings and the corresponding news releases.



**Executive Committee**

From left to right: Messrs. Alain Devic, Pierre Chanoine, Bernard Boyer, Thierry Le Hénaff, Michel Delaborde, Otto Taken, Thierry Lemonnier and Marc Schuller.

- Annual examination of the reports of the Audit and Accounts Committee and the Appointments and Compensation Committee.
- Annual assessment of the Board of Directors.
- Assessment of directors' independence.
- Setting of the fixed and variable compensation for the Chairman and Chief Executive Officer for fiscal year 2007.
- Determination of limits on the Chief Executive Officer's authority to issue guarantees.
- Approval of stock option plans and plans granting stock without consideration.
- Review of the conditions governing the Executive Committee's compensation.
- Determination of the Company's insurance and safety policy.
- Transfer of corporate headquarters and the corresponding modification of the articles of incorporation.
- Restructuring and acquisition plans within the Company.

**Board of Directors' Committees**

The Board of Directors created two standing committees in 2006, the Audit and Accounts Committee and the Appointments and Compensation Committee, in accordance with its bylaws.

**Audit and Accounts Committee**

The Audit and Accounts Committee is comprised of Philippe Vassor (Chairman), Jean-Pierre Seeuws and Laurent Mignon, giving it two independent directors including the Chairman. Thierry Lemonnier, Arkema's Chief Financial Officer, is the Committee's secretary.

In selecting the members of the Committee, the Board of Directors paid particular attention to their financial and accounting qualifications.

The Audit Committee's role is to assist the Board of Directors in ensuring effective internal control and reliable information for investors and financial markets. The Committee's duties include:

- Recommending the appointment of statutory auditors and their compensation in accordance with the rules governing independent auditor appointments.
- Ensuring compliance with the legislative and regulatory provisions in effect when statutory auditors are asked to perform non-audit services.
- Examining the assumptions and accounting policies used to prepare the financial statements, examining parent company annual, interim and quarterly financial statements, and the consolidated annual, interim and quarterly financial statements prior to their examination by the Board, and examining the financial information in news releases prior to their distribution.
- Examining the choice and consistency of appropriate accounting principles.
- Reviewing the implementation of internal control procedures.
- Reviewing the scope of annual auditing programs and work.
- Evaluating the system for delegating commitment authority.
- Examining the appropriateness of risk oversight procedures.
- Examining the policy of the Company's use of derivative instruments.
- Evaluating the major transactions being contemplated by the Company.
- Keeping regularly informed of developments in significant



legal and arbitration proceedings.

- Reviewing the main off-balance-sheet liabilities, especially the most significant new contracts.

### Appointments and Compensation Committee

The Appointments and Compensation Committee consists of Thierry Morin (Chairman), François Enaud and Bernard Kasriel, who are independent directors. Michel Delaborde, Executive Vice-President, Human Resources and Corporate Communications, is the Committee's secretary.

The Committee performs the following specific tasks:

With respect to appointments:

- Recommends to the Board of Directors candidates for appointment to the Board and its committees.
- Each year presents to the Board a list of the directors it deems to be independent.
- Assists the Board in the selection and evaluation of directors, corporate officers, and directors as Committee members.
- Prepares and presents an annual report on the Committee's procedures and performance.

With respect to compensation:

- Reviews the primary compensation guidance proposed by senior management for executives, whether or not corporate officers.
- Makes recommendations and proposals to the Board regarding Company policy on compensation, retirement and insurance plans, in-kind benefits and the granting of stock options and shares without consideration, especially personal grants to corporate officers.
- Reviews the compensation of Executive Committee members, including stock option plans and plans for stock grants without consideration, retirement and insurance plans and in-kind benefits.
- Reviews the process for paying directors' fees to Board members and the terms and conditions for the reimbursement of directors' expenses, if any.

### Executive Committee

Thierry Le Hénaff is Chairman of the Board of Directors and Chief Executive Officer of Arkema. To assist him in managing the Company, the Chairman has created an Executive Committee, which he chairs. The other Committee members are the Executive Vice-Presidents of our three business segments, Otto Takken (Vinyl Products), Marc Schuller (Industrial Chemicals) and Pierre Chanoine (Performance Products), and the senior executives of the four corporate support functions: Executive Vice-Presidents Michel Delaborde (Human Resources and Corporate Communications), Alain Devic (Industrial Operations) and Bernard Boyer (Strategy), and Chief Financial Officer Thierry Lemonnier.

The Executive Committee is a decision-making organization that carries out strategic planning, tracks performance and examines important organizational issues and major projects.

In support of our internal control process, the Executive Committee:

- Sets the objectives for each business unit, corporate department and subsidiary, and provides them with the resources needed to achieve them.
- Defines internal control processes and the rules for delegating responsibilities.
- Annually reviews Arkema's major areas of risk exposure, based on the work of the Risk Assessment Committee.
- Ensures implementation of the control processes necessary to achieve company objectives, with the support of the Internal Audit Department and Internal Control Project.

The Executive Committee usually meets twice a month. Each member is responsible for ensuring compliance with shared rules and principles in the operations he oversees.

### Organization

Arkema is organized into three integrated, aligned business segments, Vinyl Products, Industrial Chemicals and Performance Products, and 13 profit centers, called business units. Our businesses are organized into clusters of related activities. Vinyl Products encompasses chlorochemicals, Industrial Chemicals deals with the major chemical intermediates, and Performance Products focuses primarily on applications.

Our organization changed in 2007 with the acquisition on October 1 of Coatex, now the Specialty Acrylic Polymers Business Unit within Industrial Chemicals, and the divestment of our Urea Formaldehyde Resin activities on November 1.

The business units are responsible for plant management, research, sales, marketing and customer relations. Fully accountable for results, the units are supported by central corporate departments that make sure all components work together effectively and seamlessly and also provide ongoing assistance with accounting, taxes, legal services, information systems, human resources and corporate communications.



# Responsibility

Meeting the legitimate expectations of our stakeholders through risk and environmental impact management, product stewardship, employee dialogue to support and ease change, and attentiveness to our neighbors and communities.





  
Certincoat®

  
Kynar®

  
Orgasol®



# Industrial safety

**Expertise, organization and vigilance in a global process designed to achieve excellence.**



## **A shared safety culture under the *Safety in Action*® banner**

Arkema's Executive Committee approves and promotes our safety process, which is defined at the corporate level and distributed globally. The process involves the deployment of safety management systems, targeted consulting and support initiatives, scheduled of control audits, and the

involvement of all employees, regardless of their reporting level or business. This ongoing initiative, cascaded worldwide under the *Safety in Action*® banner, involves three fundamental, interlocking parts:

- A technical component that deals with major risk prevention at our facilities and hazardous materials transportation. It involves taking steps to implement appropriate prevention and protection measures as early as possible, during process planning, installation design, equipment selection and manufacturing procedures definition.
- A component concerned with the quality of operations, including the deployment of management systems tailored to the specific needs of each plant and analysis support resources that are frequently upgraded. Our safety management systems are regularly audited and certified by internal and outside auditors, based on the International Safety Rating System (ISRS) and Arkema guidelines and recommendations.
- A human resources, behavioral component, targeting everyone at our production plants, Arkema and contractor employees alike, because improving industrial safety performance fosters a shared safety culture.

## **E-learning harnessed to enhance prevention**

Many health, safety and environmental protection topics are common to all of our production plants and ideally suited to e-learning. E-learning offers number of benefits, including saving time and money via shared modules, teaching materials designed and developed by professionals that are more appealing and more effective, and consistent messages to build a shared global safety culture.

The content of each training module is prepared by a specialized in-house team, adapted by teaching professionals and put together by a media consultant. The modules are then translated into several languages so that they can be used in production plants in our various host countries.

An initial trio of safety modules — on legionellosis prevention, explosive atmospheres and individual movement — is currently being tested.

## **Building on practical, everyday measures**

Arkema deploys the *Safety in Action*® program worldwide to improve personal and collective safety practices and provide our plants with practical, universal tools that can be cascaded to all facilities:

- “Highlights” are quarterly meetings that allow teams at every facility to discuss safety after watching a short video shot at an Arkema plant. Each video is based on a safety-related situation submitted by local teams. The team members whose



scenario is selected perform as actors in their video. Distribution of these videos provides an opportunity to analyze common practices in the field and involve employees in improving safety habits and eliminating unsafe behaviors.

2007 “Highlights” topics included complacency about risks at Leuna in German; proper posture and body mechanics at Matamoros in Mexico; and the implementation of procedures at Balan in France. In support of our global drug and alcohol addiction prevention campaign, a video devoted to this topic was filmed at France’s Jarrie plant.

- All production facilities worldwide have an orientation procedure to inform visitors and carriers about Arkema’s industrial safety standards and to educate them about compliance with safety rules. We make sure they understand safety instructions by having them watch a video and pass a test about facility safety rules.
- Our deployment of Health Safety Environment Quality (HSEQ) management systems has been supplemented by additional training in those areas, including personal HSEQ training plans for all reporting levels up to and including business unit managers.

