

Arkema: Full-year 2019 results

In 2019, Arkema achieved a high-level financial performance driven by specialty businesses in an increasingly challenging economic context. The Group generated a record amount of cash whilst maintaining an ambitious level of investments for its future growth

- **€8.7 billion in sales**, close to last year's level (€8.8 billion)
- **€1,457 million EBITDA**, comparable (-1.2%) with the 2018 record level, and **EBITDA margin of 16.7%**, stable at a high level
- **4Q EBITDA up 3%** year on year to **€295 million**
- **Adjusted net income of €625 million**, representing **€8.20** per share
- Strong increase in **free cash flow to €667 million**, representing an excellent EBITDA to cash conversion rate of 52% (38% in 2018)
- **Net debt** (excluding the hybrid bonds) under control at **€1.6 billion**, or 1.1x 2019 EBITDA
- Further increase in the proposed **dividend**, up 8% to **€2.70** per share, reflecting the company's strong confidence and potential in its long-term strategy

Arkema's Board of Directors met on 26 February 2020 to approve the Group's consolidated financial statements for 2019. Commenting on the year's results, Chairman and CEO Thierry Le Hénaff highlighted the following points:

"After a record year in 2018, we experienced a more difficult economic climate in 2019, marked by downturns in some markets, such as the automotive and electronics sectors, as well as a general lack of visibility. In this context, the Group's performance remained at a high level and its resilience compared favorably with the sector average. I would like to sincerely thank all our employees for their efforts and their ongoing commitment.

Beyond those very solid financial results, the Group continued its strategy of strengthening its specialty ⁽¹⁾ businesses by carrying out high-quality bolt-on acquisitions and capacity increases for high value-added products, and stepping up its innovation drive in High Performance Materials. The Group has also recently defined an ambitious climate plan to contain global warming to well below 2°C."

OUTLOOK FOR 2020

In 2020, in an economic environment that is likely to remain volatile, Arkema aims to achieve an EBITDA comparable with the 2019 level, excluding the impact of Covid-19. For the full year, the Group's results should be driven by EBITDA growth of around 10% for Bostik, whilst Advanced Materials should be broadly stable and Fluorogases should decline. The contribution between the two halves should be more balanced than last year. Uncertainty persists concerning the evolution of Covid-19. The Group estimates its impact on EBITDA at the end of February at around €20 million.

¹ The Group distinguishes between intermediate businesses, corresponding to the PMMA, Fluorogases and Acrylics Business Lines, and specialty businesses

2019 KEY FIGURES

<i>(In millions of euros)</i>	2019	2018	YoY change
Sales	8,738	8,816	-0.9%
EBITDA	1,457	1,474	-1.2%
EBITDA margin	16.7%	16.7%	
Recurring operating income (REBIT)	926	1,026	-9.7%
REBIT margin	10.6%	11.6%	
Adjusted net income	625	725	-13.8%
Adjusted net income per share (in €)	8.20	9.51	-13.8%
Free Cash Flow	667	499	
Net debt (as of end of December)	1,631	1,006	

As of 1 January 2019, the Group applies IFRS 16, "Leases". The income statement, balance sheet and cash flow statement items for 2019 include the impacts of IFRS 16, which are detailed in the Group's financial statements appended to this press release. The comparative figures for 2018 have not been restated.

2019 BUSINESS PERFORMANCE

At **€8,738 million, sales** were down **0.9%** year on year, in an uncertain and less favorable macroeconomic context and a tense geopolitical environment marked notably by trade wars. The scope effect of +1.8% mainly corresponds to the acquisition of ArrMaz in the High Performance Materials division. Although positive in High Performance Materials (+3.6%), the price effect was a negative 2.3% for the Group due to a sharp drop in propylene prices for the Coating Solutions division and challenging market conditions for Fluorogases. Volumes were down 2.4% during the year, with notably much lower demand in High Performance Materials in the transportation, oil & gas, and consumer electronics sectors, which overshadowed robust growth in certain niche segments such as batteries and 3D printing. The 2.0% positive currency effect was essentially attributable to the appreciation of the US dollar against the euro.

The Group continued to re-balance its geographical footprint in 2019, with total sales for the year breaking down as 36% for Europe, 32% for North America, and 32% for Asia and the rest of the world.

Comparable with the record high reached in 2018, **EBITDA** for the year amounted to **€1,457 million** in a challenging environment, demonstrating the quality of the Group's portfolio. This performance was driven by the strong increase in specialty businesses (72% of Group sales) thanks notably to solid growth for Bostik and Thiochemicals, the benefits of the Group's innovation and partnerships in composites, batteries and additive manufacturing, the positive impact of lower raw materials prices, as well as the contribution of ArrMaz in line with our expectations. The intermediate businesses were down year on year, impacted in particular by the strong decline of Fluorogases compared with last year's historically high level. The EBITDA figure also includes a positive €56 million impact linked to the application of IFRS 16.

At **16.7%, EBITDA margin** was stable year on year at a high level.

