# 2009 full year results

**Thierry Le Hénaff**

Chairman and CEO

ARKEMA

The world is our inspiration

Paris, March 4, 2010

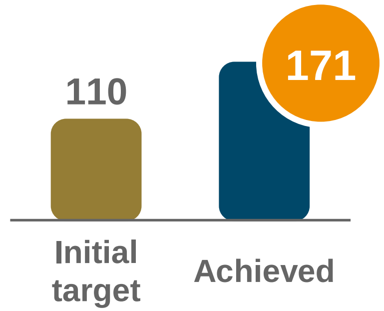
# FY'09 results
Emerging stronger

# Quick adaptation combined with in-depth transformation

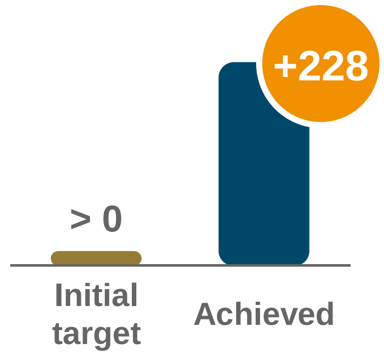
- **Unprecedented market conditions**
  - Significant drop in demand
  - Massive destocking by customers in 1H'09
  - Strong recovery of Asia starting in 2Q'09
- **Quick adaptation with two priorities**
  - Reinforce fixed cost savings
  - Generate high cash flow
- **At the same time, pursuing deep transformation**
  - Increased manufacturing presence in China
  - Accelerated green innovation
  - Acquisition of some of Dow's acrylic assets closed 25 January 2010
  - 3 main restructuring initiatives launched
    - Methacrylates in Europe
    - US reorganization
    - Copolymers in Saint-Auban (Fr)

*2009 achievements*

**Fixed cost savings** (€m)




**Free cash flow*** (€m)

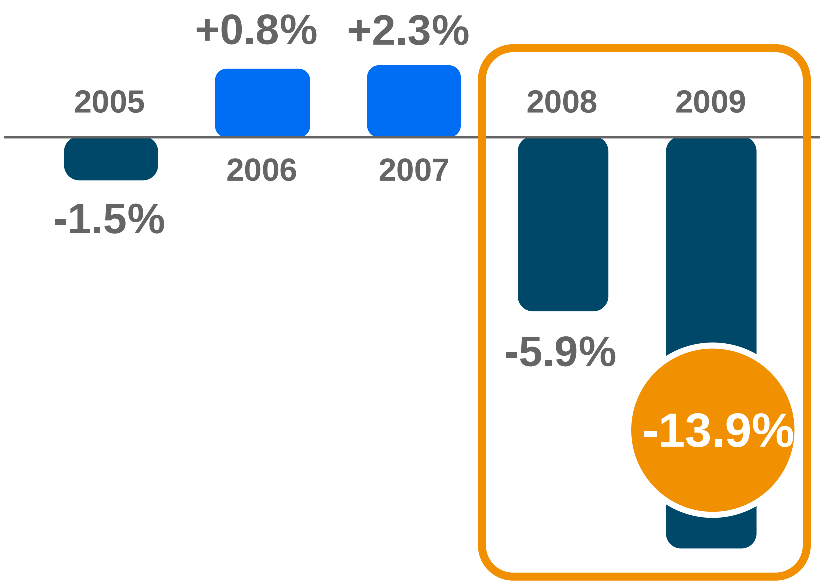




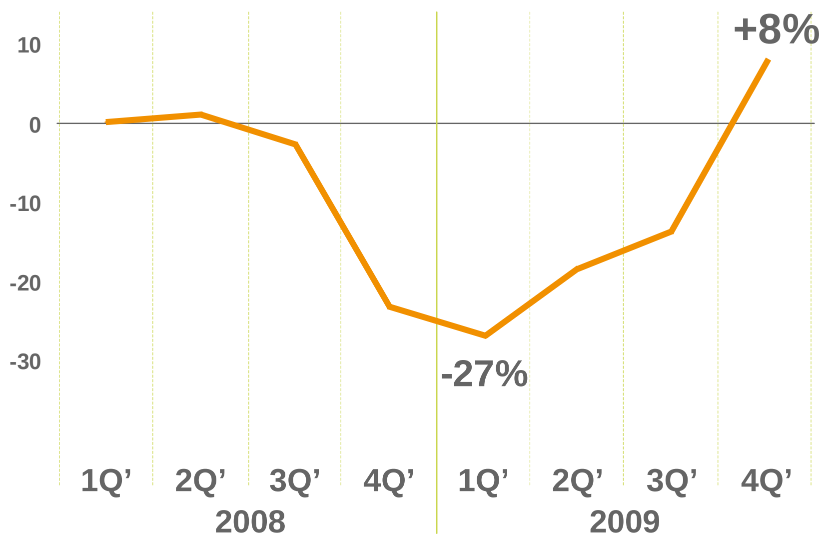

** Free cash flow = cash flow including non-recurring items and excluding impact from M&A*

# Unprecedented downturn in 2009

## YoY volume development




## YoY volume variation by quarter




**2H'09 substantially better than 1H'09**

# Uneven regional situations

## North America

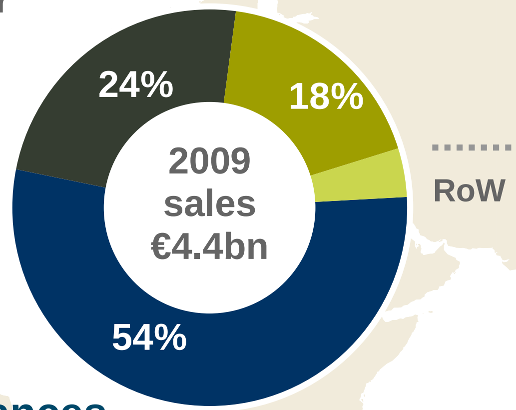
### Excellent financial performance despite low volumes

- Gradual volume recovery after 1H' customer destocking
- 4Q'09 volumes significantly higher than 4Q'08 volumes
- Strong pricing resilience

## Asia

### Strong demand recovery

- 2009 volumes > 2008
- Start-up of $H_2O_2$ plant in Shanghai
- New businesses in performance polymers & renewable energies




## Europe / France

### Contrasted financial performances

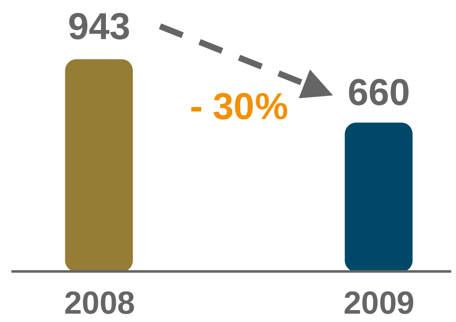
- Negative results in Vinyls (~50% of European revenues)
- Impact of 1H' customer destocking on polymers
- Improved volumes but still below pre-crisis level

# Strong cash generation

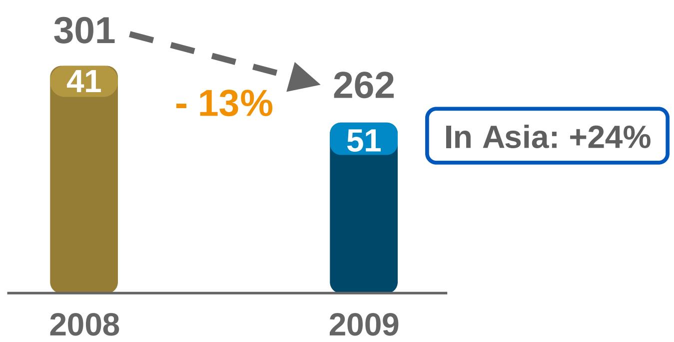
*in €m*

| | |
|---|---|
| **EBITDA** | **310** |
| **Working capital reduction** | **+384** |
| **Recurring capex** | **(262)** |
| Tax & cost of debt | (82) |
| **Restructuring outflows** | **(78)** |
| Others | (44) |
| **Free cash flow*** | **+228** |
| **Initial target** | **0+** |

**Raw materials & finished goods inventories** (€m)




**Recurring capex** (€m)




**+ €228m FCF* largely above target**



** Free cash flow = cash flow including non-recurring items and excluding impact from M&A*

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# Full year 2009 key figures

| *in €m (except EPS)* | 2008 | 2009 | Variation |
|---|---|---|---|
| **Sales** | **5,633** | 4,444 | *(21.1)%* |
| **EBITDA** | **498** | 310 | *(37.8)%* |
| ***EBITDA margin*** | ***8.8%*** | *7.0%* | |
| **Recurring operating income** | **250** | 40 | *(84.0)%* |
| NR items | (53) | (109) | - |
| **Net income** (group share) | **100** | (172) | - |
| **Adjusted EPS** (diluted) | **2.41** | (0.81) | - |