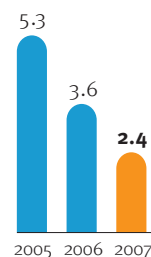
**For the second year in a row, the lost time injury rate, encompassing both our own and contractor employees, fell by more than 30%. We will continue our safety initiatives and work toward becoming one of our industry’s “best in class.”**

#### The same concern for product transportation safety

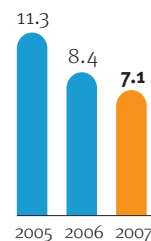
Arkema has a team of safety experts dedicated to identifying and minimizing the hazards associated with product transportation. In many cases, we transport by barge, which offers many logistics advantages, excellent safety conditions and lower environmental impact. The same concern has made Arkema one of the main partners of Modalohr, a trans-Alpine rail service. We account for over 10% of the goods carried.

In addition, suppliers are required to undergo audits based on the rating system specific to each mode of transportation: Safety Quality Assessment System (SQAS) for road transportation, Chemicals Distribution Institute (CDI) for maritime transportation and European Barge Inspection System (EBIS) for inland waterway transportation.

#### Lost time injury rate



#### Total recordable injury rate, with and without lost time



# Product stewardship

**Making sure our products are safe for the environment and human health at every stage in their life cycle.**

## **Affirming our commitment to sustainable chemistry**

Arkema's endorsement of the International Council of Chemical Associations' (ICCA) Responsible Care® Global Charter signals our desire to continue moving forward with our commitment to Responsible Care, initiated more than 15 years ago by the global chemical industry. In practical terms, this means a renewed emphasis on improving our performance in the areas of health, safety and environmental protection, stakeholder dialogue and product stewardship.

## **Assessing risks at every stage in the product life cycle**

Arkema takes care to market products that are safe, environmentally and health friendly, and useful to the community. Product stewardship means making sure that products do not jeopardize human health and safety or the environment at any stage of their

life cycle, including development, production plant design, manufacturing, transportation, marketing, use and disposal. This proactive, voluntary policy requires the cooperation of all participants in the product chain, from raw material suppliers to carriers, retailers, sales and marketing professionals, and end-use customers.

Arkema's toxicologists and ecotoxicologists continuously enlarge what we know about the properties of our chemicals. For years they have been working with other professionals through international High Production Volume (HPV) programs, either those of the International Council of Chemical Associations (ICCA) or of the U.S. Environmental Protection Agency (EPA). HPV programs thoroughly assess the risks associated with chemicals produced and sold in large quantities. The assessments provide more information about inherent hazards and assess potential exposure levels during a product's life cycle. The goal is to eliminate all hazards for users.

## **REACH as an opportunity for improvement Successfully implementing REACH**

As the public voices legitimate expectations regarding health and environmental protection and concerns about the long-term impact of chemicals, Arkema sees REACH as another way of continuously improving what we know about our chemicals, their safe use and what we may be able to do to restore the general public's faith in the chemical industry.



“Arkema's dedication to building an innovative, fully responsible chemical business prompted us to sign the Responsible Care® Global Charter. We must meet the needs, expectations and demands of current and future generations — that is what being a socially responsible chemical manufacturer means, and that is the philosophy that underpins our sustainable development process.”

**Thierry Le Hénaff** Arkema Chairman and Chief Executive Officer





By leveraging the innovative capabilities of our R&D, we also plan to take advantage of the inevitable changes the implementation of REACH will bring to the chemical marketplace.

#### Dedicated resources

In preparation for the projected workload increase, we expanded our staff of toxicologists and ecotoxicologists and created positions to prepare registration dossiers. We have already compiled a list of the substances we produce and import, verified existing information and identified gaps in data. This analysis is constantly refined as our product lines evolve.

Usually emerging from industry associations and groups, the first "consortiums" have been established to prepare joint registration dossiers. REACH is based on sharing data, which means a single, joint dossier must be submitted for each substance by a lead registrant, with each manufacturer or importer involved submitting other information individually in a separate dossier. Arkema has a portfolio of some 430 substances, and 35 to 40 are expected to be subject to the authorization procedure. The business units affected are incorporating this requirement into their strategy, and substitution programs are under way. However, most of the work to be done now involves preparing registration dossiers, particularly for the 150 substances subject to the first deadline in November 2010.

## The active phase of REACH begins in 2008

Formally adopted on December 18, 2006 by the European Union's Council of Environment Ministers, the REACH regulation became effective on June 1, 2007. The focus during 2008 will be on pre-registration, an essential stage in the REACH process that will last from June 1 to November 30. Companies that pre-register every substance they make or import will be allowed to continue marketing them and granted extensions to prepare registration dossiers, depending on the tonnages involved.

#### REACH's impact on Arkema

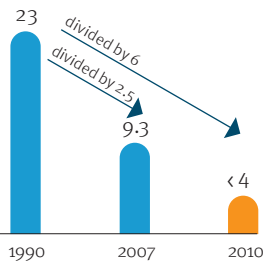
- 430 substances requiring a registration dossier.
- 35 to 40 substances subject to the authorization procedure.
- Over 150 substances requiring registration between now and November 2010.
- A compliance cost of €5 million per year between 2007 and 2018.



# Environmental stewardship

**A continuous improvement process to reduce our environmental footprint, optimize the use of natural resources and conserve energy.**

Greenhouse gas emissions (metric MTCDE)



### Reducing our environmental footprint

Arkema's continuous improvement process is based on a corporate policy implemented at our industrial facilities and on the deployment of specific action plans. To achieve a level of performance that exceeds the requirements of applicable regulations, Arkema has integrated environmental protection into our management system. Most of our plants have earned environmental certification, usually based on the ISO 14001 standard, chosen because it is an international benchmark. However, depending

on the local situation, some sites have selected other standards, such as the Responsible Care Management System (RCMS). Each Arkema plant uses a precise procedure to pinpoint its impact on local water, air, waste, noise, odors or soil, and establish its priorities for action. Regular environmental analyses track our progress and set new improvement targets. Each facility thoroughly and systematically monitors its discharges, emissions and waste. All environmental data are collected and compiled at the corporate level and published annually in this report. Minimizing the environmental impact of industrial operations also means optimizing the use of natural resources, especially water, energy and raw materials. Our plants use only what water is necessary for their operations. Energy efficiency is another core operating principle of our facilities. New production units factor energy management into their choice of processes and equipment from the design stage forward.

## Arkema Changshu cuts emissions by six million metric tons of carbon equivalent

Arkema's plan calls for incinerating the HFC 23 coproduced during HCFC 22 manufacture. Incineration will reduce annual emissions by an estimated amount of nearly six million metric tons of carbon equivalent. The process has been registered with the Clean Development Mechanism Executive Board, an arm of the United Nations Framework Convention on Climate Change (UNFCCC).

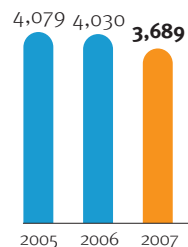
**Once the installation is up and running, our total greenhouse gas emissions will fall by more than 60%, a sixfold reduction since 1990, the baseline year of the Kyoto Protocol.**

### Continued reduction of emissions

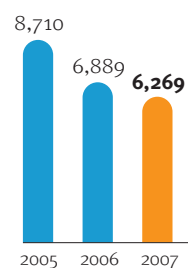
Concerned with maintaining water and air quality and mitigating climate change, Arkema pays special attention to three indicators: chemical oxygen demand (COD) in discharges to water, volatile organic compounds (VOC) and greenhouse gas emissions, especially carbon dioxide (CO<sub>2</sub>) and hydrofluorocarbons (HFC). Source reduction, improved processes, optimized effluent treatment, training, operator and maintenance personnel education and the installation of sophisticated continuous analysis devices have helped reduce discharges to water and atmospheric emissions at our industrial facilities.



#### Discharges to water COD (metric tons)



#### Air emissions VOC (metric tons)



Saving energy is an important aspect of initiatives to reduce greenhouse gases. As a major energy consumer, Arkema is constantly improving the energy efficiency of our installations. The in-house Arkenergy initiative raises employee awareness about the need to reduce waste and look for ways to conserve energy.

Arkema has been working to reduce our greenhouse gas emissions for years. We cut them by two-thirds between 1990, the baseline year for the Kyoto Protocol establishing improvement targets for industrialized nations, and 2005. The increase in our emissions in the last three years has been driven by sharply higher production of Forane® 22 at our Changshu plant in China,

## Energy efficiency in France and the United States

- During work to expand the production capacity of the chlorine/caustic soda unit at our Fos-sur-Mer plant in France, an energy recovery system was installed to harness the heat generated by the electrochemical reaction used to heat the brine for the electrolysis cells. The new heat exchanger eliminated the need for most of the steam previously required, saving more than one metric ton of steam per hour for an equivalent reduction in CO<sub>2</sub> emissions.
- A multidisciplinary team at our Beaumont, Texas, plant in the United States, which specializes in thiochemical derivatives production, studied ways to boost energy efficiency. The measures implemented, especially those affecting steam use, yielded substantial gas and power savings, which translated directly into a 13,500-metric-ton reduction in annual CO<sub>2</sub> emissions for the facility.