Consequently, **recurring operating income (REBIT)** amounted to **€926 million**, representing a **REBIT margin of 10.6%**, including recurring depreciation and amortization of €531 million, up €83 million.

The **financial result** represented a net expense of **€116 million**, up €15 million on 2018. The year-on-year change is mainly due to the unfavorable interest rate effect on the portion of the Group's debt swapped into US dollars. The refinancing in December 2019, at favorable market conditions, of the €480 million senior notes maturing in April 2020 should lead to a positive impact of around €10 million on the financial result in 2020.

Excluding non-recurring items, the tax rate amounted to 19 % of REBIT, unchanged from 2018. In 2020, the tax rate excluding non-recurring items should amount to around 20 % of REBIT.

Consequently, **adjusted net income** totaled **€625 million** for the year, representing **€8.20** per share.

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CASH FLOW AND NET DEBT AT 31 DECEMBER 2019

Arkema's **free cash flow** rose strongly and reached **€667 million** in 2019 from €499 million the previous year. This included a cash inflow linked to working capital mainly due to tight management and a slowdown in activity in a context of lower raw materials costs.

At **13.8%**, the ratio of working capital to annual sales remained at an excellent level at 31 December 2019 and close to the 2018 figure of 13.4%.

In line with the Group's guidance for 2019, recurring and exceptional capital expenditure for the year came to €607 million, including €96 million of exceptional capital expenditure, mainly corresponding to the doubling of capacity of the Thiochemicals unit in Kerteh in Malaysia, and the specialty polyamides project in Asia. Recurring capital expenditure was €511 million, close to the 2018 level, and represented 5.8% of Group sales. Exceptional capital expenditure should reach around €200 million in 2020 with the ramp-up of the specialty polyamides project in Singapore. Consequently, Arkema expects to invest some €700 million in recurring and exceptional capital expenditure in 2020.

The EBITDA to cash conversion rate was 52% in 2019, exceeding the Group's target of 35%.

Portfolio management operations represented a **net cash outflow** of **€729 million**, and includes Arkema's acquisitions of ArrMaz and Lambson in Performance Additives, Prochimir in Adhesives, an equity interest in Carbon®, and Jurong's stake in Taixing Sunke Chemicals.

Cash flow from financing activities represented a net inflow of **€64 million** in 2019. This figure primarily includes €499 million in total net proceeds from a bond issue, €38 million net cost for the partial refinancing of hybrid bonds with a nominal amount of €400 million and the payment of a €2.50 per-share dividend for 2018, representing an aggregate payout of €190 million. The cost of share buybacks was €34 million in 2019, and interest paid on the residual €300 million of hybrid bonds issued in October 2014 amounted to €15 million.

At end-December 2019, **net debt** stood at **€1,631 million** (versus €1,006 million at 31 December 2018), representing a gearing of 31% and 1.1x 2019 EBITDA. In accordance with IFRS, these figures exclude the hybrid bonds.

In line with the Group's dividend policy, the Board of Directors has decided to propose at the Annual General Meeting of 19 May 2020 an increase in the dividend of 8% to €2.70 per share (from €2.50 for 2018), representing a payout ratio of 33% of adjusted net income (versus 26% for 2018). This decision reflects the confidence of the Board of Directors in the Group's development prospects and solid cash flow generation. Shares will be traded ex-dividend on 25 May 2020 and the dividend will be paid entirely in cash as from 27 May 2020.

2019 PERFORMANCE BY DIVISION

HIGH PERFORMANCE MATERIALS (47% OF TOTAL GROUP SALES)

<i>(In millions of euros)</i>	2019	2018	YoY change
Sales	4,065	3,970	+2.4%
EBITDA	654	640	+2.2%
EBITDA margin	16.1%	16.1%	
Recurring operating income (REBIT)	468	481	-2.7%
REBIT margin	11.5%	12.1%	

Sales of the High Performance Materials division amounted to **€4,065 million**, up 2.4% on 2018. This performance was driven by a positive 3.6% price effect, positive in all of the division's Business Lines and mainly reflecting the Group's actions to increase sales prices and optimize the product mix. The positive 3.5% scope effect primarily stemmed from the consolidation of ArrMaz as of 1 July and, to a lesser extent, the bolt-on acquisitions of Lambson and Prochimir in the fourth quarter. In a challenging macroeconomic environment, volumes fell 6.6%. They were mainly impacted by a marked slowdown in the transportation, oil & gas, and consumer electronics sectors, as well as by the inventory adjustments of our customers, all of

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which overshadowed strong demand in the batteries and 3D printing segments. The currency effect added 1.9% to the division's sales.

EBITDA of the High Performance Materials division was up 2.2% year on year to **€654 million**. The increase was driven by the impact of price increases, the shift in the product mix towards higher added-value applications, the contribution from acquisitions in line with our expectations, and a more favorable raw materials environment. In particular, Adhesives delivered a remarkable performance, with EBITDA up in the high-teens in 2019. The division's **EBITDA margin** was stable at **16.1%**. Advanced Materials resisted well with an EBITDA margin of close to 20% despite a sharp decrease in volumes, while Bostik reported a strong improvement with an EBITDA margin of around 13%.