- **Positive recurring operating income**
  - **2009 EBITDA margin above 2005 level* in a much more difficult environment**



** 2005 is the year of Arkema's creation*

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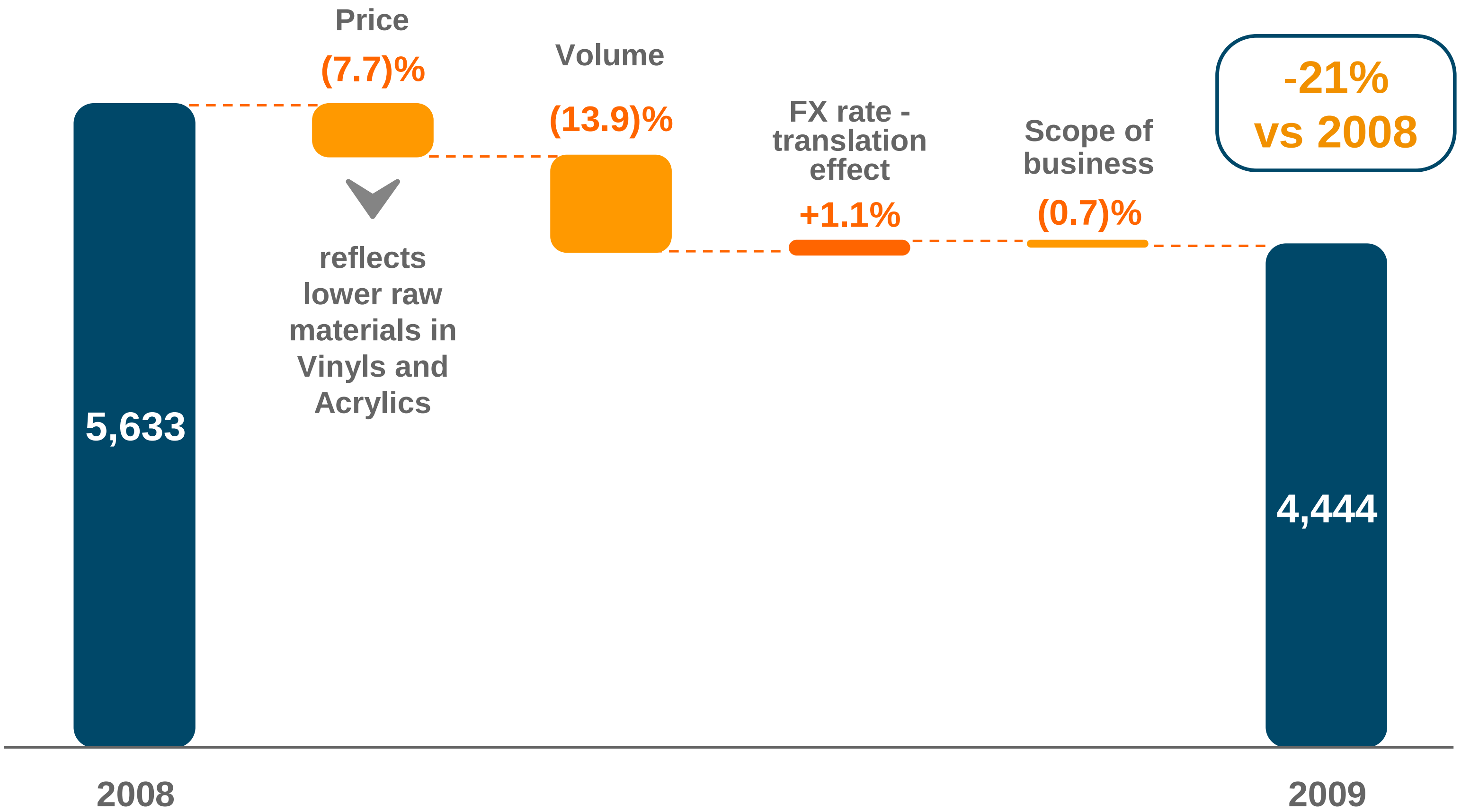
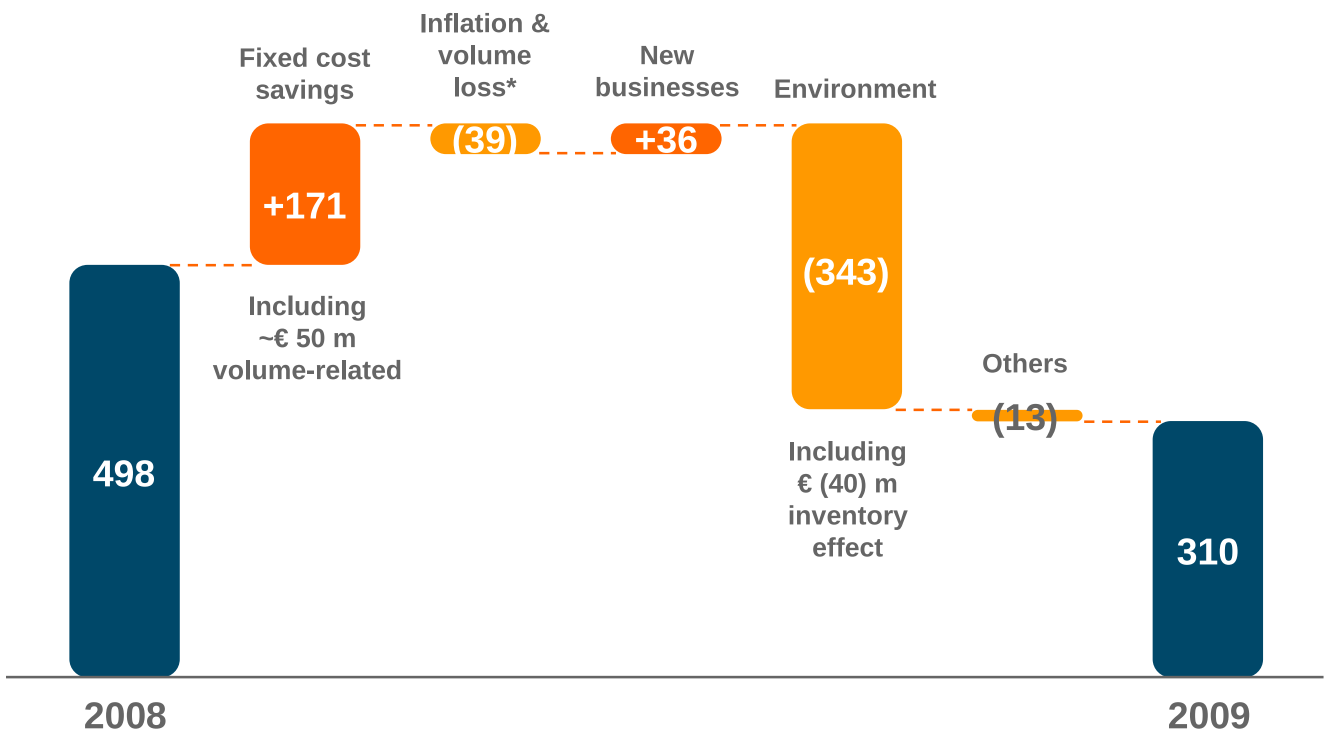
# Sales analysis

