Half-year financial report

First half ended 30 June 2018

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I - HALF-YEAR ACTIVITY REPORT

1. FIRST-HALF 2018 HIGHLIGHTS

1.1. Organic growth projects

In order to meet high customer demand for advanced materials in the coming years and to continue to bring innovative sustainable solutions to the market, Arkema announced:

- a 25 % increase in its global **specialty polyamide 12** production capacity in China, which is expected to come on stream in mid-2020. This investment – which represents a few tens of millions of euros – will support the strong demand in growth applications such as cable protection, lightweighting for the automotive industry, high performance sports shoes and consumer electronics;
- the signature of a strategic alliance with Hexcel to develop thermoplastic composite solutions for the aerospace sector, combining the expertise of Hexcel in carbon fiber and that of Arkema in **PEKK** powders. As part of this partnership, a joint research and development laboratory will be set up in France;
- the start-up, in April 2018, of a 20% increase in **Kynar® PVDF** production capacity in the United States in order to support the growth of Arkema's customers in the region in applications such as water filtration, chemical process industry and high performance cables (automotive, fiber optics and oil industry); and
- a more-than 50% increase in global production capacity for **specialty polyamides powders** in France, which is expected to come on stream in the second half of 2019. This investment of some €20 million will help meet the strong demand for these powders for use in industrial applications such as coatings, composites and 3D printing.

In **Thiochemicals** – one of the Group's major future growth drivers – Arkema confirmed a detailed investment review with its partner, Novus, of a project to double the production capacity at its Beaumont site in the United States in order to support the strong global growth in the animal feed market that is expected in the coming years and to further strengthen Arkema's world-leading position in high value-added sulfur derivatives. Subject to a final decision on this investment, the new units should come on stream in the summer of 2021.

Lastly, Arkema has expanded its **new-generation fluorogases offering** in order to assist its customers in making the transition to fluorogases with a lower GWP (global warming potential). For industrial and commercial refrigeration applications, Arkema markets Forane® 449A (XP40) in Europe, which offers a straightforward substitution solution compatible with equipment designed to run on the R-404A/507A gases and on lubricants in the refrigeration market. In the polyurethane foam market for insulation applications, Arkema offers Forane® 1233zd in Europe and other parts of the world, an HFO blowing agent that is ozone-friendly and non-flammable and has a very low GWP.

1.2. Acquisitions

In line with its strategy of continuing to expand in adhesives, which is one of the major drivers of the Group's long-term growth, Arkema pursued its bolt-on acquisition policy with notably:

- the acquisition, on 2 January 2018, of **the assets of XL Brands**, a leader in floor covering adhesives in the United States. This bolt-on acquisition, based on a US$205 million enterprise value, enables Bostik to offer a full range of solutions for this growing high added-value market. The Group's aim is to reduce the EV/EBITDA multiple paid from 11 times to 7 times within four to five years after leveraging synergies. This business had a good start to the year in a favorable environment for construction in the United States; and
- the proposed acquisition by the Bostik-Nitta joint venture of the industrial adhesives business of Nitta-Gelatin Inc., which generates around €30 million in annual sales, as well as a project to build a new adhesives plant in Japan. These operations will enable Bostik to supply its Japanese customers in the buoyant markets for non-woven hygiene products and in the packaging, labeling, transportation and electronics markets. The proposed acquisition is expected to close in the summer of 2018 and the new plant is scheduled to come on stream in early 2020.

1.3. Share capital increase reserved for employees

In April 2018 Arkema carried out a share capital increase reserved for employees. A total of 610,405 shares were subscribed at a per share price of €81.97, representing an aggregate €50 million.

2. ANALYSIS OF FIRST-HALF 2018 FINANCIAL RESULTS

The figures in this section are presented on a consolidated basis and in accordance with Arkema's organization in three divisions: High Performance Materials, Industrial Specialties and Coating Solutions.

2.1. Analysis of Arkema's results

(In millions of euros)	First-half 2018	First-half 2017	Year-on-year change
Sales	**4,442**	**4,350**	**+2.1%**
EBITDA	**813**	**753**	**+8.0%**
EBITDA margin *(%)*	***18.3%***	***17.3%***	
Recurring depreciation and amortization	(218)	(223)	
Recurring operating income (REBIT)	**595**	**530**	**+12.3%**
REBIT margin	*13.4%*	*12.2%*	
Other income and expenses*	(4)	(7)	
Depreciation and amortization related to purchase price allocation*	(18)	(23)	
Operating income	**573**	**500**	**+14.6%**
Equity in income of affiliates	1	0	
Financial result	(47)	(51)	-7.8%
Income taxes	(116)	(148)	-21.6%
Net income	**411**	**301**	**+36.5%**
Of which non-controlling interests	4	4	
Net income - Group share	**407**	**297**	**+37.0%**
Adjusted net income	**421**	**319**	**+32.0%**

* *Depreciation and amortization related to the revaluation of tangible and intangible assets carried out as part of the allocation of the purchase price of businesses are now recognized in "Operating expenses". For first-half 2017, "Other income and expenses" have been restated to reflect this reclassification.*

Sales

Sales for the first half of 2018 amounted to €4,442 million, up 2.1% on the first six months of 2017. At constant exchange rates and business scope, sales rose 7.0%, driven by a 5.6% positive price effect with increases in all of the divisions that stemmed from the Group's continued policy of raising its selling prices and from market conditions for the intermediate chemicals businesses. Up 1.4% overall, volumes increased sharply year-on-year in High Performance Materials (up 4.4% year on year), led by Asia, innovation and the start-up of new production units, as well as in Coating Solutions (up 4.1% year on year). These positive factors more than offset the impact of lower selling quotas for Fluorogases. The currency effect was a negative 5.4%, mainly due to the euro's rise against the US dollar. The 0.5% positive scope effect reflects the integration of XL Brands and the CMP business, as well as the divestment of the oxo-alcohols business.

The breakdown of consolidated sales by division (excluding the corporate [1] division) was stable compared to first-half 2017, with High Performance Materials accounting for 45% of the total, Industrial Specialties 31% and Coating Solutions 24%.

By geographic region, Europe represented 39% of total Group sales (versus 38% in first-half 2017), North America 31% (versus 33%), Asia 26% (versus 25%), and the rest of the world 4% (unchanged from first-half 2017).

[1] *As defined in note C.2 to the consolidated financial statements at 30 June 2018 in section II of this document.*

EBITDA and recurring operating income

At €813 million, EBITDA for first-half 2018 reached an all-time high for a six-month period. It was up 8.0% on the first-half 2017 high performance in spite of the sharp increase in the euro particularly against the US dollar which resulted in a €44 million currency translation loss. This performance was driven by high demand for advanced materials (Technical Polymers and Performance Additives), the integration of the Group's bolt-on acquisitions in adhesives, the gradual pass-through of higher raw materials costs and a very good performance from the four Business Lines that make up the Industrial Specialties division.

EBITDA margin increased to 18.3% from 17.3% in the first half of 2017.

Recurring operating income (REBIT) rose in line with the increase in EBITDA, to €595 million from €530 million in the first half of 2017. It includes €218 million in recurring depreciation and amortization, representing an improvement on the €223 million recorded for first-half 2017, primarily thanks to a favorable currency effect.

REBIT margin, which corresponds to recurring operating income as a percentage of sales, rose to 13.4% in first-half 2018 from 12.2% in the same period of 2017.

Operating income

Operating income totaled €573 million, up 14.6% on first-half 2017. This amount includes €4 million in net other expenses, mainly corresponding to restructuring expenses, and €18 million in depreciation and amortization related to the revaluation of assets carried out as part of the Bostik, Den Braven and XL Brands purchase price allocation processes.

The €7 million net expense recorded under "Other income and expenses" in first-half 2017 primarily corresponded to the step-up at market price of Den Braven's inventories. Depreciation and amortization related to the revaluation of assets carried out as part of the purchase price allocation processes amounted to €23 million.

Equity in income of affiliates

Equity in income of affiliates mainly includes the contribution from CJ Bio Malaysia Sdn. Bhd. in which the Group owns a 14% stake.

Financial result

Financial result represented a net expense of €47 million. This €4 million improvement on first-half 2017 reflects the refinancing in 2017 of a bond issue at more favorable market conditions.

Income taxes

Income taxes for first-half 2018 represented a net expense of €116 million versus a net expense of €148 million for the same period of 2017. Excluding exceptional items, the tax rate corresponded to 21% of recurring operating income, down significantly on the 29% rate for first-half 2017, notably due to the positive impact of the US tax reform.

Net income – Group share and adjusted net income

Net income – Group share rose sharply to €407 million from €297 million in first-half 2017.

Excluding the post-tax impact of non-recurring items, adjusted net income came to €421 million, representing €5.53 per share (versus €319 million and €4.22 per share in first-half 2017).

2.2. Analysis of results by division

HIGH PERFORMANCE MATERIALS: 45% OF TOTAL GROUP SALES

(In millions of euros)	**First-half 2018**	**First-half 2017**	**Year-on-year change**
Sales	**2,005**	**1,966**	**+2.0%**
EBITDA	**353**	**340**	**+3.8%**
EBITDA margin *(%)*	***17.6%***	***17.3%***	
Recurring operating income (REBIT)	**275**	**262**	**+5.0%**
REBIT margin	*13.7%*	*13.3%*	
Other income and expenses	(2)	(8)	
Depreciation and amortization related to the revaluation of assets carried out as part of the allocation of the purchase price of businesses	(18)	(23)	
Operating income	**255**	**231**	**+10.4%**

Sales generated by the **High Performance Materials** division came in at €2,005 million, up 2.0% year on year. At constant exchange rates and business scope, sales grew by 5.6%, driven by a 4.4% rise in volumes, led by high demand for advanced materials in the areas of lightweight materials, new energies, 3D printing and consumer goods (sports, electronics, etc.), and the large number of projects carried out during the first quarter of 2018 in specialty molecular sieves. The sustainability R&D pipeline continued to be strengthened during the period, offering good growth opportunities. The price effect was a positive 1.2%, reflecting the Group's policy of raising its selling prices. The currency effect was a negative 5.2%, primarily reflecting the appreciation of the euro against the US dollar. The 1.6% positive scope effect was attributable to the integration of XL Brands and the CMP business.

At €353 million, EBITDA was up 3.8% year on year in spite of the much stronger euro and higher costs for some raw materials. This achievement reflects strong demand for advanced materials, the integration of XL Brands in adhesives, the gradual pass-through of higher raw materials costs and the impact on certain French production sites of France's national rail strikes which took place in the second quarter of 2018. EBITDA margin rose to 17.6% from 17.3% in first-half 2017, notably reflecting the increasingly beneficial effects of actions taken to raise selling prices and pass on increases in raw materials costs, particularly in Adhesives and Technical Polymers.

Recurring operating income rose to €275 million, in line with the increase in EBITDA. This amount includes €78 million in recurring depreciation and amortization, on a par with first-half 2017. REBIT margin was up to 13.7% from 13.3%.

Operating income totaled €255 million, including €2 million in net other expenses and €18 million in depreciation and amortization related to the revaluation of assets carried out as part of the Bostik, Den Braven and XL Brands purchase price allocation processes.