INDUSTRIAL SPECIALTIES (29% OF TOTAL GROUP SALES)

<i>(In millions of euros)</i>	2019	2018	YoY change
Sales	2,514	2,699	-6.9%
EBITDA	621	675	-8.0%
EBITDA margin	24.7%	25.0%	
Recurring operating income (REBIT)	406	497	-18.3%
REBIT margin	16.1%	18.4%	

Industrial Specialties **sales** declined 6.9% year on year to **€2,514 million**, with a negative 7.3% price effect and a 1.5% decrease in volumes. Against a high basis of comparison in 2018, these price and volume effects mainly reflect challenging market conditions in 2019 for Fluorogases and, to a lesser extent, normalization in the MMA/PMMA chain. The currency effect was a positive 1.9%.

At **€621 million**, the division's **EBITDA** was down on the excellent performance delivered in 2018 (€675 million). EBITDA for Fluorogases was strongly penalized by illegal HFC imports into Europe, which weighed on the prices and volumes of this activity. For MMA/PMMA, the impact of the normalization of market conditions was mitigated by its strong integration, the benefits of our innovation, and the favorable evolution of certain raw materials. Over the full year, the division's EBITDA was supported by the very good performance of Thiochemicals and the growth of Hydrogen Peroxide.

The division's **EBITDA margin** of **24.7%** remained very high and close to last year's level (25.0%).

COATING SOLUTIONS (24% OF TOTAL GROUP SALES)

<i>(In millions of euros)</i>	2019	2018	YoY change
Sales	2,133	2,120	+0.6%
EBITDA	264	243	+8.6%
EBITDA margin	12.4%	11.5%	
Recurring operating income (REBIT)	142	140	+1.4%
REBIT margin	6.7%	6.6%	

At **€2,133 million**, **sales** for the Coating Solutions division were 0.6% higher year on year. Volumes rose 4.4%, reflecting strong momentum for acrylic monomers, especially in the United States following the start-up of the Clear Lake acrylic acid reactor, and in Asia during the first nine months of the year. The negative 7.0% price effect mechanically reflected lower propylene prices. The scope effect was a positive 0.7%, corresponding to Arkema's acquisition of Jurong's stake in Taixing Sunke Chemicals, the two companies' joint venture that produces acrylic monomers in China. The currency effect added 2.4% to sales.

The division's **EBITDA** rose 8.6% year on year to **€264 million**, driven mainly by improved unit margins in downstream businesses in a favorable raw materials environment. However, market conditions were more difficult for acrylic monomers in the fourth quarter in a context of low seasonality. Over the year as a whole, the **EBITDA margin** expanded to **12.4%** (from 11.5% in 2018).

KEY FIGURES FOR FOURTH-QUARTER 2019

<i>(In millions of euros)</i>	4Q'19	4Q'18	YoY change
Sales	2,053	2,207	-7.0%
EBITDA	295	287	+2.8%
High Performance Materials	140	125	+12.0%
Industrial Specialties	133	140	-5.0%
Coating Solutions	36	44	-18.2%
EBITDA margin	14.4%	13.0%	
High Performance Materials	14.1%	12.8%	
Industrial Specialties	22.4%	20.5%	
Coating Solutions	7.8%	8.2%	
Recurring operating income (REBIT)	151	166	-9.0%
REBIT margin	7.4%	7.5%	
Adjusted net income	102	118	-13.6%
Adjusted net income per share (in €)	1.33	1.53	-13.1%

At **€2,053 million, sales** were down 7.0% year on year, in a difficult global economic environment with uncertainty continuing to weigh heavily on demand. Volumes declined by 5.3%, reflecting the ongoing slowdown in the transportation, oil & gas, and consumer electronics markets, as well as a high basis of comparison with fourth-quarter 2018 for the Coating Solutions division. The negative 5.4% price effect mainly results from lower propylene prices for acrylic monomers and ongoing very tough market conditions for Fluorogases, which overshadowed the continuing positive price dynamic in High Performance Materials (1.9% positive price effect). The 2.4% positive scope effect corresponds mainly to the consolidation of ArrMaz in the Performance Additives Business Line. The currency effect added 1.3% to sales, primarily reflecting the appreciation of the US dollar against the euro.

In a less favorable operating environment relative to last year, the month of December was also marked, in France, by the significant nation-wide pension reform strikes, which continued in January 2020. In this context, Group **EBITDA** rose to **€295 million** (€287 million in 4Q 2018). This reflected growth for specialty businesses and more favorable raw materials prices. EBITDA margin rose to 14.4% (13.0% in fourth-quarter 2018).