**Sales in €m**



# Fixed cost savings partly offset volume drop from challenging markets

**EBITDA in €m**

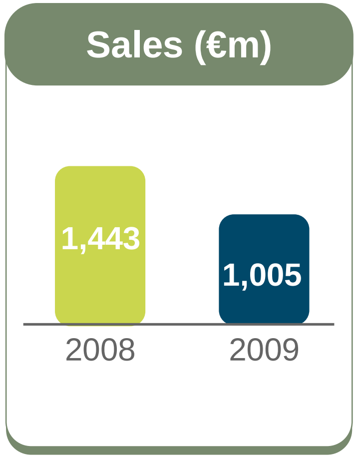


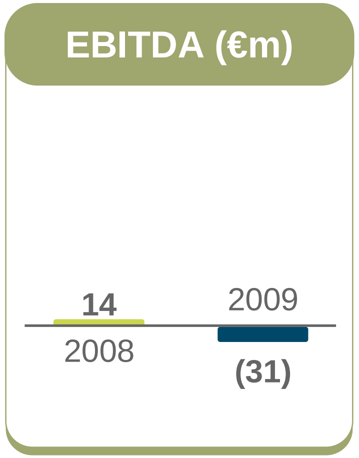

## +€132m EBITDA from productivity

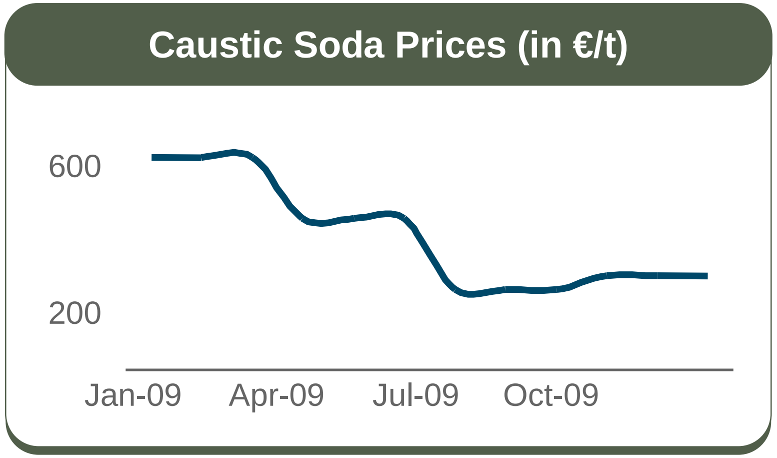


** Inflation on fixed costs and volume losses from restructuring initiatives*

# Vinyl Products
# Trough market conditions

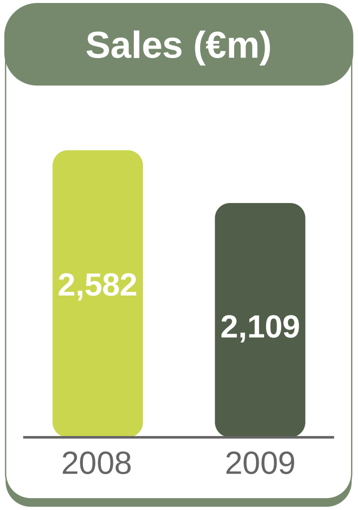


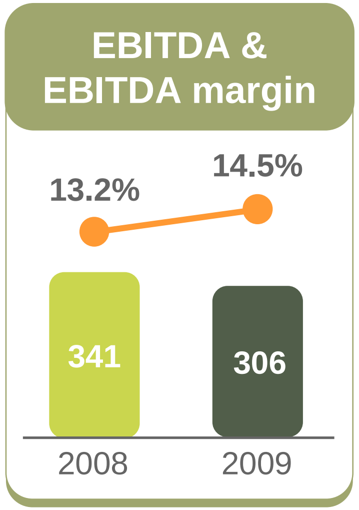




- **Low level of PVC unit margins**
- **Caustic soda prices sharply down from peak in 1Q' to low in 3Q'**
- **Sharp contraction of demand in construction in Europe**
- **Benefits from restructuring plans in downstream PVC**
- **~€70m non-core sales divested**

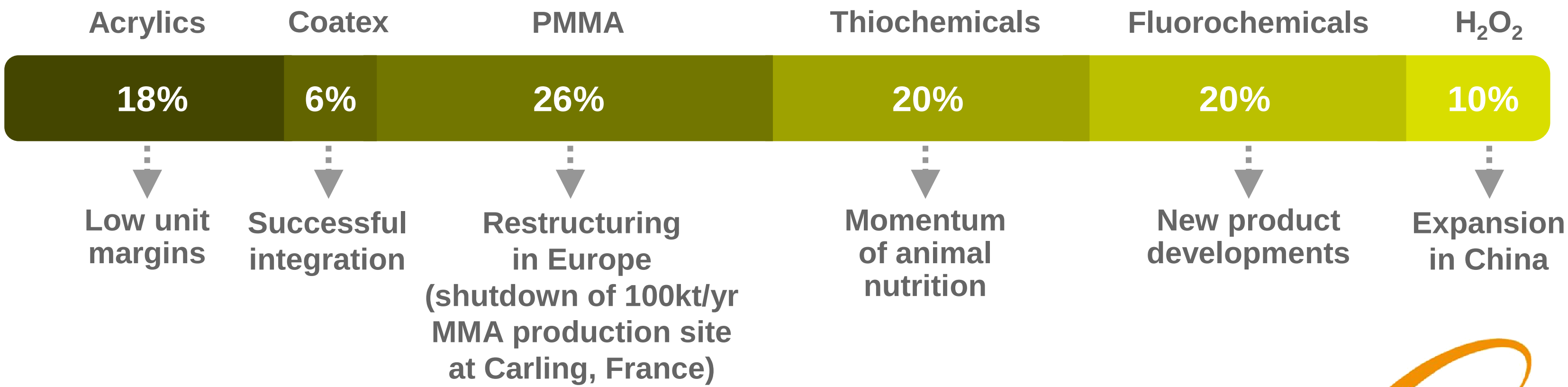
# Industrial Chemicals
# Record EBITDA margin since spin off



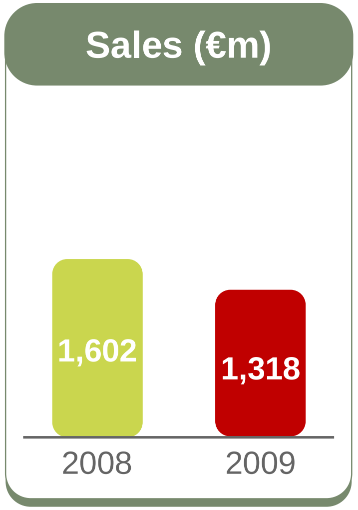



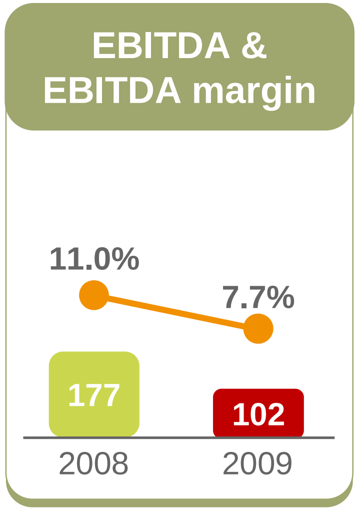

- **14.5% EBITDA margin despite very challenging macro environment**
- **Significant fixed cost savings**
- **Benefits from expansion in Asia**

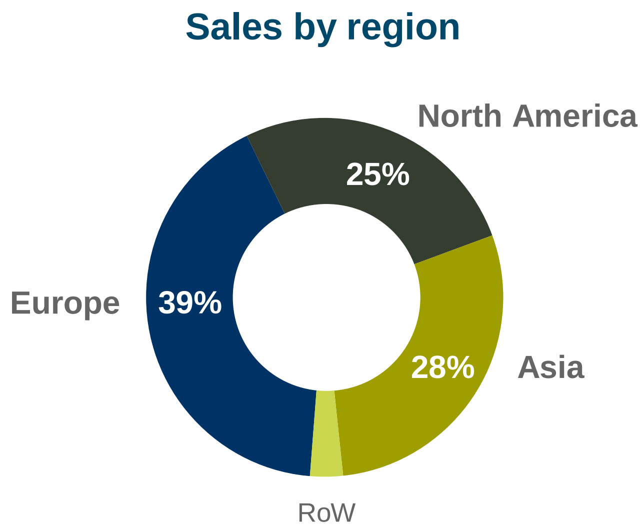
**% of segment sales by BU**



# Performance Products
# Significant improvement in 2H'09




- -16% volumes vs 2008
- Resilience of pricing
- Fixed cost savings in Technical Polymers & Functional Additives
- Solid performance in Specialty Chemicals
- Strong business developments in renewable energies and high performance polymers



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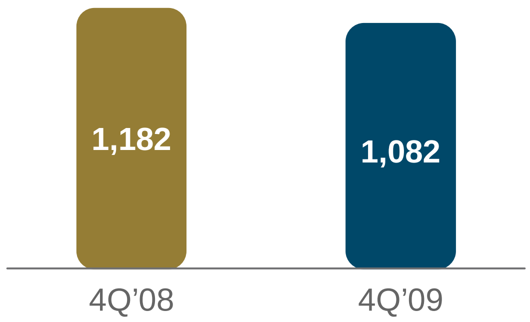
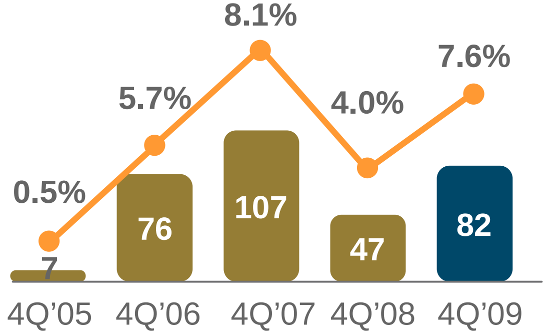
# 4Q'09 results
# Volume and EBITDA growth year-on-year

