

# **Arkema, a company under transformation**

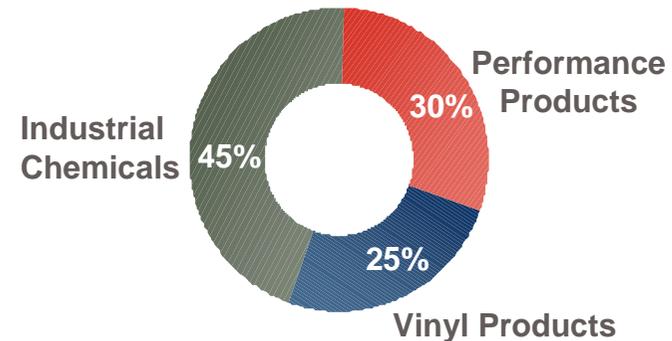
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June 2008

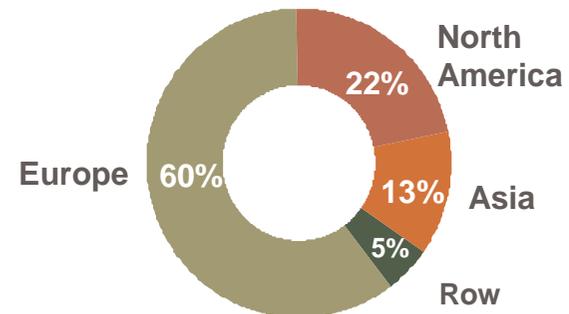
# Arkema overview

- Sales\*: **€5,675 m**
- EBITDA\*: **€518 m**  
EBITDA margin\*: **9.1%**
- Net income (group share)\*: **€122 m**
- Net debt\*: **€459 m**
- Capital employed\*: **€3,263 m**
- R&D expenses: **around 3% of sales**
- Recurring capex: **around €300m**
- **15,194 employees\***

➔ 2007 Sales by segment\*\*



➔ 2007 Sales by geographic region

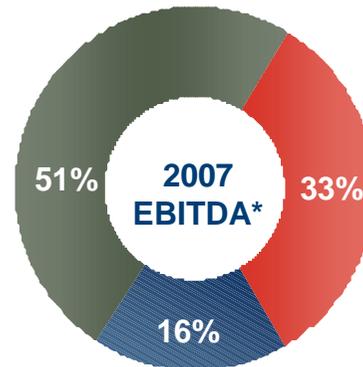


# Three business segments

## Industrial Chemicals

- Intermediates for a large number of industrial sectors
- World leading positions

6 BUs incl. "Acrylic Specialty Polymers" (Coatex)



## Performance Products

- Innovative chemical solutions
- Among world leaders in niche markets

3 business units

## Vinyl Products

- A well integrated PVC producer
- # 3 in Europe in PVC

4 business units



# Well diversified end-markets

15-20%\*

chemical industry\*\*,  
construction



5-10%\*

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



<5%\*

energy, paper, environment,  
health - hygiene & beauty,  
animal nutrition & agrochemicals,  
sport & leisure,  
infrastructure & sign posting



**2005-2010**

 ***A rapid and radical transformation***

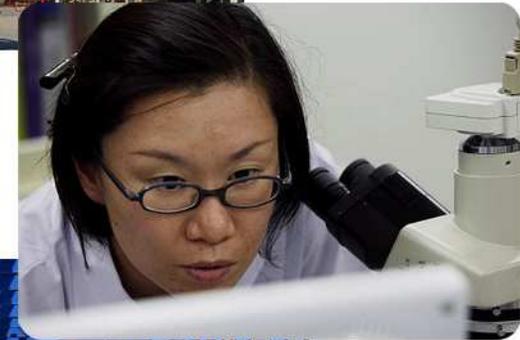
# Implementing a winning long term strategy

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• Large cost reduction



• Market-driven innovation



• Accelerating business development in Asia



• *Portfolio management to speed up transformation*

# Large cost reduction

## €500m cost savings target by 2010

⇒ Net EBITDA impact of +€200m

## Cumulative cost savings of €230m over two years

## Headcount evolution:

⇒ 19,167 employees end 2004 to 15,194 employees end of 2007

## Decrease of G&A expenses

- ⇒ New headquarters
- ⇒ Streamlined support functions

⇒ Target of cumulative fixed cost savings by 2010 vs 2005 in €m

|                                |               |
|--------------------------------|---------------|
| <b>Fixed cost savings</b>      | <b>€500m</b>  |
| Inflation on fixed costs       | €(200)m       |
| Volume loss from restructuring | €(100)m       |
| <b>Net EBITDA impact</b>       | <b>+€200m</b> |