Sales in the High Performance Materials division rose 1.3% year on year to **€991 million**, fueled by a 5.4% positive scope effect arising from the consolidation of ArrMaz, Prochimir and Lambson. Despite continued solid momentum for batteries and 3D printing, volumes declined by 7.6%, due to ongoing weaker demand in the transportation, oil & gas, and consumer electronics sectors, as well as the inventory adjustments of some customers. The 1.9% positive price effect reflects the impact of our pricing actions and product mix optimization, particularly in Adhesives. At **€140 million**, the division's **EBITDA** was up year on year, and includes the impact of the strikes in France, which was rather limited in the quarter. This performance was driven in particular by ArrMaz's contribution and Bostik's continued growth in line with its performance in the first nine months of the year.

Industrial Specialties **sales** totaled **€593 million**, down 13.2% year on year. At constant exchange rates, the decline was 14.2%, primarily stemming from a 10.3% negative price effect, which was largely attributable to market conditions in Fluorogases. This activity weighed on the division's **EBITDA**, which came in at **€133 million**, down 5.0% on fourth-quarter 2018, overshadowing the solid performance of other Business Lines.

Sales for the Coating Solutions division totaled **€464 million**, down 13.9% on fourth-quarter 2018. The decrease in propylene prices had a strong impact on the overall price effect, which came in at a negative 12.6%, whereas volumes were only 2.8% lower than the high comparison basis of fourth-quarter 2018, in a context of low seasonality, also marked by the strikes in France that began in December. The division's **EBITDA** amounted to **€36 million** (€44 million in fourth-quarter 2018) as improved unit margins in downstream businesses did not fully offset more challenging market conditions for upstream businesses.

POST BALANCE SHEET EVENTS

On 3 January 2020, Arkema completed the acquisition of LIP Bygningsartikler AS (LIP) – the Danish leader in tile adhesives, waterproofing systems and floor preparation solutions – with annual sales of around €30 million.

In addition, taking advantage of favorable market conditions, on 21 January 2020 Arkema carried out a €300 million issue of perpetual hybrid bonds. These bonds carry a coupon of 1.5% until the first call date six years after their issue. Following its previous hybrid refinancing operation in June 2019, by issuing these new bonds, the Group thus acquires the possibility to refinance the remaining €300 million portion of its outstanding hybrid bonds with a 4.75% coupon and a first call date in October 2020.

The Covid-19 epidemic, which started in January 2020 in China, has led to a number of disruptions for the Group. Quarantined personnel and transportation restrictions in China have impacted the supply chain. Furthermore, lower activity levels have affected the level of demand of our customers in China and in Europe. Uncertainty persists concerning the evolution of the epidemic and its impact on the Group's results beyond the month of February.

As previously communicated, Arkema is hosting a Capital Markets Day on 2 April 2020, during which the company will present its long-term strategy and key projects to shareholders and analysts. At this stage, no specific decision has been made by the Group.

Further details on the Group's 2019 results and outlook are provided in the "Full year 2019 results and outlook" presentation available on Arkema's website at www.finance.arkema.com

The consolidated financial statements at 31 December 2019 have been audited, and an unqualified certification report has been issued by the Company's statutory auditors. These accounts and the statutory auditors' report will be available in March in the Company's universal registration document which will be posted online on Arkema's website at www.finance.arkema.com

FINANCIAL CALENDAR

6 May 2020	Publication of first-quarter 2020 results
19 May 2020	Annual General Meeting
30 July 2020	Publication of first-half 2020 results
5 November 2020	Publication of third-quarter 2020 results

*A designer of materials and innovative solutions, **Arkema** shapes materials and creates new uses that accelerate customer performance. Our balanced business portfolio spans High Performance Materials, Industrial Specialties and Coating Solutions. Our globally recognized brands are ranked among the leaders in the markets we serve. Reporting annual sales of €8.7 billion in 2019, we employ 20,500 people worldwide and operate in some 55 countries. We are committed to active engagement with all our stakeholders. Our research centers in North America, France and Asia concentrate on advances in bio-based products, new energies, water management, electronic solutions, lightweight materials and design, home efficiency and insulation. www.arkema.com*

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DISCLAIMER

The information disclosed in this press release may contain forward-looking statements with respect to the financial position, results of operations, business and strategy of Arkema. Such statements are based on management's current views and assumptions that could ultimately prove inaccurate and are subject to risk factors such as (but not limited to) changes in raw materials prices, currency fluctuations, the pace at which cost-reduction projects are implemented and changes in general economic and financial conditions. Arkema does not assume any liability to update such forward-looking statements whether as a result of any new information or any unexpected event or otherwise. Further information on factors which could affect Arkema's financial results is provided in the documents filed with the French Autorité des marchés financiers.

Balance sheet, income statement and cash flow statement data as well as data relating to the statement of changes in shareholders' equity and information by business division included in this press release are extracted from the condensed consolidated financial statements at 31 December 2019 as reviewed by Arkema's Board of Directors on 26 February 2020. Quarterly financial information is not audited.

Information by business division is presented in accordance with Arkema's internal reporting system used by management.

Details of the main alternative performance indicators used by the Group are provided in the tables appended to this press release. For the purpose of analyzing its results and defining its targets, the Group also uses REBIT margin as an indicator, corresponding to recurring operating income (REBIT) expressed as a percentage of sales.