INDUSTRIAL SPECIALTIES: 31% OF TOTAL GROUP SALES

(In millions of euros)	**First-half 2018**	**First-half 2017**	**Year-on-year change**
Sales	**1,370**	**1,345**	**+1.9%**
EBITDA	**370**	**316**	**+17.1%**
EBITDA margin *(%)*	***27.0%***	***23.5%***	
Recurring operating income (REBIT)	**283**	**227**	**+24.7%**
REBIT margin	*20.7%*	*16.9%*	
Other income and expenses	(1)	2	
Depreciation and amortization related to the revaluation of assets carried out as part of the allocation of the purchase price of businesses	-	-	
Operating income	**282**	**229**	**+23.1%**

Industrial Specialties sales were up 1.9% year on year to €1,370 million. At constant exchange rates and business scope, sales growth came to 7.3%. The price effect was positive for all four of the division's product lines, totaling 12.2% and reflecting the impact of the implementation of the F-Gas regulation in Europe in Fluorogases, tight market conditions in the MMA/PMMA chain, the Group's strong positioning in Thiochemicals and favorable market conditions for hydrogen peroxide in China. The 4.9% negative volume effect was mainly due to lower selling quotas for Fluorogases in Europe and the United States. The currency effect was a negative 5.5% and primarily stemmed from the appreciation of the euro against the US dollar.

At €370 million, EBITDA was 17.1% higher than in first-half 2017 and EBITDA margin was up sharply year on year, to 27.0% from 23.5%. The increase is material in all of the division's four Business Lines.

Recurring operating income advanced to €283 million, in line with the increase in EBITDA. This amount includes €87 million in recurring depreciation and amortization, slightly down on the €89 million recorded for the first six months of 2017, primarily due to a favorable currency effect. REBIT margin reached 20.7%, up sharply on the first-half 2017 figure of 16.9%.

Operating income was €282 million, including €1 million in net other expenses.

COATING SOLUTIONS: 24% OF TOTAL GROUP SALES

(In millions of euros)	First-half 2018	First-half 2017	Year-on-year change
Sales	**1,054**	**1,024**	**+2.9%**
EBITDA	**134**	**138**	**-2.9%**
EBITDA margin *(%)*	***12.7%***	***13.5%***	
Recurring operating income (REBIT)	**83**	**83**	**+0.0%**
REBIT margin	*7.9%*	*8.1%*	
Other income and expenses	(2)	-	
Depreciation and amortization related to the revaluation of assets carried out as part of the allocation of the purchase price of businesses	-	-	
Operating income	**81**	**83**	**-2.4%**

Coating Solutions sales came in at €1,054 million, up 2.9% on first-half 2017. At constant exchange rates and business scope, year-on-year sales increased 9.6%, driven by the Group's continued actions to raise its selling prices across the entire acrylic chain, which had a 5.5% positive price effect. Volumes rose 4.1% compared with first-half 2017, which saw, in particular, a large maintenance turnaround in the United States in acrylic monomers. The currency effect was a negative 5.8%, primarily attributable to the appreciation of the euro versus the US dollar. Lastly, the divestment of the oxo-alcohol business in March 2017 resulted in a 0.7% negative scope effect.

At €134 million, EBITDA was slightly lower than in the first six months of 2017 (€138 million), and EBITDA margin stood at 12.7 % (versus 13.5%). After contracting at the start of the year due to the high basis of comparison with first-quarter 2017 – particularly in China where unit margins reached very high levels – the division's EBITDA was up year on year in the second quarter. The division's results were overall solid despite higher propylene prices and an unfavorable currency effect. The picture was mixed, however, depending on the region, with a robust performance in the United States but still disappointing in China.

Recurring operating income (REBIT) is stable compared with first-half 2017, at €83 million. This amount includes €51 million in recurring depreciation and amortization, down on the €55 million recorded for the first six months of 2017, primarily due to a favorable currency effect. REBIT margin amounted to 7.9% in first-half 2018, close to first-half 2017 (8.1%).

Operating income totaled €81 million, including €2 million in net other expenses.

2.3. Analysis of consolidated cash flows

(In millions of euros)	**First-half 2018**	**First-half 2017**
Cash flow from operating activities	250	315
Cash flow from investing activities	(408)	(203)
Net cash flow	**(158)**	**112**
Cash flow from financing activities	(169)	720
Change in cash and cash equivalents	(327)	832

EBITDA can be reconciled to net cash flow as follows:

(In millions of euros)	**First-half 2018**	**First-half 2017**
EBITDA	**813**	**753**
Current taxes	(117)	(145)
Cash elements included in the financial result	(42)	(46)
Recurring capital expenditure [(1)]	(157)	(135)
Change in working capital [(2)]	(373)	(237)
Change in fixed asset payables [(3)]	(29)	(56)
Other	(44)	(5)
Recurring cash flow [(4)]	**51**	**129**
Exceptional investments [(1)]	(18)	(2)
Other non-recurring items in cash flow from operating activities and investing activities	(17)	(13)
Free cash flow [(5)]	**16**	**114**
Net cash flow from portfolio management operations	(174)	(2)
Net cash flow	**(158)**	**112**

[(1)] *"Recurring capital expenditure" and "Exceptional investments" for first-half 2017 have been restated following the announcement by the Group in summer 2017 of several major capital expenditure projects that have been classified as exceptional investments.*

[(2)] *Excluding cash flows related to non-recurring items and portfolio management operations (corresponding to a nil amount in first-half 2018 and a positive €8 million in first-half 2017).*

[(3)] *Excluding cash flows related to non-recurring items and portfolio management operations (totaling a positive €3 million in first-half 2018 and a nil amount in first-half 2017).*

[(4)] *Net cash flow excluding impact of portfolio management and non-recurring items.*

[(5)] *Net cash flow excluding impact of portfolio management.*

Free cash flow and net cash flow

In the first half of 2018, the Group's net cash flow (cash flow from operating activities less cash flow from investing activities) represented an outflow of €158 million, versus a €112 million inflow in first-half 2017.

Free cash flow was €16 million, corresponding to net cash flow excluding the €174 million cash outflow from portfolio management operations. It primarily reflects (i) the increase in working capital as a result of the usual seasonality of the Group's business and the mechanical impact of the material rise in selling prices and raw material costs, (ii) higher capital expenditure in line with the Group's guidance for the full year, and (iii) loans granted to employees in connection with a share capital increase reserved for employees carried out in April 2018 (which had a €21 million negative effect on free cash flow). For full-year 2018, cash generation is expected to be consistent with the Group's ambition of 35% EBITDA to free cash flow conversion.

Recurring capital expenditure stood at €157 million in first-half 2018 and exceptional investments totaled €18 million. The main exceptional investments incurred during the period relate to the project to double thiochemicals production capacity in Malaysia and investments relating to specialty polyamides in Asia. For full-year 2018, total capital expenditure is expected to amount to around €550 million, corresponding to recurring capital expenditure (representing approximately 5.5% of sales) and exceptional investments for the specialty polyamides and thiochemicals projects in Asia.

Finally, free cash flow includes a net outflow of €17 million from non-recurring items, mainly corresponding to restructuring costs. Excluding non-recurring items and portfolio management operations, recurring cash flow totaled €51 million in the first half of 2018 (€129 million in first-half 2017).

Net cash flow from portfolio management operations represented a €174 million outflow and essentially related to the acquisition of XL Brands' assets in early January 2018. The net cash outflow for this item in first-half 2017 was just €2 million as the impact of acquiring the assets of CMP Specialty Products in the adhesives business was almost entirely offset by the divestment of the oxo-alcohols business.

Cash flow from financing activities

Cash flow from financing activities represented a net outflow of €169 million in the first six months of 2018 (against a €720 million net inflow in first-half 2017) and mainly included (i) the impact of a €2.30 per-share dividend payment, representing a total amount of €176 million, (ii) €50 million in proceeds from the share capital increase reserved for employees, and (iii) a €19 million cash out for share buybacks.

In first-half 2017, cash flow from financing activities included €891 million in net proceeds from a bond issue and the dividend payment.

2.4. Balance sheet analysis

(In millions of euros)	**30 June 2018**	**31 December 2017**	**Change**
Non-current assets [(1)]	5,650	5,460	+3.5%
Working capital	1,499	1,094	+37.0%
Capital employed	**7,149**	**6,554**	**+9.1%**
Deferred tax assets	148	150	-1.3%
Provisions for pensions and employee benefits	436	460	-5.2%
Other provisions	394	409	-3.7%
Total provisions	**830**	**869**	**-4.5%**
Long-term assets covering some provisions	73	72	+1.4%
Total provisions net of non-current assets	**757**	**797**	**-4.9%**
Deferred tax liabilities	273	271	+0.7%
Net debt	**1,372**	**1,056**	**+29.9%**
Shareholders' equity	**4,793**	**4,474**	**+7.1%**

(1) Excluding deferred tax and including pension assets.

Between 31 December 2017 and 30 June 2018, non-current assets increased by €190 million, primarily due to:

- an aggregate €175 million in recurring capital expenditure and exceptional investments [(2)];
- net depreciation, amortization and impairment expense totaling €236 million including €18 million in depreciation and amortization related to the revaluation of property, plant and equipment and intangible assets carried out as part of the Bostik, Den Braven and XL Brands purchase price allocation processes;
- a currency translation effect of €42 million, primarily due to the appreciation of the US dollar against the euro at the period-end;
- the impact of acquisitions, amounting to an aggregate €170 million and primarily resulting from the integration of XL Brands' assets and the completion of the purchase price allocation process for this acquisition, which led to the recognition of €56 million in goodwill; and
- €21 million in loans granted to employees in connection with the share capital increase reserved for employees carried out in April 2018.

At 30 June 2018, working capital was €405 million higher than at 31 December 2017 including a €6 million positive currency effect due to the slightly stronger US dollar versus the euro at the period-end. This increase mainly reflects the usual seasonality of sales and the mechanical impact of the material rise in selling prices and raw materials costs. At 30 June 2018, the ratio of working capital to annualized sales [(3)] stood at 16.5%, versus the record low of 15.5% at 30 June 2017 (17.2% at 30 June 2016).

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(2) See Note C.1 to the consolidated financial statements at 30 June 2018 in section II of this document.

*(3) Calculated as working capital at 30 June / (2nd quarter sales * 4).*

Consequently, between 31 December 2017 and 30 June 2018, the Group's capital employed increased by €595 million to €7,149 million.

At 30 June 2018, gross provisions amounted to €830 million. Some of these provisions – a part of which is covered by the guarantee facility granted by Total and described in note 16.2 to the condensed interim consolidated financial statements at 30 June 2018 – are covered by long-term assets recognized in the balance sheet. These provisions account for a total of €73 million and mainly consist of provisions related to former industrial sites in the United States. Accordingly, at 30 June 2018, provisions net of these non-current assets amounted to €757 million against €797 million at 31 December 2017.

The breakdown of net provisions by type was as follows: €296 million for pension liabilities (€321 million at 31 December 2017), €139 million for other employee benefit obligations (€139 million at 31 December 2017), €130 million for environmental contingencies (€132 million at 31 December 2017), €37 million for restructuring provisions (€42 million at 31 December 2017) and €155 million for other provisions (€163 million at 31 December 2017).