# Market-driven innovation

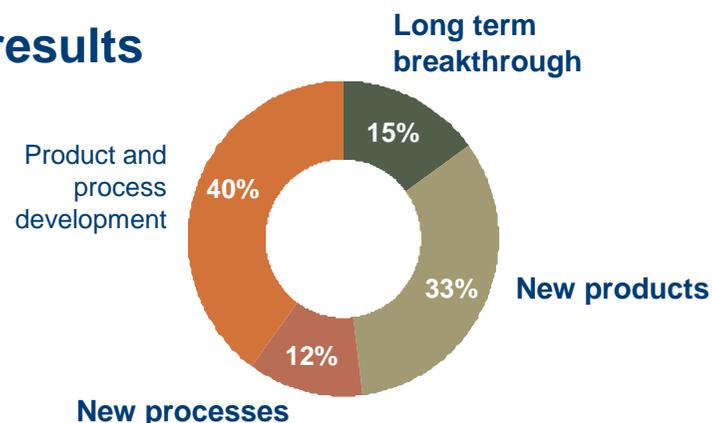


## 2007: R&D projects are already bearing results

• R&D expenses around 3% of sales

• Several success stories

- PMMA Capstock
- Transparent technical polymers
- High temperature polyamides
- Specialty molecular sieves (medical and petrochemical)
- Sulfur derivatives (refinery and animal nutrition)
- New generation of fluorogases



19% of 2007 Performance Products sales generated by products < 5 years old

# Committed to sustainable development

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## Developing innovative materials for the future

- Materials for renewable energy technology
- Nanostructured materials
- Raw materials from renewable resources



platamid<sup>®</sup>  
Rnew



Polyamides from renewable resources

## Process intensification

- Producing more with less energy



Mini channels reactor



Bioresourced bitumen additive



Photovoltaic panels



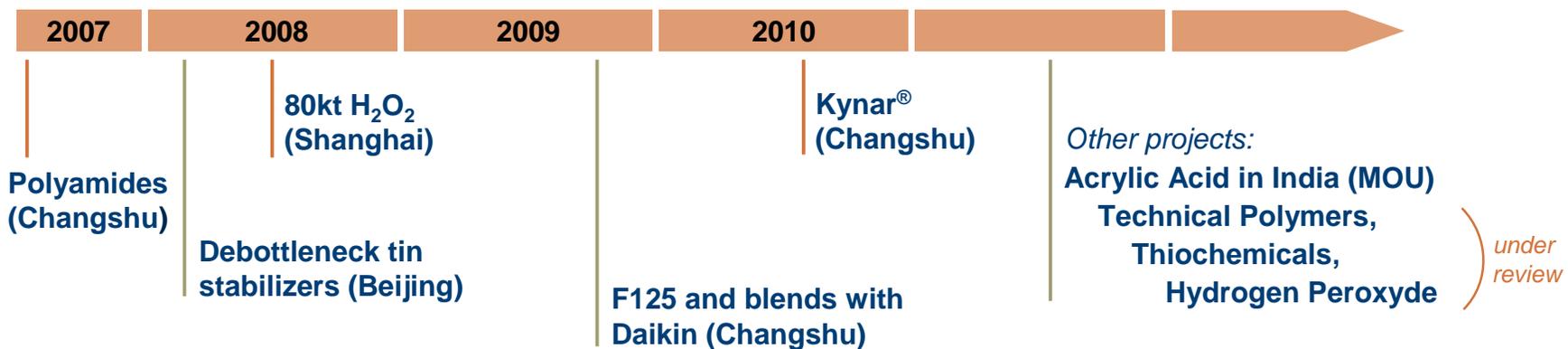
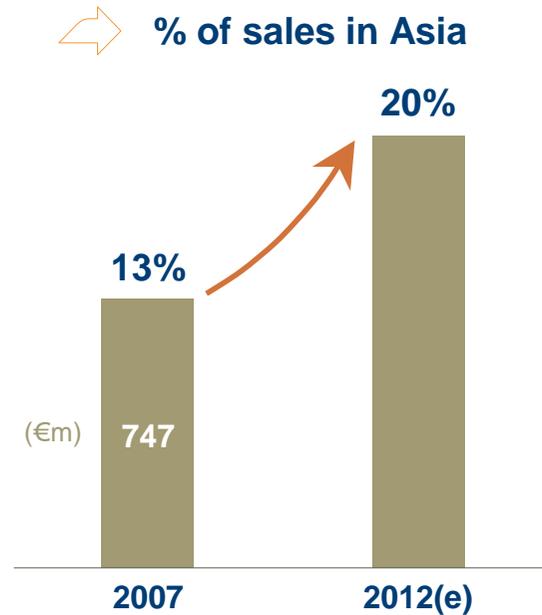
Flat-glass coating



Lighter sunroof

# Accelerating business development in Asia

- ❖ **World-class sites**
- ❖ **Over €50m capex per year**
- ❖ **Building on Changshu platform (China)**