# A chemical producer interested in what the world around us thinks



**By fostering mutual understanding and communication with all stakeholders, Arkema cultivates close local relationships that help us take into account the legitimate expectations of society, especially the people working and living near our production facilities.**



## **Common Ground®: caring about and communicating with the world around us**

Arkema products are a common part of everyday life, although more often than not they go unrecognized. Consumers are usually unaware of our products' nature and origin, of the improvements and comfort that their applications make possible and of how our production plants work.

To improve familiarity with our activities and with the economic and social purposes and functions of our products, we launched the Common Ground® dialogue and outreach initiative in 2002. Its purpose is to strengthen and formally organize our relationships with various community partners, including elected officials, people living and working near our plants, public authorities, associations and schools.

Common Ground® was designed to provide us with opportunities to listen to and understand stakeholder expectations, build lasting trust-based relationships with local communities and open our plants to people interested in learning more about our industry.

## **Common Ground® goes abroad**

- In conjunction with neighboring cities, our Quimica de Zaramillo plant in Spain sat on the public consultation panel set up by the Basque government. A number of issues were raised at the first few meetings, ranging from the type of products manufactured to their potential environmental impact and storage facility safety.
- When Altuglas International's plant in Matamoros, Mexico celebrated its 20<sup>th</sup> birthday in May 2007, it highlighted the importance of healthy community relations to the business performance of the company, which is one of the region's most remarkable success stories.
- Close collaboration between Arkema and the municipality of Rho near Milan, Italy, led to the March 2007 inauguration of a district heating cogeneration unit at the Rho facility. Linked to a remote heating system, the unit allows us to conserve energy and lessens environmental impact.

## **Arkema monitors local expectations through the Pierre-Bénite Steering Committee**

Established in 2003 at the initiative of the Pierre-Bénite plant to establish ongoing, constructive dialogue with stakeholders, the Steering Committee includes a number of mostly local public figures representing the association, political, media, research and cultural communities. After several joint initiatives — dealing in particular with environmental protection and sustainable development — to keep up with changes in regulatory requirements, current discussion is focused on informing people living and working near the facility about industrial risks.



### **Arkema and the French Red Cross partner to teach life-saving techniques**

Arkema's first aid training partnership with the French Red Cross signals our strong commitment to contributing to civic life and building on the Common Ground® initiative. With less than 10% of its population trained in first aid, France trails far behind most other European Union countries. Doubling the number of trained first-aiders would save almost 10,000 lives a year.

What makes the partnership between Arkema and the French Red Cross so unique is that our courses are open to people from outside the company, living or working near our plants, who learn side by side with Arkema employees.

The stated goal of the partnership is to train 5,000 people by end-2008. Classes have already reached more than 3,200 people, almost half from outside Arkema. We owe special thanks to the schools that have been so helpful in supporting the initiative near several of our sites, including Lannemezan, Jarrie, Balan and La Chambre.

### **Reckoning with the ripple effect of change**

As we adapt our production base to the ever-changing requirements of our businesses and their competitive environment, Arkema both supports employees affected by job cuts through worker adjustment programs and deploys initiatives to revitalize local employment.

In 2007, for example, in addition to working to complete earlier initiatives — notably in Saint-Auban, southeastern France, and the worker adjustment programs at our Loison, Villers Saint-Paul and Le Havre sites in northern France and Pierre-Bénite in the south — we negotiated economic revitalization agreements with government agencies that defined appropriate support resources and committed us to revitalization initiatives designed to create nearly 240 jobs.

FONDATION  
DE  
FRANCE

### **Arkema, a founding member of Fondation ENSIC, under the aegis of Fondation de France**

Created at the instigation of two research professors who transferred to *École Nationale Supérieure des Industries Chimiques de Nancy* (ENSIC) the intellectual property rights for an original method of teaching liquid-liquid extraction operations, *Fondation ENSIC* aims to promote access to higher education for underprivileged students. By replacing organic solvents with a nonflammable, inert water-based mixture, the professors' developed is an environmentally friendly, risk-free process for carrying out a major chemical manufacturing operation. By supporting the Foundation, Arkema provides financial aid to deserving students while strengthening longstanding ties with ENSIC and participating in growth projects. Our involvement in *Fondation ENSIC* reflects our desire to support initiatives that combine innovation with community support.

# Frank, constructive employee relations

**To support changes at Arkema and keep up with an ever-evolving industry, we base our relationships with employee representatives on dialogue and trust.**



## Introducing Arkema's European Works Council

We also created a European Works Council in 2007 under an agreement that was ratified on March 21 by a number of European and French labor unions, including the European Federation of Managers in the Chemical and Allied Industries (FECCIA) and France's *Confédération Générale du Travail* (CGT), *Confédération Française de l'Encadrement-Confédération Générale des Cadres* (CFE-CGC), *Confédération Générale du Travail-Force Ouvrière* (CGT-FO) and *Confédération Française des Travailleurs Chrétiens* (CFTC). Business, employee, financial, environmental and organizational issues all fall within the purview of the European Works Council. Given the way our workforce is distributed in Europe, the employee representation framework negotiated in 2006 at Arkema calls for the French Works Council to be integrated into the European one. This contract provision prevents a jurisdictional overlap that would be detrimental to effective joint action and broadens the authority of French employee representatives to Europe.

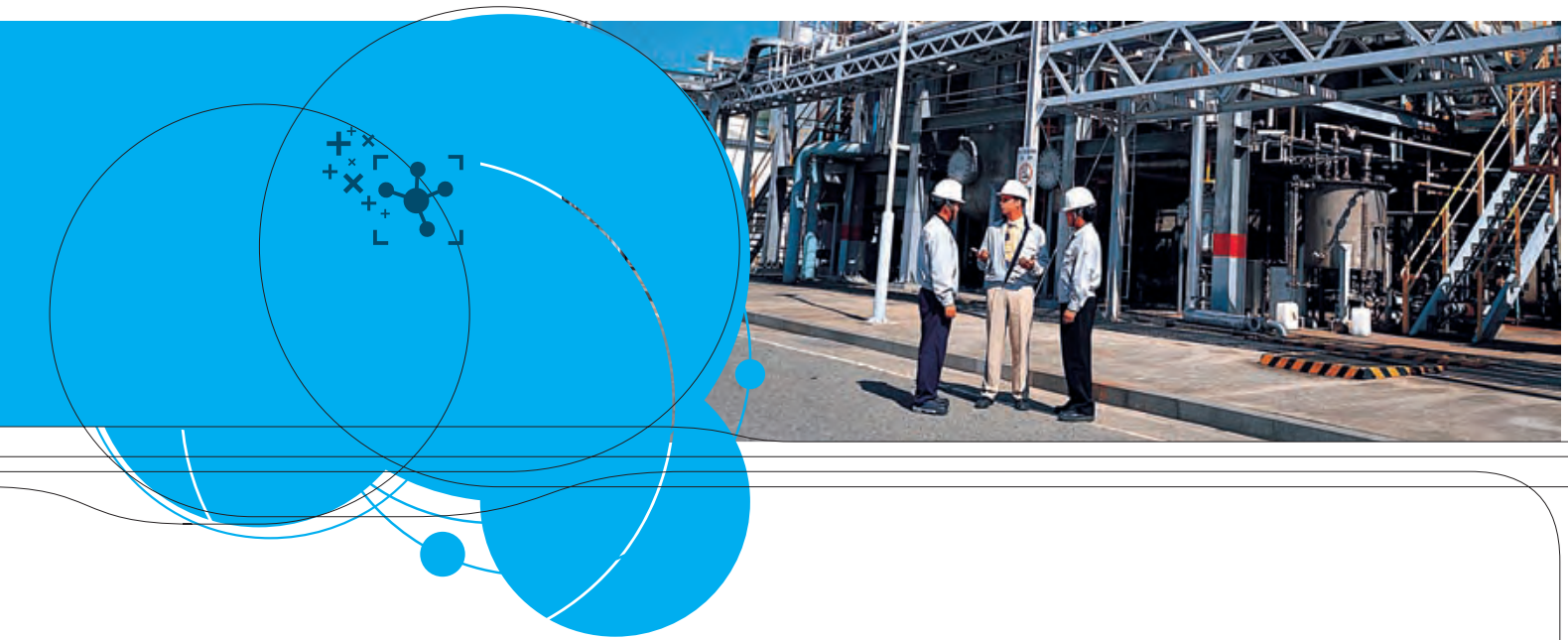
## Building an employee relations framework with all employee representatives

Since its introduction in October 2004, Arkema's contract-based employee relations policy in France has led to the signature of a number of agreements covering a variety of areas, including the employee savings plan, employee representation, union rights, and jobs and skills planning. Arkema France, an Arkema S.A. subsidiary comprising most of our businesses in France, signed several agreements in 2007, most of which were ratified by the full complement of labor organizations. In addition to an agreement on support for shift workers subject to changes in work schedules, we signed an amendment to the memorandum of understanding on union rights and amendments to the agreements providing for early retirement as a result of changes planned at headquarters and the Lacq and Pierre-Bénite production plants. In other host countries, Arkema and our subsidiaries tailor employee dialogue to the specific national laws and practices governing employee representation and relations between management and employees.