For the purpose of tracking changes in its results, and particularly its sales figures, the Group analyzes the following effects (unaudited analyses):

- **scope effect:** the impact of changes in the Group's scope of consolidation, which arise from acquisitions and divestments of entire businesses or as a result of the first-time consolidation or deconsolidation of entities. Increases or reductions in capacity are not included in the scope effect;
- **currency effect:** the mechanical impact of consolidating accounts denominated in currencies other than the euro at different exchange rates from one period to another. The currency effect is calculated by applying the foreign exchange rates of the prior period to the figures for the period under review;
- **price effect:** the impact of changes in average selling prices is estimated by comparing the weighted average net unit selling price of a range of related products in the period under review with their weighted average net unit selling price in the prior period, multiplied, in both cases, by the volumes sold in the period under review.
- **volume effect:** the impact of changes in volumes is estimated by comparing the quantities delivered in the period under review with the quantities delivered in the prior period, multiplied, in both cases, by the weighted average net unit selling price in the prior period.

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ARKEMA Financial Statements

Consolidated financial statements - At the end of December 2019

CONSOLIDATED INCOME STATEMENT

<i>(In millions of euros)</i>	<u>4th quarter 2019</u>	<u>End of December 2019</u>	<u>4th quarter 2018</u>	<u>End of December 2018</u>
	<i>(non audited)</i>	<i>(audited)</i>	<i>(non audited)</i>	<i>(audited)</i>
Sales	2,053	8,738	2,207	8,816
Operating expenses	(1,660)	(6,837)	(1,795)	(6,841)
Research and development expenses	(65)	(249)	(61)	(237)
Selling and administrative expenses	(196)	(773)	(194)	(747)
Other income and expenses	(26)	(73)	(51)	(63)
Operating income	106	806	106	928
Equity in income of affiliates	(0)	(2)	0	2
Financial result	(27)	(116)	(28)	(101)
Income taxes	(2)	(137)	51	(114)
Net income	77	551	129	715
Of which non-controlling interests	2	8	3	8
Net income - Group share	75	543	126	707
<i>Earnings per share (amount in euros)</i>	<i>0.79</i>	<i>6.45</i>	<i>1.21</i>	<i>8.84</i>
<i>Diluted earnings per share (amount in euros)</i>	<i>0.78</i>	<i>6.41</i>	<i>1.21</i>	<i>8.82</i>

The Group applied IFRS 16 for the first time at 1 January 2019, under the modified retrospective approach which does not require restatement of the comparative figures for 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<u>4th quarter 2019</u>	<u>End of December 2019</u>	<u>4th quarter 2018</u>	<u>End of December 2018</u>
<i>(In millions of euros)</i>	<i>(non audited)</i>	<i>(audited)</i>	<i>(non audited)</i>	<i>(audited)</i>
Net income	77	551	129	715
Hedging adjustments	8	2	3	1
Other items	(1)	(1)	(6)	(7)
Deferred taxes on hedging adjustments and other items	1	1	-	-
Change in translation adjustments	(39)	36	27	41
Other recyclable comprehensive income	(31)	38	24	35
Actuarial gains and losses	17	(45)	(22)	(3)
Deferred taxes on actuarial gains and losses	(4)	7	4	(1)
Other non-recyclable comprehensive income	13	(38)	(18)	(4)
Total income and expenses recognized directly in equity	(18)	0	6	31
Comprehensive income	59	551	135	746
Of which: non-controlling interest	1	8	4	9
Comprehensive income - Group share	58	543	131	737

The Group applied IFRS 16 for the first time at 1 January 2019, under the modified retrospective approach which does not require restatement of the comparative figures for 2018.

INFORMATION BY BUSINESS DIVISION

(audited)

4th quarter 2019

(In millions of euros)

	High Performance Materials	Industrial Specialties	Coating Solutions	Corporate	Total
Non-Group sales	991	593	464	5	2,053
Inter-division sales	2	27	16	-	
Total sales	993	620	480	5	
EBITDA	140	133	36	(14)	295
Recurring depreciation and amortization of tangible and intangible assets	(49)	(57)	(35)	(3)	(144)
Recurring operating income (REBIT)	91	76	1	(17)	151
Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses	(18)	-	(1)	-	(19)
Other income and expenses	(14)	(9)	0	(3)	(26)
Operating income	59	67	0	(20)	106
Equity in income of affiliates	(0)	(0)	-	-	(0)
Intangible assets and property, plant and equipment additions	104	98	44	8	254
Of which recurring capital expenditure	78	77	43	8	206

4th quarter 2018

(In millions of euros)

	High Performance Materials	Industrial Specialties	Coating Solutions	Corporate	Total
Non-Group sales	978	683	539	7	2,207
Inter-division sales	2	18	16	-	
Total sales	980	701	555	7	
EBITDA	125	140	44	(22)	287
Recurring depreciation and amortization of tangible and intangible assets	(42)	(47)	(26)	(6)	(121)
Recurring operating income (REBIT)	83	93	18	(28)	166
Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses	(9)	-	-	-	(9)
Other income and expenses	(30)	(22)	(2)	3	(51)
Operating income	44	71	16	(25)	106
Equity in income of affiliates	0	0	-	-	0
Intangible assets and property, plant and equipment additions	89	103	64	14	270
Of which recurring capital expenditure	79	75	64	14	232