# Portfolio management to speed up transformation

## More focused



- Shut-down loss-making units (€120m impact on revenue)
- €380m of revenue sold

## Higher share of specialties



- New products from R&D
- Bolt-on acquisitions

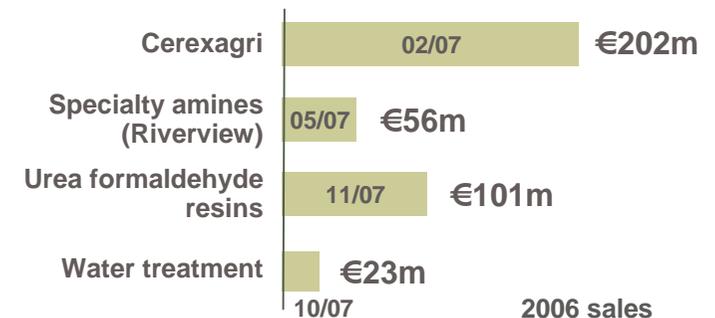
## Reinforced integration



- Securing key raw materials
- Strategic partnerships
- Downstream acquisitions

## Reshaping portfolio

### €380m of revenue divested



### €180m of revenue acquired



**Acquisitions of €400 to 500m of revenue in the next 3 years**



# Strong balance sheet: a real competitive advantage

• €1.1 bn credit line at 32.5 bp until 2012

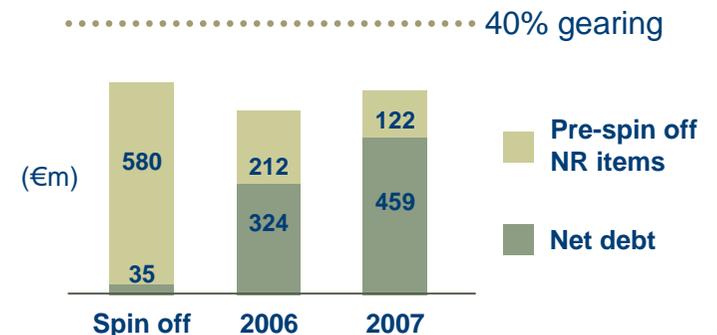
⇒ Gearing maintained below 40% with Coatex acquisition

• Strong conversion of EBITDA into cash

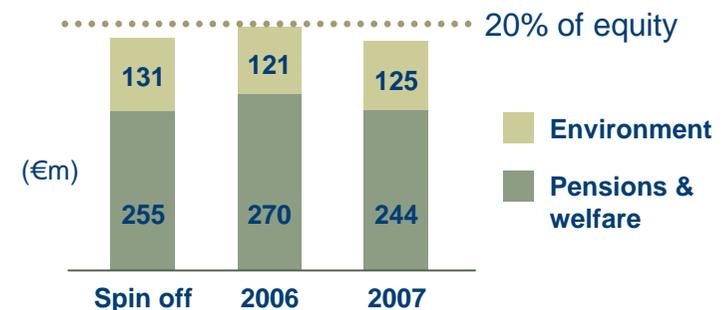
• Liabilities well covered by provisions and warranties from Total

• Further potential from balance sheet

- non recognized deferred tax assets: ~€350m end 2007
- reduction of working capital



⇒ Small level of recurring liabilities

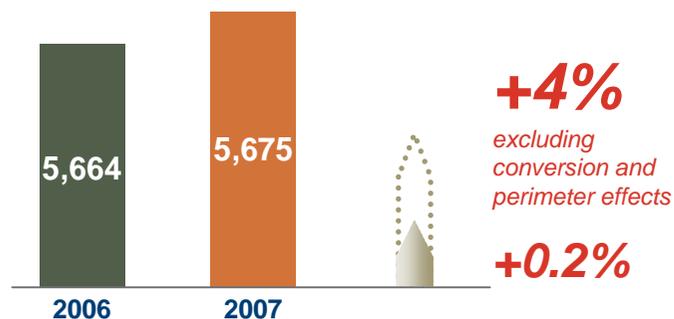


**2007**

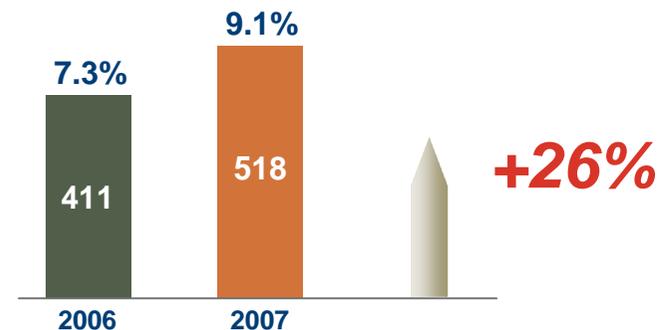
 ***Full year results***

# Results significantly above guidance

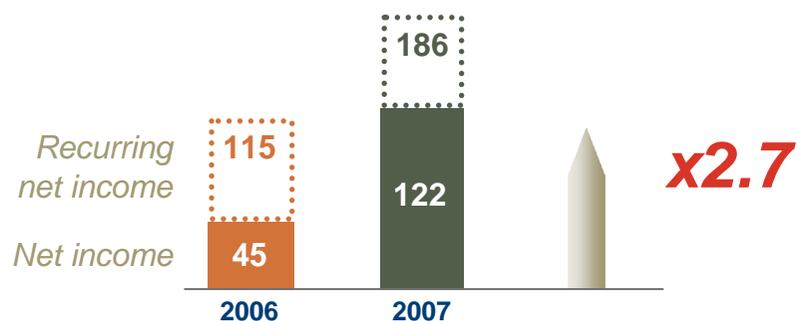
➤ Sales (€m)