Between 31 December 2017 and 30 June 2018, net provisions for pension liabilities decreased by €25 million thanks to the positive impact of changes in the discount rates which was partially offset by the changes in the fair value of plan assets. The currency effect during the period was not material.

Net debt stood at €1,372 million at 30 June 2018 (against €1,056 million at 31 December 2017), representing 29% of shareholders' equity and 0.9 times EBITDA for the last twelve months. The increase in first-half 2018 resulted principally from the cash flows detailed in section 2.3 of this document as well as a slightly unfavorable currency effect on the portion of the Group's debt converted through swaps into US dollars. Net debt included, in particular, €164 million related to the acquisition of XL Brands' assets, and €176 million for the dividend payment.

Shareholders' equity amounted to €4,793 million versus €4,474 million at end 2017. The €319 million increase primarily corresponds to (i) €411 million in net income for the period, (ii) the payment of a dividend of €2.30 per share (representing an aggregate €176 million), (iii) €50 million from the share capital increase reserved for employees, and (iv) a positive €28 million net currency translation effect. A €14 million actuarial gain was recognized in shareholders' equity in first-half 2018 for provisions for pension liabilities and other employee benefit obligations.

3. TRANSACTIONS WITH RELATED PARTIES

Transactions between consolidated companies have been eliminated in the consolidation process. In addition, in the normal course of business, the Group has business relationships with certain non-consolidated companies or companies which are accounted for under the equity method but the amounts involved are not material.

4. SIGNIFICANT EVENTS SINCE 30 JUNE 2018

None.

5. MAIN RISKS AND UNCERTAINTIES

The main risks and uncertainties which the Group could face over the next six months are the same as those described in the 2017 Reference Document filed with the *Autorité des marchés financiers* ("AMF") on 29 March 2018 under number D.18-0216. This document is available on Arkema's website under the heading "Investor Relations" (www.finance.arkema.com) and on the AMF website (www.amf-france.org). Additionally, an update of contingent liabilities, where applicable, is given in the notes to the condensed consolidated interim financial statements at 30 June 2018.

6. OUTLOOK

In the second half of 2018, the Group will remain attentive to macro-economic and geopolitical developments as well as volatility in raw materials prices and currencies.

In this context, the Group will continue to benefit from its strong innovation drive in advanced materials, the integration of its bolt-on acquisitions in adhesives and a globally robust market environment for its intermediate chemical businesses. It will continue to implement its major manufacturing projects, as presented at its Capital Markets Day, for thiochemicals, specialty polyamides and Sartomer.

Lastly, the Group will continue its actions to pass on the rises in raw materials costs in its selling prices and the rollout of its operational excellence initiatives to partly offset the impact of inflation on its fixed costs.

For 2018, on the back of the first half and assuming that the current macro-economic environment remains unchanged, Arkema now expects a mid-single digit [(4)] EBITDA growth compared to the excellent performance already achieved in 2017.

At its Capital Markets Day in July 2017, the Group reminded investors of its ambition to achieve €10 billion in sales and an EBITDA margin of close to 17% in 2020. It also announced its long-term targets for 2023 of achieving REBIT margin of between 11.5% and 12.5% – significantly higher than in 2016 – and maintaining an EBITDA conversion rate into free cash flow of 35%. The achievement of this ambition also entails the following financial principles: a net debt to EBITDA ratio of less than 2, a return on capital employed of at least 10%, and maintaining a solid investment grade rating with the rating agencies.

This ambition relies on stepping up the development of specialty businesses, which should represent over 80% of Group sales by 2023. In this context, the Group is aiming for a two-fold increase in Bostik's sales between 2016 and 2023, when this business is expected to account for more than one-third of Arkema sales, as well as a REBIT margin of between 12.5% and 13%. In advanced materials, which are expected to account for over 25% of Group sales in 2023, Arkema is targeting a REBIT margin of between 14% and 15%.

Geographically, the Group aims to have in the longer term a perfectly balanced breakdown between Europe, North America, and Asia/rest of the world, with one-third of its sales in each of these three regions.

The Group notes that all of these objectives have been formulated based on normalized market conditions and in accordance with the IFRS standards currently in force. The Group also notes that the achievement of these objectives is based on assumptions deemed reasonable by the Group, as of the date of this document and within this time frame (in particular regarding the future development of global demand, conditions relating to raw materials and energy costs, the balance between supply and demand for products marketed by the Group and their price levels, and currency exchange rates). However, it takes no account of the potential occurrence of certain risks described in section 1.7.2 of the 2017 Reference Document or any unknown factors related to the economic, financial, competitive or regulatory environment in which the Group operates, which could affect the achievement of its objectives.

7. GLOSSARY

The main alternative performance indicators used by the Group are defined in note C.1 to the consolidated financial statements at 30 June 2018 in section II of this document.

For the purpose of analyzing its results and defining its targets, the Group also uses the following indicators:

- **REBIT margin:** recurring operating income (REBIT) as a percentage of sales;
- **EBITDA to free cash flow conversion rate**: free cash flow excluding exceptional investments divided by EBITDA. Free cash flow will be restated to offset the impact of the raw material environment on changes in working capital;
- **Return on capital employed**: calculated as follows: (REBIT — current income taxes) / (net debt + shareholders' equity) in accordance with current IFRS.

[(4)] Of around 5%.

When analyzing changes in its results, and particularly its sales figures, the Group analyzes the following effects (such analysis is unaudited):

- **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.

II - CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2018

CONSOLIDATED INCOME STATEMENT

(In millions of euros)	**Notes**	**1st half 2018**	**1st half 2017**
Sales	(C2&C3)	**4,442**	**4,350**
Operating expenses		(3,377)	(3,351)*
Research and development expenses		(118)	(121)
Selling and administrative expenses		(370)	(371)
Other income and expenses	(C4)	(4)	(7)*
Operating income	(C2)	**573**	**500**
Equity in income of affiliates		1	0
Financial result		(47)	(51)
Income taxes	(C5)	(116)	(148)
Net income		**411**	**301**
Of which: non-controlling interests		4	4
Net income - Group share		**407**	**297**
Earnings per share (amount in euros)	(C7)	*5.35*	*3.92*
Diluted earnings per share (amount in euros)	(C7)	*5.34*	*3.91*

** Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses previously included in “Other income and expenses” have been reclassified as “Operating expenses”.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions of euros)		1st half 2018	1st half 2017
Net income		**411**	**301**
Hedging adjustments		**-**	24
Other items		**-**	-
Deferred taxes on hedging adjustments and other items		**-**	-
Change in translation adjustments	(C10)	28	(135)
Other recyclable comprehensive income		**28**	**(111)**
Actuarial gains and losses	(C11)	**18**	5
Deferred taxes on actuarial gains and losses		(4)	-
Other non-recyclable comprehensive income		**14**	**5**
Total income and expenses recognized directly through equity		**42**	**(106)**
Comprehensive income		**453**	**195**
Of which: non-controlling interests		**5**	1
Comprehensive income – Group share		**448**	**194**

CONSOLIDATED BALANCE SHEET

(In millions of euros)	Notes	30 June 2018	31 December 2017
ASSETS			
Intangible assets, net	(C8)	2,858	2,706
Property, plant and equipment, net	(C9)	2,462	2,464
Investments in equity affiliates		32	30
Other investments		32	30
Deferred tax assets		148	150
Other non-current assets		266	230
TOTAL NON-CURRENT ASSETS		**5,798**	**5,610**
Inventories		1,246	1,145
Accounts receivable		1,437	1,115
Other receivables and prepaid expenses		210	181
Income taxes recoverable		63	70
Other current financial assets		8	17
Cash and cash equivalents		1,104	1,438
TOTAL CURRENT ASSETS		**4,068**	**3,966**
TOTAL ASSETS		**9,866**	**9,576**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		765	759
Paid-in surplus and retained earnings		3,874	3,575
Treasury shares		(19)	(2)
Translation adjustments		128	101
SHAREHOLDERS' EQUITY – GROUP SHARE	(C10)	**4,748**	**4,433**
Non-controlling interests		45	41
TOTAL SHAREHOLDERS' EQUITY		**4,793**	**4,474**
Deferred tax liabilities		273	271
Provisions for pensions and other employee benefits	(C11)	436	460
Other provisions and non-current liabilities	(C12)	423	443
Non-current debt	(C14)	2,249	2,250
TOTAL NON-CURRENT LIABILITIES		**3,381**	**3,424**
Accounts payable		1,003	965
Other creditors and accrued liabilities		368	377
Income taxes payable		86	82
Other current financial liabilities		8	10
Current debt	(C14)	227	244
TOTAL CURRENT LIABILITIES		**1,692**	**1,678**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**9,866**	**9,576**

CONSOLIDATED CASH FLOW STATEMENT

(In millions of euros)		**1st half 2018**	**1st half 2017**
Net income		411	301
Depreciation, amortization and impairment of assets		235	246
Provisions, valuation allowances and deferred taxes		(28)	(1)
(Gains)/losses on sales of assets		(2)	(2)
Undistributed affiliate equity earnings		(1)	0
Change in working capital		(373)	(229)
Other changes		8	0
CASH FLOW FROM OPERATING ACTIVITIES		**250**	**315**
Intangible assets and property, plant, and equipment additions		(175)	(152)
Change in fixed asset payables		(26)	(56)
Acquisitions of operations, net of cash acquired		(174)	1
Increase in long-term loans		(44)	(23)
Total expenditures		**(419)**	**(230)**
Proceeds from sale of intangible assets and property, plant, and equipment		1	5
Change in fixed asset receivables		-	0
Proceeds from sale of operations, net of cash sold		-	11
Proceeds from sale of unconsolidated investments		-	0
Repayment of long-term loans		10	11
Total divestitures		**11**	**27**
CASH FLOW FROM INVESTING ACTIVITIES		**(408)**	**(203)**
Issuance (repayment) of shares and paid-in surplus	(C10)	51	2
Purchase of treasury shares	(C10)	(19)	(4)
Dividends paid to parent company shareholders	(C10)	(176)	(155)
Dividends paid to non-controlling interests		(1)	(1)
Increase in long-term debt		1	908
Decrease in long-term debt		(9)	(14)
Increase / decrease in short-term debt		(16)	(16)
CASH FLOW FROM FINANCING ACTIVITIES		**(169)**	**720**
Net increase/(decrease) in cash and cash equivalents		(327)	832
Effect of exchange rates and changes in scope		(7)	44
Cash and cash equivalents at beginning of period		1,438	623
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**1,104**	**1,499**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In millions of euros)	Share capital	Paid-in surplus	Hybrid bonds	Retained earnings	Translation adjustments	Treasury shares	Shareholders' equity – Group share	Non-controlling interests	Shareholders' equity
At 1 January 2018	**759**	**1,216**	**689**	**1,670**	**101**	**(2)**	**4,433**	**41**	**4,474**
Cash dividend	-	-	-	(176)	-	-	(176)	(1)	(177)
Issuance of share capital	6	45	-	-	-	-	51	-	51
Purchase of treasury shares	-	-	-	-	-	(19)	(19)	-	(19)
Grants of treasury shares to employees	-	-	-	(2)	-	2	-	-	-
Share-based payments	-	-	-	11	-	-	11	-	11
Other	-	-	-	-	-	-	-	-	-
Transactions with shareholders	**6**	**45**	**-**	**(167)**	**-**	**(17)**	**(133)**	**(1)**	**(134)**
Net income	-	-	-	407	-	-	407	4	411
Total income and expenses recognized directly through equity	-	-	-	14	27	-	41	1	42
Comprehensive income	**-**	**-**	**-**	**421**	**27**	**-**	**448**	**5**	**453**
At 30 June 2018	**765**	**1,261**	**689**	**1,924**	**128**	**(19)**	**4,748**	**45**	**4,793**