- +8% volumes and -13% price variation YoY (pricing reflects low raw material costs in Vinyls and Acrylics)
- +74% EBITDA vs 4Q'08
- Positive recurring operating income at €14m
- Positive free cash flow*

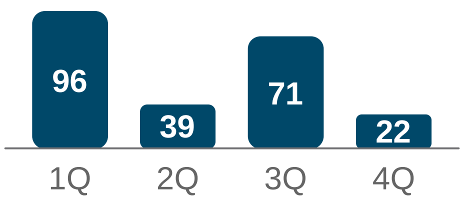
**Sales** (€m)




**EBITDA** (€m) **& EBITDA margin**



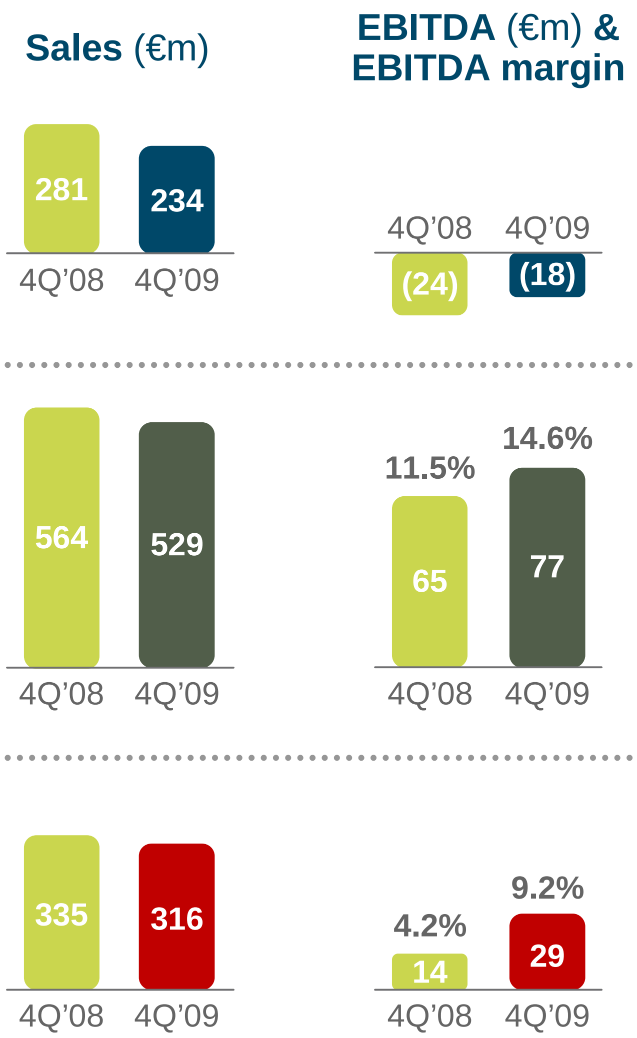

**2009 quarterly FCF*** (€m)






** Free cash flow = cash flow including non-recurring items and excluding impact from M&A*

# 4Q'09 results by segment




## Vinyl Products: adverse market conditions

- Traditional weaker seasonality in December
- Low caustic soda prices
- US PVC imports on lower ethylene and US$

## Industrial Chemicals: excellent performance

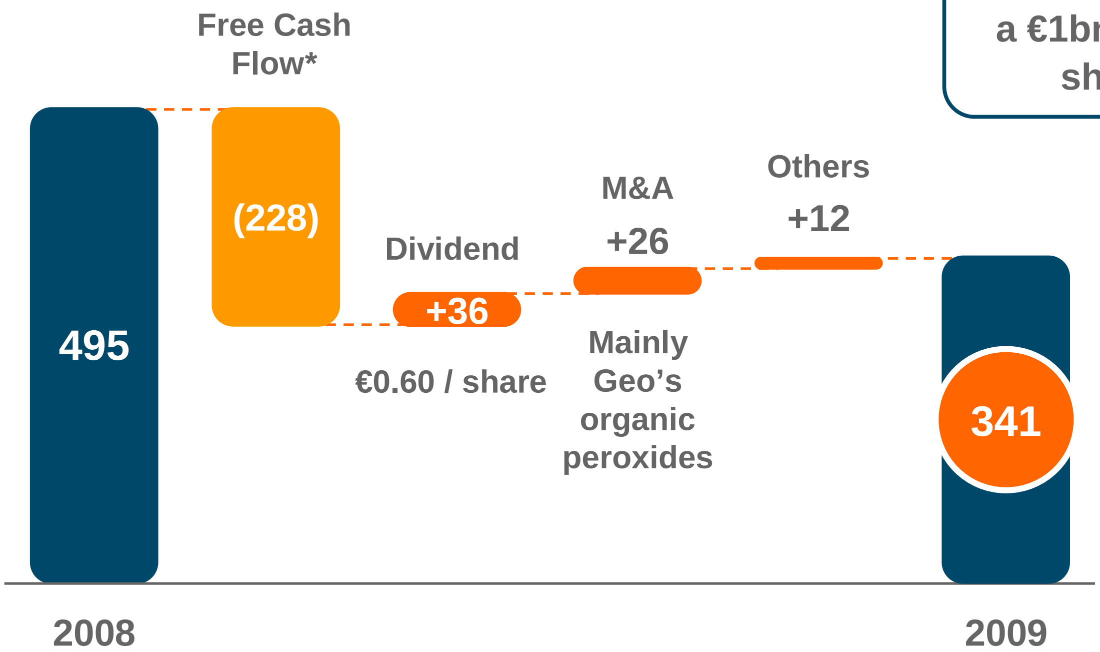
- Volumes recovery vs 4Q'08
- Benefits from productivity initiatives
- Acrylic unit margins at a low point

## Performance Products: significant recovery

- Improved volumes
- Pricing resilience
- High fixed cost reductions

# Low gearing at 19%

**Net debt in €m**




Financing secured until March 2013 with a €1bn syndicated credit** line bearing short term interests at 32.5 b.p.

**Net debt at 1.1x EBITDA**

* *Free cash flow = cash flow including non-recurring items and excluding impact from M&A*

** *€1,100m end of March 2011, €1,094m end of March 2012 and €1,049m end of March 2013*

# Strong balance sheet

| *In €m* | 31 Dec. 2008 | 31 Dec. 2009 |
|---|---|---|
| Net debt | 495 | 341 |
| Shareholders' equity | 2,018 | 1,813 |
| Net provisions | 701 | 685 |
| Non-current assets* | 2,315 | 2,257 |
| Net working capital | 1,055 | 720 |
| Capital employed | 3,370 | 2,977 |

- **Provisions include:**
  - €111 m restructuring
  - €234 m pensions (**stable amount**)
  - €139 m environment
  - €201 m others
- **€446m unrecognized deferred tax assets**
- **16.2% working capital / sales vs 18.7% end 2008**