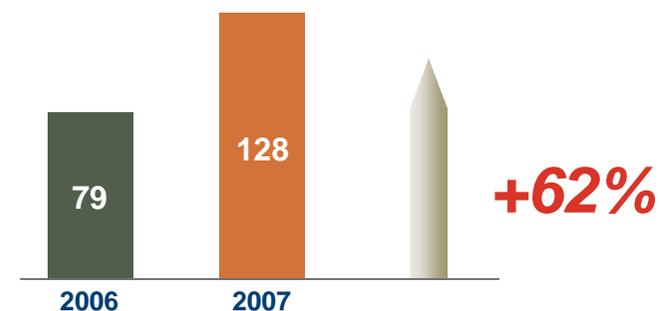
➤ EBITDA (€m) & EBITDA margin



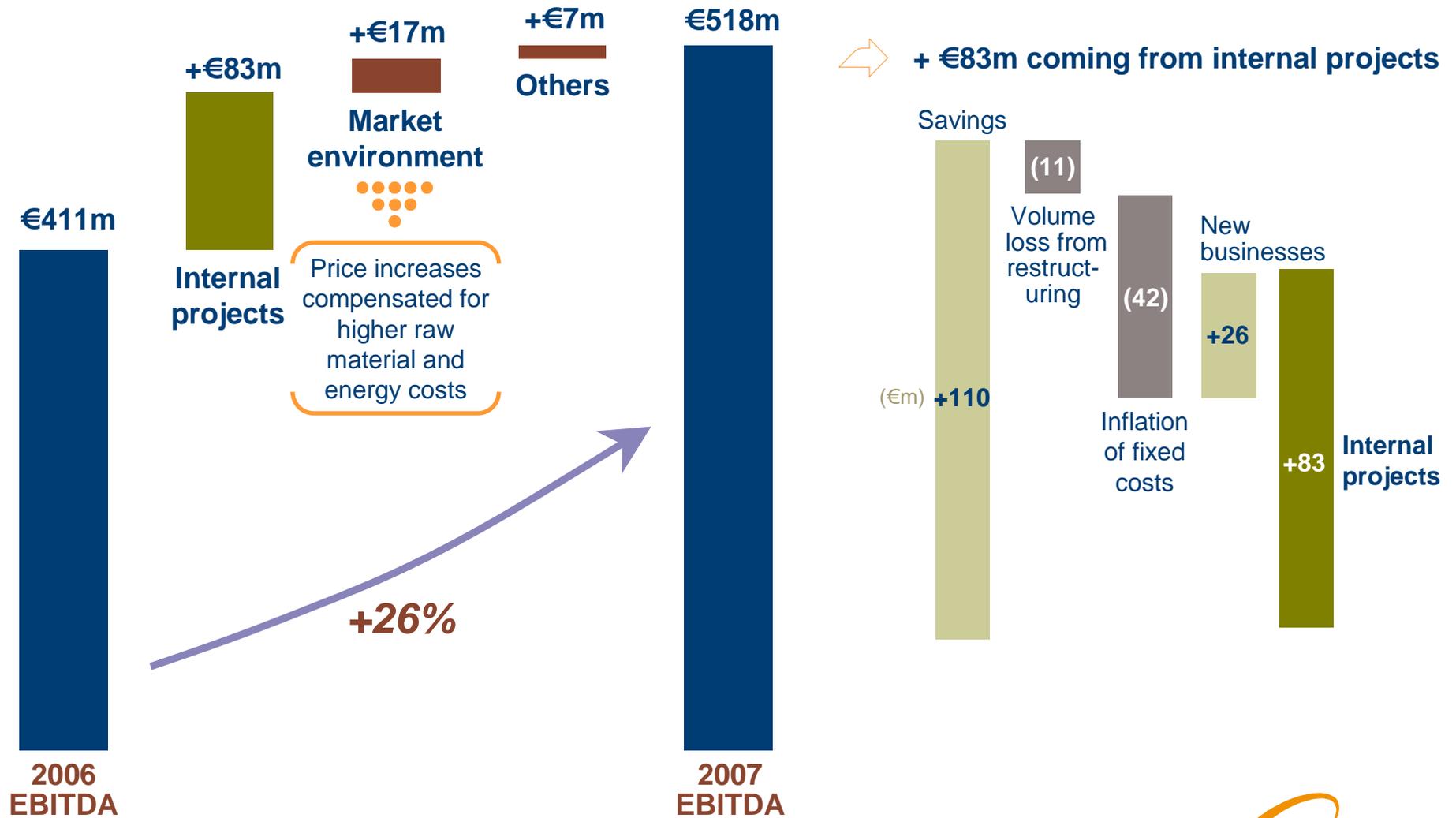
➤ Net income group share (€m)