(In millions of euros)	Share capital	Paid-in surplus	Hybrid bonds	Retained earnings	Translation adjustments	Treasury shares	Shareholders' equity – Group share	Non-controlling interests	Shareholders' equity
At 1 January 2017	**757**	**1,211**	**689**	**1,250**	**301**	**(4)**	**4204**	**45**	**4,249**
Cash dividend	-	-	-	(155)	-	-	(155)	(1)	(156)
Issuance of share capital	1	1	-	-	-	-	2	-	2
Purchase of treasury shares	-	-	-	-	-	(4)	(4)	-	(4)
Grants of treasury shares to employees	-	-	-	(1)	-	1	-	-	-
Share-based payments	-	-	-	7	-	-	7	-	7
Other	-	-	-	-	-	-	-	-	-
Transactions with shareholders	**1**	**1**	**-**	**(149)**	**-**	**(3)**	**(150)**	**(1)**	**(151)**
Net income	-	-	-	297	-	-	297	4	301
Total income and expenses recognized directly through equity	-	-	-	29	(132)	-	(103)	(3)	(106)
Comprehensive income	**-**	**-**	**-**	**326**	**(132)**	**-**	**194**	**1**	**195**
At 30 June 2017	**758**	**1,212**	**689**	**1,427**	**169**	**(7)**	**4,248**	**45**	**4,293**

A. HIGHLIGHTS

A.1 Portfolio management

On 2 January 2018 Bostik acquired the assets of XL Brands, one of the leaders in floor covering adhesives in the United States. This transaction was based on a US$205 million enterprise value. Its impacts are described in note C6 “Business combination”.
In May 2018 Arkema announced the Bostik-Nitta joint venture’s plan to acquire the industrial adhesives of Nitta-Gelatin Inc., which generate annual sales of approximately €30 million. This acquisition should be completed in the summer of 2018.

A.2 Other highlights

In April 2018, Arkema carried out a capital increase reserved for employees. 610,405 shares were subscribed at the price of €81.97 per share, giving a total amount of €50 million (see note C10 “Shareholders’ equity” and C15 “Share-based payments”).

B. ACCOUNTING POLICIES

Arkema is a French limited liability company *(société anonyme)* with a Board of Directors, subject to the provisions of book II of the French Commercial Code and all other legal provisions applicable to French commercial companies.
The Company’s head office is at 420 rue d’Estienne d’Orves, 92700 Colombes (France). It was incorporated on 31 January 2003 and the shares of Arkema have been listed on the Paris stock exchange (Euronext) since 18 May 2006.

Basis for preparation

The Group’s condensed consolidated interim financial statements at 30 June 2018 were prepared under the responsibility of the Chairman and CEO of Arkema and were approved by the Board of Directors of Arkema on 31 July 2018.

The condensed consolidated interim financial statements at 30 June 2018 were prepared in compliance with IAS 34 “Interim financial reporting” and established in accordance with the IFRSs (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and IFRSs endorsed by the European Union at 30 June 2018. As condensed interim financial statements, they do not incorporate all of the disclosures required in full financial statements and must thus be read in conjunction with the consolidated financial statements for the year ended 31 December 2017.

The accounting framework and standards adopted by the European Union can be consulted on the following website:
https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002

Changes in IFRSs and interpretations

The accounting policies applied in preparing the condensed consolidated interim financial statements at 30 June 2018 are identical to those used in the consolidated financial statements at 31 December 2017, except for IFRS standards, amendments and interpretations that are obligatorily applicable for accounting periods commencing on or after 1 January 2018 (and which had not been applied early by the Group), namely:

Amendments to IAS 40	Transfers of investment property	Adopted by the European Union on 15 March 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	Adopted by the European Union on 27 February 2018
Amendments to IFRS 4	Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’	Adopted by the European Union on 9 November 2017
IFRS 9	Financial instruments	Adopted by the European Union on 29 November 2016

IFRS 15	Revenue from contracts with customers	Adopted by the European Union on 29 October 2016
Clarifications to IFRS 15	Revenue from contracts with customers	Adopted by the European Union on 9 November 2017
	Annual improvements to IFRS standards -2014-2016 cycle	Adopted by the European Union on 8 February 2018
IFRIC 22	Foreign currency transactions and advance consideration	Adopted by the European Union on 3 April 2018

Application of IFRS 9 and IFRS 15 and interpretations had no significant impact on the financial statements at 30 June 2018.

At the date of application of IFRS 9, the Group opted to record changes in the fair value of unconsolidated investments in "Other comprehensive income", except for investments in the process of liquidation.

The standards, amendments and interpretations published by the IASB and the IFRS IC (IFRS Interpretations Committee) which were not yet in force for years beginning on or after 1 January 2018, and have not been applied early by the Group, are:

Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	Not adopted by the European Union at 30 June 2018
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	Not adopted by the European Union at 30 June 2018
Amendments to IFRS 9	Prepayment Features with Negative Compensation	Adopted by the European Union on 26 March 2018
Amendments to IFRS 9, IFRS 7 and IAS 39	Mandatory effective date and transition disclosures	Not adopted by the European Union at 30 June 2018
Amendments to IFRS 9	Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39	Not adopted by the European Union at 30 June 2018
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate/joint venture	Not adopted by the European Union at 30 June 2018
Conceptual framework		Not adopted by the European Union at 30 June 2018
IFRS 16 *	Leases	Adopted by the European Union on 9 November 2017
IFRS 17	Insurance contracts	Not adopted by the European Union at 30 June 2018
IFRIC 23	Uncertainty over income tax treatments (IAS12)	Not adopted by the European Union at 30 June 2018
	Annual improvements to IFRS standards - 2015-2017 cycle	Not adopted by the European Union at 30 June 2018

*See C16 "Off-balance sheet commitments"

Use of assumptions

Preparation of the condensed consolidated interim financial statements in accordance with IFRS requires Group management to make estimates and determine assumptions that can have an impact on the amounts recognized in assets and liabilities at the balance sheet date, and have a corresponding impact on the income statement. Management made its estimates and determined its assumptions on the basis of past experience and taking into account different factors considered to be reasonable for the valuation of assets and liabilities. Use of different assumptions could have a material effect on these valuations. The main assumptions made by management in preparing the financial statements are those used for measuring the recoverable value of property, plant and equipment and intangible assets, pension benefit obligations, deferred taxes and provisions. The disclosures provided concerning contingent assets and liabilities and off-balance sheet commitments at the date of preparation of the condensed consolidated interim financial statements also involve the use of estimates.

Impact of seasonality

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

- demand for products manufactured by the Group is generally lower in the summer months (July-August) and in December, notably as a result of the slowdown in industrial activity during these months, particularly in France and the rest of Europe;
- in some of the Group's businesses, particularly those serving the paints and coatings as well as the refrigeration and air-conditioning markets, sales are generally higher in the first half of the year than in the second half. By contrast, in adhesives, the two halves of the year are more evenly balanced;
- the major multi-annual maintenance turnarounds at the Group's production plants also have an impact on seasonality, and tend in general to be carried out in the second half of the year.

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

C. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. 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.

Note C.2 "Information by business division" partly refers to these alternative performance indicators.

1.1 Recurring operating income (REBIT) and EBITDA

(In millions of euros)	**Notes**	**1st half 2018**	**1st half 2017**
OPERATING INCOME		**573**	**500**
- Depreciation and amortization related to the revaluation of tangible and intangible assets as part of the allocation of the purchase price of businesses		(18)	(23)
- Other income and expenses	(C4)	(4)	(7)
RECURRING OPERATING INCOME (REBIT)		**595**	**530**
- Recurring depreciation and amortization		(218)	(223)
EBITDA		**813**	**753**

Details of depreciation and amortizations:

(In millions of euros)	**Notes**	**1st half 2018**	**1st half 2017**
Depreciation and amortization	(C8 & C9)	**(236)**	**(246)**
Of which: Recurring depreciation and amortization		(218)	(223)
Of which: Depreciation and amortization related to the revaluation of assets as part of the allocation of the purchase price of businesses		(18)	(23)
Of which: Impairment included in other income and expenses	(C4)	0	-

1.2 Adjusted net income and adjusted earnings per share

(In millions of euros)	**Notes**	**1st half 2018**	**1st half 2017**
NET INCOME – GROUP SHARE		**407**	**297**
- Depreciation and amortization related to the revaluation of assets as part of the allocation of the purchase price of businesses		(18)	(23)
- Other income and expenses	(C4)	(4)	(7)
- Other income and expenses attributable to 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		4	6
- Taxes on other income and expenses		2	2
- One-time tax-effects		2	-
ADJUSTED NET INCOME		**421**	319
Weighted average number of ordinary shares		76,070,820	75,671,629
Weighted average number of potential ordinary shares	(C7)	76,169,120	75,872,779
ADJUSTED EARNINGS PER SHARE (€)		**5.53**	**4.22**
DILUTED ADJUSTED EARNINGS PER SHARE (€)		**5.53**	**4.20**

1.3 Free cash flow

(In millions of euros)	**1st half 2018**	**1st half 2017**
Cash flow from operating activities	250	315
+ Cash flow from investing activities	(408)	(203)
NET CASH FLOW	**(158)**	**112**
-' Net cash flow from portfolio management operations	(174)	(2)
FREE CASH FLOW	**16**	**114**

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

1.4 Recurring capital expenditure

(In millions of euros)	**1st half 2018**	**1st half 2017**
INTANGIBLE ASSETS AND PROPERTY, PLANT, AND EQUIPMENT ADDITIONS	**175**	**152**
- Exceptional investments	18	2
- Investments relating to portfolio management operations	-	15
- Investments with no impact on net debt	-	-
RECURRING CAPITAL EXPENDITURE	**157**	**135**

Exceptional investments correspond to a very limited number of investments that the Group presents separately in its financial reporting due to their unusual size or nature. They mainly concern investments in thiochemicals in Malaysia and specialty polyamides, particularly in Asia. The figures for the first half of 2017 have been restated.

Investments relating to portfolio management operations reflect the impact of acquisition operations. In the first half of 2017 they concerned the acquisition of the assets of CMP Specialty Products.

Investments with no impact on net debt correspond to investments financed by non-Group entities, or reclassifications of assets.