## Model measures to help employees weather changes at Arkema

Concurrent with key expansion projects, in 2007 we announced or introduced a number of workforce adjustment plans to enhance our competitiveness in France, Germany, Italy and the Netherlands.





Procedures for informing and consulting employee representation organizations at the corporate or local level provided many opportunities for discussion concerning each plan. In France, Arkema presented several closure and work change plans, striving in each case to suggest solutions for all employees affected by job cuts. Cases covered included changes at the Soveplast plant in Chantonnay; the winding down of Dorlyl; the Lacq-Mourenx plant's restructuring; the Carling plant's performance improvement plan; adjustments to activities at the Pierre-Bénite production facility; restructuring of CECA's Feuchy plant; and changes in activity at the Marseille Saint-Menet site.

Arkema presented two other plans involving two European facilities: the closure of the copolyamide production line at the Bonn, Germany, plant and the shutdown of the unit producing tin derivatives for agrochemicals at the Vlissingen plant in the Netherlands. In the United States, Arkema's Functional Additives business unit presented a plan to revamp the Crosby, Texas, plant.

### **Loison-sous-Lens, France: effective support in a challenging environment**

Announced in October 2006, the Loison-sous-Lens plant closure gradually eliminated 57 jobs through March 2008.

In an unusually tough regional economy, plant management has marshaled every resource necessary to prepare individual career plans with each employee and to support local outplacement by putting people in touch with potential employers in the region or transfers within Arkema for workers who agree to relocate. By December 31, 2007, all plant employees had been offered an outplacement solution or alternate position; 51 had already accepted new positions and customized placement support was being provided to the remaining six.



### **Employee relations organizations at Arkema facilities in China**

In December 2007, the first Employee Representatives Assembly was elected at Arkema China Investment, our headquarters in China. The Assembly enjoys input into many areas, from salary negotiations to safety and training, and is in addition to the labor unions already in place at our Chinese production plants.

# Our people drive our transformation and growth

**Creating, strengthening and motivating effective teams worldwide spurs our transformation and growth.**



**Leveraging the company's international diversity and stressing career management for employees**

International management of Arkema's human resources stresses the development of local teams in all host countries and features three interrelated components:

- Including senior experts in project management teams when similar expertise is not available locally, with the expectation that they will transfer their skills.
- Offering young managers the option of spending two to three years abroad to enrich their career experience through exposure to different cultures before they return to their home countries.
- A three- to six-month apprenticeship program, dubbed *Training Exposure*, at one of our plants to showcase the range of expertise that can be tapped into through interaction and sharing.

## A framework agreement on jobs and skills planning at Arkema

was signed in July 2007 by a majority of employee labor unions. The agreement is a cornerstone of our human resources policy, bringing together employees of all skill levels, their supervisors and career managers, all key players in the career planning process. It covers the various stages in the working life of employees, from new hire orientation to annual performance reviews with supervisors and periodic guidance and assessment meetings with career managers.

Internal promotion, a core component of human resources management, meets Arkema's need for skills while serving as an incentive for personnel. Employees preparing for promotion to higher-level positions are offered a support program to upgrade their technical knowledge and interpersonal skills.

**Upgrading skills and fostering a shared culture**

Giving employees the skills and resources they need to help drive technological, social and economic change is a major focus of our training. Accordingly, much of our training in 2007 dealt with safety, the environment and industrial reliability, reflecting our values and strategy.

The growing use of mentoring helps to optimize the quality and effectiveness of training initiatives. It relies on employee volunteers trained especially for the job, who can pass on knowledge within Arkema. To promote openness and prevent conflicts, employee dialogue management seminars were rolled out in 2006 and are offered regularly to supervisory personnel at all of our French production plants.

**An international talent search to secure our future**

Our recruiting policy aims to attract the most skilled people we can find to support our transformation and growth by scouting top junior and senior-level talent. Arkema's recruiting efforts target applicants



with an interest in other cultures, solid interpersonal skills and the potential to solve problems and display initiative. From Paris to Tokyo, Shanghai to Philadelphia, Arkema scours university campuses for the talent that will drive our future performance. Each year, we host nearly 400 interns, who account for half of our junior-level hires. Eighty managers were hired in France in 2007.

In Japan, where large local companies dominate the job market, Arkema prospects far upstream to find engineers who might be interested in joining us. China is experiencing an unprecedented surge in industrial investment and our focus there is on manager retention.

In the United States, where there is a shortage of chemical engineers, we recruit through university partnerships and student sponsorships.

Arkema has compiled a guide, **A Galaxy of Professions**, that surveys the wide range of positions available within the Company. This resource categorizes positions according to activity, professional field and typical assignment. Human Resources studies pinpoint our short- and medium-term needs, based on our changing workforce and industrial projects.

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### **More dynamic career tracks for non-management staff**

Under the jobs and skills planning agreement, Arkema France's Human Resources Department has deployed an action plan to extend career management to operations, administrative, technical and supervisory employees. It will offer workers in this category new career opportunities through vertical mobility facilitated by a more active internal promotion policy and lateral moves to different professional fields and facilities. A dedicated coordinator's position has been created to implement the plan.





# Performance

Creating the chemical industry of tomorrow — one that finds innovative solutions that support sustainable development — is the challenge met daily by Arkema's teams, thanks to their reliable manufacturing culture, knowledge of markets and solid positions across the global marketplace.





# International reach

With operations in more than 40 countries and top-tier positions in most of its manufacturing activities, Arkema is continuing to pursue growth by expanding its production base in Europe, the United States and Asia.