➤ Free cash flow\* (€m)



# Major contribution from internal projects



# Vinyl Products: good demand & cost savings

## 2007 performance

| (€m)                              | 2005        | 2006        | 2007        | Δ*          |
|-----------------------------------|-------------|-------------|-------------|-------------|
| <b>Sales</b>                      | 1,387       | 1,379       | 1,418       | +2.8%       |
| <b>EBITDA</b>                     | <b>20</b>   | <b>38</b>   | <b>90</b>   | <b>x2.4</b> |
| <b>EBITDA margin</b>              | <b>1.4%</b> | <b>2.8%</b> | <b>6.3%</b> | <b>-</b>    |
| <b>Recurring operating income</b> | 8           | 21          | 65          | <b>x3.1</b> |

- ⇒ Good demand for PVC in Europe
  - Price increases compensated for higher energy and raw material costs
- ⇒ Benefits from restructuring initiatives
- ⇒ Large maintenance turnaround in Fos (Fr)
- ⇒ Strong performance of QVC\*\*

➔ **EBITDA growth:**  
**40% internal projects, 60% external factors**

## 2007 initiatives

- ⇒ Implementation of chlorochemical consolidation plan
  - ➔ €44m capex in 2007
  - ➔ +€30m EBITDA impact since 2005
- ⇒ 3 new restructuring plans downstream
  - ➔ -104 positions
  - ➔ full impact in 2009
- ⇒ Transfer of teams based in Paris near production sites
- ⇒ Focus on higher added-value products

## Main projects



# Industrial Chemicals: strong resistance of results

## 2007 performance

| (€m)                              | 2005         | 2006         | 2007         | Δ*          |
|-----------------------------------|--------------|--------------|--------------|-------------|
| <b>Sales</b>                      | 2,406        | 2,494        | 2,529        | +1.4%       |
| <b>EBITDA</b>                     | <b>316</b>   | <b>267</b>   | <b>289</b>   | <b>+8%</b>  |
| <b>EBITDA margin</b>              | <b>13.1%</b> | <b>10.7%</b> | <b>11.4%</b> | <b>-</b>    |
| <b>Recurring operating income</b> | 204          | 160          | 178          | <b>+11%</b> |

- ⇒ Contrasted environment
  - Good demand in MMA, H<sub>2</sub>O<sub>2</sub>
  - Low acrylic margins & pressure on HFC-134a prices
  - Impact of €/€ exchange rate
- ⇒ Savings from European plans
  - PMMA, Thiochemicals, Fluorochemicals
- ⇒ Benefits from growth projects
  - Successful start-ups (Calvert-City, Carling, Becancour...)

**➔ Robust set of results**

## 2007 initiatives

- ⇒ Key partnerships in Asia
  - ➔ **fluorochemicals with Daikin**
- ⇒ 3 new restructuring plans
  - ➔ **-302 positions**
- ⇒ Downstream acquisitions
  - ➔ **acrylic polymers, PMMA**



## Successful transformation of fluorochemicals



Restructuring of Pierre-Bénite



New generation of products (HFC-32) Calvert-City



**DAIKIN ARKEMA**  
REFRIGERANTS ASIA LIMITED

Asia: JV with Daikin on new generation of fluorochemical gases



# Performance Products: double-digit EBITDA margin

## 2007 performance

| (€m)                       | 2005* | 2006  | 2007  | Δ**    |
|----------------------------|-------|-------|-------|--------|
| Sales                      | 1,907 | 1,784 | 1,723 | (3.4)% |
| EBITDA                     | 109   | 156   | 184   | +18%   |
| EBITDA margin              | 5.7%  | 8.7%  | 10.7% | -      |
| Recurring operating income | 19    | 71    | 97    | +37%   |

- ⇒ Significant contribution from restructuring in Functional Additives and Technical Polymers
- ⇒ 19% of sales from new products (< 5 years)
- ⇒ Negative impact of €/\$ exchange rate
- ⇒ Price increase in Functional Additives to offset increase in the price of tin
- ⇒ Impact from divestments on revenue