**Proposed dividend at €0.60/share (same level as in 2009)**

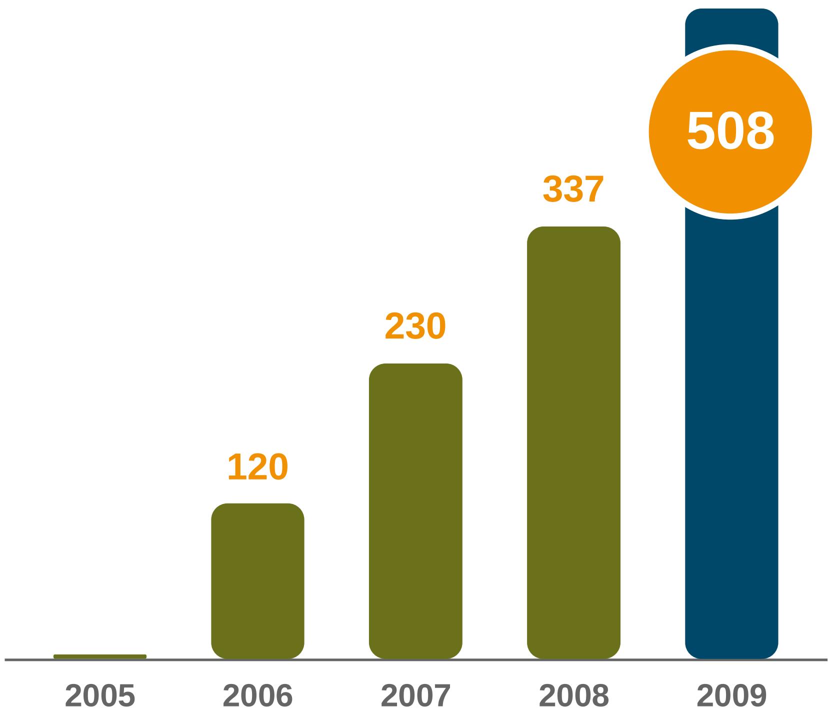


** Excluding deferred income tax assets*

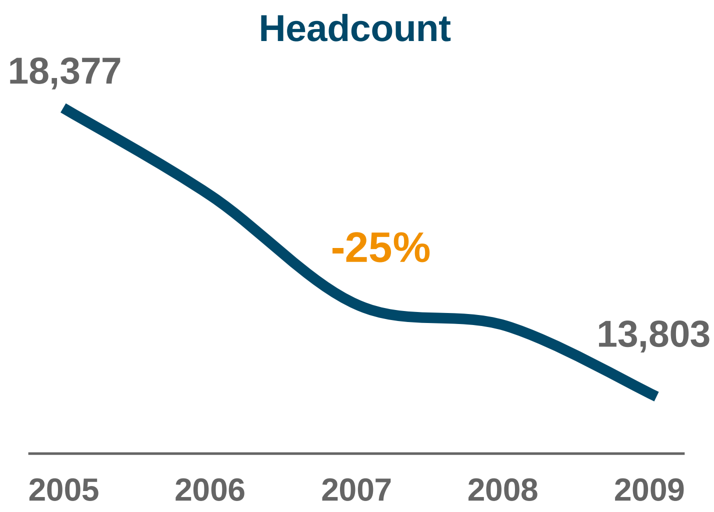
# 2005-2009
# A reshaped Arkema

# Fixed cost savings

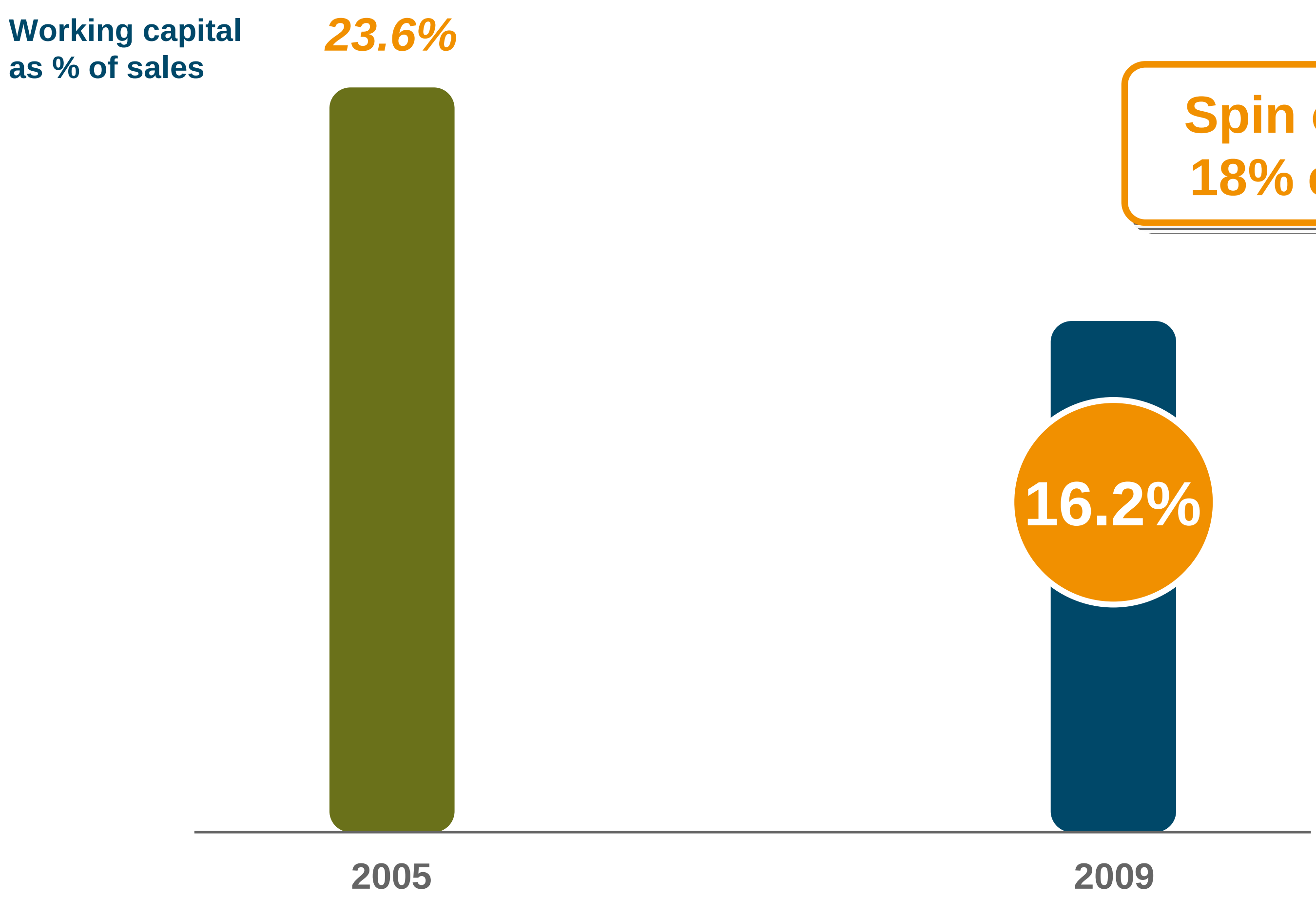
**Cumulated gross fixed cost savings since 2005** (in €m)




**Spin off target €500m in 2010**

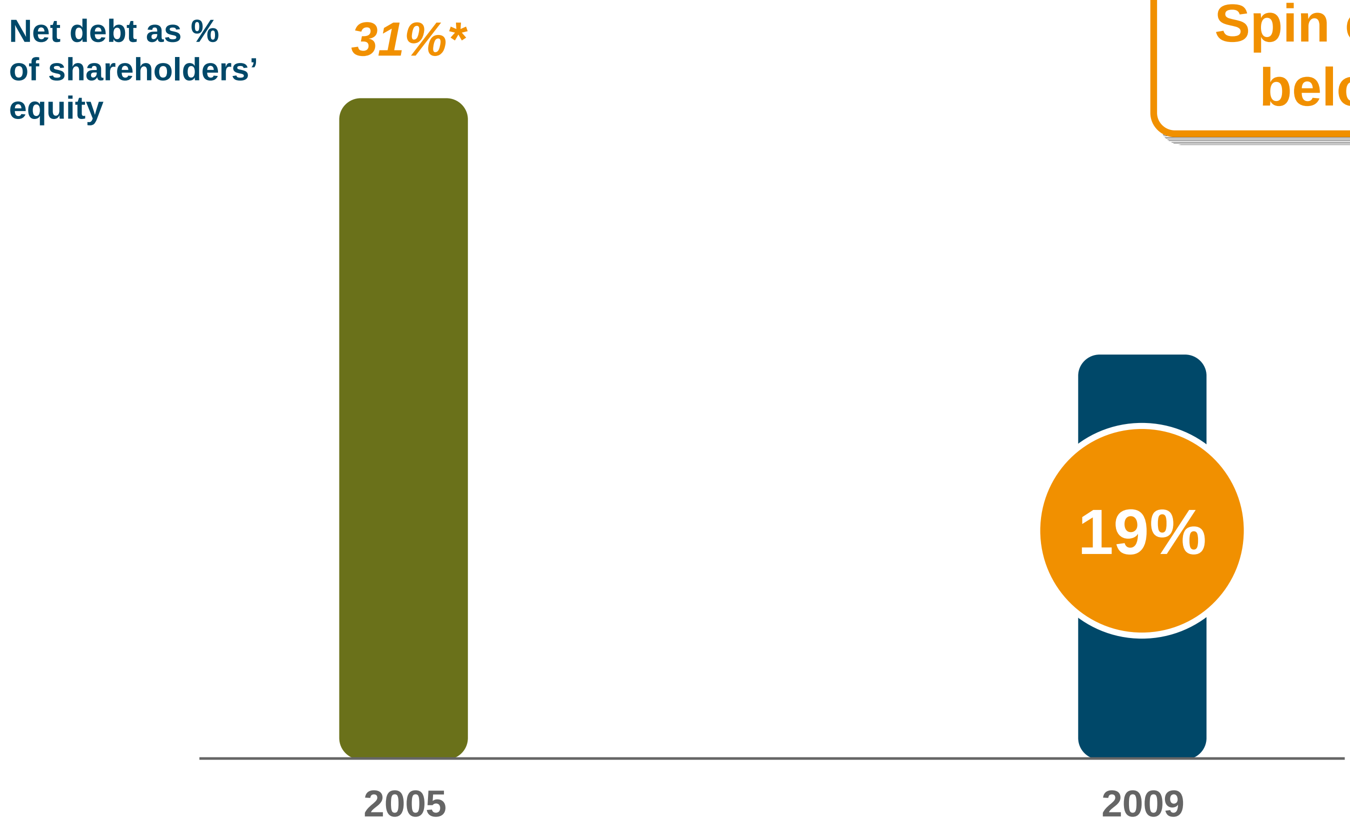


# Working capital




**Spin off target**
**18% end 2010**

# Gearing




**Spin off target below 40%**

 ** Net debt computed as 12/31/2005 proforma net debt after €532m capital increase + €580m NR pre spin-off items*

# Portfolio management

**Main acquisitions** **€550m***

- Acrylic assets from Dow
- Coatex
- Organic peroxides from Geo

**Spin off targets**
**Acquisitions: €500m to €800m sales**
**Divestments: €300m to €400m sales**

**Main divestments** **€480m**

- Cerexagri
- Urea Formaldehyde Resins
- Specialty amines
- Sanitary & Heating pipes