## Europe

50 PLANTS

60% OF SALES

60% OF THE WORKFORCE IN FRANCE

15% OF THE WORKFORCE OUTSIDE FRANCE

## North and South America

20 PLANTS

22% OF SALES

16% OF THE WORKFORCE IN NORTH AMERICA

## Asia

10 PLANTS

13% OF SALES

8% OF THE WORKFORCE

## Rest of the World

5% OF SALES

1% OF THE WORKFORCE

● Main development projects in 2007

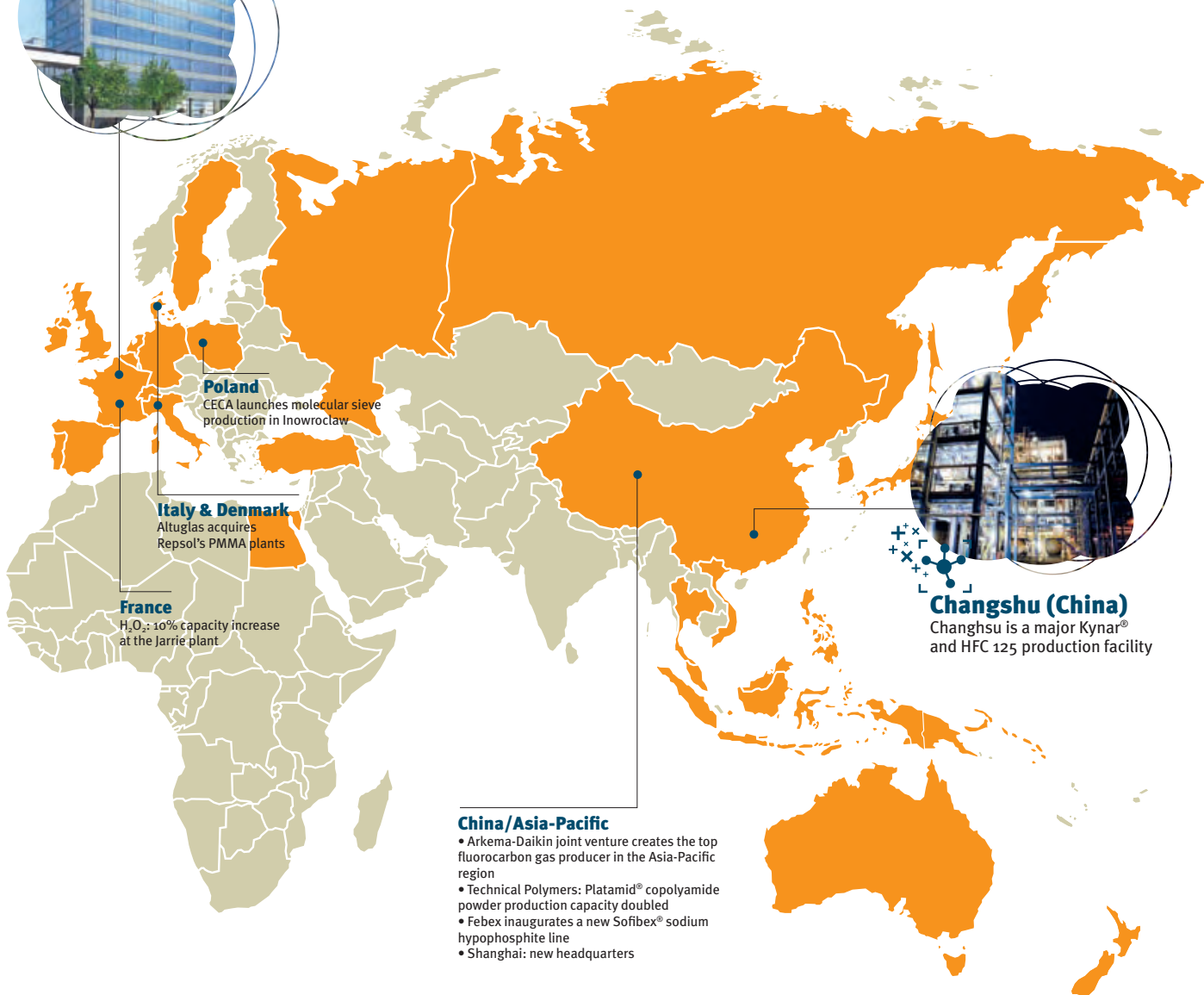






**Colombes (France)**

Arkema's new headquarters near Paris



**Poland**

CECA launches molecular sieve production in Inowroclaw

**Italy & Denmark**

Altuglas acquires Repsol's PMMA plants

**France**

H<sub>2</sub>O<sub>2</sub>: 10% capacity increase at the Jarrie plant



**Changshu (China)**

Changshu is a major Kynar® and HFC 125 production facility

**China/Asia-Pacific**

- Arkema-Daikin joint venture creates the top fluorocarbon gas producer in the Asia-Pacific region
- Technical Polymers: Platamid® copolyamide powder production capacity doubled
- Febex inaugurates a new Sofibex® sodium hypophosphite line
- Shanghai: new headquarters

## Diversified markets

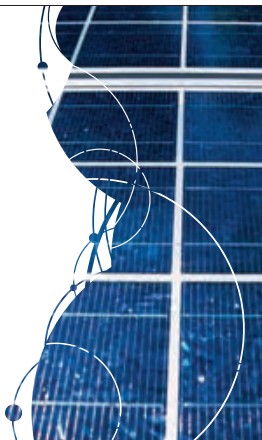
15 - 20%\*

Chemical industry\*\*,  
construction



< 5%\*

Energy, paper, environment, agrochemicals,  
health & personal care, animal nutrition,  
sports & leisure, infrastructure & signage





5 - 10%\*

Coatings & adhesives,  
electronics, automotive, general industry,  
packaging



\*% sales in each market.

\*\* Including sales to chemical distributors.



# Vinyl Products

**Sharply increased profitability through a strategy focused on enhanced competitiveness and business integration.**



Vinyl Products consists of four business units: Chlorine/Caustic Soda, PVC, Vinyl Compounds, and Pipes and Profiles (Alphacan). Its integrated activities range from brine electrolysis to PVC processing.

The vinyl products market is volatile and shaped by intense competition. Moreover, chlorochemicals labors under segment-specific constraints. One is energy costs: chlorine and caustic sold are manufactured using an electrolysis process that

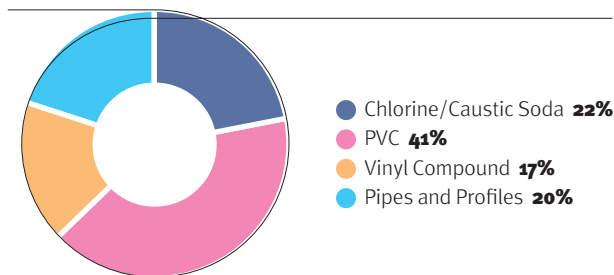
requires roughly 3 MWh of electricity per metric ton produced. Balancing chlorine and caustic soda, which are produced in equal amounts but whose market demand fluctuates independently, is another challenge.

And growth in the European market is sluggish. To remain a top-tier chlorochemicals producer in Europe, in 2005 we introduced a consolidation plan to enhance the competitiveness of our Vinyl Products business. The full benefits of the plan, which includes shutting down uncompetitive operations and expanding the most efficient, should be felt by the end of 2008.

## Main figures

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

## Vinyl Products sales by business unit in 2007



### Chlorine/Caustic Soda

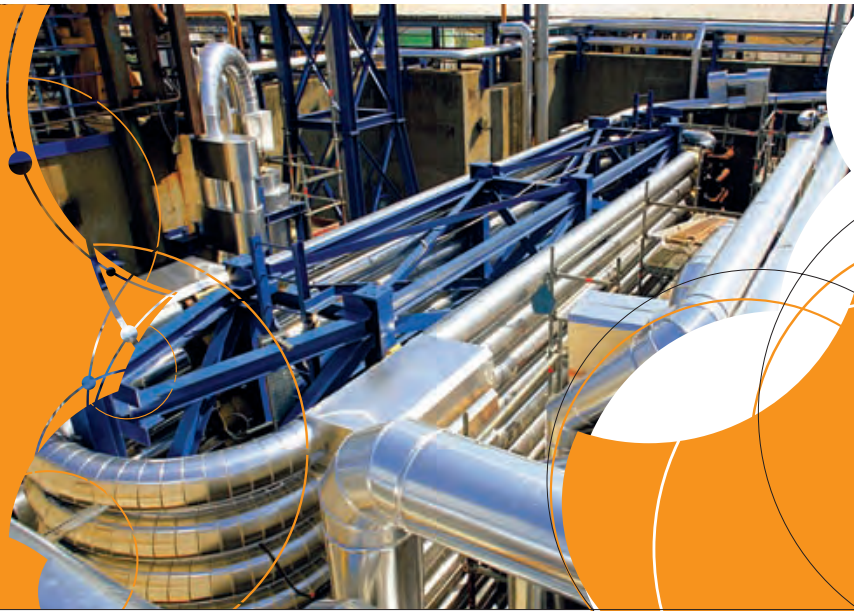
The Chlorine/Caustic Soda business unit encompasses membrane cell, diaphragm cell and mercury cell electrolysis processes and the products immediately downstream, including caustic soda, vinyl chloride monomer (VCM), chloromethane and chlorine derivatives.

The Vinyl Products consolidation plan resulted in the permanent closure of the units manufacturing chlorine, VCM and some chlorine derivatives at the Saint-Auban facility in France.

In addition, through our interest in Qatar Vinyl Company (QVC), we are tracking potential developments in the Middle East.

### PVC

The PVC business unit produces general purpose and specialty PVCs, a segment in which Arkema ranks third in Europe.



Some of our PVC production is earmarked for captive use by Alphacan and the Vinyl Compounds business unit.

In France, the Vinyl Products consolidation plan resulted in an increase in specialty PVC production capacity at the Saint-Auban plant, changes at the general purpose PVC units at the Balan facility, and a scaling up of production capacity at the Berre site.

#### **Vinyl Compounds**

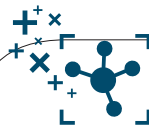
The Vinyl Compounds business unit, which has production plants in France, Germany, Belgium, Spain and Italy in Europe and in China and Vietnam in Asia, manufactures and markets a wide array of ready-to-use products, made by blending PVC and various additives, including plasticizers, stabilizers and dyes. The PVC and some of the additives are sourced from Arkema plants.

Arkema is counting on higher value-added PVC specialties, such as slush molded PVC powders used in vehicle dashboards and center consoles, to drive our growth in this sector.

#### **Pipes and Profiles (Alphacan)**

The Pipes and Profiles business unit specializes in PVC extrusions and consists of a group of subsidiaries under the Alphacan banner.

Alphacan's strategy in the pipes niche consists of maintaining its positions and consolidating its competitiveness, while developing new, stronger wastewater pipes. The company distributes most of its profile products in France and southern Europe, markets that offer attractive growth potential for higher-end products.



#### **High-transparency Lucalor® CPVC**

Arkema makes and markets a new chlorinated PVC resin grade that combines transparency with the remarkable properties of PVC material, particularly its fire resistance and heat stability. The new grade meets the expectations of manufacturers, especially for sterile food packaging, transparent pipes, credit cards and cell phones.

#### **A new specialty compounds unit in China**

In October 2007, Arkema subsidiary Resinoplast inaugurated a new unit in Changshu, north of Shanghai. Resichina Engineering Polymers produces specialty compounds for the local automotive market, which uses them to manufacture the synthetic leather used in automobile interiors to cover dashboards, center consoles and door panels.