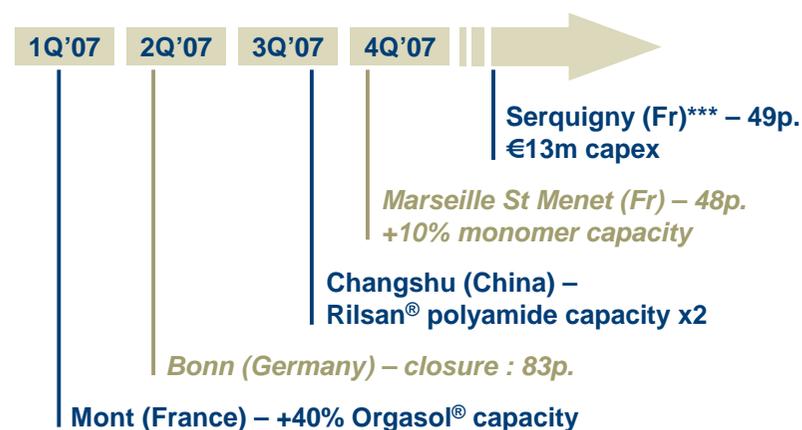
 **Strong recovery**

## 2007 initiatives

- ⇒ 5 new restructuring plans launched in Functional Additives and Polyamides  
 **-263 positions**
- ⇒ R&D emphasis on renewable materials  

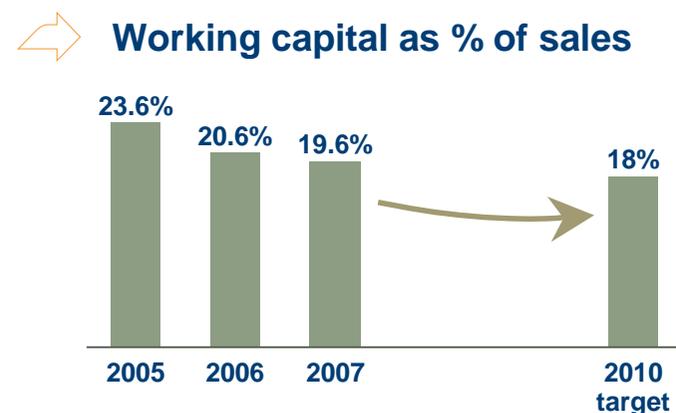
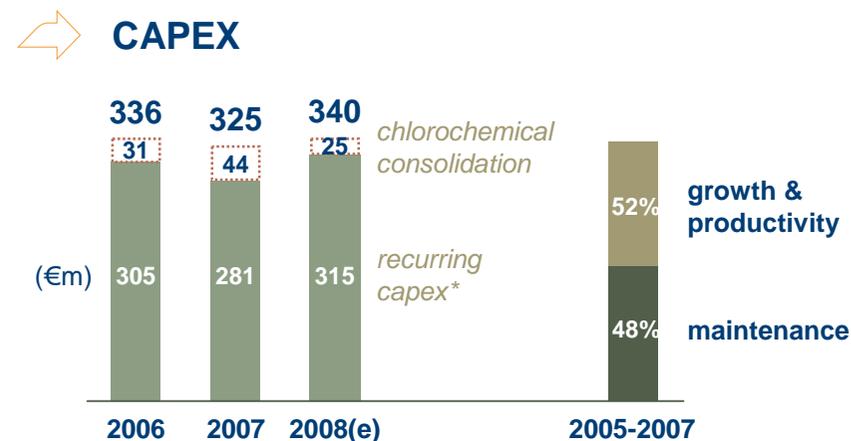
- ⇒ Sale of non-core businesses (Cerexagri, urea formaldehyde resins)  
 **€300m of revenue**

## Strengthening the polyamide business



# Strong and structural improvement of cashflow

| In €m                            | 2006         | 2007        |
|----------------------------------|--------------|-------------|
| <b>EBITDA</b>                    | <b>411</b>   | <b>518</b>  |
| CAPEX (recurring*)               | (305)        | (281)       |
| Tax & financial result           | (31)         | (93)        |
| Δ WC                             | 16           | 47          |
| Others                           | 4            | 10          |
| <b>Recurring cash flow</b>       | <b>95</b>    | <b>201</b>  |
| Non recurring items              | (16)         | (73)        |
| <b>Cash flow</b>                 | <b>79</b>    | <b>128</b>  |
| Non recurring pre-spin off items | (359)        | (87)        |
| Impact from M&A                  | -            | (135)       |
| <b>Net cash flow</b>             | <b>(280)</b> | <b>(94)</b> |



**Dividend proposed at 0.75€ per share**



**2008**

 ***Target confirmed***

# Keeping a strong focus on internal improvement

- A more challenging environment
- Target built with a strong level of internal projects



|                     | EBITDA       | Projects with an impact in 2008   |
|---------------------|--------------|---|
| <b>Productivity</b> | <b>+€42m</b> | Chlorochemicals, Loison, Chantonnay, Dorlyl, Vlissingen, Feuchy, Pierre-Bénite, Lacq, Carling, Marseille, Serquigny |
| <b>Growth</b>       | <b>+€23m</b> | Molecular Sieves (Inowroclaw), HFC-32 (Calvert-City), H <sub>2</sub> O <sub>2</sub> (Shanghai)                      |
| <b>Portfolio</b>    | <b>+€15m</b> | Divestments: UF resins, water treatment, amines<br>Acquisition: Coatex, Repsol PMMA business                        |