** Including the acrylic assets purchased from Dow in January 2010*

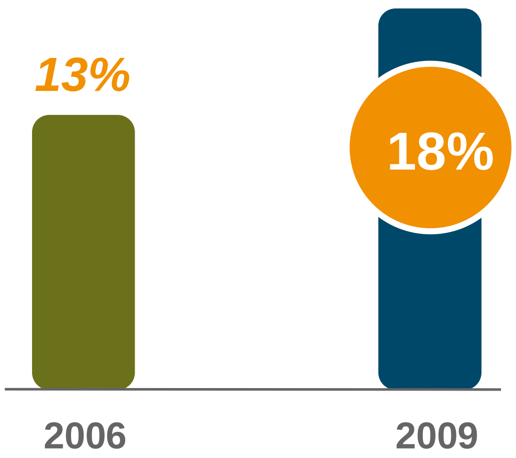
# Better positioned on growing regions & products

## Asia

**€130m capex spent since spin off**

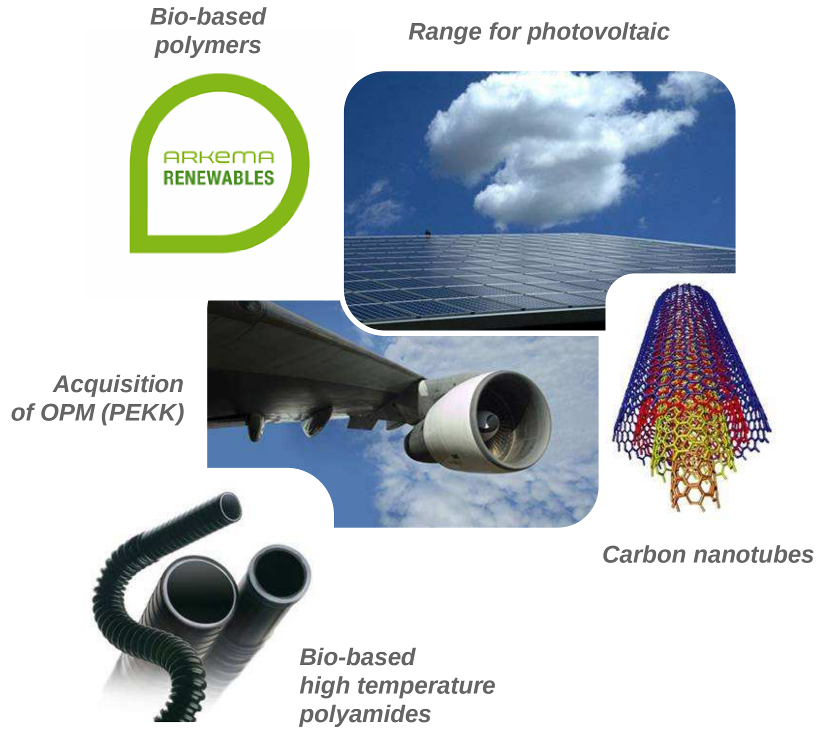
**% of total sales achieved in Asia**

**Spin off target**
**20% of sales in 2012**




## Innovation

**Focus on sustainable development and high performance polymers**



# 2010

# Well prepared and positioned

# Assumptions for 2010 environment

- **More positive market trends of 4Q’09 expected to continue in 1H’10**
- **Contrasted view by region:**
  - Strong demand in Asia
  - Some recovery in the US
  - More limited visibility in Europe
- **Strong growth in renewable energies (photovoltaic, batteries…)**
- **Market conditions remain challenging in Vinyls at the beginning of the year**
- **Acrylic unit margins expected to gradually improve**



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# Our priorities for 2010

- **Maintain focus on costs and cash**
  - €90m fixed cost savings versus 2009
  - Recurring capex below €300m
  - Working capital at ~16% of sales
- **Integrate newly acquired acrylic assets from Dow**
- **Grow in Asia and in "green" markets**
  - Leverage new manufacturing assets in China
  - Accelerate growth in Performance Polymers & renewable energies
    Polyamide Rilsan®, PVDF Kynar®, new generation of Fluorogases, molecular sieves
- **Closely monitor evolution of raw material costs**

# 2010 EBITDA significantly above 2009

- **What is given**
  - No customer destocking as in 1H'09
  - Absence of negative inventory effects (€-40m in 2009)
- **Other factors**
  - €90m additional fixed cost savings (€40m net EBITDA impact)
  - Business developments in Asia and from innovation (renewable energies)
  - In 1H'10, negative impact from lower caustic soda prices versus average 1H'09 (Vinyls)
- **1H'10 seasonality**
  - 2Q'10 >1Q'10 (Fluorochemicals, Specialty Chemicals and coatings sector seasonality)
- **12% EBITDA margin mid-term target (in 2011 in normalized environment*)**

** Mid-cycle conditions*

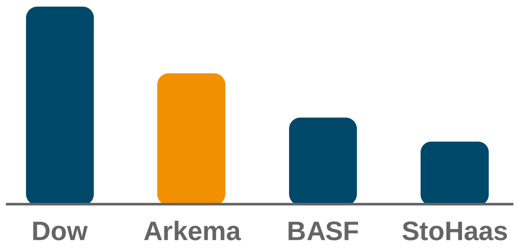
# 2010-2014

A new roadmap

# Leverage on newly acquired acrylic assets

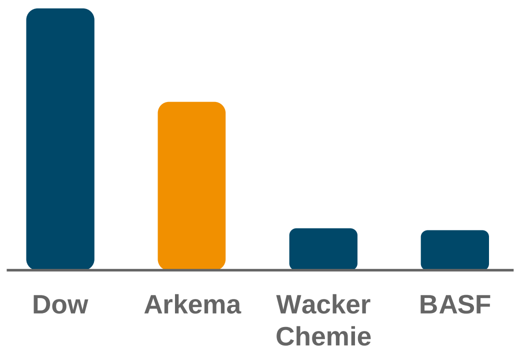
- **Attractive asset deal**
  - US$ 450m sales in 2009
  - US$ 50m enterprise value
  - Acquisition in low-cycle conditions
- **Perfect fit with Arkema's strategy in Acrylics**
  - Build a strong position in the US in monomers (Clear Lake)
  - Develop downstream positions (polymers)
- **Strong potential from a global coatings approach**
  - Product offer including UCAR™ (new "Emulsion Systems" BU), Coatex (acquired in 2007) & Kynar® (Arkema's Fluoropolymers)
  - Close relationship with customers
  - Strong brands combined with innovation
- **Positive EBITDA and net income in 2010 with mid-term upside potential on volume and margin recovery**

**#2 in US acrylic acid**




*Source: CMAI, SRI and company data*

**#2 in US coating latex**




**12% EBITDA margin after 3 years and 14 to 15% after 5 years**

# Site of Clear Lake (acrylic monomers)

# Site of Saint-Charles (UCAR™ acrylic polymers)

# Ambition for Acrylics

## Strategy

- **Develop world-scale competitive monomer production sites**
  - Continue to optimize in Europe
  - Strengthen presence in the Americas
  - Secure production capacities in Asia in the mid-term

## Key initiatives

- **In Europe**
  - Optimization plan in Carling (Fr)
  - New 50 kt/yr 2EHA production unit in Carling (Fr) in 1Q'10
- **In the Americas**
  - Integration & optimization of Clear Lake (US)
  - Rationalization at Bayport (US)