#### **Alphacan branches out into Croatia**

With the October 2007 acquisition of Prozor, a company specialized in marketing of PVC profiles and finish carpentry supplies, Alphacan continues to expand in southern Europe by branching out into Croatia. This region in the heart of the Balkans offers many logistics and growth opportunities.

# Industrial Chemicals

**Strengthening our global positions, especially in Asia, and developing strategic manufacturing partnerships.**

Industrial Chemicals encompasses six business units that produce intermediates: Acrylics, PMMA and Methacrylics, Thiochemicals, Fluorochemicals, Hydrogen Peroxide and Specialty Acrylic Polymers (Coatex). Arkema is a global leader in these products, with production units in Europe and North America for most major products, such as acrylic acid, specialty acrylic polymers, methyl methacrylate, PMMA, fluorochemicals, hydrogen peroxide and sulfur derivatives. We also have extensive operations in Asia, including local

production facilities for fluorochemicals, hydrogen peroxide and PMMA.

We intend to continue expanding these activities by strengthening our global positions through new plants in Asia, targeted debottlenecking in Europe and North America, and joint ventures with our leading partners.

## Acrylics

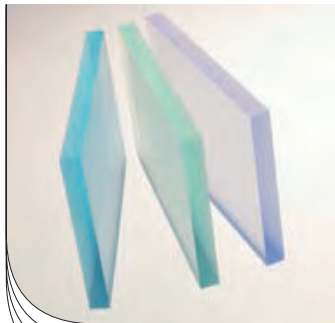
The main Acrylics products are acrylic acid and its derivatives, especially acrylic esters, oxo alcohol, phthalic anhydride and dioctyl phthalate. The main markets are coatings, superabsorbents, plastic additives, water treatment, paper and adhesives. The business unit leverages its strong marketing positions and extensive industrial expertise to consolidate and expand its global activities, especially in Asia, the fastest-growing market.

## Specialty Acrylic Polymers (Coatex)

In 2007, Arkema acquired Coatex, a company specialized in the production of acrylic polymers, which are used as dispersants and thickeners. The primary outlets for these fast-growing specialty chemicals include the paper, paint, water treatment, cosmetics and textile industries.

## PMMA (Altuglas International) and Methacrylics

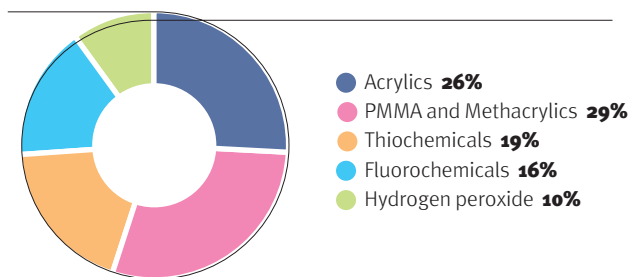
The PMMA business unit spans methyl methacrylate through polymethyl methacrylate (PMMA) production. Altuglas International has operations worldwide and two commonly recognized brands, Plexiglas® in North America and South America and Altuglas® in the rest of the world. Its main products — PMMA granules and cast/extruded sheets — have applications in a wide variety of markets, including the construction, automotive, plumbing, store sign, electronics and home appliance industries.



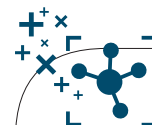
## Main figures

(€millions)	2005	2006	2007
Sales	2,406	2,494	<b>2,529</b>
EBITDA	316	267	<b>289</b>
Recurring operating income	204	160	<b>178</b>
Capital expenditure (gross)	145	172	<b>124</b>

## Industrial Chemicals sales by business unit in 2007







The Thiochemicals business unit's strategy is based on bolstering products such as dimethyl disulfide (DMDS), which was the focus of targeted investments to boost production capacity in order to supply global refining and petrochemical markets.

In keeping with our strategy of targeted growth, we expanded production capacity at our hydrogen peroxide plants, by 20,000 metric tons in Bécancour, Canada in 2006 and 10% in Jarrie, France — which now manufactures 115,000 metric tons per year — in 2007. Production will double at the Shanghai facility to 80,000 metric tons a year in 2008, and we have announced plans to double output at the Leuna plant in Germany to 80,000 metric tons in 2010.



Altuglas International has parlayed its innovations into new developments, particularly in resins for LCD screens in Asia.

In December 2007, Arkema announced plans to acquire Repsol YPF's PMMA sheet and block production business.

#### Thiochemicals

In addition to its core focus, sulfur chemicals, Thiochemicals makes other product lines, such as amines, oxygenated solvents and rubber additives, which are produced by MLPC International, an Arkema subsidiary. Its primary markets are animal feed, polymers, pharmaceuticals, cosmetics, natural gas odorants, solvents and petrochemicals.

The business unit has production facilities in Europe and the United States. In partnership with its customer Novus, it operates the Sulfox unit in Beaumont, Texas, which produces 3-methylthiopropionaldehyde (MMP), a precursor of methionine.

In France, we rolled out a plan in 2007 to overhaul the Lacq-Mourenx production hub to boost its competitiveness.

#### Fluorochemicals

Fluorochemicals produces and markets a range of hydrochlorofluorocarbons (HCFC) and hydrofluorocarbons (HFC) under the Forane® brand. These products are usually used in refrigeration and foam applications. They are also the monomers for the manufacture of polytetrafluoroethylene (PTFE) and polyvinylidene fluoride (PVDF).

Regulatory changes in industrialized countries are reducing the use of HCFCs in applications that generate emissions and leading to HCFC replacement in refrigeration applications. With this in mind, our production base is gradually being adapted to develop HFC-based mixtures and new foam substitutes.

The plan deployed in 2007 to revamp the Pierre-Bénite facility and restore its long-term competitiveness calls for discontinuing the production of Forane® 22, an HCFC used in refrigeration.

#### Hydrogen Peroxide

The hydrogen peroxide business unit is comprised of three product lines: hydrogen peroxide, chlorate and sodium perchlorate, and hydrazine hydrate and its derivatives.

The world's third-largest producer of hydrogen peroxide, Arkema operates five plants: Jarrie, France; Leuna, Germany; Bécancour, Canada; Memphis, United States; and Shanghai, China. Hydrogen peroxide is primarily used in the pulp, chemical (including organic peroxides), textile and electronics industries. These markets are growing steadily, particularly in China and South America. The only Western producer of hydrogen peroxide in China thanks to our recognized expertise and wide array of services, we are positioned as the partner of choice for local customers.

# Performance Products

**Capitalizing on our highly innovative R&D, making strides by enhancing our competitiveness and seizing acquisition opportunities.**



Situated downstream from Industrial Chemicals, Performance Products' three business units — Technical Polymers, Specialty Chemicals (CECA) and Functional Additives — share the objective of providing their respective markets with technical solutions tailored to customer requirements.

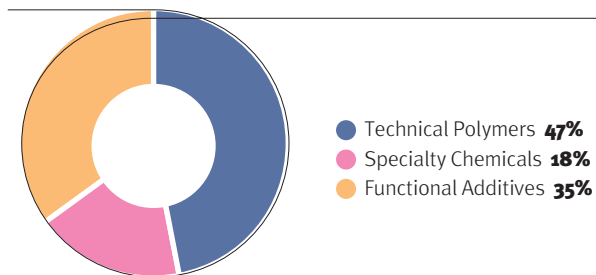
Arkema holds world-class positions in several niche markets, especially polyamides 11 and 12, PVDF, molecular sieves, PVC additives (tin-based heat stabilizers, impact modifiers and acrylic process aids) and organic peroxides.

Most of our Performance Products are sold under internationally recognized brands, supported by innovative customer service, high value-added products, and quality customer relationships.

## Main figures

(€millions)	2005	2006	2007
Sales	1,713	1,784	<b>1,723</b>
EBITDA	102	156	<b>184</b>
Recurring operating income	15	71	<b>97</b>
Capital expenditure (gross)	117	87	<b>83</b>

## Performance Products sales by business unit in 2007



## Technical Polymers

Technical polymers comprises three main product lines — specialty polyamides, PVDF and functional polyolefins — marketed under internationally known brands such as Rilsan®, Orgasol®, Pebax®, Platamid®, Kynar®, Lotryl®, Lotader® and Orevac®. To sharpen its competitiveness, Technical Polymers presented a plan in 2007 to boost the productivity of the Marseille Saint-Menet production facility and bump up production capacity by 10%. It also announced a two-phase closure of its Bonn, Germany plant.

In addition, plans have been announced to locate a new Kynar® polyvinylidene fluoride (PVDF) production unit in China, at our Changshu facility north of Shanghai, with commissioning scheduled for mid-2010. The new unit will expand our worldwide Kynar® capacity, giving us three efficient facilities on three continents: Calvert City, U.S.A., Pierre-Bénite, France, and Changshu, China. We also doubled our high-performance polyamide production capacity at the Changshu facility in September 2007.