1.5 Working capital

(In millions of euros)	**30 June 2018**	**31 December 2017**
Inventories	1,246	1,145
+ Accounts receivable	1,437	1,115
+ Other receivables including income taxes	273	251
+ Other current financial assets	8	17
- Accounts payable	1,003	965
- Other liabilities including income taxes	454	459
--Other current financial assets	8	10
WORKING CAPITAL	**1,499**	**1,094**

1.6 Capital employed

(In millions of euros)	**Notes**	**30 June 2018**	**31 December 2017**
Goodwill, net		1,599	1,525
+ Intangible assets other than goodwill, and property, plant and equipment, net	(C8 & C9)	3,721	3,645
+ Investments in equity affiliates		32	30
+ Other investments and other non-current assets		298	260
Working capital		1,499	1,094
CAPITAL EMPLOYED		**7,149**	**6,554**

2. Information by business division

As required by IFRS 8, “Operating Segments”, segment information for the Group is presented in accordance with the business divisions identified in the internal reports that are regularly reviewed by general management in order to allocate resources and assess financial performance.

Arkema has three business divisions: High Performance Materials, Industrial Specialties and Coating Solutions. Three members of the Executive Committee supervise these divisions; they report directly to the Chairman and CEO, the Group’s chief operating decision-maker as defined by IFRS 8, and are in regular contact with him for the purpose of discussing their sector’s operating activity, financial results, forecasts and plans.

The content of the business divisions is as follows:

- High Performance Materials includes the following Business Lines [(*)]:
  - Bostik (previously named Specialty Adhesives),
  - Technical Polymers, comprising specialty polyamides and PVDF,
  - Performance Additives, comprising photocure resins (Sartomer), organic peroxides and the adsorption activity.

  High Performance Materials provide innovative solutions with high value added, used in varied sectors such as transport, oil extraction, renewable energies (photovoltaics, lithium-ion batteries), consumer goods (beauty products, sports equipment, packaging, etc), electronics, construction, coatings and water treatment;

- Industrial Specialties groups the following Business Lines:
  - Thiochemicals,
  - Fluorogases,
  - PMMA,
  - Hydrogen Peroxide.

(*) *Business Lines are activities or groups of activities.*

These integrated industrial niche markets on which the Arkema Group is among the world leaders concern products used in several industrial sectors such as production of cold (refrigeration and air conditioning), petrochemicals, refining, paper pulp, animal nutrition, electronics and the automotive industry;

- Coating Solutions comprises the following Business Lines:
  - Acrylics,
  - Coatings Resins and Additives, comprising the coatings resins and Coatex rheological additives activities.

  This division proposes solutions for decorative paints, industrial coatings, adhesives and high-growth acrylic applications (superabsorbents for disposable nappies, water treatment, oil and gas extraction).

Functional and financial activities which cannot be directly allocated to operational activities (notably certain research costs and central costs) are brought together in a Corporate division.

Operating income and assets are allocated between business divisions prior to inter-division adjustments. Sales between divisions take place at market prices.

1st half 2018 *(In millions of euros)*	**High Performance Materials**	**Industrial Specialties**	**Coating Solutions**	**Corporate**	**Total**
Non-Group sales	**2,005**	**1,370**	**1,054**	**13**	**4,442**
Inter-division sales	5	94	38	-	
Total sales	**2,010**	**1,464**	**1,092**	**13**	
EBITDA*	**353**	**370**	**134**	**(44)**	**813**
Depreciation and amortization*	(78)	(87)	(51)	(2)	(218)
Recurring operating income (REBIT)*	**275**	**283**	**83**	**(46)**	**595**
Depreciation and amortization related to the revaluation of assets as part of the allocation of the purchase price of businesses	(18)	-	-	-	(18)
Other income and expenses	(2)	(1)	(2)	1	(4)
Operating income	**255**	**282**	**81**	**(45)**	**573**
Equity in income of affiliates	0	1	-	-	1
Intangible assets and property, plant, and equipment additions	**62**	**75**	**26**	**12**	**175**
Of which: recurring investments *	51	68	26	12	157

1st half 2017 *(In millions of euros)*	**High Performance Materials**	**Industrial Specialties**	**Coating Solutions**	**Corporate**	**Total**
Non-Group sales	**1,966**	**1,345**	**1,024**	**15**	**4,350**
Inter-division sales	3	74	37	-	
Total sales	**1,969**	**1,419**	**1,061**	**15**	
EBITDA*	**340**	**316**	**138**	**(41)**	**753**
Depreciation and amortization*	(78)	(89)	(55)	(1)	(223)
Recurring operating income (REBIT)*	**262**	**227**	**83**	**(42)**	**530**
Depreciation and amortization related to the revaluation of assets as part of the allocation of the purchase price of businesses	(23)	-	-	-	(23)
Other income and expenses	(8)	2	0	(1)	(7)
Operating income	**231**	**229**	**83**	**(43)**	**500**
Equity in income of affiliates	1	(1)	-	-	0
Intangible assets and property, plant, and equipment additions	**72**	**48**	**27**	**5**	**152**
Of which: recurring investments *	*57*	*46*	*27*	*5*	*135*

* See C1 “Alternative performance indicators”

3. Information by geographical area

Non-Group sales are presented on the basis of the geographical location of customers.

1st half 2018 *(In millions of euros)*	France	Rest of Europe	NAFTA(1)	Asia	Rest of the world	**Total**
Non-Group sales	373	1,345	1,371	1,151	202	**4,442**

1st half 2017 *(In millions of euros)*	France	Rest of Europe	NAFTA(1)	Asia	Rest of the world	**Total**
Non-Group sales	352	1,289	1,437	1,089	183	**4,350**

* NAFTA: USA, Canada, Mexico

4. Other income and expenses

	1st half 2018			**1st half 2017**		
(In millions of euros)	Expenses	Income	Net	Expenses	Income	Net
Restructuring and environment	(5)	1	(4)	(4)	1	(3)
Goodwill impairment	-	-	-	-	-	-
Asset impairment (other than goodwill)	-	0	0	0	1	1
Litigation and claims	(2)	1	(1)	0	-	0
Gains (losses) on sales and purchases of assets	(1)	2	1	(7)	2	(5)
Other	0	-	0	0	-	0
Total other income and expenses	**(8)**	**4**	**(4)**	**(11)**	**4**	**(7)**

In the first half of 2017, gains and losses on sales and purchases of assets principally comprised €(7) million related to the acquisition of Den Braven, including €(5) million resulting from revaluation of inventories.

5. Income taxes

The income tax expense is broken down as follows:

(In millions of euros)	**1st half 2018**	**1st half 2017**
Current income taxes	(117)	(145)
Deferred income taxes	1	(3)
Total income taxes	**(116)**	**(148)**

The income tax expense amounts to €116 million at 30 June 2018, including €8 million for the CVAE (compared with €148 million at 30 June 2017, including €7 million for the CVAE and €5 million relating to the additional income tax contribution due on distributed income).

The decrease in the income tax expense essentially results from the positive impact of the tax reform in the United States.

6. Business combination

On 2 January 2018 the Arkema Group finalized the acquisition of XL Brands®, for an enterprise value of US$205 million and a final price of €164 million.
In compliance with IFRS 3 (revised), the Group used the acquisition method for the accounting treatment of this operation.

The amount recorded in the financial statements at 30 June 2018 for the identifiable assets acquired and liabilities assumed at the acquisition date breaks down as follows:

(In millions of euros)	**Fair value acquired from XL Brands**
Intangible assets	98
Property, plant and equipment	6
TOTAL NON-CURRENT ASSETS	**104**
Inventories	4
TOTAL CURRENT ASSETS	**4**
TOTAL ASSETS	**108**
FAIR VALUE OF NET ASSETS	**108**
GOODWILL	**56**

Intangible assets stated at fair value mainly consist of the XL Brands ® brand, technologies, customer relations, and the non-competition agreement, the three latter assets being amortized over 12.5 years, 16 years and 7 years respectively. The revalued inventories were consumed during the first half of 2018.

The goodwill of €56 million is final. It principally comprises the synergies and the step-up in business activity expected of the geographical, technological and commercial complementarities between Bostik and XL Brands.

The goodwill and the brand are amortizable for tax purposes.

7. Earnings per share

	1st half 2018	**1st half 2017**
Weighted average number of ordinary shares	76,070,820	75,671,629
Dilutive effect of stock options	54,341	133,732
Dilutive effect of free share grants	43,959	67,418
Weighted average number of potential ordinary shares	76,169,120	75,872,779

Earnings per share is determined below:

	1st half 2018	**1st half 2017**
Earnings per share (€)	5.35	3.92
Diluted earnings per share (€)	5.34	3.91

8. Intangible assets

8.1 *Goodwill*

(In millions of euros)	30 June 2018 Gross book value	Accumulated amortization and impairment	Net book value	31 December 2017 Net book value
Goodwill	2,126	(527)	1,599	1,525

Changes in the net book value of goodwill are as follows:

Net book value (In millions of euros)	**2018**
At 1 January	**1,525**
Changes in scope	66
Translation adjustments	8
At 30 June	**1,599**

The increase during the first half of 2018 essentially reflects the goodwill resulting from acquisition of XL Brands (see note 6 "Business combination").

8.2 Other intangible assets

(In millions of euros)	30 June 2018 Gross book value	Accumulated amortization and impairment	Net book value	31 December 2017 Net book value
Patents and technologies	418	(176)	242	238
Trademarks	548	(3)	545	528
Software and IT licences	307	(202)	105	109
Capitalized REACH costs	55	(23)	32	30
Other capitalized research expenses	22	(5)	17	8
Capitalized contracts	333	(250)	83	58
Asset rights	48	(17)	31	31
Customer relations	138	(17)	121	81
Other intangible assets	40	(20)	20	20
Intangible assets in progress	86	(23)	63	78
Total	**1,995**	**(736)**	**1,259**	**1,181**

Changes in the net book value of intangible assets are as follows:

Net book value (In millions of euros)	**2018**
At 1 January	**1,181**
Acquisitions	16
Amortization and impairment	(45)
Changes in scope	98
Translation adjustments	8
Reclassifications	1
At 30 June	**1,259**

9. Property, plant and equipment

(In millions of euros)	**30 June 2018** Gross book value	Accumulated amortization and impairment	Net book value	**31 December 2017** Net book value
Land and buildings	1,872	(1,213)	659	665
Complex industrial facilities	3,481	(2,803)	678	692
Other property, plant and equipment	3,040	(2,214)	826	790
Construction in progress	309	(10)	299	317
Total	**8,702**	**(6,240)**	**2,462**	**2,464**

Changes in the net book value of property, plant and equipment are as follows:

Net book value (In millions of euros)	**2018**
At 1 January	**2,464**
Acquisitions	159
Amortization and impairment	(191)
Disposals	(0)
Changes in scope	6
Translation adjustments	25
Reclassifications	(1)
At 30 June	**2,462**

10. Shareholders' equity

At 30 June 2018 Arkema's share capital amounts to €765 million, divided into 76,532,456 shares with a nominal value of 10 euros.