## Strategy

- **Increase downstream integration to enhance earnings stability**

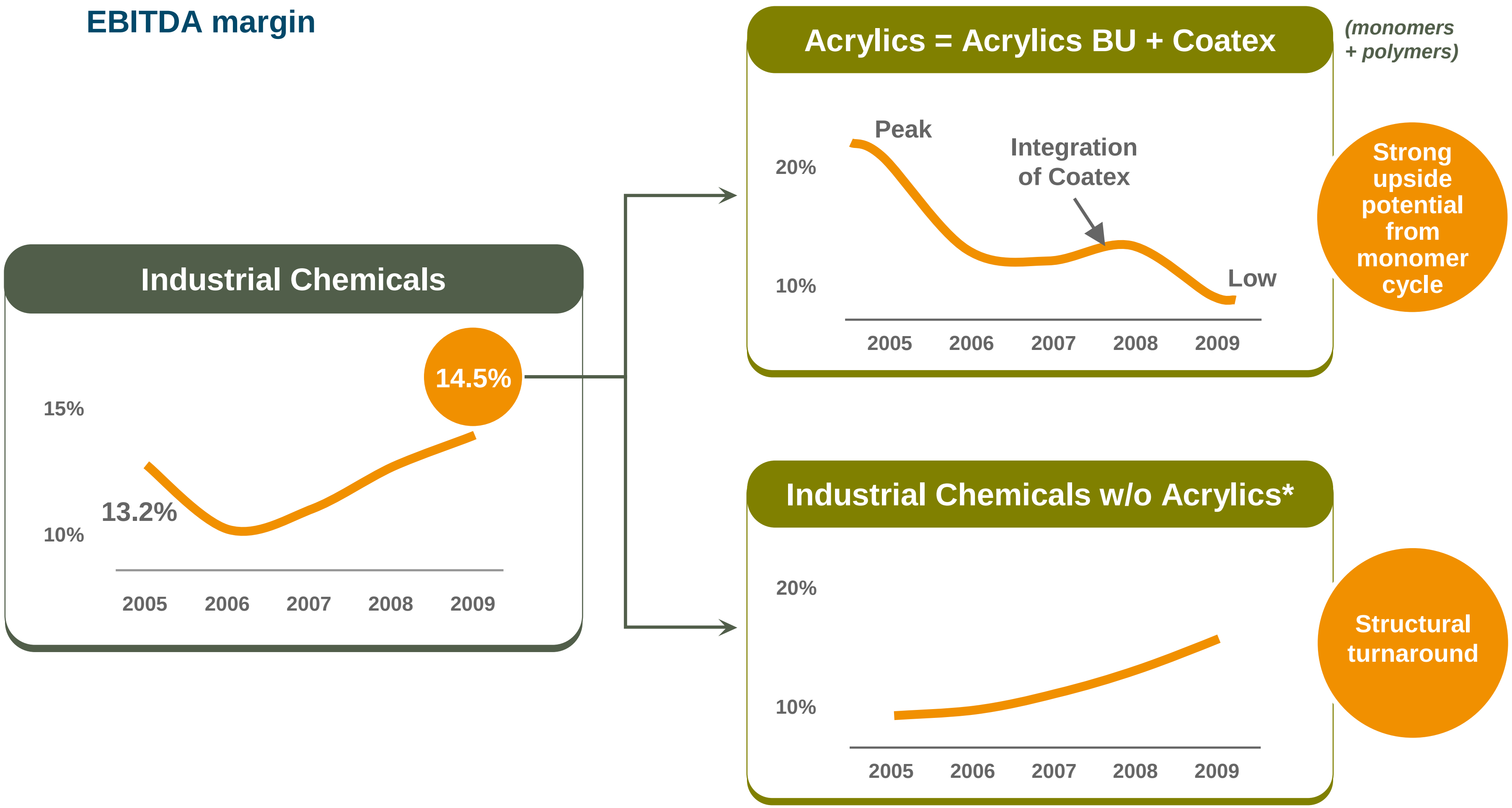
## Key initiatives

- **In new downstream activities**
  - Acquisition of Coatex in 4Q'07
  - Acquisition of UCAR™ assets in 1Q'10
- **Geographical expansion**
  - New production unit (Coatex) in China to start-up by mid-2011
  - Expand in the US in Coatings with a combined offer (UCAR™ + Coatex)

**From a European upstream competitive player to a worldwide integrated leader**

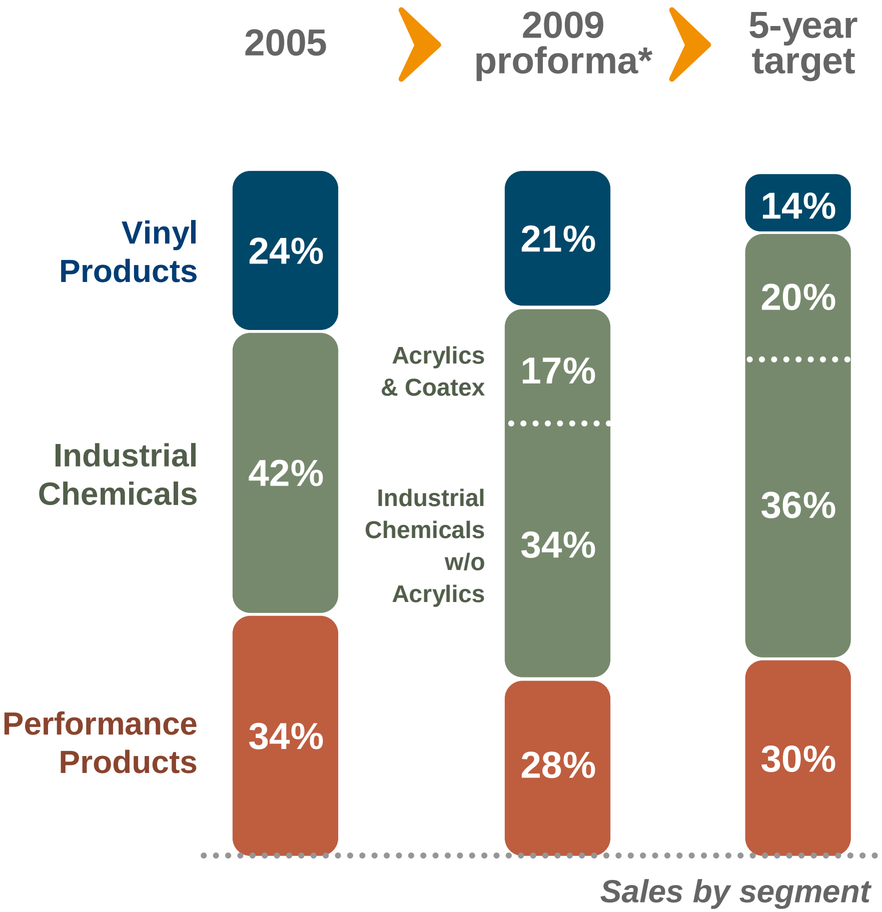
# Industrial Chemicals' performance since 2005