### Specialty Chemicals (CECA)

The specialty chemicals subsidiary, CECA, is organized around two segments: surfactants/ interfaces and adsorption/filtration. Surfactants/ interface agents are used chiefly in detergents, oil and gas production, asphalt and fertilizers.

Adsorption/filtration covers inorganic products such as molecular sieves, diatoms, active carbon and perlite, which are used mainly in the building, agrifood, pharmaceutical and environmental protection segments.

CECA's strategy is to develop high-value-added product lines by leveraging its knowledge of markets and developing new applications.

In a continuing effort to boost competitiveness, the Pierrefitte-Nestlas French sodium hypophosphate production plant was shut down in April 2007.

CECA also announced plans to refocus its core specialty surfactant business, including an asset swap with Akzo Nobel in which it acquired Akzo's anticaking additives in exchange for its commodity primary amines.

The commissioning of the new Siliporite® molecular sieve beads line at Poland's Inowroclaw facility raises CECA's total molecular sieve granulation capacity — shared between the Inowroclaw, Poland and Honfleur, France plants — by 30%, allowing the company to keep pace with strong growth in the double pane glass market, especially in Eastern Europe.

### Functional Additives

The Functional Additives business unit comprises a number of product lines, including polymerization initiators, PVC additives, coating additives and catalysts.

In 2007, ongoing efforts to make the business unit more competitive led to a decision to stop producing organic peroxides at the Loison-sous-Lens plant in France. We also announced changes at our Vlissingen, Netherlands facility — chiefly the discontinuation of tin derivatives manufacturing for agrochemicals — and a decision to halt the production of epoxidized soybean oil as part of our overhaul plan for the Pierre-Bénite facility in France. And in December 2007, we presented a competitiveness enhancement plan for our Crosby, Texas plant in the United States, which specializes in the production of organic peroxides.

To satisfy fast-growing demand in the Asian construction and packaging markets and strengthen our leadership position in the region, we announced that we will double our PVC heat stabilizer production capacity at the Beijing, China plant.



Our new Rilsan Clear® grade — transparent at any thickness — gives designers, especially of signature frames and sports eyewear, fresh styling options while delivering the same remarkable toughness, lightness and flexibility that high-performance polyamides are renowned for.

Pebax® Rnew, the first engineering thermoplastic elastomer range made from renewable resources, features a non-fossil carbon content of 20 to 90%. A byproduct of castor oil production, Rnew boasts the same outstanding properties as traditional Pebax®, while meeting manufacturers' needs in a number of industries like electronics, athletic equipment and the automotive industry.

Arkema is developing Biostrength™, a new line of additives — impact modifiers and a melt strength improver — to optimize processing and polylactic acid performance in the booming bioplastics market.

Cerexagri was sold to United Phosphorus Limited on February 1, 2007, and our urea formaldehyde business to Hexion on November 1, 2007.



# Appendixes

- Simplified financial statements
- Environmental Reporting Methodology
- Environmental data Verification Statement Arkema
- Environmental indicators





Forane®

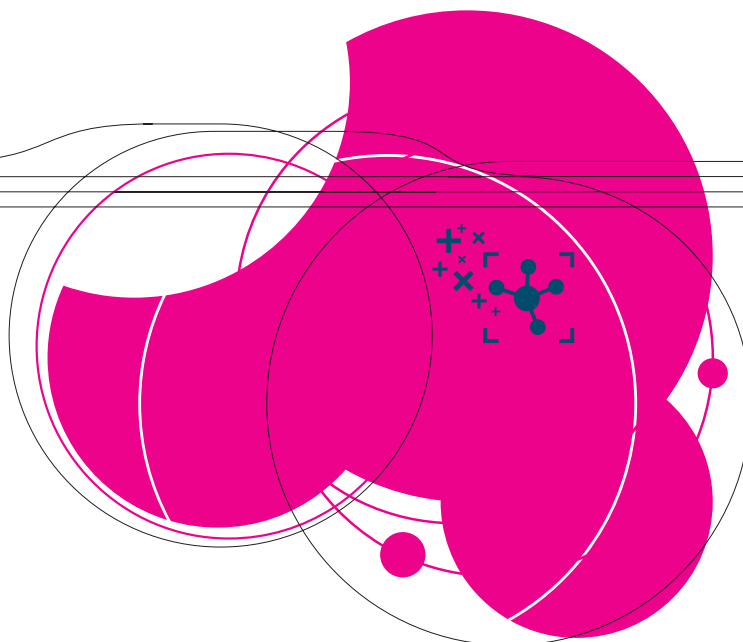


Siliporite®



Altuglas®  
Plexiglas®





# Simplified financial statements

## Balance sheet

(In millions of euros)	31.12. 2006 (audited)	31.12. 2007 (audited)
<b>Assets</b>		
Intangible assets, net	236	460
Property, plant and equipment, net	1,376	1,525
Equity affiliates: investments and loans	104	42
Other investments	21	24
Deferred income tax assets	36	18
Other non-current assets	121	100
<b>Total non-current assets</b>	<b>1,894</b>	<b>2,169</b>
Inventories	1,036	1,017
Accounts receivable	1,011	1,000
Prepaid expenses and other current assets	202	160
Income taxes recoverable	36	31
Other current assets	-	1
Cash and cash equivalents	171	58
Total assets of discontinued operations	144	-
<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>	<b>1,891</b>	<b>1,914</b>
<b>Minority interests</b>	<b>15</b>	<b>21</b>
<b>Total shareholders' equity</b>	<b>1,906</b>	<b>1,935</b>
Deferred income tax liabilities	14	54
Provisions	891	833
Non-current debt	52	61
<b>Total non-current liabilities</b>	<b>957</b>	<b>948</b>
Accounts payable	791	786
Other creditors and accrued liabilities	314	290
Income taxes payable	14	15
Other current liabilities	-	6
Current debt	443	456
Total liabilities of discontinued operations	69	-
<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>



## Income statement

(In millions of euros)	End of December 2006 (audited)	End of December 2007 (audited)
<b>Sales</b>	<b>5,664</b>	<b>5,675</b>
Operating expenses	(4,879)	(4,827)
Research and development expenses	(168)	(158)
Selling and administrative expenses	(417)	(397)
<b>Recurring operating income</b>	<b>200</b>	<b>293</b>
Other income and expenses	(92)	(72)
<b>Operating income</b>	<b>108</b>	<b>221</b>
Equity in income of affiliates	1	5
Financial result	(10)	(15)
Income taxes	(59)	(104)
<b>Net income of continuing operations</b>	<b>40</b>	<b>107</b>
<b>Net income of discontinued operations</b>	<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>
<i>Earnings per share (amount in euros)</i>	<i>0.75</i>	<i>2.02</i>
<i>Diluted earnings per share (amount in euros)</i>	<i>0.75</i>	<i>2.01</i>
Depreciation and amortization	(211)	(225)
<b>EBITDA</b>	<b>411</b>	<b>518</b>
<b>Adjusted net income</b>	<b>115</b>	<b>186</b>

The consolidated accounts at December 31, 2006 have been restated for the disposal of the Cerexagri business in application of IFRS5.

## Cash flow - operating activities

(In millions of euros)	End of December 2006 (audited)	End of December 2007 (audited)
<b>Cash flow - operating activities</b>		
Net income	47	124
Depreciation, amortization and impairment of assets	218	246
Provisions, valuation allowances and deferred taxes	(210)	(2)
(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>
<b>Cash flow - investing activities</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)
<b>Total expenditures</b>	<b>(402)</b>	<b>(634)</b>
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
<b>Total divestitures</b>	<b>54</b>	<b>221</b>
<b>Cash flow from investing activities</b>	<b>(348)</b>	<b>(413)</b>
<b>Cash flow - financing activities</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)	-
Short-term loan to discontinued operations	20	-
<b>Cash and cash equivalents at end of period</b>	<b>171</b>	<b>58</b>

# Environmental Reporting Methodology

**The indicators published in this report track performance on the primary environmental issues raised by Arkema's operations. They are based on annual data, from January 1 to December 31, for the years 2005, 2006 and 2007.**

## Scope

The environmental data in this report concern all of the facilities operated worldwide by Arkema or one of its subsidiaries, regardless of the equity held in the facilities in question, to the extent that Arkema has the authority to implement its health, safety and environmental policies and guidelines.

To facilitate like-for-like comparisons, current year data are presented based on the structure for each of the previous two years. Coatex's emissions have not been included in the 2007 data.