 **10% EBITDA margin in 2008**

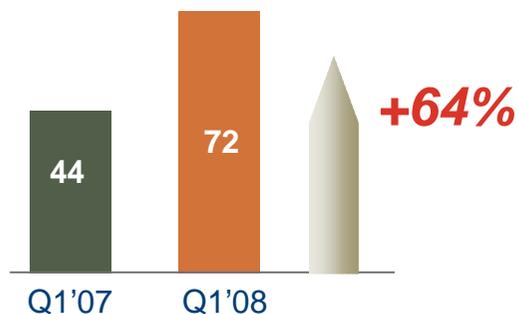
# Excellent set of results in Q1'08

|                                 | Q1'07       | Q1'08        | Variation   |
|---------------------------------|-------------|--------------|-------------|
| Sales                           | 1,488       | 1,492        | +0.3%       |
| <b>EBITDA</b>                   | <b>134</b>  | <b>159</b>   | <b>+19%</b> |
| <b><i>EBITDA margin</i></b>     | <b>9.0%</b> | <b>10.7%</b> |             |
| Operating income (recurring)    | 80          | 100          | +25%        |
| Non recurring items             | (27)        | 5            |             |
| Adjusted net income             | 52          | 67           |             |
| <b>Net income (group share)</b> | <b>44</b>   | <b>72</b>    | <b>+64%</b> |
| Net debt (end of year)          | 459         | 576          |             |

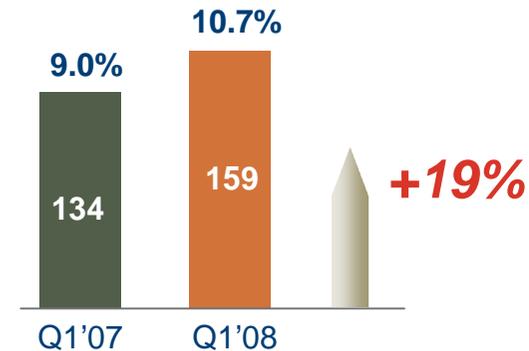
# Q1'08 highlights

- An excellent set of results which demonstrates clearly our ability to resist in a more challenging environment
- EBITDA margin of Industrial Chemicals & Performance Products > 13.5%
- Benefits from a quick and in-depth transformation
- Confirm our 10% EBITDA margin target for 2008

## Net income – group share (€m)



## EBITDA (€m) & EBITDA margin



## New initiatives since January 1<sup>st</sup> 2008

- Productivity improvement
  - 2 new shared services centers for HR & accounting
- Growth projects
  - H<sub>2</sub>O<sub>2</sub> capacity in Leuna x2
- M&A
  - Acquisition: PMMA (ex Repsol)
  - Disposal: SAP business

# Confirm 2008 target

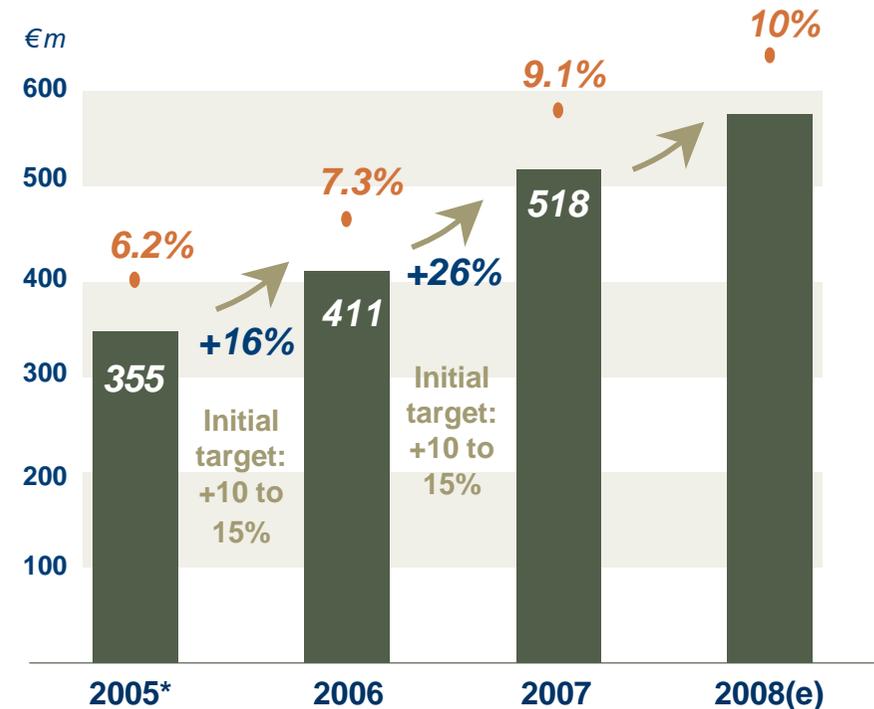
## A more challenging environment

- High raw material and energy costs
- Unfavorable euro/US dollar exchange rate
- Remaining pressure on Vinyl Products margins as C<sub>2</sub> price continue to increase