INFORMATION BY BUSINESS DIVISION

(audited)

End of December 2019

(In millions of euros)

	High Performance Materials	Industrial Specialties	Coating Solutions	Corporate	Total
Non-Group sales	4,065	2,514	2,133	26	8,738
Inter-division sales	10	139	73	-	
Total sales	4,075	2,653	2,206	26	
EBITDA	654	621	264	(82)	1,457
Recurring depreciation and amortization of tangible and intangible assets	(186)	(215)	(122)	(8)	(531)
Recurring operating income (REBIT)	468	406	142	(90)	926
Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses	(44)	-	(3)	-	(47)
Other income and expenses	(51)	(15)	(1)	(6)	(73)
Operating income	373	391	138	(96)	806
Equity in income of affiliates	(0)	(2)	-	-	(2)
Intangible assets and property, plant and equipment additions	271	226	119	19	635
Of which recurring capital expenditure	205	169	118	19	511

End of December 2018

(In millions of euros)

	High Performance Materials	Industrial Specialties	Coating Solutions	Corporate	Total
Non-Group sales	3,970	2,699	2,120	27	8,816
Inter-division sales	10	159	75	-	
Total sales	3,980	2,858	2,195	27	
EBITDA	640	675	243	(84)	1,474
Recurring depreciation and amortization of tangible and intangible assets	(159)	(178)	(103)	(8)	(448)
Recurring operating income (REBIT)	481	497	140	(92)	1 026
Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses	(35)	-	-	-	(35)
Other income and expenses	(41)	(24)	(4)	6	(63)
Operating income	405	473	136	(86)	928
Equity in income of affiliates	1	1	-	-	2
Intangible assets and property, plant and equipment additions	199	238	117	37	591
Of which recurring capital expenditure	168	178	117	37	500

CONSOLIDATED CASH FLOW STATEMENT

	<u>End of December 2019</u>	<u>End of December 2018</u>
<i>(In millions of euros)</i>	<i>(audited)</i>	<i>(audited)</i>
Cash flow - operating activities		
Net income	551	715
Depreciation, amortization and impairment of assets	650	508
Other provisions and deferred taxes	(17)	(81)
(Gains)/losses on sales of long-term assets	(6)	(3)
Undistributed affiliate equity earnings	5	(1)
Change in working capital	92	(130)
Other changes	25	21
Cash flow from operating activities	1,300	1,029
Cash flow - investing activities		
Intangible assets and property, plant, and equipment additions	(635)	(591)
Change in fixed asset payables	(26)	53
Acquisitions of operations, net of cash acquired	(714)	(201)
Increase in long-term loans	(55)	(59)
Total expenditures	(1,430)	(798)
Proceeds from sale of intangible assets and property, plant and equipment	13	4
Repayment of long-term loans	55	51
Total divestitures	68	55
Cash flow from investing activities	(1,362)	(743)
Cash flow - financing activities		
Issuance (repayment) of shares and other equity	3	54
Purchase of treasury shares	(34)	(53)
Issuance of hybrid bonds	399	-
Redemption of hybrid bonds	(425)	-
Dividends paid to parent company shareholders	(190)	(176)
Interest paid to bearers of subordinated perpetual notes	(27)	(33)
Dividends paid to non-controlling interests	(5)	(4)
Increase in long-term debt	502	1
Decrease in long-term debt	(554)	(18)
Increase/ decrease in short-term borrowings	395	(39)
Cash flow from financing activities	64	(268)
Net increase/(decrease) in cash and cash equivalents	2	18
Effect of exchange rates and changes in scope	(36)	(15)
Cash and cash equivalents at beginning of period	1,441	1,438
Cash and cash equivalents at end of period	1,407	1,441

The Group applied IFRS 16 for the first time at 1 January 2019, under the modified retrospective approach which does not require restatement of the comparative figures for 2018.