## Methodology

- To avoid duplication, only direct emissions from facilities or installations operated by Arkema are included.
- In order to gauge the true environmental impact of discharges to water, data refer to discharges from treatment facilities.
- Discharge to water flows are indicated as additional flows, since pre-existing pollutants in the water sampled are not included in facility discharge figures. This rule applies only for samples and discharges from the same environment.
- The diversity of analytical methods and regulations in force in various countries makes it difficult to consolidate global data for the discharge of organic matter into water. Of the two criteria commonly used to measure organic matter — Total Organic Carbon (TOC) and Chemical Oxygen Demand (COD) — this report uses COD. For plants that measure only TOC, a default COD/TOC ratio of three was applied. This coefficient was used in the European Commission's decision establishing the European Pollutant Emission Register (EPER) and in

the December 24, 2002 French ministerial order, as amended, concerning the annual pollutant emissions filing of environmentally-sensitive facilities subject to authorization.

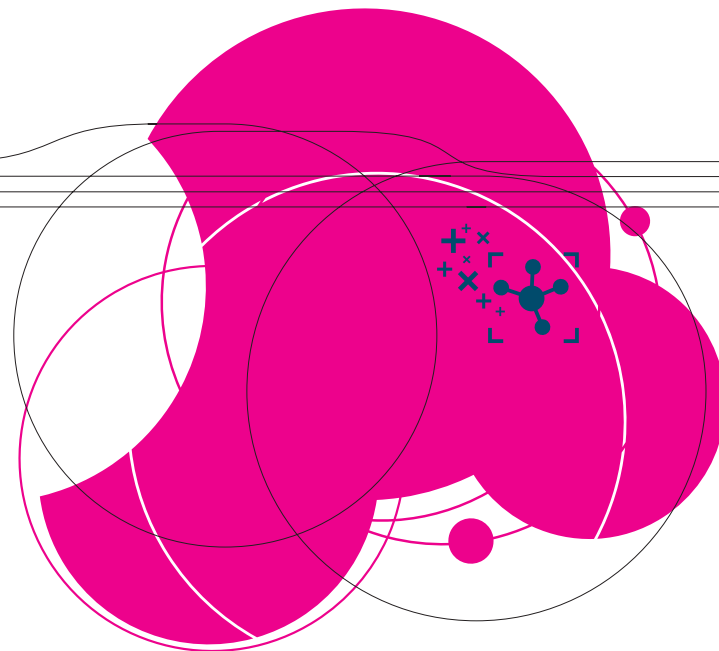
- Global consolidation of air emissions data is also problematic in the case of non-methane volatile organic compounds (NM-VOC). The definition of what constitutes an NM-VOC varies by country, and especially between the United States and the European Union. This report uses the definition in the Council Directive of March 11, 1999.
- Waste incinerated using company facilities, whether on-site or off, is counted as onsite incineration. This applies even if the waste was physically moved from one Arkema facility to another for incineration.

## External Verification

The application of reporting procedures to a selection of environmental indicators was verified by outside verifier Bureau Veritas Certification. Its verification statement is reprinted on page xx of this report.

# Environmental data Verification Statement Arkema

**ARKEMA asked Bureau Veritas Certification France, independent Verification Body, to verify some of its environmental data for 2007 fiscal year.**



This verification aimed to assess the reliability of this data.

The verification field covered:

- Chemical Oxygen Demand: COD,
- Volatile Organic Compounds: VOC,
- Green House Gas (GHG): CO<sub>2</sub> (carbon dioxide), CH<sub>4</sub> (methane), HFC (Hydrofluorocarbons), PFC (Perfluorocarbons), N<sub>2</sub>O (Nitrous oxide) and SF<sub>6</sub> (Sulphur hexafluoride).

Bureau Veritas Certification declares that this statement, based on the results of its verification works, gives its own opinion. Bureau Veritas Certification commercial interests concern only this third party verification.

The verified data was prepared under the responsibility of the Quality Environment and Safety Division in accordance with the **Arkema Corporate Directive "Environmental reporting - Reference D-EO1 / issue 2"**.

We have performed following tasks in order to verify the data is reliable and free from significant error:

#### **Head Office Audit:**

- Understanding of the scope concerned, which is bounded to the sites operated by Arkema, excepted the 3 sites from the company Coatex, entered into the Arkema group the 1<sup>st</sup> October 2007, not currently covered by an environmental data annual monitoring system. The contribution of those 3 sites compared to verified data is estimated by Arkema at less than 1% for COD, VOC and GES emissions.

- Assessment of the Corporate Reporting Procedures based on relevance and reliability criteria,
- Validation that the data reported by the sites are correctly considered for the global consolidation by the Quality Environment and Safety Division.

#### **Sampled sites Audit:**

- Verification that the Corporate Reporting rules and local rules are respected,
- Interview of the staff involved in the process of collecting and handling data, until the final calculation of the environmental indicator for year 2007,
- Understanding and audit of the organizational and technical specificities of the sampled sites: arrangements used to monitor the 3 environmental indicators (process, treatment equipment for liquid releases (COD) and atmospheric releases (VOC and GHG)).

On site audits allowed us to verify in situ the equipments and the respect of the arrangements "declared." Those sites were sampled in France, Italy, China and United States. Their contribution to the Arkema group global emissions taking into account data verified 2007, is listed below:

COD = 16.6%  
VOC = 26.8%  
GHG = 3.93%

The data of the other sites was verified in a centralized way.

Considering that the reporting reliability of the sites audited in 2006 is maintained in 2007, the

contribution of the sites audited on both years to the Arkema group global emissions, would be for year 2007:

DCO = 40,2%  
COV = 53,3%  
GES = 86,4%

Based on our verification protocole described above:

- Nothing indicates us that examined indicators are inaccurate.
- It is our opinion that Arkema has established appropriate systems for the collection, aggregation and analysis of data.

#### **Amounts verified for 2007:**

**COD: 3,688.7 tons of O<sub>2</sub>**  
**VOC: 6,269 tons**  
**GHG: 9,392,219 tons equivalent CO<sub>2</sub>**



Paris, the 25<sup>th</sup> February 2008  
BUREAU VERITAS Certification France  
Romain PETIT  
Managing Director



# Environmental indicators

## Emissions to air

	2005	2006	2007
Volatile organic compounds - VOC (metric tons)	8,710	6,889	6,269
Total emissions of acidifying substances (metric tons SO <sub>2</sub> equivalent)	7,342	8,332	7,269
Greenhouse gases (metric TCDE)	8,305	9,581	9,392
Dust (metric tons)	337	474	513
CO (metric tons)	9,425	9,230	9,277

## Greenhouse gas emissions (Kyoto Protocol) in metric kT CDE

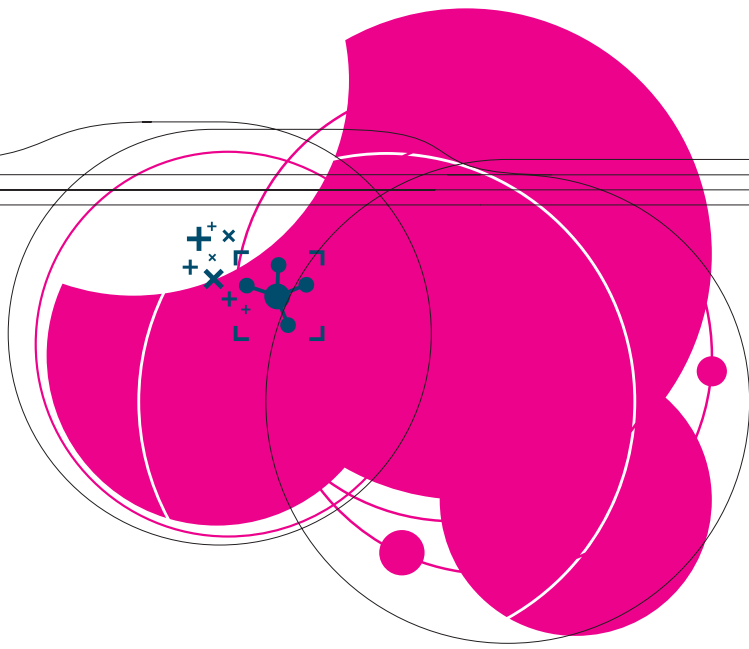
CO <sub>2</sub>	2,042	1,796	1,611
N <sub>2</sub> O	23	33	33
CH <sub>4</sub>	29	23	23
HFC	6,211	7,729	7,726
PFC and SF <sub>6</sub>	0	0	0
Total greenhouse gases	8,305	9,581	9,392

## Discharges to water

COD (metric tons of O <sub>2</sub> )	4,079	4,030	3,689
Suspended solids (metric tons)	5,954	6,675	6,127

## Waste in metric tons/year

Hazardous waste excluding recycled material	160,559	200,710	198,670
• of which landfilled offsite	2,795	9,479	8,419
Non-hazardous waste	75,926	91,686	84,281



This report was produced by the External Communications Department, the Investor Relations Department, the Sustainable Development, Environment and Product Safety Department and the Industrial Safety Department, in cooperation with Arkema's facilities, business units and subsidiaries.

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The report can be downloaded in PDF format at [www.arkema.com](http://www.arkema.com)

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