## In-depth transformation continues

- Implementation of self-help initiatives in line with expectations
- New initiatives to be taken to adapt to the evolution of environment
- Industrial Chemicals and Performance Products will support EBITDA growth

➔ +€80m EBITDA in 2008 from self-help initiatives



➔ **Confidence for 2008 10% EBITDA margin target**

# Towards 2010

••• *Growth platforms  
implemented*

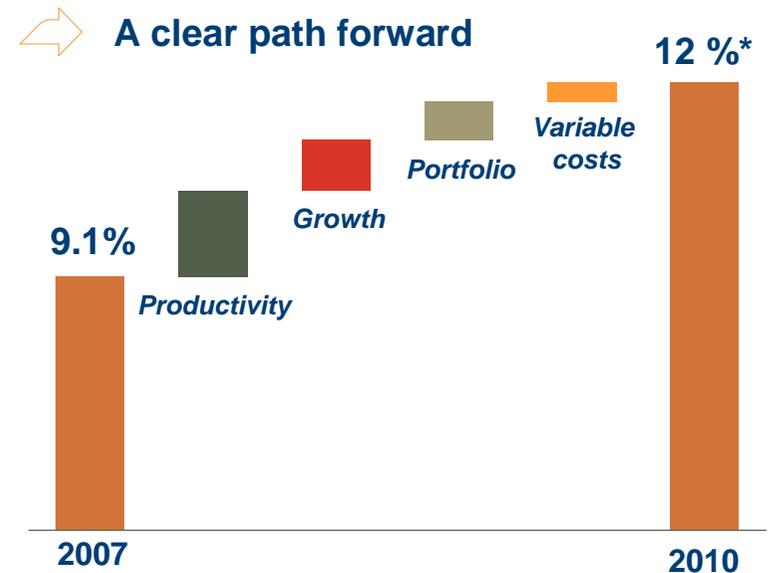
# On track to reach 2010 targets

12% EBITDA margin

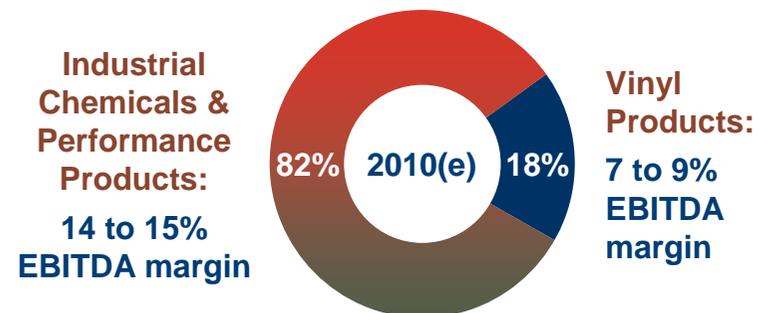
Working capital at 18% of sales

A portfolio with sound growth profile beyond 2010

- Vinyl Products at 18% of sales
- 4 to 5% volume growth for Industrial Chemicals and Performance Products



➤ 2010 portfolio and EBITDA margin



# Building a major chemical player

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## 2007: successful milestones delivered

- Excellent set of results
- 20 new projects launched to prepare the future
- First dividend proposed

## Confirming sound and ambitious targets

- 10% EBITDA margin in 2008
- 12% EBITDA margin in 2010

## Phase by phase transformation for the long term

- Cost structure improvement
- Change of culture
- Development in Asia
- Strong balance sheet maintained
- Quality of R&D portfolio

 **Ability to deliver**

**Strong potential** 



# Disclaimer

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The information disclosed in this document may contain forward-looking statements with respect to the financial condition, results of operations, business and strategy of Arkema. Such statements are based on management's current views and assumptions that could ultimately prove inaccurate and are subject to risk factors such as, among others, changes in raw materials prices, currency fluctuations, implementation pace of cost-reduction projects and changes in general economic and business conditions.

Arkema does not assume any liability to update such forward-looking statements whether as a result of any new information or any unexpected event or otherwise. Further information on factors which could affect Arkema's financial results is provided in the documents filed with the French Autorité des Marchés Financiers.

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

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

A global chemical player, Arkema consists of 3 coherent and related business segments: Vinyl Products, Industrial Chemicals, and Performance Products. Present in over 40 countries with 15,200 employees, Arkema achieves sales of 5.7 billion euros. With its 6 research centers in France, the United States and Japan, and internationally recognized brands, Arkema holds leadership positions in its principal markets