CONSOLIDATED BALANCE SHEET

	<u>End of December 2019</u>	<u>End of December 2018</u>
<i>(In millions of euros)</i>	<i>(audited)</i>	<i>(audited)</i>
ASSETS		
Intangible assets, net	3,392	2,877
Property, plant and equipment, net	3,026	2,627
Equity affiliates: investments and loans	33	38
Other investments	53	33
Deferred tax assets	216	209
Other non-current assets	240	243
TOTAL NON-CURRENT ASSETS	6,960	6,027
Inventories	1,014	1,136
Accounts receivable	1,204	1,247
Other receivables and prepaid expenses	184	173
Income tax receivables	113	80
Other current financial assets	17	7
Cash and cash equivalents	1,407	1,441
Assets held for sale	78	-
TOTAL CURRENT ASSETS	4,017	4,084
TOTAL ASSETS	10,977	10,111
LIABILITIES AND SHAREHOLDERS' EQUITY		
Share capital	766	766
Paid-in surplus and retained earnings	4,340	4,099
Treasury shares	(11)	(28)
Translation adjustments	178	142
SHAREHOLDERS' EQUITY - GROUP SHARE	5,273	4,979
Non-controlling interests	51	49
TOTAL SHAREHOLDERS' EQUITY	5,324	5,028
Deferred tax liabilities	334	268
Provisions for pensions and other employee benefits	525	470
Other provisions and non-current liabilities	391	433
Non-current debt	2,377	2,246
TOTAL NON-CURRENT LIABILITIES	3,627	3,417
Accounts payable	905	1,037
Other creditors and accrued liabilities	366	343
Income tax payables	80	78
Other current financial liabilities	8	7
Current debt	661	201
Liabilities related to assets held for sale	6	-
TOTAL CURRENT LIABILITIES	2,026	1,666
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10,977	10,111

The Group applied IFRS 16 for the first time at 1 January 2019, under the modified retrospective approach which does not require restatement of the comparative figures for 2018.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(audited)

<i>(In millions of euros)</i>	Shares issued			Hybrid bonds	Retained earnings	Translation adjustments	Treasury shares		Shareholders' equity - Group share	Non-controlling interests	Shareholders' equity
	Number	Amount	Paid-in surplus				Number	Amount			
At January 1, 2019	76,581,492	766	1,263	689	2,147	142	(318,998)	(28)	4,979	49	5,028
Cash dividend	-	-	-	-	(217)	-	-	-	(217)	(5)	(222)
Issuance of share capital	42,728	0	3	-	-	-	-	-	3	-	3
Purchase of treasury shares	-	-	-	-	-	-	(408,621)	(34)	(34)	-	(34)
Grants of treasury shares to employees	-	-	-	-	(51)	-	596,591	51	-	-	-
Share-based payments	-	-	-	-	25	-	-	-	25	-	25
Issuance of hybrid bonds	-	-	-	399	-	-	-	-	399	-	399
Redemption of hybrid bonds	-	-	-	(394)	(31)	-	-	-	(425)	-	(425)
Other	-	-	-	-	-	-	-	-	-	(1)	(1)
Transactions with shareholders	42,728	0	3	5	(274)	-	187,970	17	(249)	(6)	(255)
Net income	-	-	-	-	543	-	-	-	543	8	551
Total income and expense recognized directly through equity	-	-	-	-	(36)	36	-	-	0	-	0
Comprehensive income	-	-	-	-	507	36	-	-	543	8	551
At December 31, 2019	76,624,220	766	1,266	694	2,380	178	(131,028)	(11)	5,273	51	5,324

ALTERNATIVE PERFORMANCE INDICATORS

To monitor and analyse the financial performance of the Group and its activities, the Group management uses alternative performance indicators. These are financial indicators that are not defined by the IFRS. This note presents a reconciliation of these indicators and the aggregates from the consolidated financial statements under IFRS.

RECURRING OPERATING INCOME (REBIT) AND EBITDA

<i>(In millions of euros)</i>	End of December 2019	End of December 2018	4 th quarter 2019	4 th quarter 2018
OPERATING INCOME	806	928	106	106
- Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses	(47)	(35)	(19)	(9)
- Other income and expenses	(73)	(63)	(26)	(51)
RECURRING OPERATING INCOME (REBIT)	926	1 026	151	166
- Recurring depreciation and amortization of tangible and intangible assets	(531)	(448)	(144)	(121)
EBITDA	1,457	1,474	295	287

Details of depreciation and amortization of tangible and intangible assets:

<i>(In millions of euros)</i>	End of December 2019	End of December 2018	4 th quarter 2019	4 th quarter 2018
Depreciation and amortization of tangible and intangible assets	(650)	(508)	(181)	(153)
Of which: Recurring depreciation and amortization of tangible and intangible assets	(531)	(448)	(144)	(121)
Of which: Depreciation and amortization related to the revaluation of assets as part of the allocation of the purchase price of businesses	(47)	(35)	(19)	(9)
Of which: Impairment included in other income and expenses	(72)	(25)	(18)	(23)

ADJUSTED NET INCOME AND ADJUSTED EARNINGS PER SHARE

<i>(In millions of euros)</i>	End of December 2019	End of December 2018	4 th quarter 2019	4 th quarter 2018
NET INCOME - GROUP SHARE	543	707	75	126
- Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses	(47)	(35)	(19)	(9)
- Other income and expenses	(73)	(63)	(26)	(51)
- Other income and expenses - Non-controlling interests	-	-	-	-
- Taxes on depreciation and amortization related to the revaluation of assets as part of the allocation of the purchase price of businesses	14	8	7	2
- Taxes on other income and expenses	24	10	11	6
- One-time tax-effects	-	62	-	60
ADJUSTED NET INCOME	625	725	102	118
- Weighted average number of ordinary shares	76,175,660	76,240,868		
- Weighted average number of potential ordinary shares	76,616,360	76,377,502		
ADJUSTED EARNINGS PER SHARE (€)	8.20	9.51	1.33	1.53
DILUTED ADJUSTED EARNINGS PER SHARE (€)	8.16	9.49	1.33	1.53