### EBITDA margin




 * *Thiochemicals, Fluorochemicals, Methacrylates, $H_2O_2$*

# Enhanced portfolio



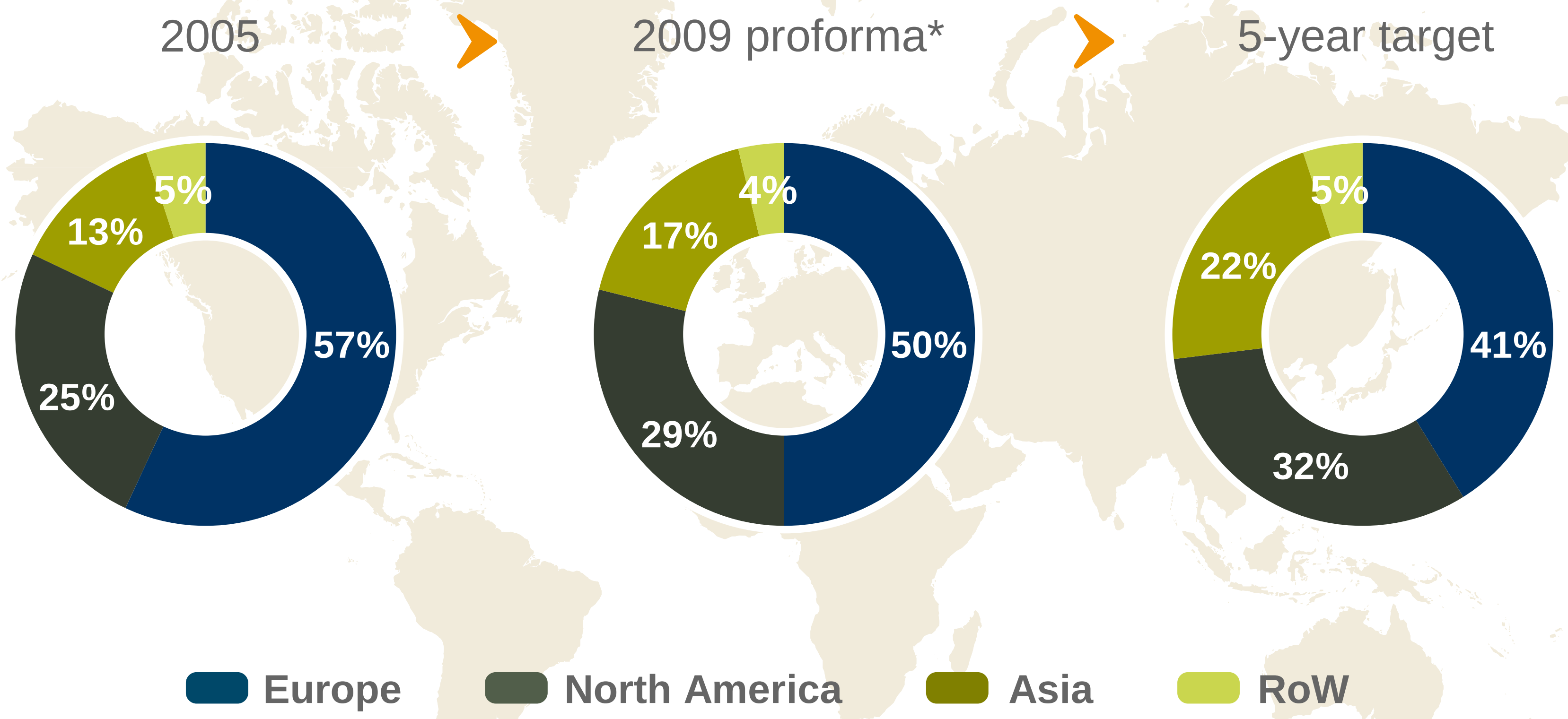

| Strategy | Contributors |
|---|---|
| Cost and partnerships | Focus on competitive assets |
| Emergence of a global integrated player | New acrylic assets acquired from Dow |
| 4 first-class growth platforms<br>• Thiochemicals<br>• Fluorochemicals<br>• Methacrylates<br>• Hydrogen Peroxide | Innovation and Asia |
| Building a true portfolio of specialties | Innovation and bolt-on M&A |



* Including the acrylic assets acquired from Dow

# Balanced geographic position

***Sales by region***




 ***** Including the acrylic assets acquired from Dow**

# Vinyls

- **Initiatives taken since spin off**
  - Necessary shutdowns of several old loss-making units
  - Downstream PVC strengthened
  - Optimization of fixed and variable costs

  ➔ **+ €60m EBITDA gain, break-even lowered by 5 points**

- **Oversupply situation in Europe end 2009**
  - Contraction of construction in Europe affecting European PVC regional market
  - Later end-cycle markets (aluminium) weighed on worldwide caustic soda markets

- **Mid-term factors**
  - New ethylene capacities in Middle-East
  - $CO_2$ Emission Trading Scheme (ETS) regulation in Europe

# Vinyls

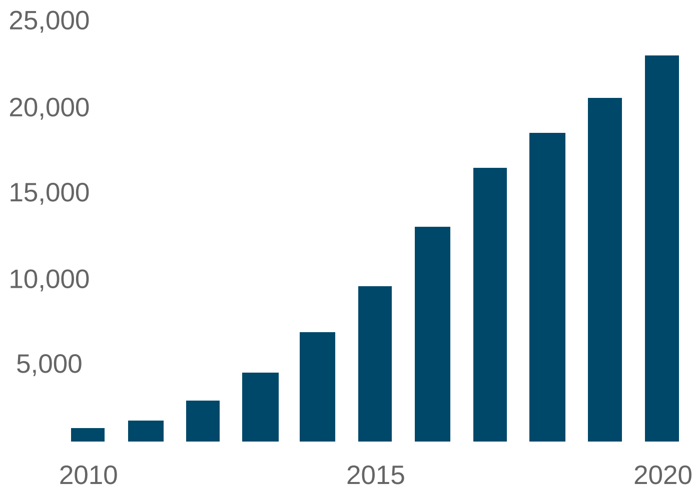
- **Strong market position in a still fragmented market**
  - N°3 in PVC in Europe
  - Unique position in Southern Europe / Mediterranean area
  - Strong marketing and industrial partnership in Qatar (QVC)
  - Competitive scale of production units (Fos, Lavéra, Balan, Berre)

- **Long-term strategic orientations**
  - Pursue cost and partnership strategy
  - Break-even reduced by another €50m
  - Further divest small non-core businesses
  - Reduce relative weight down to 14% of Arkema's sales in 2014

# Fuelling the innovation pipeline

- **Keep strong momentum on**
  - Solutions for sustainable development
  - High performance polymers
- **6 priorities**
  - Bio-resourced materials
  - New energies:
    - Photovoltaic: +20% avg. growth / year
    - Lithium-ion batteries
  - Solutions to reduce $CO_2$ emissions of end-users
    - Glass coating
    - OLEDs
    - LGWP fluorogases
  - Thermoplastic composites as light-weight materials & high mechanical resistance polymers
  - Water filtration membrane
  - High temperature polymers

**Outlook for rechargeable battery market worldwide (in mUS$)**




*Source: Avicenne*

- **15% of R&D efforts allocated to long-term breakthrough projects**

**€400m sales from new high-margin products by 2014**



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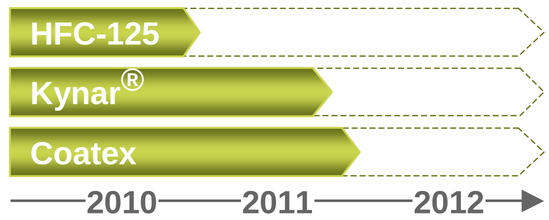
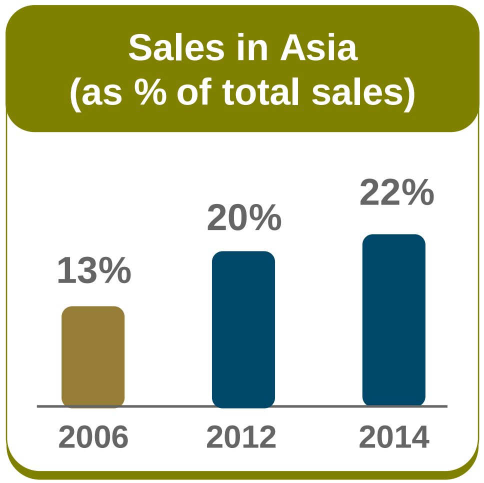
# Reinforce presence in Asia

- **Successfully achieve current projects in China**
  - Partnership with Daikin in fluorogases: HFC-125 & new generation blends
  - Construction of Kynar® (fluoropolymers) and Coatex (acrylic polymers) production plants




- **Longer-term thoughts in Asia**
  - Secure production capacities of acrylic monomers
  - Invest in polyamide polymerization and compounding units
  - Develop manufacturing base in Thiochemicals and further expand presence in $H_2O_2$
- **A third to 50% of development capex in next 3 years**




**Target 22% of sales in Asia in 2014**

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# 5-year (2014) mid-cycle targets

| *EBITDA margin* | 5 year (2014) mid-cycle target* |
|---|---|
| Performance Products | 15% |
| Industrial Chemicals w/o Acrylics | 17% |
| Acrylics | 14 to 15% |
| Vinyls | 8 to 9% |
| Corporate | (1)% |
| Arkema | >13.5% |



** Normalized environment*

# Conclusion

- **Emerged stronger from 2009 crisis**

- **Confidence on significant improvement of 2010 earnings while reasonably cautious on market conditions**

- **High potential to further increase profitability in coming years**
  - Continue repositioning of Arkema through geographical expansion, innovation on growing segments and bolt-on M&A
  - 5-year EBITDA margin target (2014) above 13.5% in mid-cycle environment*



** Normalized environment*

# Disclaimer

The information disclosed in this document may contain forward-looking statements with respect to the financial condition, 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 among others, changes in raw material prices, currency fluctuations, implementation pace of cost-reduction projects and changes in general economic and business 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.

Financial information related to 2005 are extracted from pro forma financial statements presented in the 2006 prospectus for the listing of Arkema shares. Financial information for 2006, 2007, 2008 and 2009 are extracted from the consolidated financial statements of Arkema. Quarterly financial information is not audited.

The business segment information is presented in accordance with Arkema's internal reporting system used by the management.

Arkema is a global chemical player consisting of three business segments: Vinyl Products, Industrial Chemicals, and Performance Products. Established in over 40 countries and having 13,800 employees, Arkema achieved sales of 4.4 billion euros in 2009. With its 6 research centers in France, the United States and Japan, and internationally recognized brands, Arkema holds leadership positions in its principal markets.