Number of shares at 1 January 2017	**75,717,947**
Issuance of shares following the exercise of subscription options	55,918
Number of shares at 30 June 2017	**75,773,865**
Issuance of shares following the exercise of subscription options	96,641
Number of shares at 31 December 2017	**75,870,506**
Number of shares at 1 January 2018	**75,870,506**
Issuance of shares following the capital increase reserved for employees	610,405
Issuance of shares following the exercise of subscription options	51,545
Number of shares at 30 June 2018	**76,532,456**

10.1 Changes in share capital and paid-in surplus

On 26 April 2018, Arkema carried out a capital increase reserved for employees. 610,405 shares were subscribed at the price of €81.97 per share set by the Chairman and CEO on 6 March 2018, giving a total amount of €50 million.

Following the exercise of 51,545 share subscription options, the Company carried out a capital increase in the total nominal amount of €1 million.

10.2 Treasury shares

The Company bought back 183,642 treasury shares during the first half of 2018.

The Arkema Group definitively granted 11,865 free shares to its employees in application of plan 2014-1,3 in May 2018, then 16,667 free shares in application of plan 2016 -3 in June 2018.

Number of treasury shares at 1 January 2017	**65,823**
Repurchases of treasury shares	180,000
Grants of treasury shares	(212,598)
Number of treasury shares at 31 December 2017	**33,225**

Number of treasury shares at 1 January 2018	**33,225**
Repurchases of treasury shares	183,642
Grants of treasury shares	(28,532)
Number of treasury shares at 30 June 2018	**188,335**

10.3 Dividends

The combined shareholders' general meeting of 18 May 2018 approved the distribution of a €2.30 dividend per share in respect of the 2017 financial year, or a total amount of €176 million. The dividend was paid out on 29 May 2018.

10.4 Translation adjustments

The change in translation adjustments recognized in other recyclable comprehensive income mainly comprises the impacts of movements in the US-EUR exchange rate.

11. Provisions for pensions and other employee benefits

(In millions of euros)	**30 June 2018**	**31 December 2017**
Pension obligations	296	321
Healthcare and similar coverage	74	75
Post-employment benefits	**370**	**396**
Long service awards	59	57
Other	6	7
Other long-term benefits	**65**	**64**
Provisions for pensions and other employee benefits	**435**	**460**
- Details of pension obligations		
Recognized liability	297	321
Amount recognized in assets	(1)	0
Net liability (asset) at end of period	**296**	**321**

The discount rates used by the Arkema Group are as follows:

Pension obligations, healthcare and similar coverage	**Europe (excl. UK)**	**UK**	**USA**
At 30 June 2018	2.00%	2.90%	4.20%
At 31 December 2017	2.00%	2.60%	3.70%

The present value of benefit obligations at the end of 2017 has been adjusted at 30 June 2018 on the basis of sensitivity analysis tables prepared by the Group's external actuaries in the context of the full year 2017 closing, to take account of the change in interest rates over the half-year. The fair value of plan assets has also been reassessed on the basis of new valuations at 30 June 2018. The effects of the change in discount rates and the revaluation of assets are included in actuarial gains and losses for the period.

The change in net provisions for post-employment benefits over the first half-year is as follows:

(In millions of euros)	Pension obligations	Healthcare and similar coverage	**Total post-employment benefits**
Net liability (asset) at 1 January	**321**	**75**	**396**
Provision recognized in liabilities	321	75	396
Amount recognized in assets	-	-	-
(Income)/Expense for the period	6	0	6
Net interest expense	4	1	5
Net contributions and benefits paid by the employer	(20)	(1)	(21)
Liquidations	-	-	-
Other *	1	1	2
Actuarial gains and losses recognized in shareholders' equity	(16)	(2)	(18)
Net liability (asset) at 30 June	**296**	**74**	**370**
Provision recognized in liabilities	297	74	371
Amount recognized in assets	(1)	-	(1)

* Other items essentially consist of translation adjustments.

12. Other provisions and other non-current liabilities

12.1. Other non-current liabilities

Other non-current liabilities amount to €29 million at 30 June 2018 as against €34 million at 31 December 2017.

12.2. Other provisions

(In millions of euros)	**Environmental contingencies**	**Restructuring**	**Other**	**Total**
At 1 January 2018	**189**	**42**	**178**	**409**
Increases in provisions	2	1	21	24
Reversals from provisions on use	(6)	(6)	(14)	(26)
Reversals of unused provisions	-	-	(16)	(16)
Changes in scope	-	-	-	-
Translation adjustments	2	0	1	3
Other	-	(0)	0	0
At 30 June 2018	**187**	**37**	**170**	**394**

In addition, certain provisions are covered by non-current assets (receivables, deposits):

(In millions of euros)	**Environmental contingencies**	**Restructuring**	**Other**	**Total**
Total provisions at 30 June 2018	**187**	**37**	**170**	**394**
Portion of provisions covered by receivables or deposits	**44**	**-**	**15**	**59**
Deferred tax asset related to amounts covered by the Total Indemnity	13	-	-	13
Provisions at 30 June 2018 net of non-current assets	**130**	**37**	**155**	**322**
For information: Provisions at 1 January 2018 net of non-current assets	**132**	**42**	**163**	**337**

12.2.1 Provisions for environmental contingencies

Provisions for environmental contingencies are recognized to cover expenses related to soil and water table clean-up, mainly:

- in France for €91 million (€92 million at 31 December 2017),
- in the United States for €76 million (€77 million at 31 December 2017), of which €57 million in respect of former industrial sites covered 100% by the Total group indemnity (receivable recognized in “Other non-current assets” for an amount of €44 million and €13 million recognized in deferred tax assets) (see note C16.2 “Off-balance sheet commitments/Commitments received”).

12.2.2 Restructuring provisions

Restructuring provisions are mainly in respect of restructuring measures in France for €22 million (€28 million at 31 December 2017), in Europe outside France for €10 million (€10 million at 31 December 2017) and in the United States for €5 million (€4 million at 31 December 2017).

12.2.3 Other provisions

Other provisions amount to €170 million and mainly comprise:

- provisions for labour litigation for €55 million (€55 million at 31 December 2017),
- provisions for commercial litigation and warranties for €43 million (€53 million at 31 December 2017),
- provisions for tax litigation for €34 million (€38 million at 31 December 2017),
- provisions for other risks for €38 million (€32 million at 31 December 2017).

13. Liabilities and contingent liabilities

Liabilities and contingent liabilities are described in note 20 to the consolidated financial statements at 31 December 2017. There was no development in liabilities and contingent liabilities during the first half of 2018 with an actual or potential significant effect on the Group’s consolidated financial statements.

14. Debt

14.1 Analysis of net debt by category

Group net debt amounts to €1,372 million at 30 June 2018, taking account of cash and cash equivalents of €1,104 million.

(In millions of euros)	**30 June 2018**	**31 December 2017**
Bonds	2,219	2,219
Finance lease obligations	1	1
Bank loans	14	16
Other non-current debt	15	14
Non-current debt	**2,249**	**2,250**
Bonds	-	-
Finance lease obligations	1	1
Syndicated credit facility	-	-
Negotiable European Commercial Paper	-	-
Other bank loans	196	202
Other current debt	30	41
Current debt	**227**	**244**
Debt	**2,476**	**2,494**
Cash and cash equivalents	1,104	1,438
Net debt	**1,372**	**1,056**

Bonds

At 30 June 2018, the fair values of the bonds issued by the Group are as follows:

- €480 million bond maturing in April 2020: €514 million,
- €150 million bond (issued as Euro Medium Term Notes (EMTN)) maturing in December 2023: €165 million,
- €700 million bond (issued as Euro Medium Term Notes (EMTN)) maturing in January 2025: €716 million,
- €900 million bond (issued as Euro Medium Term Notes (EMTN)) maturing in April 2027: €900 million.

14.2 Analysis of debt by currency

The Arkema Group's debt is mainly denominated in euros.

(In millions of euros)	**30 June 2018**	**31 December 2017**
Euros	2,279	2,305
Chinese Yuan	148	142
US Dollars	12	12
Other	37	35
Total	**2,476**	**2,494**

Part of the debt in euros is converted through swaps to the accounting currency of internally-financed subsidiaries, in line with the Group's policy. At 30 June 2018 the swapped portion, principally in US dollars, represented approximately 32% of gross debt.

14.3 Analysis of debt by maturity

The breakdown of debt, including interest costs, by maturity is as follows:

(In millions of euros)	**30 June 2018**	**31 December 2017**
Less than 1 year	270	268
Between 1 and 2 years	535	55
Between 2 and 3 years	36	535
Between 3 and 4 years	33	35
Between 4 and 5 years	30	30
More than 5 years	1,830	1,853
Total	**2,734**	**2,776**

15. Share-based payments

15.1 Stock options

The Board of Directors has decided not to introduce any further stock option plans.

Movements in the stock option plans granted in previous years and still outstanding at 30 June 2018 are as follows:

Plan	Total number of options granted *	Exercise price*	Number of options exercised in 1st half 2018	Number of options cancelled in 1st half 2018	Total number of options exercised	Total number of options outstanding	Final year for exercising options
2010-1	230,044	29.33	21,290	1,559	221,485	-	2018
2010-2	233,513	29.33	22,555	1,465	209,874	-	2018
2011-1	109,082	65.92	4,200	-	86,104	22,978	2019
2011-2	109,082	65.92	3,500	-	40,296	68,786	2019

* after adjustment following the capital increase with preferential subscription rights of November 2014

The amount of the IFRS 2 expense recognized in respect of stock options at 30 June 2018 was nil (also nil at 30 June 2017).

15.2 Free share grants

Movements in the free share grant plans awarded up until 30 June 2018 are as follows:

Plan	Grant date	Vesting period	Conser-vation period	Total number of free shares initially granted	Number of shares subject to performance conditions	Fair value *(euros per share)*	Number of shares definitively granted in 1st half 2018	Number of shares cancelled in 1st half 2018	Total number of shares still to be granted at 30 June 2018
2014-1, 3	**6 May 2014**	3-4 years	0-3 years	17,118	-	53.63	11,865	1,279	-
2014-2	**13 Nov 2014**	4 years	-	275,000	203,535	33.41	-	1,225	267,800
2015-1	**9 Nov 2015**	4 years	-	285,525	285,525	42.31	-	1,400	278,425
2015-2	**9 Nov 2015**	4 years	-	59,595	-	42.31	-	1,170	56,765
2016-1, 2	**10 May 2016**	3-4 years	0-3 years	43,278	-	22.91-39.70	-	-	43,278
2016-3	**7 Jun 2016**	1-3 years	2 years	50,000	-	41.04-53.53	16,667	-	16,666
2016-4	**9 Nov 2016**	3 years	2 years	235,835**(1)**	226,040	47.31	-	570	232,915
2016-5	**9 Nov 2016**	4 years	-	122,080**(2)**	112,860	50.01	-	1,620	120,000
2017-1	**8 Nov 2017**	3 years	2 years	230,695(3),	218,255	63.59	-	60	230,615
2017-2	**8 Nov 2017**	4 years	-	129,405(4)	114,845	67.88	-	200	129,015
2018-1, 2	**2 May 2018**	3-4 years	0-3 years	41,137	-	59.31-61.13	-	-	41,137

(1) *May be raised to 258,439 in the event of outperformance*
(2) *May be raised to 133,366 in the event of outperformance*
(3) *May be raised to 252,521 in the event of outperformance*
(4) *May be raised to 140,890 in the event of outperformance*

The amount of the IFRS 2 expense recognized in respect of free shares at 30 June 2018 is €11 million (€7 million at 30 June 2017).