RECURRING CAPITAL EXPENDITURE

<i>(In millions of euros)</i>	End of December 2019	End of December 2018	4 th quarter 2019	4 th quarter 2018
INTANGIBLE ASSETS AND PROPERTY, PLANT, AND EQUIPMENT ADDITIONS	635	591	254	270
- Exceptional capital expenditure	96	61	28	27
- Investments relating to portfolio management operations	-	4	-	-
- Capital expenditure with no impact on net debt	28	26	20	11
RECURRING CAPITAL EXPENDITURE	511	500	206	232

FREE CASH FLOW AND EBITDA TO CASH CONVERSION RATE

<i>(In millions of euros)</i>	End of December 2019	End of December 2018	4 th quarter 2019	4 th quarter 2018
Cash flow from operating activities	1,300	1,029	471	418
+ Cash flow from investing activities	(1,362)	(743)	(295)	(174)
NET CASH FLOW	(62)	286	176	244
- Net cash flow from portfolio management operations	(729)	(213)	(110)	(12)
FREE CASH FLOW	667	499	286	256

The net cash flow from portfolio management operations corresponds to the impact of acquisition and divestment operations.

<i>(In millions of euros)</i>	End of December 2019	End of December 2018
Free Cash flow	667	499
- Exceptional capital expenditure	(96)	(61)
FREE CASH FLOW EXCLUDING EXCEPTIONAL CAPITAL EXPENDITURE	763	560
EBITDA	1,457	1,474
EBITDA TO CASH CONVERSION RATE	52.4%	38.0%

WORKING CAPITAL

<i>(In millions of euros)</i>	<u>End of December 2019</u>	<u>End of December 2018</u>
Inventories	1,014	1,136
+ Accounts receivable	1,204	1,247
+ Other receivables including income taxes	297	253
+ Other current financial assets	17	7
- Accounts payable	905	1,037
- Other liabilities including income taxes	446	421
- Other current financial liabilities	8	7
WORKING CAPITAL	1,173	1,178

CAPITAL EMPLOYED

<i>(In millions of euros)</i>	<u>End of December 2019</u>	<u>End of December 2018</u>
<i>Goodwill, net</i>	1,917	1,618
+ Intangible assets (excluding goodwill), and property, plant and equipment, net	4,501	3,886
+ Investments in equity affiliates	33	38
+ Other investments and other non-current assets	293	276
+ Working capital	1,173	1,178
CAPITAL EMPLOYED	7,917	6,996

NET DEBT

<i>(In millions of euros)</i>	<u>End of December 2019</u>	<u>End of December 2018</u>
Non-current debt	2,377	2,246
+ Current debt	661	201
- Cash and cash equivalents	1,407	1,441
NET DEBT	1,631	1,006

RETURN ON AVERAGE CAPITAL EMPLOYED (ROACE)

<i>(In millions of euros)</i>	<u>End of December 2019</u>	<u>End of December 2018</u>
Recurring operating income (REBIT)	926	1,026
Average capital employed *	7,457	6,775
ROACE	12.4%	15.1%

* Average capital employed at the end of the current and the prior year

IFRS 16 IMPACT ON THE MAIN API

As of January 1, 2019 Arkema applies IFRS 16 « Leases ». The impacts of this standard on the main alternative performance indicators used by the Group are described below. The 2018 figures have not been restated.

CONSOLIDATED INCOME STATEMENT

	4 th quarter 2019	End of December 2019
EBITDA	14	56
Recurring depreciation and amortization of tangible and intangible assets	(14)	(54)
Recurring operating income (REBIT)	0	2
Operating Income	0	2
Financial result	(1)	(4)
Adjusted net income	(1)	(2)
Net income	(1)	(2)

CONSOLIDATED CASH FLOW STATEMENT

	4 th quarter 2019	End of December 2019
Cash flow from operating activities	13	52
Free cash flow	13	52
Cash flow from financing activities	(13)	(52)

CONSOLIDATED BALANCE SHEET

	End of December 2019
Property, plant and equipment, net	152
Total assets	152
Non-current debt	110
Current debt	44
Net Debt	154
Net income	(2)
Total liabilities and shareholders' equity	152

INFORMATION BY BUSINESS DIVISION

IFRS 16 impact (4 th quarter 2019)	High Performance Materials	Industrial Specialties	Coating Solutions	Corporate
EBITDA	5	6	3	0
Recurring depreciation and amortization of tangible and intangible assets	(5)	(6)	(3)	0
Recurring operating income (REBIT)	0	0	0	0

IFRS 16 impact (End of December 2019)	High Performance Materials	Industrial Specialties	Coating Solutions	Corporate
EBITDA	18.5	24	11.5	2
Recurring depreciation and amortization of tangible and intangible assets	(18)	(23)	(11)	(2)
Recurring operating income (REBIT)	0.5	1	0.5	0