15.3. Capital increase reserved for employees

In line with its employee shareholding policy, the Arkema Group offered its employees the possibility to subscribe to a reserved capital increase at the subscription price of €81.97. This price corresponds to the average opening price of the Arkema share quoted on the Paris stock exchange in the 20 trading days prior to the Chairman and CEO's decision of 6 March 2018 setting the terms of the capital increase, minus a 20% discount.

The shares subscribed through this operation cannot be sold for five years, except in the United States where the minimum holding period is 3 years.

The employees subscribed 610,405 shares for the total value of €50 million. The capital increase was recognized on 25 April 2018 and completed on 26 April 2018.

Arkema shares were also given to Group employees located outside France, via a free share grant plan: one free share was awarded for every four shares subscribed up to a maximum of 25 free shares per person.

As a result, on 2 May 2018 the Board of Directors formally recorded the attribution of 39,407 free shares to employees located outside France. These shares will only be definitively granted after a vesting period of 3 or 4 years, depending on the country.

Finally, on 2 May 2018, the Board of Directors decided to put in place a plan to award 1,730 free shares for the benefit of Group employees who had not been able to participate in the capital increase reserved for employees undertaken on 26 April 2018. The only condition for awarding these shares is a presence condition, and they will be definitively granted after a vesting period of 4 years from the date of the Board's decision to award them.

Valuation method

In accordance with the method recommended by France's national accounting standards authority (*Autorité des Normes Comptables),* the calculation used to value the cost of not being able to sell the shares for a certain period is based on the cost of a two-step strategy assuming that these shares will ultimately be sold, and that the same number of shares will be purchased and settled immediately, financed by a loan. The rate used for the loan is the rate that a bank or a credit institution would grant to a private individual presenting an average risk profile in the context of a 5-year consumer loan.

The fair values of the shares subscribed in France and outside France have been calculated separately in order to reflect the grants of free shares to Group employees located outside France.
The main market parameters used in the valuation of the cost of not being able to sell the shares are as follows:

Country of subscription	France	United States	Italy and Spain	Other countries
Date of the Board meeting which decided on the capital increase	06 March 18	06 March 18	06 March 18	06 March 18
Share price at the date of the board meeting (€)	107.15	107.15	107.15	107.15
Risk-free interest rate (at 6 March 2018)*	0.11%	2.42%	0.64%	0.05%
Borrowing rate**	7.19%	9.64%	7.19%	9.47%
Cost of not being able to sell the shares (as a percentage of the share price)	27.37%	20.37%	27.65%	34.68%

** 5-year risk-free rate, except for the United States (3 years)*

*** Rate on 5-year borrowings*

The difference between the share price at the date of the Chairman and CEO's decision setting the terms of the operation and the subscription price is €25.18 per share, representing a total benefit granted to employees of €15 million.

An IFRS 2 expense of €2 million will also be recognized in respect of the free shares granted to Group employees located outside France. This expense will be spread over the vesting period of the shares concerned (see note C15.2 "Free share grants").

16. Off-balance sheet commitments

16.1 Commitments given

16.1.1 Off-balance sheet commitments given in the Group's operating activities

The main commitments given are summarized in the table below:

(In millions of euros)	**30 June 2018**	**31 December 2017**
Guarantees granted	72	76
Comfort letters	-	-
Contractual guarantees	11	11
Customs and excise guarantees	14	14
Total	**97**	**101**

Guarantees granted are mainly bank guarantees in favour of local authorities and public bodies (state agencies, environmental agencies) in respect of environmental obligations or concerning classified sites.

16.1.2 Contractual commitments related to the Group's operating activities

- Irrevocable purchase commitments

In the normal course of business, the Arkema Group has signed multi-year purchase agreements for raw materials and energy for the operational requirements of its factories, in order to guarantee the security and continuity of supply. Signature of such contracts over

initial periods generally comprised between one and ten years is a normal practice for companies in the Group's business sector in order to cover their needs.
These purchase commitments were valued taking into account, on a case-by-case basis, Arkema's financial commitment to its suppliers, as certain of these contracts include clauses which oblige the Group to take delivery of the minimum volumes as set out in the contract or, otherwise, to pay financial compensation to the supplier. Depending on the case, these commitments are reflected in the purchase contracts in the form of notice periods, indemnification to be paid to the supplier in case of early termination of the contract or "take or pay" clauses. The value of these agreements thus corresponds to the minimum amount payable to suppliers as indemnification in the event of termination of the contracts or failure to take delivery of the minimum contractual quantities, less any quantities that can be resold on the market when the Group is able to do so.

The total amount of the Group's financial commitments is €449 million at 30 June 2018, maturing as follows:

(In millions of euros)	**30 June 2018**	**31 December 2017**
2018	177	207
2019	83	77
2020	63	55
2021	40	39
2022 until expiry of the contracts	86	86
Total	**449**	**464**

- Lease commitments

In the context of its business, the Arkema Group has signed lease contracts, of which the majority are operating lease agreements. Lease agreements signed by the Group are mainly in respect of property rental (head offices, land) and transportation equipment (rail cars, containers).
The amounts presented in the table below correspond to the future minimum payments that will need to be made in accordance with these contracts (only the irrevocable portion of future lease payments has been valued).

Non-capitalized leases *(In millions of euros)*	**30 June 2018**	**31 December 2017**
2018	13	25
2019	23	21
2020	21	17
2021	16	14
2022 until expiry of the contracts	42	34
Non-discounted value of future lease payments	**115**	**111**

From 1 January 2019, the Group's lease commitments will be recorded in application of IFRS 16 "Leases". In the balance sheet, the Group will recognize an asset corresponding to the right to use the leased asset, and an equivalent financial liability for the future lease payments. In the income statement, the lease expense will be replaced by an amortization expense and an interest expense. The cash flow statement will be impacted by reclassification of the amount of lease liability repayments from the "operating cash flows" category to the "financing cash flows" category.

The Group has decided to apply this standard under the modified retrospective approach. The lease term will be the irrevocable period, extended where applicable by any renewal options the Group is reasonably certain to use ; in particular, the Group will apply the recommendation made by the the *Autorité des Normes Comptables* to real estate property leases in France, taking as the maximum term the longest term, i.e. 9 years for French "3/6/9" leases. The lease commitment at 1 January 2019 will be calculated under IFRS 16, using the discount rates in force at that date. The principal leases will concern real estate properties and logistics equipment, excluding lease-related services.

The Group is finalizing identification of its leases, and continuing to assess the impacts of IFRS 16 on its financial statements. The chosen IT solution is currently being implemented and rolled out to the Group's subsidiaries.

16.1.3 Off-balance sheet commitments related to changes in the scope of consolidation

Warranties related to sales of businesses

When selling businesses, the Group has sometimes granted the purchaser warranties in respect of unrecorded liabilities. In most cases these warranties are capped and granted for a limited period of time. They are also limited in terms of their coverage to certain types of expenses or litigation. In the majority of cases, they cover risks of occurrence of environmentally related expenses or litigation.

The cumulative residual amount of capped warranties in respect of unrecorded liabilities granted by the Group amounts to €84 million at 30 June 2018 (€83 million at 31 December 2017). These amounts are stated net of provisions recognized in the balance sheet in respect of such warranties.

16.1.4 Off-balance sheet commitments related to Group financing

These commitments are described in note C21 to the consolidated financial statements at 31 December 2017 “Debt”.

16.2 Commitments received

Commitments received from Total in 2006

In connection with the Spin-Off of Arkema’s Businesses, Total S.A. and certain Total companies extended certain indemnities, or assumed certain obligations, for the benefit of the Arkema Group. Some are still in application while others terminated during 2017. The warranties and commitments concerned are described below, and relate to actual or potential environmental liabilities of the Group arising from certain sites in France, Belgium and the United States, the operations on which in the majority of cases have ceased.

16.2.1 Obligations and indemnities given in respect of Former Industrial Sites

In order to cover certain risks relating to certain industrial sites situated in France, Belgium and the United States in respect of which the Group is or could be held liable, and where, for the most part, operations have ceased (the Former Industrial Sites), Total S.A. companies have entered into indemnity and service agreements with Arkema or its subsidiaries.

Pursuant to these agreements, the obligations and environmental responsibilities associated with these former industrial sites in France and at Rieme in Belgium were transferred to Total S.A. group companies.

Agreement relating to certain Former Industrial Sites located in the United States

In March 2006, Arkema Amériques SAS completed the acquisition from Elf Aquitaine Inc. and Arkema France of Arkema Delaware Inc., a holding company for most of the Group’s operations in the United States. The negotiated terms of the stock purchase agreement among Elf Aquitaine Inc., Legacy Site Services and Arkema Amériques SAS, dated 7 March 2006 (the Arkema Delaware Main SPA) required Elf Aquitaine Inc. to use $270 million to capitalize a new subsidiary, Legacy Site Services LLC, that performs remediation services and indemnify the Group against the cost of environmental contamination liabilities incurred by the Group entities covered by this indemnity, and related personal injury and property damage claims associated with contamination at 35 of the Group’s closed and formerly operated facilities and 24 third party sites where the Group’s liability arises solely out of waste shipments from the sites other than currently operated sites. In exchange for this indemnification, Arkema Amériques SAS agreed to grant to Legacy Site Services LLC control over remediation activities and the defence of claims relating to contamination liabilities at these facilities and sites.

The sites currently operated by the Group are excluded from this indemnity, as are sites that received waste associated with current operations of the Group, certain sites where no significant restoration work is currently underway or anticipated, and other sites where the Group could be held liable for environmental pollution. These other sites include, for example, sites where remediation has been conducted in the past or where future remediation costs or liability are believed to be insignificant or non-existent based upon information available at the time when the indemnity was entered into. Arkema Amériques SAS has waived any claims against Legacy Site Services LLC, Total S.A. or their respective subsidiaries in respect of the sites not covered by the indemnity.

The Legacy Site Services LLC indemnity covers the costs of restoration and clean-up of the soil and groundwater, the costs of related defence and settlement costs and personal injury, property and natural resource damages. The indemnity does not cover liabilities unrelated to site remediation, in particular liabilities in respect of products manufactured on the said sites, liability arising from certain dangerous and potentially dangerous substances, particularly asbestos exposure and criminal liability.

The indemnity described above is capped at $270 million. The amount received by Arkema under this indemnity amounts to $104 million. At the same time as the stock purchase agreement and the indemnity described above, Legacy Site Services LLC and Arkema Inc. entered into a supplemental contamination indemnity agreement pursuant to which Legacy Site Services LLC will indemnity the liabilities of the Group in excess of $270 million, on the same terms, for the same sites and subject to the same exceptions as the indemnity described in the preceding paragraph.

17. Subsequent events

None

D. SCOPE OF CONSOLIDATION AT 30 JUNE 2018

(a) Companies sold in 2018.
(b) Companies merged in 2018.
(c) Companies liquidated in 2018.
(d) Companies consolidated for the first time in 2018.
(e) Companies in which the percentage ownership changed in 2018, with no change to control.

The percentage of control indicated below also corresponds to the Group's ownership interest.

AEC Polymers		France	100.00	FC
APT	(d)	Spain	100.00	FC
Altuglas International Denmark A/S		Denmark	100.00	FC
Altuglas International Mexico Inc.		United States	100.00	FC
Altuglas International SAS		France	100.00	FC
American Acryl LP		United States	50.00	JO
American Acryl NA LLC		United States	50.00	JO
Arkema		South Korea	100.00	FC
Arkema		France	100.00	FC
Arkema Afrique SAS		France	100.00	FC
Arkema Amériques SAS		France	100.00	FC
Arkema Asie SAS		France	100.00	FC
Arkema BV		Netherlands	100.00	FC
Arkema Canada Inc.		Canada	100.00	FC
Arkema Changshu Chemicals Co. Ltd		China	100.00	FC
Arkema Changshu Fluorochemical Co. Ltd		China	100.00	FC
Arkema Chemicals India Private Ltd.		India	100.00	FC
Arkema Changshu Polyamides Co. Ltd		China	100.00	FC
Arkema China Investment Co. Ltd.		China	100.00	FC
Arkema Coating Resins Malaysia Sdn. Bhd.		Malaysia	100.00	FC
Arkema Coatings Resins UK		United Kingdom	100.00	FC
Arkema Co. Ltd		Hong Kong	100.00	FC
Arkema Daikin Advanced Fluorochemicals Co. Ltd		China	60.00	JO
Arkema Delaware Inc.		United States	100.00	FC
Arkema Europe		France	100.00	FC
Arkema France		France	100.00	FC
Arkema GmbH		Germany	100.00	FC
Arkema Hydrogen Peroxide Co. Ltd. Shanghai		China	66.67	FC
Arkema Inc.		United States	100.00	FC
Arkema Insurance Ltd		Ireland	100.00	FC
Arkema KK		Japan	100.00	FC
Arkema Kimya Sanayi ve Ticaret AS		Turkey	100.00	FC
Arkema Ltd.		United Kingdom	100.00	FC
Arkema Mexico SA de CV		Mexico	100.00	FC
Arkema Mexico Servicios SA de CV		Mexico	100.00	FC
Arkema Peroxides India Private Limited		India	100.00	FC
Arkema Pte Ltd.		Singapore	100.00	FC
Arkema Pty Ltd.		Australia	100.00	FC
Arkema Quimica Ltda		Brazil	100.00	FC
Arkema Quimica SA		Spain	100.00	FC
Arkema Shanghai Distribution Co. Ltd		China	100.00	FC
Arkema sp Z.o.o		Poland	100.00	FC
Arkema Srl		Italy	100.00	FC
Arkema Taixing Chemicals		China	100.00	FC
Arkema Thiochemicals Sdn Bhd		Malaysia	86.00	FC
Arkema Yoshitomi Ltd.		Japan	49.00	SI
Bostik AB (Sweden)		Sweden	100.00	FC
Bostik Argentina		Argentina	100.00	FC

Bostik AS (Denmark)		Denmark	100.00	FC
Bostik AS (Norway)		Norway	100.00	FC
Bostik Australia		Australia	100.00	FC
Bostik Belux NV SA		Belgium	100.00	FC
Bostik BV		Netherlands	100.00	FC
Bostik Canada		Canada	100.00	FC
Bostik Egypt For Production of Adhesives S.A.E		Egypt	100.00	FC
Bostik Findley China Co. Ltd.		China	100.00	FC
Bostik Findley Malaysia Sdn. Bhd.		Malaysia	100.00	FC
Bostik Gmbh		Germany	100.00	FC
Bostik Holding Hong Kong Ltd.		Hong Kong	100.00	FC
Bostik Holding SA		France	100.00	FC
Bostik Inc.		United States	100.00	FC
Bostik India Private Ltd.		India	100.00	FC
Bostik Industries Ltd.		Ireland	100.00	FC
Bostik Korea Ltd.		South Korea	100.00	FC
Bostik Ltd.		United Kingdom	100.00	FC
Bostik Mexicana SA de CV		Mexico	100.00	FC
Bostik Nederland BV		Netherlands	100.00	FC
Bostik New Zealand		New Zealand	100.00	FC
Bostik-Nitta Co. Ltd.		Japan	66.00	FC
Bostik OOO		Russia	100.00	FC
Bostik OY		Finland	100.00	FC
Bostik Philippines Inc.		Philippines	100.00	FC
Bostik Polska sp Z.o.o	(b)	Poland	100.00	FC
Bostik SA		France	100.00	FC
Bostik SA (Spain)		Spain	100.00	FC
Bostik Shanghai Management Co. Ltd.		China	100.00	FC
Bostik (Thailand) Co. Ltd		Thailand	100.00	FC
Bostik UAB		Lithuania	100.00	FC
Bostik Vietnam Company Ltd		Vietnam	100.00	FC
CECA Belgium		Belgium	100.00	FC
CECA Watan Saudi Arabia		Saudi Arabia	51.00	FC
Cekomastik Kimya Sanayi Ve Ticaret A.S		Turkey	100.00	FC
Changshu Coatex Additives Co. Ltd.		China	100.00	FC
Changshu Haike Chemicals Co. Ltd.		China	49.00	FC
CJ Bio Malaysia Sdn. Bhd.		Malaysia	14.00	SI
Coatex Asia Pacific		South Korea	100.00	FC
Coatex Central Eastern Europe sro		Slovakia	100.00	FC
Coatex Inc.		United States	100.00	FC
Coatex Latin America Industria et Comercio Ltda		Brazil	100.00	FC
Coatex Netherlands BV		Netherlands	100.00	FC
Coatex SAS		France	100.00	FC
Daikin Arkema Refrigerants Asia Ltd.		Hong Kong	40.00	JV
Daikin Arkema Refrigerants Trading (Shanghai) Co. Ltd.		China	40.00	JV
DBEW Holding BV	(b)	Netherlands	100.00	FC
Debratec GmbH		Germany	100.00	FC
Den Braven Aerosols GmbH		Germany	100.00	FC
Den Braven Beheer BV	(b)	Netherlands	100.00	FC
Den Braven Belgium N.V.		Belgium	100.00	FC
Den Braven Benelux BV		Netherlands	100.00	FC
Den Braven East sp Z.o.o		Poland	100.00	FC
Den Braven Endustriel	(b)	Turkey	100.00	FC
Den Braven France Sarl		France	100.00	FC
Den Braven Hellas SA		Greece	100.00	FC
Den Braven Holding BV	(b)	Netherlands	100.00	FC
Den Braven OG BV	(b)	Netherlands	100.00	FC

Den Braven Productos Quim. Ldo.		Portugal	100.00	FC
Den Braven Romania Srl		Romania	100.00	FC
Den Braven Sealants Espana SL	(b)	Spain	100.00	FC
Den Braven Sealants GmbH		Austria	100.00	FC
Den Braven Sealants South Africa Pty Ltd		South Africa	100.00	FC
Delaware Chemicals Corporation		United States	100.00	FC
Distri Mark France SAS		France	100.00	FC
Febex SA		Switzerland	96.77	FC
Hebei Casda Biomaterials Co. Ltd		China	100.00	FC
Ihsedu Agrochem Private Ltd		India	24.90	SI
Jiangsu Bostik Adhesive Co. Ltd		China	100.00	FC
MEM BAUCHEMIE Gmbh		Germany	100.00	FC
Michelet Finance, Inc.		United States	100.00	FC
MLPC International		France	100.00	FC
Mydrin Srl	(b)	Italy	100.00	FC
Odor-Tech LLC		United States	100.00	FC
Ozark Mahoning Company		United States	100.00	FC
PT Bostik Indonesia		Indonesia	100.00	FC
Sartomer Asia Limited		Hong Kong	100.00	FC
Sartomer Guangzhou Chemical Co. Ltd.		China	100.00	FC
Sartomer Shanghai Distribution Company Limited		China	100.00	FC
Seki Arkema		South Korea	51.00	FC
Siroflex Inc.		United States	100.00	FC
Siroflex Ltd		United Kingdom	100.00	FC
Société Marocaine des Colles		Morocco	97.01	FC
Sovereign Chemicals Ltd		United Kingdom	100.00	FC
Suzhou Hipro Polymers Co. Ltd		China	100.00	FC
Taixing Sunke Chemicals		China	55.00	JO
Tamer Endustriyel Madencilik Anonim Sirketi		Turkey	50.00	FC
Turkish Products, Inc.		United States	100.00	FC
Usina Fortaleza Industria E commercio de massa fina Ltda		Brazil	100.00	FC
Vetek		Argentina	100.00	FC
Viking chemical company		United States	100.00	FC
Zhuhai Bostik Adhesive Ltd		China	100.00	FC

NB: FC: full consolidation.
JO: joint operation – consolidated based on shares of assets, liabilities, income and expenses.
JV: joint venture – consolidation by the equity method.
SI: significant influence – consolidation by the equity method.

III - DECLARATION BY THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT AT 30 JUNE 2018

I certify that, to the best of my knowledge, the condensed consolidated financial statements have been prepared in accordance with the applicable accounting standards, and give a fair view of the assets, liabilities, financial position and profit or loss of the Company and all its consolidated companies, and that the half-year activity report on pages 3 to 12 includes a fair review of the main events of the first six months of the year, their impact on the consolidated financial statements, the major transactions between related parties, and that it describes the main risks and uncertainties for the remaining six months of the financial year.

Colombes, 31 July 2018

Thierry Le Hénaff
Chairman and CEO

KPMG Audit
Département de KPMG S.A.
Tour EQHO
2, avenue Gambetta
92066 Paris-La Défense Cedex

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ERNST & YOUNG Audit
Tour First
TSA 14444
92037 Paris-La Défense Cedex
S.A.S. à capital variable
344 366 315 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the period from January 1 to June 30, 2018
Arkema
420, rue d'Estienne d'Orves - 92700 Colombes

KPMG Audit
Département de KPMG S.A.
Tour EQHO
2, avenue Gambetta
92066 Paris-La Défense Cedex

Commissaire aux Comptes
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Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Arkema

Registered office: 420, rue d'Estienne d'Orves - 92700 Colombes
Share capital: €.765,324,560

Statutory Auditors' Review Report on the Half-yearly Financial Information

For the period from January 1 to June 30, 2018

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying half-yearly consolidated financial statements of Arkema, for the period from January 1 to June 30, 2018,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly consolidated financial statements do not give a true and fair view of the assets and liabilities and of the financial position of the Group as at June 30, 2018 and of the results of its operations for the period then ended in accordance with IFRSs as adopted by the European Union.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the half-yearly consolidated financial statements subject to our review.

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

Paris-La Défense, July 31, 2018

The Statutory Auditors
French original signed by

KPMG Audit		ERNST & YOUNG Audit
Bertrand Desbarrières	François Quédiniac	Denis Thibon
Partner	*Partner*	*Partner*